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ACT Government

ANNUAL REPORT 2016–17

CHIEF MINISTER, TREASURY & ECONOMIC DEVELOPMENT DIRECTORATE

Volume 2.2
Financial Statements

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30 June 2017

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Management Discussion and Analysis
For the Superannuation Provision Account
Financial Year Ended 30 June 2017

Objectives

The Superannuation Provision Account 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 Superannuation Provision Account will be significantly impacted by the end of the reporting period valuation of the defined benefit superannuation liability and the investment return achieved on the financial assets.

At 30 June 2017 total liabilities exceed total assets. 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 to the Commonwealth are supported by budget appropriation, the net liability position 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.

In accordance with the requirements of Australian Accounting Standard AASB 119: 'Employee Benefits' (AASB 119):

- the estimated value of the accrued defined benefit employer superannuation liability at the end of the reporting period 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;
- the financial and demographic actuarial assumptions adopted for the liability valuation should be unbiased and mutually compatible and must be based on market expectations at the end of the reporting period;
- the liability valuation must use a discount rate that is referenced to the yield (interest rate) on a suitable Commonwealth Government bond; and
- the superannuation expense for the current reporting period is the projected expense based on the AASB 119 superannuation liability valuation at the end of the previous reporting period.

Overview of 2016-17 Financial Outcome

The Superannuation Provision Account's territorial net cost of services for 2016-17 was $262.7 million being $68.2 million or 21 per cent lower than the budget estimate of $330.9 million.

The lower net cost of services for the 2016-17 financial year was positively impacted by higher investment revenue due to the investment portfolio achieving an investment return higher than estimated in the 2016-17 Budget, partially offset by increased superannuation expenses.

Financial Performance

The following financial information is based on the audited financial statements for 2015-16 and 2016-17, the 2016-17 Budget estimates, as well as the forward estimates from the 2017-18 Budget.

Table 1 – Total Net Cost of Services

	Actual 2014-15 $m	**Actual 2015-16 $m**	**Budget 2016-17 $m**	**Actual 2016-17 $m**
Total Expenses	624.3	644.0	595.1	660.2
Total Own Source Revenue	389.8	185.9	264.2	397.5
Net Cost of Services	**234.5**	**458.1**	**330.9**	**262.7**

Comparison to 2016-17 Budget Estimates

The Superannuation Provision Account's net cost of services for 2016-17 of $262.7 million was $68.2 million or 21 per cent lower than the 2016-17 Budget estimate of $330.9 million.

This mainly reflects:

- total net investment income of $345.5 million being $86.3 million or 33 per cent higher than the budget estimate of $259.2 million due to the higher than estimated investment return; offset by
- superannuation expense of $603.3 million being $18.4 million or 3 per cent higher than the budget estimate of $584.9 million due to the financial impact of the lower discount rate at 30 June 2016 of 2.69 per cent (3.2 per cent estimate), increasing the superannuation liability valuation at 30 June 2016 and increasing superannuation expense for the 2016-17 financial year.

Comparison to 2015-16 Actual

Total net cost of services for 2016-17 of $262.7 million was $195.4 million or 43 per cent lower than the 2015-16 result of $458.1 million.

This is due primarily to:

- total net investment income of $345.5 million in 2016-17 being $249.2 million or 259 per cent higher than net investment revenue of $96.2 million recognised in 2015-16; offset by
- superannuation expense of $603.3 million in 2016-17 being $54.0 million or 10 percent higher than superannuation expense of $549.3 million in 2015-16. Superannuation expense for 2016-17 was higher due to the AASB 119 superannuation liability valuation estimate at 30 June 2016, which used a lower discount rate of 2.69 per cent to estimate the present value of the superannuation liability. Superannuation expense for the 2015-16 financial year was lower due to the AASB 119 superannuation liability valuation at 30 June 2015, which applied a higher discount rate of 3.66 per cent. A higher discount rate reduces the present value valuation estimate of the superannuation liability.

Future Trends

Table 2 below shows the Superannuation Provision Account's net cost of services for the 2017-18 Budget and forward years.

The 2017-18 Budget and forward year estimates assume a long term portfolio investment return expectation of CPI plus 4.75 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 2018.

Table 2 – Budget Estimates for Net Cost of Services

	Budget 2017-18 $m	**Estimate 2018-19 $m**	**Estimate 2019-20 $m**	**Estimate 2020-21 $m**
Total Expenses	500.9	509.9	518.5	526.9
Total Own Source Revenue	273.2	287.1	306.1	328.3
Net Cost of Services	**227.7**	**222.7**	**212.4**	**198.6**

Total Expenditure

Components of Expenses

Total expense for 2016-17 of $660.2 million mainly relates to the superannuation expense (service and interest costs) associated with the defined benefit superannuation liability and the expensing of investment asset capital losses.

The superannuation liability service cost expense of $309.3 million during 2016-17 is the estimated increase in the present value of the defined benefit liability resulting from employee service during the financial year.

The superannuation liability interest cost expense of $293.5 million during 2016-17 is the estimated increase in the present value of the defined benefit liability which arises because past accrued benefits are one period closer to settlement.

Total expenses for the 2016-17 financial year included the total superannuation expense related to the defined benefit superannuation liability of $603.3 million or 91 per cent of ordinary activities, and the expensing of $46.1 million in investment capital losses, which accounted for 7 per cent of ordinary activities.

The remaining $10.8 million or 2 per cent of total expenses include investment management and administration fees, Commonwealth superannuation scheme administration fees, professional services, employee costs and supplies and services.

Comparison to 2016-17 Budget Estimates
Total expense of $660.2 million was $65.1 million or 11 per cent higher than the 2016-17 Budget estimate of $595.1 million.
This result is mainly due to:

- superannuation expense of $603.3 million being $18.4 million or 3 per cent higher than the budget estimate of $584.9 million due to the financial impact of the higher than estimated superannuation liability valuation at 30 June 2016 increasing superannuation expense for the 2016-17 financial year; and
- the expensing of $46.1 million of investment capital losses due mainly to increases in longer term interest rates in global fixed income markets decreasing the market value of the investments and the receipt of distributions from the sale of private equity investments reducing the net asset value of the units.

Comparison to 2015-16 Actual
Total expenses of $660.2 million were $16.2 million or 3 per cent higher than the 2015-16 actual result of $644.0 million.

