VOLUME 2.2

Financial Statements

ACT Government

ANNUAL REPORT

2015–16

Chief Minister, Treasury and Economic Development Directorate

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CONTENTS

VOLUME 2.1

VOLUME 2.2

Financial Statements

For the Year Ended

30 June 2016

Superannuation Provision Account

Management Discussion and Analysis
For the Superannuation Provision Account
Financial Year Ended 30 June 2016

Objectives

The Superannuation Provision Account (SPA) has been established to manage, recognise and account for the Australian Capital Territory's (Territory) employer defined benefit superannuation liabilities and associated investment assets.

Overview

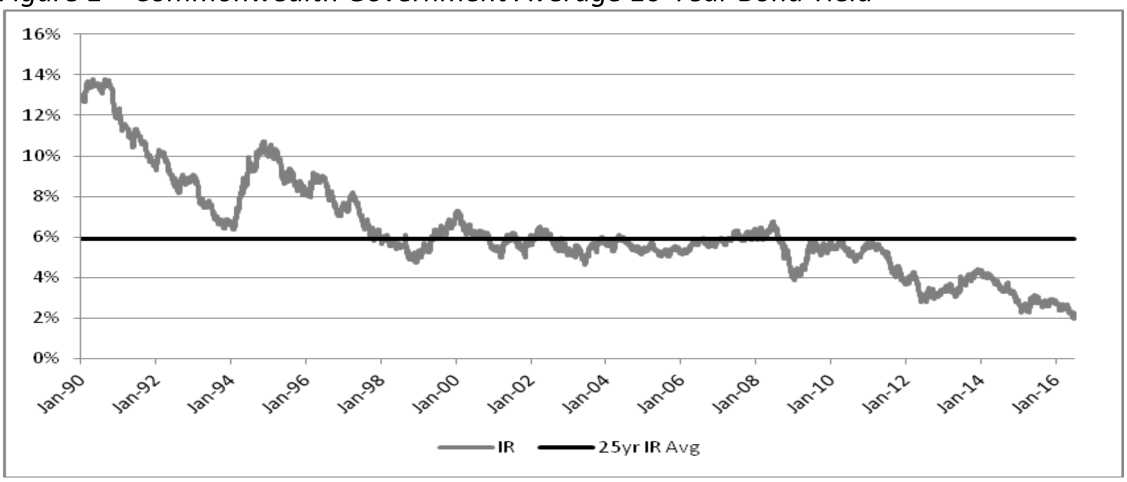
The financial outcomes for the SPA in any financial year will be significantly impacted by the financial year end valuation of the defined benefit superannuation liability and by the return achieved on the investment assets, both of which are volatile.

An actuarial review of the Territory's CSS/PSS defined benefit employer superannuation liabilities and expected benefit payments are completed annually. As an employee's accruing superannuation benefit may be settled many years into the future, the superannuation liability is measured on a discounted basis, being the present value of the expected future payments.

Australian Accounting Standards require the liability valuation to use a discount rate that is referenced to the yield (interest rate) on a suitable Commonwealth Government bond.

Figure 1 demonstrates that average interest rates (IR) on Commonwealth bonds are volatile and have been trending lower over time, impacting on the discount rate. The use of a lower discount rate increases the defined benefit superannuation liability valuation estimate and associated superannuation expense. Due to the size and timing of these liabilities, small movements in the discount rate from year to year have a material impact on the liability valuation and expense estimates.

Figure 1 – Commonwealth Government Average 10-Year Bond Yield



Overview of 2015-16 Financial Outcome

The SPA's territorial net cost of services for 2015-16 was $458.1 million being $215.7 million or 89 per cent higher than the budget estimate of $242.4 million.

The operating result for the 2015-16 financial year was negatively impacted by difficult global investment market conditions and very low interest rates, which resulted in lower investment earnings, increased superannuation expense and an increase in the valuation estimate of the defined benefit superannuation liability, as compared with that estimated in the 2015-16 Budget.

Weak performance by global listed share markets, and increased investment market volatility, weighed on the portfolio's investment return of 2.66 per cent for the 2015-16 financial year.

In accordance with the requirements of AASB 119: 'Employee Benefits' (AASB 119), the superannuation expense for the reporting period is the projected expense based on the previous year's financial year end AASB 119 superannuation liability valuation which applied a discount rate of 3.66 per cent to estimate the closing 30 June 2015 superannuation liability. This resulted in an increase in superannuation expense for the 2015-16 financial year of approximately $56.2 million.

Domestic interest rates continued to trend lower over the 2015-16 financial year and remain very low by historical standards. The discount rate at 30 June 2016, which was referenced to the yield on the Commonwealth's 2039 maturity bond, was 2.69 per cent. The lower discount rate has negatively impacted on the valuation of the superannuation liability at 30 June 2016, increasing the estimate from $8.5 billion at 30 June 2015 to $10.7 billion at 30 June 2016.

Financial Performance

The following financial information is based on the audited financial statements for 2014-15 and 2015-16, the 2015-16 Budget estimates, as well as the forward estimates from the 2016-17 Budget.

Table 1 – Total Net Cost of Services

$ millions	**Actual 2013-14**	**Actual 2014-15**	**Budget 2015-16**	**Actual 2015-16**
Total Expenses	535.3	624.3	503.5	644.0
Total Own Source Revenue	433.4	389.8	261.1	185.9
Net Cost of Services	**101.9**	**234.5**	**242.4**	**458.1**

Comparison to 2015-16 Budget Estimates

The SPA's net cost of services for 2015-16 of $458.1 million was $215.7 million or 89 per cent higher than the 2015-16 Budget estimate of $242.4 million.

This mainly reflects:

- total net investment earnings of $96.2 million being $160.0 million or 62 per cent lower than the budget estimate of $256.1 million due mainly to the weak performance of global share markets over the financial year; and
- superannuation expense of $549.3 million being $56.2 million or 11 per cent higher than the budget estimate of $493.1 million due to the financial impact of the lower discount rate at 30 June 2015 of 3.66 per cent, increasing the superannuation liability valuation at 30 June 2015 and increasing superannuation expense for the 2015-16 financial year.

Comparison to 2014-15 Actual

Total net cost of services during 2015-16 of $458.1 million was $223.7 million or 95 per cent higher than the 2014-15 actual result of $234.5 million.

This is due primarily to:

- total net investment revenue of $96.2 million in 2015-16, or an investment return of 2.66 per cent, being $207.7 million or 68 per cent lower than net investment revenue of $303.9 million in 2014-15 (return of 10.2 per cent); and
- superannuation expense of $549.3 million in 2015-16 being $16.2 million or 3 percent higher than in 2014-15 ($533.2 million). Superannuation expense for the reporting period is the projected expense based on the previous year's 30 June 2015 financial year end AASB 119 superannuation liability valuation which applied a discount rate of 3.66 per cent to estimate the closing superannuation liability. The superannuation expense for the 2014-15 financial year was based on the 30 June 2014 AASB 119 superannuation liability valuation which applied a higher discount rate of 4.08 per cent. A lower discount rate increases the superannuation liability valuation and related superannuation expense.

Future Trends

Table 2 below shows the SPA's net cost of services for the 2016-17 Budget and forward years.

The 2016-17 Budget and forward year estimates assume the long-term portfolio investment return expectation of CPI plus 5 per cent per annum, as well as the defined benefit superannuation liability valuation projections using a long term average discount rate assumption of 6 per cent from 30 June 2017. Figure 1 shows the 10-year Commonwealth bond interest rate over the last 25 years has averaged approximately 6 per cent.

Table 2 – Budget Estimates for Net Cost of Services

$ millions	**Budget 2016-17**	**Estimate 2017-18**	**Estimate 2018-19**	**Estimate 2019-20**
Total Expenses	595.1	518.1	528.6	538.5
Total Own Source Revenue	264.2	278.0	293.0	312.9
Net Cost of Services	**330.9**	**240.1**	**235.6**	**225.6**

Total Expenditure

Components of Expenses

The major components of total SPA expenses recognised for 2015-16 of $644.0 million relates to the superannuation expense (service and interest costs) associated with the defined benefit superannuation liabilities, as well as the expensing of any investment capital losses.

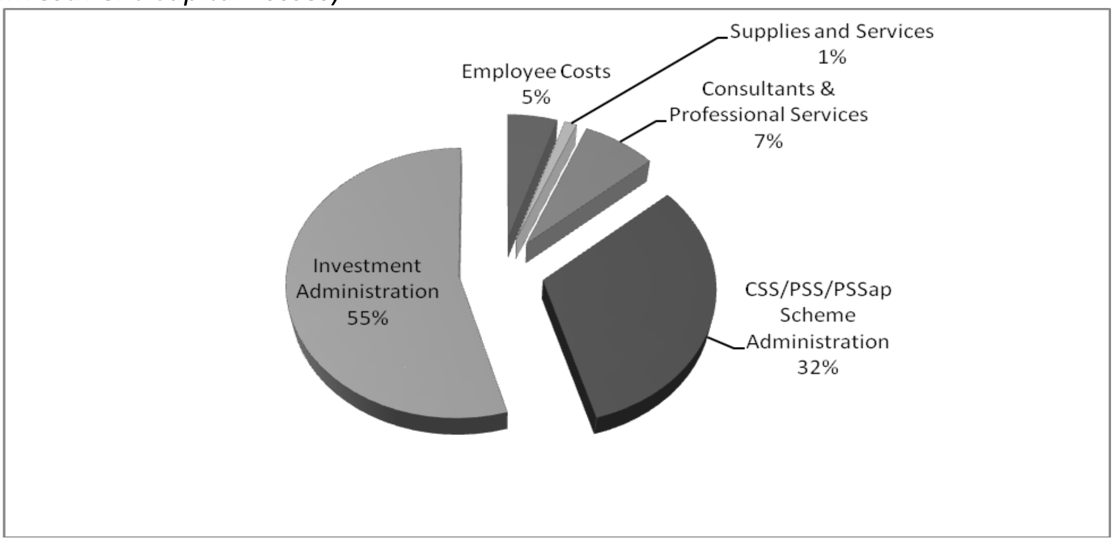
The Service Cost expense of $233.9 million during 2015-16 is the increase in the present value estimate of the defined benefit liability resulting from service during the financial year.

The Interest Cost expense of $315.4 million during 2015-16 is the increase in the present value of the defined benefit liability which arises because past accrued benefits are one period closer to settlement.

The superannuation expense related to the defined benefit superannuation liabilities accounted for $549.3 million or 85 per cent of ordinary activities, as well as the expensing of investment capital losses, which accounted for $83.6 million or 13 per cent of ordinary activities.

The components of the remaining $11.2 million or 2 per cent of expenses are set out below in Figure 2.

Figure 2 – Components of Expenses (Excluding Superannuation Expenses and Investment Capital Losses)



Fund management and investment administration fees, as well as the annual fees associated with the Commonwealth Government superannuation scheme administration charges by the Commonwealth Superannuation Corporation (CSC) on behalf of the employees of the Territory in the CSS, PSS and PSSap, are the largest remaining components of expenses.

Comparison to 2015-16 Budget Estimates
Total SPA expense of $644.0 million was $140.5 million or 28 per cent higher than the 2015-16 Budget estimate of $503.5 million.

This result is mainly due to:

- superannuation expense of $549.3 million being $56.2 million or 11 per cent higher than the budget estimate of $493.1 million due to the financial impact of the lower discount rate at 30 June 2015 of 3.66 per cent, increasing the superannuation liability valuation at 30 June 2015 and increasing superannuation expense for the 2015-16 financial year; and
- the expensing of $83.6 million of investment capital losses during the 2015-16 financial year due mainly to increased share market price volatility and weak global listed share market returns, the trading activity of the investment managers, and the volatility and weakness of the Australian dollar against other major currencies. Budget estimates are based on the long term investment return expectation of CPI + 5 per cent.

Comparison to 2014-15 Actual
Total expenses of $644.0 million were $19.7 million or 3 per cent higher than the 2014-15 actual result of $624.3 million.

This is due mainly to:

- the increase of $16.2 million or 3 per cent in superannuation expense for the 2015-16 financial year. Superannuation expense for the reporting period is the projected expense based on the previous year's financial year end AASB 119 superannuation liability valuation which applied a discount rate of 3.66 per cent to estimate the closing 30 June 2015 superannuation liability (4.08 per cent at 30 June 2014) leading to a higher liability valuation at 30 June 2015 and higher superannuation expense in 2015-16; and
- the increase of $5.8 million or 7 per cent in investment capital losses of $83.6 million for the 2015-16 financial year, as compared to $77.7 million in 2014-15.

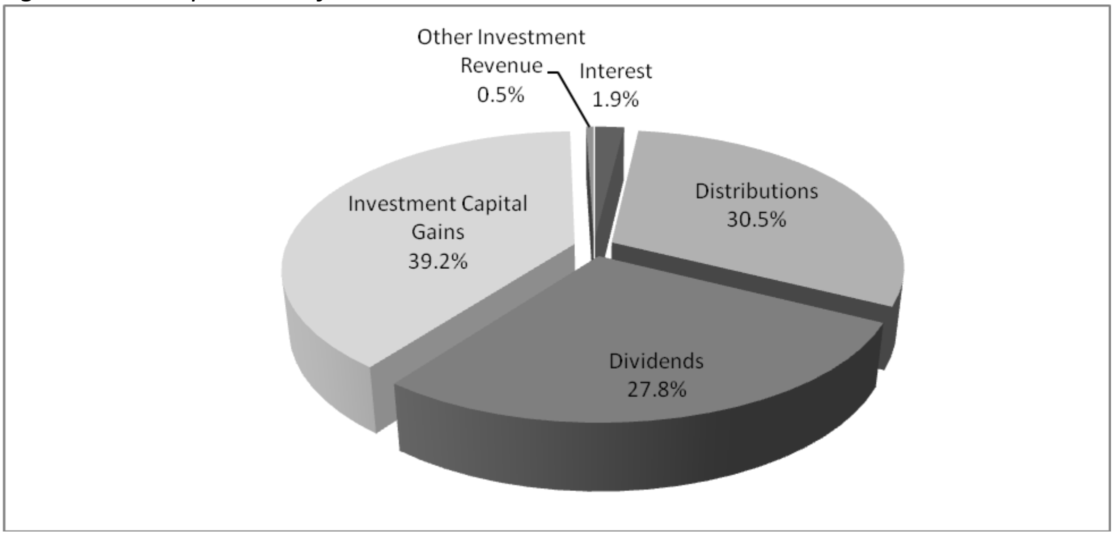
Future Trends
From 2016-17 expenses are budgeted to be lower as a result of using the long term average discount rate assumption of 6 per cent in the superannuation liability valuation estimates.

Total Own Source Revenue

Components of Own Source Revenue
For the financial year ended 30 June 2016, the SPA recognised $185.9 million in own source revenue.

The components of own source revenue for the 2015-16 financial year are outlined in Figure 3 and include income such as interest, dividends, and distributions, as well as investment capital gains.

Figure 3 – Components of Own Source Revenue



Comparison to 2015-16 Budget Estimates

Total own source revenue, or gross investment revenue, of $185.9 million was $75.2 million or 29 per cent lower than the 2015-16 Budget estimate of $261.1 million due to the portfolio return of 2.7 per cent for the 2015-16 financial year being below the budget return assumption.

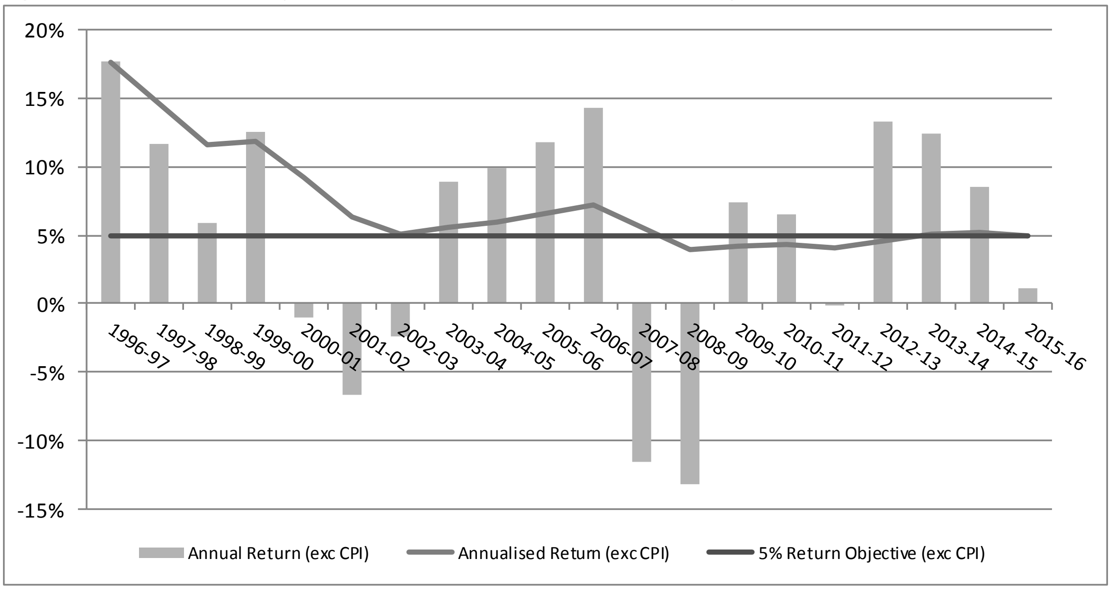
The budget estimates for investment earnings incorporate the long-term portfolio investment return target objective. The investment portfolio is targeting an average annual return that is 5 per cent above CPI increases.

Figure 4 outlines the annual real investment returns (the annual returns excluding the impact of CPI) achieved by the investment portfolio over the last twenty years, the annualised real return or the average annual return achieved by the investment portfolio over time, as well as the investment return objective.

The investment portfolio achieved a net of fees return of 2.66 per cent for the 2015-16 financial year, or an equivalent real return of approximately CPI + 1.2 per cent.

Due to the volatile nature of global investment markets, investment earnings recognised in any particular year by the SPA will vary from the annual budget estimates. Over the past twenty years the portfolio has achieved an annualised investment return of CPI plus 5.0 per cent which is in-line with the long term target investment return objective.

Figure 4 – Annual Portfolio Investment Returns (Excluding CPI)



Comparison to 2014-15 Actual

Total own source revenue of $185.9 million was $203.9 million or 52 per cent lower than the 2014-15 actual result of $389.8 million. This is mainly due to the investment portfolio achieving a lower investment return of 2.66 per cent (CPI + 1.2 percent) in 2015-16 compared with the portfolio's investment return of 10.18 per cent (CPI + 8.6 per cent) in 2014-15.

Future Trends

Due to budgeting for investment revenue at the long term target return objective, which is higher than the actual investment return achieved in 2015-16, total own source revenue over the 2016-17 Budget and forward years is projected to be higher.

Financial Position

Total Assets

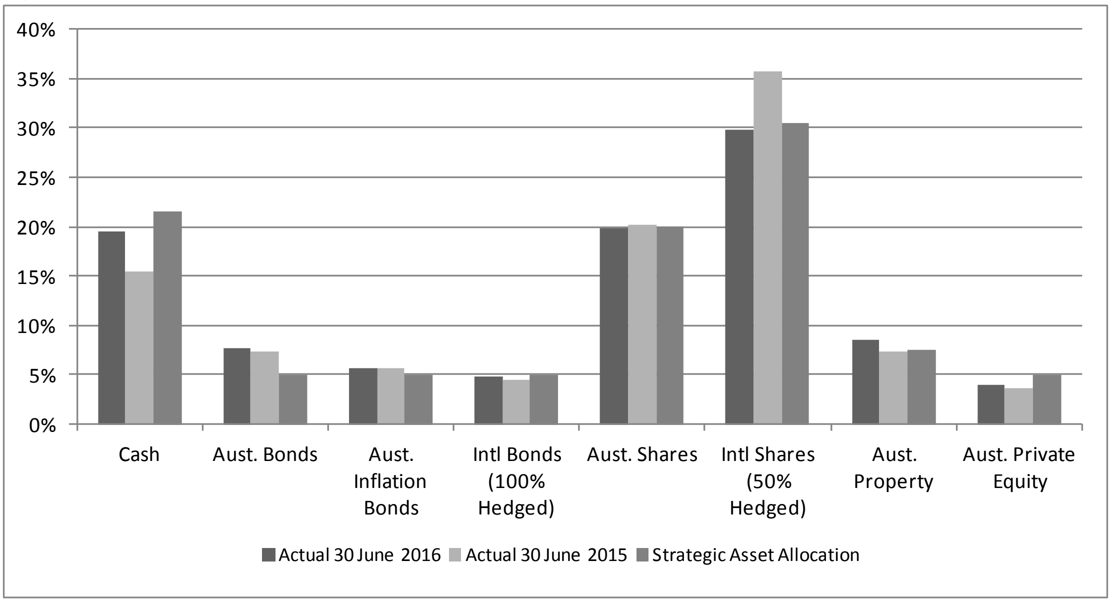
Components of Total Assets

At 30 June 2016 almost 100 per cent of the SPA's assets are financial investment assets.

The investment portfolio assets include Australian and international money market securities (cash) and capital market securities (bonds), Australian and international listed shares, Australian office and retail property assets, and private equity, or unlisted company assets.

Figure 5 below provides the actual asset allocation at 30 June 2016 and the actual asset allocation at 30 June 2015, and compares this against the current long-term strategic asset allocation (SAA) targets.

Figure 5 – Investment Portfolio Asset Allocation



The SAA is designed to provide a reasonable probability of achieving the long-term investment return target objective of CPI plus 5 per cent within acceptable risk constraints. Since 1996-97 the investment portfolio has achieved an annualised return of CPI plus 5.0 per cent.

Comparison to 2015-16 Budget Estimates

The total asset position at 30 June 2016 of $3,446.8 million was $162.5 million or 5 per cent lower than the budget estimate of $3,609.4 million. The lower growth in the asset base is mainly due to investment earnings of $96.2 million in 2015-16 being $159.9 million or 62 per cent lower than the 2015-16 Budget estimate of $256.1 million.

Comparison to 2014-15 Actual

The total asset position at 30 June 2016 of $3,446.8 million is $104.8 million or 3 per cent higher than the 30 June 2015 closing asset position of $3,342.1 million. The growth in the asset base is mainly due to investment earnings of $96.2 million for the 2015-16 financial year.

Total Liabilities

Almost 100 per cent of the SPA's recognised liabilities are associated with the Territory's defined benefit employer superannuation liabilities to the Commonwealth Government.

Comparison to 2015-16 Budget Estimates

The SPA liabilities at 30 June 2016 of $10,719.6 million were $4,623.8 million or 76 per cent higher than the 2015-16 Budget estimate of $6,095.8 million.

This variance is due to the yield on the Commonwealth Government's April 2039 bond, which is the reference yield for the appropriate discount rate, being 2.69 percent (annualised) as at 30 June 2016.

The actual discount rate remains below the long term average budget discount rate assumption of 6 per cent and materially impacted the CSS/PSS defined benefit superannuation liability valuation of $10,718.3 million at 30 June 2016 exceeding the budget estimate of $6,095.8 million.

Comparison to 2014-15 Actual

The SPA's total liabilities of $10,719.6 million were $2,228.5 million or 26 per cent higher than the 2014-15 result of $8,491.0 million.

This was due to:

- the financial impacts from the latest actuarial review using salary and membership data at 30 June 2015 and the projected growth in the superannuation liability; and
- the AASB 119 CSS/PSS defined benefit superannuation liability valuation at 30 June 2016 applying a discount rate of 2.69 per cent which was lower than the discount rate used at 30 June 2015 of 3.66 per cent. The lower discount rate materially increased the liability valuation at 30 June 2016 with the SPA recognising an actuarial loss on the liability valuation of $1,876.7 million.

Future Trends

The valuation of the Territory's employer superannuation liability is very sensitive to the level of domestic interest rates. The forward estimates for the value of the superannuation liability are lower due to the incorporation of the long term average discount rate assumption of 6 per cent, as compared to current low discount rate.

ACT Audit Office

AUDITOR-GENERAL AN OFFICER OF THE ACT LEGISLATIVE ASSEMBLY

INDEPENDENT AUDIT REPORT
SUPERANNUATION PROVISION ACCOUNT

To the Members of the ACT Legislative Assembly

Report on the financial statements

The financial statements of the Superannuation Provision Account for the year ended 30 June 2016 have been audited. These comprise the statement of income and expenses on behalf of the Territory, statement of assets and liabilities on behalf of the Territory, statement of changes in equity on behalf of the Territory, cash flow statement on behalf of the Territory, territorial statement of appropriation and accompanying notes.

Responsibility for the financial statements

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

The auditor's responsibility

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

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 Superannuation Provision Account.

Electronic presentation of the audited financial statements

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

Independence

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

Audit opinion

In my opinion, the financial statements of the Superannuation Provision Account for the year ended 30 June 2016:

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

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

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

Dr Maxine Cooper
Auditor-General
5 September 2016

Superannuation Provision Account
Financial Statements
For the Year Ended 30 June 2016

Statement of Responsibility

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

David Nicol
Under Treasurer
Chief Minister, Treasury and Economic Development Directorate
8 August 2016

Superannuation Provision Account
Financial Statements
For the Year Ended 30 June 2016

Statement by the Chief Finance Officer

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

Patrick McAuliffe
Chief Finance Officer
Superannuation Provision Account
Chief Minister, Treasury and Economic Development Directorate
8 August 2016

Superannuation Provision Account
Statement of Income and Expenses on Behalf of the Territory
For the Year Ended 30 June 2016

	Note No.	Actual 2016 $'000	Budget 2016 $'000	Actual 2015 $'000
Income				
Interest	5.1	3,560	7,173	5,579
Dividends	5.2	51,760	50,858	50,356
Distributions	5.3	56,698	70,941	72,458
Gains on Investments	5.4	72,954	131,440	260,251
Other Income	5.5	907	688	1,176
Total Income		**185,879**	**261,100**	**389,820**
Expenses				
Losses on Investments	6.1	83,557	0	77,733
Employee Expenses	6.2	474	399	561
Supplies and Services	6.3	4,523	4,955	4,644
Investment Administration Expenses	6.5	6,085	5,000	8,141
Superannuation Expenses	6.6	549,386	493,171	533,235
Total Expenses		**644,025**	**503,525**	**624,313**
Operating (Deficit)		**(458,146)**	**(242,425)**	**(234,493)**
Other Comprehensive Income				
Actuarial (Loss) on Territory's Defined Benefit Superannuation Liability		(1,876,734)	0	(666,808)
Total Other Comprehensive (Loss)		**(1,876,734)**	**0**	**(666,808)**
Total Comprehensive (Loss)		**(2,334,880)**	**(242,425)**	**(901,302)**

The above Statement of Income and Expenses on Behalf of the Territory should be read in conjunction with the accompanying notes.

Superannuation Provision Account
Statement of Assets and Liabilities on Behalf of the Territory
At 30 June 2016

	Note No.	Actual 2016 $'000	Budget 2016 $'000	Actual 2015 $'000
Current Assets				
Cash and Cash Equivalents	7.1	46,223	25,000	49,565
Receivables	7.2	11,597	3,704	5,725
Total Current Assets		**57,820**	**28,704**	**55,290**
Non Current Assets				
Investments	7.3	3,389,024	3,580,656	3,286,767
Total Non Current Assets		**3,389,024**	**3,580,656**	**3,286,767**
Total Assets		**3,446,844**	**3,609,360**	**3,342,057**
Current Liabilities				
Payables	8.1	1,107	965	1,211
Employee Benefits	8.2	204	162	168
Estimated Superannuation Liabilities	8.3	230,525	230,915	211,146
Total Current Liabilities		**231,836**	**232,042**	**212,525**
Non-Current Liabilities				
Estimated Superannuation Liabilities	8.3	10,487,730	5,863,744	8,278,520
Total Non-Current Liabilities		**10,487,730**	**5,863,744**	**8,278,520**
Total Liabilities		**10,719,567**	**6,095,786**	**8,491,046**
Net Liabilities		**(7,272,723)**	**(2,486,426)**	**(5,148,988)**
Equity				
Accumulated Deficits		(7,272,723)	(2,486,426)	(5,148,988)
Total Equity		**(7,272,723)**	**(2,486,426)**	**(5,148,988)**

The above Statement of Assets and Liabilities on Behalf of the Territory should be read in conjunction with the accompanying notes.

Superannuation Provision Account
Statement of Changes in Equity on Behalf of the Territory
For the Year Ended 30 June 2016

	Accumulated Deficits Actual 2016 $'000	Total Equity Actual 2016 $'000	Budget 2016 $'000
Balance at 1 July 2015	**(5,148,988)**	**(5,148,988)**	**(2,455,147)**
Comprehensive Income			
Operating (Deficit)	(458,146)	(458,146)	(242,425)
(Loss) from Actuarial Review	(1,876,734)	(1,876,734)	0
Total Comprehensive (Loss)	**(2,334,880)**	**(2,334,880)**	**(242,425)**
Transactions Involving Owners Affecting Accumulated Deficits			
Capital Injections	211,146	211,146	211,146
Total Transactions Involving Owners Affecting Accumulated Deficits	**211,146**	**211,146**	**211,146**
Balance at 30 June 2016	**(7,272,723)**	**(7,272,723)**	**(2,486,426)**

	Accumulated Deficits Actual 2015 $'000	Total Equity Actual 2015 $'000
Balance at 1 July 2014	**(4,445,896)**	**(4,445,896)**
Comprehensive Income		
Operating (Deficit)	(234,493)	(234,493)
(Loss) from Actuarial Review	(666,808)	(666,808)
Total Comprehensive (Loss)	**(901,302)**	**(901,302)**
Transactions Involving Owners Affecting Accumulated Deficits		
Capital Injections	198,209	198,209
Total Transactions Involving Owners Affecting Accumulated Deficits	**198,209**	**198,209**
Balance at 30 June 2015	**(5,148,988)**	**(5,148,988)**

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

Superannuation Provision Account
Cash Flow Statement on Behalf of the Territory
For the Year Ended 30 June 2016

	Note No.	Actual 2016 $'000	Budget 2016 $'000	Actual 2015 $'000
Cash Flows from Operating Activities				
Receipts				
Interest Received		3,711	7,173	6,474
Dividends Received		54,404	50,858	51,205
Distributions Received		39,043	70,940	71,318
Other		1,299	968	1,371
Total Receipts from Operating Activities		**98,458**	**129,939**	**130,368**
Payments				
Employees		518	463	614
Supplies and Services		4,526	4,955	4,642
Defined Benefit Superannuation Emerging Costs		197,452	211,146	185,435
Other		53,297	5,000	41,335
Total Payments from Operating Activities		**255,792**	**221,564**	**232,026**
Net Cash (Outflows) from Operating Activities	9	**(157,334)**	**(91,625)**	**(101,658)**
Cash Flows from Investing Activities				
Receipts				
Proceeds from the Sale/Maturity of Investments		185,978	0	283,378
Total Receipts from Investing Activities		**185,978**	**0**	**283,378**
Payments				
Purchase of Investments		243,131	119,521	343,762
Total Payments from Investing Activities		**243,131**	**119,521**	**343,762**
Net Cash (Outflows) from Investing Activities		**(57,153)**	**(119,521)**	**(60,384)**
Cash Flows from Financing Activities				
Receipts				
Capital Injection		211,146	211,146	198,209
Total Receipts from Financing Activities		**211,146**	**211,146**	**198,209**
Net Cash Inflows from Financing Activities		**211,146**	**211,146**	**198,209**
Net (Decrease)/Increase in Cash and Cash Equivalents		(3,341)	0	36,167
Cash and Cash Equivalent at Beginning of Reporting Period		49,565	25,000	13,398
Cash and Cash Equivalents at End of Reporting Period	7.1	**46,223**	**25,000**	**49,565**

The above Cash Flow Statement on Behalf of the Territory should be read in conjunction with the accompanying notes.

Superannuation Provision Account
Territorial Statement of Appropriation
For the Year Ended 30 June 2016

	Budget 2016 $'000	Total Appropriated 2016 $'000	Appropriation Drawn 2016 $'000	Appropriation Drawn 2015 $'000
Capital Injections	211,146	211,146	211,146	198,209
Total Territorial Appropriation	**211,146**	**211,146**	**211,146**	**198,209**

The above Territorial 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 on Behalf of the Territory in the Budget Papers. The amount also appears in the Cash Flow Statement on Behalf of the Territory.

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

The *Appropriation Drawn* column is the total amount of appropriation received by the Superannuation Provision Account during the year. This amount appears in the Cash Flow Statement on Behalf of the Territory.

Notes Relating to Territorial Statement of Appropriation

Capital Injections

The ACT Government has a policy objective to fully fund the employer defined benefit superannuation liability to the Commonwealth Government by 30 June 2030. The appropriation is used to extinguish the annual emerging cost payment (employer-share of Territory employee benefits) to the Commonwealth Government.

Capital injections of $211.146 million were provided for in the 2015-16 Budget. The full appropriation amount of $211.146 million was drawn during the 2015-16 financial year.

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 1 OBJECTIVES OF THE SUPERANNUATION PROVISION ACCOUNT

Operations and Principal Activities

The Chief Minister, Treasury and Economic Development Directorate (CMTEDD) assists the ACT Government in the effective management of the defined benefit employer superannuation liabilities of the Australian Capital Territory (the 'Territory'), a body politic established by section 7 of the *Australian Capital Territory (Self Government) Act 1988 (Cwlth)*.

The defined benefit superannuation liabilities are in respect of current and former Territory employees who are members of Commonwealth Government defined benefit superannuation schemes, including the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS), as well as eligible Members of the Legislative Assembly (MLA) who are members of the Legislative Assembly Members' Superannuation Scheme.

The Superannuation Provision Account is not a superannuation scheme for Territory employees, nor does it receive superannuation contributions from Territory employees. The Superannuation Provision Account receives budget appropriations and makes payments in connection with the Territory's defined benefit employer superannuation liabilities. The Superannuation Provision Account was established in 1991 to manage, recognise and account for the investment assets and defined benefit employer superannuation liabilities of the Territory. The undertakings of the Superannuation Provision Account form a significant element of the ACT Government's strategy of maintaining an adequate provision for the Territory's employer defined benefit superannuation liabilities and associated transactions.

The *Territory Superannuation Provision Protection Act 2000* provides for the protection of the funds dedicated to meeting the superannuation liabilities of the Territory, Territory Authorities and Territory-owned Corporations and for other purposes.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The Superannuation Provision Account is prescribed as a Directorate under the *Financial Management Act 1996* (FMA) and is an individual reporting entity.

Under the FMA, all Directorates are required to prepare annual financial statements. The Superannuation Provision Account is a not-for-profit reporting entity as the principal objective is not the generation of profit but the reporting and accountability of a significant component of the central finances of the Territory as outlined in Note 1: 'Objectives of the Superannuation Provision Account' above.

The FMA and the *Financial Management Guidelines* issued under the FMA requires the Superannuation Provision Account's financial statements to include:

(i) A Statement of Income and Expenses on Behalf of the Territory for the year;
(ii) A Statement of Assets and Liabilities on Behalf of the Territory at the end of the year;
(iii) A Statement of Changes in Equity on Behalf of the Territory for the year;
(iv) A Cash Flow Statement on Behalf of the Territory for the year;
(v) A Territorial Statement of Appropriation for the year;
(vi) The significant accounting policies adopted by the Superannuation Provision Account for the year; and
(vii) Such other statements as are necessary to fairly reflect the financial operations of the Superannuation Provision Account during the year and its financial position at the end of the year.

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.1 Basis of Preparation – Continued

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.

At 30 June 2016, Superannuation Provision Account liabilities ($10.720 billion) exceed assets ($3.447 billion) by $7.273 billion ($5.149 billion at 30 June 2015). The Superannuation Provision Account will continue to be in a net liability position until the defined benefit superannuation liability is fully funded by investment assets. As the annual superannuation emerging cost payments are significantly less than total investment assets this is not seen as an immediate risk to the ongoing financial operations of the Superannuation Provision Account. In the event required benefit payments exceed the available assets additional appropriation will be provided from the Territory budget.

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 and valuation policies applicable to the Superannuation Provision Account during the reporting period.

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

2.2 Territorial Items

CMTEDD produces Territorial financial statements for the Superannuation Provision Account. The Territorial financial statements include income, expenses, assets and liabilities that CMTEDD administers on behalf of the Territory, but does not control.

2.3 The Reporting Period

These financial statements state the financial performance, changes in equity and cash flows of the Superannuation Provision Account for the year ending 30 June 2016 and the financial position of the Superannuation Provision Account at 30 June 2016.

2.4 Comparative Figures

Budget Figures
To facilitate a comparison with the Budget Papers, as required by the FMA, budget information for 2015-16 has been presented in the financial statements. Budget numbers in the financial statements are the original budget numbers that appear in the Budget Papers.

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.

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.5 Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars ($'000) and may not add due to rounding.

2.6 Revenue Recognition

Revenue is recognised at the fair value of the consideration received or receivable in the Statement of Income and Expenses on Behalf of the Territory.

Interest
Interest revenue is recognised using the effective interest method.

Dividends and Distribution Income
Dividends and Distribution income are recognised when the Superannuation Provision Account's right to receive payment is established.

Gains on Investments at Fair Value through Profit and Loss
Gains or losses on financial assets held at Fair Value through Profit or Loss consist of realised and unrealised amounts. Gains or losses resulting from changes in the fair value of an investment are included in the Statement of Income and Expenses on Behalf of the Territory in the period in which they arise.

2.7 Cash and Cash Equivalents

For the purpose of the Cash Flow Statement on Behalf of the Territory and the Statement of Assets and Liabilities on Behalf of the Territory, cash means deposits held at call with the Territory's transaction bank.

2.8 Receivables

Accounts receivable are initially recognised at fair value and are subsequently measured at amortised cost, with any adjustments to the carrying amount being recorded in the Statement of Income and Expenses on behalf of the Territory.

Receivables may include amounts for dividends, interest and trust distributions. Interest, dividends and unit trust distributions are accrued when the right to receive payment is established. Amounts are generally received within 30 days of being recorded as receivables.

The allowance for impairment losses represents the amount of trade receivables and other trade receivables the Superannuation Provision Account estimates will not be repaid. The allowance for impairment losses is based on objective evidence and a review of overdue balances. Superannuation Provision Account considers the following is objective evidence of impairment:

(i) becoming aware of financial difficulties of debtors;
(ii) default payments; or
(iii) debts more than 30 days overdue.

The amount of the allowance is recognised in the Statement of Income and Expenses on Behalf of the Territory. The allowance for impairment losses are written off against the allowance account when the Superannuation Provision Account ceases action to collect the debt when the cost to recover debt is more than the debt is worth.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.9 Taxation

The Superannuation Provision Account is not subject to income tax or income tax equivalents, but is subject to the Goods and Services Tax and Fringe Benefits Tax.

2.10 Investments

Investments represent the funds set aside in the Superannuation Provision Account to be used to fund the emerging benefits payable in respect of the Territory's employer-financed component of the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS) defined benefit superannuation liabilities (refer Note 2.14: 'Estimated CSS/PSS Defined Benefit Employer Superannuation Liabilities') and benefit payments for Members of the Legislative Assembly Defined Benefit Superannuation Scheme (refer Note 2.15: 'Estimated Superannuation Liabilities for Members of the Legislative Assembly').

CMTEDD manages the financial investment assets in accordance with an asset allocation strategy that takes into account the risk and return objectives of the Territory, as well as the long term nature of the projected defined benefit employer superannuation liabilities and projected cash flow requirements.

The long term Strategic Asset Allocation (SAA), consistent with this long term investment objective, approximately equates to 75 per cent of the portfolio invested in growth, or return-seeking assets (such as shares) and 25 per cent of the portfolio being invested in income producing, or defensive assets (such as discounted and fixed rate debt). The combination of asset classes is designed to achieve the return objective of Consumer Price Index (CPI) plus 5 per cent (net of fees) over the long term.

External asset class specific institutional investment managers are appointed to manage the Territory's financial investment assets accounted for in the Superannuation Provision Account. These assets are managed:

(i) directly through an actively-managed strategy using a separate discrete mandate (Territory directly owns the securities) where the investment manager aims to outperform the relevant performance benchmark index (gross of fees);
(ii) directly through a passively-managed index strategy using a separate discrete mandate where the investment manager aims to match the relevant performance benchmark index (gross of fees); or
(iii) indirectly through an actively-managed or passively-managed index strategy utilising unlisted pooled unit trusts where the investment manager either aims to outperform the relevant performance benchmark index or match the relevant performance benchmark index.

The *Superannuation Management Guidelines 2015*, prescribe the allowable investments for the Superannuation Provision Account in accordance with section 11(1)(c) of the *Territory Superannuation Provision Protection Act 2000*. The guidelines also require that investments may only be made in accordance with an Investment Plan and a Responsible Investment Policy approved by the Treasurer. These legislative provisions are reflected in the investment management agreements with investment managers as relevant.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.10 Investments - Continued

The Superannuation Provision Account investments are classified as at Fair Value through Profit or Loss. They comprise:

(i) Financial instruments designated at Fair Value through Profit or Loss upon initial recognition. These are managed and their performance evaluated on a fair value basis in accordance with the Superannuation Provision Account investment strategy.

(ii) Financial instruments held for trading. Derivative financial instruments are included under this classification. The Superannuation Provision Account does not designate any derivatives as hedges in a hedging relationship.

Recognition/De-recognition of Investments
The Superannuation Provision Account recognises financial assets and financial liabilities at fair value on the date it becomes party to the contractual agreement (trade date). Subsequent to initial measurement, investments held through Fair Value through Profit or Loss are re-measured to fair value with changes in their fair value (gains/loss) recognised in the Statement of Income and Expenses on behalf of the Territory. Interest, dividends and distributions earned on these investments are recorded separately in interest, dividend and distribution revenue. Investments are derecognised when the obligation specified in the contract is discharged or cancelled, transferred, or expired. Transaction costs for such investments are recognised directly in the Statement of Income and Expenses on behalf of the Territory.

Determination of Fair Value
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Superannuation Provision Account.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value for investments traded in active markets at the reporting date is based on the most representative price within the bid-ask spread, without any deduction for transaction costs. Securities defined in these accounts as 'listed' are traded in an active market.

For all other investments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach by using recent arm's length market transactions adjusted as necessary and referenced to the current market value of another instrument that is substantially the same and the income approach through using discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible.

For assets and liabilities that are recognised in the financial statements on a recurring basis, it is determined whether transfers have occurred between levels in the Fair Value Hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the beginning of each reporting period. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the Fair Value Hierarchy, described under Note 4.5: 'Fair Value Hierarchy', based on the lowest level input that is significant to the fair value measurement as a whole.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.11 Derivative Instruments

Derivative Instruments are a prescribed investment within the *Superannuation Management Guidelines 2015* and are used for maximising the efficiencies within the investment portfolio in the pursuit of the investment objectives, optimising transaction flows, as well as the protection of the investments by minimising adverse effects of a range of financial market risks.

The investments held in discrete mandate strategies and pooled unit trusts include exposure to futures, options, forward rate agreements and swaps, where the derivatives are held to gain underlying market exposure or to manage financial risks.

Derivative financial instruments are initially recognised at fair value on trade date, namely when the derivative contract is entered into, and are subsequently remeasured to fair value. Any gains or losses arising from changes in the fair value of derivatives are recognised in the Statement of Income and Expenses on Behalf of the Territory for the year under the classification of gains or (losses) on financial assets at Fair Value through Profit or Loss.

The fair values of derivative instruments are calculated utilising listed market prices if available. If listed market prices are not available for derivative instruments, the price utilised may be sourced from a vendor, an investment manager or counterparty.

The fair value of directly held derivative instruments is disclosed in Note 7.3: 'Investments'.

2.12 Payables

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

Payables include Accrued Expenses.

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.13 Employee Benefits for Superannuation Provision Account Employees

Employee benefits include:

(i) short-term employee benefits such as wages and salaries, annual leave loading, and applicable on-costs, if expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services;
(ii) other long-term benefits such as long service leave and annual leave; and
(iii) termination benefits.

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

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

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

Annual leave liabilities have been estimated on the assumption they will be wholly settled within three years. At 30 June 2016 the rate used to estimate the present value of future annual leave payments is 101.4% (101.0% at 30 June 2015). At 30 June 2016 the rate used to estimate the present value of future payments for long service leave is 114.7% (104.2% at 30 June 2015).

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 of qualifying service, the probability that employees will reach the required minimum period has been taken into account in estimating the provision for long service leave and applicable on-costs.

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

Annual leave and long service leave liabilities are classified as current liabilities in the Statement of Assets and Liabilities on Behalf of the Territory where there are no unconditional rights to defer the settlement of the liability for at least 12 months. Conditional long service leave liabilities are classified as non-current where there is an unconditional right to defer the settlement of the liability until the employee has completed the requisite years of service.

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.13 Employee Benefits for Superannuation Provision Account Employees – Continued

Superannuation

The Superannuation Provision Account makes fortnightly payments to the Territory Banking Account to cover the Superannuation Provision Account's superannuation liability for employees who are members of the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). This payment does not include the productivity component which is paid directly to the Commonwealth Superannuation Corporation (CSC).

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

The superannuation liability for the Territory's relevant share of the employer financed portion of entitlements of all employees participating in the CSS and PSS who became Territory Employees with effect on or after 1 July 1989 is recognised at a total Territory level in the Superannuation Provision Account (refer Note 2.14: 'Estimated CSS/PSS Defined Benefit Employer Superannuation Liabilities').

2.14 Estimated CSS/PSS Defined Benefit Employer Superannuation Liabilities

The Superannuation Provision Account recognises the Territory's superannuation liability in respect of current and former employees who are members of Commonwealth Government defined benefit superannuation schemes, including the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). The total superannuation liability represents the estimated financial obligation of the Territory to make payments to the Commonwealth Government in respect of superannuation arising from Territory employment.

The CSS and PSS are types of defined benefit superannuation schemes, in which some or all of the benefits payable to members are defined in advance according to a set of formulas which are linked to factors such as years of service, final average salary and level of individual member contribution over time.

The employer financed component is the total benefit payable (excluding the productivity component) less the accumulated member contributions with interest.

The total estimated Territory CSS and PSS defined benefit employer superannuation liability (Territory superannuation liabilities) is recognised in the Statement of Assets and Liabilities on Behalf of the Territory.

With effect from 1 July 1989, the Territory became a separate body politic and has an ongoing financial obligation to the Commonwealth Government for the employer-financed portion of superannuation benefits provided to employee members of the CSS and PSS for their period of employment with the Territory.

Membership of the CSS closed to new Territory employees from 1 July 1990 with new employees assuming membership of the PSS until 30 June 2005. From 1 July 2005 new employees commencing service with the Territory assumed membership of the Public Sector Superannuation Accumulation Plan (PSSap). From 6 October 2006 access to the PSSap for new Territory employees was no longer available and the Territory introduced full superannuation choice arrangements for all new employees.

The administration of the CSS and PSS is undertaken by the Commonwealth Government agency, Commonwealth Superannuation Corporation (CSC), with all benefits paid to entitled CSS and PSS members by CSC. The Superannuation Provision Account reimburses CSC annually, for the Territory's share of employer superannuation benefits paid to entitled Territory employees who are members of the CSS or PSS.

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.14 Estimated CSS/PSS Defined Benefit Employer Superannuation Liabilities – Continued

Actuarial Assessment of Estimated Superannuation Liabilities

The value of accrued defined benefit employer superannuation liabilities is calculated as the present value of the future payment of retirement benefits that have actually accrued in respect of service as at the calculation date. This approach is in accordance with Australian Accounting Standard AASB 119: 'Employee Benefits' (AASB 119) and the requirement to use a projected unit credit valuation approach.

The defined benefit liability is determined on an annual basis by CMTEDD's appointed consultant actuary, Russell Investments. The annual liability determination incorporates updates to salary and membership data as at the reporting date, financial and demographic assumptions, and the relevant discount rate as required. A more comprehensive triennial actuarial review, which incorporates a full assessment of all the financial and demographic assumptions, is conducted every three years with the most recent triennial review completed in 2014-15 utilising salary and membership data at 30 June 2014.

At 30 June 2016, the Superannuation Provision Account recorded an unfunded superannuation liability of $7.268 billion. The reconciliation of the superannuation liabilities and expenses is detailed in Note 8.3: 'Estimated Superannuation Liabilities'.

Historical Analysis of Unfunded Superannuation Liability Obligations

At 30 June	Note No.	2016 $'000	2015 $'000	2014 $'000	2013 $'000
Total Assets	7.1-7.3	3,446,844	3,342,057	3,030,349	2,615,990
Estimated Superannuation Liability	8.3	10,714,570	8,485,855	7,471,004	6,777,340
Net Unfunded Liability		**(7,267,726)**	**(5,143,798)**	**(4,440,655)**	**(4,161,350)**

The employer financed component of entitlements is unfunded and is not required to be paid until a member receives their benefit entitlement. As the employer financial obligations may be settled many years in the future, the estimated financial obligation is measured on a discounted basis. The ultimate cost of the financial obligation will be influenced by many factors and actuarial assumptions of future events are required to measure the liability and expense.

As required by AASB 119 the actuarial assumptions must be unbiased, being neither imprudent nor excessively conservative, and mutually compatible if they reflect the economic relationships between factors. The financial and demographic assumptions are the best estimates of the variables that will determine the ultimate cost of the defined benefit financial obligations.

Financial Assumptions

The valuation of the accrued liability and projection of the estimated annual benefit costs requires financial assumptions about the future financial experience of the membership of the CSS and PSS. The key financial assumptions incorporate estimates of future member salary inflation and consumer price inflation, as well as the discount rate used to calculate the present value of the superannuation liability.

At 30 June	2016	2015	2014	2013
Discount Rate	2.69%	3.66%	4.08%	4.29%
Salary Inflation	3.00% / 3.50%[1]	3.50%	4.00%	4.00%
Consumer Price Index	2.50%	2.50%	2.50%	2.50%

[1] Incorporates a short term assumption of 3.00% to 30 June 2020 and 3.50% thereafter.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.14 Estimated CSS/PSS Defined Benefit Employer Superannuation Liabilities – Continued

The Superannuation Provision Account is not a superannuation fund, and therefore has no plan assets. The actuary does not incorporate an expected return on plan assets when estimating the defined benefit superannuation liability and expense.

Demographic Assumptions
The valuation of the accrued liability and projection of the estimated annual benefit costs requires assumptions about the future experience of the membership of the CSS and PSS.

The key demographic assumptions that are incorporated by the actuary and that impact on the estimated superannuation liability include: increases in salary through promotion; increasing levels of PSS member contributions over time; death and invalidity; retirement, resignation and retrenchment; pensioner mortality; improvements in pensioner mortality; benefit retention; benefit stream choice; and spouse assumptions.

Membership Data
The estimate of the superannuation liability incorporates Territory employee CSS/PSS membership data at 30 June 2015. CSC supplied at 30 June 2015 those members who are currently employed by the Territory (Group A) and those members who are not currently employed by the Territory (Group B).

As CSC is unable to provide membership data at 30 June 2016 in time for the valuation of the estimated superannuation liability at 30 June 2016, the valuation estimate incorporates membership data at 30 June 2015, but projected forward to 30 June 2016. This allows for projected service and salaries at 30 June 2016, expected exits over the 2015-16 financial year, actual crediting rates on member and productivity accounts to 30 June 2016, as well as actual pension indexation rates.

Group A data includes CSS/PSS contributors, who are current employees of the Territory, and CSS/PSS pensioners and deferred beneficiaries, who were employees of the Territory on the termination of their active employment.