This is due mainly to:

- the increase of $54.0 million or 10 per cent in superannuation expense for the 2016-17 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 2.69 per cent to estimate the closing 30 June 2016 superannuation liability (3.66 per cent at 30 June 2015) leading to a higher liability valuation at 30 June 2016 and higher superannuation expense in 2016-17; offset by
- the decrease of $37.5 million or 45 per cent in investment capital losses for the financial year compared to 2015-16.

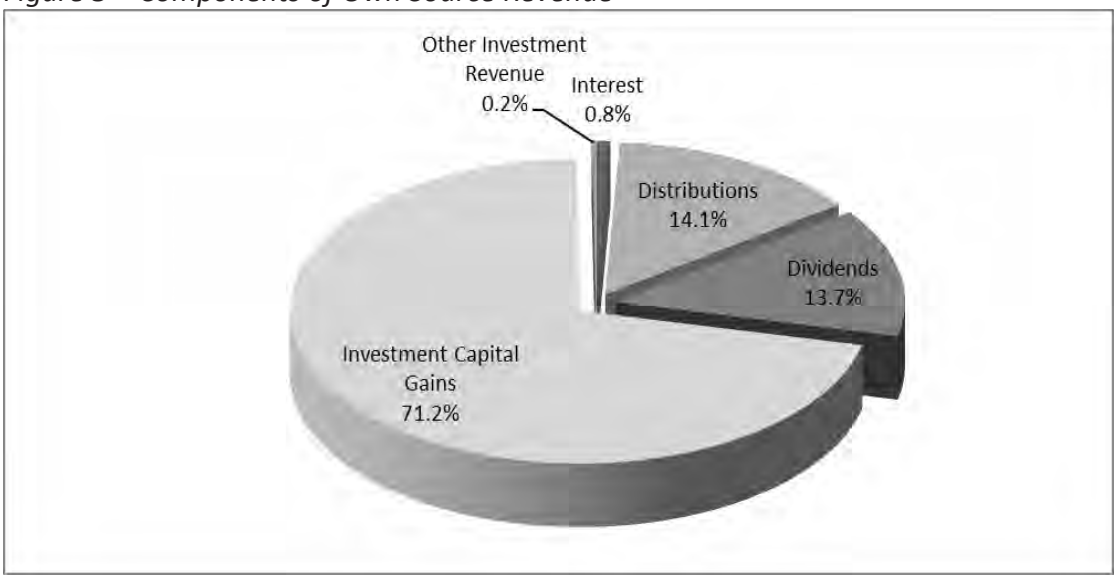
Future Trends
From 2017-18 annual expenses are estimated to be lower due to lower superannuation expense. This is due to the estimated superannuation liability valuation projections using a higher, long term discount rate assumption as compared to the AASB 119 requirement to value the superannuation liability at the end of the reporting period at the current yield on a suitable Commonwealth Government bond. Domestic interest rates continue to remain near historic lows. A higher discount rate assumption reduces the estimated present value of the superannuation liability and reduces the associated superannuation expense.

Total Own Source Revenue

Components of Own Source Revenue
For the financial year ended 30 June 2017 the Superannuation Provision Account recognised $397.5 million in own source revenue.

Own source revenue includes any interest, dividends, and distributions from the investment assets, as well as capital gains.

Figure 3 – Components of Own Source Revenue



Comparison to 2016-17 Budget Estimates
Total own source revenue, or gross investment revenue of $397.5 million was $133.3 million or 50 per cent higher than the 2016-17 Budget estimate of $264.2 million due to the portfolio return for the 2016-17 financial year being higher than the budget return assumption.

The budget estimates for investment earnings incorporate the long-term portfolio investment return target objective. In 2016-17 the investment portfolio was targeting an average annual return that is 5 per cent above CPI increases.

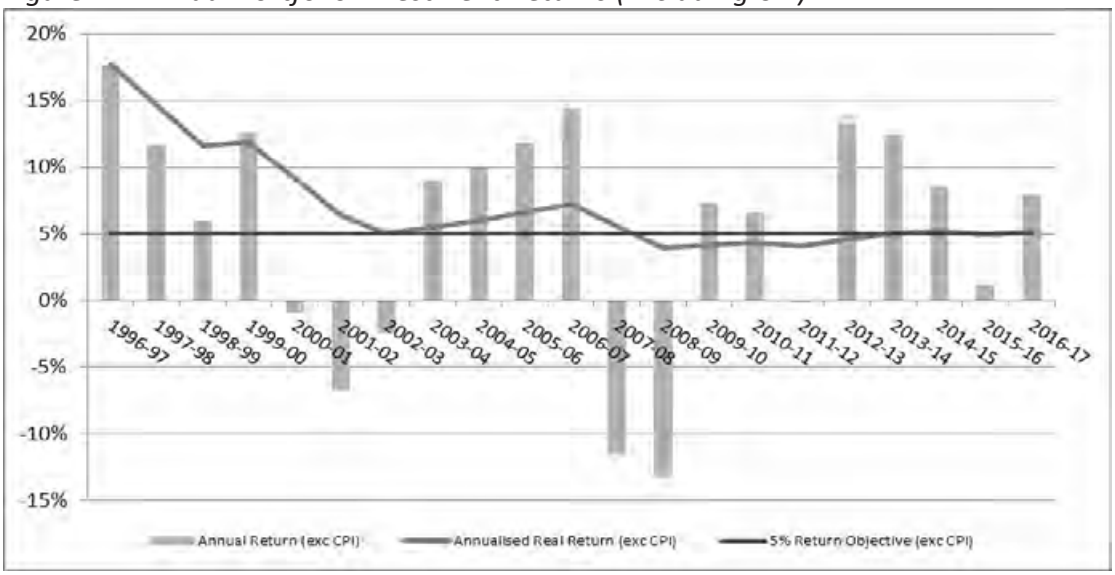
Figure 4 outlines the annual real investment returns (the annual returns excluding the impact of CPI) achieved by the investment portfolio over the last twenty-one years, the annualised real return (the average annual return achieved by the investment portfolio over time), as well as the investment return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

For the 2016-17 financial year the investment portfolio achieved a net of fees return of 10.22 per cent, or an equivalent real return of approximately CPI "plus" 8.16 per cent.

Due to the volatile nature of global investment markets, investment earnings recognised in any particular financial year will vary from the annual budget estimates.

Over the past twenty-one years the portfolio has achieved an investment return of CPI "plus" 5.15 per cent per annum which is above the long term target investment return objective.

Figure 4 – Annual Portfolio Investment Returns (Excluding CPI)



Comparison to 2015-16 Actual

Total own source revenue of $397.5 million was $211.6 million or 114 per cent higher than the 2015-16 actual result of $185.9 million.

This is mainly due to the investment portfolio achieving a higher nominal investment return of 10.22 percent (CPI "plus" 7.95 percent) in 2016-17 compared with the portfolio's investment return of 2.66 per cent (CPI "plus" 1.15 per cent) in 2015-16.

Future Trends

Total own source revenue is projected to be lower over the 2017-18 Budget and forward years.

Future budget estimates for investment revenue are based on a lower long term target return objective of CPI "plus" 4.75 per cent, which is lower than the actual investment return achieved in 2016-17.

Financial Position

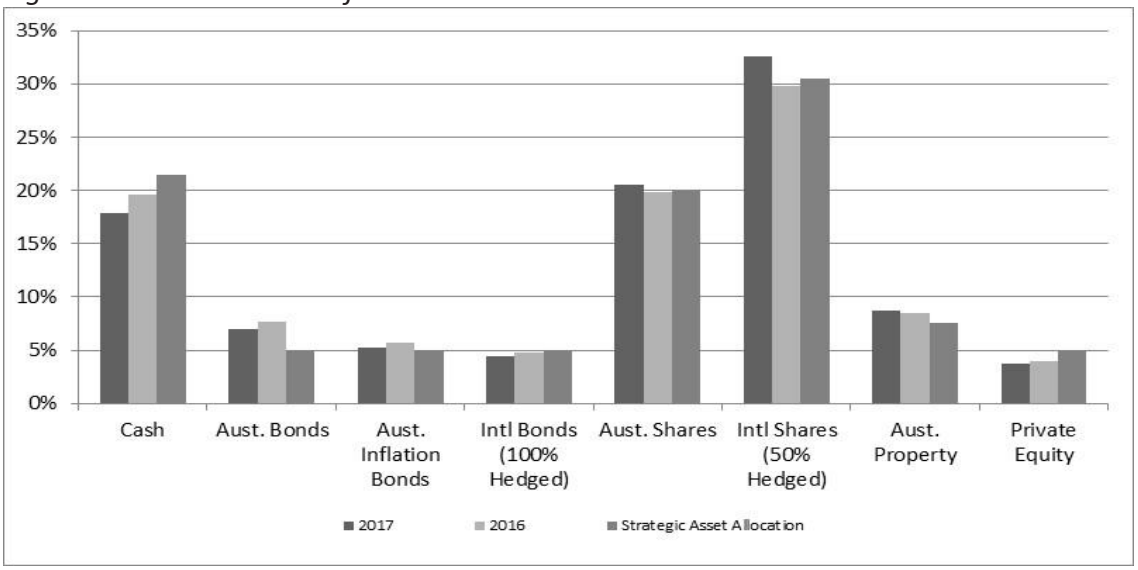
Total Assets

Components of Total Assets

At 30 June 2017 almost 100 per cent of assets are the financial investment assets. The investment portfolio assets include Australian and international money market securities (cash), 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 financial year end asset allocation compared to the current long-term strategic asset allocation targets.

Figure 5 – Investment Portfolio Asset Allocation



The investment strategy is designed to provide a reasonable probability of achieving the long-term target return objective within acceptable risk constraints. Since the base performance financial year of 1996-97 the investment portfolio has achieved a net of fees return of CPI "plus" 5.1 per cent per annum.

Comparison to 2016-17 Budget Estimates

Total assets at 30 June 2017 of $3,720.3 million were $92.4 million or 3 per cent higher than the budget estimate of $3,627.9 million. This result is mainly due to the growth in assets from a higher than expected investment return with net investment earnings of $345.5 million being $86.3 million or 33 per cent higher than the Budget estimate of $259.2 million.

Comparison to 2015-16 Actual

Total assets at 30 June 2017 of $3,720.3 million were $273.5 million or 8 per cent higher than the 30 June 2016 closing asset position of $3,446.8 million.

This result is mainly due to:

- growth in assets with net investment earnings of $345.5 million for the 2016-17 financial year; offset by
- portfolio assets reducing by $65 million to support emerging cost benefit payments over the financial year.

Total Liabilities

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

Comparison to 2016-17 Budget Estimates
Total liabilities at 30 June 2017 of $8,575.1 million were $2,326.1 million or 37 per cent higher than the 2016-17 Budget estimate of $6,249.0 million.

This variance is due to the valuation of the defined benefit superannuation liability at 30 June 2017 being higher than estimated. The Budget estimate of the present value of the superannuation liability used a long-term discount rate assumption of 6 per cent. As required by AASB 119 the valuation at 30 June used a discount rate assumption of 3.51 per cent, which was referenced to the yield on the Commonwealth Government's 2047 maturity bond. The lower discount rate materially increased the liability valuation from $6,127.4 million to $8,573.7 million.

Comparison to 2015-16 Actual
Total liabilities of $8,575.1 million were $2,144.5 million or 20 per cent lower than the 2015-16 result of $10,719.6 million.

This was due to:

- the financial impacts from the latest annual actuarial review using salary and membership data at 30 June 2016 and the projected growth in the superannuation liability; offset by

- the AASB 119 defined benefit superannuation liability valuation at 30 June 2017 recognising an actuarial gain of $2,525.2 million and being lower than at 30 June 2016 due to changes in the financial assumptions. The changes in the financial assumptions included applying a higher discount rate of 3.51 per cent at 30 June 2017 (2.69 per cent at 30 June 2016), as well as lower long term salary and inflation assumptions.

Future Trends
The estimated 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 use of a higher, long term average discount rate assumption of six per cent for the Budget estimates, as compared to the AASB 119 requirement to value the superannuation liability at the current yield on a suitable Commonwealth Government bond.

The use of a long-term discount rate assumption for the budget and forward year estimates removes significant and unnecessary valuation volatility due to the day to day movement in domestic interest rates, and is appropriate to the management of a long-term funding strategy. This is particularly relevant in the current environment of historically low interest rates.