Group B data includes CSS/PSS contributors, who are not employees of the Territory but were so previously, and CSS/PSS pensioners and deferred beneficiaries who were not employees of the Territory on the termination of their active employment, but were so previously.

Group A Membership Data	**CSS**	**PSS**	**Total**
Number of Contributing Members	652	7,855	**8,507**
Number of Deferred Members	207	8,506	**8,713**
Number of Pensioners	5,982	3,901	**9,883**
Total Group A	**6,841**	**20,262**	**27,103**

Group B Membership Data	**CSS**	**PSS**	**Total**
Number of Contributing Members	295	3,266	**3,561**
Number of Deferred Members	154	3,231	**3,385**
Number of Pensioners	996	1,222	**2,218**
Total Group B	**1,445**	**7,719**	**9,164**
Total ACT Employee Membership	**8,286**	**27,981**	**36,267**

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.14 Estimated CSS/PSS Defined Benefit Employer Superannuation Liabilities – Continued

Limitations in Salary and Membership Data
Detailed checks are carried out by CMTEDD's actuary to test the integrity of the salary and membership data, including a detailed reconciliation of the current data with the data used for the previous valuation.

This process results in some data queries being resolved with CSC. In the small number of cases where issues may not be resolved, or in the case of limited data availability, conservative judgements are made by the actuary to complete the valuation exercise.

Accounting for Changes in the Estimated Superannuation Liability (Superannuation Expense)
The change in the estimated superannuation liability from the previous reporting period to the current reporting period comprises four elements: Service Cost; Interest Cost; Emerging Benefits Payments; and Actuarial Gains or Losses.

All movements in the estimated superannuation liability are expensed through the Statement of Income and Expenses on Behalf of the Territory in the period to which the movement relates with the exception of actuarial gains or losses. The actuarial gains and losses are recognised as Other Comprehensive Income/(Loss) by applying the Direct to Equity Method as allowed under AASB 119.

In accordance with the requirements of AASB 119, the superannuation expense for the reporting period is the projected expense based on the previous year's financial year end AASB 119 superannuation liability valuation which applied a discount rate of 3.66 per cent to estimate the closing 30 June 2015 superannuation liability. The closing 30 June 2016 liability is estimated at the discount rate at 30 June 2016 (2.69 per cent). The actuarial gain or loss is the difference between the closing 30 June 2016 liability minus the 30 June 2015 liability, adjusted for the projected 2015-16 interest and service cost and actual emerging cost (benefit) payments.

Payment of Emerging Costs (Benefits) to CSC
The Territory is liable for the reimbursement of the emerging costs of benefits paid each year by CSC to members of the CSS/PSS for ACT Government Service after 1 July 1989. The liability to the Commonwealth Government in respect of these benefit payments is discharged annually with payments from the Superannuation Provision Account to CSC. These payments are represented by the:

(i) estimated annual Emerging Cost Payments of the employer financed component of superannuation benefit payments; and
(ii) emerging cost surplus/deficit balancing payment/credit which adjusts the accumulated value of the Emerging Cost Payments with the determined value of the employer financed component of actual benefit payments for the year.

Annual payments to CSC to reimburse the costs of superannuation benefits paid to retirees, that have some employment experience with the Territory, are based on preliminary estimates agreed with the Commonwealth Government following completion of the Territory's annual actuarial reviews.

At 30 June	2016 $'000	2015 $'000	2014 $'000	2013 $'000
Emerging Cost Payment	211,146	198,209	178,215	161,782
Emerging Cost (Surplus)/Deficit	(14,232)	(13,681)	(12,967)	(15,061)
Annual Benefit Payment	**196,914**	**184,528**	**165,248**	**146,721**

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.14 Estimated CSS/PSS Defined Benefit Employer Superannuation Liabilities – Continued

The amount agreed to be paid during 2015-16 was $211.146 million (2014-15 $198.209 million) for emerging costs.

The actual superannuation payments paid by CSC for the 2014-15 year were reviewed during 2015-16 by the actuary using CSC data on actual benefit payments. The actuary determined that the emerging cost payments exceeded the actual benefit payments resulting in a 'surplus'. At 30 June 2015, the surplus amounted to $14.232 million. The surplus reduced the emerging costs paid to CSC during the 2015-16 financial year from $211.146 million to $196.914 million (the 30 June 2014 emerging cost surplus of $13.681 million reduced the 2014-15 emerging cost payments to CSC from $198.209 million to $184.528 million).

Risk Exposure
The ultimate cost of the defined benefit obligation will be influenced by many financial and demographic variables.

Key financial and demographic variables include salary growth, rate of inflation, employee contributions, employee turnover, employee benefit election, and changes in life expectancy for pensioners. The present value valuation of the superannuation liability is also significantly impacted by the discount rate.

Changes in the financial and demographic assumptions will have a significant impact on the carrying amount of the total estimated superannuation liability. Refer to Note 2.19: 'Significant Accounting Judgements, Estimates and Assumptions'.

Effect of the CSS/PSS Defined Benefit Plans on Future Cash Flows
The Government maintains as a key financial objective, a funding plan to extinguish the Territory's unfunded defined benefit superannuation liability by way of accumulating funds in the Superannuation Provision Account.

Annual budget appropriation to the Superannuation Provision Account finances the emerging cost benefit payments. This allows the Superannuation Provision Account financial investment assets to grow with earnings unencumbered by the management of cash flows associated with benefit payments, supporting the Government's financial objective of fully funding the defined benefit superannuation liability by June 2030.

The expected benefit payments at balance date are disclosed in Note 4.3: 'Liquidity Risk'.

2.15 Estimated Superannuation Liabilities for Members of the Legislative Assembly

The *Legislative Assembly (Members' Superannuation) Act 1991* is an Act to provide for superannuation benefits for Members of the Legislative Assembly (MLAs). Subject to eligibility, MLAs have access to one of two superannuation arrangements being: a defined benefit scheme for MLAs elected prior to the 2008 general election; or choice of fund accumulation scheme for MLAs elected at or after the 2008 general election.

The defined benefit plan is wholly unfunded, as there are no member or plan assets in relation to the scheme. The final benefit paid is in the form of a lump sum upon member discontinuance. The defined benefit plan closed to new members after the 2008 ACT Government election.

The Superannuation Provision Account recognises the net defined benefit liability in the Statement of Assets and Liabilities on Behalf of the Territory, as well as recognising the service cost associated with the increase in benefits over the year of service. The net defined benefit liability recognised at financial year end is the total annual percentage accrual of each member multiplied by the members' basic salary as per member entitlement.

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.15 Estimated Superannuation Liabilities for Members of the Legislative Assembly - Continued

This defined benefit plan has only four remaining members, and due to the non-material nature of this defined benefit obligation, the computational estimate at 30 June 2016 is a reliable approximation of the value of the defined benefit obligation as required under AASB 119. At 30 June 2016 this liability is estimated at $3.685 million ($3.812 million at 30 June 2015).

Refer to Note 8.3: 'Estimated Superannuation Liabilities' for a reconciliation of this liability.

	2016 $'000	2015 $'000	2014 $'000	2013 $'000
Net Unfunded Liability	3,685	3,812	4,134	4,232

2.16 Insurance

Major risks are insured through the ACT Insurance Authority. The excess payable, under this arrangement varies depending on each class of insurance held.

2.17 Foreign Currency Translation

Functional and Presentation Currency
Items included in the Superannuation Provision Account's financial statements are measured using the Australian dollar, being the currency of the primary economic environment in which it operates (the 'functional currency').

Transactions and Balances
Foreign currency transactions during the period are brought to account using the exchange rate in effect at the date of the transaction. Holdings of foreign currencies and securities at reporting date are translated at the closing exchange rate as of the reporting date. Translation differences are reflected as unrealised gains and losses in the Statement of Income and Expenses on Behalf of the Territory.

2.18 Budgetary Reporting – Explanations of Major Variances between Actual and Original Budget Amounts

Explanations of major variances between the 2015-16 original budget and the 30 June 2016 actual results are discussed in Note 11: 'Budgetary Reporting - Explanations of Major Variances Between Actual and Original Budget Amounts'. The definition of 'major variances' is provided in Note 2.19: 'Significant Accounting Judgements and Estimates'.

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.19 Significant Accounting Judgements and Estimates

(a) CSS/PSS Defined Benefit Superannuation Liability

Significant judgements have been applied in estimating the CSS/PSS defined benefit employer superannuation liability. The estimated liability for these benefits requires consideration of both financial assumptions including salary inflation, CPI and discount rate as well as demographic assumptions including the number of active contributors, deferred beneficiaries and pensioners, experience of employee resignations, retrenchment and retirement, experience of employee death and invalidity, longevity, and final retirement benefit stream election (lump sum, pension or both).

The carrying amount of the estimated superannuation liability is based on estimates and assumptions of future events. The actuarial assumptions are unbiased, being neither imprudent nor excessively conservative, and are the best estimates of the variables that will determine the ultimate cost of providing post-employment benefits.

The key assumptions have a significant risk of causing a material adjustment to the carrying amount of the liabilities within the next annual reporting period. The superannuation liability is estimated by CMTEDD's consultant actuary.

The following sensitivity analysis is based off the liability valuation at 30 June 2016, which incorporated a discount rate of 2.69 per cent, and the liability valuation at 30 June 2015, which incorporated a discount rate of 3.66 per cent.

The liability valuation impacts have been estimated by changing each individual assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the superannuation liability to significant actuarial assumptions the same method (determining the present value of the future payments of benefits actually accrued to the calculation date) has been applied as when calculating the superannuation liability recognised in the Statement of Assets and Liabilities on behalf of the Territory.

30 June 2016 Defined Benefit Obligation

Financial Assumptions	**Increase $'000**	**Decrease $'000**
Discount Rate (+/- 1%)	(1,923,000)	2,574,000
Consumer Price Index (+/- 1%)	1,768,000	(1,420,000)
Salary Inflation (+/- 1%)	561,000	(491,000)
Demographic Assumptions		
PSS Pensioner Election Rate (+/- 10%)	427,000	(427,000)

30 June 2015 Defined Benefit Obligation

Financial Assumptions	**Increase $'000**	**Decrease $'000**
Discount Rate (+/- 1%)	(1,344,000)	1,752,000
Consumer Price Index (+/- 1%)	1,288,000	(1,049,000)
Salary Inflation (+/- 1%)	338,000	(296,000)
Demographic Assumptions		
PSS Pensioner Election Rate (+/- 10%)	295,000	(295,000)

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.19 Significant Accounting Judgements and Estimates - Continued

(b) Employee Benefits

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

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

(c) Fair Value of Financial Instruments

When the fair values of financial assets and financial liabilities recorded in the Statement of Assets and Liabilities on Behalf of the Territory cannot be derived from active markets, their fair value is determined using a variety of valuation techniques that include the use of valuation models.

The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Changes in assumptions could affect the reported fair value of financial instruments in the Statement of Assets and Liabilities on Behalf of the Territory and the level where the instruments are disclosed in the Fair Value Hierarchy. The models are tested for validity by calibrating to prices from any observable current market transactions in the same instrument (without modification) when available.

The Superannuation Provision Account considers the valuation techniques and inputs used in valuing unlisted unit trust investments to ensure they are reasonable and appropriate prior to investing and therefore the Net Asset Value of these investments may be used as an input into measuring their fair value. In measuring this fair value the Net Asset Value of the investments is adjusted, as necessary, to reflect any private equity stock restrictions on redemptions, future commitments, and other specific factors of the investment and fund manager.

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

Significant judgements have been applied in determining what variances are considered as 'major variances' requiring explanations in Note 11: 'Budgetary Reporting - Explanation of Major Variances between Actual and Original Budget Amounts'. Variances are considered to be major variances if both of the following criteria are met:

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

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

Further information on this is provided in Note 2.18: 'Budgetary Reporting – Explanations of Major Variances between Actual and Original Budget Amounts'.

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.20 Impact of Accounting Standards Issued but yet to be Applied

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

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

Standards not Early Adopted
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. Those relevant to the Superannuation Provision Account as outlined below are necessarily abbreviated and should be viewed in conjunction with the Australian Accounting Standard Board's website for the full assessment of its impact.

The Superannuation Provision Account does not expect a significant impact on the adoption of these standards. This assessment is based on an initial assessment at this date, but may change on further review. The Superannuation Provision Account intends to adopt all of the standards upon their application date.

(i) AASB 9 Financial Instruments (December 2014) (application date 1 January 2018);
This standard supersedes AASB 139 Financial Instruments: Recognition and Measurement. The main impact of AASB 9 is that it will change the classification, measurement and disclosures of Superannuation Provision Account financial assets.

(ii) AASB 15 Revenue from Contracts with Customers (application date 1 January 2018);
AASB 15 is the new standard for revenue recognition. It establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces AASB 118 Revenue.

(iii) AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 and 1038 and Interpretations 2, 5, 10, 12, 19 and 127] (application date 1 Jan 2018);
This standard makes consequential amendments to a number of standards and interpretations as a result of the issuing of AASB 9 in December 2010.

(iv) AASB 2014-1 Amendments to Australian Accounting Standards – Part E Financial Instruments [AASB 1, 3, 4, 5, 7 and 9 (December 2009), 9 (December 2010), 101, 102, 108, 112, 118, 120, 121, 132, 136, 137 and 139, Interpretations 2, 5,10, 12, 16, 19 and 107] (application date 1 January 2018);
Part E of this standard defers the application of AASB 9 to 1 January 2018.

(v) AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15 [AASB 1, 3, 4, 9 (December 2009) (December 2010), 101, 102, 112, 116, 132, 134, 137, 138, 139, 140, 1023, 1038, 1039, 1049, 1053 and 1056, Interpretations 12, 127, 132, 1031, 1038 and 1052] (application date 1 January 2018);
This standard makes consequential amendments to a number of standards and interpretations as a result of the issuing of AASB 15.

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.20 Impact of Accounting Standards Issued but yet to be Applied - Continued

(vi) AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) [AASB 1, 2, 3, 4, 5, 7, 13, 101, 102, 108, 110, 112, 120, 121, 123, 128, 132, 133, 136, 137, 139, 1023, 1038 and 1049, Interpretations 2, 5, 10, 12, 16, 19 and 127] (application date 1 January 2018);
This standard makes consequential amendments to a number of standards and interpretations as a result the issuing of AASB 9 (December 2014).

(vii) AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception [AASB 10, AASB 12 and AASB 128] (application date 1 January 2016);
This standard makes amendments to confirm that the exemption from preparing consolidated financial statements set out in AASB 10 is available to a parent entity that is a subsidiary of an investment entity; clarifies the applicability of AASB 12 to the financial statements of an investment entity; and introduces relief in AASB 128 to permit a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

(viii) AASB 2015-6 Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not for- Profit Public Sector Entities [AASB 10, 124 and 1049] (application date 1 July 2016);
This standard extends the scope of AASB 124 Related Party Transactions to the not-for-profit sector and updates AASB 124 to include implementation guidance (including illustrative examples) to assist not-for-profit entities to apply the new requirements.

(ix) AASB 2015-8 Amendments to Australian Accounting Standards – Effective date of AASB 15 (application date 1 January 2017);
This standard defers the application date of AASB 15 Revenue from Contracts with Customers to 1 January 2018.

(x) AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 (application date 1 January 2017); and
This standard amends AASB 107 Statement of Cash Flows to require agencies preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This standard relates to disclosure only.

(xi) AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15 (application date 1 January 2018).
This standard clarifies the existing requirements of AASB 15.

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 3 CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES

Change in Accounting Policy
Superannuation Provision Account had no changes in Accounting Policy during the reporting period.

Changes in Accounting Estimates
Superannuation Provision Account had the following changes in accounting estimates during the reporting period.

Revision of the Defined Benefit Superannuation Liability Discount Rate
In accordance with AASB 119 in order to measure the present value of the defined benefit superannuation obligations a discount rate shall be used by reference to a Government bond yield consistent with the estimated term, or duration, of the benefit obligations. Currently CSS and PSS member liabilities have a combined duration of 20.3 years.

At 30 June 2016, the current longest Commonwealth Government nominal bond on issue is the 21 June 2039, which matures in approximately 23 years and has a modified duration of approximately 16.5 years. Accordingly, the 2039 maturity is considered the most appropriate term proxy for discounting the superannuation liability at 30 June 2016. The 21 April 2037 Commonwealth Government bond was previously used as it was the longest benchmark government bond on issue at 30 June 2015.

The annualised yield on the 21 June 2039 Commonwealth Government bond as at 30 June 2016 was 2.69% and the annualised yield on the 21 April 2037 Commonwealth Government bond was 2.59%, a difference in yield of 0.10%.

If the Superannuation Provision Account had continued to use the 21 April 2037 Government bond yield as the discount rate, then the superannuation liability estimate would have been approximately $10.972 billion as compared to the current estimate at 30 June 2016 of approximately $10.715 billion. This small difference in yield has effectively reduced the liability estimate by $0.3 billion.

NOTE 4 FINANCIAL RISK MANAGEMENT

The Superannuation Provision Account is exposed to financial risks arising from its activities comprising market risk (interest rate risk, price risk and foreign exchange risk), credit risk and liquidity risk. These risks are managed within a financial risk management framework that includes strategic directions from the Treasurer and policies and limits approved by the Under Treasurer and overseen by CMTEDD. The Investment Advisory Board and asset consultant's advice is considered along with all other available information by CMTEDD when formulating investment policy positions and recommendations.

CMTEDD does not undertake investment management in-house. Investments are managed by the engagement of investment managers under an investment management agreement. The individual investment management agreements prescribe the allowable investments that may be entered into in accordance with the *Territory Superannuation Provision Protection Act 2000* and *Superannuation Management Guidelines 2015*. CMTEDD, in conjunction with the asset consultant, monitors the performance of the investment managers of their obligations and ensures that investment managers comply with their obligations. The appointed master custodian performs investment mandate and derivatives usage monitoring in accordance with these guidelines, with any exceptions reported, investigated and resolved.

CMTEDD's primary financial risk management objective for the Superannuation Provision Account is the maximisation of return on investments within relevant risk tolerances, whilst minimising cost, for those funds set aside for the eventual elimination of the Territory's unfunded CSS/PSS defined benefit employer superannuation liabilities (refer to Note 2.14: 'Estimated CSS/PSS Defined Benefit Employer Superannuation Liabilities'). The strategic asset allocation reflects the accepted level of risk associated with the Superannuation Provision Account's investment objective of CPI plus 5 per cent (net of fees) per annum over the long-term.

The strategic asset allocation comprises investments across domestic and international money market, debt and equity securities as well as domestic and private equity, indirect unlisted property asset classes and derivatives. Derivatives are prescribed investments and an essential part of the investment and risk management process and may be used for the following purposes: protecting the value, or limiting changes in value, of an investment of the investment portfolio; protecting the return on an investment of the investment portfolio; and achieving best execution and transactional efficiency in implementing an investment strategy, achieving an investment or market exposure, or in adjusting an investment strategy, investment or market exposure.

CMTEDD is responsible for the overall setting, identification and control of financial risks undertaken in the management of the investment portfolio of the Superannuation Provision Account. This is done in part by the setting of limits for trading in derivatives, hedging cover of foreign currency and interest rate risk, credit allowances, and future cash flow forecast projections. The investment guidelines, including allowable investments and any limitations, are represented, as relevant, in the investment management agreements or trust deeds established with each contracted investment fund manager.

The main financial risks arising from Superannuation Provision Account are discussed in Notes 4.1 to 4.3 below. Details of the significant accounting policies for these financial assets and liabilities are disclosed in Note 2: 'Significant Accounting Policies'.

4.1 Market Risk

Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk; price risk; and currency risk. Exposure to the individual market risk is detailed below.

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.1 Market Risk – Continued

(a) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial market instrument will fluctuate because of changes in prevailing levels of market interest rates. The Superannuation Provision Account is exposed to interest rate risk on its variable interest rates and fixed interest rates financial instruments. Sensitivity analysis is performed on cash at bank and the debt securities of the Australian inflation-linked debt portfolio at reporting dates. Sensitivity analysis to interest rate instruments (indirectly held through pooled unit trusts) are considered in Note 4.1(b): 'Price Risk'.

The table below summarises the main exposure to interest rate risk.

	Variable Rate Instruments		Fixed Rate Instruments	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Financial Assets	385,034	245,801	22,916	97,496
Net Exposure before the effect of Derivatives	**385,034**	**245,801**	**22,916**	**97,496**

Interest rate risk is measured by the duration of the investment portfolios which approximates the change in portfolio valuation from a percentage change in market interest rates. As at reporting date, the Superannuation Provision Account has positions in interest rate derivatives contracts to manage exposure to interest rate risk. Exposures to interest rate risk is limited to acceptable duration thresholds stipulated within the investment management agreements and monitored for compliance by the Territory's master custodian on a weekly basis.

The following table demonstrates the 'reasonably possible' impact on profit or loss and the impact on equity over the next 12 months if interest rates change by -/+ 1.0 per cent from the year-end official cash interest rate of 1.75% (2.00% at 30 June 2015) with all other variables, especially foreign exchange rates, held constant. The sensitivity calculation is based on the net exposure to interest rates after taking into account the effect of derivatives, parallel shifts in the yield curve and ignoring the effects on credit risk.

	2016		2015	
	1.0% Decrease Profit/(Loss) and Equity Impact $'000	1.0% Increase Profit/(Loss) and Equity Impact $'000	1.0% Decrease Profit/(Loss) and Equity Impact $'000	1.0% Increase Profit/(Loss) and Equity Impact $'000
Financial Assets	(3,621)	3,621	(1,483)	1,483
Total (Decrease)/Increase	**(3,621)**	**3,621**	**(1,483)**	**1,483**

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.1 Market Risk – Continued

(b) Price Risk

Price risk is the risk that the fair value of a financial investment will change as a result of changes in the market prices (other than those arising from interest rate risk or currency risk) in the relevant indices levels and the prices of the individual holdings. The Superannuation Provision Account is exposed to equity price risk on its equities and other price risk to its pooled unit trusts.

The table below summarises Superannuation Provision Account main exposure to price risk.

	2016 $'000	2015 $'000
Investments Directly and Indirectly Held (Designated)		
Cash	655,295	507,190
Fixed Income	425,350	392,467
Equities	1,775,682	1,939,667
Property	287,879	243,435
Net Exposure Before the Effect of Derivatives	**3,144,205**	**3,082,759**

To manage exposures to price risk, the investment portfolio is diversified in accordance with asset class limits (in accordance with the strategic asset allocation policy). Whilst equity markets are inherently volatile and not necessarily suitable for short-term investment, over the long-term, it has proven to be a reasonable source of growth and inflation protection, through the achievement of positive returns in real terms. Exposure to equity price risk is mitigated by allowable limits stipulated within the investment management agreements. Equity derivative contracts are also used to manage exposures to equity price risk.

Exposures to the price risk of pooled unit trusts for cash, fixed interest and property investments are diversified geographically, across cash, money and capital markets in short-term debt (maturity less than twelve months) and fixed interest bonds (maturity greater than twelve months) as well as retail and commercial assets.

The investment management agreements and the pooled trust product disclosure statement stipulates the maximum allowable limits by issuer, ratings and duration to ensure sufficient diversification occurs within the individual investment portfolios.

Thresholds stipulated within the investment management agreements are monitored for compliance by the Territory's master custodian on a weekly basis.

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

4.1 Market Risk – Continued

(b) Price Risk – Continued

The following table summarises the 'reasonably possible' impact on profit or loss and the impact on equity over the next 12 months if price risk changes by the volatility factors from the target benchmarks with all other variables, especially foreign exchange rates, held constant.

30 June 2016	Note No.	% Increase in Index Profit/(Loss) Impact $'000	Equity Impact $'000	% Decrease in Index Profit/(Loss) Impact $'000	Equity Impact $'000
Investment Assets	7.3				
Cash (+/- 0.5%)		3,276	3,276	(3,276)	(3,276)
Fixed Income (+/- 4-6%)		22,237	22,237	(22,237)	(22,237)
Equities (+/- 16-21%)		323,721	323,721	(323,721)	(323,721)
Property (+/- 11%)		31,667	31,667	(31,667)	(31,667)
Total Increase/(Decrease)		**380,901**	**380,901**	**(380,901)**	**(380,901)**

30 June 2015	Note No.	% Increase in Index Profit/(Loss) Impact $'000	Equity Impact $'000	% Decrease in Index Profit/(Loss) Impact $'000	Equity Impact $'000
Investment Assets	7.3				
Cash (+/- 0.5%)		2,536	2,536	(2,536)	(2,536)
Fixed Income (+/- 4%-5%)		18,140	18,140	(18,140)	(18,140)
Equities (+/- 17%-21%)		363,095	363,095	(363,095)	(363,095)
Property (+/- 11%)		26,778	26,778	(26,778)	(26,778)
Total Increase/(Decrease)		**410,549**	**410,549**	**(410,549)**	**(410,549)**

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

4.1 Market Risk – Continued

(c) Currency Risk

The Superannuation Provision Account holds monetary and non-monetary assets that are denominated in currencies other than the Australian dollar. As a consequence, the Superannuation Provision Account is exposed to the risk that the exchange rate of the Australian dollar relative to other foreign currency change in a manner that has an adverse affect on the fair value or future cash flows of investments denominated in currencies other than the Australian dollar.

The table below summarises the Superannuation Provision Account main exposures to foreign currency risk.

30 June 2016	**Note No.**	**AUD $'000**	**USD $'000**	**JPY $'000**	**EUR $'000**	**GBP $'000**	**Other $'000**	**Total $'000**
Cash		16,134	4,602	1,482	2,081	569	1,343	26,209
Financial Assets at FVTPL		2,543,144	590,621	93,720	117,268	62,555	119,509	3,526,816
Other Assets		51,517	625	133	735	418	719	54,148
Total Assets		**2,610,795**	**595,848**	**95,335**	**120,083**	**63,542**	**121,571**	**3,607,174**
Financial Liabilities at FVTPL		30,450	2,121	604	196	70	236	33,678
Other Liabilities		172,878	0	0	0	0	0	172,878
Total Liabilities		**203,327**	**2,121**	**604**	**196**	**70**	**236**	**206,555**
Net Assets	7.3	**2,407,468**	**593,727**	**94,731**	**119,887**	**63,472**	**121,334**	**3,400,619**

30 June 2015	**Note No.**	**AUD $'000**	**USD $'000**	**JPY $'000**	**EUR $'000**	**GBP $'000**	**Other $'000**	**Total $'000**
Cash		11,802	8,442	1,856	2,867	1,290	1,681	27,938
Financial Assets at FVTPL		2,197,218	686,184	112,188	149,148	82,301	143,005	3,370,044
Other Assets		32,576	696	93	645	463	532	35,005
Total Assets		**2,241,597**	**695,322**	**114,137**	**152,660**	**84,054**	**145,219**	**3,432,987**
Financial Liabilities at FVTPL		104,565	0	10	0	0	1	104,577
Other Liabilities		35,610	86	1	86	11	126	35,920
Total Liabilities		**140,175**	**86**	**11**	**86**	**11**	**127**	**140,497**
Net Assets	7.3	**2,101,421**	**695,235**	**114,126**	**152,573**	**84,043**	**145,092**	**3,292,490**

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.1 Market Risk – Continued

(c) Currency Risk – Continued

A significant allocation of the financial investment portfolio is denominated in foreign currency through the purchase and holding of international equity and fixed interest securities. Foreign exchange contracts are used to manage the exposure to foreign exchange to ensure it remains within the approved limits. A large portion of these investments are fully hedged back to Australian dollars using currency derivatives. The use of currency hedging mitigates the impact on international asset valuations in Australian dollar terms from the changes in exchange rates.

In relation to unhedged foreign investments, holding a diversified basket of currency investments also serves to reduce overall currency risk. The currency hedging is managed through the indexed managed international equity mandate and investment in an index-managed unlisted pooled unit trust for international fixed interest. All international fixed interest exposures are fully hedged to Australian dollars. Total international equity exposures are 50 per cent hedged to Australian dollars.

Currency Risk Sensitivity Disclosure Analysis
The following table summarises the 'reasonably possible' impact of 2016: +/- 10 per cent (2015: +/-10 per cent) strengthening/weakening of the Australian dollar against foreign currency cash balances on the Superannuation provision Account's operating deficit for the year and on equity. Foreign exchange risk relating to non-monetary investments is considered as a component of price risk in Note 4.1(b): 'Price Risk'.

30 June 2016	**10% Movement**	
	Profit &Loss (+/- Impact) $'000	**Equity (+/- Impact) $'000**
Currency		
USD	523	523
JPY	161	161
EUR	282	282
GBP	99	99
Other	206	206
Total Increase/(Decrease)	**1,271**	**1,271**

30 June 2015	**10% Movement**	
	Profit &Loss (+/- Impact) $'000	**Equity (+/- Impact) $'000**
Currency		
USD	915	915
JPY	194	194
EUR	351	351
GBP	175	175
Other	221	221
Total Increase/(Decrease)	**1,856**	**1,856**

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.2 Credit Risk

Credit risk is the risk that a counterparty to a financial instrument fails to discharge its contractual obligations or from losses arising from the change in the value of a traded instrument as a result of changes in the credit risk on that instrument.

The maximum exposure to credit risk is limited to the carrying amount of the cash and cash equivalents, receivables and fixed income investments of Superannuation Provision Account. The main concentration of credit risk arises from the investment in fixed income (debt) securities. The following table details the credit risk exposure of debt investments as at reporting date.

30 June 2016	**Credit Quality of Fixed Interest Rated Instruments**				
	AAA	**AA**	**A**	**BBB**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Debt Instruments	637,525	225,448	498,318	47,457	**1,408,748**
Total	**637,525**	**225,448**	**498,318**	**47,457**	**1,408,748**

30 June 2015	**Credit Quality of Fixed Interest Rated Instruments**				
	AAA	**AA**	**A**	**BBB**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Debt Instruments	486,623	137,847	368,582	27,158	**1,017,209**
Total	**486,623**	**137,847**	**368,582**	**27,158**	**1,017,209**

Appointed managers of investments are required to ensure: credit quality within the manager's portfolio is within agreed guidelines; the exposure to different tiers of credit are within agreed guidelines; the maximum permitted exposure to any one issuer is within agreed guidelines; and the long-term debt of all entities in which the manager invests is either rated by an approved rating agency or, if it is not rated, is limited to the maximum permitted exposure to such debt. Exposures are to remain within approved exposure limits based on the credit ratings of financial instruments and counterparties set out within the strategy, objectives and constraints permitted by individual investment management agreements or trust deeds as relevant, as agreed by CMTEDD.

The maximum exposure to credit risk before any credit enhancements at the end of each reporting period is the carrying amount of the Superannuation Provision Account financial assets. None of these assets are impaired (nil: 30 June 2015).

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.3 Liquidity Risk

Liquidity risk is the risk that the Superannuation Provision Account is unable to meet its financial obligations as they fall due.

CMTEDD's objective for the Superannuation Provision Account is to minimise liquidity risk by monitoring financial obligations as they fall due. The Superannuation Provision Account's more immediate liquidity needs are for funding working capital, meeting the annual emerging cost benefit payments to CSC and for managing fund flows for investment asset classes in accordance to the strategic asset allocation. Over a longer term horizon, the annual emerging cost benefit payments to CSC are to be funded through a combination of budget capital injections and funds held under investment.

The exposure to illiquid asset classes is managed through the strategic asset allocation of portfolio assets. To compensate for liquidity risk, these types of investments require an illiquidity premium, or additional required return.

Accordingly, the exposure to liquidity risk is not significant based on the assessment of current and future cash flow requirements.

Analysis of Financial Liabilities based on Management Expectations

Given the significant nature of the liability arising from the CSS/PSS defined benefit schemes, the Superannuation Provision Account's liquidity risk is managed based on a combination of contractual maturity dates and expected settlement dates.

The estimated superannuation liability reflects the expected settlement of financial liabilities in relation to the CSS/PSS defined benefit schemes. The amounts disclosed represent undiscounted cash flows for the respective obligations in relation to upcoming fiscal years. These estimates are actuarially determined and represent annual emerging costs payments to CSC. The expected financial liabilities are to be met from annual budget capital injections and from the assets of the investment portfolio.

The following table provides an analysis of financial liability cash flow estimates.

30 June 2016	Less than 3 Months $'000	3 Months to Less than 1 Year $'000	1 Year to Less than 5 Years $'000	Greater than 5 Years $'000	Total $'000
Non Derivatives					
Payables	32,199	0	0	0	**32,199**
Employee Benefits	8	23	0	0	**31**
Superannuation Liabilities	57,631	172,893	1,113,856	25,566,609	**26,910,990**
Total Non Derivatives	**89,838**	**172,917**	**1,113,856**	**25,566,609**	**26,943,220**
Derivatives					
Futures	495	0	0	0	**495**
Net Settled (Swaps)	5,162	2,052	5,516	20,452	**33,183**
Gross Settled FFX					
Inflow	1,587,461	0	0	0	**1,587,461**
(Outflow)	(1,570,385)	0	0	0	**(1,570,385)**
Total Derivatives	**22,734**	**2,052**	**5,516**	**20,452**	**50,754**

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.3 Liquidity Risk - Continued

30 June 2015	Less than 3 Months $'000	3 Months to Less than 1 Year $'000	1 Year to Less than 5 Years $'000	Greater than 5 Years $'000	Total $'000
Non Derivatives					
Payables	15,302	0	0	0	**15,302**
Employee Benefits	8	24	0	0	**32**
Superannuation Liabilities	52,787	158,360	1,042,082	26,293,924	**27,547,151**
Total Non Derivatives	**68,097**	**158,384**	**1,042,082**	**26,293,924**	**27,562,486**
Derivatives					
Futures	68	72	0	0	**139**
Net Settled (Swaps)	12,789	3,651	7,208	12,133	**35,781**
Gross Settled FFX					
Inflow	1,870,987	0	0	0	**1,870,987**
(Outflow)	(1,880,000)	0	0	0	**(1,880,000)**
Total Derivatives	**3,844**	**3,723**	**7,208**	**12,133**	**26,908**

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.4 Fair Value of Financial Assets and Liabilities

Investments designated as Fair Value through Profit and Loss (financial instruments such as equities, unit trusts, fixed income and other interest bearing securities and derivatives) are measured at fair value at each reporting date.

(a) Fair Value Measurements Recognised in the Statement of Assets and Liabilities on Behalf of the Territory

The table below provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable considering the lowest level input that is significant to the fair value measurement as a whole.

(i) Level 1 – Fair Value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
(ii) Level 2 – Fair value measurements are those derived from 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); or
(iii) Level 3 – Fair value measurement are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For the purposes of presenting the Fair Value Hierarchy, analysis is performed on the units and the securities held by the Superannuation Provision Account as at reporting date.

(b) Recurring Fair Value Measurement of Assets and Liabilities

30 June 2016	**Note No.**	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Investments					
Asset Class – Investments Directly Held					
Fixed Income		140,790	187,052	0	**327,843**
Equities		1,639,512	0	736	**1,640,248**
Derivatives		572	20,611	0	**21,182**
Sub Total		**1,780,874**	**207,663**	**736**	**1,989,273**
Asset Class – Investments Indirectly Held					
Unit Trust – Cash		0	655,295	0	**655,295**
Unit Trust – Domestic & International Fixed income		0	425,350	0	**425,350**
Unit Trust – Domestic Unlisted Property		0	287,879	0	**287,879**
Unit Trust – Private Equity				135,342	**135,342**
Sub Total		**0**	**1,368,523**	**135,342**	**1,503,865**
Total Investments		**1,780,874**	**1,576,186**	**136,078**	**3,493,139**
Investment Financial Liabilities					
Fixed Income		0	141,786	0	**141,786**
Derivatives		0	0	0	**0**
Sub Total		**0**	**141,786**	**0**	**141,786**
Net Investment Financial Assets	7.3(a)	**1,780,874**	**1,434,400**	**136,078**	**3,351,353**

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.4 Fair Value of Financial Assets and Liabilities - Continued

(b) Recurring Fair Value Measurement of Assets and Liabilities - Continued

30 June 2015	Note No.	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Investments					
Asset Class – Investments Directly Held					
Fixed Income		80,284	81,138	0	**161,423**
Equities		1,819,982	0	0	**1,819,982**
Derivatives		281	0	0	**281**
Sub Total		**1,900,547**	**81,138**	**0**	**1,981,686**
Asset Class – Investments Indirectly Held					
Unit Trust – Cash		0	507,190	0	**507,190**
Unit Trust – Domestic & International Fixed income		0	392,467	0	**392,467**
Unit Trust – Domestic Unlisted Property		0	243,435	0	**243,435**
Unit Trust – Private Equity		0	0	119,816	**119,816**
Sub Total		**0**	**1,143,092**	**119,816**	**1,262,908**
Total Investments		**1,900,547**	**1,224,230**	**119,816**	**3,244,594**
Investment Financial Liabilities					
Derivatives		66	890	0	**956**
Sub Total		**66**	**890**	**0**	**956**
Net Investment Financial Assets	7.3(a)	**1,900,481**	**1,223,340**	**119,816**	**3,243,638**

Transfers between Levels 1 and 2
There were no significant transfer between Level 1 and Level 2 during the year.

(c) Valuation Techniques and Inputs – Listed Equity Investments

Quoted market price represents the fair value determined based on quoted prices on active markets for identical assets as at the reporting date without any deduction for transaction costs. Listed equity investments valued based on quoted market prices are included within Level 1 of the hierarchy.

(d) Valuation Techniques and Inputs – Unlisted Investments

The investments in unlisted unit trusts include domestic and international fixed income, property, and private equity which are not quoted in an active market and which may be subject to restrictions on redemptions.

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.4 Fair Value of Financial Assets and Liabilities – Continued

(d) Valuation Techniques and Inputs – Unlisted Investments - Continued

Fair values of these investments are determined by using valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs. The investment manager considers the valuation techniques and inputs used in valuing these units as part of its due diligence prior to investing, to ensure they are reasonable and appropriate and therefore the Net Asset Value of these units may be used as an input into measuring their fair value. In measuring this fair value, the Net Asset Value of the funds is adjusted, as necessary, to reflect restrictions on redemptions, future commitments, and other specific factors of the units trust and fund manager. Depending on the nature and level of adjustments needed to the Net Asset Value and the level of trading in the unit trusts, these investments are classified as either Level 2 or Level 3.

Fixed income securities are priced daily with reference to the quoted bid price for the securities in the relevant active market. Investments in this asset class are made through unlisted unit trusts that are priced daily with distributions received quarterly. The fair values of fixed interest security units are included within Level 2. Investments in property are made through unlisted pooled unit trusts that are priced monthly.

The fair value of investment property is determined at least annually or more frequently as required by an independent property valuer using recognised valuation techniques. These techniques comprise in the main methods such as Discounted Cash Flow (DCF) and income capitalisation. Where appropriate, the direct comparison, hypothetical development, or the summation or cost approach method is used. Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including estimated rental income and an exit or terminal value. This involves the projection of a series of cash flows and to this an appropriate, market-derived discount rate is applied to establish the present value of the income stream. Under the income capitalisation method, a property's fair value is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation rate (the investor's rate of return). The adjusted Net Asset Value of these units is used as an input in measuring their fair value. The fair values of unlisted property units are included within Level 2.

For unlisted private equity unit trusts, the fair value of the underlying equity investments is determined by each underlying investment manager using a valuation methodology that is most appropriate for each particular investment. The fair value methodologies adopted include discounted cash flow, price of recent investment, earnings multiples, net assets, industry valuation benchmarks and available market prices. Adjusted Net Asset Value of these units is used as an input in measuring their fair value. The fair values of unlisted private equity units are included within Level 3.

The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. Derivatives are classified as either Level 1 or Level 2.

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.4 Fair Value of Financial Assets and Liabilities – Continued

(e) Valuation Process for Level 3 Valuations

The investments in unlisted unit trusts deemed as Level 3 are recorded at redemption value per unit as reported by managers of such investments. In the absence of quoted values, securities are valued using appropriate valuation techniques as reasonably determined by the Investment Manager. The fund manager performs monthly and quarterly valuations.

Unresolved discrepancies are escalated to the Investment Manager Valuation Committee. The Valuation Committee is independent of the front office and is composed of the Finance Director, Chief Finance Officer, Chief Operating Officer and where necessary a panel of external service providers. The Committee ensures that the valuation of assets is fair, equitable and reasonable based on the information within each market at the time.

Quantitative Information of Significant Unobservable Inputs – Level 3

Description	Fair Value 2016 $'000	Valuation Technique	Unobservable Input	Range (Weighted Average)
Unit Trust – Private Equity	135,342	Adjusted Net Asset Value	Latest Net Asset Value from Investment Manager	0.000-1.768 (0.502)
			Contributions since latest Net Asset Value from Investment Manager	0.000-1.000 (0.174)
			Distributions since latest Net Asset Value from Investment Manager	0.000-1.050 (0.086)

Sensitivity Analysis to Significant Changes in Unobservable Inputs within Level 3 Hierarchy – Level 3

Description	Input	Sensitivity Used	Effect on Fair Value
Unit Trust – Private Equity	Latest Net Asset Value from Investment Manager	0.000-1.768 (0.502)	Fair value increase if latest Net Asset Values from Investment Manager were higher
	Contributions since latest Net Asset Value from Investment Manager	0.000-1.000 (0.174)	Fair value increase if there have been contributions since latest Net Asset Value from Investment Manager
	Distributions since latest Net Asset Value from Investment Manager	0.000-1.050 (0.086)	Fair value decrease if there have been distributions since latest Net Asset Value from Investment Manager

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.4 Fair Value of Financial Assets and Liabilities – Continued

(e) Valuation Process for Level 3 Valuations - Continued

Quantitative Information of Significant Unobservable Inputs – Level 3

Description	Fair Value 2015 $'000	Valuation Technique	Unobservable Input	Range (Weighted Average)
Unit Trust – Private Equity	119,496	Adjusted Net Asset Value	Latest Net Asset Value from Investment Manager	0.000-1.717 (0.447)
			Contributions since latest Net Asset Value from Investment Manager	0.000-1.000 (0.117)
			Distributions since latest Net Asset Value from Investment Manager	0.000-0.441 (0.076)

Sensitivity Analysis to Significant Changes in Unobservable Inputs within Level 3 Hierarchy – Level 3

Description	Input	Sensitivity Used	Effect on Fair Value
Unit Trust – Private Equity	Latest Net Asset Value from Investment Manager	0.000-1.717 (0.447)	Fair value increase if latest Net Asset Values from Investment Manager were higher
	Contributions since latest Net Asset Value from Investment Manager	0.000-1.000 (0.117)	Fair value increase if there have been contributions since latest Net Asset Value from Investment Manager
	Distributions since latest Net Asset Value from Investment Manager	0.000-0.441 (0.076)	Fair value decrease if there have been distributions since latest Net Asset Value from Investment Manager

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.5 Fair Value Hierarchy

Level 3 Reconciliation

30 June 2016	Unit Trusts $'000	Total $'000
Balance at 1 July 2015	**119,496**	**119,496**
Purchases during the Year	0	0
Issues during the Year	0	0
Sales during the Year	0	0
Settlements during the Year	21,085	**21,085**
Transfers into Level 3	0	0
Transfers out of Level 3	0	0
Total (Losses) on Level 3 Financial Instruments	(5,239)	**(5,239)**
Balance at 30 June 2016	**135,342**	**135,342**

30 June 2015	Unit Trusts $'000	Total $'000
Balance at 1 July 2014	**119,722**	**119,722**
Purchases during the Year	0	0
Issues during the Year	0	0
Sales during the Year	0	0
Settlements during the Year	11,558	**11,558**
Transfers into Level 3	0	0
Transfers out of Level 3	0	0
Total (Losses) on Level 3 Financial Instruments	(11,784)	**(11,784)**
Balance at 30 June 2015	**119,496**	**119,496**

Gains and losses are disclosed in the line Gains on Investments at Fair Value through Profit or Loss or Losses on Investments at Fair Value through Profit or Loss, in the Statement of Income and Expenses on behalf of the Territory.

Recognised Gains and Losses for Level 3 Financial Instruments
The amount of total gains or losses for the period recognised in the operating deficit that relates to assets and liabilities held at the end of the reporting period are as follows:

30 June 2016	Unit Trusts $'000	Total $'000
Trading Income	(5,239)	**(5,239)**
Total (Losses) recognised in Statement of Income and Expenses on Behalf of the Territory	**(5,239)**	**(5,239)**

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.5 Fair Value Hierarchy – Continued

30 June 2015	**Unit Trusts $'000**	**Total $'000**
Trading Income	(11,784)	**(11,784)**
Total (Losses) recognised in Statement of Income and Expenses on Behalf of the Territory	**(11,784)**	**(11,784)**

Total losses for the period relating to the units in the private equity trust held at the end of the reporting period amounts to $5.239 million. The determination of fair value gains or losses on units as well sensitivities surrounding price risks for these pooled private equity trust have been described in Note 2.10: 'Investments' and Note 4.1(b): 'Price Risk'.

4.6 Categorisation of Financial Assets and Liabilities

The accounting classification of each category of financial instruments, for the Superannuation Provision Account, for the years ending 30 June 2016 and 30 June 2015 is as follows:

30 June 2016	**Cash & Cash Equivalents $'000**	**Receivables $'000**	**Financial Assets at FVTPL Designated $'000**	**Financial Assets at FVTPL Held for Trading $'000**	**Financial Liabilities at Amortised Cost $'000**	**Total Carrying Amount $'000**
Financial Assets						
Cash and Cash Equivalents	46,223	0	0	0	0	**46,223**
Receivables	0	11,597	0	0	0	**11,597**
Investments at FVTPL (Directly Held)						
Fixed Income	0	0	191,269	0	0	**191,269**
Equities	0	0	1,670,223	0	0	**1,670,223**
Derivatives	0	0	0	21,182	0	**21,182**
Investments at FVTPL (Indirectly Held)						
Cash	0	0	655,297	0	0	**655,297**
Fixed Income	0	0	425,353	0	0	**425,353**
Property	0	0	290,304	0	0	**290,304**
Private Equity	0	0	135,394	0	0	**135,394**
Financial Liabilities						
Payables	0	0	0	0	(1,107)	**(1,107)**

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.6 Categorisation of Financial Assets and Liabilities – Continued

30 June 2015	Cash & Cash Equivalents $'000	Receivables $'000	Financial Assets at FVTPL Designated $'000	Financial Assets at FVTPL Held for Trading $'000	Financial Liabilities at Amortised Cost $'000	Total Carrying Amount $'000
Financial Assets						
Cash and Cash Equivalents	49,565	0	0	0	0	**49,565**
Receivables	0	5,725	0	0	0	**5,725**
Investments at FVTPL (Directly Held)						
Fixed Income	0	0	183,838	0	0	**183,838**
Equities	0	0	1,849,240	0	0	**1,849,240**
Derivatives	0	0	0	(9,688)	0	**(9,688)**
Investments at FVTPL (Indirectly Held)						
Cash	0	0	507,187	0	0	**507,187**
Fixed Income	0	0	392,468	0	0	**392,468**
Property	0	0	244,204	0	0	**244,204**
Private Equity	0	0	119,515	0	0	**119,515**
Financial Liabilities						
Payables	0	0	0	0	(1,211)	**(1,211)**

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 5 INCOME ADMINISTERED ON BEHALF OF THE TERRITORY

5.1 Interest

	2016 $'000	2015 $'000
On Investments Directly and Indirectly Held (Designated)	3,560	5,579
Total Interest Revenue[2]	**3,560**	**5,579**

[2] Investment interest revenue was lower in 2015-16 due mainly to decreased interest revenue earned from the domestic inflation-linked debt investments as a result of lower inflation and lower interest rates.

5.2 Dividend

	2016 $'000	2015 $'000
On Investments Directly Held (Designated)	51,760	50,356
Total Dividend Revenue[3]	**51,760**	**50,356**

[3] The marginal increase in dividend revenue recognised in 2015-16 is related to small increases in dividend revenue received on the Australian and international share investments. The small increase in dividends received is related to individual company share holdings and the level of dividend declared.

5.3 Distribution Revenue

	2016 $'000	2015 $'000
On Investments Directly Held (Designated)	2,599	2,369
On Investments Indirectly Held (Designated)	54,099	70,089
Total Distribution Revenue[4]	**56,698**	**72,458**

[4] Distribution income recognised in 2015-16 was lower due to the lower distribution revenue received from the private equity investments due to sale of company assets and the divestment of assets from an unlisted unit trust, offset by increases in distribution revenue received on the cash, debt and property investments.

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 5 INCOME ADMINISTERED ON BEHALF OF THE TERRITORY – CONTINUED

5.4 Gains on Investments at Fair Value through Profit or Loss

(a) Realised Gains

	2016 $'000	2015 $'000
On Investments Directly Held (Designated)	2,711	16,164
On Investments Indirectly Held (Designated)	13,640	1,628
Total Realised Gains[5]	**16,350**	**17,792**

[5] Realised gains recognised in 2015-16 are due to the sale and divestment of private equity company investments and property assets from unlisted unit trusts, offset by the trading (purchase and sale of securities) activity of investment managers with lower realised gains on the share and debt investments.

(b) Unrealised Gains

On Investments Directly Held (Designated)	21,542	215,880
On Investments Indirectly Held (Designated)	35,062	26,579
Total Unrealised Gains[6]	**56,604**	**242,459**

[6] The decrease in recognised unrealised gains is due mainly to the weak performance of the international share investments over the 2015-16 financial year with a loss of 1.0 per cent, as compared to a gain of 19.4 per cent for the 2014-15 financial year.

Total Gains on Investments at FVTPL	**72,954**	**260,251**

5.5 Other Income

(a) Other Investment Income

On Investments Directly Held (Designated)	131	192
On Investments Indirectly Held (Designated)	776	983
Total Other Investment Income[7]	**907**	**1,176**

[7] Other investment income represents other financial income from the investment portfolio and is mainly related to the receipt of investment management fee rebates from unit trusts in accordance with the terms of investment management agreements.

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 6 EXPENSES ADMINISTERED ON BEHALF OF THE TERRITORY

6.1 Losses on Investments at Fair Value through Profit or Loss

(a) Realised Losses

	2016	2015
	$'000	$'000
On Investments Directly Held (Designated)	46,963	40,735
Total Realised Losses[8]	**46,963**	**40,735**

[8] The increase in realised losses in 2015-16 is due to investment manager trading (purchase and sale of securities) activity on the Australian and international share investments with both experiencing increased price volatility and low to negative investment returns for the financial year. The international share investments were also impacted by the trading activity associated with funding the currency hedging requirements on the international share investments as a result of the fall of the Australian dollar against the major currencies over the financial year. Currency hedging is utilised to reduce the volatility in the Australian dollar valuation of overseas foreign currency assets from changes to the exchange rate.

(b) Unrealised Losses

	2016	2015
On Investments Directly Held (Designated)	23,966	8,265
On Investments Indirectly Held (Designated)	12,628	28,733
Total Unrealised Losses[9]	**36,594**	**36,998**

[9] Unrealised losses recognised in 2015-16 are due to increased price volatility on the Australian and international share investments with low to negative investment returns achieved over the financial year, offset by valuation improvements on the private equity company investments.

	2016	2015
Total Losses on Investments at FVTPL	**83,557**	**77,733**

6.2 Employee Expenses

	2016	2015
Salaries and Wages[10]	434	531
Annual Leave Expense	2	(2)
Long Service Leave Expense	38	32
Total Employee Expenses	**474**	**561**

[10] The number of CMTEDD officers paid for from the Superannuation Provision Account represented 4.0 full-time equivalent (FTE) staff at 30 June 2016 (FTE 4.0 during 2014-15).