INDEPENDENT AUDIT REPORT

SUPERANNUATION PROVISION ACCOUNT

To the Members of the ACT Legislative Assembly

Audit opinion

I am providing an **unqualified audit opinion** on the financial statements of the Superannuation Provision Account for the year ended 30 June 2017. The financial statements 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.

In my opinion, the financial statements:

(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 and results of its operations and cash flows.

Basis for the audit opinion

The audit was conducted in accordance with the Australian Auditing Standards. I have complied with the requirements of the Accounting Professional and Ethical Standards 110 *Code of Ethics for Professional Accountants*.

I believe that sufficient evidence was obtained during the audit to provide a basis for the audit opinion.

Responsibility for preparing and fairly presenting the financial statements

The Under Treasurer is responsible for:

- preparing and fairly presenting the financial statements in accordance with the *Financial Management Act 1996* and relevant Australian Accounting Standards;
- determining the internal controls necessary for the preparation and fair presentation of financial statements so that they are free from material misstatements, whether due to error or fraud; and
- assessing the ability of the Superannuation Provision Account to continue as a going concern and disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting in preparing the financial statements.

Responsibility for the audit of the financial statements

Under the *Financial Management Act 1996*, the Auditor-General is responsible for issuing an audit report that includes an independent audit opinion on the financial statements of the Superannuation Provision Account.

As required by Australian Auditing Standards, the auditors:

- applied professional judgement and maintained scepticism;
- identified and assessed the risks of material misstatements due to error or fraud and implemented procedures to address these risks so that sufficient evidence was obtained to

form an audit opinion. The risk of not detecting material misstatements due to fraud is higher than the risk due to error, as fraud may involve collusion, forgery, intentional omissions or misrepresentations or the override of internal controls;

- obtained an understanding of internal controls to design audit procedures for forming an audit opinion;
- evaluated accounting policies and estimates used to prepare the financial statements and disclosures made in the financial statements;
- evaluated the overall presentation and content of the financial statements, including whether they present the underlying transactions and events in a manner that achieves fair presentation;
- reported the scope and timing of the audit and any significant deficiencies in internal controls identified during the audit to the Under Treasurer; and
- assessed the going concern* basis of accounting used in the preparation of the financial statements.

(*Where the auditor concludes that a material uncertainty exists which cast significant doubt on the appropriateness of using the going concern basis of accounting, the auditor is required to draw attention in the audit report to the relevant disclosures in the financial statements or, if such disclosures are inadequate, the audit opinion is to be modified. The auditor's conclusions on the going concern basis of accounting are based on the audit evidence obtained up to the date of this audit report. However, future events or conditions may cause the entity to cease to continue as a going concern.)

Limitations on the scope of the audit

An audit provides a high level of assurance about whether the financial statements are free from material misstatements, whether due to fraud or error. However, an audit cannot provide a guarantee that no material misstatements exist due to the use of selective testing, limitations of internal control, persuasive rather than conclusive nature of audit evidence and use of professional judgement in gathering and evaluating evidence.

An audit does not provide assurance on the:

- reasonableness of budget information included in the financial statements;
- prudence of decisions made by the Superannuation Provision Account;
- adequacy of controls implemented by the Superannuation Provision Account; or
- integrity of audited financial statements presented electronically or information hyperlinked to or from the financial statements. Assurance can only be provided for the printed copy of the audited financial statements.

Dr Maxine Cooper
Auditor-General
1 September 2017

Superannuation Provision Account
Financial Statements
For the Year Ended 30 June 2017

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 2017 and the financial position of the Superannuation Provision Account on that date.

Stephen Miners
Acting Under Treasurer
Chief Minister, Treasury and Economic Development Directorate
/ September 2017

Superannuation Provision Account
Financial Statements
For the Year Ended 30 June 2017

Statement by the Chief Finance Officer

In my opinion, the financial statements have been prepared in accordance with the Australian Accounting Standards, 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 2017 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
1 September 2017

Superannuation Provision Account
Statement of Income and Expenses on Behalf of the Territory
For the Year Ended 30 June 2017

	Note No.	Actual 2017 $'000	Budget 2017 $'000	Actual 2016 $'000
Income				
Interest	4.1	3,194	3,855	3,560
Dividends	4.2	54,282	50,990	51,760
Distributions	4.3	56,214	45,068	56,698
Gains on Investments	4.4	282,965	163,566	72,954
Other Income	4.5	807	709	907
Total Income		**397,462**	**264,188**	**185,879**
Expenses				
Losses on Investments	5.1	46,090	0	83,557
Employee Expenses	5.2	476	496	474
Supplies and Services	5.3	4,388	4,655	4,523
Investment Administration Expenses	5.5	5,885	4,996	6,085
Superannuation Expenses	5.6	603,361	584,971	549,386
Total Expenses		**660,200**	**595,118**	**644,025**
Operating Deficit		**(262,738)**	**(330,930)**	**(458,146)**
Other Comprehensive Income				
Actuarial Gain/(Loss) on Territory's Defined Benefit Superannuation Liability		2,525,167	3,815,947	(1,876,734)
Total Other Comprehensive Gain/(Loss)		**2,525,167**	**3,815,947**	**(1,876,734)**
Total Comprehensive Gain/(Loss)		**2,262,429**	**3,485,017**	**(2,334,880)**

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 2017

	Note No.	Actual 2017 $'000	Budget 2017 $'000	Actual 2016 $'000
Current Assets				
Cash and Cash Equivalents	6.1	4,309	25,000	46,223
Receivables	6.2	7,282	5,726	11,597
Total Current Assets		**11,591**	**30,726**	**57,820**
Non-Current Assets				
Investments	6.3	3,708,708	3,597,151	3,389,024
Total Non-Current Assets		**3,708,708**	**3,597,151**	**3,389,024**
Total Assets		**3,720,299**	**3,627,877**	**3,446,844**
Current Liabilities				
Payables	7.1	1,202	1,212	1,107
Employee Benefits	7.2	209	189	204
Estimated Superannuation Liabilities	7.3	251,149	249,013	230,525
Total Current Liabilities		**252,560**	**250,414**	**231,836**
Non-Current Liabilities				
Estimated Superannuation Liabilities	7.3	8,322,507	5,998,590	10,487,730
Total Non-Current Liabilities		**8,322,507**	**5,998,590**	**10,487,730**
Total Liabilities		**8,575,068**	**6,249,004**	**10,719,567**
Net Liabilities		**(4,854,769)**	**(2,621,127)**	**(7,272,723)**
Equity				
Accumulated Deficits		(4,854,769)	(2,621,127)	(7,272,723)
Total Equity		**(4,854,769)**	**(2,621,127)**	**(7,272,723)**

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 2017

	Accumulated Deficits Actual 2017 $'000	Total Equity Actual 2017 $'000	Budget 2017 $'000
Balance at 1 July 2016	**(7,272,723)**	**(7,272,723)**	**(6,261,669)**
Comprehensive Income			
Operating Deficit	(262,738)	(262,738)	(330,930)
Gain from Actuarial Review	2,525,167	2,525,167	3,815,947
Total Comprehensive Gain	**2,262,429**	**2,262,429**	**3,485,017**
Transactions Involving Owners Affecting Accumulated Deficits			
Capital Injections	155,525	155,525	155,525
Total Transactions Involving Owners Affecting Accumulated Deficits	**155,525**	**155,525**	**155,525**
Balance at 30 June 2017	**(4,854,769)**	**(4,854,769)**	**(2,621,127)**

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

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 2017

	Note No.	Actual 2017 $'000	Budget 2017 $'000	Actual 2016 $'000
Cash Flows from Operating Activities				
Receipts				
Interest Received		2,986	3,855	3,711
Dividends Received		56,496	50,990	54,404
Distributions Received		61,662	45,068	39,043
Other		25,478	989	1,299
Total Receipts from Operating Activities		**146,623**	**100,902**	**98,458**
Payments				
Employees		471	485	437
Supplies and Services		4,389	4,655	4,526
Superannuation		222,793	230,612	197,532
Other		5,572	4,996	53,297
Total Payments from Operating Activities		**233,225**	**240,748**	**255,792**
Net Cash Outflows from Operating Activities	8	**(86,602)**	**(139,846)**	**(157,334)**
Cash Flows from Investing Activities				
Receipts				
Proceeds from the Sale/Maturity of Investments		33,932	0	185,978
Total Receipts from Investing Activities		**33,932**	**0**	**185,978**
Payments				
Purchase of Investments		144,769	15,679	243,131
Total Payments from Investing Activities		**144,769**	**15,679**	**243,131**
Net Cash Outflows from Investing Activities		**(110,837)**	**(15,679)**	**(57,153)**
Cash Flows from Financing Activities				
Receipts				
Capital Injection		155,525	155,525	211,146
Total Receipts from Financing Activities		**155,525**	**155,525**	**211,146**
Net Cash Inflows from Financing Activities		**155,525**	**155,525**	**211,146**
Net Decrease in Cash and Cash Equivalents		(41,915)	0	(3,341)
Cash and Cash Equivalent at Beginning of Reporting Period		46,223	25,000	49,565
Cash and Cash Equivalents at End of Reporting Period	6.1	**4,309**	**25,000**	**46,223**

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 2017

	Budget 2017 $'000	Total Appropriated 2017 $'000	Appropriation Drawn 2017 $'000	Appropriation Drawn 2016 $'000
Capital Injections	155,525	155,525	155,525	211,146
Total Territorial Appropriation	**155,525**	**155,525**	**155,525**	**211,146**

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 injection of $155.525 million was provided for in the 2016-17 Budget. The full appropriation amount of $155.525 million was drawn during the 2016-17 financial year.

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 1 OBJECTIVES OF THE SUPERANNUATION PROVISION ACCOUNT

Operations and Principal Activities

The Chief Minister, Treasury and Economic Development Directorate 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' defined benefit 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

Refer to the following appendices for the notes comprising significant accounting policies and other explanatory information:

(i) Appendix A - Basis of Preparation of the Financial Statements;

(ii) Appendix B - Significant Accounting Policies; and

(iii) Appendix C - Impact of Accounting Standards Issued But Yet to Be Applied.

NOTE 3 CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES

Refer to Appendix D - Change in Accounting Policy and Accounting Estimates.

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 4 INCOME ADMINISTERED ON BEHALF OF THE TERRITORY

4.1 Interest Revenue

	2017 $'000	2016 $'000
On Investments Directly Held (Designated)	3,194	3,560
Total Interest Revenue[1]	**3,194**	**3,560**

[1]Investment interest revenue was lower in 2016-17 due mainly to maintaining a lower operational liquidity balance over the year, as well as receiving a lower return reflecting the Reserve Bank of Australia Cash Rate.

4.2 Dividend Revenue

On Investments Directly Held (Designated)	54,282	51,760
Total Dividend Revenue[2]	**54,282**	**51,760**

[2]The marginal increase in dividend revenue recognised in 2016-17 is related to small increases in dividend revenue received on the Australian and international share investments. These small increases are due to maintaining a higher allocation to shares over the year, the individual company share holdings and the level of dividend declared.

4.3 Distribution Revenue

On Investments Directly Held (Designated)	2,255	2,599
On Investments Indirectly Held (Designated)	53,959	54,099
Total Distribution Revenue[3]	**56,214**	**56,698**

[3]Distribution income recognised in 2016-17 was in-line with the distribution revenue recognised in 2015-16.

4.4 Gains on Investments at Fair Value through Profit or Loss (FVTPL)

(a) Realised Gains

On Investments Directly Held (Designated)	24,616	2,711
On Investments Indirectly Held (Designated)	17,470	13,640
Total Realised Gains[4]	**42,086**	**16,350**

[4]Realised gains recognised in 2016-17 were higher due mainly to the trading activity (purchase and sale of securities) of the share investment managers with higher realised gains on the share investments, as well as higher recognised realised gains from the sale and divestment of private equity company investments.

(b) Unrealised Gains

On Investments Directly Held (Designated)	209,865	21,542
On Investments Indirectly Held (Designated)	31,013	35,062
Total Unrealised Gains[5]	**240,879**	**56,604**

[5]The increase in recognised unrealised gains is due mainly to the performance of the Australian and international share investments over the financial year.

Total Gains on Investments at FVTPL	**282,965**	**72,954**

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 4 INCOME ADMINISTERED ON BEHALF OF THE TERRITORY – CONTINUED

	2017 $'000	2016 $'000
4.5 Other Income		
(a) Other Investment Income		
On Investments Directly Held (Designated)	10	131
On Investments Indirectly Held (Designated)	797	776
Total Other Investment Income[6]	**807**	**907**

[6]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.