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 6 EXPENSES ADMINISTERED ON BEHALF OF THE TERRITORY – CONTINUED

6.3 Supplies and Services

	2016 $'000	2015 $'000
CSC CSS/PSS/PSSap Scheme Administration	3,553	3,624
Consultants and Professional Services	642	615
Actuarial Fees	190	221
Other Supplies and Services[11]	138	184
Total Supplies and Services	**4,523**	**4,644**

[11] Other supplies and services expense includes Auditor's remuneration disclosed in Note 6.4: 'Auditor's Remuneration'.

6.4 Auditor's Remuneration

Audit Fees Paid or Payable to the ACT Audit Office	47	50
Total Audit Fees[12]	**47**	**50**

[12] Audit fees paid to the ACT Audit Office for the audit of the Superannuation Provision Account's financial statements. No other services were provided by the ACT Audit Office.

6.5 Investment Management and Administration Expenses

Investment Management Services	4,480	4,788
Other Investment Management Expenses[13]	1,029	2,680
Investment Administration	576	673
Total Investment Management and Administration Expenses	**6,085**	**8,141**

[13] Investment management and administration expenses were lower over 2015-16 due to lower other investment management expenses. Other investment management expenses for 2014-15 were impacted by the once-off assignment and novation of an interest rate swap derivative contract with the payment of a novation fee.

6.6 Superannuation Expenses

(a) Employee Superannuation Expense

Superannuation Contributions to the Territory Banking Account	59	55
Productivity Benefit	8	7
Superannuation to External Providers (SG Choice)	13	17
Total Employee Superannuation Expense	**80**	**79**

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 6 EXPENSES ADMINISTERED ON BEHALF OF THE TERRITORY – CONTINUED

6.6 Superannuation Expenses - Continued

(b) CSS/PSS Defined Benefit Superannuation Expense

	2016 $'000	2015 $'000
Interest Cost Expense[14]	315,401	313,820
Service Cost Expense[15]	233,494	218,750
Total CSS/PSS Superannuation Expense	**548,895**	**532,571**

[14] Interest cost is the increase in the present value of the defined benefit obligation which arises because the benefits are one period closer to settlement resulting in an increasing annual cost as the liability increases.
[15] Service cost is the estimated increase in the present value of the defined benefit obligation resulting from employee service during the financial year. Service cost is projected to reduce over time as ACT employees, who are members of the CSS or PSS, resign or retire. Service cost increased due to the use of a lower discount rate of 3.66 per cent at 30 June 2015 impacting the 2015-16 financial year (4.08 per cent at 30 June 2014). A lower discount rate increases the present value estimate of the defined benefit obligation resulting from employee service during the financial year.

(c) Member Legislative Assembly (MLA) Superannuation Expense

Superannuation Liability Expense	412	585
Total MLA Superannuation Expense	**412**	**585**
Total Superannuation Expenses	**549,386**	**533,235**

NOTE 7 ASSETS ADMINISTERED ON BEHALF OF THE TERRITORY

7.1 Cash and Cash Equivalents

Cash Held at Bank	46,223	49,565
Total Cash[16]	**46,223**	**49,565**

[16] Operational liquidity was maintained during the financial year.

7.2 Receivables
Current

Distribution Receivable – Territory Banking Account	11,593	5,722
Net Goods and Services Tax Receivable	4	3
Total Receivables[17]	**11,597**	**5,725**

[17] The distribution receivable from the Territory Banking Account is higher in 2015-16 due to increasing the investment portfolio's allocation to cash investments over the 2015-16 financial year. The increase in cash investments is due to reducing the portfolio's international shares allocation over the financial year to reduce portfolio investment risks. Due to the short-term nature of these receivables, their carrying value approximates their fair value. No receivables are past due or impaired.

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 7 ASSETS ADMINISTERED ON BEHALF OF THE TERRITORY – CONTINUED

7.3 Investments

(a) Investment Summary

The following provides the investment summary of the Superannuation Provision Account as at balance date. The investment summary comprise a group of financial assets (including restricted cash) and financial liabilities that is risk managed, and its performance is evaluated on a net basis in accordance with the Superannuation Provision Account's investment strategy.

All investments are designated at Fair Value through Profit and Loss. Derivatives are held-for-trading.

Investment Summary	**Note No.**	**2016 $'000**	**2015 $'000**
Financial Assets at Fair Value:			
Fixed Income		1,266,701	1,070,091
Equities		1,775,590	1,939,799
Unit Trusts (Property)		287,879	243,435
Derivatives		21,182	215
Financial Liabilities at Fair Value:			
Less Derivatives		0	9,903
	4.4(b)	**3,351,353**	**3,243,637**
Other Financial Instruments at Balance Date			
Cash, Receivables and Other Assets		49,641	48,320
Less Payables		11,969	5,190
Net Investments[18]		**3,389,024**	**3,286,767**

[18] Financial asset classes as at 30 June 2015 have been re-classified to facilitate comparison to 30 June 2016 balances. At 30 June 2016, the increase in net investments is mainly due to the portfolio achieving an investment return of 2.66 per cent for the 2015-16 financial year.

(b) Directly/Indirectly Held Investments Breakdown

Breakdown of Superannuation Provision Account's directly/indirectly held investments.

Financial Assets at Fair Value		
Investments Directly Held (Designated)	1,882,675	2,023,390
Investments Indirectly Held (Designated)	1,506,349	1,263,377
Total Financial Asset Investments	**3,389,024**	**3,286,767**

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 7 ASSETS ADMINISTERED ON BEHALF OF THE TERRITORY – CONTINUED

7.3 Investments – Continued

(c) Directly Held Asset Class Investments Breakdown

Breakdown, by asset class, of the Superannuation Provision Account's directly held investments.

Asset Class – Investments Directly Held (Designated)	2016 $'000	2015 $'000
Domestic Fixed Income[19]	191,269	183,838
Domestic and International Shares[20]	1,670,223	1,849,240
Derivatives[21]	21,182	(9,688)
Total Financial Asset Investments	**1,882,675**	**2,023,390**

[19] The increase in domestic fixed income assets is due to the investment return achieved on these assets for the 2015-16 financial year.

[20] The decrease in domestic and international share investments is due mainly to a reduction in the international shares allocation over the financial year to reduce portfolio investment risks.

[21] The movement in derivatives is mainly attributed to the unrealised gains and losses of forward foreign exchange contracts. Note 4.1(c): 'Currency Risk' provides details of the exposures to foreign currency and exposure management.

(d) Indirectly Held Asset Class Investments Breakdown

Breakdown, by asset class, of the Superannuation Provision Account's indirectly held investments.

Asset Class – Investments Indirectly Held (Designated)		
Unit Trust – Cash Enhanced[22]	655,297	507,190
Unit Trust – Domestic and International Fixed Income[23]	425,353	392,468
Unit Trust – Domestic Unlisted Property[24]	290,304	244,204
Unit Trust – Private Equity[25]	135,394	119,515
Total Financial Asset Investments	**1,506,349**	**1,263,377**
Total Investments by Asset Class	**3,389,024**	**3,286,767**

[22] Cash investments were increased over the 2015-16 financial year due to reducing the portfolio's investment allocation to international shares to reduce portfolio investment risk.

[23] Domestic and international fixed income assets increased as a result of the investment return achieved on these assets over the 2015-16 financial year.

[24] Domestic unlisted property assets increased due to a combination of new capital contributions and the investment returns achieved on the assets over the 2015-16 financial year.

[25] Private equity assets increased over the financial year due to a combination of a net increase in capital contributions and the investment returns achieved on the assets over the 2015-16 financial year.

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 8 LIABILITIES ADMINISTERED ON BEHALF OF THE TERRITORY

8.1 Payables

	2016 $'000	2015 $'000
Accrued Expenses – External[26]	1,060	1,157
Accrued Expenses – GGS	47	55
Total Payables	**1,107**	**1,211**

[26] The accrued expenses (external) mainly relate to investment management and administration services received during the June quarter, but not yet invoiced to the Superannuation Provision Account.

8.2 Employee Benefits

Current Employee Benefits		
Annual Leave	31	32
Long Service Leave	173	135
Total Current Employee Benefits[27]	**204**	**168**
Total Employee Benefits	**204**	**168**

[27] All annual leave and unconditional long service leave is classified as current liabilities.

For Disclosure Purposes Only

Estimate of when Leave is Payable

Estimated Amount Payable within 12 months		
Annual Leave	31	32
Total Employee Benefits Payable within 12 months	**31**	**32**
Estimated Amount Payable after 12 months		
Long Service Leave	173	135
Total Employee Benefits Payable after 12 months	**173**	**135**
Total Employee Benefits	**204**	**168**

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 8 LIABILITIES ADMINISTERED ON BEHALF OF THE TERRITORY – CONTINUED

8.3 Estimated Superannuation Liabilities

	2016	2015
CSS/PSS Liability Reconciliation	**$'000**	**$'000**
Opening Estimated Liability at 1 July	8,485,855	7,471,004
Current Service Cost	233,494	218,750
Interest Cost	315,401	313,820
Superannuation Benefits paid to the Commonwealth	(196,914)	(184,528)
Actuarial Loss from changes in Financial Assumptions[28]	2,001,934	441,907
Actuarial Loss from changes in Demographic Assumptions	0	168,384
Actuarial (Gains)/Loss from changes in Experience	(125,200)	56,517
Closing Estimated Liability at 30 June	**10,714,570**	**8,485,855**
Member Legislative Assembly Liability Reconciliation		
Opening Estimated Liability at 1 July	3,811	4,134
Current Service Cost	412	585
Superannuation Benefits paid to Members	(538)	(907)
Closing Estimated Liability at 30 June	**3,685**	**3,811**
Total Closing Estimated Liabilities at 30 June	**10,718,255**	**8,489,667**
Total Current Liabilities	230,525	211,146
Total Non Current Liabilities	10,487,730	8,278,520
Total Closing Estimated Liabilities at 30 June[29]	**10,718,255**	**8,489,667**

[28] The annual valuation of the CSS/PSS defined benefit superannuation liability and the recognition of an actuarial gain or loss from year to year is materially impacted by the discount rate used to calculate the present value of the superannuation liability. The discount rate is based on the yield of a Commonwealth Government bond where the duration of the bond is in-line with the duration of the liability. An actuarial loss was recognised in 2015-16 due mainly to the decrease in the discount rate from 3.66 per cent to 2.69 per cent. Refer to Note 3: 'Change in Accounting Policies and Estimates'.

[29] The increase in the closing estimated superannuation liabilities is due to employee and MLA service for the financial year (service costs), interest costs on past benefits accrued, impacts from changes in membership profile, impacts from changes to the financial and demographic assumptions, as well as impacts from the changing annual discount rate used to estimate the CSS/PSS superannuation liability, less actual superannuation benefit amounts paid during the financial year.

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 9 CASH FLOW RECONCILIATION

(a) Reconciliation of Cash at the End of the Reporting Period in the Cash Flow Statement on Behalf of the Territory to the Equivalent Items in the Statement of Assets and Liabilities on Behalf of the Territory

	2016 $'000	2015 $'000
Total Cash Disclosed on the Statement of Assets and Liabilities on Behalf of the Territory	46,223	49,565
Cash at the End of the Reporting Period as Recorded in the Cash Flow Statement on Behalf of the Territory	**46,223**	**49,565**

(b) Reconciliation of the Operating (Deficit) to Net Cash (Outflows) from Operating Activities

	2016 $'000	2015 $'000
Operating (Deficit)	(458,146)	(234,493)
Add/(Less) Items Classified as Investing or Financing		
Gain on Investments	(45,103)	(213,136)
Cash Before Changes in Operating Assets and Liabilities	**(503,248)**	**(447,629)**
Changes in Operating Assets and Liabilities		
(Decrease)/Increase in Payables	(104)	246
(Increase) in Receivables	(5,872)	(2,021)
Increase in Superannuation Liabilities[30]	351,854	347,720
Increase in Employee Liabilities	37	26
Net Changes in Operating Assets and Liabilities	**345,915**	**345,972**
Net Cash (Outflows) from Operating Activities	**(157,334)**	**(101,658)**

[30] The increases in estimated superannuation liabilities do not include the actuarial loss amount of $1.877 billion for the 2015-16 financial year or the actuarial loss amount of $0.667 billion for the 2014-15 financial year. Any increase in the superannuation liability resulting from an actuarial loss is recognised direct to equity and therefore has no impact on the Statement of Income and Expenses on Behalf of the Territory or Cash Flow Statement on Behalf of the Territory.

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 10 COMMITMENTS ON BEHALF OF THE TERRITORY

Other Commitments

Other commitments contracted at reporting date that have not been recognised as liabilities, are payable as follows:

	2016 $'000	2015 $'000
Within One Year	24,400	27,800
Later than One Year but not longer than Five Years	52,500	76,900
Later than Five Years	6,000	6,000
Total Other Commitments[31]	**82,900**	**110,700**

[31] Other commitments represent private equity investment capital commitments at financial year end. The outstanding balance has decreased over the 2015-16 financial year due to the investment capital commitments being drawn down and invested over the financial year.

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 11 BUDGETARY REPORTING – EXPLANATIONS OF MAJOR VARIANCES BETWEEN ACTUAL AND ORGINAL BUDGET AMOUNTS

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

(i) The line item is a significant line item: the line item actual amount accounts for more than 10% of the relevant associated category (Income, Expenses and Equity totals) or sub-element (e.g. Current Liabilities and Receipts from Operating Activities totals) of the financial statements; and
(ii) The variances (original budget to actual) are greater than plus (+) or minus (-) 10% of the budget for the financial statement line item.

Statement of Income and Expenses on Behalf of the Territory

	Actual 2015-16 $'000	Original Budget[32] 2015-16 $'000	Variance $'000	Variance %	Variance Explanation
Distributions	56,697	70,941	(14,244)	(20%)	Distribution revenue was below the budget estimate mainly due to the SPA maintaining a higher than anticipated portfolio exposure to cash investments over the financial year, the timing of distribution receipts and the availability of income for distribution from investments trusts.
Gains on Investments	72,954	131,440	(58,486)	(44%)	Budget estimates for investment earnings use the expected long term portfolio return assumption of 7.5 per cent per annum. The investment portfolio achieved a lower return of 2.66 per cent for the financial year.
Losses on Investments	83,557	0	83,557	#	Budget estimates for investment earnings utilise the expected long term portfolio return assumption of 7.5 per cent per annum. Budget estimates do not take into consideration possible losses on investments.
Superannuation Expense	549,386	493,171	56,215	11%	A discount rate that is lower than the current long term average budget estimate of 6 per cent will increase the liability valuation and superannuation expense estimates. At 30 June 2015 the discount rate was 3.66 per cent, increasing the liability valuation and resulting in an increase in superannuation expense for 2015-16 of approximately $56.2 million.

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 11 BUDGETARY REPORTING – EXPLANATIONS OF MAJOR VARIANCES BETWEEN ACTUAL AND ORGINAL BUDGET AMOUNTS – CONTINUED

Statement of Assets and Liabilities on Behalf of the Territory

	Actual 2015-16 $'000	Original Budget[32] 2015-16 $'000	Variance $'000	Variance %	Variance Explanation
Cash and Cash Equivalents	46,223	25,000	21,223	85%	Operational liquidity was maintained over the 2015-16 financial year as these funds earn a financial return that is competitive and comparable to investing these monies in domestic money market (cash) investment securities.
Receivables	11,597	3,704	7,893	213%	The distribution receivable from the Territory Banking Account is higher than the budget estimate due to increasing the investment portfolio's allocation to cash investments over the 2015-16 financial year. The increase in cash investments over the financial year is due to reducing the portfolio's international shares allocation to reduce portfolio investment risks.
Superannuation Liabilities (Current and Non-Current)	10,718,255	6,094,659	4,623,596	76%	Budget estimates use a long term average discount rate assumption of 6 per cent when estimating the value of the CSS/PSS defined benefit employer superannuation liability and associated superannuation expense. Australian Accounting Standards require the use of a discount rate at 30 June referenced to the yield on a suitable Commonwealth Government bond. A discount rate that is lower than 6 per cent will increase the liability valuation and superannuation expense estimates. The discount rate at 30 June 2016 was 2.69 per cent, increasing the total CSS/PSS superannuation liability valuation estimate by approximately $4.6 billion, from $6.1 billion to $10.7 billion (current and non-current).

Superannuation Provision Account
Notes To and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 11 BUDGETARY REPORTING – EXPLANATIONS OF MAJOR VARIANCES BETWEEN ACTUAL AND ORGINAL BUDGET AMOUNTS – CONTINUED

Cash Flow Statement on Behalf of the Territory

	Actual 2015-16 $'000	Original Budget[32] 2015-16 $'000	Variance $'000	Variance %	Variance Explanation
Distributions From Financial Investments	39,043	70,941	(31,898)	(45%)	Distribution receipts were lower than the budget estimate due to lower distribution revenue received on the private equity investments as a result of the divestment of assets from the sale of company assets, as well as the portfolio's asset allocation being different to what was anticipated, with a higher cash investment balance and timing delays in implementation of the Investment Plan impacting on expected distribution earnings.
Other Payments from Operating Activities	53,297	5,000	48,297	966%	Other payments were higher than the budget estimate due to the impact from the funding requirements associated with the currency hedging risk management activity on the international share investments. The funding requirements increased over the financial year due to a falling Australian dollar. Other cash flow budget estimates do not include the estimated financial impacts, income or expenses, from the currency hedging risk management activity over the financial year.
Proceeds from Sale/Maturity of Investments	185,978	0	185,978	#	Budget estimates incorporate a net cash outflow for investing activities.
Purchase of Investments	243,131	119,521	123,610	103%	Budget estimates incorporate a net cash outflow for investing activities. Net cash outflows for investing activities was lower than budget due to lower distribution revenue and higher than expected other expenses.

[32] The Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting period (2015-16 Budget Statements). These amounts have not been adjusted to reflect supplementary appropriation or appropriation instruments.

Note: # in the Line Item Variance % column represents a variance that is greater than 999 per cent or less than -999 per cent.

Statement of Performance

For the Year Ended

30 June 2016

Superannuation Provision Account

REPORT OF FACTUAL FINDINGS

SUPERANNUATION PROVISION ACCOUNT

To the Members of the ACT Legislative Assembly

Report on the statement of performance

The statement of performance of the Superannuation Provision Account for the year ended 30 June 2016 has been reviewed.

Responsibility for the statement of performance

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

The auditor's responsibility

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

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

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

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

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

As disclosed in the statement of performance, in accordance with the *Financial Management (Statement of Performance Scrutiny) Guidelines 2016*, the Total Cost information included in the statement of performance has not been reviewed.

Electronic presentation of the statement of performance

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

Independence

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

Review opinion

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

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

M. Cooper

Dr Maxine Cooper
Auditor-General
1 September 2016

Superannuation Provision Account
Statement of Performance
For the Year Ended 30 June 2016

Statement of Responsibility

In my opinion, the Statement of Performance is in agreement with the Superannuation Provision Account's records and fairly reflects the service performance of the Superannuation Provision Account in providing each class of outputs during the year ended 30 June 2016 and also fairly reflects the judgements exercised in preparing them.

David Nicol
Under Treasurer
Chief Minister, Treasury and Economic Development Directorate
8 August 2016

Superannuation Provision Account
Statement of Performance
For the Year Ended 30 June 2016

Output	**SUPERANNUATION PROVISION ACCOUNT**
Output 1	**SUPERANNUATION PROVISION ACCOUNT**
Description:	Management of Territory Defined Benefit Employer Superannuation Liabilities and Financial Investment Assets

	Original Target 2015-16	Actual Result 2015-16	% Variance from Target	Explanation of Material Variances (+/- 5%)
TOTAL COST ($'000)	**$503,525**	**$644,025**	**28%**	Total cost was higher than the budget estimate due to an increase in superannuation expense of $56.2 million and the expensing of $83.6 million in investment capital losses. In accordance with the requirements of AASB 119: 'Employee Benefits' (AASB 119), the superannuation expense for the reporting period is the projected expense based on the previous year's financial year end AASB 119 superannuation liability valuation which applied a discount rate of 3.66 per cent to estimate the closing 30 June 2015 superannuation liability. A discount rate lower than the average long term budget assumption of 6 per cent increases the liability valuation and expense estimates. Investment capital losses are mainly associated with share price falls from increased volatility on global share markets.
Accountability Indicators				
a. Difference between the net investment earnings rate and the benchmark is to be ≥ 0	≥ 0	0.21%	0%	The investment portfolio achieved a net of fees return of 2.66 per cent for the 2015-16 financial year outperforming with the performance benchmark return of 2.45 per cent.
b. Exposure to directly-owned share investments related to the manufacture of Tobacco, Cluster Munitions and Land Mines	0%	0%	0%	
c. The exercising of ownership voting rights for directly-owned shares	>95%	98.8%	0%	There were 21,955 share voting proposals during the 2015-16 financial year with a total of 21,682 voting instructions, resulting in 98.8 per cent of voting rights being exercised.
d. Completion of the Principles for Responsible Investment's Annual Reporting and Assessment Framework	1	1	0%	
e. Completion of Annual Actuarial Review	1	1	0%	
f. Completion and delivery of Monthly Financial Reporting	12	12	0%	
g. Completion and delivery of unqualified Annual Financial Statements	1	1	0%	
h. Completion of Annual Budget Estimates	1	1	0%	
i. Preparation of MLA Member Superannuation Statements	5	5	0%	

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

Superannuation Provision Account
Statement of Performance
For the Year Ended 30 June 2016

Explanation of the Accountability Indicators

a. The difference between the actual annual portfolio investment earnings rate and the established performance benchmark is a measure of the relative performance of the Territory's fund managers to the benchmark.

b. The investment portfolio is monitored to ensure that it is not exposed to any prohibited investments, in accordance with the Government's Responsible Investment Policy. For performance measurement purposes, the actual portfolio direct share holdings will be compared with the prevailing prohibited shares list at the end of each month. The exposure measure is the weighted value of any prohibited share investments on the total value of the share portfolio.

c. As required by the Government's Responsible Investment Policy, voting rights in relation to directly-owned shares will be exercised in accordance with the Government's share voting policy. The target is that more than 95 per cent of all eligible voting items in the year will be cast in relation to the total voting items. The measure is the total actual votes cast compared to total eligible voting items.

d. The Australian Capital Territory is a signatory to the Principles for Responsible Investment (PRI). Completing the annual Reporting Framework via the online reporting tool is a mandatory requirement for all signatories. The reporting framework is designed to provide accountability and transparency around signatories and their responsible investment activities.

e. An annual actuarial review of the Territory's defined benefit (CSS/PSS) employer superannuation liabilities will be completed and included in the budget estimates.

f. Monthly financial reporting involves the preparation of accrual financial statements, without notes. The monthly financial reporting will not be counted for the year if the financial statements are not completed after the end of each month.

g. Involves the preparation of the previous year's annual financial statements for auditing and inclusion in the CMTEDD annual report. The objective is to receive an unqualified audit opinion during the year.

h. Involves the preparation of annual budget estimates for inclusion in the annual Territory Budget.

i. Preparation of annual Member Information Statements for those Members of the Legislative Assembly that have a defined benefit superannuation entitlement in accordance with the *Superannuation (Legislative Assembly Members) Act 1991*. Any individual Member Information Statement for the previous financial year not delivered by end September of the Budget year will not be counted in the result.

The above Accountability Indicators were examined by the ACT Audit Office in accordance with the *Financial Management Act 1996*. The Total Cost measure was not examined by the ACT Audit Office in accordance with the *Financial Management (Statement of Performance Scrutiny) Guidelines 2016*.

Financial Statements

For the Year Ended

30 June 2016

Territory Banking Account

Management Discussion and Analysis
For the Territory Banking Account
Financial Year Ended 30 June 2016

Objectives

The Territory Banking Account is established to recognise and manage the general government's investment assets and debt liabilities. Revenues on behalf of the Territory are transferred to the Territory Banking Account and fortnightly appropriation disbursements are made to agencies from the Territory Banking Account.

A key objective of the Chief Minister, Treasury and Economic Development Directorate (CMTEDD), as reported and accounted for through the Territory Banking Account, is to effectively manage capital market functions by maximising the return on investments within relevant risk tolerances, the achievement of competitive borrowing rates commensurate to the Territory's credit rating, the development of effective financial risk management strategies and administration of the Territory Banking Account, the public account of the Australian Capital Territory.

General Overview

CMTEDD, through the financial operations of the Territory Banking Account, provides services to the ACT Government including financial asset and liability management through the establishment of investment and borrowing policies and objectives, and the coordination and implementation of cash management, investment and borrowing activities.

During 2015-16, the key objectives and operations of the Territory Banking Account included:

- facilitating a centralised daily cash management function, including the investment of cash balances for the Territory Banking Account and agencies as well as the accounting and management of investment returns;
- managing, monitoring and reviewing, as necessary, the Territory Banking Account investment portfolio in accordance with the established investment policies;
- managing the Territory's borrowing portfolio, including the raising of new borrowings as required and administering debt servicing requirements;
- administering the payments of budget appropriations to agencies;
- administering the receipt of Territory revenues; and
- completion of financial budget and financial reporting for the transactions associated with the Territory Banking Account.

Overview of 2015-16 Financial Outcome

The Territory Banking Account's financial results are an aggregate of the financial investment and borrowing transactions as well as the receipt of transfers of territorial related revenues and the payment of budget appropriation disbursements.

The majority of financial variances are driven by underlying agency activities over which the Territory Banking Account has no control. Explanations for these variances are explained in the 2015-16 financial statements of each agency.

The operating result for 2015-16 is a deficit of $598.9 million, being a $476.4 million (44 per cent) improvement from the budget deficit estimate of $1,075.3 million. This result is mainly attributed to higher transfer revenue from agencies ($138.4 million), higher net income from investments and loans ($15.7 million), lower interest expenses ($10.2 million) and lower payments of appropriation to agencies ($311.1 million).

The net liability position of the Territory Banking Account of $1,919.9 million is a $895.8 million improvement (32 per cent) from the budget net liability estimate of $2,815.7 million. This result is due to higher levels of cash, investments and loans receivable ($937.3 million), offset by higher payables and interest-bearing liabilities ($41.5 million).

Financial Performance

The following financial information is based on the audited financial statements for 2014-15 and 2015-16, the 2015-16 Budget estimates, as well as the forward estimates from the 2016-17 Budget.

Table 1 – Total Net Cost of Services

$ millions	**Actual 2014-15 $'000**	**Budget 2015-16 $'000**	**Actual 2015-16 $'000**	**Estimate 2016-17 $'000**	**Estimate 2017-18 $'000**	**Estimate 2018-19 $'000**	**Estimate 2019-20 $'000**
Total Expenditure	4,790.5	4,988.8	4,669.4	4,901.5	4,761.6	5,135.0	4,709.9
Total Revenue	3,932.5	3,913.5	4,070.5	4,334.6	4,366.1	4,546.7	4,718.6
Net Cost	**858.0**	**1,075.3**	**598.9**	**566.9**	**395.5**	**588.3**	**(8.7)**

Comparison to 2015-16 Budget

The Territory Banking Account's net cost of services for 2015-16 of $598.9 million was $476.4 million or 44 per cent improvement to the 2015-16 Budget estimate of $1,075.3 million.

The main reasons for this result are:

- investment earnings of $64.5 million being $26.8 million or 71 per cent higher than the budget estimate of $37.6 million due to higher levels of investment balances and a higher investment return than originally estimated. The total investment portfolio achieved an investment return for the 2015-16 financial year of 3.08 per cent (net of fees) compared with the benchmark return of 2.88 per cent, meeting the investment objective;

- interest from loans to agencies of $73.5 million being $8.9 million or 11 per cent lower than the budget estimate of $82.4 million is due to the impact of the lower consumer price index on the inflation-linked loans provided to Icon Water Limited and a lower amount of loan interest from the University of Canberra because of the University's early repayment of all outstanding loans during the year;
- transfer revenues of $3,793.2 million being $138.4 million or 4 per cent higher than the budget of $3,654.7 million. The aggregate result and variation is driven by agency activity; and
- appropriation expenses to agencies of $4,457.5 million being $311.1 million or 7 per cent lower than the budget of $4,768.7 million. The aggregate result and variation is driven by agency activity.

Comparison to 2014-15 Actual
Total net cost of services for 2015-16 of $598.9 million was $259.1 million or a 30 per cent improvement compared to the 2014-15 actual result of $858.0 million due primarily to:

- the discontinuance of the payment for expenses on behalf of the Territory. Historically, the annual Budget has separately recognised an Expense on behalf of the Territory and Capital Injection budget appropriation in relation to general government sector borrowings only. Section 46 of the *Financial Management Act 1996* provides for a standing appropriation from the Territory Banking Account for the payment of interest, principal and borrowing related expenses. A separate budget appropriation provision is therefore not a legislative requirement for borrowing interest and principal payments. The total estimated interest and principal payments for both general government sector and public trading enterprise sector borrowings continues to be recognised in the Territory Banking Account annual budget estimates and annual financial statements. The variance resulting from this is $79.9 million;
- investment earnings of $64.5 million being $4.7 million or 8 per cent higher than the 2014-15 result of $59.7 million due to higher balances of funds held on investment over the financial year;
- interest from loans to agencies of $73.5 million being $2.0 million or 3 per cent lower than the 2014-15 result of $75.5 million due to a lower impact from changes in the consumer price index on the inflation-linked loans provided to Icon Water Limited and a lower outstanding balance of loans from the University of Canberra;
- transfer revenues of $3,793.2 million being $217.0 million or 6 per cent higher than the 2014-15 result of $3,576.2 million. The aggregate result and variation is driven by agency activity;

- appropriation expenses to agencies of $4,457.5 million being $145.7 million or 3 per cent lower than the 2014-15 result of $4,603.2 million. The aggregate result and variation is driven by agency activity; and
- interest expenses of $208.3 million being $22.5 million or 12 per cent higher than the 2014-15 interest expenses of $185.8 million mainly as a result of a higher amount of outstanding borrowings over the year.

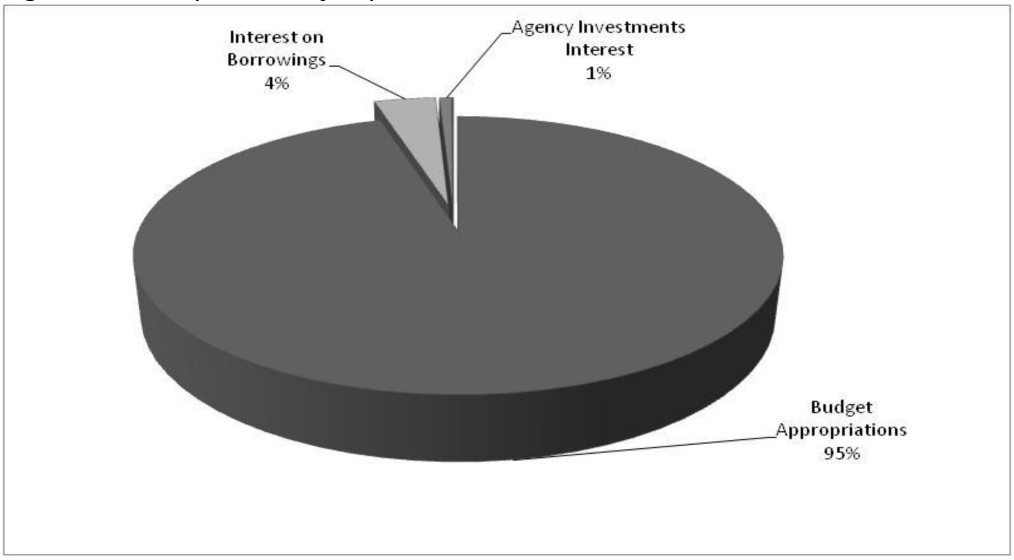
Total Expenditure

Components of Expenditure
The major components of total Territory Banking Account's expenses recognised for 2015-16 of $4,669.3 million relate to the transfer of budget appropriations to agencies ($4,457.5 million) and interest expenses ($208.3 million).

Appropriation expenses comprise Government payment for outputs ($2,961.8 million); payments for expenses on behalf of the Territory ($511.7 million); and capital injections ($984.1 million).

Interest expenses comprise interest on borrowings ($173.8 million); and interest payments to agencies for investment deposit earnings ($34.5 million).

Figure 1 – Components of Expenditure



Comparison to 2015-16 Budget
Total Territory Banking Account expense of $4,669.4 million was $319.4 million or 6 per cent lower than the 2015-16 Budget estimate of $4,988.8 million due to:

- appropriation expenses to agencies of $4,457.5 million being $311.1 million or 7 per cent lower than the budget estimate of $4,768.7 million. The aggregate result and variation is driven by agency activity;
- borrowing interest expenses of $173.8 million being $24.1 million or 12 per cent lower than the budget estimate of $197.9 million reflecting the timing and

volume of new borrowings as well as a lower than estimated interest rate for new borrowings raised; and

- agency investment interest expenses of $34.5 million being $13.8 million or 67 per cent higher than the budget of $20.7 million due to higher balances of funds held on investment over the financial year.

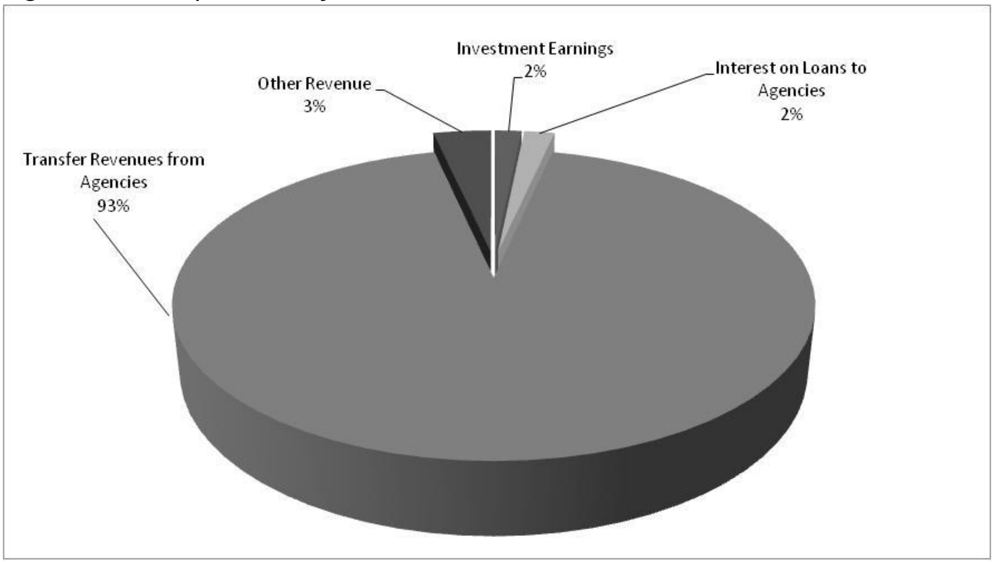
Comparison to 2014-15 Actual
Total Territory Banking Account expense of $4,669.4 million was $121.1 million or 3 per cent lower than the 2014-15 result of $4,790.5 million due to:

- appropriation expenses to agencies of $4,457.5 million being $145.7 million or 3 per cent lower than the 2014-15 result of $4,603.2 million. The aggregate result and variation is driven by agency activity;
- borrowing interest expenses of $173.8 million being $23.2 million or 15 per cent higher than the 2014-15 result of $150.6 million due to a higher amount of outstanding borrowings over the year; and
- agency investment interest expenses of $34.5 million being $0.7 million or 2 per cent lower than the 2014-15 result of $35.2 million due to lower investment returns on investment over the financial year.

Total Revenue

Components of Revenue
The components of total Territory Banking Account's revenues recognised for 2015-16 of $4,070.5 million are investment earnings ($64.5 million); interest on loans to agencies ($73.5 million); transfer revenues from agencies ($3,793.2 million); and other revenue ($139.3 million).

Figure 2 – Components of Revenue



Comparison to 2015-16 Budget

Total Territory Banking Account revenue of $4,070.5 million was $157.0 million or 4 per cent higher than the 2015-16 Budget estimate of $3,913.5 million due to:

- investment earnings of $64.5 million being $26.8 million or 71 per cent higher than the budget of $37.6 million due to higher balances of funds held on investment and a higher investment return than originally estimated. The investment portfolio achieved an investment return for the 2015-16 financial year of 3.08 per cent (net of fees) compared with the benchmark return of 2.88 per cent;
- interest from loans to agencies of $73.5 million being $8.9 million or 11 per cent lower than the budget of $82.4 million due to a lower impact from changes in the consumer price index on the inflation-linked loans provided to Icon Water Limited and a lower University of Canberra outstanding loan balance following the University's early repayment of loans during the year;
- transfer revenues of $3,793.2 million being $138.4 million or 4 per cent higher than the budget of $3,654.7 million. The aggregate result and variation is driven by agency activity; and
- other revenue of $139.3 million being $0.7 million higher than the budget of $138.6 million. The aggregate result and variation is driven by agency activity.

Comparison to 2014-15 Actual

Total Territory Banking Account revenue of $4,070.5 million was $138.0 million or 4 per cent higher than the 2014-15 result of $3,932.5 million due to:

- the discontinuance of the payment for expenses on behalf of the Territory. Historically, the annual Budget has separately recognised an Expense on behalf of the Territory and Capital Injection budget appropriation in relation to general government sector borrowings only. Section 46 of the *Financial Management Act 1996* provides for a standing appropriation from the Territory Banking Account for the payment of interest, principal and borrowing related expenses. A separate budget appropriation provision is therefore not a legislative requirement for borrowing interest and principal payments. The variance resulting from this is $79.9 million;
- investment earnings of $64.5 million being $4.7 million or 8 per cent higher than the 2014-15 result of $59.7 million due to higher balances of funds held on investment over the financial year;
- interest from loans to agencies of $73.5 million being $2.0 million or 3 per cent lower than the 2014-15 result of $75.6 million due impact of lower consumer price index on the inflation-linked loans provided to Icon Water Limited and a lower University of Canberra outstanding loan balance following the University's early repayment of loans during the year;

- transfer revenues of $3,793.2 million being $217.0 million or 6 per cent higher than the 2014-15 result of $3,576,2 million. The aggregate result and variation is driven by agency activity; and
- other revenue of $139.3 million being $1.8 million or 1 per cent lower than the 2014-15 result of $141.1 million. The aggregate result and variation is driven by agency activity.

Financial Position

Total Assets

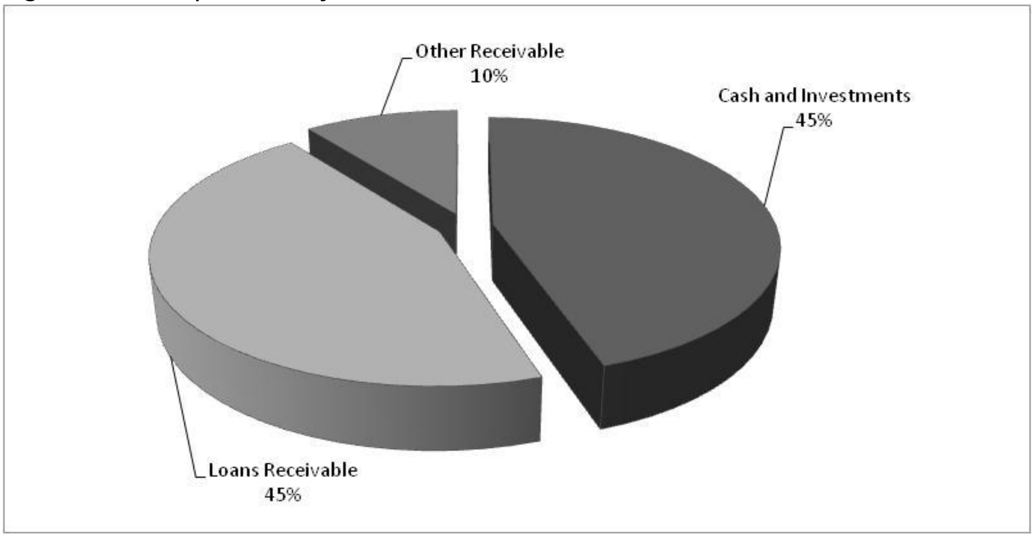
Components of Total Assets
The major components of total Territory Banking Account's assets are cash and investments ($1,615.9 million); and loans and other receivables ($2,099.1 million).

Cash and investments comprise actual cash and investment assets of the Territory Banking Account as well as investments made on behalf of a directorate or territory authority with approval to earn and retain investment earnings. Investments are made domestically with exposures to short term money markets and fixed interest securities, including cash, bank term deposits, bank bill securities, residential mortgage backed securities and bonds.

Loans and receivables comprise loans made to agencies either from budget appropriation or supported by a financial market issued security.

Other receivables include transfer revenue and loan interest receivable from ACT Government agencies and investment interest receivable.

Figure 3 – Components of Assets



Comparison to 2015-16 Budget
The total asset position at 30 June 2016 was $3,715.0 million being $937.3 million or 34 per cent higher than the budget of $2,777.7 million. This was due to:

- cash and investments of $1,615.9 million being $805.3 million or 99 per cent higher than the 2015-16 Budget of $810.6 million reflecting the timing of cash flows and underlying agency investment activities. Underlying this:
  - Territory Banking Account cash and investments of $573.2 million being $425.6 million or 288 per cent higher than the 2015-16 Budget of $147.6 million; and
  - agency cash and investments of $1,042.8 million being $379.8 million or 57 per cent higher than the 2015-16 Budget of $662.9 million;
- loans of $1,608.3 million being $76.6 million or 5 per cent lower than the 2015-16 Budget of $1,684.8 million. Underlying this:
  - Icon Water Limited loans of $1,536.3 million being $46.4 million or 3 per cent lower than the 2015-16 Budget of $1,582.7; and
  - Extinguishment of University of Canberra loans of $30.1 million being 100 per cent lower than the 2015-16 Budget estimate of $30.1 million; and
- Other receivables of $490.8 million being $208.6 million or 74 per cent higher than the 2015-16 Budget of $282.3 million. The variance is mostly in relation to agency transfer revenue receivables.

Comparison to 2014-15 Actual
The total asset position at 30 June 2016 was $3,715.0 million being $150.6 million or 4 per cent higher than the 2014-15 result of $3,564.4 million. This was due to:

- cash and investments of $1,615.9 million being $54.3 million or 3 per cent lower than the 2014-15 result of $1,670.3 million. Underlying this:
  - Territory Banking Account cash and investments of $573.2 million being $66.9 million or 10 per cent lower than the 2014-15 result of $640.2 million; and
  - agency cash and investments of $1,042.8 million being $12.7 million or 1 per cent higher than the 2014-15 result of $1,030.1 million;
- loans of $1,608.3 million being $13.6 million higher than the 2014-15 result of 1,594.7 million. Underlying this:
  - Icon Water Limited loans of $1,536.3 million being $45.3 million or 3 per cent higher than the 2014-15 result of $1,490.9; offset by
  - The extinguishment of University of Canberra loans of $31.4 million during 2015-16; and
- Other receivables of $490.8 million being $191.4 million or 64 per cent higher than the 2014-15 result of $299.5 million. The variance is mostly in relation to agency transfer revenue receivables.

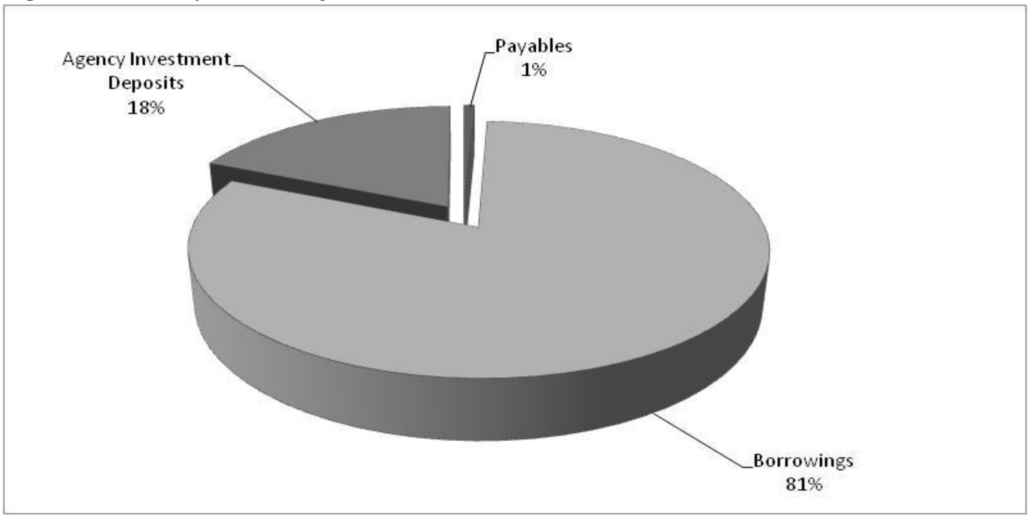
Total Liabilities

Components of Total Liabilities

The major components of total Territory Banking Account's liabilities are interest bearing liabilities comprising borrowings ($4,551.8 million) and agency investment deposits ($1,042.8 million); and payables ($40.4 million).

The funding and management of the ACT Government's financial market borrowings is undertaken by the Chief Minister, Treasury and Economic Development Directorate through the Territory Banking Account. The ACT Government's funding requirements are mainly achieved by the issuance of debt securities in the financial markets.

Figure 4 – Components of Liabilities



Comparison to 2015-16 Budget

The total liability position at 30 June 2016 was $5,634.9 million being $41.5 million or 1 per cent higher than the budget of $5,593.4 million. This was mainly due to:

- payables of $40.4 million being $16.8 million or 71 per cent higher than the 2015-16 Budget of $23.6 million;
- borrowings of $4,551.8 million being $352.0 million or 7 per cent lower than the 2015-16 Budget of $4,903.8 million reflecting cash flows, underlying this:
  - market financed borrowings of $3,479.9 million being $348.2 million or 9 per cent lower than the 2015-16 Budget estimate of $3,828.2 million; and
  - Commonwealth loans of $1,071.8 million being $3.9 million lower than the 2015-16 Budget of $1,075.7 million; and
- agency investment deposits of $1,042.8 million being $376.8 million or 57 per cent higher than the 2015-16 Budget estimate of $665.9 million. This variation is driven by agency activity.

Comparison to 2014-15 Actual

The total liability position as at 30 June 2016 was $5,634.9 million being $610.9 million or 12 per cent higher than the 2014-15 result of $5,024.1 million. This was mainly due to:

- payables of $40.4 million being $10.5 million or 35 per cent higher than the 2014-15 result of $29.9 million;
- borrowings of $4,551.8 million being $587.7 million or 15 per cent higher than the 2014-15 result of $3,964.1 million. Underlying this:
  - market financed borrowings of $3,479.9 million being $341.6 million or 11 per cent higher than the 2014-15 result of $3,138.4 million; and
  - Commonwealth loans of $1,071.8 million being $246.1 million or 30 per cent higher than the 2014-15 result of $825.7 million; and
- agency investment deposits of $1,042.8 million being $12.7 million or 1 per cent higher than the 2014-15 result of $1,030.1 million. This variation is driven by agency activity.

ACT Audit Office

AUDITOR-GENERAL AN OFFICER OF THE ACT LEGISLATIVE ASSEMBLY

INDEPENDENT AUDIT REPORT

TERRITORY BANKING ACCOUNT

To the Members of the ACT Legislative Assembly

Report on the financial statements

The financial statements of the Territory Banking Account for the year ended 30 June 2016 have been audited. These comprise the statement of income and expenses on behalf of the Territory, statement of assets and liabilities on behalf of the Territory, statement of changes in equity on behalf of the Territory, cash flow statement on behalf of the Territory, territorial statement of appropriation and accompanying notes.

Responsibility for the financial statements

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

The auditor's responsibility

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

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 Territory Banking Account.

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, then they are advised to refer to the printed copy of the audited financial statements to confirm the accuracy of this electronically presented information.

Independence

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

Audit opinion

In my opinion, the financial statements of the Territory Banking Account for the year ended 30 June 2016:

(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 Territory Banking Account at 30 June 2016 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
16 September 2016

Territory Banking Account
Financial Statements
For the Year Ended 30 June 2016

Statement of Responsibility

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

David Nicol
Under Treasurer
Chief Minister, Treasury and Economic Development Directorate
16 September 2016

Territory Banking Account
Financial Statements
For the Year Ended 30 June 2016

Statement by the Chief Finance Officer

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

Patrick McAuliffe
Chief Finance Officer
Territory Banking Account
Chief Minister, Treasury and Economic Development Directorate
16 September 2016

Territory Banking Account
Statement of Income and Expenses on Behalf of the Territory
For the Year Ended 30 June 2016

	Note No.	Actual 2016 $'000	Original Budget 2016 $'000	Actual 2015 $'000
Income				
Payment for Expenses on Behalf of the Territory	5.1	0	0	79,869
Interest	5.2	115,832	117,381	119,947
Distributions	5.3	14,632	2,698	9,452
Gains on Investments	5.4	7,535	0	5,884
Transfers from ACT Government Agencies	5.5	3,793,183	3,654,745	3,576,217
Other Income	5.6	139,307	138,635	141,142
Total Income		**4,070,490**	**3,913,459**	**3,932,511**
Expenses				
Payments to ACT Government Agencies	6.1	4,457,547	4,768,652	4,603,227
Interest Expenses	6.2	208,322	218,562	185,846
Losses on Investments	6.3	2,240	0	428
Investment Administration Expenses	6.4	829	632	932
Other Expenses	6.5	443	929	79
Total Expenses		**4,669,380**	**4,988,775**	**4,790,512**
Operating Deficit		**(598,891)**	**(1,075,316)**	**(858,001)**
Total Comprehensive (Deficit)		**(598,891)**	**(1,075,316)**	**(858,001)**

The above Statement of Income and Expenses on Behalf of the Territory should be read in conjunction with the accompanying notes.

Territory Banking Account
Statement of Assets and Liabilities on Behalf of the Territory
At 30 June 2016

	Note No.	Actual 2016 $'000	Original Budget 2016 $'000	Actual 2015 $'000
Current Assets				
Cash	7.1	227,460	0	234,331
Loans and Receivables	7.2	514,496	297,437	392,350
Investments	7.3	1,141,603	671,777	1,302,460
Total Current Assets		**1,883,559**	**969,214**	**1,929,141**
Non Current Assets				
Loans and Receivables	7.2	1,584,598	1,669,676	1,501,808
Investments	7.3	246,872	138,826	133,467
Total Non Current Assets		**1,831,470**	**1,808,502**	**1,635,275**
Total Assets		**3,715,029**	**2,777,716**	**3,564,416**
Current Liabilities				
Payables	8.1	40,384	23,603	29,901
Interest-Bearing Liabilities	8.2	884,349	802,230	1,150,794
Total Current Liabilities		**924,733**	**825,833**	**1,180,695**
Non-Current Liabilities				
Interest-Bearing Liabilities	8.2	4,710,220	4,767,610	3,843,362
Total Non-Current Liabilities		**4,710,220**	**4,767,610**	**3,843,362**
Total Liabilities		**5,634,953**	**5,593,443**	**5,024,057**
Net Liabilities		**(1,919,924)**	**(2,815,727)**	**(1,459,641)**
Equity				
Accumulated Deficits		(1,919,924)	(2,815,727)	(1,459,641)
Total Equity		**(1,919,924)**	**(2,815,727)**	**(1,459,641)**

The above Statement of Assets and Liabilities on Behalf of the Territory should be read in conjunction with the accompanying notes.

Territory Banking Account
Statement of Changes in Equity on Behalf of the Territory
For the Year Ended 30 June 2016

	Note No.	Accumulated Deficits Actual 2016 $'000	Total Equity Actual 2016 $'000	Original Budget 2016 $'000
Balance at 1 July 2015		**(1,459,641)**	**(1,459,641)**	**(1,862,393)**
Comprehensive Income				
Operating (Deficit)		(598,891)	(598,891)	(1,075,316)
Total Comprehensive (Deficit)		**(2,058,532)**	**(2,058,532)**	**(2,937,709)**
Capital Distributions	9.1	138,604	138,604	121,982
Total Transactions Involving Owners Affecting Accumulated Deficits		**138,604**	**138,604**	**121,982**
Balance at 30 June 2016		**(1,919,924)**	**(1,919,924)**	**(2,815,727)**

	Note No.	Accumulated Deficits Actual 2015 $'000	Total Equity Actual 2015 $'000
Balance at 1 July 2014		**(847,942)**	**(847,942)**
Comprehensive Income			
Operating (Deficit)		(858,001)	(858,001)
Total Comprehensive (Deficit)		**(1,705,943)**	**(1,705,943)**
Transactions Involving Owners Affecting Accumulated Deficits			
Capital Injections		214	214
Capital Distributions	9.1	209,042	209,042
Increase in Assets from Administrative Restructuring		112,012	112,012
Increase in Liabilities from Administrative Restructuring		(74,966)	(74,966)
Total Transactions Involving Owners Affecting Accumulated Deficits		**246,302**	**246,302**
Balance at 30 June 2015		**(1,459,641)**	**(1,459,641)**

Territory Banking Account
Cash Flow Statement on Behalf of the Territory
For the Year Ended 30 June 2016

	Note No.	Actual 2016 $'000	Original Budget 2016 $'000	Actual 2015 $'000
Cash Flows from Operating Activities				
Receipts				
Expenses on Behalf of the Territory		0	0	79,869
Interest Received		108,178	116,212	112,609
Distributions Received		11,668	2,698	9,452
Transfers from ACT Government Agencies		3,618,106	3,615,034	3,510,155
Goods and Services Tax Input Tax Credits from the ATO		125	57	57
Other Receipts		139,046	139,034	140,889
Total Receipts from Operating Activities		**3,877,122**	**3,873,035**	**3,853,031**
Payments				
Borrowing Costs		193,390	216,359	173,927
Payments to General Government Agencies for Outputs		2,906,938	2,923,514	2,907,101
Payments to Public Trading Enterprise Agencies for Outputs		54,854	54,854	54,482
Payments to Agencies for Expenses on Behalf of the Territory		511,687	568,887	594,478
Goods and Services Tax paid to Suppliers		119	57	58
Other Payments		550	929	80
Total Payments from Operating Activities		**3,667,538**	**3,764,600**	**3,730,126**
Net Cash Inflows from Operating Activities	10	**209,584**	**108,435**	**122,905**
Cash Flows from Investing Activities				
Receipts				
Proceeds from Sale/Maturity of Investments		48,495	486,320	0
Loan Repayments from Agencies		239,640	22,745	64,541
Proceeds from ACT Government Agencies' Deposits		130,479	4,837	94,610
Distributions from ACT Government Agencies		133,269	121,981	200,184
Total Receipts from Investing Activities		**551,883**	**635,883**	**359,335**
Payments				
Purchase of Investments		0	0	96,000
Loans Provided to Agencies		247,696	112,002	61,541
Capital Payments to ACT Government Agencies		984,068	1,240,003	1,052,463
Repayment of ACT Government Agencies' Deposits		118,214	330,536	0
Total Payments from Investing Activities		**1,349,978**	**1,682,541**	**1,210,004**
Net Cash (Outflows) from Investing Activities		**(798,095)**	**(1,046,658)**	**(850,669)**

Territory Banking Account
Cash Flow Statement on Behalf of the Territory (Continued)
For the Year Ended 30 June 2016

Cash Flows from Financing Activities	Note No.	Actual 2016 $'000	Original Budget 2016 $'000	Actual 2015 $'000
Receipts				
Capital Injection		0	0	214
Proceeds from Borrowings		585,351	938,223	798,504
Transfer of Cash Balances (Admin Restructure) - GGS		0	0	112,012
Total Receipts from Financing Activities		**585,351**	**938,223**	**910,730**
Payments				
Repayment of Borrowings		3,711	0	554
Total Payments from Financing Activities		**3,711**	**0**	**554**
Net Cash Inflows from Financing Activities		**581,640**	**938,223**	**910,176**
Net (Decrease)/Increase in Cash		(6,871)	0	182,412
Cash at Beginning of Reporting Period		234,331	0	51,919
Cash at End of Reporting Period	7.1	**227,460**	**0**	**234,331**

The above Cash Flow Statement on Behalf of the Territory should be read in conjunction with the accompanying notes.

Territory Banking Account
Territorial Statement of Appropriation
For the Year Ended 30 June 2016

	Original Budget 2016 $'000	Total Appropriated 2016 $'000	Appropriation Drawn 2016 $'000	Appropriation Drawn 2015 $'000
Expenses on Behalf of the Territory	0	0	0	79,869
Capital Injections	0	0	0	214
Total Territorial Appropriation	**0**	**0**	**0**	**80,083**

The above Territorial 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 on Behalf of the Territory in the Budget Papers. The amount also appears in the Cash Flow Statement on Behalf of the Territory.

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

The *Appropriation Drawn* column is the total amount which was received in Appropriation by the Territory Banking Account during the year. This amount appears in the Cash Flow Statement on Behalf of the Territory.

Notes Relating to Territorial Statement of Appropriation

Appropriation Discontinued - Expenses on Behalf of the Territory and Capital Injection

As disclosed in 2015-16 Budget Statement B, an allocation of appropriation to the Territory Banking Account has been discontinued. Historically, the annual Budget has separately recognised an Expense on behalf of the Territory and Capital Injection budget appropriation in relation to general government sector borrowings only. Section 46 of the *Financial Management Act 1996* provides for a standing appropriation from the Territory Banking Account for the payment of interest, principal and borrowing related expenses. A separate budget appropriation provision is therefore not a legislative requirement for borrowing interest and principal payments. The total estimated interest and principal payments for both general government sector and public trading enterprise sector borrowings continue to be recognised in the Territory Banking Account annual budget estimates and annual financial statements.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 1 OBJECTIVES OF THE TERRITORY BANKING ACCOUNT

Operations and Principal Activities

The Territory Banking Account is established to recognise and manage the general government's investment assets and debt liabilities. Revenues on behalf of the Territory are transferred to the Territory Banking Account and fortnightly appropriation disbursements are made to agencies from the Territory Banking Account.

The Chief Minister, Treasury and Economic Development Directorate (CMTEDD), through the financial operations of the Territory Banking Account, provides services to the Government including financial asset and liability management through the establishment of investment and borrowing policies and objectives, and the coordination and implementation of cash management, investment and borrowing activities.

A key objective of CMTEDD, as reported and accounted for through the Territory Banking Account, is to effectively manage capital market functions by maximising the return on investments within relevant risk tolerances, the achievement of competitive borrowing rates commensurate to the Territory's credit rating, the development of effective financial risk management strategies and administration of the Territory Banking Account, the public account of the Territory.

The salary and administrative costs for the management of the Territory Banking Account are met from CMTEDD.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The Territory Banking Account is prescribed as a Directorate under the *Financial Management Act 1996* (FMA) and is an individual reporting entity.

Under the FMA, all Directorates are required to prepare annual financial statements. The Territory Banking Account is a not-for-profit reporting entity as the principal objective is not the generation of profit but the reporting and accountability of a significant component of the central finances of the Territory as outlined in Note 1: 'Objectives of the Territory Banking Account' above.

The FMA and the *Financial Management Guidelines* issued under the FMA requires the Territory Banking Account's financial statements to include:

(i) A Statement of Income and Expenses on Behalf of the Territory for the year;
(ii) A Statement of Assets and Liabilities on Behalf of the Territory at the end of the year;
(iii) A Statement of Changes in Equity on Behalf of the Territory for the year;
(iv) A Cash Flow Statement on Behalf of the Territory for the year;
(v) A Territorial Statement of Appropriation for the year;
(vi) The significant accounting policies adopted by the Territory Banking Account for the year; and
(vii) Such other statements as are necessary to fairly reflect the financial operations of the Territory Banking Account during the year and its financial position at the end of the year.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2.1 Basis of Preparation - Continued

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.

At 30 June 2016, Territory Banking Account's liabilities ($5.635 billion) exceed its assets ($3.715 billion) by $1.920 billion ($1.460 billion at 30 June 2015). This is due to the Territory Banking Account reporting total Territory borrowings with the assets backing these liabilities being reported in other Territory agency financial statements. Accordingly, the net asset position of the Territory Banking Account for any period should be viewed in combination with the total Territory's consolidated net financial position.

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 and valuation policies applicable to the Territory Banking Account during the reporting period.

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

2.2 Territorial Items

CMTEDD produces Territorial financial statements for the Territory Banking Account. The Territorial financial statements include income, expenses, assets and liabilities that CMTEDD administers on behalf of the Territory, but does not control.

2.3 The Reporting Period

These financial statements state the financial performance, changes in equity and cash flows of the Territory Banking Account for the year ending 30 June 2016 and the financial position of the Territory Banking Account at 30 June 2016.

2.4 Comparative Figures

Budget Figures
To facilitate a comparison with the Budget Papers, as required by the FMA, budget information for 2015-16 has been presented in the financial statements. Budget numbers in the financial statements are the original budget numbers that appear in the Budget Papers.

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.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2.5 Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars ($'000) and may not add due to rounding.

2.6 Revenue Recognition

Revenue is recognised at the fair value of the consideration received or receivable in the Statement of Income and Expenses on Behalf of the Territory.

Interest
Interest revenue is recognised using the effective interest method.

Dividends and Distribution Income
Dividends and Distribution income are recognised when the Territory Banking Account's right to receive payment is established.

Gains on Investments at Fair Value through Profit and Loss
Gains or losses on financial assets held at Fair Value through Profit or Loss consist of realised and unrealised amounts. Gains or losses resulting from changes in the fair value of an investment are included in the Statement of Income and Expenses on Behalf of the Territory in the period in which they arise.

Transfer Revenue
Transfers from ACT Government agencies relates to territorial revenue such as grants, rates, taxes, fees and fines collected initially by other ACT Government agencies on behalf of the Territory prior to being transferred to the Territory Banking Account. This revenue is recognised when it is probable that the economic benefits will flow to the Territory Banking Account. This is usually when the collecting agency recognises a transfer expense.

Other Income
This income mainly relates to employer superannuation contributions paid to the Territory Banking Account. ACT Government agencies receive funding for superannuation payments as part of the Government Payment for Outputs. The agency then makes payments on a fortnightly basis to the Territory Banking Account to cover the agency's superannuation liability for employees who are members of the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS). It is recognised as it is received for the period to which it relates.

2.7 Borrowing Costs

Borrowing costs are expensed as incurred.

2.8 Current and Non-Current Items

Assets and liabilities are classified as current or non-current in the Statement of Assets and Liabilities on Behalf of the Territory 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 Territory Banking Account 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.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2.9 Cash and Cash Equivalents

For the purpose of the Cash Flow Statement on Behalf of the Territory and the Statement of Assets and Liabilities on Behalf of the Territory, cash means deposits held at call with the Territory's transaction bank.

2.10 Loans and Receivables

Receivables are initially recognised at fair value and are subsequently measured at amortised cost, with any adjustments to the carrying amount being recorded in the Statement of Income and Expenses on behalf of the Territory.

Receivables may include interest owing from ACT Government agencies, accrued investment revenue (interest and unit trust distributions) and other transfer revenues. Interest, dividends and unit trust distributions are accrued when the right to receive payment is established. Other accrued revenue and receivables comprises accrued transfer revenue or any residual revenues and receivables owing by any ACT Government agencies.

The allowance for impairment losses represents the amount of trade receivables and other trade receivables the Territory Banking Account estimates will not be repaid. The allowance for impairment losses is based on objective evidence and a review of overdue balances. Territory Banking Account considers the following is objective evidence of impairment:

(i) becoming aware of financial difficulties of debtors;
(ii) default payments; or
(iii) debts more than 30 days overdue.

The amount of the allowance is recognised in the Statement of Income and Expenses on Behalf of the Territory. The allowance for impairment losses are written off against the allowance account when the Territory Banking Account ceases action to collect the debt or when the cost to recover debt is more than the debt is worth.

Loans to ACT Government agencies are not quoted in an active market and are not entered into with the intention of immediate or short-term resale. These classes of assets are held to maturity. Loans to ACT Government agencies are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. The assessment of impairment for loans and receivables is based around the credit worthiness of the counterparty and their ability to meet their financial obligations.

When an ACT Government agency is the counterparty to a loan or receivable, a review is performed against the latest published budget estimates for any indication of impairment or write-offs. When the counterparty for a particular loan or receivable is a non-ACT Government agency, an assessment is made as to whether there is objective evidence of impairment, or collectively for financial assets not considered individually significant. Assessment for impairment on loans and receivables can also be performed on a group of financial assets with similar credit risk characteristics. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Income and Expenses on Behalf of the Territory. Interest income continues to be accrued based on the original effective interest rate of that asset.

At 30 June 2016, it has been assessed that there is no objective evidence that the loans and receivables of the Territory Banking Account are impaired.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2.11 Investments

Investment assets of the Territory Banking Account represent the cash and investment holdings of the Territory Banking Account and ACT Government agency deposits as at reporting date. The level of cash held and invested, is subject to the combination of the short term daily cash needs and the medium to long term requirements of the Territory Banking Account and ACT Government agencies.

CMTEDD manages the financial investment assets in accordance with an asset allocation that takes into account the risk and return objectives of the Territory and the time horizon of the Territory's cash flow requirements. The investment portfolio is diversified across a cash fund, a cash enhanced fund and fixed income fund. As a result, the principal financial investment instruments of the Territory Banking Account's investment portfolio include cash, floating rate notes and fixed income bonds.

The combination of investment classes is designed to achieve the maximum return within the allowable risk tolerances and liquidity needs of the Territory.

External asset class specific institutional investment managers are appointed to manage the Territory's financial investment assets accounted for in the Territory Banking Account. These assets are managed:

(i) directly through an actively-managed strategy using a separate discrete mandate (Territory directly owns the securities) where the investment manager aims to outperform the relevant performance benchmark index (gross of fees); or

(ii) indirectly through an actively-managed or passively-managed index strategy using unlisted pooled unit trusts where the investment manager either aims to outperform the relevant performance benchmark index or match the relevant performance benchmark index.

The *Financial Management Investment Guidelines 2015*, prescribe the allowable investments for the Territory Banking Account in accordance with section 38(1)(e) of the *Financial Management Act 1996.* The guidelines also require that investments may only be made in accordance with an Investment Plan and a Responsible Investment Policy approved by the Treasurer. These legislative provisions are reflected in the investment management agreements with investment managers as relevant.

The Territory Banking Account investments are classified as at Fair Value through Profit or Loss. They comprise:

(i) Financial instruments designated at Fair Value through Profit or Loss upon initial recognition.
These are managed and their performance evaluated on a fair value basis in accordance with the Territory Banking Account investment strategy.

(ii) Financial instruments held for trading.
Derivative financial instruments are included under this classification. The Territory Banking Account does not designate any derivatives as hedges in a hedging relationship.

Recognition/De-recognition of Investments
The Territory Banking Account recognises financial assets and financial liabilities at fair value on the date it becomes party to the contractual agreement (trade date). Subsequent to initial measurement, investments held through Fair Value through Profit or Loss are re-measured to fair value with changes in their fair value (gains/loss) recognised in the Statement of Income and Expenses on behalf of the Territory. Interest, dividends and distributions earned on these investments are recorded separately in interest, dividend and distribution revenue. Investments are derecognised when the obligation specified in the contract is discharged or cancelled, transferred, or expired. Transaction costs for such investments are recognised directly in the Statement of Income and Expenses on behalf of the Territory.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.11 Investments - Continued

Determination of Fair Value
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Territory Banking Account.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The fair value for investments traded in active markets at the reporting date is based on the most representative price within the bid-ask spread, without any deduction for transaction costs. Securities defined in these accounts as 'listed' are traded in an active market.

For all other investments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach by using recent arm's length market transactions adjusted as necessary and referenced to the current market value of another instrument that is substantially the same and the income approach through using discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible.

For assets and liabilities that are recognised in the financial statements on a recurring basis, it is determined whether transfers have occurred between levels in the Fair Value Hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the beginning of each reporting period.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the Fair Value Hierarchy, described under Note 4.5: 'Categorisation of Financial Assets and Liabilities', based on the lowest level input that is significant to the fair value measurement as a whole.

2.12 Derivative Instruments

Derivative Instruments are a prescribed investment within the *Financial Management Investment Guidelines 2015* and are used for maximising the efficiencies within the investment portfolio in the pursuit of the investment objectives, optimising transaction flows, as well as the protection of the investments by minimising adverse effects of a range of financial market risks.

The investments held in discrete mandate strategies and pooled unit trust include exposure to futures, options, forward rate agreements and swaps, where the derivatives are held to gain underlying market exposure or to manage financial risks.

Derivative financial instruments are initially recognised at fair value on trade date, namely when the derivative contract is entered into, and are subsequently remeasured to fair value. Any gains or losses arising from changes in the fair value of derivatives are recognised in the Statement of Income and Expenses on Behalf of the Territory for the year under the classification of gains or (losses) on financial assets at Fair Value through Profit or Loss. The fair values of derivative instruments are calculated utilising listed market prices if available. If listed market prices are not available for derivative instruments, the price utilised may be sourced from a vendor, an investment manager or counterparty.

The fair value of directly held derivative instruments is disclosed in Note 7.3: 'Investments'.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.13 Payables

Payables are initially recognised at fair value based on the transaction cost and subsequent to initial recognition at amortised cost, with any adjustments to the carrying amount being recorded in Statement of Income and Expenses on Behalf of the Territory. All amounts are normally settled within 30 days after the invoice date. Payables include trade payables, investment interest owing to ACT Government agencies and interest owing on borrowings to external counterparties.

2.14 Interest-Bearing Liabilities

Interest-bearing liabilities accounted through the Territory Banking Account include investments made by ACT Government agencies and external borrowings of the Territory. External borrowings are held to maturity. Deposits made by ACT Government agencies into the Territory Banking Account investment portfolio are initially recognised at fair value of the consideration received and subsequently remeasured to fair value through profit and loss.

All borrowings are initially recognised at the fair value of the consideration received and at amortised cost subsequent to initial recognition using the effective interest rate method. The associated interest expense is recognised in the reporting period in which it occurs.

2.15 Taxation

The Territory Banking Account is not subject to income tax or income tax equivalents, but is subject to the Goods and Services Tax.

2.16 Budgetary Reporting – Explanations of Major Variances between Actual and Original Budget Amounts

Explanations of major variances between the 2015-16 original budget and the 30 June 2016 actual results are discussed in Note 12: 'Budgetary Reporting – Explanations of Major Variances between Actual and Original Budget Amounts'. The definition of 'major variances' is provided in Note 2.17: 'Significant Accounting Judgements and Estimates'.

2.17 Significant Accounting Judgements and Estimates

(a) Fair Value of Financial Instruments

When the fair values of financial assets and financial liabilities recorded in the Statement of Assets and Liabilities on Behalf of the Territory cannot be derived from active markets, their fair value is determined using a variety of valuation techniques that include the use of valuation models.

The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Changes in assumptions could affect the reported fair value of financial instruments in the Statement of Assets and Liabilities on Behalf of the Territory and the level where the financial instruments are disclosed in the Fair Value Hierarchy. The models are tested for validity by calibrating to prices from any observable current market transactions in the same instrument (without modification) when available.

The Territory Banking Account considers the valuation techniques and inputs used in valuing unlisted unit trust investments to ensure they are reasonable and appropriate prior to investing and therefore the Net Asset Value of these investments may be used as an input into measuring their fair value. In measuring this fair value the Net Asset Value of the investments is adjusted, as necessary, such as reflecting specific factors of the investment fund manager.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.17 Significant Accounting Judgements and Estimates - Continued

Interest-Bearing Liabilities
During the financial year a loan of $250 million was provided by the Commonwealth Government for the Loose Fill Asbestos Insulation Eradication Scheme. The transaction price reflects the fair value of the loan based on a level 2 valuation assessment. As there is no identical instrument available at measurement date which is quoted in an active market (level 1 input) to provide observable evidence of the fair value of the loan, the fair value of the loan was estimated by discounting future cash flows using rates currently available for a comparable instrument, making adjustments for factors specific to the Commonwealth loan. On the basis of this valuation, the fair value of the loan approximates the transaction price. Any difference between the fair value resulting from the level 2 valuation technique of the loan and the transaction price reflects the differing risk profile of the two instruments and estimation uncertainty.

This same judgement continues to be applied to the $750 million tranche of the Commonwealth Government loan for the Loose Fill Asbestos Insulation Eradication Scheme provided in 2014-15.

(a) Budgetary Reporting- Explanation of Major Variances between Actual and Original Budget Amounts
Significant judgements have been applied in determining what variances are considered as 'major variances' requiring explanations in Note 12: 'Budgetary Reporting - Explanation of Major Variances between Actual and Original Budget Amounts'. Variances are considered to be major variances if both of the following criteria are met:

(i) The line item is a significant line item: the line item actual amount accounts for more than 10% of the relevant associated category (Income, Expenses and Equity totals) or sub-element (e.g. Current Liabilities and Receipts from Operating Activities totals) of the financial statements; and
(ii) The variances (original budget to actual) are greater than plus (+) or minus (-) 10% of the budget for the financial statement line item.

2.18 Impact of Accounting Standards Issued but yet to be Applied

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

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

Standards not Early Adopted
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. Those relevant to the Territory Banking Account as outlined below are necessarily abbreviated and should be viewed in conjunction with the Australian Accounting Standard Board's website for the full assessment of its impact.

The Territory Banking Account does not expect a significant impact on the adoption of these standards. This assessment is based on an initial assessment at this date, but may change on further review. The Territory Banking Account intends to adopt all of the standards upon their application date.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.18 Impact of Accounting Standards Issued but yet to be Applied - Continued

(i) AASB 9 Financial Instruments (December 2014) (application date 1 January 2018);
This standard supersedes AASB 139 Financial Instruments: Recognition and Measurement. The main impact of AASB 9 is that it will change the classification, measurement and disclosures of Territory Banking Account financial assets.

(ii) AASB 15 Revenue from Contracts with Customers (application date 1 January 2018);
AASB 15 is the new standard for revenue recognition. It establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces AASB 118 Revenue.

(iii) AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 and 1038 and Interpretations 2, 5, 10, 12, 19 and 127] (application date 1 Jan 2018);
This standard makes consequential amendments to a number of standards and interpretations as a result of the issuing of AASB 9 in December 2010.

(iv) AASB 2014-1 Amendments to Australian Accounting Standards – Part E Financial Instruments [AASB 1, 3, 4, 5, 7 and 9 (December 2009), 9 (December 2010), 101, 102, 108, 112, 118, 120, 121, 132, 136, 137 and 139, Interpretations 2, 5,10, 12, 16, 19 and 107] (application date 1 January 2018);
Part E of this standard defers the application of AASB 9 to 1 January 2018.

(v) AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15 [AASB 1, 3, 4, 9 (December 2009) (December 2010), 101, 102, 112, 116, 132, 134, 137, 138, 139, 140, 1023, 1038, 1039, 1049, 1053 and 1056, Interpretations 12, 127, 132, 1031, 1038 and 1052] (application date 1 January 2018);
This standard makes consequential amendments to a number of standards and interpretations as a result of the issuing of AASB 15.

(vi) AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) [AASB 1, 2, 3, 4, 5, 7, 13, 101, 102, 108, 110, 112, 120, 121, 123, 128, 132, 133, 136, 137, 139, 1023, 1038 and 1049, Interpretations 2, 5, 10, 12, 16, 19 and 127] (application date 1 January 2018);
This standard makes consequential amendments to a number of standards and interpretations as a result the issuing of AASB 9 (December 2014).

(vii) AASB 2015-5 Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception [AASB 10, AASB 12 and AASB 128] (application date 1 January 2016);
This standard makes amendments to confirm that the exemption from preparing consolidated financial statements set out in AASB 10 is available to a parent entity that is a subsidiary of an investment entity; clarifies the applicability of AASB 12 to the financial statements of an investment entity; and introduces relief in AASB 128 to permit a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

(viii) AASB 2015-6 Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not for- Profit Public Sector Entities [AASB 10, 124 and 1049] (application date 1 July 2016);
This standard extends the scope of AASB 124 Related Party Transactions to the not-for-profit sector and updates AASB 124 to include implementation guidance (including illustrative examples) to assist not-for-profit entities to apply the new requirements.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.18 Impact of Accounting Standards Issued but yet to be Applied - Continued

(ix) AASB 2015-8 Amendments to Australian Accounting Standards – Effective date of AASB 15 (application date 1 January 2017);
This standard defers the application date of AASB 15 Revenue from Contracts with Customers to 1 January 2018.

(x) AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 (application date 1 January 2017); and
This standard amends AASB 107 Statement of Cash Flows to require agencies preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This standard relates to disclosure only.

(xi) AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15 (application date 1 January 2018).
This standard clarifies the existing requirements of AASB 15.

NOTE 3 CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES

There were no changes in accounting policies and estimates for the Territory Banking Account for the year ended 30 June 2016.

NOTE 4 FINANCIAL RISK MANAGEMENT

CMTEDD provides services to the Government including financial asset and liability management through the establishment of investment and borrowing policies and objectives, and the coordination and implementation of cash management, investment and borrowing activities. CMTEDD, through the Territory Banking Account, recognises and manages the general government's investment assets and debt liabilities.

The Territory Banking Account is exposed to financial risks arising from its activities comprising market risk (interest rate risk, price risk), credit risk and liquidity risk. These risks are managed within a financial risk management framework that includes strategic directions from the Treasurer and policies and limits approved by the Under Treasurer and overseen by CMTEDD. The Investment Advisory Board and asset consultant's advice is considered along with all other available information by CMTEDD when formulating investment policy positions and recommendations.

CMTEDD does not undertake investment management in-house. Investments are managed by the engagement of investment managers under an investment management agreement. The individual investment management agreements prescribe the allowable investments that may be entered into in accordance with the *Financial Management Act 1996* and *Financial Management Investment Guidelines 2015.* CMTEDD, in conjunction with the asset consultant, monitors the performance of the investment managers of their obligations and ensures that investment managers comply with their obligations. The appointed master custodian performs investment mandate and derivatives usage monitoring in accordance with these guidelines, with any exceptions reported, investigated and resolved.

The Territory Banking Account asset allocation comprises investments across domestic money and debt capital markets and derivatives. Derivatives are prescribed investments and an essential part of the investment and risk management process and may be used for the following purposes: protecting the value, or limiting changes in value, of an investment of the investment portfolio; protecting the return on an investment of the investment portfolio; and achieving best execution and transactional efficiency in implementing an investment strategy, achieving an investment or market exposure, or in adjusting an investment strategy, investment or market exposure.

CMTEDD is responsible for the overall setting, identification and control of financial risks undertaken in the management of the investment portfolio of the Territory Banking Account. This is done in part by the setting of limits for trading in derivatives, hedging cover of interest rate risk, credit allowances, and future cash flow forecast projections. The investment guidelines, including allowable investments and any limitations, are represented, as relevant, in the investment management agreements or trust deeds established with each contracted investment fund manager.

The Territory Banking Account financial liabilities comprise borrowings funded by promissory notes, fixed rate nominal bonds, inflation linked bonds, Commonwealth Government loans and ACT Government agency investment deposits.

The Government's debt funding requirements are mainly achieved by the issuance of debt securities in the financial capital markets, with debt instruments issued from a domestic debt issuance program. Debt management objectives include: establishing bond lines of select debt maturity and volume (around $500 million); maximising investor diversification; minimising refinancing risk; and managing the Government's funding and liquidity requirements. The debt funding program is supplemented with some loans from the Commonwealth Government.

The main risks resulting from the financial instruments used in the management of the Territory Banking Account's assets and liabilities are discussed in Notes 4.1 to 4.3 on the following pages.

Details of the significant accounting policies for these financial assets and liabilities are disclosed in Note 2: 'Significant Accounting Policies'.

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.1 Market Risk

(a) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial market instrument will fluctuate because of changes in prevailing levels of market interest rates. The Territory Banking Account is exposed to interest rate risk on its variable interest rates and fixed interest rates financial instruments which are remeasured to fair value. Sensitivity analysis as at reporting date is performed on cash at bank, debt securities held in the Cash Enhanced Portfolio and the corresponding liabilities owing to ACT Government agencies, variable rate loans provided to other ACT Government agencies and the Territory Banking Account short term variable rate borrowings. Sensitivity analysis to interest rate instruments (indirectly held through pooled unit trusts) are considered in Note 4.1(b): 'Price Risk and Inflation Risk'.

The table below summarises the Territory Banking Account's main exposure to interest rate risk.

30 June 2016	**Fixed Rate Instruments**		**Variable Rate Instruments**	
	2016	**2015**	**2016**	**2015**
	$'000	**$'000**	**$'000**	**$'000**
Financial Assets	197,579	221,286	1,254,016	1,297,567
Financial Liabilities	148,855	165,840	722,086	859,999
Net Exposure before the effect of Derivatives	**48,724**	**55,446**	**531,930**	**437,568**

Interest rate risk is measured by the duration of the investment portfolios which approximates the change in portfolio valuation from a percentage change in market interest rates. As at reporting date, the Territory Banking Account has positions in interest rate derivatives contracts to manage exposure to interest rate risk. Exposures to interest rate risk is limited to acceptable duration thresholds stipulated within the investment management agreements and monitored for compliance by the Territory's master custodian on a weekly basis.

The following table demonstrates the 'reasonably possible' impact on profit or loss and the impact on equity over the next 12 months if interest rates change by -/+ 1.0 per cent from the year-end official cash interest rate of 1.75% (2015: 2.00%) with all other variables held constant. The sensitivity calculation is based on the net exposure to interest rates after taking into account the effect of derivatives, parallel shifts in the yield curve and ignoring the effects on credit risk.

30 June 2016	**Fixed Rate Instruments**		**Variable Rate Instruments**	
	+1.0% Profit/(Loss) and Equity Impact	**-1.0% Profit/(Loss) and Equity Impact**	**+1.0% Profit/(Loss) and Equity Impact**	**-1.0% Profit/(Loss) and Equity Impact**
	$'000	**$'000**	**$'000**	**$'000**
Financial Assets	(1,976)	1,976	12,540	(12,540)
Financial Liabilities	(1,489)	1,489	7,221	(7,221)
Net (Decrease)/Increase	**(487)**	**487**	**5,319**	**(5,319)**

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.1 Market Risk - Continued

(a) Interest Rate Risk - Continued

30 June 2015	Fixed Rate Instruments		Variable Rate Instruments	
	+1.0% Profit/(Loss) and Equity Impact	-1.0% Profit/(Loss) and Equity Impact	+1.0% Profit/(Loss) and Equity Impact	-1.0% Profit/(Loss) and Equity Impact
	$'000	$'000	$'000	$'000
Financial Assets	(2,213)	2,213	12,372	(12,372)
Financial Liabilities	(1,658)	1,658	7,006	(7,006)
Net (Decrease)/Increase	**(555)**	**555**	**5,366**	**(5,366)**

(b) Price Risk and Inflation Risk

Price risk is the risk that the fair value of a financial investment will change as a result of changes in the market prices (other than those arising from interest rate risk) in the relevant indices levels and the prices of the individual holdings. The Territory Banking Account is exposed to price risk from the exposure to fixed interest investments (the unitised pooled cash and fixed income trusts) which are exposed to changes in unit prices.

The table below summarises the main exposure to price risk.

	Note No.	Exposure to Unit Prices 2016 $'000	2015 $'000
Cash and Fixed Income – Unit Trusts	7.3	247,872	287,967
Total Exposure		**247,872**	**287,967**

Inflation risk is the risk that future cash flows on an inflation linked instrument may fluctuate due to changes in inflation rates. Inflation risk arises from inflation indexed bonds which are exposed to inflation rates. The exposure to inflation risk has a direct impact on the Statement of Income and Expenses on Behalf of the Territory.

At 30 June, the exposure to inflation risk was as follows:

	Exposure to Inflation 2016 $'000	2015 $'000
Financial Assets (Inflation Linked Bonds)	800,785	819,300
Financial Liabilities (Inflation Linked Bonds)	799,512	817,927
Net Exposure	**1,272**	**1,373**

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.1 Market Risk – Continued

(b) Price Risk and Inflation Risk - Continued

To manage exposures to the price risk of pooled unit trusts for cash and fixed interest, investments are diversified geographically, across cash, money and capital markets in short-term debt (maturity less than twelve months) and fixed interest bonds (maturity greater than twelve months).

The investment management agreements and the pooled trust product disclosure statement set out the maximum allowable limits by issuer, ratings and duration to ensure sufficient diversification occurs within the individual investment portfolios.

Thresholds included in the investment management agreements are monitored for compliance by the Territory's master custodian on a weekly basis.

The following table summarises the 'reasonably possible' impact on profit or loss and the impact on equity over the next 12 months if price risk changes by the volatility factors from the target benchmarks with all other variables held constant.

30 June 2016	**% Increase in Index**		**% Decrease in Index**	
	Profit/(Loss) Impact $'000	**Equity Impact $'000**	**Profit/(Loss) Impact $'000**	**Equity Impact $'000**
Investment Assets				
Fixed Income (+/- 6%)	14,800	14,800	(14,800)	(14,800)
Inflation Rate (+/- 1%)	360	360	57	57
Total Increase/(Decrease)	**15,159**	**15,159**	**(14,737)**	**(14,737)**

30 June 2015	**% Increase in Index**		**% Decrease in Index**	
	Profit/(Loss) Impact $'000	**Equity Impact $'000**	**Profit/(Loss) Impact $'000**	**Equity Impact $'000**
Investment Assets				
Fixed Income (+/- 5%)	6,663	6,663	(6,663)	(6,663)
Inflation Rate (+/- 1%)	394	394	0	0
Total Increase/(Decrease)	**7,057**	**7,057**	**(6,663)**	**(6,663)**

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.2 Credit Risk

Credit risk is the risk that a counterparty to a financial instrument fails to discharge its contractual obligations or from losses arising from the change in the value of a traded instrument as a result of changes in the credit risk on that instrument. Financial arrangements in respect of the business conducted through the Territory Banking Account are such that the more significant credit risk will arise with those financial assets and liabilities involving external parties (non-ACT Government agencies).

The maximum exposure to credit risk is limited to the carrying amount of the cash and cash equivalents, receivables and investments of Territory Banking Account. The main concentration of credit risk arises from the Territory Banking Account investment in the fixed income (debt) securities. For the purposes of sensitivity analysis, exposure to credit risk is performed on the units and the securities held by the Territory Banking Account as at reporting date. The following table details the credit risk exposure as at reporting date.

30 June 2016	**Credit Quality of Fixed Income Rated Instruments**				
	AAA	**AA**	**A**	**BBB**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Directly Held					
Cash Enhanced Fund	355,809	219,416	492,044	43,242	**1,110,511**
Indirectly Held					
Unit Trust (Debt Instruments)	181,789	49,332	12,346	4,440	**247,908**
Total	**537,598**	**268,748**	**504,390**	**47,682**	**1,358,419**

30 June 2015	**Credit Quality of Fixed Income Rated Instruments**				
	AAA	**AA**	**A**	**BBB**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Directly Held					
Cash Enhanced Fund	303,991	103,281	577,545	14,489	**999,306**
Indirectly Held					
Unit Trust (Debt Instruments)	96,230	26,827	162,241	2,669	**287,967**
Total	**400,221**	**130,108**	**739,786**	**17,158**	**1,287,273**

Financial dealings are only undertaken with other ACT Government agencies or appropriately rated counterparties as detailed within each individual investment management contract established with the external investment managers in accordance with the *Financial Management Guidelines 2015.*

Appointed managers of investments are required to ensure: credit quality within the manager's portfolio is within agreed guidelines; the exposure to different tiers of credit are within agreed guidelines; the maximum permitted exposure to any one issuer is within agreed guidelines; and the long-term debt of all entities in which the manager invests is either rated by an approved rating agency or, if it is not rated, is limited to the maximum permitted exposure to such debt. Exposures are to remain within approved exposure limits based on the credit ratings of financial instruments and counterparties set out within the strategy, objectives and constraints permitted by individual investment management agreements or trust deeds as relevant, as agreed by CMTEDD.

The maximum exposure to credit risk before any credit enhancements at the end of each reporting period is the carrying amount of the Territory Banking Account financial investment assets. None of these assets are impaired (nil: 30 June 2015).

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.3 Liquidity Risk

Liquidity risk is the risk that the Territory Banking Account is unable to meet its financial obligations as they fall due.

CMTEDD's objective for the Territory Banking Account is to maintain sufficient cash and short-term investments to ensure that the Government can meet its financial obligations as and when they fall due. CMTEDD, through the Territory Banking Account, manages this risk by only investing in an adequate amount of high grade securities that fall within the limitations set out in the investment guidelines and transacting with reputable counterparties. The investments of the Territory Banking Account are made in liquid markets and are readily redeemable if required. The Territory Banking Account is the end recipient of the majority of all Territorial revenues such as taxes, fees, fines and Commonwealth Government funding.

CMTEDD is able to access the Territory's borrowing program for which there is capacity to seek short or long term funding as required. Forecasts of future cash flows and borrowing maturities are maintained to ensure that there is sufficient funding available for any required settlements. Accordingly, the Territory Banking Account will have sufficient cash to meet the expenditure allocations as set out in the Territory Budget.

Analysis of Financial Liabilities based on Management Expectations
The risk implied from the values shown in the table below shows contracted cash outflows from payables and other financial liabilities and is a reflection of ongoing business operations of the Territory Banking Account. The table below reflects all contractual repayments of principal and interest resulting from recognised financial liabilities and expected settlement of financial liabilities. The amounts disclosed represent undiscounted cash flows for the respective obligations and expectations in respect of upcoming fiscal years.

30 June 2016	**Less than 3 Months**	**3 Months to Less than 1 Year**	**1 Year to Less than 5 Years**	**Greater than 5 Years**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Non Derivatives					
Payables	66,155	0	0	0	**66,155**
Interest-Bearing Liabilities	14,435	189,398	2,134,961	3,880,888	**6,219,682**
Total Non Derivatives	**80,590**	**189,398**	**2,134,961**	**3,880,888**	**6,285,837**
Derivatives					
Net Settled (Swaps, Futures)	100	0	832	0	**932**
Total Derivatives	**0**	**0**	**832**	**0**	**932**

30 June 2015	**Less than 3 Months**	**3 Months to Less than 1 Year**	**1 Year to Less than 5 Years**	**Greater than 5 Years**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Non Derivatives					
Payables	35,847	0	0	0	**35,847**
Interest-Bearing Liabilities	113,288	224,196	1,882,832	2,853,593	**5,073,909**
Total Non Derivatives	**149,135**	**244,196**	**1,888,832**	**2,853,593**	**5,109,756**
Derivatives					
Net Settled (Swaps, Futures)	220	662	2,723	0	**3,605**
Total Derivatives	**220**	**662**	**2,723**	**0**	**3,605**

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.4 Fair Value of Financial Assets and Liabilities

In preparing these financial statements, the carrying amount of financial assets and financial liabilities recorded in the financial statements are considered to be a fair approximation of their fair values except for certain items within class of assets and liabilities highlighted in the following tables. Disclosure of the basis of determination of the fair values has been provided in each accounting policy note where relevant.

As provided in Note 2.10: 'Loans and Receivables' and Note 2.14: 'Interest-Bearing Liabilities' these classes of assets and liabilities are held to maturity. These classes of assets and liabilities are initially measured at fair value and subsequently re-measured at amortised cost using the effective interest method. Fair value for these classes of assets and liabilities has been determined in reference to published price quotations in active markets (nominal fixed rate notes and indexed annuity bonds) and in non-active markets (fixed rate or historical Commonwealth loans) using discounted cash flow analysis valuation, applying prevailing discount rates of issuing entities with similar credit quality and duration profiles.

		2016		2015	
	Note No.	Carrying Amount $'000	Fair Value $'000	Carrying Amount $'000	Fair Value $'000
Financial Assets					
Loans and Receivables	7.2	2,099,094	2,374,434	1,894,158	2,119,799
Financial Liabilities					
Interest-Bearing Liabilities	8.2	5,594,569	6,113,387	4,994,156	5,309,728

(a) Fair Value Measurements Recognised in the Statement of Assets and Liabilities on Behalf of the Territory

The table below provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable considering the lowest level input that is significant to the fair value measurement as a whole.

(i) Level 1 – Fair Value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
(ii) Level 2 – Fair value measurements are those derived from 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); or
(iii) Level 3 – Fair value measurement are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For the purposes of presenting the Fair Value Hierarchy, analysis is performed on the units and the securities held by the Territory Banking Account as at reporting date.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.4 Fair Value of Financial Assets and Liabilities – Continued

(b) Recurring Fair Value Measurement of Assets and Liabilities

30 June 2016	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial Assets and Liabilities Measured at Fair Value				
Financial Assets				
Investments Directly Held				
Cash Enhanced Fund	243,172	867,339	0	**1,110,511**
Investments Indirectly Held				
Unit Trust - Cash	0	1,000	0	**1,000**
Unit Trust – Fixed Income	0	246,661	0	**246,661**
Financial Liabilities				
Investments Directly Held				
Financial Derivatives	100	832	0	**932**
Financial Assets and Liabilities for which Fair Values are Disclosed				
Financial Assets				
Loans and Receivables	0	1,813,980	0	**1,813,980**
Financial Liabilities				
Interest-Bearing Liabilities	0	5,070,625	0	**5,070,625**
Net Assets	**243,072**	**(2,142,477)**	**0**	**(1,899,405)**

30 June 2015	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial Assets and Liabilities Measured at Fair Value				
Financial Assets				
Investments Directly Held				
Cash Enhanced Fund	373,661	627,228	0	**1,000,889**
Investments Indirectly Held				
Unit Trust - Cash	0	154,500	0	**154,500**
Unit Trust – Fixed Income	0	133,257	0	**133,257**
Financial Liabilities				
Investments Directly Held				
Financial Derivatives	67	3,538	0	**3,605**
Financial Assets and Liabilities for which Fair Values are Disclosed				
Financial Assets				
Loans and Receivables	0	1,658,951	0	**1,658,951**
Financial Liabilities				
Interest-Bearing Liabilities	0	4,120,200	0	**4,120,200**
Net Assets	**373,594**	**(1,549,802)**	**0**	**(1,176,208)**

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.4 Fair Value of Financial Assets and Liabilities - Continued

(b) Recurring Fair Value Measurement of Assets and Liabilities - Continued

Transfers between Levels 1 and 2
There were no significant transfers between Level 1 and Level 2 during the year.

(c) Valuation Techniques and Inputs

Quoted market price represents the fair value determined based on quoted prices on active markets for identical assets as at the reporting date without any deduction for transaction costs.

The investments in unlisted unit trusts includes domestic cash and fixed income which are not quoted in an active market and which may be subject to restrictions on redemptions.

Fair values of these investments are determined by using valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs. The investment manager considers the valuation techniques and inputs used in valuing these units as part of its due diligence prior to investing, to ensure they are reasonable and appropriate and therefore the Net Asset Value of these units may be used as an input into measuring their fair value. In measuring this fair value, the Net Asset Value of the funds is adjusted, as necessary, to reflect restrictions on redemptions, future commitments, and other specific factors of the units trust and fund manager. Depending on the nature and level of adjustments needed to the Net Asset Value and the level of trading in the unit trusts, these investments are classified as Level 2.

Fixed income securities are priced daily with reference to the quoted bid price for the securities in the relevant active market. Investments in this asset class are made through unlisted unit trusts that are priced daily with distributions received quarterly. The fair values of fixed interest security units are classified as Level 2.

The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non optional derivatives, and option pricing models for optional derivatives. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. Financial derivatives are classified as either Level 1 or Level 2.

Fair value for loans and receivables and interest bearing liabilities has been determined by reference to published price quotations in active markets and applying the appropriate valuation technique for the instrument including observable market pricing and discounted cash flow methodology. The non-performance risk as at 30 June 2016 was assessed to be insignificant.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 4 FINANCIAL RISK MANAGEMENT – CONTINUED

4.5 Categorisation of Financial Assets and Liabilities

The accounting classification of each category of financial instruments, for the Territory Banking Account, for the years ended 30 June 2016 and 30 June 2015 is as follows:

30 June 2016	**Note No.**	**Loans and Receivables $'000**	**Financial Assets at FVTPL Designated $'000**	**Financial Assets at FVTPL Held for Trading $'000**	**Financial Liabilities at Amortised Cost $'000**	**Total Carrying Amount $'000**
Financial Assets						
Loans and Receivable	7.2	2,099,094	0	0	0	**2,099,094**
Financial Assets at FVTPL						
Directly Held						
Cash Enhanced Fund	7.3	0	1,139,670	932	0	**1,140,602**
Indirectly Held						
Cash Fund Unit Trust	7.3	0	1,001	0	0	**1,001**
Fixed Income Unit Trust	7.3	0	246,872	0	0	**246,872**
Financial Liabilities						
Payables	8.1	0	0	0	40,384	**40,384**
Interest-Bearing Liabilities	8.2	0	0	0	5,594,569	**5,594,569**

30 June 2015	**Note No.**	**Loans and Receivables $'000**	**Financial Assets at FVTPL Designated $'000**	**Financial Assets at FVTPL Held for Trading $'000**	**Financial Liabilities at Amortised Cost $'000**	**Total Carrying Amount $'000**
Financial Assets						
Loans and Receivable	7.2	1,894,158	0	0	0	**1,894,158**
Financial Assets at FVTPL						
Directly Held						
Cash Enhanced Fund	7.3	0	1,147,960	0	0	**1,147,960**
Indirectly Held						
Cash Fund Unit Trust	7.3	0	154,500	0	0	**154,500**
Fixed Income Unit Trust	7.3	0	133,467	0	0	**133,467**
Financial Liabilities						
Payables	8.1	0	0	0	29,901	**29,901**
Interest-Bearing Liabilities	8.2	0	0	0	4,994,156	**4,994,156**

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 5 INCOME ADMINISTERED ON BEHALF OF THE TERRITORY

5.1 Payment for Expenses on Behalf of the Territory

	2016 $'000	2015 $'000
Payment for Expenses on Behalf of the Territory[1]	0	79,869
Total Payment for Expenses on Behalf of the Territory	**0**	**79,869**

[1] This appropriation has been discontinued from 2015-16. Refer to the Territorial Statement of Appropriation for details.

5.2 Interest

5.2.1 Interest from Investments

	2016 $'000	2015 $'000
On Investments Directly Held[2]	28,629	31,746
On Investments Indirectly Held	1	2
Cash at Bank[3]	13,670	12,644
Total Interest from Investments	**42,300**	**44,392**

[2] Investments directly held represent assets directly owned and held through a discretely managed fund. Investment interest revenue was lower in 2015-16 due mainly to lower investment returns on lower investment balances during the financial year.
[3] Represents interest for ACT Government agencies transactional bank account balances from Westpac Banking Corporation. The increase in 2016 is due to higher levels of cash being retained in transactional banking accounts during the year.

5.2.2 Interest from Loans and Advances

	2016 $'000	2015 $'000
ACTION	343	386
Chief Minister, Treasury and Economic Development Directorate	1,524	1,747
Icon Water Limited[4]	70,846	70,592
University of Canberra[5]	820	2,830
Total Interest from Loans and Advances	**73,533**	**75,555**

[4] The increase in 2015-16 from 2014-15 is due to higher outstanding loan balance offset by impact from lower consumer price index on the inflation-linked loans provided to Icon Water Limited.
[5] The decrease in 2015-16 from 2014-15 is due to a lower outstanding loan balance following the early repayment of loans.

	2016 $'000	2015 $'000
Total Interest	**115,832**	**119,947**

5.3 Distributions

	2016 $'000	2015 $'000
On Investments Indirectly Held	14,632	9,452
Total Distributions[6]	**14,632**	**9,452**

[6] The amount of distribution revenue received in any financial year is determined by a number of factors including the levels of investment held in unit trusts and the level of distributable income available for the period. The increase in 2015-16 reflects higher investment returns on higher levels of investment impacting the amount of distribution earned.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 5 INCOME ADMINISTERED ON BEHALF OF THE TERRITORY - CONTINUED

5.4 Gains on Investments at Fair Value through Profit or Loss

5.4.1 Realised Gains

	2016 $'000	2015 $'000
On Investments Directly Held	4,499	1,622
Total Realised Gains[7]	**4,499**	**1,622**

[7] The variance in realised gains from year to year reflects the trading activity of the investment managers and the individual asset class market returns achieved over the financial year.

5.4.2 Unrealised Gains

	2016 $'000	2015 $'000
On Investments Directly Held	0	2,507
On Investments Indirectly Held	3,036	1,755
Total Unrealised Gains[8]	**3,036**	**4,262**

[8] The variance in unrealised gains from year to year reflects the trading activity of the investment managers and the individual asset class market returns achieved over the financial year.

	2016 $'000	2015 $'000
Total Gains on Investments at FVTPL	**7,535**	**5,884**

5.5 Transfers from ACT Government Agencies

	2016 $'000	2015 $'000
ACT Gambling and Racing Commission	53,369	58,730
Chief Minister, Treasury and Economic Development Directorate[10]	3,551,632	3,077,372
Commerce and Works Directorate[10]	0	230,403
Education Directorate	0	3
Environment and Planning Directorate	19,939	44,348
Health Directorate	1,587	1,267
Justice and Community Safety Directorate	9,169	99,686
Territory and Municipal Services Directorate	157,488	64,408
Total Transfers from ACT Government Agencies[9]	**3,793,183**	**3,576,217**

[9] Transfer revenue represents the revenues collected by agencies on behalf of the Territory and then transferred to the Territory Banking Account. This revenue includes taxes, fees, fines and Commonwealth funding. Variations are driven by agency activity and are explained in the 2015-16 financial statements of each agency.

[10] As a result of the *Administrative Arrangements 2014 (No.1)* of 7 July 2014, Commerce and Works Directorate was amalgamated with the Chief Minister, Treasury and Economic Development Directorate.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 5 INCOME ADMINISTERED ON BEHALF OF THE TERRITORY - CONTINUED

5.6 Other Income

5.6.1 Employer Superannuation Contributions

	2016 $'000	2015 $'000
Employer Superannuation Contributions	137,640	137,390
Total Employer Superannuation Contributions[11]	**137,640**	**137,390**

[11] Employer Superannuation Contributions represent notional employer contributions made by ACT Government agencies and ActewAGL for employees with membership of the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme, as well as notional employer and employee contributions in respect of the Members of the Legislative Assembly separate defined benefit scheme. Variations are driven by agency activity.

5.6.2 Investment Fee Rebates

On Investments Indirectly Held (Designated)	369	253
Total Investment Fee Rebates[12]	**369**	**253**

[12] Represents investment management fee rebates received from the fixed income unit trust in accordance with the terms of the investment management agreement.

5.6.3 Other

Other Revenue	1,298	3,499
Total Other[13]	**1,298**	**3,499**

[13] Includes money declared unclaimed in accordance with section 53A of the FMA and unclaimed money revenue from the Public Trustee and Guardian.