NOTE 5 EXPENSES ADMINISTERED ON BEHALF OF THE TERRITORY

5.1 Losses on Investments at Fair Value through Profit or Loss

(a) Realised Losses

On Investments Directly Held (Designated)	2,072	46,963
Total Realised Losses[7]	**2,072**	**46,963**

[7]The decrease in realised losses is due mainly to the positive performance of both the Australian and global share markets and the trading activity (purchase and sale of securities) of the share investment managers.

(b) Unrealised Losses

On Investments Directly Held (Designated)	4,807	23,966
On Investments Indirectly Held (Designated)	39,212	12,628
Total Unrealised Losses[8]	**44,019**	**36,594**

[8]The increase in unrealised losses is due mainly to capital value losses recognised on the fixed income investments as a result of rising longer term interest rates both domestically and internationally, offset by reduced unrealised losses on the share investments as a result of market gains.

Total Losses on Investments at FVTPL	**46,090**	**83,557**

5.2 Employee Expenses

Salaries and Wages[9]	467	434
Annual Leave Expense	10	2
Long Service Leave Expense	0	38
Total Employee Expenses	**476**	**474**

[9]The number of Chief Minister, Treasury and Economic Development Directorate officers paid for from the Superannuation Provision Account represented 4.0 full-time equivalent (FTE) staff at 30 June 2017 (FTE 4.0 during 2015-16).

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 5 EXPENSES ADMINISTERED ON BEHALF OF THE TERRITORY – CONTINUED

5.3 Supplies and Services	**2017 $'000**	**2016 $'000**
CSC CSS/PSS/PSSap Scheme Administration	3,502	3,553
Consultants and Professional Services	617	642
Actuarial Fees	160	190
Other Supplies and Services[10]	108	138
Total Supplies and Services	**4,388**	**4,523**

[10]Other supplies and services expense includes Auditor's remuneration disclosed in Note 5.4: 'Auditor's Remuneration'.

5.4 Auditor's Remuneration		
Audit Fees Paid or Payable to the ACT Audit Office	49	47
Total Audit Fees[11]	**49**	**47**

[11]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.

5.5 Investment Management and Administration Expenses		
Investment Management Services	4,388	4,480
Other Investment Management Expenses[12]	927	1,029
Investment Administration	570	576
Total Investment Management and Administration Expenses	**5,885**	**6,085**

[12]Investment management and administration expenses were in-line with expenses for 2015-16.

5.6 Superannuation Expenses

(a) Employee Superannuation Expense		
Superannuation Contributions to the Territory Banking Account	59	59
Productivity Benefit	8	8
Superannuation to External Providers (SG Choice)	18	13
Total Employee Superannuation Expense	**84**	**80**

(b) CSS/PSS Defined Benefit Superannuation Expense		
Interest Cost Expense[13]	293,498	315,401
Service Cost Expense[14]	309,294	233,494
Total CSS/PSS Superannuation Expense	**602,793**	**548,895**

[13]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. Interest cost expense decreased due to the use of a lower discount rate of 2.69 per cent at 30 June 2016 (3.66 per cent at 30 June 2015). A lower discount rate reduces the interest cost expense estimate.
[14]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 expense increased due to the use of a lower discount rate. A lower discount rate increases the present value estimate of the defined benefit obligation resulting from employee service during the financial year.

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 5 EXPENSES ADMINISTERED ON BEHALF OF THE TERRITORY – CONTINUED

	2017 $'000	2016 $'000
5.6 Superannuation Expenses Continued		
(c) Member Legislative Assembly (MLA) Superannuation Expense		
Superannuation Liability Expense	484	412
Total MLA Superannuation Expense	**484**	**412**
Total Superannuation Expenses	**603,361**	**549,386**

NOTE 6 ASSETS ADMINISTERED ON BEHALF OF THE TERRITORY

6.1 Cash and Cash Equivalents

Cash Held at Bank	4,309	46,223
Total Cash[15]	**4,309**	**46,223**

[15]A lower level of operational liquidity was maintained during the financial year.

6.2 Receivables

Distribution Receivable – Territory Banking Account	7,247	11,593
Net Goods and Services Tax Receivable	36	4
Total Receivables[16]	**7,282**	**11,597**

[16]The quarterly income distribution receivable from the Territory Banking Account is lower in 2016-17 due to the distribution declared by the investment manager. The distribution for a fund is determined by the level of distributable income for the period. The level of distribution for a fund can vary from period to period. 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 2017

NOTE 6 ASSETS ADMINISTERED ON BEHALF OF THE TERRITORY – CONTINUED

6.3 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.**	**2017 $'000**	**2016 $'000**
Financial Assets at Fair Value:			
Fixed Income		1,258,282	1,266,701
Equities		2,073,858	1,775,590
Unit Trusts (Property)		319,462	287,879
Derivatives		19,120	21,182
	9.4(b)	**3,670,722**	**3,351,353**
Other Financial Instruments at Balance Date			
Cash, Receivables and Other Assets		94,772	49,641
Less Payables		56,786	11,969
Net Investments[17]		**3,708,708**	**3,389,024**

[17]At 30 June 2017, the increase in net investments is mainly due to the portfolio achieving a net of fees investment return of 10.22 per cent for the 2016-17 financial year (2.66 per cent in 2015-16).

(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)	2,168,399	1,882,675
Investments Indirectly Held (Designated)	1,540,309	1,506,349
Total Financial Asset Investments	**3,708,708**	**3,389,024**

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 6 ASSETS ADMINISTERED ON BEHALF OF THE TERRITORY – CONTINUED

6.3 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)	2017 $'000	2016 $'000
Domestic Fixed Income[18]	192,210	191,269
Domestic and International Shares[19]	1,957,069	1,670,223
Derivatives[20]	19,120	21,182
Total Financial Asset Investments	**2,168,399**	**1,882,675**

[18]There was no material change to the fixed income assets due to the low investment return achieved on these assets for the 2016-17 financial year.
[19]The increase in domestic and international share investments is due mainly to the positive performance of the Australian and international share markets over the financial year.
[20]The movement in derivatives is mainly attributed to the unrealised gains and losses of forward foreign exchange contracts. Note 9.1(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[21]	657,376	655,297
Unit Trust – Domestic and International Fixed Income[22]	424,266	425,353
Unit Trust – Domestic Unlisted Property[23]	322,031	290,304
Unit Trust – Private Equity[24]	136,635	135,394
Total Financial Asset Investments	**1,540,309**	**1,506,349**
Total Investments by Asset Class	**3,708,708**	**3,389,024**

[21]There was no material change to the cash investment exposures over the 2016-17 financial year which reflected the income distributions received and the level of return achieved.
[22]There was no material change to the investment exposures to both the domestic and international fixed income assets due to the lower return achieved on these assets over the 2016-17 financial year.
[23]Domestic unlisted property assets increased due to a combination of new capital contributions and the investment returns achieved on the assets over the 2016-17 financial year.
[24]There was no material change to the private equity asset exposures over the financial year which reflected a combination of capital contributions, distributions and the investment returns achieved on the assets over the 2016-17 financial year.