Total Other Income	**139,307**	**141,142**
Total Income	**4,070,490**	**3,932,511**

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 6 EXPENSES ADMINISTERED ON BEHALF OF THE TERRITORY

6.1 Payments to ACT Government Agencies

6.1.1 Government Payment for Outputs

	2016 $'000	2015 $'000
Auditor-General	2,759	2,701
ACT Gambling and Racing Commission	4,726	4,614
ACT Local Hospital Network	601,790	567,279
Canberra Institute of Technology	69,157	68,520
Capital Metro Agency	7,525	23,535
Chief Minister, Treasury and Economic Development Directorate[15]	410,779	481,951
Community Services Directorate	251,972	244,172
Cultural Facilities Corporation	8,378	8,245
Economic Development Directorate[15]	0	4,129
Education Directorate	626,616	591,010
Electoral Commissioner	2,872	2,387
Environment and Planning Directorate	49,842	63,218
Exhibition Park Corporation[15]	0	445
Health Directorate	272,366	252,617
Housing ACT	43,453	43,359
Icon Water Limited	11,401	11,123
Independent Competition and Regulatory Commission	260	534
Justice and Community Safety Directorate	249,458	253,622
Legal Aid Commission (ACT)	10,446	10,732
Office of the Legislative Assembly	8,221	7,641
Public Trustee and Guardian	1,120	1,063
Territory and Municipal Services Directorate	328,651	318,687
Total Government Payment for Outputs[14]	**2,961,792**	**2,961,583**

6.1.2 Payments for Expenses on Behalf of the Territory

	2016 $'000	2015 $'000
ACT Executive	9,120	8,223
Chief Minister, Treasury and Economic Development Directorate[15]	71,191	75,705
Commerce and Works Directorate[15]	0	272
Community Services Directorate	0	(5,298)
Economic Development Directorate[15]	0	3,850
Education Directorate	260,174	250,015
Environment and Planning Directorate	1,989	1,868
Health Directorate	1,213	6,684
Justice and Community Safety Directorate	161,542	162,333
Office of the Legislative Assembly	6,458	5,659
Territory Banking Account	0	79,869
Total Payments for Expenses on Behalf of the Territory[14]	**511,687**	**589,180**

NOTE 6 EXPENSES ADMINISTERED ON BEHALF OF THE TERRITORY - CONTINUED

6.1.3 Capital Injections

	2016 $'000	2015 $'000
Auditor-General	0	67
ACT Executive	0	264
ACT Gambling and Racing Commission	0	127
Canberra Institute of Technology	9,397	6,134
Capital Metro Agency	13,163	96
Chief Minister, Treasury and Economic Development Directorate[15]	351,979	381,184
Commerce and Works Directorate[15]	0	33,845
Community Services Directorate	1,512	4,269
Cultural Facilities Corporation	3,377	2,012
Economic Development Directorate[15]	0	233
Education Directorate	48,315	90,329
Electoral Commissioner	331	111
Environment and Planning Directorate	7,768	6,737
Exhibition Park Corporation[15]	0	741
Health Directorate	138,299	74,041
Housing ACT	13,975	24,480
Justice and Community Safety Directorate	49,599	53,050
Legal Aid Commission (ACT)	0	234
Office of the Legislative Assembly	6,884	926
Superannuation Provision Account	211,146	198,209
Territory and Municipal Services Directorate	128,324	175,160
Territory Banking Account	0	214
Total Capital Injections[14]	**984,068**	**1,052,463**
Total Payments for Expenses to ACT Government Agencies	**4,457,547**	**4,603,227**

[14] Government Payments for outputs, Payments for expenses on Behalf of the Territory and Capital Injections are the transfer of appropriated monies to ACT Government agencies from the Territory Banking Account. Variations are driven by agency activity and are explained in the 2015-16 financial statements of each agency.

[15] Following the *Administrative Arrangements 2014 (No.1)* of 7 July 2014 the Economic Development Directorate and Commerce and Works Directorate was amalgamated with the Chief Minister, Treasury and Economic Development Directorate. As notified on 3 December 2014, the *Exhibition Park Corporation Repeal Act 2014* resulted in the integration of the functions, staff, assets and liabilities of Exhibition Park Corporation into Chief Minister, Treasury and Economic Development Directorate.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 6 EXPENSES ADMINISTERED ON BEHALF OF THE TERRITORY - CONTINUED

6.2 Interest Expense

	2016 $'000	2015 $'000
Promissory Notes[16]	4,634	3,313
Inflation-Linked Bonds[17]	38,373	39,486
Fixed Rate Nominal Bonds[18]	100,095	99,002
ACT Government Agencies Investment Deposit Earnings[19]	34,503	35,228
Commonwealth Loan[20]	30,717	8,817
Total Interest Expenses	**208,322**	**185,846**

[16] The higher borrowing cost in 2015-16 is due to a higher average amount of borrowings outstanding during the year compared with the previous year.
[17] The lower borrowing cost in 2015-16 is due to a lower impact from changes in the consumer price index on the inflation-linked bonds as well as a lower amount of borrowings outstanding.
[18] The higher borrowing cost in 2015-16 is due to higher average amount of borrowings outstanding.
[19] The lower payments in 2015-16 is due to lower investment returns on deposits compared with 2014-15.
[20] The actual outcome in 2015-16 is higher than in 2014-15 due to higher levels of loans outstanding with the receipt of the second tranche ($250m) of the $1 billion Commonwealth loan for the Loose Fill Asbestos Insulation Eradication Scheme and a full year's interest charged on the first tranche of the loan.

6.3 Losses on Investments at Fair Value through Profit or Loss

On Investments Directly Held (Designated)	2,240	0
On Investments Indirectly Held (Designated)	0	428
Total Losses on Investments at FVTPL[21]	**2,240**	**428**

[21] The variance in losses from year to year reflects the trading activity of the investment managers and the individual asset class market returns achieved over the financial year.

6.4 Investment Administration Expenses

Investment Management Services	676	609
Master Custody Investment Administration	152	323
Total Investment Administration Expenses[22]	**829**	**932**

[22] Investment Manager Fees are fees paid to fund managers for the management of the Territory Banking Account Investment assets. Master Custody Fees are fees paid to a master custodian for holding assets and maintaining the portfolio and accounting records for each investment manager.

6.5 Other Expenses

Other Expenses	443	79
Total Other Expenses[23]	**443**	**79**

[23] The variance from the 2014-15 year is mainly attributed to dealer fees incurred as a result of a new long-term market borrowing transactions completed during the year.

Total Expenses	**4,669,380**	**4,790,512**

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 7 ASSETS ADMINISTERED ON BEHALF OF THE TERRITORY

7.1 Cash

	2016 $'000	2015 $'000
Cash Held at Bank	227,460	234,331
Total Cash[24]	**227,460**	**234,331**

[24] Actual result reflects operational and liquidity needs as well as timing of end-of-year cash flow transactions.

7.2 Loans and Receivables
7.2.1 Current – Transfer Revenue Receivable from ACT Government Agencies

ACT Gambling and Racing Commission	5,191	3,971
Chief Minister, Treasury and Economic Development Directorate	368,745	252,395
Environment and Planning Directorate	3,883	2,644
Justice and Community Safety Directorate	2,937	3,047
Land Development Agency	14,193	8,858
Territory and Municipal Services Directorate	59,491	3,112
Total Current Transfers Revenue Receivable[25]	**454,440**	**274,027**

[25] Variations are driven by agency activity and are explained in the 2015-16 financial statements of agencies.

7.2.2 Current – Loan Interest Receivable from ACT Government Agencies

Chief Minister, Treasury and Economic Development Directorate[26]	0	372
Icon Water Limited	4,922	5,269
University of Canberra[27]	0	455
Total Current Loan Interest Receivable	**4,922**	**6,096**

[26] Current year result is nil because CMTEDD paid the interest owed at 30 June 2016 prior to the end of the financial year.
[27] The University of Canberra paid its outstanding loans in full during the year.

7.2.3 Current – Investment Interest Receivable

Cash, Cash Enhanced and Fixed Income Funds[28]	31,476	19,347
Total Current Investment Interest Receivable	**31,476**	**19,347**

[28] The increase from the previous year reflects higher distributable income as at year end.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 7 ASSETS ADMINISTERED ON BEHALF OF THE TERRITORY - CONTINUED

7.2.4 Current – Loans Receivable from ACT Government Agencies

	2016 $'000	2015 $'000
ACTION	341	341
Chief Minister, Treasury and Economic Development Directorate	51	0
Icon Water Limited[29]	23,261	91,280
University of Canberra[30]	0	1,244
Total Current Loans Receivable	**23,653**	**92,865**

[29] Icon Water Limited paid its outstanding short-term loans in full during the year.
[30] The University of Canberra paid its outstanding loans in full during the year.

7.2.5 Current – Other Receivable

Australian Taxation Office (Goods and Services Tax)	5	15
Total Current Other Receivable	**5**	**15**
Total Current Loans and Receivables	**514,496**	**392,350**

7.2.6 Non-Current – Loans Receivable from ACT Government Agencies

ACTION	2,045	2,386
Chief Minister, Treasury and Economic Development Directorate[31]	69,561	69,612
Icon Water[32]	1,512,922	1,399,646
University of Canberra[33]	0	30,164
Total Non-Current Loans Receivable	**1,584,598**	**1,501,808**

[31] Comprises of loans related to Community Housing Canberra and the former Exhibition Park Corporation. Refer 2015-16 Budget Paper 3, Appendix N.
[32] Loans to Icon Water comprise promissory notes, fixed rate nominal bonds and inflation-linked bonds. The increase in 2015-16 from 2014-15 reflects a new long term borrowing provided during the financial year.
[33] The University of Canberra paid its outstanding loans in full during the year.

Total Loans and Receivables[34]	**2,099,094**	**1,894,158**

[34] The Territory Banking Account does not hold any collateral for the above financial instruments. The risk of the loans and interest not being received is considered low as the loans are with ACT Government related agencies.

NOTE 7 ASSETS ADMINISTERED ON BEHALF OF THE TERRITORY - CONTINUED

7.3 Investments

(a) Investment Summary

The following provides the investment summary of the Territory Banking Account as at the balance date. The investment summary comprise a group of financial assets (including restricted cash) and financial liabilities that is risk managed, and its performance is evaluated on a net basis in accordance with the Territory Banking Account's investment strategy. All investments are designated at Fair Value through Profit and Loss. Derivatives are held-for-trading.

Investment Summary[35]	**2016 $'000**	**2015 $'000**
Financial Assets at Fair Value:		
Discount Securities	243,172	373,662
Fixed Income Securities	1,115,000	914,984
Unit Trust		
Financial Liabilities at Fair Value		
Derivatives	932	3,605
	1,357,240	**1,285,041**
Other Financial Instruments at Balance Date		
Cash, Receivables and Other Assets	56,646	171,156
Payables	25,412	20,270
	31,234	**150,886**
Net Financial Investments	**1,388,475**	**1,435,927**

[35] The investment assets held by the Territory Banking Account are invested for the purpose of maximising interest earned within established risk and return tolerances of the Territory by contracted external professional investment managers.

The following tables provide more details in relation to investments held at balance date.

(b) Directly/Indirectly Held Financial Investments Breakdown

Breakdown of Territory Banking Account's directly/indirectly held investments.

Financial Assets at Fair Value		
Investments Directly Held	1,140,602	1,147,960
Investments Indirectly Held	247,872	287,967
Total Financial Asset Investments	**1,388,475**	**1,435,927**

(i) Directly Held Asset Class Financial Investments Breakdown

Breakdown, by asset class, of the Territory Banking Account's directly held investments.

Asset Class – Investments Directly Held		
Cash Enhanced Fund[36]	1,140,602	1,147,960
Total Investments Directly Held	**1,140,602**	**1,147,960**

[36] For the year ended 30 June 2016, the net investment return was 2.51% (2014-15: 3.10%).

NOTE 7 ASSETS ADMINISTERED ON BEHALF OF THE TERRITORY - CONTINUED

7.3 Investments – Continued

(ii) Indirectly Held Asset Class Financial Investments Breakdown

Breakdown, by asset class, of the Territory Banking Account's indirectly held investments.

Asset Class – Investments Indirectly Held	**2016 $'000**	**2015 $'000**
Unit Trust – Cash[37]	1,001	154,500
Unit Trust – Fixed Income[38]	246,872	133,467
Total Investments Indirectly Held	**247,873**	**287,967**

[37] For the year ended 30 June 2016, the net investment return was 2.08% (2014-15: 2.70%). Investment levels are an aggregate of underlying agencies investing activities.

[38] For the year ended 30 June 2016, the net investment return was 6.84% (2014-15: 5.61%).

Total Financial Investments by Asset Class	**1,388,475**	**1,435,927**

NOTE 8 LIABILITIES ADMINISTERED ON BEHALF OF THE TERRITORY

8.1 Payables

8.1.1 Current – Accrued Interest Payable to ACT Government Agencies

ACT Government Agencies Investment Interest[39]	25,210	15,139
Total Accrued Interest Payable to Agencies	**25,210**	**15,139**

[39] The actual results reflect the trading activity of the investment managers and the individual asset class market returns achieved over the financial year and the amount of funds under investment.

8.1.2 Current – Accrued Interest Payable External

Promissory Notes	0	405
Inflation-Linked Bonds	12,023	11,707
Fixed Rate Nominal Bonds	3,151	2,650
Total Accrued Interest Payable External	**15,174**	**14,762**

Total Payables[40]	**40,384**	**29,901**

[40] All payables are current and not overdue.

NOTE 8 LIABILITIES ADMINISTERED ON BEHALF OF THE TERRITORY - CONTINUED

8.2 Interest-Bearing Liabilities

8.2.1 Current – ACT Government Agency Investment Deposits

	2016 $'000	2015 $'000
General Government Sector Agencies	857,411	838,737
Public Trading Enterprise Sector Agencies	0	118,091
Total ACT Government Agency Investment Deposits[41]	**857,411**	**956,829**

[41] Actual results reflect underlying agency activity.

8.2.2 Current – External Borrowings

Promissory Notes[42]	0	159,434
Inflation-Linked Bonds[43]	23,084	30,820
Commonwealth Borrowings[45]	3,853	3,711
Total External Borrowings	**26,937**	**193,965**

[42] Outstanding short-term borrowings were repaid in full during the year.
[43] Decrease in 2015-16 result reflects scheduled estimated repayments to be made in the next twelve months.

Total Current Interest-Bearing Liabilities	**884,349**	**1,150,794**

8.2.3 Non-Current – ACT Government Agency Investment Deposits

General Government Sector Agencies	185,351	73,266
Total ACT Government Agency Investment Deposits	**185,351**	**73,266**

8.2.4 Non-Current – External Borrowings

Inflation-Linked Bonds[44]	776,428	787,107
Fixed Rate Nominal Bonds[45]	2,676,606	2,157,300
Commonwealth Borrowings[45]	1,071,835	825,689
Total External Borrowings	**4,524,869**	**3,770,096**

[44] The decrease in 2015-16 reflects scheduled repayment of inflation-linked bond loans.
[45] The increase in 2015-16 reflects the higher levels of fixed rate borrowings due to new borrowings raised during the financial year to meet cash flow requirements and the receipt of the second and final tranche of the Commonwealth loan provided to finance the Loose Fill Asbestos Insulation Eradication Scheme ($250 million). This is offset by the scheduled repayment of other non-related Commonwealth loans.

Total Non-Current Interest-Bearing Liabilities	**4,710,220**	**3,843,362**
Total Interest-Bearing Liabilities	**5,594,569**	**4,994,156**

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 9 EQUITY

9.1 Distributions from ACT Government Agencies

	2016 $'000	2015 $'000
ACT Insurance Authority	60,000	0
ACT Local Hospital Network	0	20,000
Chief Minister, Treasury and Economic Development Directorate	73,269	150,565
Community Services Directorate	0	119
Health Directorate	0	27,000
Home Loan Portfolio	0	2,500
Land Development Agency	5,335	8,858
Total Distributions from ACT Government Agencies[46]	**138,604**	**209,042**

[46] Variations are driven by agency activity and are explained in the 2015-16 financial statements of each agency.

9.2 Movements in Equity during the Financial Year

Accumulated Deficits	(1,919,924)	(1,459,641)
Total Equity	**(1,919,924)**	**(1,459,641)**

Reconciliation of Movements in Equity During the Year

Accumulated Funds

Balance at the Beginning of the Reporting Period	**(1,459,641)**	**(847,942)**
Operating (Deficit)	(598,891)	(858,001)
Capital Distributions	138,604	209,042
Capital Injections	0	214
Increase in Assets from Administrative Restructuring	0	112,012
Increase in Liabilities from Administrative Restructuring	0	(74,966)
Total Balance at the End of the Reporting Period	**(1,919,924)**	**(1,459,641)**

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 10 CASH FLOW RECONCILIATION

(a) Reconciliation of Cash at the End of the Reporting Period in the Cash Flow Statement on Behalf of the Territory to the Equivalent Items in the Statement of Assets and Liabilities on Behalf of the Territory

	2016 $'000	2015 $'000
Total Cash Disclosed on the Statement of Assets and Liabilities on Behalf of the Territory	227,460	234,331
Cash at the End of the Reporting Period as Recorded in the Cash Flow Statement on Behalf of the Territory	**227,460**	**234,331**

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

	2016 $'000	2015 $'000
Operating (Deficit)	(598,891)	(858,001)
Non Cash Items		
Capital Payments to ACT Government Agencies	984,068	1,049,633
Net Change in Value of Financial Investments and Liabilities	5,281	(3,002)
Cash Before Changes in Operating Assets and Liabilities	**989,349**	**1,046,631**
Changes in Operating Assets and Liabilities		
(Increase) in Income Receivable	(191,356)	(70,702)
Decrease in Prepayments	0	5,298
Increase/(Decrease) in Interest Payable	10,482	(321)
Net Changes in Operating Assets and Liabilities	**(180,874)**	**(65,725)**
Net Cash Inflow from Operating Activities	**209,584**	**122,905**

NOTE 11 AUDITOR'S REMUNERATION

The ACT Audit Office performs the audit for the Territory Banking Account's financial statements. No other services are provided. Payment for auditors' remuneration is made by Chief Minister, Treasury and Economic Development Directorate (2015-16: $42,829 and 2014-15: $41,261).

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 12 BUDGETARY REPORTING - EXPLANATIONS OF MAJOR VARIANCES BETWEEN ACTUAL AND ORGINAL BUDGET AMOUNTS

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

(i) The line item is a significant line item: the line item actual amount accounts for more than 10% of the relevant associated category (Income, Expenses and Equity totals) or sub-element (e.g. Current Liabilities and Receipts from Operating Activities totals) of the financial statements; and
(ii) The variances (original budget to actual) are greater than plus (+) or minus (-) 10% of the budget for the financial statement line item.

Statement of Income and Expenses on Behalf of the Territory

	Actual 2015-16 $'000	Original Budget[47] 2015-16 $'000	Variance $'000	Variance %	Variance Explanation
Gains on Investments	7,535	0	7,535	#	The variance in realised gains from year to year reflects the trading activity of the investment managers and the individual asset class market returns achieved over the financial year. Budget estimates do not anticipate financial investment gains.
Losses on Investments	2,240	0	2,240	#	The variance in realised losses from year to year reflects the trading activity of the investment managers and the individual asset class market returns achieved over the financial year. Budget estimates do not anticipate financial investment losses.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 12 BUDGETARY REPORTING - EXPLANATIONS OF MAJOR VARIANCES BETWEEN ACTUAL AND ORGINAL BUDGET AMOUNTS - CONTINUED

Statement of Assets and Liabilities on Behalf of the Territory

	Actual 2015-16 $'000	Original Budget[47] 2015-16 $'000	Variance $'000	Variance %	Variance Explanation
Cash	227,460	0	227,460	#	Actual result reflects operational and liquidity needs as well as timing of end-of-year cash flow transactions. For budget purposes, all cash is included in investments.
Current – Loans and Receivables	514,496	297,437	217,059	73%	The variance mainly reflects higher than estimated transfer revenue receivable and accrued investment interest revenue.
Investments (Current and Non Current)	1,388,475	810,603	577,872	71%	This variation is due mainly to a higher than expected level of funds held on investment at 30 June 2016. Actual investment balances reflect agency activities (actual $1.043 billion versus budget estimate of $666 million) and cash inflows and outflows to the Territory Banking Account (actual $346 million versus budget estimate $145 million).
Current - Interest Bearing Liabilities	884,349	802,230	82,118	10%	Current interest bearing liabilities comprise agency investment deposits and current borrowings. The variance comprises: agency investment deposits being $272 million higher than the budget estimate reflecting underlying agency activity; and current borrowings being $190 million lower mainly because no short-term promissory note financed borrowings were held at 30 June 2016.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 12 BUDGETARY REPORTING - EXPLANATIONS OF MAJOR VARIANCES BETWEEN ACTUAL AND ORGINAL BUDGET AMOUNTS - CONTINUED

Cash Flow Statement on Behalf of the Territory

	Actual 2015-16 $'000	Original Budget[47] 2015-16 $'000	Variance $'000	Variance %	Variance Explanation
Payments to Agencies for Expenses on Behalf of the Territory	511,687	568,887	(57,200)	(10%)	The variation is driven by agency activity, reflecting agency requirements.
Proceeds from Sale/Maturity of Investments	48,495	486,320	(437,825)	(90%)	This represents the net proceeds of sale/maturity of investments offset against the purchase of new investments. Actual outcome reflects net investment turnover transactions based on cash flow requirements of the Territory Banking Account and agencies.
Loan Repayments from Agencies	239,640	22,745	216,895	954%	Actual outcome is mainly due to the refinancing and early repayment of short-term loans from Icon Water that weren't anticipated in the budget.
Proceeds from Agencies' Deposits	130,479	4,837	125,642	#	The variation is driven by agency activity.
Loans Provided to Agencies	247,696	112,002	135,694	121%	Actual outcome is due to Icon Water requiring short term loans to be refinanced while a new long term fixed rate loan was being arranged.
Capital Payments to Agencies	984,068	1,240,003	(255,935)	(21%)	The variation is driven by agency activity, reflecting agency requirements.
Proceeds from Borrowings	585,351	938,222	(352,871)	(38%)	This represents the net proceeds of new borrowings offset against repayments of borrowings. There is a considerable amount of refinancing of existing borrowings as well as new borrowings during the year that is difficult to estimate. The actual result reflects the actual level of borrowing transactions.

[47] The Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting period (2015-16 Budget Statements). These amounts have not been adjusted to reflect supplementary appropriation or appropriation instruments.

Note: # in the Line Item Variance % column represents a variance that is greater than 999 per cent or less than -999 per cent.

Statement of Performance

For the Year Ended

30 June 2016

Territory Banking Account

REPORT OF FACTUAL FINDINGS
TERRITORY BANKING ACCOUNT

To the Members of the ACT Legislative Assembly

Report on the statement of performance

The statement of performance of the Territory Banking Account for the year ended 30 June 2016 has been reviewed.

Responsibility for the statement of performance

The Under Treasurer is responsible for the preparation and fair presentation of the statement of performance of the Territory Banking Account 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 accountability indicators reported in the statement of performance.

The auditor's responsibility

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

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

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

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

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

As disclosed in the statement of performance, in accordance with the *Financial Management (Statement of Performance Scrutiny) Guidelines 2016*, the Total Cost information included in the statement of performance has not been reviewed.

Electronic presentation of the statement of performance

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

Independence

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

Review opinion

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

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

M. Cooper

Dr Maxine Cooper
Auditor-General
16 September 2016

Territory Banking Account
Statement of Performance
For the Year Ended 30 June 2016

Statement of Responsibility

In my opinion, the Statement of Performance is in agreement with the Territory Banking Account's records and fairly reflects the service performance of the Territory Banking Account in providing each class of outputs during the year ended 30 June 2016 and also fairly reflects the judgements exercised in preparing them.

David Nicol
Under Treasurer
Chief Minister, Treasury and Economic Development Directorate
16 September 2016

Territory Banking Account
Statement of Performance
For the Year Ended 30 June 2016

	Original Target 2015-16	Actual Result 2015-16	% Variance from Target	Explanation of Material Variances (+/- 5%)
TOTAL COST ($'000)	**$4,988,775**	**$4,669,380**	**(6%)**	The majority of the Territory Banking Account costs are payments of appropriations to ACT Government agencies. The amounts paid and their timing is subject to operational requirements of ACT Government agencies. The lower actual result is mostly attributable to lower capital injection appropriation transfers to agencies reflecting agency requirements.
Accountability Indicators				
a. Difference between the net investment earnings rate and the benchmark is to be ≥ 0	≥ 0	0.20%	0%	The investment portfolio achieved an investment return for the 2015-16 financial year of 3.08 per cent (net of fees) compared with the performance benchmark return of 2.88 per cent. The outperformance was mainly driven by yields on credit exposures, being mortgage backed securities and financials.
b. Cash and Liquidity Management of the Territory Banking Account	100%	100%	0%	
c. Completion of new Territory borrowings	100%	100%	0%	
d. Completion of debt servicing obligations	100%	100%	0%	
e. Completion Budget Appropriation disbursements	100%	100%	0%	
f. Completion and delivery of Monthly Financial Reporting	12	12	0%	
g. Completion and delivery of unqualified Annual Financial Statements	1	1	0%	
h. Completion of Annual Budget Estimates	1	1	0%	

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

Territory Banking Account
Statement of Performance
For the Year Ended 30 June 2016

Explanation of the Accountability Indicators

a. The difference between the actual annual portfolio investment earnings rate and the established performance benchmark is a measure of the relative performance of the Territory's fund managers to the benchmark.

b. Maintaining a positive aggregate cash and investment balance of the Territory Banking Account to meet ongoing cash payment obligations. For performance measurement purposes, the actual daily aggregate cash and investment balance of the Territory Banking Account will be counted as the result. If the aggregate cash and investment balance is not positive at the end of a day, this will not be counted in the result.

c. Raising all new Territory borrowing requirements in accordance with approved borrowing limits and guidelines. The measure will be the actual number of conforming borrowing transactions compared to the total borrowing transactions completed.

d. The payment of Territory debt serving interest and principal repayment obligations to be completed accurately and within required timeframes. The measure will be the actual number of conforming debt servicing settlement transactions compared with the total number of debt servicing settlement transactions completed.

e. The payment of budget appropriation disbursement payments to agencies to be completed accurately and within required timeframes. The measure will be the actual number of conforming disbursement payments compared with the total number of disbursement transactions completed.

f. Monthly financial reporting involves the preparation of accrual financial statements, without notes, for transmission to Finance and Budget Division, CMTEDD. The monthly financial reporting will not be counted for the year if the financial statements are not completed and provided to Finance and Budget Division by business day nine of the next month.

g. Involves the preparation of the previous year's annual financial statements for auditing and inclusion in the CMTEDD annual report. The objective is to receive an unqualified audit opinion on the year end financial statements.

h. Involves the preparation of annual budget estimates for inclusion in the annual Territory Budget.

The above Accountability Indicators were examined by the ACT Audit Office in accordance with the *Financial Management Act 1996*. The Total Cost measure was not examined by the ACT Audit Office in accordance with the *Financial Management (Statement of Performance Scrutiny) Guidelines 2016*.

Financial Statements

For the Year Ended

30 June 2016

ACT Compulsory Third-Party

Insurance Regulator

Section C – Financial Management Reporting

C.1 FINANCIAL MANAGEMENT ANALYSIS

General Overview

Objectives

The role of the Australian Capital Territory Compulsory Third-Party Insurance regulator (CTP regulator) is to regulate the compulsory third-party (CTP) insurance scheme in the ACT under the CTP Act. The CTP regulator's functions are to be carried out in accordance with the objectives of the CTP Act under section 5A, which are to:

- continue improving the system of CTP insurance, and the scheme of statutory insurance for uninsured and unidentified vehicles operating in the ACT;
- promote competition in setting premiums for CTP policies;
- keep the costs of insurance at an affordable level;
- provide for the licensing and supervision of insurers providing insurance under CTP insurance policies;
- encourage the speedy resolution of personal injury claims resulting from motor accidents;
- promote and encourage, as far as practicable, the rehabilitation of people injured in motor accidents;
- maintain a register of motor accident claims to help the administration of the statutory insurance scheme and the detection of fraud; and
- promote measures directed at eliminating or reducing causes of motor accidents and mitigating their results.

In accordance with section 163C(1) of the CTP Act, the CTP regulator collects an amount for the Nominal Defendant Fund from each licensed CTP insurer in the Territory, as well as the Commonwealth and ACT Governments, that appropriately covers the claims against uninsured or unidentified motor vehicles for which the Nominal Defendant has responsibility. The amount collected by the CTP regulator is transferred to the Office of the Nominal Defendant.

Risk Management

The CTP regulator developed and implemented a risk management plan in accordance with the Australian/New Zealand risk management AS/NZS ISO 31000:2009 and the ACT Government's "Enterprise Wide Risk Management Framework". The CTP regulator has overall responsibility for risk management, and for ensuring compliance with the risk management plan.

The key risks identified are financial, operational, legal and reputational. The key operational risk is related to whether the CTP regulator has sufficient resources, both in terms of financial and staffing capacity (including the number of staff as well as staff experience and expertise), to fulfil its obligations and operate effectively.

The risks are mitigated through the use of appropriate governance structures, application of risk based management strategies and financial reporting processes.

Financial Performance

The following financial information is based on the audited Financial Statements for 2015-16 and 2014-15, and the forward estimates contained in the 2016-17 Budget Statements.

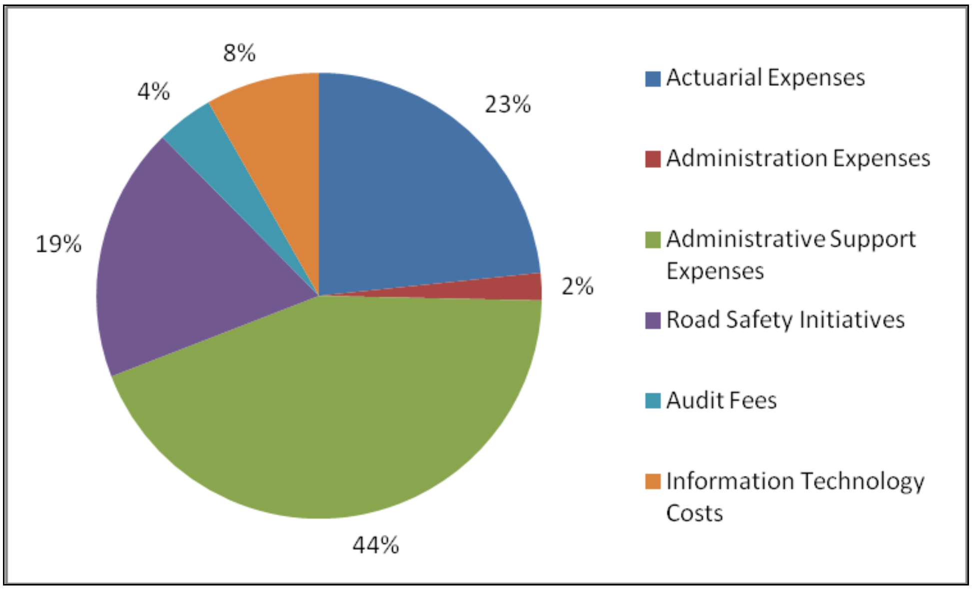
Total Expenses

1. Components of Expenses

For the financial year ended 30 June 2016, the CTP regulator recorded total expenses of $0.409 million. The largest component was administrative support expenses within supplies and services, which represents 44 per cent of the total expenditure or $0.180 million. Administrative support expenses were associated with the reimbursement of salary and superannuation expenses for Chief Minister, Treasury and Economic Development Directorate (CMTEDD) staff to undertake the CTP regulator's functions in 2015-16. The CTP regulator did not employ any staff during 2015-16.

Figure 1 indicates the components of the CTP regulator’s expenses for 2015-16,

Figure 1 – Components of Expenses



2. Comparison to Budget

Total expenses of $0.409 million were $0.089 million, or 18 per cent lower than the 2015-16 Budget of $0.498 million. This was mainly due to lower than anticipated expenses on actuarial costs ($0.048 million), information technology ($0.034 million), arbitration costs ($0.020 million) and depreciation ($0.038 million). This was partly offset by an increase in expenses relating to road safety initiatives ($0.059 million).

3. Comparison to 2014-15 Actual Expenses

Total expenses of $0.409 million in 2015-16 were $0.088 million, or 27 per cent higher than the 2014-15 actual result of $0.321 million. This was mainly due to an increase in administrative support costs ($0.075 million) associated with the reimbursement of salary and superannuation expenses for CMTEDD staff to undertake the CTP regulator's functions in 2015-16 and an increase in actuarial costs ($0.023 million) associated with increased premium filings and scheme work. The administrative support costs were lower in 2014-15 due to periods of staff vacancies.

A premium filing is a report provided by a CTP insurer to the CTP regulator containing a range of information in support of its annual CTP premium. The filing is assessed by the scheme actuary to ensure the CTP insurance scheme remains fully funded and that the premium is not excessive.

4. Future Trends

Expenses are budgeted to increase by $0.097 million (23.7 per cent) in 2016-17 mainly due to:

- higher ICT costs associated with the ACT transitioning away from the Queensland Personal Injury Register (PIR) hosted system and the CTP regulator implementing its own claims register on the ACT Government's ICT platform;
- depreciation costs relating to the ACT PIR system; and
- higher actuarial costs due to more scheme actuarial work.

Expenses are expected to remain steady in 2017-18.

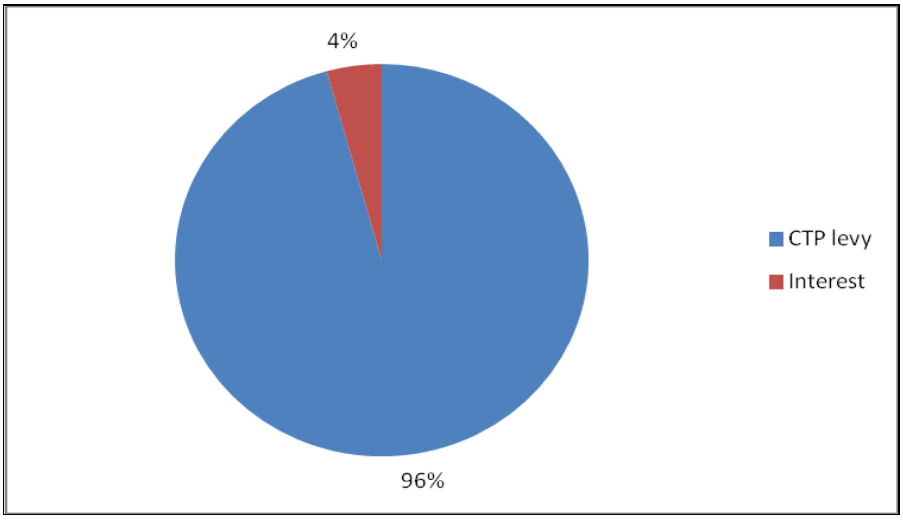
Total Income

1. Components of Income

For the year ended 30 June 2016, the CTP regulator recorded a total income of $0.511 million. The CTP regulator's income was derived from the levy on ACT CTP vehicle registrations ($0.489 million) and interest from cash at bank ($0.022 million).

Figure 2 indicates the components of the CTP regulator's income for 2015-16.

Figure 2 – Components of Income



2. Comparison to Budget

Revenue for the year ended 30 June 2016 was $0.013 million (2.5 per cent) higher than the 2015-16 Budget of $0.498 million. This was mainly due to higher than expected interest revenue.

3. Comparison to 2014-15 Actual Income

Total revenue of $0.511 million for 2015-16 was slightly higher $0.007 million (1 per cent) than the 2014-15 actual revenue of $0.504 million. Actual income remains consistent with the prior year.

4. Future Trends

Income is budgeted to decrease slightly by $0.005 (0.2 per cent) million in 2016-17 due to an anticipated reduction in interest revenue in 2016-17, resulting from an expected reduction in the bank balance from funding software improvements. Income is then expected to increase in 2017-18 and the forward years due to an increase in income from the CTP regulator insurance levy in line with the projected population growth (the indicator used for vehicle registration growth).

Financial Position

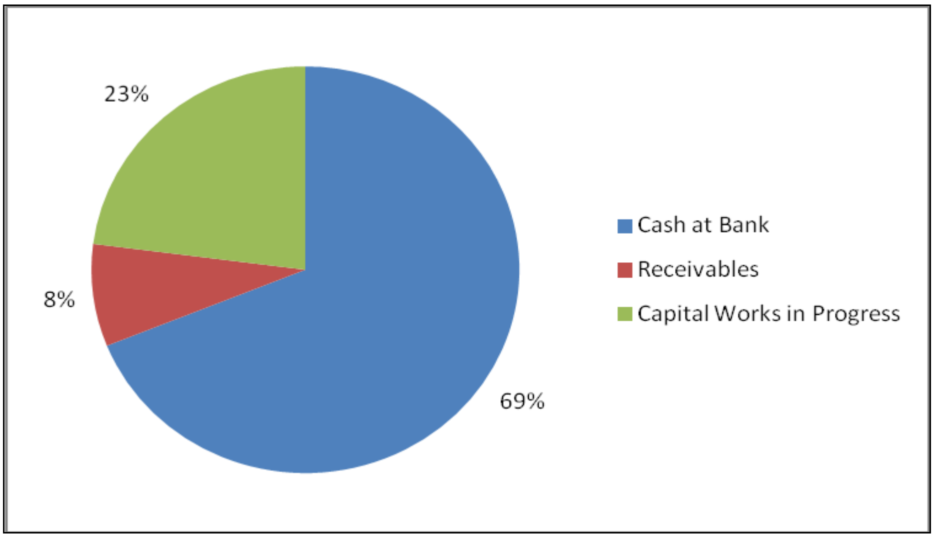
Total Assets

1. Components of Total Assets

The total asset position at 30 June 2016 was $0.701 million and shows the CTP regulator held 69 per cent of its assets in cash.

Figure 3 indicates the components of the CTP regulator's total assets as at 30 June 2016

Figure 3 – Total Assets at 30 June 2016



2. *Comparison to Budget*

Total assets of $0.701 million at 30 June 2016 were $0.153 million or 28 per cent higher than the Budget of $0.548 million mainly due to cash held at the bank associated with:

- higher than budgeted cash at the beginning of the financial year;
- lower than anticipated cash outflows on areas in actuarial, information technology and arbitration;
- higher than budgeted interest revenue; and
- which was partly offset by a reduction in non-current assets due to a slower than anticipated transition of the ACT Personal Injury Register database onto the ACT Government ICT Platform.

3. *Comparison to 2014-15 Actuals*

Total assets at 30 June 2016 of $0.701 million were $0.174 million, or 33 per cent higher than the 30 June 2015 actual result of $0.527 million. The increase was mainly due to the capital works in progress related to software.

4. *Liquidity*

'Liquidity' is the ability of the CTP regulator 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 CTP regulator insurance levy to meet short-term debts.

Table 1 indicates the liquidity position of the CTP regulator.

Table 1 – Current Ratio

Description	**Prior Year Actual 2014-15 $'000**	**Current Year Budget 2015-16 $'000**	**Current Year Actual 2015-16 $'000**	**Forward Year Budget 2016-17 $'000s**	**Forward Year Budget 2017-18 $'000s**	**Forward Year Budget 2018-19 $'000s**
Current Assets	*527*	*299*	*540*	*372*	*429*	*486*
Current Liabilities	*21*	*57*	*93*	*20*	*20*	*20*
Current Ratio	*25.10:1*	*5.25:1*	*5.81:1*	*18.60:1*	*21.45:1*	*24.30:1*

The CTP regulator's current ratio at 30 June 2016 was 5.81:1, which is higher than the budgeted current ratio of 5.25:1. The high current ratio resulted from a higher than anticipated cash at bank balance.

The CTP regulator has budgeted to maintain a strong level of liquidity for future years. The maintenance of the cash levels provide a buffer if the number of short term vehicle registrations decrease in the future which will reduce revenue.

Total Liabilities

1. Components of Total Liabilities

The CTP regulator's total liabilities of $0.093 million at 30 June 2016 relate to accrued expenses associated with audit fees, actuarial expenses, ICT expenses and Capital Works in Progress.

2. Comparison to Budget

Total liabilities of $0.093 million, at 30 June 2016 were $0.036 million or 63 per cent higher than the Budget of $0.057 million. This was mainly due to the receipt of invoices relating to the capital works in progress after the end of the reporting period.

3. Comparison to 2014-15 Actuals

The actual liabilities of $0.093 million at 30 June 2016 were $0.072 million or 343 per cent higher than the 30 June 2015 actual amount of $0.021 million. This was mainly due to the receipt of invoices after the end of the financial year which were paid after 30 June 2016.

ACT Audit Office

AUDITOR-GENERAL AN OFFICER OF THE ACT LEGISLATIVE ASSEMBLY

INDEPENDENT AUDIT REPORT

ACT COMPULSORY THIRD-PARTY INSURANCE REGULATOR

To the Members of the ACT Legislative Assembly

Report on the financial statements

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

Responsibility for the financial statements

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

The auditor's responsibility

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

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 Regulator.

Electronic presentation of the audited financial statements

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

Independence

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

Audit opinion

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

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

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

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

Bernie Sheville
Director, Financial Audits
15 August 2016

ACT Compulsory Third-Party Insurance Regulator
Financial Statements
For the Year Ended 30 June 2016

Statement of Responsibility

In my opinion, the financial statements have been prepared in accordance with generally accepted accounting principles, are in agreement with the Australian Capital Territory (ACT) Compulsory Third-Party (CTP) Insurance regulator's accounts and records and fairly reflect the financial operations of the ACT CTP Insurance regulator for the year ended 30 June 2016 and the financial position of the ACT CTP Insurance regulator on that date.

Lisa Holmes
Acting ACT Compulsory Third-Party Insurance Regulator
Chief Finance Officer
12 August 2016

ACT Compulsory Third-Party Insurance Regulator
Operating Statement
For the Year Ended 30 June 2016

	Note No.	Actual 2016 $'000	Original Budget 2016 $'000	Actual 2015 $'000
Income				
Revenue				
CTP Insurance Levy	3	489	481	471
Interest	4	22	17	33
Total Revenue		511	498	504
Total Income		**511**	**498**	**504**
Expenses				
Supplies and Services	5	409	443	321
Depreciation and Amortisation		-	38	-
Other Expenses		-	17	-
Total Expenses		**409**	**498**	**321**
Operating Surplus		**102**	**-**	**183**
Total Comprehensive Income		**102**	**-**	**183**

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

These statements may not add due to rounding.

Budget numbers appearing in the Operating Statement are based on the CTP regulator's Statement of Intent.

ACT Compulsory Third-Party Insurance Regulator
Balance Sheet
As at 30 June 2016

	Note No.	Actual 2016 $'000	Original Budget 2016 $'000	Actual 2015 $'000
Current Assets				
Cash and Cash Equivalents	7	483	253	485
Receivables	8	57	46	42
Total Current Assets		**540**	**299**	**527**
Non Current Assets				
Capital Works in Progress	9	161	-	-
Intangible Assets		-	249	-
Total Non Current Assets		**161**	**249**	**-**
Total Assets		**701**	**548**	**527**
Current Liabilities				
Payables	10	93	57	21
Total Current Liabilities		**93**	**57**	**21**
Total Liabilities		**93**	**57**	**21**
Net Assets		**608**	**491**	**506**
Equity				
Accumulated Funds		608	491	506
Total Equity		**608**	**491**	**506**

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

These statements may not add due to rounding.

Budget numbers appearing in the Balance Sheet are based on the CTP regulator's Statement of Intent.

ACT Compulsory Third-Party Insurance Regulator
Statement of Changes in Equity
For the Year Ended 30 June 2016

For the Year Ended 30 June 2016	Accumulated Funds Actual 2016 $'000	Total Equity Actual 2016 $'000	Original Budget 2016 $'000
Balance at 1 July 2015	**506**	**506**	**491**
Comprehensive Income			
Operating Surplus	102	102	-
Total Comprehensive Income	**102**	**102**	**-**
Balance at 30 June 2016	**608**	**608**	**491**

For the Year Ended 30 June 2015	Accumulated Funds Actual 2015 $'000	Total Equity Actual 2015 $'000
Balance at 1 July 2014	**323**	**323**
Comprehensive Income		
Operating Surplus	183	183
Total Comprehensive Income	**183**	**183**
Balance at 30 June 2015	**506**	**506**

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

These statements may not add due to rounding.

Budget numbers appearing in the Statement of Changes in Equity are based on the CTP regulator's Statement of Intent.

ACT Compulsory Third-Party Insurance Regulator
Cash Flow Statement
For the Year Ended 30 June 2016

	Note No.	Actual 2016 $'000	Original Budget 2016 $'000	Actual 2015 $'000
Cash Flows from Operating Activities				
Receipts				
CTP Insurance Levy		485	481	470
Interest Received		22	17	33
Goods and Services Tax Input Tax Credits From the Australian Taxation Office		20	-	20
Total Receipts from Operating Activities		**527**	**498**	**523**
Payments				
Supplies and Services		338	443	357
Goods and Services Tax Paid to Suppliers		30	-	15
Other		-	17	-
Total Payments for Operating Activities		**368**	**460**	**372**
Net Cash Inflows from Operating Activities	12	**159**	**38**	**151**
Cash Flows from Investing Activities				
Payments				
Capital Works in Progress		161	-	-
Intangible Assets		-	287	-
Total Payments from Investing Activities		**161**	**287**	**-**
Net Cash (Outflows) from Investing Activities		**(161)**	**(287)**	**-**
Net (Decrease)/Increase in Cash and Cash Equivalents Held		**(2)**	**(249)**	**151**
Cash and Cash Equivalents at the Beginning of the Reporting Period		**485**	**502**	**334**
Cash and Cash Equivalents at the End of the Reporting Period	7	**483**	**253**	**485**

The above Cash Flow Statement should be read in conjunction with the accompanying notes.
These statements may not add due to rounding.
Budget numbers appearing in the Statement of Cash Flows are based on the CTP regulator's Statement of Intent.

ACT Compulsory Third-Party Insurance Regulator
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

ACT Compulsory Third-Party Insurance Regulator
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 1. OBJECTIVES OF THE ACT COMPULSORY THIRD-PARTY INSURANCE REGULATOR

The ACT Compulsory Third-Party Insurance Regulator's (CTP regulator) functions are to be carried out consistent with the objectives of *the Road Transport (Third-Party Insurance) Act 2008* (the CTP Act). The objectives of the CTP Act, under section 5A are to:

a) continue and improve the system of compulsory third-party insurance (and the scheme of statutory insurance for uninsured and unidentified vehicles) operating in the ACT;
b) promote competition in setting premiums for CTP policies;
c) keep the costs of insurance at an affordable level;
d) provide for the licensing and supervision of insurers providing insurance under CTP insurance policies;
e) encourage the speedy resolution of personal injury claims resulting from motor accidents;
f) promote and encourage, as far as practicable, the rehabilitation of people injured in motor accidents;
g) maintain a register of motor accident claims to help the administration of the statutory insurance scheme and the detection of fraud; and
h) promote measures directed at eliminating or reducing causes of motor accidents and mitigating their results.

In accordance with section 163C(1) of the CTP Act, the CTP regulator collects an amount for the Nominal Defendant Fund from each licensed CTP insurer in the Territory, as well as the Commonwealth and ACT Governments, that covers the claims against uninsured or unidentified motor vehicles for which the Nominal Defendant has responsibility. The amount collected by the CTP regulator is transferred to the Office of the Nominal Defendant.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The *Financial Management Act 1996* (FMA) requires the preparation of annual financial statements for ACT 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 reporting period;
(ii) a Balance Sheet at the end of the reporting period;
(iii) a Statement of Changes in Equity for the reporting period;
(iv) a Cash Flow Statement for the reporting period;
(v) the significant accounting policies adopted for the reporting period; and
(vi) such other statements as are necessary to fairly reflect the financial operations of the Territory Authority during the reporting period 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 under 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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The CTP regulator is an individual reporting entity.

(b) The Reporting Period

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

(c) Comparative Figures

Budget Figures

The *Financial Management Act 1996* requires the statements to facilitate a comparison with the Statement of Intent. Budget numbers are as per the Statement of Intent.

Prior Year Comparatives

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

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

(d) Rounding

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

(e) 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 regulator and the revenue can be reliably measured. In addition, the following specific recognition criteria must also be met before revenue is recognised.

CTP Insurance Levy

The CTP Insurance Levy is recognised as revenue at the time the CTP regulator obtains control over the economic benefits embodied in the levy. The CTP regulator has assessed that control is established when a taxpayer registers a motor vehicle and pays the CTP insurance premium. The levy is payable upfront on any CTP insurance policy taken out during the reporting period.

Interest

Interest revenue is recognised using the effective interest method.

(f) Waivers of Debt

Debts that are waived under section 131 of the FMA are expensed during the reporting period in which the right to payment was waived. No debts were waived in the 2015-16 reporting period (2014-15: Nil).

ACT Compulsory Third-Party Insurance Regulator
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) 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 12 months after the reporting date, or the CTP regulator does not have an unconditional right to defer settlement for at least 12 months after the reporting date.
Assets and liabilities which do not fall within the current classification are classified as non-current.

(h) 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 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.

(i) Receivables

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

An allowance for impairment losses represents the amount of receivables the CTP regulator estimates will not be repaid. The allowance for impairment losses is based on objective evidence and a review of overdue balances.

The receivable at 30 June 2016 is mainly associated with the CTP Levy for June 2016 which was collected by Access Canberra entity on behalf of the CTP regulator and only needs to be remitted to the CTP regulator.

No bad debts were written off during the year ended 30 June 2016 (2014-15: Nil).

(j) Payables

Payables are initially recognised at fair value based on the transaction cost and subsequent to initial recognition at amortised cost, with any adjustments to the carrying amount being recorded in the Operating Statement. All amounts are normally settled within 7 days after the invoice is received.

Payables include Trade Payables, Accrued Expenses and Other Payables.

(k) Employee Benefits

The CTP regulator does not employ any staff. The CTP regulator's functions are undertaken by officers from the Chief Minister Treasury and Economic Development Directorate (CMTEDD). The Financial Framework Management and Insurance (FFMI) Branch of the Economic and Financial Group provides support to the CTP regulator by providing staff to carry out the CTP regulator's functions. In 2015-16, the CTP regulator reimbursed CMTEDD for the employee expenses associated with the staff allocated to carrying out the CTP regulator's functions. These expenses are classified as 'Supplies and Services'.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Budgetary Reporting

Explanations of major variances between the 2015-16 original budget and the 2015-16 actual results are discussed in Note 14: *Budgetary Reporting – Explanation of Major Variances between Actual Amounts and Original Budget Amounts.*

The definition of 'major variances' is provided in Note 2(m) *Significant Accounting Judgements and Estimates – Budgetary Reporting – Explanation of Major Variances between Actual Amounts and Original Budget Amounts.*

(m) Significant Accounting Judgements and Estimates

Budgetary Reporting – Explanation of Major Variances between Actual Amounts and Original Budget Amounts: Significant judgements have been applied in determining what variances are considered as 'major variances' requiring explanations in Note 14: *Budgetary Reporting – Explanation of Major Variances between Actual Amounts and Original Budget Amounts.*
Variances are considered to be major variances if both of the following criteria are met:

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

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

(n) Impact of Accounting Standard Issued but yet to be Applied

The following accounting standard has been issued by the Australian Accounting Standards Board but does not apply to the current reporting period. This standard is applicable to a future reporting period. The CTP regulator does not intend to adopt this standard early. This Australian Accounting Standard will be adopted from its application date:

- AASB 2015-6 *Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities* [AASB 10, 124 & 1049] (application date 1 July 2016).

  This standard extends the scope of AASB 124 *Related Party Transactions* to the not-for-profit sector and updates AASB 124 to include implementation guidance (including illustrative examples) to assist not-for-profit entities to apply the new requirements. While there is no material financial impact in implementing this standard there will be increased disclosure required by the CTP regulator.

(o) Accounting Standard adopted early for the 2015-16 reporting period

AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101* has been early adopted for the 2015-16 reporting period, even though the standard is not required to be applied until annual reporting periods beginning on or after 1 July 2016.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 2015-2 amends AASB 101 *Presentation of Financial Statements* including clarifying that reporting agencies should not be disclosing immaterial information and that the presentation of information in notes can and should be tailored to provide users with the clearest view of a reporting agency's financial performance and financial position.

NOTE 3. COMPULSORY THIRD-PARTY INSURANCE LEVY

The CTP insurance levy is determined by the Treasurer, as the Minister is responsible for administering the *Road Transport (Third-Party Insurance) Act 2008* (CTP Act). The levy is applied to compulsory third-party policies issued under CTP Act and is paid when a person purchases a CTP insurance policy as part of a vehicle registration. This revenue is dependent upon the number of vehicle registrations per year and is statutory in nature.

	2016 $'000	2015 $'000
Compulsory Third-Party Insurance Levy [1]	489	471
Total Compulsory Third-Party Insurance Levy	**489**	**471**

1. The increase is mainly associated with a growth in vehicle registrations.

NOTE 4. INTEREST

Interest (Westpac Banking Corporation) [1]	22	33
Total Interest	**22**	**33**

1. The decrease is mainly due to the decrease in the amount of cash at bank held throughout 2015-16.

ACT Compulsory Third-Party Insurance Regulator
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 5. SUPPLIES AND SERVICES

	2016 $'000	2015 $'000
Actuarial Expenses [1]	96	73
Administration Expenses	6	9
Administrative Support Expenses [2]	180	105
Audit Fees [3]	17	16
Road Safety Initiatives	76	72
Information Technology Costs [4]	34	42

1. The increase is primarily due to an increase in premium filings arising from competition in 2015-16 and additional actuarial work relating to a three-year review of the CTP Scheme.
A premium filing is a report provided by a CTP insurer to the CTP regulator containing a range of information in support of its CTP premium submissions. Consistent with the CTP Act, each filing is assessed by the scheme actuary to ensure the CTP insurance scheme remains fully funded and that the premium is not excessive. The CTP regulator must then approve or reject the premium, and no later than 6 weeks after the day of receiving the premium application from the licensed insurer, advise the insurer about the decision and the reasons for the decision. Premiums can be rejected if they will not fully fund the present and likely future liabilities of the insurer; or the premiums are excessive; or the premium does not comply with the CTP premium guidelines. Premium filings are usually submitted on an annual basis. If an insurer does not submit an annual premium filing, the CTP regulator is required to conduct a review of the insurer's current premium to assess that it continues to meet all requirements under the CTP Act.
2. Administrative support expenses are associated with the reimbursement of salary and supperannuation expenses for the CMTEDD staff allocated to undertake the CTP regulator's functions. The CTP regulator does not employ any staff. The increase is due to positions being fully staffed during 2015-16 compared to 2014-15 which had some vacancy periods.
3. Refer to Note 6: *Auditor's Remuneration.*
4. The costs are mainly associated with the Personal Injury Register (the motor accident claims reporting and analysis system) and the reimbursement of IT costs incurred by CMTEDD to carry out the day to day activities of the CTP regulator.

NOTE 6. AUDITOR'S REMUNERATION

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

	2016	2015
Audit Services		
Audit fees paid or payable to the ACT Audit Office	17	16
Total Audit Fees	**17**	**16**

No other services were provided by the ACT Audit Office.

ACT Compulsory Third-Party Insurance Regulator
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 7. CASH AND CASH EQUIVALENTS

The CTP regulator holds one bank account with Westpac Bank as part of the whole-of-government banking arrangements.

	2016 $'000	2015 $'000
Cash at Bank	483	485
Total Cash and Cash Equivalents	**483**	**485**

The CTP regulator does not have any credit facilities.

NOTE 8. RECEIVABLES

Current Receivables		
Receivables Relating to the Levy	43	39
Net GST Receivable from the Australian Taxation Office	14	2
Total Receivables	**57**	**42**

No receivables are overdue or impaired at 30 June 2016.

Classification of ACT Government/Non-ACT Government Receivables

Receivables with Non-ACT Government Entities		
Receivables Relating to the Levy	43	39
Net GST Receivable from the Australian Taxation Office	14	2
Total Receivables with Non-ACT Government Entities	**57**	**42**
Total Receivables	**57**	**42**

No receivables are past due or impaired.

NOTE 9. CAPITAL WORKS IN PROGRESS

Capital Works in Progress are assets being constructed over periods of time in excess of the present reporting period. These assets often require extensive installation work or integration with other assets, and contrast with simpler assets that are ready for use when acquired, such as motor vehicles and equipment. Capital Works in Progress are not depreciated as the CTP regulator is not currently deriving any economic benefits from them.

Assets which are under construction relate to software.

ACT Compulsory Third-Party Insurance Regulator
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 9. CAPITAL WORKS IN PROGRESS (CONTINUED)

	2016 $'000	2015 $'000
Software Works in Progress	161	-
Total Capital Works in Progress	**161**	**-**

The software being constructed relates to the ACT CTP regulator's Personal Injury Register (PIR) of all motor vehicle accident claims and payments. The new software will allow CTP insurers to regularly update their claims and payment data without a number of past restrictive practices; streamline the PIR reporting process; and allow the CTP regulator to undertake more targeted and effective CTP scheme analysis.

Reconciliation of Capital Works in Progress

The following table shows the movement of Capital Works in Progress during 2015-16.

	Software Works in Progress $'000	Total $'000
Carrying Amount at the Beginning of the Reporting Period	-	-
Additions	161	-
Carrying Amount at the End of the Reporting Period	**161**	**-**

NOTE 10. PAYABLES

Current Payables	2016 $'000	2015 $'000
Accrued Expenses [1]	93	21
Total Payables	**93**	**21**

[1] The increase is mainly due to the receipt of invoices relating to Capital Works in Progress after the end of the reporting period.

Classification of ACT Government/Non-ACT Government Payables

	2016 $'000	2015 $'000
Payables with ACT Government Entities		
Accrued Expenses	79	18
Total Payables with ACT Government Entities	**79**	**18**
Payables with Non-ACT Government Entities		
Accrued Expenses	14	3
Total Payables with Non-ACT Government Entities	**14**	**3**
Total Payables	**93**	**21**

No payables are overdue for payment.

NOTE 11. FINANCIAL INSTRUMENTS

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

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 a change in market interest rates. The CTP regulator's exposure to market interest rates relates only to cash at bank and is insignificant.

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

Credit Risk

Credit risk arises from the financial assets of the CTP regulator. Credit risk represents the loss that would be recognised if counterparties fail to perform as contracted.

The CTP regulator's maximum exposure to credit risk at reporting date relates to the carrying amount of receivables as indicated in the Balance Sheet. The receivable at 30 June 2016 is mainly associated with the CTP Levy for June 2016 which has been collected by Access Canberra on behalf of the CTP regulator and only needs to be remitted to the CTP regulator. As a result, the CTP regulator's exposure to bad debts is not significant.

NOTE 11. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity Risk

Liquidity risk is the risk that the CTP regulator will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The CTP regulator manages this risk by maintaining a cash balance which will allow payment of all current financial liabilities when they fall due. The CTP regulator's exposure to liquidity risk and the management of this risk has not changed since the previous reporting period.

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), whether these changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.
The CTP regulator is not exposed to price risk.

Fair Value of Financial Assets and Liabilities

The carrying amounts and fair value of financial assets and liabilities at balance date are:

	Note No.	Carrying Amount 2016 $'000	Fair Value 2016 $'000	Carrying Amount 2015 $'000	Fair Value 2015 $'000
Financial Assets					
Cash and Cash Equivalents	7	483	483	485	485
Total Financial Assets		**483**	**483**	**485**	**485**
Financial Liabilities					
Payables	10	93	93	21	21
Total Financial Liabilities		**93**	**93**	**21**	**21**

Maturity Analysis

The CTP regulator does not have any financial assets or liabilities which mature outside the following financial year and the interest rate risk on assets and liabilities is not significant.

	2016 $'000	2015 $'000
Carrying Amount of each Category of Financial Asset and Financial Liability		
Financial Liabilities		
Financial Liabilities Measured at Amortised Cost	93	21

NOTE 12. 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.

	2016 $'000	2015 $'000
Total Cash and Cash Equivalents recorded in the Balance Sheet	483	485
Cash and Cash Equivalents at the End of the Reporting Period as recorded in the Cash Flow Statement	**483**	**485**

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

	2016 $'000	2015 $'000
Operating Surplus	102	183
Change in Assets and Liabilities		
(Increase)/Decrease in Receivables	(15)	4
Increase/(Decrease) in Payables	72	(36)
Net Cash Inflows from Operating Activities	**159**	**151**

NOTE 13. THIRD PARTY MONIES COLLECTED ON BEHALF OF THE NOMINAL DEFENDANT FUND

Claims and administrative costs of the Nominal Defendant Fund are paid by raising a levy on all licensed CTP insurers in the ACT as well as the Commonwealth and Territory Governments.

The Nominal Defendant Levy was set at 3.3% for 2015-16 for all CTP Insurance policies collected.

All cash is paid directly to the Office of the Nominal Defendant.

ACT Compulsory Third-Party Insurance Regulator
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

13. THIRD PARTY MONIES COLLECTED ON BEHALF OF THE NOMINAL DEFENDANT FUND (CONTINUED)

	2016 $'000	2015 $'000
Levy Collected		
Levies from insurers	4,662	6,929
Levies from the Commonwealth Government	15	23
Levies from the ACT Government	42	63
Total Levy Collected [1]	**4,719**	**7,015**

[1] The decrease is due to the timing of when the Nominal Defendant Levy invoices are paid. The CTP regulator issues invoices for the Nominal Defendant Levy on a quarterly basis. Once the invoices are paid by the various parties, the money collected is then forwarded to the Office of the Nominal Defendant.

	2016 $'000	2015 $'000
Cash Disclosure		
Balance at the Beginning of the Reporting Period	-	-
Cash Receipts	4,719	7,015
Cash Payments	4,719	7,015
Balance at the End of the Reporting Period	-	-
Financial Position		
Balance at the Beginning of the Reporting Period	-	-
Receivables outstanding	1,230	1,256
Payables outstanding	1,230	1,256
Balance at the End of the Reporting Period	-	-

ACT Compulsory Third-Party Insurance Regulator
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 14. BUDGETARY REPORTING - EXPLANATION OF MAJOR VARIANCES BETWEEN ACTUAL AMOUNTS AND ORIGINAL BUDGET AMOUNTS

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

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

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

Operating Statement Line Items	Actual 2015-16 $'000	Original Budget[1] 2015-16 $'000	Variance $'000	Variance %	Variance Explanation
Supplies and Services	409	443	(34)	-8%	The lower than anticipated Supplies and Services mainly relates to lower than anticipated actuarial expenses largely due to NRMA deferring it's 2015-16 full premium filing and the slower than anticipated transition of the ACT Personal Injury Register database onto the ACT Government's ICT Platform. This is partially offset by the CTP regulator's commitment to Road Safety Initiatives that were budgeted against other expenses.
Depreciation and Amortisation	-	38	(38)	-100%	The work associated with the ACT transitioning away from the QLD Personal Injury Register (PIR) hosted system and the CTP regulator implementing its own claims register on the ACT Government's ICT platform was not yet complete at 30 June 2016, hence there was no amortisation recorded in 2015-16.
Other Expenses	-	17	(17)	-100%	Expenses relating to road safety initiatives were originally budgeted under other expenses, but were reclassified to Supplies and Services. The actual cost of $0.076 million is higher than budget due to reduced expenses providing the capacity to contribute more to road safety initiatives.

ACT Compulsory Third-Party Insurance Regulator
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 14. BUDGETARY REPORTING - EXPLANATION OF MAJOR VARIANCES BETWEEN ACTUAL AMOUNTS AND ORIGINAL BUDGET AMOUNTS (CONTINUED)

Balance Sheet Line Items	Actual 2015-16	Original Budget[1] 2015-16	Variance	Variance	Variance Explanation
	$'000	$'000	$'000	%	
Cash and Cash Equivalents	483	253	230	91%	The higher than budgeted Cash and Cash Equivalents balance predominately relates to lower than anticipated expenses and software project costs during the year.
Capital Works in Progress	161	-	161	100%	The transition of the ACT Personal Injury Register database onto the ACT Government's ICT Platform was slower than anticipated. As a result, expenses were classified as Capital Works in Progress at 30 June 2016 instead of being classified as intangibles.
Intangible Assets	-	249	(249)	-100%	The transition of the ACT Personal Injury Register database onto the ACT Government's ICT Platform was slower than anticipated. As a result, expenses were classified as Capital Works in Progress at 30 June 2016 instead of being classified as intangibles.
Payables	93	57	36	63%	The higher than expected payables largely relates to invoices in relation to the software project that were received after 30 June 2016.

NOTE 14. BUDGETARY REPORTING - EXPLANATION OF MAJOR VARIANCES BETWEEN ACTUAL AMOUNTS AND ORIGINAL BUDGET AMOUNTS (CONTINUED)

Cash Flow Statement Line Items	Actual 2015-16 $'000	Original Budget[1] 2015-16 $'000	Variance $'000	Variance %	Variance Explanation
Supplies and Services	338	443	(105)	-24%	The lower than anticipated Supplies and Services mainly relates to lower than anticipated actuarial expenses largely due to NRMA deferring it's 2015-16 full premium filing and the slower than anticipated transition of the ACT Personal Injury Register database onto the ACT Government's ICT Platform. This is partially offset by the CTP regulator's commitment to Road Safety Initiatives that were budgeted against other expenses.
Other	-	17	(17)	-100%	Expenses relating to road safety initiatives were originally budgeted under other expenses, but were reclassified to Supplies and Services. The actual cost of $0.076 million is higher than budget due to reduced expenses providing the capacity to contribute more to road safety initiatives.
Capital Works in Progress	161	-	161	100%	The transition of the ACT Personal Injury Register database onto the ACT Government's ICT Platform was slower than anticipated. As a result, cash outflows were classified as Capital Works in Progress at 30 June 2016 instead of being classified as intangibles.
Intangible Assets	-	287	(287)	-100%	The transition of the ACT Personal Injury Register database onto the ACT Government's ICT Platform was slower than anticipated. As a result, cash outflows were classified as Capital Works in Progress at 30 June 2016 instead of being classified as intangibles.

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

Note: # in the Line Item Variance % column represents a variance that is greater than 999 per cent or less than -999 per cent.

Statement of Performance

For the Year Ended

30 June 2016

ACT Compulsory Third-Party

Insurance Regulator

REPORT OF FACTUAL FINDINGS

ACT COMPULSORY THIRD-PARTY INSURANCE REGULATOR

To the Members of the ACT Legislative Assembly

Report on the statement of performance

The statement of performance of the ACT Compulsory Third-Party Insurance Regulator (the Regulator) for the year ended 30 June 2016 has been reviewed.

Responsibility for the statement of performance

The Regulator 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 accountability indicators reported in the statement of performance.

The auditor's responsibility

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

The review was conducted in accordance with Australian Auditing Standards applicable to review engagements, to provide assurance that the results of the accountability indicators reported in 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 Regulator, performing analytical and other review procedures and examining other available evidence. These review procedures do not provide all of the evidence that would be required in an audit, therefore, the level of assurance provided is less than that given in an audit. An audit has not been performed and no audit opinion is being expressed on the statement of performance.

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

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

As disclosed in the statement of performance, in accordance with the *Financial Management (Statement of Performance Scrutiny) Guidelines 2016*, the Total Cost information included in the statement of performance has not been reviewed.

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 accountability indicators, reported in the statement of performance of the Regulator for the year ended 30 June 2016, are not fairly presented in accordance with the *Financial Management Act 1996.*

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

Bernie Sheville
Director, Financial Audits
15 August 2016

ACT Compulsory Third-Party Insurance Regulator
Statement of Performance
For the Year Ended 30 June 2016

Statement of Responsibility

In my opinion, the Statement of Performance is in agreement with the Australian Capital Territory Compulsory Third-Party Insurance Regulator's records, and fairly reflects the service performance of the Australian Capital Territory Compulsory Third-Party Insurance Regulator for the year ended 30 June 2016, and also fairly reflects the judgements exercised in preparing it.

Lisa Holmes

Acting ACT Compulsory Third Party Insurance Regulator

12 August 2016

ACT Compulsory Third-Party Insurance Regulator
Statement of Performance
For the Year Ended 30 June 2016

	Original Target 2015-16	Actual Result 2015-16	Variance from Original Target	Explanation of Material Variances
TOTAL COST ($'000)	498	409	(18%)	The lower than expected cost is largely due to lower actuarial costs and a delay in the finalisation of a software project that resulted in no amortisation being recognised in 2015-16.
Accountability Indicators				
a. CTP premiums are approved in accordance with the *Road Transport (Third-Party Insurance) Act 2008.* [1]	Review annual CTP premium filings. [2]	Premium filings were received from GIO and AAMI in July 2015. Additional premium filings were also received by GIO, AAMI and APIA in November 2015. NRMA premium filings were received in November 2015, and again in April 2016. All of these premium filings were assessed and approved in accordance with the Act.	-	
b. The scheme is fully funded.	Actuarial review of premium filing applications by 30/06/2016.	An actuarial assessment was conducted in respect of each premium filing to ensure each met the fully funded test, that is, the premium met the present and likely future liabilities of the insurer under the CTP insurance scheme.	-	
c. Make guidelines under the Act.	Monitor and revise Premium guidelines and early payment guidelines by 30/6/2016 as necessary.	The guidelines under the Act were discussed as a standing item at the 2015-16 Industry Council of Australia meeting, as well as out-of-session with insurers. The premium guidelines were revised, after discussion with CTP insurers, to incorporate a new CTP premium class for rideshare vehicles (25A). No revisions to the early payment guidelines have been required to date.	-	

	Original Target 2015-16	Actual Result 2015-16	Variance from Original Target	Explanation of Material Variances
d. To continue to refine the system of CTP insurance for vehicles in the ACT in conjunction with insurers.	Participation at Industry Council of Australia (ICA) meetings.	The CTP regulator and insurers met once during 2015-16 at a meeting facilitated by the ICA (out-of-session teleconferences were also conducted with insurers on important issues). The meeting and teleconferences included discussion on matters relating to improving the operation of the CTP scheme. This included: developing Sharing Guidelines for the Industry Deed; reviewing the data, circumstances and approach to ridesharing; revising claims forms to reduce duplication and address issues with doctors not filling out two medical forms; reviewing the premium filing process to improve efficiency; and progressing implementation of the Personal injury Register.	-	
e. Promote public awareness of the causes of motor accidents through funding measures directed at reducing causes of motor vehicle accidents.	Contributing to road safety strategies consistent with the CTP regulator's function to promote public awareness of the causes of motor accidents.	The CTP regulator is contributing $75,500 to various road safety strategies aimed at mitigating third-party motor vehicle injuries in 2015-16. This comprised of: $16,300 for a speeding campaign; $6,000 for a texting while driving initiative; $26,600 for a safer cycling initiative; and $26,600 for a driver distraction campaign.	-	
f. Complaints handling within 10 working days of receipt of the complaint. [3]	85% compliance.	For the period July 2015 to June 2016, there has been 80% compliance with this accountability indicator, in cases where no further information was required from another directorate.	(5.9%)	The one matter that was not finalised within the 10 working day timeframe was a complex matter that involved discussions with two CTP insurers.

The above Accountability Indicators were examined by the ACT Audit Office in accordance with the *Financial Management Act 1996*. The Total Cost indicator was not examined by the ACT Audit Office in accordance with the Financial Management (Statement of Performance Scrutiny) Guidelines 2016.

[1] Approval is taken to mean the time that revised CTP premiums are released to the public, following the approval of the premiums made by the CTP Regulator. This may not align with the effective date adopted previously.

[2.] A premium filing is a report provided by a CTP insurer to the CTP regulator containing a range of information in support of its CTP premium submissions. Consistent with the CTP Act, each filing is assessed by the scheme actuary to ensure the CTP insurance scheme remains fully funded and that the premium is not excessive. The CTP regulator must then approve or reject the premium, and no later than 6 weeks after the day of receiving the premium application from the licensed insurer, advise the insurer about the decision and the reasons for the decision. Premiums can be rejected if they will not fully fund the present and likely future liabilities of the insurer; or the premiums are excessive; or the premium does not comply with the CTP premium guidelines. Premium filings are usually submitted on an annual basis. If an insurer does not submit an annual premium filing, the CTP regulator is required to conduct a review of the insurer's current premium to assess that it continues to meet all requirements under the CTP Act.

[3.] Responses to complaints within 10 working days of receipt of the complaint apply in cases where no other directorate is involved. Also refers to written correspondence only, not phone calls.

Financial Statements

For the Year Ended

30 June 2016

Lifetime Care and Support Fund

Lifetime Care and Support Fund
Management Discussion and Analysis
For the Year Ended 30 June 2016

General Overview

Objectives

The Lifetime Care and Support Fund (LTCS fund) was established under the *Lifetime Care and Support (Catastrophic Injuries) Act 2014* (LTCS Act) and commenced operation on 1 July 2014. The LTCS fund reflects the financial operations of the Lifetime Care and Support Scheme (LTCS Scheme). The LTCS Scheme provides on-going reasonable and necessary treatment and care to people who have been catastrophically injured as a result of a motor accident in the Australian Capital Territory, on or after 1 July 2014, on a no-fault basis. The LTCS Scheme is funded by a levy on Compulsory Third-Party Insurance (CTP) policies that commenced on or after 1 July 2014.

As part of the ACT Government's decision to implement a National Injury Insurance Scheme, recent amendments to the LTCS Act extend the LTCS Scheme to also cover catastrophically injured ACT private sector workers from 1 July 2016. A new LTCS Levy on workers insurers and self insurers will apply to fund the extension of the LTCS Scheme.

Overview of the 2015-16 Financial Outcome

The LTCS fund is Territorial in nature as it is administered on behalf of the ACT Government in accordance with the LTCS Act.

The LTCS fund's operating result for 2015-16 is a surplus of $8.356 million, compared to the budgeted break even position (a budgeted surplus of $0.046 million). This operating surplus is mainly due to the impact of no new participants entering the LTCS Scheme during 2015-16.

At 30 June 2016, the LTCS fund's current assets ($18.458 million) exceed its current liabilities ($0.784 million). Its total assets ($18.458 million) also exceed total liabilities ($17.587 million). This means that the LTCS fund has sufficient funds to meet both its short-term and long-term liabilities. Sufficiency of the LTCS Levy to fund the Scheme is reassessed every year by the LTCS Commissioner of the ACT and it is supported by an independent actuary report. The LTCS fund expects variability each year (unders and overs) compared with the average estimated costs used when setting the LTCS Levy each year.

Risk Management

Although the LTCS fund is a separate reporting entity for the purposes of the *Financial Management Act 1996* and has an independent statutorily appointed Commissioner, the LTCS fund is part of the Chief Minister, Treasury and Economic Development Directorate (CMTEDD). As such, the LTCS fund's risk management plan is incorporated within the risk management plan of the CMTEDD prepared in accordance with the Australian/New Zealand risk management AS/NZS ISO 31000:2009 and the ACT Government's "Enterprise Wide Risk Management Framework".

The LTCS fund has overall responsibility for risk management, and for ensuring compliance with the risk management plan.

The key risk for the LTCS fund is associated with the sufficiency of the LTCS Levy in relation to the anticipated lifetime treatment and care costs of participants in the LTCS Scheme. The LTCS fund expects variability in the actual costs compared with the average costs anticipated in the budget. It is envisaged that the LTCS Levy reassessed every year together with the anticipated investment income will be sufficient to meet the expected LTCS fund's liabilities when they become payable.

Lifetime Care and Support Fund
Management Discussion and Analysis
For the Year Ended 30 June 2016

Directorate's Territorial Statement of Income and Expenses

The following financial information is based on the audited Financial Statements for 2015-16 and the forward estimates contained in the 2015-16 Budget Statements.

Total Expenses

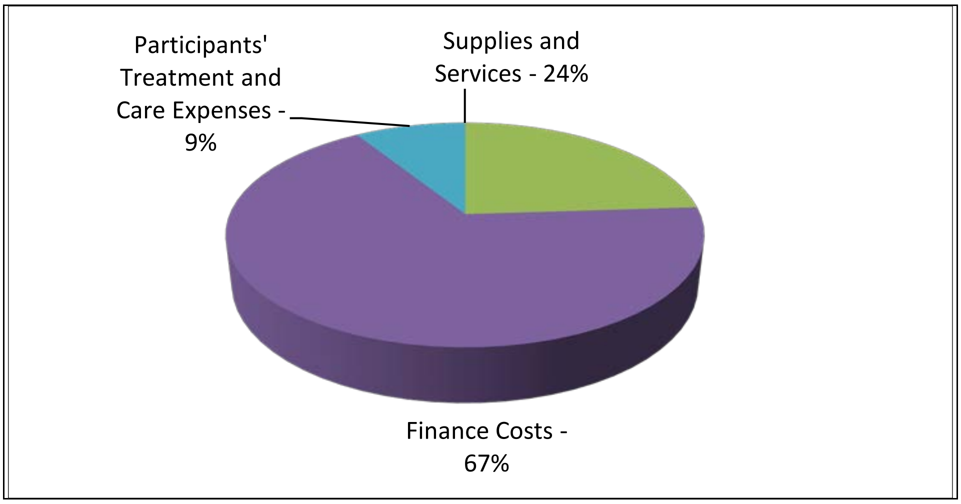
1. Components of Expenses

For the financial year ended 30 June 2016, the LTCS fund recorded total expenses of $1.531 million. The largest component was the finance cost associated with the unwinding of the discount rate on the provision for future treatment and care costs of the LTCS Scheme participants. The finance costs represent 67 per cent of the total expenses or $1.027 million and reflect the increase in the provision for future treatment and care costs of the LTCS Scheme participants, from the end of the previous financial year to the end of the current financial year due to discounted claims not settled, becoming effectively one year closer to settlement.

The supplies and services expenses mainly include administrative support expenses ($0.155 million) associated with the reimbursement of salary and superannuation expenses for the CMTEDD staff allocated to carry out the LTCS Scheme's functions. The LTCS fund does not employ any staff.

Figure 1 indicates the components of the LTCS fund's expenses for 2015-16.

Figure 1 – Components of Expenses



2. Comparison to Original Budget

Total expenses of $1.531 million for the financial year were $9.018 million (or 86%) lower than the 2015-16 Budget of $10.549 million. This was mainly due to the impact of no new participants entering the LTCS Scheme during 2015-16 and hence no provision being required for the future treatment and care costs of new participants.

3. Comparison to 2014-15 Actual

Total expenses of $1.531 million for the financial year were $16.534 million (or 92%) lower than last year's actual expenses of $18.065 million. This was mainly due to the impact of no new participants entering the LTCS Scheme during 2015-16 compared to five participants entering the Scheme in 2014-15.

Lifetime Care and Support Fund
Management Discussion and Analysis
For the Year Ended 30 June 2016

4. Future Trends

In the 2015-16 Budget, expenses were estimated at similar levels in the forward years. The treatment and care costs of the LTCS Scheme's future participants and the associated timing of payments was reassessed at the time of the 2015-16 Budget based on independent actuarial projections. It must be recognised that the number of new participants and their associated treatment and care expense profiles will be volatile, particularly in the early years of the Scheme.

Although not anticipated in the 2015-16 Budget, recent amendments to the LTCS Act extend the LTCS Scheme to also cover catastrophically injured ACT private sector workers from 1 July 2016. The total expenses of the LTCS fund will increase going forward as a result of this extension of the LTCS Scheme.

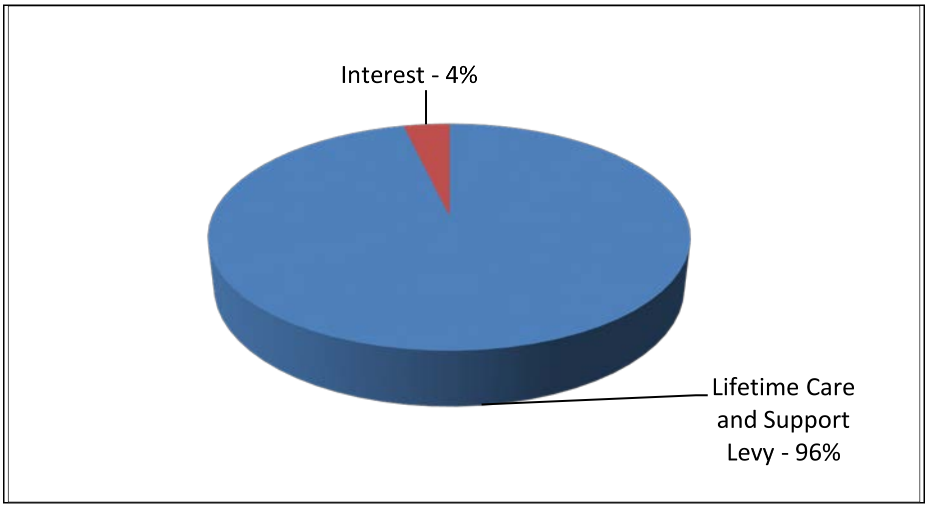
Total Income

1. Components of Income

For the financial year ended 30 June 2016, the LTCS fund recorded a total income of $9.887 million. The LTCS fund's income was derived from the LTCS Levy ($9.522 million) and interest from cash at bank ($0.365 million).

Figure 2 indicates the components of the LTCS fund's income for 2015-16.

Figure 2 – Components of Income



2. Comparison to Original Budget

Income for the financial year was $0.708 million, or 7 per cent lower than the 2015-16 Budget of $10.595 million. This is mainly associated with the other revenue which was budgeted in anticipation of the investment of funds not required in the short-term. The investment of funds has been delayed due to the uncertainties in the investment markets. This decrease was partially offset by the higher than anticipated interest from cash at bank pending the investment of funds. The revenue from the LTCS Levy was also lower than last year by $0.328 million due to lower than anticipated number of vehicles being registered.

Lifetime Care and Support Fund
Management Discussion and Analysis
For the Year Ended 30 June 2016

3. Comparison to 2014-15 Actual

Total income was $0.091 million or 1% higher than last year's actual income of $9.796 million.

4. Future Trends

Income is budgeted to increase in the future mainly due to the increase in income from LTCS Levy associated with the expected growth in population. In accordance with the LTCS Act, the LTCS Levy will be reassessed each year. Income is also expected to increase due to returns associated with the investment of funds not required in the short-term. The long-term investment plan for the LTCS fund was finalised during 2015-16. However, the investment of funds was delayed due to uncertainties in the investment markets.

As mentioned previously, although not anticipated in the 2015-16 Budget, recent amendments to the LTCS Act extend the LTCS Scheme to also cover catastrophically injured ACT private sector workers. A new LTCS Levy on workers insurers and self insurers will apply to fund the extension of the LTCS Scheme to catastrophically injured ACT private sector workers from 1 July 2016.

Directorate's Territorial Statement of Assets and Liabilities

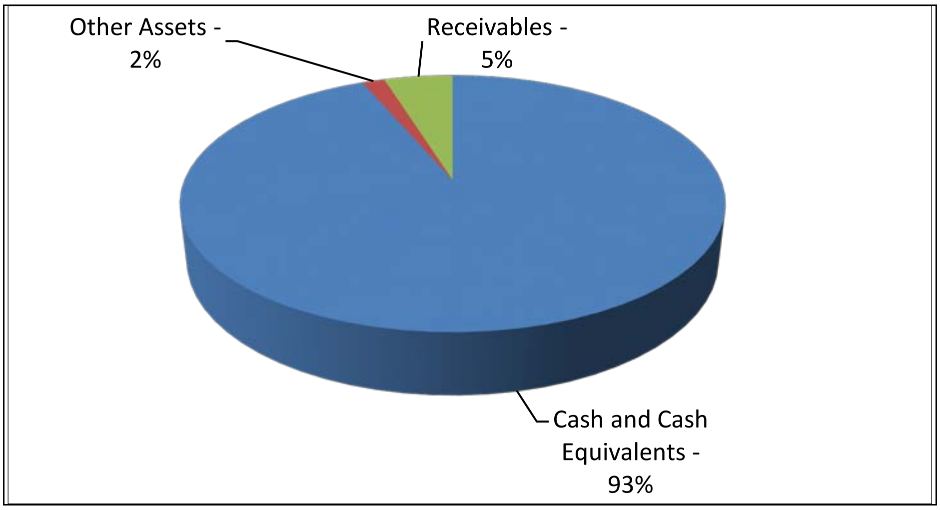
Total Assets

1. Components of Total Assets

The total asset position at 30 June 2016 was $18.458 million and shows the LTCS fund held 93 percent of its assets in Cash.

Figure 3 indicates the components of the LTCS fund's total assets as at 30 June 2016.

Figure 3 – Total Assets at 30 June 2016



2. Comparison to Budget

Total assets at 30 June 2016 of $18.458 million were largely in line with the Budget of $18.556 million. The cash reflects the accumulation of funds to provide for the LTCS Scheme participants, the number of which is budgeted to increase each year. Funds are collected to provide for the estimated whole of life costs of participants in the year they are accepted into the Scheme. The long-term investment plan for the LTCS fund was finalised during 2015-16. It provides options for investing funds not required in the short term. However, the investment of funds has been delayed due to uncertainties in the investment markets.

3. Comparison to 30 June 2015 Actual

Total assets were $9.189 million or 99% higher than assets at 30 June 2015 of $9.269 million. This was mainly due to the increase in cash held in the bank from an additional year's worth of LTCS levy collections.

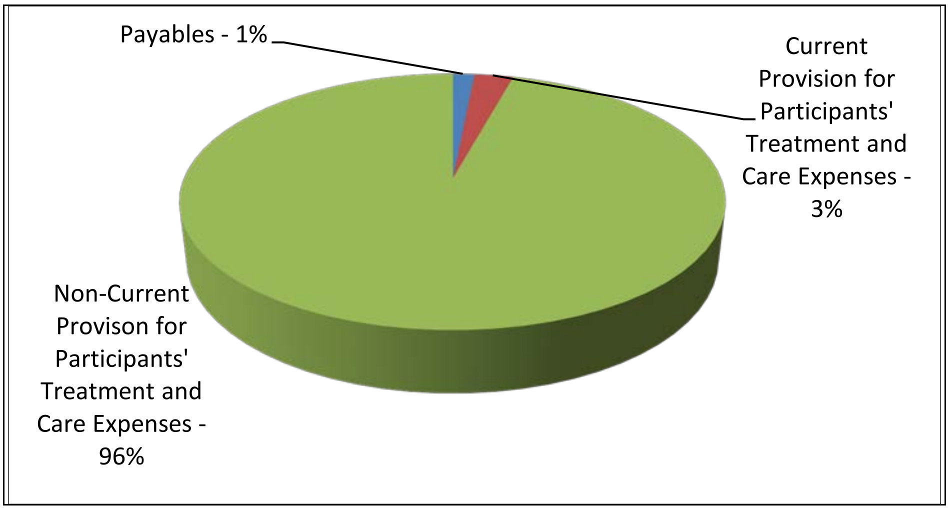
Total Liabilities

1. Components of Total Liabilities

The LTCS fund's total liabilities of $18.371 million at 30 June 2016 largely relate to the provision for future treatment and care costs of participants in the LTCS Scheme, of which the current component is $0.505 million and the non-current component is $17.587 million.

Figure 4 below shows the components of the LTCS fund's total liabilities as at 30 June 2016.

Figure 4 – Total Liabilities at 30 June 2016



2. Comparison to Budget

Liabilities at 30 June 2016 were only $0.132 million lower than the Budget of $18.503 million. These were largely in line with the Budget.

3. Comparison to 30 June 2015 Actual

Total liabilities at 30 June 2016 were $0.833 million or 5% higher than the liabilities at 30 June 2015 of $17.538 million. This increase is mainly associated with the movement in the provision for the future treatment and care costs of LTCS Scheme participants from the unwinding of the discount rate, based on an independent actuarial assessment.

INDEPENDENT AUDIT REPORT

LIFETIME CARE AND SUPPORT FUND

To the Members of the ACT Legislative Assembly

Report on the financial statements

The financial statements of the Lifetime Care and Support Fund (the Fund) for the year ended 30 June 2016 have been audited. These comprise the statement of income and expenses on behalf of the Territory, statement of assets and liabilities on behalf of the Territory, statement of changes in equity on behalf of the Territory, cash flow statement on behalf of the Territory and accompanying notes.

Responsibility for the financial statements

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

The auditor's responsibility

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

The audit was conducted in accordance with Australian Auditing Standards to obtain 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 Fund.

Electronic presentation of the audited financial statements

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

Independence

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

Audit opinion

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

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

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

Emphasis of matter

Note 2(o): 'Significant Accounting Judgements and Estimates' and Note 13: 'Provision for Participants' Treatment and Care Expenses' of the financial statements disclose the significant uncertainty associated with the estimating the provision for future treatment and care costs of participants in the Fund and the related expenses.

As disclosed in these notes, this significant uncertainty is due to the long term nature of the provision, small number of participants in the Fund and the relatively short period of time that the Fund has been operating.

The audit opinion is not qualified in respect of this matter.

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

Bernie Sheville
Director, Financial Audits
2 September 2016

LIFETIME CARE AND SUPPORT FUND
FINANCIAL STATEMENTS
For the Year Ended 30 June 2016

STATEMENT OF RESPONSIBILITY

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

David Nicol
Under Treasurer
Delegate for the Director-General
Chief Minister, Treasury and
Economic Development Directorate
31 August 2016

Karen Doran
Lifetime Care and Support Commissioner
of the ACT

25 August 2016

LIFETIME CARE AND SUPPORT FUND
FINANCIAL STATEMENTS
For the Year Ended 30 June 2016

STATEMENT BY THE CHIEF FINANCE OFFICER

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

Lisa Holmes
Chief Finance Officer
Director, Financial Framework Management and Insurance
Chief Minister, Treasury and Economic Development Directorate
24 August 2016

LIFETIME CARE AND SUPPORT FUND

TERRITORIAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

Lifetime Care and Support Fund
Statement of Income and Expenses on Behalf of the Territory
For the Year Ended 30 June 2016

	Note No.	Actual 2016 $'000	Original Budget 2016 $'000	Actual 2015 $'000
Income				
Revenue				
Lifetime Care and Support Levy	3	9,522	9,850	9,666
Interest	4	365	41	130
Other Revenue	17	-	704	-
Total Revenue		9,887	10,595	9,796
Total Income		**9,887**	**10,595**	**9,796**
Expenses				
Supplies and Services	5	367	419	329
Finance Costs	7	1,027	408	-
Participants' Treatment and Care Expenses	8	137	9,722	17,736
Total Expenses		**1,531**	**10,549**	**18,065**
Operating Surplus/ (Deficit)		**8,356**	**46**	**(8,269)**
Total Comprehensive Income/ (Deficit)		**8,356**	**46**	**(8,269)**

The above Statement of Income and Expenses on Behalf of the Territory should be read in conjunction with the accompanying notes.

Lifetime Care and Support Fund
Statement of Assets and Liabilities on Behalf of the Territory
As at 30 June 2016

	Note No.	Actual 2016 $'000	Original Budget 2016 $'000	Actual 2015 $'000
Current Assets				
Cash and Cash Equivalents	9	17,265	2,000	8,443
Receivables	10	897	-	826
Other Assets	11	296	-	-
Total Current Assets		**18,458**	**2,000**	**9,269**
Non-Current Assets				
Investments	17	-	16,556	-
Total Non-Current Assets		**-**	**16,556**	**-**
Total Assets		**18,458**	**18,556**	**9,269**
Current Liabilities				
Payables	12	279	-	155
Provision for Participants' Treatment and Care Expenses	13	505	737	574
Total Current Liabilities		**784**	**737**	**729**
Non-Current Liabilities				
Provision for Participants' Treatment and Care Expenses	13	17,587	17,766	16,809
Total Non-Current Liabilities		**17,587**	**17,766**	**16,809**
Total Liabilities		**18,371**	**18,503**	**17,538**
Net Assets/ (Liabilities)		**87**	**53**	**(8,269)**
Equity				
Accumulated Funds/ (Deficit)		87	53	(8,269)
Total Equity		**87**	**53**	**(8,269)**

The above Statement of Assets and Liabilities on Behalf of the Territory should be read in conjunction with the accompanying notes.

Lifetime Care and Support Fund
Statement of Changes in Equity on Behalf of the Territory
For the Year Ended 30 June 2016

	Accumulated Funds/ (Deficit) Actual 2016 $'000	Total Equity Actual 2016 $'000	Original Budget 2016 $'000
Balance at 1 July 2015	(8,269)	(8,269)	7
Comprehensive Income			
Operating Surplus	8,356	8,356	46
Total Comprehensive Income	**8,356**	**8,356**	**46**
Balance at 30 June 2016	**87**	**87**	**53**

	Accumulated (Deficit) Actual 2015 $'000	Total Equity Actual 2015 $'000
Balance at 1 July 2014	-	-
Comprehensive Income		
Operating (Deficit)	(8,269)	(8,269)
Total Comprehensive (Deficit)	**(8,269)**	**(8,269)**
Balance at 30 June 2015	**(8,269)**	**(8,269)**

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

Lifetime Care and Support Fund
Cash Flow Statement on Behalf of the Territory
For the Year Ended 30 June 2016

Cash Flows from Operating Activities	Note No.	Actual 2016 $'000	Original Budget 2016 $'000	Actual 2015 $'000
Receipts				
Lifetime Care and Support Levy		9,442	9,850	8,859
Interest Received		365	41	130
Distribution from Investments with the Territory Banking Account		-	211	-
Goods and Services Tax Input Tax Credits from the Australian Taxation Office		75	-	2
Total Receipts from Operating Activities		**9,882**	**10,102**	**8,991**
Payments				
Supplies and Services		358	419	262
Goods and Services Tax Paid to Suppliers		67	-	21
Participants' Treatment and Care		635	329	265
Total Payments for Operating Activities		**1,060**	**748**	**548**
Net Cash Inflows from Operating Activities	15	**8,822**	**9,354**	**8,443**
Cash Flows from Investing Activities				
Payments				
Purchase of Investments		-	8,654	-
Total Payments for Investing Activities		**-**	**8,654**	**-**
Net Cash (Outflows) from Investing Activities		**-**	**(8,654)**	**-**
Net Cash Inflows/(Outflows) from Financing Activities		**-**	**-**	**-**
Net Increase in Cash and Cash Equivalents		**8,822**	**700**	**8,443**
Cash and Cash Equivalents at the Beginning of the Reporting Period		8,443	1,300	-
Cash and Cash Equivalents at the End of the Reporting Period	15	**17,265**	**2,000**	**8,443**

The above Cash Flow Statement on Behalf of the Territory should be read in conjunction with the accompanying notes.

Lifetime Care and Support Fund
Financial Statements
For the Year Ended 30 June 2016

Note Index

Lifetime Care and Support Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 1. OBJECTIVES OF THE LIFETIME CARE AND SUPPORT FUND

The Lifetime Care and Support Fund (LTCS fund) was established under the *Lifetime Care and Support (Catastrophic Injuries) Act 2014* (LTCS Act) and commenced operation on 1 July 2014.

Operations and Principal Activities

The LTCS fund reflects the financial operations of the Lifetime Care and Support Scheme (LTCS Scheme). The LTCS Scheme provides on-going treatment and care to people who have been catastrophically injured as a result of a motor accident in the Australian Capital Territory, on or after 1 July 2014, on a no-fault basis. The LTCS Scheme is funded by a levy on Compulsory Third-Party Insurance (CTP) policies that commenced on or after 1 July 2014.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The LTCS fund has been established as a separate directorate under the *Financial Management Act 1996* (FMA), in accordance with section 75 of the LTCS Act and the Financial Management (Directorates) Guidelines 2015 (No 1).

The FMA requires the preparation of annual financial statements for ACT Government agencies.

The FMA and the *Financial Management Guidelines* issued under the Act, requires the LTCS fund financial statements to include:

(i) a Statement of Income and Expenses on Behalf of the Territory for the year;

(ii) a Statement of Assets and Liabilities on Behalf of the Territory at the of the year;

(iii) a Statement of Changes in Equity on Behalf of the Territory for the year;

(iv) a Cash Flow Statement on Behalf of the Territory for the year;

(v) the significant accounting policies adopted for the year; and

(vi) such other statements as are necessary to fairly reflect the financial operations of the LTCS fund 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.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(a) Basis of Preparation - Continued

At 30 June 2016, the LTCS fund's current assets ($18.458 million) are sufficient to meet its current liabilities ($0.784 million). Its total assets ($18.458 million) exceed its total liabilities ($18.371 million).

Sufficiency of the LTCS Levy in relation to the anticipated lifetime treatment and care costs of participants in the LTCS Scheme is reassessed every year, based on an independent actuary's report. The LTCS fund expects variability each year (unders and overs) compared with the average estimated costs used when setting the LTCS Levy each year. Notwithstanding the year to year volatility in outcome, it is envisaged that the LTCS Levy, which is reassessed every year, together with the anticipated investment income, will be sufficient to meet the expected LTCS fund's liabilities as they become payable.

(b) Territorial Items

The LTCS fund only produces Territorial financial statements. The Territorial financial statements include income, expenses, assets, and liabilities that the LTCS fund administers on behalf of the ACT Government but does not control. LTCS levies are 'taxes, fees and fines' in nature. Section 78 of the LTCS Act deems the fund levies, interest and all other money paid into the LTCS fund to be appropriated for the purposes of the LTCS fund. Payments from the LTCS fund are made in accordance with the LTCS Act.

(c) The Reporting Period

These financial statements state the financial performance, changes in equity and cash flows of the LTCS fund for the year ended 30 June 2016, together with the financial position of the LTCS fund as at 30 June 2016.

(d) Comparative Figures

Budget Figures

To facilitate a comparison with the Budget Papers, as required by the FMA, budget Information for 2015-16 has been presented in the financial statements. Budget numbers in the financial statements are the original budget numbers that appear in the Budget Papers.

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.

(e) 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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(f) Revenue Recognition

Revenue is recognised at the fair value of the consideration received or receivable in the Statement of Income and Expenses on Behalf of the Territory. In addition, the following criteria must be met before revenue is recognised.

Lifetime Care and Support Levy

Section 84 of the LTCS Act requires the Lifetime Care and Support Commissioner of the Australian Capital Territory (LTCS Commissioner) to determine the Lifetime Care and Support Levy (LTCS Levy) for a contribution period. The LTCS Levy applies to all CTP insurance policies issued under the *Road Transport (Third-Party Insurance) Act 2008* that commence during the reporting period and payable upfront on any CTP insurance policy taken out during the reporting period.

The LTCS Levy is recognised as revenue at the time the LTCS fund gains control over the economic benefits embodied in the LTCS Levy. The LTCS fund has assessed that control is established when a taxpayer registers a motor vehicle and pays the LTCS Levy.

Interest

Interest revenue is recognised using the effective interest method.

(g) Finance Costs

Finance costs are expensed in the reporting period in which they are incurred.

(h) Current and Non-Current Items

Assets and liabilities are classified as current or non-current in the Statement of Assets and Liabilities on Behalf of the Territory 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 LTCS 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.

(i) Cash and Cash Equivalents

Cash and cash equivalents include cash at bank.

(j) Receivables

Accounts receivable are initially recognised at fair value and are subsequently measured at amortised cost, with any adjustments to the carrying amount being recorded in the Statement of Income and Expenses on Behalf of the Territory.

An allowance for impairment losses represents the amount of receivables the LTCS fund estimates will not be repaid. The allowance for impairment losses is based on objective evidence and a review of overdue balances.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(j) Receivables - Continued

The receivable at 30 June 2016 is mainly associated with the LTCS Levy for June 2016 which was collected by Access Canberra on behalf of the LTCS fund and only needs to be remitted to the LTCS fund.

No bad debts were written off during the year ended 30 June 2016 (30 June 2015: Nil).

(k) Payables

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

Payables include Trade Payables and Accrued Expenses.

(l) Provision for Participants' Treatment and Care Expenses

The provision relates to the estimated future treatment and care costs of LTCS Scheme participants in the ACT. The LTCS Scheme provides on-going treatment and care to people who have been catastrophically injured as a result of a motor accident in the ACT, on or after 1 July 2014, on a no-fault basis. The liability for the participant treatment and care costs is measured as the present value of the expected future payments for all claims incurred to the valuation date and based on independent actuarial projections. The valuation uses a long-term fixed gap assumption of 2% per annum based on the difference between an inflation rate of 4% per annum and a discount rate of 6% per annum.

The LTCS fund does not fall within the scope of Australian Accounting Standard AASB 1023: *General Insurance Contracts* as its operations are not underpinned by contracts of insurance with its participants. Accordingly, the provision for estimated future treatment and care costs of LTCS Scheme participants is based on AASB 137: *Provisions, Contingent Liabilities and Contingent Assets.*

(m) Employee Benefits

The LTCS fund does not employ any staff. The Financial Framework Management and Insurance Branch of the Economic and Financial Group within the Chief Minister, Treasury and Economic Development Directorate (CMTEDD) provides support to the LTCS fund by providing staff to perform the functions of the LTCS fund. In 2015-16 the LTCS fund reimbursed CMTEDD for employee expenses associated with the staff allocated to supporting the LTCS fund. These expenses are reflected under 'supplies and services' (Note 5: *Supplies and Services*). Accrued employee benefits that remain unpaid at the end of the reporting period for these staff are reflected in CMTEDD's financial statements.

(n) Budgetary Reporting – Explanations of Major Variances between Actual Amounts and Original Budget Amounts

Explanations of major variances between the 2015-16 original budget and the 2015-16 actual results are discussed in Note 17: *Budgetary Reporting – Territorial – Explanation of Major Variances Between Actual Amounts and Original Budget.*

The definition of 'major variances' is provided in Note 2(o): *Significant Accounting Judgements and Estimates - Budgetary Reporting- Explanation of Major Variances between Actual Amounts and Original Budget Amounts.*

Lifetime Care and Support Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(o) Significant Accounting Judgements and Estimates

(i) Provision for Participants' Treatment and Care Expenses:

The LTCS fund has made a significant estimate in determining its liability for future treatment and care costs of LTCS Scheme participants in the ACT.

At 30 June 2016, the liabilities for all claims incurred up to this date under the LTCS Scheme were estimated by actuaries at Cumpston Sarjeant Pty Ltd.

The liability for the participants' treatment and care expenses is measured as the present value of the expected future payments for all claims incurred to the valuation date. Claims incurred include accepted participants as well as an estimate for claims incurred but not reported. The estimate is based on a number of assumptions including the underlying cost of the claim, payment pattern, term of the claim, and inflation and discount rates. Uncertainty exists due to the long-term nature of liabilities and volatility in the number of Scheme participants and their injury severity. Further, given that the LTCS Scheme has only been in operation for two years, there is little experience of claim payments to date upon which to base the estimate. This provision represents the best estimate of the Scheme's future payments, taking into consideration the considerable uncertainties that will exist during the early years of the Scheme's operation until more data becomes available.