Superannuation Provision Account
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NOTE 7 LIABILITIES ADMINISTERED ON BEHALF OF THE TERRITORY

7.1 Payables	2017 $'000	2016 $'000
Accrued Expenses – External[25]	1,154	1,060
Accrued Expenses – General Government Sector	49	47
Total Payables	**1,202**	**1,107**

[25]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.

7.2 Employee Benefits

Current Employee Benefits		
Annual Leave	36	31
Long Service Leave	173	173
Total Current Employee Benefits[26]	**209**	**204**
Total Employee Benefits	**209**	**204**

[26]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	36	31
Total Employee Benefits Payable within 12 months	**36**	**31**
Estimated Amount Payable after 12 months		
Long Service Leave	173	173
Total Employee Benefits Payable after 12 months	**173**	**173**
Total Employee Benefits	**209**	**204**

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 7 LIABILITIES ADMINISTERED ON BEHALF OF THE TERRITORY – CONTINUED

7.3 Estimated Superannuation Liabilities

	2017	2016
CSS/PSS Liability Reconciliation	**$'000**	**$'000**
Opening Estimated Liability at 1 July	10,714,570	8,485,855
Current Service Cost	309,294	233,494
Interest Cost	293,498	315,401
Superannuation Benefits paid to the Commonwealth	(220,472)	(196,914)
Actuarial (Gain)/Loss from changes in Financial Assumptions[27]	(2,483,236)	2,001,934
Actuarial (Gain)/Loss from changes in Experience	(41,931)	(125,200)
Closing Estimated Liability at 30 June	**8,571,724**	**10,714,570**
Legislative Assembly Members' Liability Reconciliation		
Opening Estimated Liability at 1 July	3,685	3,811
Current Service Cost	484	412
Superannuation Benefits paid to Members	(2,237)	(538)
Closing Estimated Liability at 30 June	**1,932**	**3,685**
Total Closing Estimated Liabilities at 30 June	**8,573,656**	**10,718,255**
Total Current Liabilities	251,149	230,525
Total Non-Current Liabilities	8,322,507	10,487,730
Total Closing Estimated Liabilities at 30 June[28]	**8,573,656**	**10,718,255**

[27]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 key financial assumptions used to calculate the present value of the superannuation liability. These assumptions include the discount rate, inflation and salary growth. An actuarial gain was recognised in 2016-17 due mainly to the changes in the financial assumptions adopted, including:

(i) increase in the discount rate from 2.69 per cent to 3.51 per cent ($1,635.244 million);
(ii) decrease in inflation from 2.50 per cent to 2.00 per cent ($615.952 million); and
(iii) decrease in salary growth from 3.00 per cent to 2.75 per cent ($232.040 million).

[28]The decrease in the closing estimated superannuation liabilities is due to employee and Members of the Legislative Assembly 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 2017

NOTE 8 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

	2017 $'000	2016 $'000
Total Cash Disclosed on the Statement of Assets and Liabilities on Behalf of the Territory	4,309	46,223
Cash at the End of the Reporting Period as Recorded in the Cash Flow Statement on Behalf of the Territory	**4,309**	**46,223**

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

Operating Deficit	(262,738)	(458,146)
Add/(Less) Items Classified as Investing or Financing		
Investments	(208,875)	(45,103)
Cash Before Changes in Operating Assets and Liabilities	**(471,613)**	**(503,248)**
Changes in Operating Assets and Liabilities		
(Decrease)/Increase in Payables	95	(104)
(Increase)/Decrease in Receivables	4,342	(5,872)
Increase in Superannuation Liabilities[29]	380,568	351,854
Increase in Employee Liabilities	5	37
Net Changes in Operating Assets and Liabilities	**385,011**	**345,915**
Net Cash Outflows from Operating Activities	**(86,602)**	**(157,334)**

[29]The increases in estimated superannuation liabilities do not include the actuarial gain amount of $2.525 billion for the 2016-17 financial year or the actuarial loss amount of $1.876 billion for the 2015-16 financial year. Any increase in the superannuation liability resulting from an actuarial loss is recognised directly in 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
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NOTE 9 FINANCIAL INSTRUMENTS

The Superannuation Provision Account is exposed to financial risks arising from its investment 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 the Chief Minister, Treasury and Economic Development Directorate. The Investment Advisory Board and asset consultant's advice is considered along with all other available information by the Chief Minister, Treasury and Economic Development Directorate when formulating investment policy positions and recommendations.

The Chief Minister, Treasury and Economic Development Directorate does not undertake investment management in-house. Investments are managed by the engagement of investment managers under an investment management agreement or through direct investment into unit trusts. 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*. The Chief Minister, Treasury and Economic Development Directorate, 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 Chief Minister, Treasury and Economic Development Directorate'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. The strategic asset allocation reflects the accepted level of risk encapsulated within the Superannuation Provision Account's investment objective of CPI plus 5 per cent per annum over the long-term. The investment objective has been revised to CPI plus 4.75 per cent per annum over the long term from 1 July 2017.

The strategic asset allocation comprises investments across domestic and international money market, debt and equity securities, private equity, indirect unlisted property asset classes and derivatives. Derivatives are prescribed investments and are 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.

The Chief Minister, Treasury and Economic Development Directorate 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 the operations of the Superannuation Provision Account are discussed in Notes 9.1 to 9.3 below.

9.1 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.

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
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NOTE 9 FINANCIAL INSTRUMENTS – CONTINUED

9.1 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 9.1(b): 'Price Risk'.