Details of the amount of provision for future treatment and care costs are provided at Note 13: *Provision for Participants' Treatment and Care Expenses.*

(ii) Budgetary Reporting - Explanation of Major Variances between Actual Amounts and Original Budget Amounts:

Significant judgements have been applied in determining what variances are considered as 'major variances' requiring explanations in Note 17: *Budgetary Reporting – Territorial – Explanation of Major Variances Between Actual Amounts and Original Budget.* Variances are considered to be major variances if both of the following criteria are met:

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

Further information on this is provided in Note 2(n): *Budgetary Reporting - Explanation of Major Variances between Actual Amounts and Original Budget Amounts.*

Lifetime Care and Support Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

- AASB 2015-6 *Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities* [AASB 10, 124 and 1049] (application date 1 July 2016)

  This standard extends the scope of AASB 124 *Related Party Transactions* to the not-for-profit sector and updates AASB 124 to include implementation guidance to assist not-for-profit entities to apply the new requirements. While there is no material financial impact in implementing this standard there will be increased disclosure required by the LTCS fund.

(q) Accounting Standards adopted early for the 2015-16 reporting period

AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101* has been early adopted for the 2015-16 reporting period, even though the standard is not required to be applied until annual reporting periods beginning on or after 1 July 2016.

AASB 2015-2 amends AASB 101 *Presentation of Financial Statements* including clarifying that agencies should not be disclosing immaterial information and that the presentation of information in notes can and should be tailored to provide users with the clearest view of an agency's financial performance and financial position.

Lifetime Care and Support Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 3. LIFETIME CARE AND SUPPORT LEVY

Under the LTCS Act, the LTCS Commissioner is required to assess the amount needed to be contributed to the LTCS fund in each contribution period that will:

- fully fund the present and likely future liabilities of the LTCS Commissioner under part 6 (relating to payments under LTCS scheme) in relation to people who become participants in the scheme because of motor accident injuries suffered during the contribution period; and
- meet the payments needed to be made from the LTCS fund (other than payments under part 6) during the contribution period; and
- provide for any other matters the LTCS Commissioner should, in all the circumstances, prudently make provision for in relation to liabilities under part 6.

The amount needed to fully fund the present and likely future liability of the LTCS Commissioner under part 6 is an amount sufficient to provide an amount of money that together with anticipated investment income is equal to the best estimate of the cost of meeting the liability (in inflated dollars) when the liability becomes payable.

The LTCS Levy is the amount that the LTCS Commissioner considers will result in the required fund contribution for the contribution period and has been determined in accordance with the report of an independent actuary.

The LTCS Commissioner determined the LTCS Levy for the 2015-16 contribution period to be $34.00 for a 12-month Compulsory Third Party (CTP) insurance policy, $17.00 for a 6-month CTP policy and $8.50 for a 3-month CTP policy (charged proportionately based on the number of months a vehicle is registered). The LTCS Commissioner also determined that the LTCS Levy for vehicles registered under the ACT's Veteran, Vintage and Historic Registration Scheme that are subject to distance restrictions, be reduced to 20% of the unrestricted LTCS levy. This equates to $7.00 for a 12-month CTP policy, $3.50 for a 6-month CTP policy, and $1.70 for a 3-month CTP policy, on these vehicles.

The LTCS Levy applies to all Compulsory Third Party Insurance (CTP) policies issued under the *Road Transport (Third-Party Insurance) Act 2008* that commence during the contribution period. The LTCS Levy is collected by the Road Transport Authority (Chief Minister, Treasury and Economic Development Directorate) on behalf of the LTCS Commissioner and remitted to the LTCS fund.

	2016 $'000	2015 $'000
Lifetime Care and Support Levy [1]	9,522	9,666
Total Lifetime Care and Support Fund Levy	**9,522**	**9,666**

1. The decrease in the LTCS Levy from the previous year is mainly due to lower number of vehicles registered.

Lifetime Care and Support Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 4. INTEREST	2016 $'000	2015 $'000
Revenue from Non-ACT Government Entities		
Interest Revenue[1]	365	130
Total Interest Revenue from Non-ACT Government Entities	**365**	**130**
Total Interest Revenue	**365**	**130**
Total interest revenue from financial assets not at fair value through profit and loss	365	130

1. Interest revenue is associated with the cash balance held in the bank during the reporting period. The increase is mainly due to the increased balance held in the bank associated with the decision to postpone the investment of funds not required in the short-term. The investment of funds was delayed due to uncertainties in the investment markets.

NOTE 5. SUPPLIES AND SERVICES

	2016 $'000	2015 $'000
Actuarial Expenses	49	31
Administration Expenses	3	2
Administrative Support Expenses [1]	155	96
Advertising	-	8
Audit Fees [2]	43	41
Consultants	12	22
Information and Technology Costs	10	5
LTCS Scheme Claims Handling Governance and Advisory Costs [3]	95	124
Total Supplies and Services	**367**	**329**

1. Administrative support expenses are associated with the reimbursement of salary and superannuation expenses for the CMTEDD staff allocated to carry out the LTCS Scheme's functions. The increase is mainly due to a full year's salaries being reflected in 2015-16 compared to 2014-15 when some vacancies occurred.

2. Refer Note 6: *Auditor's Remuneration.*

3. LTCS Scheme Claim Handling Advisory costs in 2014-15 were associated with the charge from the New South Wales Lifetime Care and Support Authority (NSW LTCSA) in relation to advisory and support services provided to the LTCS fund in its first year of operation. During 2015-16, certain administrative functions associated with the ACT LTCS Scheme participants, were transferred to the NSW LTCSA. The related cost of services $0.127 million is split between corporate and set up services (reflected here) and claims handling costs (reflected in 'Claims Handling Costs' under Note 8: *Participants' Treatment and Care Expenses).*

Lifetime Care and Support Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 6. AUDITOR'S REMUNERATION

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

	2016 $'000	2015 $'000
Audit Services		
Audit fees paid or payable to the ACT Audit Office	43	41
Total Audit Fees	**43**	**41**

No other services were provided by the ACT Audit Office.

NOTE 7. FINANCE COSTS

	2016 $'000	2015 $'000
Unwinding of Discount Rate [1]	1,027	-
	1,027	**-**

[1.] Finance costs represent the increase in the provision for participants' treatment and care costs from the end of the previous reporting period to the end of the current reporting period which is due to discounted claims not settled, becoming effectively one year closer to settlement. There was no unwinding of discount rate for the last reporting period as it was the first year of operation for the LTCS Scheme.
The amount of unwinding of discount expensed was assessed by the independent actuary.
Also, refer Note 13: *Provision for Participants' Treatment and Care Expenses.*

NOTE 8. PARTICIPANTS' TREATMENT AND CARE EXPENSES

	2016 $'000	2015 $'000
LTCS Fund Participants' Treatment and Care Expenses		
Attendant Care	12	4
Education and Vocational Support Services	15	11
Equipment	53	1
Home Modifications	-	2
Hospital [1]	6	252
International Exchange Rate and Transfer Fees [2]	10	-
Medical	81	1
Rehabilitation [1]	140	25
Support Services [1]	94	52
Other	12	5
	423	353
Claims Handling Costs [3]	32	-
Movement in Provision for Future Participants' Treatment and Care Costs [4]	(318)	17,383
Total Other Expenses	**137**	**17,736**

1. Hospital costs are mainly associated with the cost of procedures and inpatient services for the LTCS Scheme participants.
Support services include the cost of travel and accommodation for the LTCS Scheme participants, their relatives and providers as required and case management.
All the participants in the LTCS Scheme during 2015-16 were accepted into the Scheme in 2014-15. Accordingly, the costs associated with most participants have shifted from inpatient hospital care (required more in the earlier stages after the accident), to rehabilitation and support which will be ongoing.

2. Relates to payments associated with the one international LTCS Scheme participant.

3. Claims handling costs are associated with the administration of the ACT LTCS Scheme by the New South Wales Lifetime Care and Support Authority (NSW LTCSA). During 2015-16, certain administrative functions associated with the ACT LTCS Scheme participants, were transferred to the NSW LTCSA. The related cost of services $0.127 million is split between claims handling costs (reflected here) and corporate and set up services (reflected in 'LTCS Scheme Claims Handling Governance and Advisory Costs' under Note 5: *Supplies and Services*).

4 Refer Note 13: *Provision for Participants' Treatment and Care Expenses.*

Lifetime Care and Support Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 9. CASH AND CASH EQUIVALENTS	2016 $'000	2015 $'000

The LTCS fund holds one bank account with the Westpac Banking Corporation. As part of this arrangement, the LTCS fund receives interest at floating rates based on daily bank deposit rates.

	2016 $'000	2015 $'000
Cash at Bank [1]	17,265	8,443
Total Cash and Cash Equivalents	**17,265**	**8,443**

1. The increase is largely due to the LTCS Levy collected during 2015-16.

NOTE 10. RECEIVABLES

	2016 $'000	2015 $'000
Current Receivables		
LTCS Levy Receivable [1]	886	807
Net Goods and Services Tax Receivable	11	19
Total Current Receivables	897	826
Total Receivables	**897**	**826**

1. The LTCS Levy Receivable is associated with the LTCS Levy for June remitted to the LTCS fund in July.

No receivables are past due or impaired.

There were no impaired receivables during the reporting period.

Classification of ACT Government/Non-ACT Government Receivables

	2016 $'000	2015 $'000
Receivables with Non-ACT Government Entities		
LTCS Levy Receivable	886	807
Net Goods and Services Tax Receivable	11	19
Total Receivables with Non-ACT Government Entities	897	826
Total Receivables	**897**	**826**

Lifetime Care and Support Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 11. OTHER ASSETS	2016 $'000	2015 $'000
Current Other Assets		
Prepayments [1]	296	-
Total Current Other Assets	**296**	**-**
Total Other Assets	**296**	**-**

[1.] Prepayments are associated with the cash reserve held by the New South Wales Lifetime Care and Support Authority (NSW LTCSA) to fund future ACT LTCS Scheme participants' treatment and care costs. The reserve amount reflects the estimated costs for the next quarter's payments. This is under the arrangement for NSW LTCSA to administer the ACT LTCS Scheme that commenced during 2015-16.

NOTE 12. PAYABLES

	2016 $'000	2015 $'000
Current Payables		
Accrued Expenses [1]	279	155
Total Current Payables	**279**	**155**
Total Payables	**279**	**155**

[1.] Accrued expenses are mainly associated with the actuary's fees, audit fees and treatment and care costs of the LTCS Scheme participants during the reporting period for which invoices were received after the end of the reporting period. The increase is mainly due to the arrangements entered into during 2015-16 involving the receipt of quarterly invoices from NSW LTCSA for the reimbursement of payments made to the ACT participants. The April-June 2016 invoice was received in July 2016.

No payables are overdue for payment.

Classification of ACT Government/Non-ACT Government Payables

	2016 $'000	2015 $'000
Payables with ACT Government Entities		
Accrued Expenses	43	41
Total Payables with ACT Government Entities	**43**	**41**
Payables with Non-ACT Government Entities		
Accrued Expenses	236	114
Total Payables with Non-ACT Government Entities	**236**	**114**
Total Payables	**279**	**155**

Lifetime Care and Support Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 13. PROVISION FOR PARTICIPANTS' TREATMENT AND CARE EXPENSES

This is the provision for estimated future treatment and care costs of LTCS Scheme participants in the ACT.

	2016 $'000	2015 $'000
Current Provision for Participants' Treatment and Care Expenses		
Provision for the Participants' Treatment and Care Expenses	505	574
Total Current Provision for Participants' Treatment and Care Expenses	**505**	**574**
Non-Current Provision for Participants' Treatment and Care Expenses		
Provision for the Participants' Treatment and Care Expenses	17,587	16,809
Total Non-Current Provision for Participants' Treatment and Care Expenses	**17,587**	**16,809**
Total Provision for Participants' Treatment and Care Expenses[1]	**18,092**	**17,383**

Reconciliation of the Provision for Treatment and Care Expenses:

	2016	2015
Provision at the Beginning of the Reporting Period	**17,383**	-
Additional Provision Recognised for New Participants [2]	-	17,648
Unwinding of Discount Rate [3]	1,027	-
Treatment and Care Payments	(339)	(265)
Other Movements in the Provision for Existing Participants [4]	21	-
Provision at the End of the Reporting Period	**18,092**	**17,383**

1. No new participants entered the LTCS Scheme during 2015-16. At 30 June 2016 there were four interim participants and one lifetime participant who had been accepted into the LTCS Scheme (30 June 2015: five interim participants).

2. The decrease is due to no new participants entering the LTCS Scheme during 2015-16 (2014-15: five new participants).

3. Refer Note 7: *Finance Costs.*

4. Other movements include adjustments associated with the changes in the participants' injury severity scores, participant specific changes etc. It also includes adjustment to the allowance for 'Incurred But Not Yet Reported' (IBNR) claims (included in the opening provision) for changes in the average cost for different types of injuries.

Also, refer to Note 2(l): *Significant Accounting Policies - Provision for Participants' Treatment and Care Expenses* and Note 2(o): *Significant Accounting Judgements and Estimates - Provision for Participants' Treatment and Care Expenses.*

Lifetime Care and Support Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 13. PROVISION FOR PARTICIPANTS' TREATMENT AND CARE EXPENSES - CONTINUED

At 30 June 2016, the liabilities for all claims incurred up to this date under the LTCS Scheme were estimated by actuaries at Cumpston Sarjeant Pty Ltd. The liability for the participants' treatment and care costs are measured as the present value of the expected future payments. The present value of the minimum payments after discounting are as follows:

	2016 $'000	2015 $'000
Within one year	505	574
Later than one year but not later than five years	1,418	1,725
Later than five years	16,169	15,084
Total Provision for Participants' Treatment and Care Expenses	**18,092**	**17,383**

For the economic parameters, a gap approach, whereby the gap between the discount rate (of 6%) and regular inflation rate (of 4%) is 2%, has been applied by the actuary.

The weighted mean term of the liabilities is as follows:

Uninflated, undiscounted	34.9	years
Inflated, discounted	26.4	years

Sensitivity Analysis for the Estimate of the Provision for Participants' Treatment and Care Expenses

Uncertainty exists due to the long-term nature of liabilities and volatility in the number of Scheme participants and their injury severity. Further, given that the LTCS Scheme has only been in operation for two years, there is little experience of claim payments to date upon which to base the estimate.

While uncertainty has been taken into account in estimating the provision (based on standard actuarial assessment), the following analysis is provided to show the impact of the sensitivities on the provision.

Scenario	**Provision** **$'000**	**Difference** **%**
Base Provision	**18,092**	
Change in economic 'gap' to 2.5% per annum	15,912	-12.0%
Change in economic 'gap' to 1.5% per annum	20,764	14.8%
Additional 0.75 IBNR claims [1]	19,903	10.0%
Zero superimposed inflation	17,476	-3.4%
Death of a participant within the next five years	14,966	-17.3%
Lack of improvement for CANS 7 participant [2]	23,025	27.3%

1. IBNR claims represent 'Incurred But Not yet Reported' claims associated with potential claimants reported late.

2. CANS represents the 'Care and Needs Scale' score reflecting the severity of injury of a participant.

Lifetime Care and Support Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 14. FINANCIAL INSTRUMENTS

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

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 a change in market interest rates. The LTCS fund's exposure to market interest rates relates only to cash at bank. The cash at bank earns interest at floating rates based on daily bank deposit rates.

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

Currency Risk

Currency risk is the risk that the fair value or future cashflows associated with a transaction that is denominated in a foreign currency will fluctuate as a result of movements in international exchange rates. The LTCS fund's currency risk is in relation to participants to the LTCS Scheme that are living overseas and receiving treatment and care in the country of their residence.

Part 11 of the LTCS Guidelines governing the treatment and care of participants living overseas, allow the LTCS Commissioner to reimburse reasonable costs of care incurred by overseas participants. The reasonable maximum cost which can be reimbursed for overseas care will be determined by reference to the amount of care not exceeding that amount that the LTCS Commissioner has assessed as reasonable and necessary, and the cost of care the participant would have required had the care been provided in the Australian Capital Territory, Australia. At the reporting date, there was only one overseas participant to the LTCS scheme. As a result, the LTCS fund's exposure to currency risk is not significant.

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 LTCS fund's credit risk is limited to the amount of the financial assets held less any allowance for impairment losses. The receivable at 30 June 2016 is mainly associated with the LTCS Levy for June 2016 which has already been collected by Access Canberra (another ACT Government entity) on behalf of the LTCS fund and was remitted to the LTCS fund after the end of the financial year. As a result, the LTCS fund's exposure to bad debts is not significant.

Lifetime Care and Support Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 14. FINANCIAL INSTRUMENTS - CONTINUED

Liquidity Risk

Liquidity risk is the risk that the LTCS 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 LTCS fund ensures that, at any particular point in time, it has a sufficient amount of current financial assets to meet its current financial liabilities. The LTCS fund manages this risk by maintaining a cash balance which will allow payment of all current financial liabilities when they fall due.

It is expected that the LTCS Levy, which is reassessed every year, together with the anticipated investment income will be sufficient to meet the expected LTCS fund's liabilities when they become payable.

At the reporting date, the LTCS fund has enough liquidity to meet its emerging financial liabilities.

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, whether these changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The LTCS fund is not exposed to any price risk.

ACT Lifetime Care and Support Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 14. FINANCIAL INSTRUMENTS - CONTINUED

Fair Value of Financial Assets and Liabilities

The carrying amounts and fair value of financial assets and liabilities at balance date are:

	Note No.	Carrying Amount 2016 $'000	Fair Value 2016 $'000	Carrying Amount 2015 $'000	Fair Value 2015 $'000
Financial Assets					
Cash and Cash Equivalents	9	17,265	17,265	8,443	8,443
Total Financial Assets		**17,265**	**17,265**	**8,443**	**8,443**
Financial Liabilities					
Payables	12	279	279	155	155
Total Financial Liabilities		**279**	**279**	**155**	**155**

Maturity Analysis

The LTCS fund does not have any financial assets or liabilities which mature outside the following financial year. The interest rate risk on the assets and liabilities is not significant.

Carrying Amount of Each Category of Financial Asset and Financial Liability

	2016 $'000	2015 $'000
Financial Liabilities Measured at Amortised Cost	279	155

The LTCS fund does not have any financial assets in the 'Available for Sale' category, the 'Financial Assets at Fair Value through Profit and Loss' category, the 'Held to Maturity' category or the 'Measured at Amortised Cost' category and, as such, these categories are not included above. Also, the LTCS fund does not have any financial liabilities in the 'Financial Liabilities at Fair Value through Profit and Loss' category and as such this category is not included above.

Fair Value Hierarchy

The LTCS fund does not have any financial assets or financial liabilities at fair value. As such no fair value hierarchy disclosures have been made.

Lifetime Care and Support Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 15. 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 Statement of Assets and Liabilities on Behalf of the Territory

	2016 $'000	2015 $'000
Total Cash and Cash Equivalents Disclosed in the Statement of Assets and Liabilities on Behalf of the Territory	17,265	8,443
Cash and Cash Equivalents at the End of the Reporting Period as Recorded in the Cash Flow Statement on Behalf of the Territory	**17,265**	**8,443**

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

	2016 $'000	2015 $'000
Operating Surplus/ (Deficit)	8,356	(8,269)
Add/(Less) Non-Cash Items	-	-
Cash Before Changes in Operating Assets and Liabilities	**8,356**	**(8,269)**
Changes in Operating Assets and Liabilities		
(Increase) in Receivables	(71)	(826)
(Increase) in Other Assets	(296)	-
Increase in Payables	124	155
Increase in Provision for Participants' Treatment and Care Expenses	709	17,383
Net Changes in Operating Assets and Liabilities	**466**	**16,712**
Net Cash Inflows from Operating Activities	**8,822**	**8,443**

NOTE 16. EVENTS OCCURRING AFTER BALANCE DATE

As part of the ACT Government's decision to implement a National Injury Insurance Scheme (NIIS), the LTCS Act has been amended to extend the LTCS Scheme to also cover catastrophically injured ACT private sector workers where an injury occurring on or after 1 July 2016 is suffered arising out of, or in the course of, the worker's employment and the ACT is the state of connection.

Accordingly, the LTCS Scheme will be funded by two levies: a levy on compulsory third-party insurance policies that commenced on or after 1 July 2014 and effective 1 July 2016, a new levy on workers' compensation insurers and self-insurers.

Lifetime Care and Support Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 17. BUDGETARY REPORTING - TERRITORIAL - EXPLANATION OF MAJOR VARIANCES BETWEEN ACTUAL AMOUNTS AND ORIGINAL BUDGET AMOUNTS

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

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

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

Statement of Income and Expenses on Behalf of The Territory Line Items	Actual 2015-16 $'000	Original Budget[1] 2015-16 $'000	Variance $'000	Variance %	Variance Explanation
Other Revenue	-	704	(704)	-100%	Other revenue was budgeted in anticipation of the investment of funds not required in the short-term. The investment of funds has been delayed due to uncertainties in the investment markets.
Supplies and Services	367	419	(52)	-12%	Mainly due to the transfer of actual claims handling costs to Participants' Treatment and Care Expenses, but reflected in the Budget under Supplies and Services.
Finance Costs	1,027	408	619	152%	Due to the actuarial projections at 30 June 2016 that revised the estimated unwinding of discount amount for the financial year. This reflects the large actuarial adjustment made at 30 June 2015 after the 2015-16 Budget was set and is part of a continuing refinement of the actuarial assessment of participants' costs.
Participants' Treatment and Care Expenses	137	9,722	(9,585)	-99%	Mainly due to no new participants entering the LTCS Scheme during 2015-16.

1. Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting period (2015-16 Budget Statements). These amounts have not been adjusted to reflect supplementary appropriation or appropriation instruments.

NOTE 17. BUDGETARY REPORTING - TERRITORIAL - EXPLANATION OF MAJOR VARIANCES BETWEEN ACTUAL AMOUNTS AND ORIGINAL BUDGET AMOUNTS - CONTINUED

Statement of Assets and Liabilities on Behalf of The Territory Line Items	Actual 2015-16 $'000	Original Budget[1] 2015-16 $'000	Variance $'000	Variance %	Variance Explanation
Cash and Cash Equivalents	17,265	2,000	15,265	763%	Mainly due to the delay of investment of funds not required in the short-term due to uncertainties in the investment markets.
Investments	-	16,556	(16,556)	-100%	As per above explanation for Cash and Cash Equivalents.
Payables	279	-	279	#	Due to expenses accrued at 30 June 2016 not estimated in the Budget. At the time of the preparation of the 2015-16 Budget the Scheme had not yet operated for a full financial year and hence had no accruals data.
Current Provision for Participants' Treatment and Care Expenses	505	737	(232)	-31%	Due to the actuarial projections at 30 June 2016 that revised down the estimated treatment and care costs in the coming financial year. This is a continuing refinement of the needs and timing of treatment and care costs.
Statement of Changes in Equity on Behalf of the Territory					**These line items are covered in other financial statements**

[1] Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting period (2015-16 Budget Statements). These amounts have not been adjusted to reflect supplementary appropriation or appropriation instruments.

Note: # in the Line Item Variance % column represents a variance that is greater than 999 per cent or less than -999 per cent.

Lifetime Care and Support Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 17. BUDGETARY REPORTING - TERRITORIAL - EXPLANATION OF MAJOR VARIANCES BETWEEN ACTUAL AMOUNTS AND ORIGINAL BUDGET AMOUNTS - CONTINUED

Cash Flow Statement on Behalf of the Territory Line Items	Actual 2015-16 $'000	Original Budget[1] 2015-16 $'000	Variance $'000	Variance %	Variance Explanation
Supplies and Services	358	419	(61)	-15%	Mainly due to the splitting of the claims handling costs paid to the NSW LTCSA between claims handling costs (reflected under other-participants' treatment and care costs) and corporate and set up services (reflected under supplies and services).
Participants' Treatment and Care	635	329	306	93%	Mainly due to the prepayment of amount held as reserve by the NSW LTCSA for payments made by them in relation to the ACT LTCS Scheme participants' treatment and care costs under the arrangement for transferring administrative functions from the ACT LTCS Scheme to the NSW LTCSA.
Purchase of Investments	-	8,654	(8,654)	-100%	As per explanation in this note for Cash and Cash Equivalent assets.

1. Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting period (2015-16 Budget Statements). These amounts have not been adjusted to reflect supplementary appropriation or appropriation instruments.

Statement of Performance

For the Year Ended

30 June 2016

Lifetime Care and Support Fund

ACT Audit Office

AUDITOR-GENERAL AN OFFICER OF THE ACT LEGISLATIVE ASSEMBLY

REPORT OF FACTUAL FINDINGS

LIFETIME CARE AND SUPPORT FUND

To the Members of the ACT Legislative Assembly

Report on the statement of performance

The statement of performance of the Lifetime Care and Support Fund (the Fund) for the year ended 30 June 2016 has been reviewed.

Responsibility for the statement of performance

The Under Treasurer is responsible for the preparation and fair presentation of the statement of performance 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 accountability indicators reported in the statement of performance.

The auditor's responsibility

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

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

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

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

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

As disclosed in the statement of performance, in accordance with the *Financial Management (Statement of Performance Scrutiny) Guidelines 2016*, the Total Cost and Payment for Expenses on Behalf of the Territory information included in the statement of performance has not been reviewed.

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, then they are advised to refer to the printed copy of the reviewed statement of performance to confirm the accuracy of this electronically presented information.

Independence

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

Review opinion

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

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

Bernie Sheville
Director, Financial Audits
2 September 2016

LIFETIME CARE AND SUPPORT FUND
STATEMENT OF PERFORMANCE
For the Year Ended 30 June 2016

STATEMENT OF RESPONSIBILITY

In my opinion, the Statement of Performance is in agreement with the Lifetime Care and Support Fund's records and fairly reflects the service performance of the Fund in providing each class of outputs during the financial year ended 30 June 2016 and also fairly reflects the judgements exercised in preparing them.

David Nicol
Under Treasurer
Delegate for the Director-General
Chief Minister, Treasury and
Economic Development Directorate
31 August 2016

Karen Doran
Lifetime Care and Support Commissioner
of the ACT
25 August 2016

LIFETIME CARE AND SUPPORT FUND
STATEMENT OF PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2016

EBT Class 1:	**LIFETIME CARE AND SUPPORT FUND**
EBT 1.1:	**Lifetime Care and Support Fund**
Description:	The Lifetime Care and Support Fund (LTCS fund) reflects the operation of the LTCS Scheme to provide on-going care to people who have been catastrophically injured as a result of a motor accident in the Australian Capital Territory. The key outputs delivered in 2015-16 included: • deciding the eligibility of applicants to the LTCS Scheme in accordance with Part 4 of the LTCS Act and the LTCS Guidelines; • assessing the treatment and care needs of participants in the LTCS Scheme in accordance with Part 5 of the LTCS Act; • establishing a mechanism to collect feedback from participants on their expectations and experience with the LTCS Scheme which would facilitate the setting of service level benchmarks and inform performance reporting; • paying all reasonable expenses incurred by or on behalf of an injured person in relation to the injured person's assessed treatment and care needs in accordance with Part 6 and Part 9 of the LTCS Act; • developing a long-term investment strategy that establishes strategic asset allocation, a target investment return and investment options; and • determining the LTCS Levy in accordance with Part 10 of the LTCS Act.

	Original Target 2015-16	Actual Result 2015-16	% Variance from Original Target	Explanation of Material Variances (+/- 5%)
TOTAL COST ($'000)	$10,549	$1,531	-85%	The lower actual result is mainly associated with the lower than anticipated participants' treatment and care costs due to no new participants entering the LTCS Scheme during 2015-16.
PAYMENT FOR EXPENSES ON BEHALF OF THE TERRITORY ($'000)	$0	$0	0%	
Accountability Indicators Provision of LTCS Scheme in the ACT				
a. Independent actuarial review to advise on the required fund contribution	1	2	100%	The additional actuarial review related to the extension of the LTCS Scheme to ACT private sector workers commencing 1 July 2016.
b. Determine LTCS Levy	1	2	100%	The additional Levy Determination related to the extension of the LTCS Scheme to ACT private sector workers commencing 1 July 2016.
c. Develop long-term investment strategy	1	1	0%	
d. Develop client experience and engagement feedback mechanism	1	1	0%	

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

Notes

a. In accordance with section 83(4) of the LTCS Act, the Commissioner must obtain, before the beginning of each contribution period, a report from an independent actuary in relation to the amount needed to be contributed to the LTCS fund for the contribution period. The two actuarial reviews for the 2016-17 contribution period were undertaken by Cumpston Sarjeant Pty Ltd and the final reports were received in March 2016.

b. In accordance with section 84 of the LTCS Act, the LTCS Commissioner must determine the LTCS Levy for a contribution period. The Levy determination for the 2016-17 contribution period was notified on the Legislation Register on 2 May 2016 for motor vehicles and on 30 June 2016 for the workers.

c. This new indicator for 2015-16 established the strategic asset allocation, the target investment return and investment options for funds not required in the short-term. The Investment Plan was approved by the LTCS Commissioner in April 2016.

d. This new indicator for 2015-16 established a mechanism to seek feedback on the LTCS Scheme from participants on their expectations and experience with the LTCS Scheme. The survey was undertaken by Modd Research and Evaluation Pty Ltd and the final report was received in June 2016.

The above Accountability Indicators were examined by the ACT Audit Office in accordance with the *Financial Management Act 1996*. The Total Cost and Payment for Expenses on Behalf of the Territory measures were not examined by the ACT Audit Office in accordance with the *Financial Management (Statement of Performance Scrutiny) Guidelines 2016*.

Financial Statements

For the Year Ended

30 June 2016

Office of the Nominal Defendant

of the ACT

ACT Audit Office

AUDITOR-GENERAL AN OFFICER OF THE ACT LEGISLATIVE ASSEMBLY

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 2016 have been audited. These comprise the operating statement, balance sheet, statement of changes in equity, cash flow statement and accompanying notes.

Responsibility for the financial statements

The Under Treasurer is responsible for the preparation and fair presentation of the financial statements 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.

Electronic presentation of the audited financial statements

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

Independence

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

Audit opinion

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

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

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

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

Bernie Sheville
Director, Financial Audits
14 September 2016

Office of the Nominal Defendant of the ACT
Financial Statements
For the Year Ended 30 June 2016

Statement of Responsibility

In my opinion, the financial statements are in agreement with the Office of the Nominal Defendant of the ACT (the Fund) accounts and records and fairly reflect the financial operations of the Fund for the year ended 30 June 2016 and the financial position of the Fund on that date.

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

Office of the Nominal Defendant of the ACT
Financial Statements
For the Year Ended 30 June 2016

Statement by the General Manager

In my opinion, the financial statements have been prepared in accordance with generally accepted accounting principles and are in agreement with the Office of the Nominal Defendant of the ACT (the Fund) accounts and records and fairly reflect the financial operations of the Fund for the year ended 30 June 2016 and the financial position of the Fund on that date.

John Fletcher
General Manager,
ACT Insurance Authority
13 September 2016

Office of the Nominal Defendant of the ACT
Operating Statement
For the Year Ended 30 June 2016

	Note No.	Actual 2016 $'000	Actual 2015 $'000
Income			
Interest and Distributions	5	**845**	832
Levies	6	**4,751**	4,815
Other Revenue	7	**1,026**	1,041
Unrealised Gain on Investments	8	**294**	74
Total Income		**6,916**	6,762
Expenses			
Claims Expenses	9	7,550	6,734
Supplies and Services	10	411	358
Total Expenses		**7,961**	7,092
Operating (Deficit)		**(1,045)**	(330)
Other Comprehensive Income		-	-
Total Comprehensive (Deficit)		**(1,045)**	(330)

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

Office of the Nominal Defendant of the ACT
Balance Sheet
at 30 June 2016

	Note No.	Actual 2016 $'000	Actual 2015 $'000
Current Assets			
Cash and Cash Equivalents	12	**20,902**	18,450
Receivables	13	**1,501**	1,471
Total Current Assets		**22,403**	19,921
Non-Current Assets			
Investments	14	**6,336**	6,042
Total Non-Current Assets		**6,336**	6,042
Total Assets		**28,739**	25,963
Current Liabilities			
Payables	15	**284**	96
Provision for Claims Payable	16	**6,219**	5,304
Total Current Liabilities		**6,503**	5,400
Non-Current Liabilities			
Provision for Claims Payable	16	**22,692**	19,974
Total Non-Current Liabilities		**22,692**	19,974
Total Liabilities		**29,195**	25,374
Net (Liabilities)/Assets		(456)	**589**
Equity			
Accumulated (Deficit)/Funds		(456)	**589**
Total Equity		(456)	**589**

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 2016

	Accumulated Funds Actual 2016 $'000	Total Equity Actual 2016 $'000
Balance at 1 July 2015	**589**	**589**
Comprehensive Income		
Operating (Deficit)	(1,045)	**(1,045)**
Total Comprehensive (Deficit)	**(456)**	**(456)**
Balance at 30 June 2016	**(456)**	**(456)**

	Accumulated Funds Actual 2015 $'000	Total Equity Actual 2015 $'000
Balance at 1 July 2014	**919**	**919**
Comprehensive Income		
Operating (Deficit)	(330)	**(330)**
Total Comprehensive (Deficit)	**(330)**	**(330)**
Balance at 30 June 2015	**589**	**589**

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 2016

	Note No.	Actual 2016 $'000	Actual 2015 $'000
Cash Flows from Operating Activities			
Receipts			
Interest and Distributions		**776**	833
Recoveries		**41**	31
Fees, Fines and Other Receipts		**1,034**	1,017
Levies		**4,719**	7,015
Goods and Services Input Tax Credits from the Australian Taxation Office		**352**	378
Total Receipts from Operating Activities		**6,922**	9,274
Payments			
Supplies and Services		**260**	453
Payment of Claims		**3,921**	5,523
Goods and Services Tax Paid to Suppliers		**289**	442
Total Payments for Operating Activities		**4,470**	6,418
Net Cash Inflows from Operating Activities	18(b)	**2,452**	2,856
Net Increase in Cash and Equivalents		**2,452**	2,856
Cash and Cash Equivalents at the Beginning of the Reporting Period		**18,450**	15,594
Cash and Cash Equivalents at the end of the Reporting Period	18(a)	**20,902**	18,450

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 2016

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 2016

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 is the Nominal Defendant of the ACT (the Fund) as defined under Section 13 of 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:
  - (i) the vehicle involved does not have a compulsory third party insurance policy; or
  - (ii) 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 insurance;
- collect recoveries from uninsured drivers at fault to the sum paid out by the Fund; and
- raise levies on each licensed Compulsory Third Party insurer in the Territory as well as the Commonwealth and ACT Governments.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

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

(i) Australian Accounting Standards; and
(ii) ACT Accounting and Disclosure Policies.

The financial statements have been prepared using the accrual basis of accounting, which recognises the effects of transactions and events when they occur. The financial statements have also been prepared according to the historical cost convention, except for assets such as those included in financial instruments which were measured at fair value in accordance with the valuation policies applicable to the Fund during the reporting period.

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

The Fund is an individual reporting entity.

(b) Reporting Period

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

(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.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(d) Rounding

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

(e) 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. In addition, the following specific criteria must also be met before revenue is recognised:

Interest

Interest revenue is recognised using the effective interest method.

Distributions

Distribution revenue is received from investments with the Public Trustee and Guardian ACT Fixed Interest Portfolio. This is recognised on an accrual basis.

Levies

Levies are placed on Comprehensive Third Party Insurers and Self-Insurers in the ACT to ensure that the Fund has sufficient monies to satisfy claims. Levies are recognised in the Operating Statement when they have been levied.

Other Revenue

Other Revenue includes unregistered vehicle permits and fines as well as recoveries received from uninsured owners or drivers. This revenue is recognised as revenue at the time of receipt.

(f) Current and Non-Current Items

Assets and liabilities are classified as current or non-current in the Balance Sheet and in the relevant notes. Assets are classified as current where they are expected to be realised within twelve months after the reporting date. Liabilities are classified as current when they are due to be settled within twelve months after the reporting date or the Fund 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.

(g) Cash and Cash Equivalents

For the purposes of the Cash Flow Statement and the Balance Sheet, cash includes cash at bank, 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. Cash equivalents include short-term investments held in a Cash Trust Account managed by an external fund manager on behalf of the Public Trustee and Guardian.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(h) Receivables

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

Receivables include interest, goods and services taxation (GST) and accrued fines and levies.

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

(i) becoming aware of financial difficulties of debtors;
(ii) default payments; or
(iii) debts more than 90 days overdue.

(i) Investments

Long-term investments are held with the Public Trustee and Guardian in a unit trust called the Fixed Interest Portfolio. The prices of units in the Fixed Interest Portfolio fluctuate in value. The net gain or loss on investments consists of the fluctuation in price of the units in the 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.

(j) Payables

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

Payables include trade creditors and accrued expenses.

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

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 period end.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(k) Provision for Claims Payable

The Provision for Claims Payable 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 payable 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 estimate of provision for claims payable 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 2016.

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.

The provision for claims payable estimated to fall due within a twelve month period are classified as a current liability and all other claims payable are classified 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.

(m) Accounting Standards Accepted for Early Adoption

AASB 2015-2: 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101' has been early adopted for the 2015-16 reporting period, even though the standard is not required to be applied until annual reporting periods beginning on or after 1 July 2016.

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

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

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

- AASB 2015-6: 'Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities' [AASB 10, 124 and 1049](application date 1 July 2016);

  This standard extends the scope of AASB 124: 'Related Party Disclosures' to include the not-for-profit sector and updates AASB 124 to include implementation guidance (including illustrative examples) to assist not-for-profit entities to apply the new requirements. The impact has been assessed and while there is no material financial impact in implementing this standard there will be increased disclosure required by the Fund

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 3 CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES

(a) Change in Accounting Policy

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

(b) Changes in Accounting Estimate

Changes in Actuarial Assumptions

The Fund uses actuaries (refer to Note 4: 'Significant Accounting Judgements and Estimates') to estimate the provision for claims payable. Assumptions are based on past claims experience, risk exposure and projections of economic variables. As such, the estimate of the provision for claims payable will change each time the provision is assessed by the actuaries (refer to Note 16: 'Provision for Claims Payable'). This change has resulted in an increase to the estimate of the provision for claims payable and expense in the current reporting period of $3.633 million.

NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(a) Measurement of the Provision for Outstanding Claims

The Fund is not required to comply with Australian Accounting Standard 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) (refer to Note 4(b): 'Actuarial Assumptions').

(b) Actuarial Assumptions

The Fund uses actuaries to estimate the provision for claims payable. Actuarial assumptions are based on past claims experience, risk exposure and projections of economic variables.

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) and for claims that have been incurred where not enough is reported (i.e. IBNER);
- 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 considered in aggregate, without being subdivided by claim types.

NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES - CONTINUED

(b) Actuarial Assumptions - Continued

The approaches used to estimate the liability for all claims were as follows:

Method 1 Projected Case Estimates

- historical claim payments of the previous and current Nominal Defendant and case estimates were summarised by accident and payment year;
- adequacy of case estimates was assessed by comparing the case estimates for a given accident year at each year end, with payments in the following year added to case estimates at the following year end. Consideration was 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 Payment per Claims Incurred

- the number of IBNR claims was projected by selecting a reporting pattern based on analysis of the ratio of the cumulative numbers of claims reported for each accident year at successive year ends;
- claim payments were inflated to a common year (the 2015-16 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 (implicitly incorporating reported to date, IBNR and IBNER) and payment pattern for the run off of claims incurred to 30 June 2016; and
- the average claim size and pattern was applied to the reported and projected future reported claim numbers to derive projected payments. These were adjusted for future claims inflation and discounted to present value, allowing for the expected timing of those payments.

Method 3 Incurred Chain Ladder

- historical claim payments of the previous and current Nominal Defendant and case estimates were summarised by accident and payment year;
- case estimates for each accident year were added to payments for each accident year at each year end. The ratio of these numbers for a given accident year at successive year ends was considered, to select a prospective ratio for future claims development; and
- a payment pattern for the run off of claims incurred to 30 June 2016 was estimated, with the timing of future payments allowed for via adjustments for future claims inflation and discounting.

A blend of methods is adopted reflecting the relative strengths of each method in projecting liabilities at different stages of development. A similar blend was used in the prior reporting period, however Method 2 has been modified slightly and Method 3 has been introduced.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES - CONTINUED

(b) Actuarial Assumptions - Continued

Table 1 – Selected Actuarial Assumptions - outlines the main assumptions which were made in estimating the provision for claims payable

Assumption	2016	2015
Case estimate development factors (Method 1)	**Peak of 1.42 reducing to 1**	Peak of 1.42 reducing to 1
Gross average claim size current year values (Method 2)	**$145,531**	$136,329
Incurred development factors (Method 3)	**Peak of 1.40 reducing to 1**	Not Applicable
Claims inflation – wage inflation	**3.75% p.a.**	3.75% p.a.
Claims inflation – superimposed inflation	**3.0% p.a.**	3.0% p.a.
Discount rate	**1.75%**	2.44%
Discounted average term to settlement	**3.1 years**	3.0 years
Claims handling expenses	**7.5%**	7.5%

Case Estimate Development Factors

For those years with reliance on Method 1, the stated case estimate is projected to change by a factor of up to 1.42 (i.e. an increase of 42%) in any particular development year. Based on historical analysis, no further increase in estimates is projected to occur after eight years.

Gross Average Claim Size

For those years with reliance on Method 2, the average claim size has been determined based on analysis of the quantum of payments at each stage of development relative to the number of claims ultimately incurred. The current values are then inflated to the estimated date of payments and discounted for the time value of money.

Incurred Development Factors

For those years with reliance on Method 3, the incurred (sum of payments plus outstanding case estimates) is projected to change by a factor of up to 1.4 (i.e. an increase of 40%) in any particular development year.

Claims Inflation Rate

A base wage inflation rate of 3.75% 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 (i.e. superimposed) inflation has been adopted. Method 2 uses these assumptions, while inflation is implicit in Method 1 and Method 3.

NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES - CONTINUED

(b) Actuarial Assumptions - Continued

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 at 30 June 2016 on Commonwealth bonds, which gives a weighted average discount rate of 1.75%.

Discounted Average Term to Settlement

The discounted average term to settlement has been determined based on weighted average historic settlement patterns.

Claims Handling Expenses

Based on a review of the Fund's expenses in recent years, the Fund has adopted a claims handling expenses rate of 7.5% of the gross provision for claims payable.

Sensitivity Analysis

The provision for claims payable valuation relies on three 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.

Table 2 – Selected Assumption Sensitivity

Assumption Sensitivity	Change	Scenario net provision for claims payable ($)	Difference from net provision for claims payable ($)	Difference %
Net provision for claims payable		**28,910,689**		
Projected case estimate development - until year 8	+5%	30,216,548	1,305,858	4.5
Payment per claim incurred – average claim size	+5%	29,594,742	684,053	2.4
Incurred chain ladder first development factor	+10%	29,264,084	353,394	1.2
Claims inflation rate	+1%	29,352,860	442,171	1.5
Discount rate	-1%	29,819,086	908,397	3.1

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES - CONTINUED

(b) Actuarial Assumptions - Continued

Explanation of Scenario Assumptions:

- The net provision for claims payable is net of any recoveries, inclusive of claims handling expenses and 'central' in the sense that it is not intentionally over or underestimated (i.e. the estimate does not include a margin for uncertainty).
- The projected case estimate 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 reflect the natural rate of increase (or decrease) of estimates as additional information or other factors come to light.
- The payment per claim incurred 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.
- The incurred chain ladder method relies on stability in the development of the reported claim costs (sum of payments plus outstanding case estimates) over time. 'Development factors' are assumed to reflect the expected development in the reported claim costs in each future year.

Impact of Movement in Variables

Case estimate development
The provision for claims payable relies in part on the case estimates held by the Fund. Case estimates are assumed to develop overtime and higher case estimate development assumptions would result in an increase in the claims provision for those periods relying on this method.

Average claim size
The provision for claims payable relies on the average claim size assumptions. 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.

Incurred chain ladder

The provision for claims payable relies in part on the assumed development of the reported claim costs. An increase in assumed development factors would result in an increase in the claims provision for those periods relying on this method.

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 account for 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.

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.

NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES – CONTINUED

(b) Actuarial Assumptions - Continued

As a result of experience during the year and changes in valuation assumptions the provision of claims payable has increased by $3.633 million ($1.214 million increase in 2014-15) (refer to Note 9: 'Claims Expense' and Note 16: 'Provision for Claims Payable').

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 claims;
- 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 developments 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 number of claims reported has been increasing in recent years, beyond that which might be expected as a result of a greater number of vehicles on the roads. The number of claims relating to unidentified vehicles may be a contributory factor as awareness of entitlement to claim increases. A greater proportion of claims may settle for nil cost in the future, but this is not yet evident in the data;

- the small number of claims in each year leads to significant volatility. Separating trends from variation can be challenging. The size of the portfolio also means that having more or fewer large claims will lead to significant variations in incurred cost between injury years. Models based on continuation of past averages will not necessarily reflect this variability;

- the change in administration of the portfolio of claims. Although there are now a number of years of data, payments can continue for many years after the initial accident. Therefore, the impact of any changes in claims management on the experience in the 'tail' (i.e. later durations) remains subject to some uncertainty;

- input errors and the currency of the data. Delays or errors in entering data into the database will affect how reliable the data is. The need for manual adjustments introduces additional risk to the process; however, the number of amendments has reduced over time; and

- the introduction of the Lifetime Care and Support Scheme from 1 July 2014 leads to uncertainty regarding the impact of this scheme on the Nominal Defendant fund. In theory, the introduction of the scheme should provide the potential for the claim costs within the Nominal Defendant fund to reduce. However, as such claims are expected to be infrequent, the exact impact on any given year is unknown.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 5 INTEREST AND DISTRIBUTIONS

	2016 $'000	2015 $'000
Interest from Short-term Investments [a]	**501**	521
Distributions from Long-term Investments [b]	**284**	239
Interest from Banks	**60**	72
Total Interest and Distribution Revenue	**845**	832

[a] In 2015-16 the investment performance on short-term investments was 2.91% (3.38% in 2014-15). This decrease resulted in less interest being received.
[b] The rate of return increased during 2015-16 for long-term investments, 4.6% in 2015-16 (3.93% in 2014-15), this increase in rate resulted in higher distribution revenue being received by the Fund.

NOTE 6 LEVIES

The ACT Compulsory Third Party Regulator collects levies to meet the costs of the fund under Section 163(1) of the *Road Transport (Third Party Insurance) Act 2008* from all licensed Compulsory Third Party insurers in the ACT, the Commonwealth and Territory Governments.

	2016 $'000	2015 $'00
0		
Levies from Insurers	**4,694**	4,757
Levies from the Commonwealth Government	**15**	15
Levies from the ACT Government	**42**	43
Total Levies	**4,751**	4,815

NOTE 7 OTHER REVENUE

	2016 $'000	2015 $'00
0		
Unregistered Vehicle Permits [a]	**574**	576
Unregistered Vehicle Fines	**411**	434
Insured Recoveries [b]	**21**	-
Uninsured Owner/Driver Recoveries	**20**	31
Total Other Revenue	**1,026**	1,041

[a] Unregistered vehicle permits refer to payments made by a vehicle owner to allow an unregistered vehicle to be driven by providing a short term registration period and compulsory third party insurance cover.
[b] Insured recoveries relates to funds received from NRMA for the contribution of 50% to a claim settled during 2015-16.

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 8 UNREALISED GAIN ON INVESTMENTS

	2016 $'000	2015 $'00
0		
Unrealised Gain on Investments	**294**	74
Total Unrealised Gain on Investments	**294**	74

Unrealised gains on investments are the difference between the carrying amount at market value and the value of the investments held with the Public Trustee and Guardian. The unit price of the Fixed Interest Trust Fund was $1.0721 at 30 June 2016 ($1.0224 at 30 June 2015). The increase in unit value in the fixed interest investment resulted in an increase in unrealised gain from the previous year.

NOTE 9 CLAIMS EXPENSES

	2016 $'000	2015 $'00
0		
Settlements [a]	**1,983**	3,708
Medical Costs [b]	**601**	258
Investigation Costs	**10**	28
Legal Costs [c]	**1,324**	1,523
Other Claim Costs	**-**	4
Provision for Claims Payable [d]	**3,632**	1,213
Total Claims Expenses	**7,550**	6,734

[a] Settlements decreased due to fewer claims being settled in 2015-16.
[b] The increase in medical costs is the result of increases in surgery and hospital accommodation costs due to a large claim with three claimants occurring during 2015-16.
[c] Legal costs were higher in 2014-15 due to the pursuing of a third party contribution for a high value claim settled in 2014-15 which did not occur in 2015-16.
[d] Represents the increase in the provision for claims payable resulting from the 2015-16 actuarial estimate (refer to Note 16: 'Provision for Claims Payable').

NOTE 10 SUPPLIES AND SERVICES

	2016 $'000	2015 $'00
0		
Administration Expenses	**63**	62
Audit Fees	**26**	26
Purchased Administrative Services from the ACT Insurance Authority and Default Insurance Fund	**322**	270
Total Supplies and Services	**411**	358

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 11 AUDITOR'S REMUNERATION

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

	2016 $'000	2015 $'000
Audit Services		
Audit fees paid or payable to the ACT Audit Office	**26**	26
Total Audit Fees	**26**	26

No other services were provided by the ACT Audit Office.

NOTE 12 CASH AND CASH EQUIVALENTS

The Fund holds bank accounts with the Westpac Banking Corporation as part of the whole-of-government banking arrangements. The Fund also held short-term investments with the Public Trustee and Guardian in the Justice and Community Safety Directorate's Cash Trust Account throughout the year. The investment earned a floating interest rate of 2.91% (3.38% in 2014-15). These funds are able to be withdrawn upon request and are not subject to movement in market value.

	2016 $'000	2015 $'00
0		
Cash at Bank[a]	**3,575**	1,337
Short Term Investments [a]	**17,327**	17,113
Total Cash and Cash Equivalents	**20,902**	18,450

[a] The increase in cash and cash equivalents is due to the net inflows from operating activities of $2.5 million ($2.8 million in 2014-15).

NOTE 13 RECEIVABLES

	2016 $'000	2015 $'00
0		
Current Receivables		
Accrued Interest [a]	**114**	57
Goods and Services Tax Receivable	**84**	143
Accrued Fees and Fines for Unregistered Vehicles and Unregistered Vehicle Permits	**72**	72
Accrued Levies	**1,231**	1,199
Total Receivables	**1,501**	1,471

[a] The increase of accrued interest is the result of an increase in the cents per unit rate applied to the Fixed Interest Trust Fund of 1.93 cents per unit at 30 June 2016 (0.97 cents per unit at 30 June 2015).

None of the receivables have been assessed as impaired and all receivables are less than 30 days overdue.

NOTE 14 INVESTMENTS

The fixed interest investment is 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 a quoted market price at the reporting date.

	2016 $'000	2015 $'00
0		
Non-Current Investments		
Investment with the Public Trustee and Guardian	**6,336**	6,042
Total Investments	**6,336**	6,042

NOTE 15 PAYABLES

	2016 $'000	2015 $'00
0		
Current Payables		
Trade Creditors [a]	**276**	91
Accrued Expenses	**8**	5
Total Payables	**284**	96

[a] The increase in trade creditors is due to the timing of support service invoices being raised, and a recovery for the Default Insurance Fund being received in the Nominal Defendant bank account on 30 June, this amount is payable to the Default Insurance Fund at year end.

	2016 $'000	2015 $'00
Payables are Aged as follows:		
Not Overdue	**284**	96
Total Payables	**284**	96

NOTE 16 PROVISION FOR CLAIMS PAYABLE

	2016 $'000	2015 $'00
0		
Inflated and Discounted Liability		
Gross Central Estimate	**29,035**	25,416
Recoveries	**(2,302)**	(2,044)
Claims Handling Expense	**2,178**	1,906
Net Central Estimate	**28,911**	25,278
Current Provision for Claims Payable		
Provision for Claims Payable	**6,219**	5,304
Non-Current Provision for Claims Payable		
Provision for Claims Payable	**22,692**	19,974
Total Provision for Claims Payable	**28,911**	25,278

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

The provision for claims payable is an actuarial assessment based on assumptions outlined in Note 4 (b) 'Significant Accounting Judgements and Estimates' – Actuarial Assumptions. The key factors impacting the increase of $3.633 million in the gross central estimate since 30 June 2015 are as a result of growth and risk exposure (i.e. increases in the number of registered vehicles) and changes in actuarial assumptions.

NOTE 16 PROVISION FOR CLAIMS PAYABLE - CONTINUED

Reconciliation to 30 June 2016 Gross Outstanding Claims

	Total ($'000)
Net central estimate including claims handling expenses at 30 June 2015	**25,278**
Adjustment to gross excluding claims handing expenses	138
Gross central estimate at 30 June 2015	**25,417**
Less expected payments (1 July 2015 to 30 June 2016)	(5,375)
Plus unwind of discount	243
Expected gross central estimate at 30 June 2016	**20,285**
Add/(Less) impact of:	
- Actual vs expected claim payments	1,719
- Other experience impacts	207
- Roll forward blending	(1,037)
- Change in projected case estimate assumptions	7
- Change in economic assumptions	445
Revised gross central estimate at 30 June 2016 (prior periods)	**21,626**
Outstanding amounts arising from accident periods 1 July 2015 to 30 June 2016	7,409
Gross central estimate at 30 June 2016	**29,035**
Adjustment to net including claims handling expenses	(124)
Net central estimate including claims handling expenses at 30 June 2016	**28,911**

NOTE 17 FINANCIAL INSTRUMENTS

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

(a) Interest Rate Risk

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

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 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.

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 twelve months if interest rates change by -/+ 1.0% per annum.

		(1.0%)	**1.0%**
	Carrying Amount $'000	**Profit/(Loss) $'000**	**Profit/(Loss) $'000**
Financial Assets:			
Cash and Cash Equivalents	20,902	(209)	209

(b) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Fund's credit risk is limited to the amount of the financial assets it holds net any allowance for impairment.

Credit risk for cash and investments is managed by the Fund by only investing surplus funds with the Public Trustee and Guardian. The Public Trustee and Guardian has set appropriate investment criteria for the external fund manager it has engaged to manage the funds of agencies, resulting in an insignificant credit risk. No collateral is held by the Fund.

The Fund also manages the credit risk for receivables by undertaking an assessment of the credit worthiness of debtors. A large proportion of the Fund's receivables are from major Australian insurers, the ACT and Commonwealth Governments which means that the credit risk of these receivables going into default is low.

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

NOTE 17 FINANCIAL INSTRUMENTS - CONTINUED

(c) 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 ensures that it has sufficient cash and cash equivalents to meet its estimated financial liabilities. The fund may raise additional levies at any time to meet the cost of any unexpected increase in financial liabilities that may arise.

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

The following table sets out the 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 at 30 June 2016. All financial assets and liabilities which have a floating interest rate or are non-interest bearing will mature in one year or less. All amounts appearing in the following maturity analysis are shown on an undiscounted cash flow basis.

2016	Note No.	Weighted Average Interest Rate	Floating Interest Rate $'000	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 at Bank	12	2.81%	**3,575**	-	-	-	-	**3,575**
Short Term Investments	12	2.91%	**17,327**	-	-	-	-	**17,327**
Accrued Interest	13		-	-	-	-	**114**	**114**
Investments	14		-	-	-	-	**6,336**	**6,336**
Total Financial Assets			**20,902**	-	-	-	**6,450**	**27,352**
Financial Liabilities								
Payables	15		-	-	-	-	**(276)**	**(276)**
Total Financial Liabilities			-	-	-	-	**(276)**	**(276)**
Net Financial Assets			**20,902**	-	-	-	**6,174**	**27,076**

Reconciliation of Net Financial Assets to Net Assets as per the Balance Sheet	Note No.	2016 $'000
Net Financial Assets (as above)		**27,076**
Goods and Services Tax Receivable	13	**84**
Accrued Revenue	13	**1,303**
Accrued Expenses	15	**(8)**
Provision for Claims Payable	16	**(28,911)**
Net Liabilities as per the Balance Sheet		**(456)**

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 17 FINANCIAL INSTRUMENTS - CONTINUED

(c) Liquidity Risk - 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 at 30 June 2015. All financial assets and liabilities which have a floating interest rate or are non-interest bearing will mature in one year or less. All amounts appearing in the following maturity analysis are shown on an undiscounted cash flow basis.

2015	Note No.	Weighted Average Interest Rate	Floating Interest Rate $'000	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 at Bank	12	2.82%	1,337	-	-	-	-	1,337
Short Term Investments	12	3.38%	17,113	-	-	-	-	17,113
Accrued Interest	13		-	-	-	-	57	57
Investments	14		-	-	-	-	6,042	6,042
Total Financial Assets			**18,450**	**-**	**-**	**-**	**6,099**	**24,549**
Financial Liabilities								
Payables	15		-	-	-	-	(91)	(91)
Total Financial Liabilities			-	-	-	-	(91)	(91)
Net Financial Assets			**18,450**	**-**	**-**	**-**	**6,008**	**24,458**

Reconciliation of Net Financial Assets to Net Assets as per the Balance Sheet	**No.**	**2015 $'000**
Net Financial Assets (as above)		**24,458**
Goods and Services Tax Receivable	13	143
Accrued Revenue	13	1,271
Accrued Expenses	15	(5)
Provision for Claims Payable	16	(25,278)
Net Assets as per the Balance Sheet		589

	2016 $'000	**2015 $'000**
Carrying Amount of Each Category of Financial Assets		
Financial Assets		
Financial Assets at Fair Value through the Profit and Loss Designated upon Initial Recognition	**6,336**	6,042
Loans and Receivables Measured at Amortised Cost	**114**	57
Gains on Each Category of Financial Asset		
Financial Assets at Fair Value through the Profit and Loss Designated upon Initial Recognition	**294**	74

NOTE 17 FINANCIAL INSTRUMENTS - CONTINUED

(d) 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 with the Public Trustee and Guardian. The Fund has units in the Fixed Interest 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 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 the 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 twelve months if unit values change by -/+ 1.89%.

	Units Held 30 June 2016	Unit Value 30 June 2016	Carrying Amount	(1.89%) Profit/(Loss)	+1.89% Profit/(Loss)
	Number of Units	**$**	**$ 000**	**$ 000**	**$ 000**
Financial Assets:					
Investments with the Public Trustee and Guardian	5,909,583.37	1.0721	6,336	(120)	120

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 17 FINANCIAL INSTRUMENTS - CONTINUED

(e) Fair Values of Financial Assets and Liabilities

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

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

	Note No.	Carrying Amount 2016 $'000	Fair Value 2016 $'000	Carrying Amount 2015 $'000	Fair Value 2015 $'000
Financial Assets					
Cash and Cash Equivalents	12	**20,902**	**20,902**	18,450	18,450
Receivables	13	**114**	**114**	57	57
Investments	14	**6,336**	**6,336**	6,042	6,042
Total Financial Assets		**27,352**	**27,352**	24,549	24,549
Financial Liabilities					
Payables	15	**276**	**276**	91	91
Total Financial Liabilities		**276**	**276**	91	91

NOTE 17 FINANCIAL INSTRUMENTS - CONTINUED

(f) Fair Value Hierarchy

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.

	Classification According to the Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
2016				
Financial Assets				
Investment with the Public Trustee and Guardian	-	**6,336**	-	**6,336**

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

	Classification According to the Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
2015				
Financial Assets				
Investment with the Public Trustee and Guardian	-	6,042	-	6,042

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 2016

NOTE 18 CASH FLOW RECONCILIATION

	2016 $'000	2015 $'00
0		
(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 the Balance Sheet	**20,902**	18,450
Cash and Cash Equivalents at the End of the Reporting Period as Recorded in the Cash Flow Statement	**20,902**	18,450
(b) Reconciliation of the Operating (Deficit) to theNet Cash Inflows from Operating Activities		
Operating (Deficit)	**(1,045)**	(330)
(Less) Items Classified as Investing or Financing		
Unrealised Gain on Investments	**(294)**	(74)
Cash before Operating Assets and Liabilities	**(1,339)**	(404)
Changes in Operating Assets and Liabilities		
(Increase)/ Decrease in Receivables	**(30)**	2,160
Increase/ (Decrease) in Payables	**188**	(112)
Increase in the Provision for Claims Payable	**3,633**	1,213
Net Changes in Operating Assets and Liabilities	**3,791**	3,261
Net Cash Inflows from Operating Activities	**2,452**	2,857

Financial Statements

For the Year Ended

30 June 2016

Default Insurance Fund

ACT Audit Office

AUDITOR-GENERAL AN OFFICER OF THE ACT LEGISLATIVE ASSEMBLY

INDEPENDENT AUDIT REPORT
DEFAULT INSURANCE FUND

To the Members of the ACT Legislative Assembly

Report on the financial statements

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

Responsibility for the financial statements

The Fund Manager is responsible for the preparation and fair presentation of the financial statements of the Fund. 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 Fund.

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 Fund.

Electronic presentation of the audited financial statements

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

Independence

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

Audit opinion

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

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

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

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

Bernie Sheville
Director, Financial Audits
14 September 2016

Default Insurance Fund
Financial Statements
For the Year Ended 30 June 2016

Statement by the Fund Manager

In my opinion, the Financial Statements have been prepared 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 2016 and the financial position of the Fund on that date.

John Fletcher
Fund Manager
Default Insurance Fund
13 September 2016

DEFAULT INSURANCE FUND (DIF)

Comprised of the
Collapsed Insurer Fund (CIF) and
Uninsured Employer Fund (UEF)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

Default Insurance Fund
Operating Statement
For the Year Ended 30 June 2016

	Note No.	CIF Actual 2016 $'000	UEF Actual 2016 $'000	DIF Actual 2016 $'000	CIF Actual 2015 $'000	UEF Actual 2015 $'000	DIF Actual 2015 $'000
Income							
Interest and Distributions	5	508	224	**732**	524	240	**764**
Levies	6	-	817	**817**	-	734	**734**
Recoveries	7	653	134	**787**	2,777	157	**2,934**
Other Revenue	8	-	158	**158**	-	201	**201**
Total Income		**1,161**	**1,333**	**2,494**	**3,301**	**1,332**	**4,633**
Expenses							
Employee Expenses	9	-	75	**75**	-	209	**209**
Superannuation Expenses	9	-	24	**24**	-	39	**39**
Claims Expense/(Credit)	10	72	536	**608**	(203)	983	**780**
Supplies and Services	11	46	157	**203**	60	101	**161**
Total Expenses		**118**	**792**	**910**	**(143)**	**1,332**	**1,189**
Operating Surplus		**1,043**	**541**	**1,584**	**3,444**	**-**	**3,444**
Other Comprehensive Income		-	-	-	-	-	-
Total Comprehensive Income		**1,043**	**541**	**1,584**	**3,444**	**-**	**3,444**

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

Default Insurance Fund
Balance Sheet
At 30 June 2016

	Note No.	CIF Actual 2016 $'000	UEF Actual 2016 $'000	DIF Actual 2016 $'000	CIF Actual 2015 $'000	UEF Actual 2015 $'000	DIF Actual 2015 $'000
Current Assets							
Cash and Cash Equivalents	13	17,908	8,218	**26,126**	16,815	7,232	**24,047**
Receivables	14	-	747	**747**	-	466	**466**
Total Current Assets		**17,908**	**8,965**	**26,873**	**16,815**	**7,698**	**24,513**
Non-Current Assets							
Receivables	14	-	666	**666**	-	2,361	**2,361**
Total Non-Current Assets		**-**	**666**	**666**	**-**	**2,361**	**2,361**
Total Assets		**17,908**	**9,631**	**27,539**	**16,815**	**10,059**	**26,874**
Current Liabilities							
Payables	15	2	62	**64**	2	38	**40**
Employee Benefits	16	-	13	**13**	-	36	**36**
Provision for Claims Payable	17	83	817	**900**	79	789	**868**
Total Current Liabilities		**85**	**892**	**977**	**81**	**863**	**944**
Non-Current Liabilities							
Provision for Claims Payable	17	963	8,198	**9,161**	917	9,196	**10,113**
Total Non-Current Liabilities		**963**	**8,198**	**9,161**	**917**	**9,196**	**10,113**
Total Liabilities		**1,048**	**9,090**	**10,138**	**998**	**10,059**	**11,057**
Net Assets		**16,860**	**541**	**17,401**	**15,817**	**-**	**15,817**
Equity							
Accumulated Funds		16,860	541	**17,401**	15,817	-	**15,817**
Total Equity		**16,860**	**541**	**17,401**	**15,817**	**-**	**15,817**

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

Default Insurance Fund
Statement of Changes in Equity
For the Year Ended 30 June 2016

	CIF Accumulated Funds Actual 2016 $'000	UEF Accumulated Funds Actual 2016 $'000	DIF Accumulated Funds Actual 2016 $'000
Balance at 1 July 2015	**15,817**	**-**	**15,817**
Comprehensive Income			
Operating Surplus	1,043	541	**1,584**
Total Comprehensive Surplus	**16,860**	**541**	**17,401**
Balance at 30 June 2016	**16,860**	**541**	**17,401**

	CIF Accumulated Funds Actual 2015 $'000	UEF Accumulated Funds Actual 2015 $'000	DIF Accumulated Funds Actual 2015 $'000
Balance at 1 July 2014	**12,373**	**-**	**12,373**
Comprehensive Income			
Operating Surplus	3,444	-	**3,444**
Total Comprehensive Surplus	**15,817**	**-**	**15,817**
Balance at 30 June 2015	**15,817**	**-**	**15,817**

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

Default Insurance Fund
Cash Flow Statement
For the Year Ended 30 June 2016

	Note No.	CIF Actual 2016 $'000	UEF Actual 2016 $'000	DIF Actual 2016 $'000	CIF Actual 2015 $'000	UEF Actual 2015 $'000	DIF Actual 2015 $'000
Cash Flow From Operating Activities							
Receipts							
Interest and Distributions Received		508	224	**732**	524	240	**764**
Levies		-	2,266	**2,266**	-	2,425	**2,425**
Recoveries		654	138	**792**	2,777	171	**2,947**
Goods and Services Input Tax Credits from the Australian Taxation Office		-	59	**59**	-	67	**67**
Other Revenue		-	118	**118**	24	293	**317**
Total Receipts from Operating Activities		**1,162**	**2,805**	**3,967**	**3,325**	**3,196**	**6,521**
Payments							
Employee		-	122	**122**	-	258	**258**
Supplies and Services		47	126	**173**	60	88	**148**
Payment of Claims		22	1,512	**1,534**	22	3,583	**3,605**
Goods and Services Tax Paid to Suppliers		-	59	**59**	-	58	**58**
Total Payments for Operating Activities		**69**	**1,819**	**1,888**	**82**	**3,987**	**4,069**
Net Cash Inflows/(Outflows) from Operating Activities	19(b)	**1,093**	**986**	**2,079**	**3,243**	**(791)**	**2,452**
Net Increase/(Decrease) in Cash and Cash Equivalents		**1,093**	**986**	**2,079**	**3,243**	**(791)**	**2,452**
Cash and Cash Equivalents at the Beginning of the Reporting Period		16,815	7,232	**24,047**	13,572	8,023	**21,595**
Cash and Cash Equivalents at the End of the Reporting Period	19(a)	**17,908**	**8,218**	**26,126**	**16,815**	**7,232**	**24,047**

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

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE INDEX

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 1 OBJECTIVES OF THE DEFAULT INSURANCE FUND

Operations and Principal Activities of the Default Insurance Fund

The Default Insurance Fund (the Fund) was established on 1 July 2006 and operates under the *Workers' Compensation Act 1951*. The objectives of the Fund are to:

- provide a safety net mechanism to meet the costs of workers' compensation claims made by workers where:
  - (i) an employer does not have a compulsory insurance policy; or
  - (ii) an approved insurer is wound up under the *Corporations Act 2001* or cannot provide the indemnity required under a compulsory insurance policy;
- ensure that workers who are injured in the circumstances listed above, receive the same entitlements as an injured worker would receive where the employer did have insurance, and the employer is able to provide indemnity;
- make payment of statutory entitlements under the *Workers Compensation Act 1951*; and
- satisfy or settle claims.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

These general purpose financial statements have been prepared to comply with 'Generally Accepted Accounting Principles' (GAAP). 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 presented by aggregate and by the Collapsed Insurer Fund (CIF) and the Uninsured Employer Fund (UEF), the financial performance and financial position are allocated between each Fund to be transparent about amounts and balances relating to each Fund. The financial statements have been prepared using the accrual basis of accounting, which recognises the effects of transactions and events when they occur. The financial statements have also been prepared according to the historical cost convention, except for assets such as those included in financial instruments which were measured at fair value in accordance with the valuation policies applicable to the Fund during the reporting period.

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

The Fund is an individual reporting entity.

(b) Reporting Period

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

NOTE 2 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.

(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. In addition, the following specific recognition criteria must also be met before revenue is recognised:

Interest

Interest revenue is recognised using the effective interest method.

Distributions

Distribution revenue is received from investments with the Public Trustee and Guardian Fixed Interest Portfolio. This is recognised on an accrual basis.

Levies

Monies required to satisfy Uninsured Employer Fund claims are funded by way of levies placed on ACT Workers' Compensation Insurers and Self-Insurers. The *Workers Compensation Act 1951* provides the framework for the calculation of levies. In 2015-16, the Fund Manager imposed contributions from insurers and self-insurers equal to 1.4% of gross written premiums (1.4% in 2014-15). Levies are recognised in the Operating Statement when they have been levied (refer to Note 6: 'Levies').

Recoveries

The Collapsed Insurer Fund may receive recoveries from the administrators of failed insurance companies. The Uninsured Employer Fund may receive recoveries from other insurers due to third party arrangements. Both funds may receive repayments by claimant third parties and court associated recoveries. All recoveries are recognised upon receipt.

Other Revenue

Other revenue includes support services provided to the Nominal Defendant and fines from non-complying employers. Fines are recognised as revenue at the time of receipt.

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(f) Current and Non-Current Items

Assets and liabilities are classified as current or non-current in the Balance Sheet and in the relevant notes. Assets are classified as current where they are expected to be realised within twelve months after the reporting date. Liabilities are classified as current when they are due to be settled within twelve months after the reporting date or the Fund 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.

(g) Cash and Cash Equivalents

For the purposes of the Cash Flow Statement and the Balance Sheet, cash includes cash at bank, 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. Cash equivalents include short-term investments held in a Cash Trust Account managed by an external fund manager on behalf of the Public Trustee and Guardian.

(h) Receivables

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

Receivables include levies receivable, trade debtors, Goods and Services Taxation (GST), Fringe Benefits Taxation (FBT) and claims related recoveries.

The allowance for impairment represents the amount of receivables the Fund estimates will not be repaid. The allowance for impairment is based on objective evidence and a review of overdue balances. The Fund considers the following is objective evidence of impairment:

(i) becoming aware of financial difficulties of debtors;
(ii) defaulting payments; or
(iii) debts more than 90 days overdue.

The value of unfunded claims is accounted for as receivables. Levies required to meet the cost of future claims is the amount that needs to be raised to enable the outstanding claims liability of UEF to be fully funded over time (refer to Note 17: 'Provision for Claims Payable'). These amounts can be recognised as revenue and receivables as the *Workers Compensation Act 1951* provides the framework for contributions to be collected from approved insurers and self-insurers annually as well as any supplementary contribution determined by the Fund manager. The Fund manager has the ability to raise the levies to meet expenses should there be a cash shortfall before full funding is reached.

(i) Payables

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

Payables include trade creditors, Goods and Services Taxation (GST), Pay As You Go (PAYG) and accrued expenses.

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

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(i) Payables - Continued

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 period end.

(j) Employee Benefits

Employee benefits include:

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

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

Wages and Salaries

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

Annual and Long Service Leave

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

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

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

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 that employees will reach the required minimum period has been taken into account in estimating the provision for long service leave and applicable on-costs.

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

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(j) Employee Benefits - Continued

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

(k) Superannuation

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

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

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

(l) Provision for Claims Payable

The Fund is not required to comply with Australian Accounting Standard 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 for a reporting entity to apply AASB 1023. Instead, the liabilities are reported under AASB 137: 'Provisions, Contingent Liabilities and Contingent Assets'. The measurement of liabilities under AASB 137 is based on a best estimate which the Fund manager believes, in the context of the Fund's business, equates to the central estimate of claim liabilities (i.e. the value of the liability without an explicit risk margin).

The provision for claims payable 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 payable are assessed by estimating changes in the ultimate cost of settling claims, IBNRs and settlement costs using statistics based on past experience and trends. In limited instances, this is supplemented or replaced by a review of individual claims information.

The Fund appointed an independent actuary, KPMG Actuarial Pty Limited, to provide a full assessment of the provision for claims payable. The valuation of this provision was completed in July 2016, based on data at 30 June 2016.

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

Claims estimated to fall due within a twelve-month period are classified as a current liability and all other claims as a non-current liability.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(m) Accounting Standards Accepted for Early Adoption

AASB 2015-2: 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101' has been early adopted for the 2015-16 reporting period, even though the standard is not required to be applied until annual reporting periods beginning on or after 1 July 2016.

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

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

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

- AASB 2015-6: 'Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities' [AASB 10, 124 and 1049](application date 1 July 2016);

  This standard extends the scope of AASB 124: 'Related Party Disclosures' to include the not-for-profit sector and updates AASB 124 to include implementation guidance (including illustrative examples) to assist not-for-profit entities to apply the new requirements. The impact has been assessed and while there is no material financial impact in implementing this standard there will be increased disclosure required by the Fund.

NOTE 3 CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES

(a) Change in Accounting Policy

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

(b) Changes in Accounting Estimates

Changes in Actuarial Assumptions

The Fund uses KPMG Actuarial Pty Limited (refer to Note 4: 'Significant Accounting Judgements and Estimates') to estimate the provision for claims payable (liability) and related claims expenses. Actuarial assumptions are based on past claims experience, risk exposure and projections of economic variables. As such, the estimate of the provision for claims payable will change each time the provision is assessed by the actuaries (refer to Note 17: 'Provision for Claims Payable'). This change has resulted in a decrease of $920,000 at 30 June 2016 to the estimate of the provision for claims payable ($2,899,000 decrease at 30 June 2015). This decrease has been largely driven by a reduction in case estimates for the Uninsured Employers Fund.

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The Fund makes estimates and assumptions in respect of certain key amounts recorded in the financial statements. Estimates and judgements are regularly 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) Actuarial Assumptions

The Fund uses actuaries to estimate the provision for claims payable. Actuarial assumptions are based on past claims experience, risk exposure and projections of economic variables.

The actuarial estimate of the provision for claims payable comprises:

- future compensation payments on open reported claims including, where appropriate, an incurred but not enough reported (IBNER) allowance for development in the case estimate prior to the settlement of those claims;
- future compensation payments for claims that have been incurred but not reported (IBNR);
- net apportionment and cross-claims (i.e. 'sharing') with other defendants, where identified;
- 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 subdivided by:

- latent claims, where the risk is not anticipated by the Fund and include asbestos related and hearing claims, which are reported four or more years after the accident giving rise to the claim occurred; and
- all other injury types.

The approach used in calculating the provision for claims payable in the Uninsured Employers Fund was as follows:

- development of open claims (current value payments to date plus current case estimates) was analysed; and consideration was then given to the need to include an allowance for IBNER;
- a further allowance was made for incurred but not yet reported (IBNR) claims, based on a projection of future claim reports and an adopted average claim size;
- a pattern of future payments was applied to apportion the current value of the liability over future payment periods;
- an allowance was made for the effect of future recoveries, based on historic experience; and
- an allowance was made for the timing of benefit payments by adjusting for future claims inflation and discounting these payments to a present value.

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES – CONTINUED

(a) Actuarial Assumptions - Continued

The approach used to estimate the provision for claims payable in the Collapsed Insurers Fund was as follows:

- historical claim payments gross of recoveries have been inflated to 30 June 2016 values;
- future claims payments were projected, based on payment experience to date;
- development of open claims (current value payments to date plus current case estimates) was analysed and consideration was then given to the need to adjust the case estimates on the open claims for future case estimate developments;
- a pattern of future payments was applied to apportion the current value of the liability over future payment periods; and
- an allowance was made for the timing of benefit payments by adjusting for future claims inflation and discounting these payments to a present value.

Table 1 – Main assumptions in determining the provision for claims payable

Assumption	Collapsed Insurer Fund		Uninsured Employer Fund	
	2016	**2015**	**2016**	**2015**
Projected claim numbers	Not Applicable	Not Applicable	**30.4**	32.5
Gross average claim size	Not Applicable	Not Applicable	**$163,678**	$146,315
Claims Inflation rate per annum – Wage Inflation	**3.75%**	3.75%	**3.75%**	3.75%
Claims Inflation rate per annum – Superimposed inflation	**1.75%**	1.75%	**1.75%**	1.75%
Discount rate per annum	**1.6%**	2.2%	**1.8%**	2.6%
Average weighted term to settlement	**3.8 years**	4.1 years	**4.5 years**	4.7 years
Claims handling expenses	**15%**	15%	**15%**	15%

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES - CONTINUED

(a) Actuarial Assumptions – Continued

Process Used to Determine Assumptions

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

Projected claim numbers

The projected claim numbers have been determined based on an assumed pattern of claim emergence using chain ladder projections which uses ratios to project number of claims. This projection gives the average number of IBNR claims expected in the future from a notional distribution of possible outcomes. Because it is the result of an estimation process, the result is not an integral number.

For the Uninsured Employer Fund, 29% of new claims are projected to be reported in 2016-17.

Gross average claim size

The gross average claims size assumption has been determined based on an analysis of past average claim size experience of latent claims, where the risk has not been anticipated by the Fund, and non-latent claims separately. The average claims size assumptions for the Uninsured Employer Fund are $189,738 for latent claims (reported four or more years after the claim accident date) and $125,000 for non-latent claims (reported within three years of the claim accident date).

Claims inflation rate

A base wage inflation rate of 3.75% per annum has been selected. However, claim costs have a tendency to increase above the rate of wage inflation over time. A rate of 1.75% per annum for additional (i.e. superimposed) inflation has been adopted.

Discount rate

The estimate of the Default Insurance Fund's provision for claims payable 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 at 30 June 2016 on long-duration Commonwealth Government bonds, which gives weighted average discount rates of 1.6% and 1.8% per annum for the Collapsed Insurer Fund and Uninsured Employer Fund respectively. The two Funds have different projected payment patterns based on the nature of their claims. As the market yield of bonds varies by duration, this gives rise to the different average discount rates for the two Funds.

Average weighted term

The average weighted term to settlement is based on historic settlement patterns. A decrease in the average weighted term to settlement would lead to more claims being paid sooner than anticipated.

Claims handling expenses

An assumption of 15% loading for expenses has been applied to the gross central estimate for the Fund at 30 June 2016, which is unchanged from the previous valuation at 30 June 2015.

NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES - CONTINUED

(a) Actuarial Assumptions – Continued

Sensitivity Analysis

The Fund's provision for claims payable is calculated using methods which rely 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 key assumptions and quantified the impact on the outstanding claims result for the Fund. This is referred to as a sensitivity analysis.

Collapsed Insurance Fund				
Assumption Sensitivity	**Change**	**Scenario net provision for claims payable $**	**Difference from net provision for claims payable $**	**Difference %**
Net provision for claims payable		**1,045,927**		
Increase development factors	+10%	1,054,593	8,667	0.8
Additional latent IBNR claim	+1	1,448,427	402,500	38.5
Increase average wage earning inflation	+1%	1,092,430	46,503	4.4
Movement in discount rate	-1%	1,093,615	47,689	4.6

Uninsured Employer Fund				
Assumption Sensitivity	**Change**	**Scenario net provision for claims payable $**	**Difference from net provision for claims payable $**	**Difference %**
Net provision for claims payable		**8,338,795**		
Additional latent IBNR claim	+1	8,584,841	246,046	3.0
Additional non-latent IBNR claim	+1	8,510,669	171,874	2.1
Increase non-latent average claim size	+$20,000	8,671,335	332,539	4.0
Increase latent average claim size	+$20,000	8,802,221	463,426	5.6
Case estimate development	-10%	8,155,601	-183,195	-2.0
Increase average wage earning inflation	+1%	8,812,320	473,525	5.7
Movement in discount rate	-1%	8,733,241	394,445	4.7

** The net provision for claims payable for Collapsed Insurance Fund includes an allowance for one large claim (asbestos-related claim) of $350,000.*

The sensitivity above examines the impact of one additional claim on the Fund's net provision for claims payable.

The net provision for claims payable refers to the provision for outstanding claims liability, which is net of any recoveries, inclusive of claims handling expenses and is not intentionally over or underestimated (i.e. does not include a margin for uncertainty).

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES - CONTINUED

(a) Actuarial Assumptions – Continued

Sensitivity Analysis - Continued

Claims frequency

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

Case estimate development

The provision for claims payable relies in part on the case estimates held by the Fund. The impact on reported claim expense will reflect the extent that the development of case estimates differ 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 liability.

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 and magnified impact on the claims expense.

Uncertainty

General sources of uncertainty

- Data error – the base data can contain material errors or may not be representative of the current portfolio of claims.
- 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.
- Unforeseen developments 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.

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES - CONTINUED

(a) Actuarial Assumptions – Continued

Fund specific sources of uncertainty

- The Fund's data is sparse and an actuary could reasonably select a wide range of assumptions when assessing the liabilities.
- The provision for claims payable of the Collapsed Insurance Fund are expected to reduce over time (unless another insurer collapses). As such, the 'tail' liabilities (i.e. liabilities from earlier accident periods) are likely to become increasingly uncertain in percentage terms as the liabilities reduce.
- The experience of the Uninsured Employer Fund, in particular, is influenced by social and economic factors. These factors have had an impact on the claims experience of the Fund.
- For both Funds, there are specific uncertainties relating to latent claims, including very long tailed latent exposures such as asbestos-related diseases. No specific allowance has been made for the existence of latent claim types that are not already evident within the claims data. It is possible that these claims could be significant.
- The Fund has relied upon the case estimates when setting reserves for open claims. It is likely that when open claims are settled they will be settled at a different value to the case estimate held, and this value may be significantly higher or lower than the case estimate.
- From 1 July 2016, the Lifetime Care and Support Scheme will cover private sector workers who are catastrophically injured in a workplace accident. This leads to uncertainty regarding the impact of the Scheme on the Fund. In theory, the introduction of the Scheme should provide the potential for the claim costs within the Fund to reduce. However, as such claims are expected to be infrequent, the exact impact on any given year is unknown.

NOTE 5 INTEREST AND DISTRIBUTIONS

	2016 $'000	2015 $'000
Interest and Distributions		
Distributions from the Cash Trust Account [a]	**471**	505
Interest from Bank	**37**	19
Collapsed Insurer Fund	**508**	524
Distributions from the Cash Trust Account [a]	**163**	199
Interest from Bank	**61**	41
Uninsured Employer Fund	**224**	240
Total Interest and Distributions	**732**	764

[a] The decrease in distributions for both the Collapsed Insurer and the Uninsured Employer Fund's was mainly due to the average rate of return decreasing from 3.38% in 2014-15 to 2.91% in 2015-16.

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 6 LEVIES

Each year a review of the Uninsured Employer Fund is undertaken by the Fund Manager to determine an appropriate levy to impose on all approved workers' compensation insurers and self-insurers who are currently operating in the Territory. On 1 July 2010 a funding model was introduced with the aim to address the unfunded component of the provision for claims payable and to build on reserves to cover the cost of claims and administrative expenses of the fund. As of 30 June 2016 the Fund reached a fully funded position, this position will continue to be monitored over the next financial year. In 2015-16, the Fund Manager imposed contributions from insurers and self-insurers equal to 1.4% of gross written premiums (1.4% in 2014-15).

	2016	**2015**
	$'000	**$'000**
Uninsured Employer Fund		
Levies Received	**2,457**	2,447
Levies Attributed to Unfunded Component	**(1,640)**	(1,713)
Total Levies	**817**	734

NOTE 7 RECOVERIES

	2016	**2015**
	$'000	**$'000**
Insurer – Collapsed Insurer Fund [a]	**653**	2,777
Other – Uninsured Employer Fund	**134**	157
Total Recoveries	**787**	2,934

[a] Recoveries for the Insurer - Collapsed Insurer Fund were payments received from the HIH Liquidator, the Fund relies on the administrators of the failed insurance companies to determine the amounts received, no further recoveries are expected in the future.

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 8 OTHER REVENUE

	2016 $'000	2015 $'000
Uninsured Employer Fund		
Fines [a]	**66**	10
Services Provided to the Nominal Defendant [b]	**92**	191
Total Other Revenue	**158**	201

[a] The increase in fines is due to more monies being received from the Chief Minister, Treasury and Economic Development Directorate (Access Canberra) for fines imposed on employers for non-compliance.

[b] The decrease in services provided to the Nominal Defendant is due to staff from the Default Insurance Fund being on secondment and leave. This resulted in a reduction in revenue from providing these services to the Nominal Defendant. These services were provided by the ACT Insurance Authority during 2015-16.

NOTE 9 EMPLOYEE AND SUPERANNUATION EXPENSES

	2016 $'000	2015 $'000
Uninsured Employer Fund		
Employee Expenses		
Salaries	**94**	210
(Decrease)/Increase in the Provision for Annual Leave	**(2)**	5
(Decrease) in the Provision for Long Service Leave	**(17)**	(6)
Total Employee Expenses [a]	**75**	209
Superannuation Expenses		
Superannuation Contribution to the Territory Banking Account	**21**	36
Productivity Benefit	**3**	6
Total Superannuation Expenses [a]	**24**	39

[a] Employee and Superannuation expenses decreased due to staff being on secondment and leave. These expenses are reflected in the increase in Support Services supplied to the Fund by the ACT Insurance Authority (refer to Note 11: 'Supplies and Services'). Based on the level of workload of each of the Funds, employee expenses have been allocated to the Uninsured Employer Fund.

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 10 CLAIMS EXPENSES/(CREDIT)

	2016 $'000	2015 $'000
Weekly Compensation	**22**	22
Provision for Claims Payable [a]	**50**	(225)
Collapsed Insurer Fund	**72**	(203)
Settlements [b]	**566**	2,161
Medical and Rehabilitation Costs	**133**	134
Weekly Compensation	**95**	109
Legal and Disbursements Costs [b]	**712**	1,152
Other Claim Costs	**-**	101
Provision for Claims Payable [c]	**(970)**	(2,674)
Uninsured Employer Fund	**536**	983
Total Claims Expenses	**608**	780

[a] Represents the movement in the CIF's provision for claims payable resulting from the 2015-16 actuarial estimate (refer to Note 17: 'Provision for Claims Payable').

[b] Settlements and legal and disbursement costs for the UEF decreased in 2015-16 due to a number of large claims which included higher claim related costs settling in 2014-15.

[c] Represents the movement in the UEF provision for claims payable resulting from the 2015-16 actuarial estimate, the decrease has been largely driven by a reduction in case estimates (refer to Note 17: 'Provision for Claims Payable').

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 11 SUPPLIES AND SERVICES

	Note No.	2016 $'000	2015 $'000
Actuarial Costs		**10**	10
Audit Fees	12	**13**	13
Contractors and Consultants [a]		**-**	13
Investment Commission		**23**	25
Collapsed Insurer Fund		**46**	60
Actuarial Costs		**15**	18
Audit Fees	12	**13**	13
Investment Commission		**8**	10
Support Services [b]		**119**	58
Other		**2**	2
Uninsured Employer Fund		**157**	101
Total Supplies and Services		**203**	161

[a] Contractors and Consultants expenses in 2014-15 related to services provided by the HIH Liquidator. This expense did not occur in 2015-16.

[b] Support services costs have increased due to additional support services supplied by the ACT Insurance Authority to fill the shortfall of staff on secondment and leave.

NOTE 12 AUDITOR'S REMUNERATION

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

	2016 $'000	2015 $'000
Audit Services		
Audit fees paid or payable to the ACT Audit Office	**26**	26
Total Audit Fees	**26**	26

No other services were provided by the ACT Audit Office.

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 13 CASH AND CASH EQUIVALENTS

The Fund holds bank accounts with the Westpac Banking Corporation as part of the whole-of-government banking arrangements. The Fund also held short-term investments with the Public Trustee and Guardian in a Cash Trust Account. The investment earned an average floating interest rate of 2.91% in 2015-16 (3.38% in 2014-15). These funds are able to be withdrawn upon request and are not subject to movements in their market value.

	2016 $'000	2015 $'000
Cash and Cash Equivalents		
Cash at Bank	**294**	703
Investments [a]	**17,614**	16,112
Collapsed Insurer Fund	**17,908**	16,815
Cash at Bank [b]	**2,613**	1,627
Investments	**5,605**	5,605
Uninsured Employer Fund	**8,218**	7,232
Total Cash and Cash Equivalents	**26,126**	24,047

[a] The Collapsed Insurer Fund investments increased due to recoveries received from the HIH Liquidator and additional cash funds invested.

[b] The Uninsured Employer Fund Cash at Bank increased due mainly to a decrease in the payments of claims in 2015-16 compared with 2014-15.

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 14 RECEIVABLES

	Note No.	2016 $'000	2015 $'000
<u>Uninsured Employer Fund</u>			
Current Receivables			
Levies Receivable		**580**	390
Services Supplied to the Nominal Defendant [a]		**92**	52
Other		**50**	-
Goods and Services Tax Receivable		**15**	15
		737	457
Other Receivables			
Claims Related		**10**	9
Total Current Receivables		**747**	466
Non-Current Receivables			
Claims Related		**666**	721
Levies Required to Meet the Cost of Future Claims [b]	17(a)	**-**	1,640
Total Non-Current Receivables		**666**	2,361

[a] The increase to services supplied to the Nominal Defendant is due to the invoice only being raised on 30 June 2016 where during 2014-15 these invoices were raised bi-annually.

[b] Levies required to meet the cost of future claims is the amount that needs to be raised to enable the provision for claims payable of Uninsured Employer Fund to be fully funded (refer to Note 17: 'Provision for Claims Payable'). The decrease of $1,640,000 for the amount of levies required is due to the Uninsured Employer Fund being fully funded during 2016 (The Fund's assets exceed the provision for claims payable).

Ageing of Receivables

	Not Overdue	Overdue			Total
		Less than 30 Days	30 to 60 Days	Greater than 60 Days	
	$'000	$'000	$'000	$'000	$'000
2016					
Current Receivables					
Not Impaired[1] Receivables	**677**	**70**	-	-	**747**
Impaired Receivables	-	-	-	-	**-**
Non-Current Receivables					
Not Impaired[1] Receivables	**666**	**-**	-	-	**666**
Impaired Receivables	-	-	-	-	**-**

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 14 RECEIVABLES - CONTINUED

Ageing of Receivables

	Not Overdue	Overdue			Total
		Less than 30 Days	30 to 60 Days	Greater than 60 Days	
	$'000	$'000	$'000	$'000	$'000
2015					
Current Receivables					
Not Impaired[1] Receivables	466	-	-	-	466
Impaired Receivables	-	-	-	-	-
2015					
Non-Current Receivables					
Not Impaired[1] Receivables	2,361	-	-	-	2,361
Impaired Receivables	-	-	-	-	-

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

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

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 15 PAYABLES

	2016 $'000	2015 $'000
Current Payables		
Accrued Expenses	**2**	2
Collapsed Insurer Fund	**2**	2
Trade Creditors	**58**	20
Pay As You Go (PAYG) withholding payable	**3**	6
Accrued Expenses	**1**	12
Uninsured Employer Fund	**62**	38
Total Current Payables	**64**	40
Ageing of Current Payables		
Payables are Aged as follows:		
Not Overdue	**64**	40
Total Current Payables	**64**	40

NOTE 16 EMPLOYEE BENEFITS

	2016 $'000	2015 $'000
Uninsured Employer Fund		
Current Employee Benefits		
Accrued Salaries	**1**	5
Annual Leave	**10**	12
Long Service Leave	**2**	19
Total Current Employee Benefits	**13**	36

	2016 Number	2015 Number
Employee Numbers		
Full-Time Equivalents at the End of the Reporting Period	**0.8**	2

Employee numbers have decreased due to staff being on secondment and on leave. Based on the level of workload of each of the Funds, employee benefits have been allocated to the Uninsured Employer Fund.

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 17 PROVISION FOR CLAIMS PAYABLE

(a) Funding of Provision for Claims Payable

	Note No.	2016 $'000	2015 $'000
Total Provision for Claims Payable – Collapsed Insurer Fund		**1,046**	996
Funded Proportion of Provision for Claims Payable		**9,015**	8,345
Unfunded Proportion of Provision for Claims Payable	14	**-**	1,640
Total Provision for Claims Payable – Uninsured Employer Fund		**9,015**	9,985

(b) Total Provision for Claims Payable by Fund

	2016 $'000	2015 $'000
Current Provision for Claims Payable	**83**	79
Non-Current Provision for Claims Payable	**963**	917
Collapsed Insurer Fund	**1,046**	996
Current Provision for Claims Payable	**817**	789
Non-Current Provision for Claims Payable	**8,198**	9,196
Uninsured Employer Fund	**9,015**	9,985
Total Provision for Claims Payable	**10,061**	10,981

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

Inflated and Discounted Liability at 30 June 2016 (Gross of Recoveries)

	CIF Component $'000	UEF Component $'000	Total DIF $'000
Reported	483	1,752	2,235
Incurred But Not Reported (IBNR)	427	6,087	6,514
Claims Handling Expense	136	1,176	1,312
Total Provision for Claims Payable	**1,046**	**9,015**	**10,061**

Inflated and Discounted Liability at 30 June 2015 (Gross of Recoveries)

	CIF Component $'000	UEF Component $'000	Total DIF $'000
Reported	402	3,081	3,484
Incurred But Not Reported (IBNR)	464	5,601	6,065
Claims Handling Expense	282	1,302	1,432
Total Provision for Claims Payable	**996**	**9,985**	**10,981**

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 17 PROVISION FOR CLAIMS PAYABLE - CONTINUED

(d) Reconciliation of movement in provision for claims payable

	UEF ($'000)	CIF ($'000)	Total ($'000)
Gross inflated, discounted liability at 30 June 2015 (including claims handling expenses)	9,985	996	10,981
Remove the impact of claims handling expenses	(1,302)	(130)	(1,432)
Gross inflated, discounted liability at 30 June 2015 (excluding claims handling expenses)	8,682	866	9,548
Remove the impact of inflation and discounting	(1,241)	(27)	(1,269)
Gross uninflated, undiscounted liability at 30 June 2015	7,441	839	8,280
Expected gross payments during 2015-16	(664)	(66)	(730)
Expected gross uninflated, undiscounted liability of outstanding claims at 30 June 2016	**6,778**	**772**	**7,550**
Change due to difference in average payments	(771)	44	(727)
Change due to difference in reported incurred (paid + case)	154	55	209
New IBNER loading	(128)	n/a	(128)
Impact of higher initial payment and application of expectation of life (National Employers Mutual – collapsed in 1990)	n/a	8	8
Change in IBNR	(1,133)	(35)	(1,168)

Factors driving IBNR movements (prior years)	**UEF**	**CIF**
Change in non-latent IBNR claim numbers	(10.1)	-
Change in latent IBNR claim numbers	(1.9)	-
Change in IBNR non-latent average claim size	25.11%	-
Change in IBNR latent average claim size	3.75%	-

	UEF ($'000)	CIF ($'000)	Total ($'000)
Total movement for prior years	*(1,878)*	*72*	*(1,806)*
Gross uninflated, undiscounted liability of outstanding claims at 30 June 2016 for prior accident years	**4,899**	**844**	**5,744**
Gross uninflated, undiscounted central estimate at 30 June 2016 for 2015-16 accident year	1,568	-	1,568
Gross uninflated, undiscounted liability of outstanding claims at 30 June 2016 for all accident years	6,467	844	7,312
Impact of inflating and discounting	1,372	65	1,432
Gross inflated, discounted liability of outstanding claims at 30 June 2016 for all accident years (excluding claims handling expenses)	**7,839**	**910**	**8,749**
Add in claims handling expenses	1,176	136	1,312
Gross inflated, discounted liability of outstanding claims at 30 June 2016 for all accident years (including claims handling expenses)	**9,015**	**1,046**	**10,061**

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 18 FINANCIAL INSTRUMENTS

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

(a) Interest Rate Risk

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

Most of the Fund's financial assets are held in floating interest rate arrangements, whereas the Fund's financial liabilities are not subject to floating interest rates. This means that the Fund is not exposed to movements in interest payable, however, it is exposed to movements in interest receivable.

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.

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 twelve months if interest rates change by -/+ 1.0% per annum.

	Carrying Amount	**(1.0%)**	**1.0%**
	2016	**Profit/(Loss)**	**Profit/(Loss)**
	$'000	**$'000**	**$'000**
Financial Assets:			
Cash and Cash Equivalents	**26,126**	**(261)**	**261**

(b) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Fund's credit risk is limited to the amount of the financial assets it holds net of any allowance for impairment.

Credit risk is managed by the Fund for investments by only investing surplus funds with the Public Trustee and Guardian. The Public Trustee and Guardian 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 collateral is held by the Fund.

A large proportion of the Fund's receivables are from major Australian insurers or self-insurers of major Australian companies which means that the credit risk of these receivables going into default is low.

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

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 18 FINANCIAL INSTRUMENTS - CONTINUED

(c) 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 ensures that it has sufficient cash and cash equivalents to meet its estimated financial liabilities. The fund may raise additional levies at any time to meet the cost of any unexpected increase in financial liabilities that may arise.

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

The following table sets out the 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 at 30 June 2016. Except for non-current payables, 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.

2016	Note No.	Weighted Average Interest Rate %	Floating Interest Rate $'000	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								
Collapsed Insurer Fund								
Cash at Bank	13	**2.81**	**294**	**-**	**-**	**-**	**-**	**294**
Investments	13	**2.91**	**17,614**	**-**	**-**	**-**	**-**	**17,614**
Uninsured Employer Fund								
Cash at Bank	13	**2.81**	**2,613**	**-**	**-**	**-**	**-**	**2,613**
Investments	13	**2.91**	**5,605**	**-**	**-**	**-**	**-**	**5,605**
Receivables	14		**-**	**-**	**-**	**-**	**722**	**722**
Total Financial Assets			**26,126**	**-**	**-**	**-**	**722**	**26,848**
Financial Liabilities								
Collapsed Insurer Fund								
Payables	15			**-**	**-**	**-**	**(2)**	**(2)**
Uninsured Employer Fund								
Payables	15		**-**	**-**	**-**	**-**	**(59)**	**(59)**
Total Financial Liabilities			**-**	**-**	**-**	**-**	**(61)**	**(61)**
Net Financial Assets			**26,126**	**-**	**-**	**-**	**661**	**26,787**

Reconciliation of Net Financial Assets to Net Assets as per the Balance Sheet	Note No.	2016 $'000
Net Financial Assets (as above)		**26,787**
Claims Receivable	14	**676**
Goods and Services Tax Receivable	14	**15**
Taxation Payable	15	**(3)**
Employee Benefits	16	**(13)**
Provision for Claims Payable	17	**(10,061)**
Net Assets as per the Balance Sheet		**17,401**

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 18 FINANCIAL INSTRUMENTS – CONTINUED

(c) Liquidity Risk - 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 at 30 June 2015. Except for non-current payables, 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.

2015	Note No.	Weighted Average Interest Rate %	Floating Interest Rate $'000	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								
Collapsed Insurer Fund								
Cash at Bank	13	2.82	703	-	-	-	-	703
Investments	13	3.38	16,112	-	-	-	-	16,112
Uninsured Employer Fund								
Cash at Bank	13	2.82	1,627	-	-	-	-	1,627
Investments	13	3.38	5,605	-	-	-	-	5,605
Receivables	14		-	-	-	-	442	442
Total Financial Assets			**24,047**	**-**	**-**	**-**	**442**	**24,489**
Financial Liabilities								
Collapsed Insurer Fund								
Payables	15		-	-	-	-	(2)	(2)
Uninsured Employer Fund								
Payables	15		-	-	-	-	(32)	(32)
Total Financial Liabilities			-	-	-	-	(34)	(34)
Net Financial Assets			**24,047**	**-**	**-**	**-**	**408**	**24,455**

Reconciliation of Net Financial Assets to Net Assets as per the Balance Sheet	Note No.	2015 $'000
Net Financial Assets (as above)		**24,455**
Claims Receivable	14	2,370
Taxation Receivable	14	15
Taxation Payable	15	(6)
Employee Benefits	16	(36)
Provision for Claims Payable	17	(10,981)
Net Assets as per the Balance Sheet		**15,817**

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 18 FINANCIAL INSTRUMENTS - CONTINUED

(c) Liquidity Risk - Continued

	2016 $'000	2015 $'000
Carrying Amount of Each Category of Financial Asset and Financial Liability		
Financial Assets		
Loans and Receivables Measured at Amortised Cost	**722**	442
Financial Liabilities		
Financial Liabilities Measured at Amortised Cost	**61**	34

(d) 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 Fund has units in the Cash Trust Account which do not fluctuate in value. The Fund's exposure to price risk and the management of this risk has not changed since the last reporting period.

Sensitivity Analysis

A sensitivity analysis has not been undertaken for the Fund as it does not have any exposure to price risk.

(e) 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:

	Carrying Amount 2016 $'000	Fair Value 2016 $'000	Carrying Amount 2015 $'000	Fair Value 2015 $'000
Financial Assets				
Cash and Cash Equivalents	**26,126**	**26,126**	24,047	24,047
Receivables	**722**	**722**	442	442
Total Financial Assets	**26,848**	**26,848**	24,489	24,489
Financial Liabilities				
Payables	**61**	**61**	34	34
Total Financial Liabilities	**61**	**61**	34	34

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2016

NOTE 19 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

	2016 $'000	2015 $'000
Total Cash and Cash Equivalents Recorded in the Balance Sheet	26,126	24,047
Cash and Cash Equivalents at the End of the Reporting Period as Recorded in the Cash Flow Statement	**26,126**	**24,047**

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

	2016 $'000	2015 $'000
Operating Surplus	1,584	3,444
Cash before Changes in Operating Assets and Liabilities	**1,584**	**3,444**
Changes in Operating Assets and Liabilities		
Decrease in Receivables	1,414	1,898
(Decrease) in Outstanding Claims Payable	(920)	(2,899)
Increase in Payables	24	18
(Decrease) in Employee Benefits	(23)	(9)
Net Changes in Operating Assets and Liabilities	**495**	**(992)**
Net Cash Inflows from Operating Activities	**2,079**	**2,452**