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

	Variable Rate Instruments		Fixed Rate Instruments	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Financial Assets	264,033	385,034	74,739	22,916
Net Exposure	**264,033**	**385,034**	**74,739**	**22,916**

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 1.50% (1.75% at 30 June 2016) 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.

	2017		2016	
	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	(1,893)	1,893	(3,621)	3,621
Total (Decrease)/Increase	**(1,893)**	**1,893**	**(3,621)**	**3,621**

NOTE 9 FINANCIAL INSTRUMENTS – CONTINUED

9.1 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.

	2017 $'000	2016 $'000
Investments Directly and Indirectly Held (Designated)		
Cash	657,375	655,295
Fixed Income	424,264	425,350
Equities	2,072,664	1,775,682
Property	319,462	287,879
Net Exposure	**3,473,765**	**3,144,205**

To manage exposures to price risk, the investment portfolio is diversified with asset class limits in accordance with Superannuation Provision Account's strategic asset allocation policy. 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, equities 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
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NOTE 9 FINANCIAL INSTRUMENTS – CONTINUED

9.1 Market Risk – Continued

(b) Price Risk – Continued

Taking into account past performance, future expectations and economic forecasts the estimated impact on profit or loss and the impact on equity in the table below are 'reasonably possible' over the next twelve months if price risk changes by the following volatility factors from the target benchmarks with all other variables held constant.

	% Increase in Index		% Decrease in Index	
30 June 2017	**Profit/(Loss) Impact $'000**	**Equity Impact $'000**	**Profit/(Loss) Impact $'000**	**Equity Impact $'000**
Investment Assets				
Cash (+/- 0.5%)	3,287	3,287	(3,287)	(3,287)
Fixed Income (+/- 4%-6%)	22,208	22,208	(22,208)	(22,208)
Equities (+/- 17%-20%)	378,999	378,999	(378,999)	(378,999)
Property (+/- 11%)	35,141	35,141	(35,141)	(35,141)
Total Increase/(Decrease)	**439,635**	**439,635**	**(439,635)**	**(439,635)**

	% Increase in Index		% Decrease in Index	
30 June 2016	**Profit/(Loss) Impact $'000**	**Equity Impact $'000**	**Profit/(Loss) Impact $'000**	**Equity Impact $'000**
Investment Assets				
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)**

Superannuation Provision Account
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NOTE 9 FINANCIAL INSTRUMENTS – CONTINUED

9.1 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 currencies will change in a manner that has an adverse effect 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 2017	Note No.	AUD $'000	USD $'000	JPY $'000	EUR $'000	GBP $'000	Other $'000	Total $'000
Cash		9,287	4,705	1,076	1,431	474	1,086	18,059
Financial Assets at FVTPL		2,644,179	712,425	113,297	153,992	66,863	138,132	3,828,886
Other Assets		82,827	666	127	692	490	1,091	85,892
Total Assets		**2,736,293**	**717,795**	**114,500**	**156,115**	**67,826**	**140,308**	**3,932,837**
Financial Liabilities at FVTPL		17,035	1,893	394	275	13	297	19,908
Other Liabilities		196,888	0	0	86	0	0	196,974
Total Liabilities		**213,924**	**1,893**	**394**	**361**	**13**	**297**	**216,883**
Net Assets[30]	6.2, 6.3	**2,522,369**	**715,902**	**114,105**	**155,754**	**67,813**	**140,011**	**3,715,955**

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	86	0	0	172,878
Total Liabilities		**203,327**	**2,121**	**604**	**196**	**70**	**236**	**206,555**
Net Assets[30]	6.2, 6.3	**2,407,468**	**593,727**	**94,731**	**119,887**	**63,472**	**121,334**	**3,400,619**

[30]Net assets comprise Distribution Receivables from the Territory Banking Account (Note 6.2) and Investments (Note 6.3).

Superannuation Provision Account
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NOTE 9 FINANCIAL INSTRUMENTS – CONTINUED

9.1 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. Currency forward rate agreements are used by the relevant investment managers to manage foreign currency risks within approved limits.

Approximately 55 per cent of the international 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. The currency hedging activity is managed separately through the indexed managed international equity mandate and an investment in an index managed unlisted pooled unit trust for the international fixed interest investments. In relation to the unhedged international investments, holding a diversified basket of currency investments also serves to reduce overall currency risk. All the international fixed interest investment exposures are fully hedged to Australian dollars, with the international equity exposures being 50 per cent hedged to Australian dollars.

Currency Risk Sensitivity Disclosure Analysis
The following table summarises the 'reasonably possible' impact of 2017: +/- 10 per cent (2016: +/-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 9.1(b): 'Price Risk'.

	10% Movement	
	Profit &Loss (+/- Impact)	Equity (+/- Impact)
30 June 2017	**$'000**	**$'000**
Currency		
USD	537	537
JPY	121	121
EUR	204	204
GBP	95	95
Other	217	217
Total Increase/(Decrease)	**1,174**	**1,174**

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

Superannuation Provision Account
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NOTE 9 FINANCIAL INSTRUMENTS – CONTINUED

9.2 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 directly held fixed income (debt) securities. The following table details the credit risk exposure of debt investments as at reporting date.

30 June 2017	AAA $'000	AA $'000	A $'000	Total $'000
Debt Instruments	168,862	13,087	132,950	**314,899**
Total	**168,862**	**13,087**	**132,950**	**314,899**

30 June 2016	AAA $'000	AA $'000	A $'000	Total $'000
Debt Instruments	173,521	13,532	140,790	**327,843**
Total	**173,521**	**13,532**	**140,790**	**327,843**

Appointed investment managers are required to ensure: credit quality within the portfolio remains 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 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 the Chief Minister, Treasury and Economic Development Directorate.

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's financial assets. None of these assets are impaired (nil: 30 June 2016).

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
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NOTE 9 FINANCIAL INSTRUMENTS – CONTINUED

9.3 Liquidity Risk

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

The Chief Minister, Treasury and Economic Development Directorate'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 the Commonwealth Superannuation Corporation and for managing fund flows for investment asset classes in accordance with the strategic asset allocation. Over a longer term horizon, the annual emerging cost benefit payments to the Commonwealth Superannuation Corporation are to be funded through a combination of budget capital injections and investment assets.

The exposure to illiquid asset classes is limited through the investment strategy and the strategic asset allocation. 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, current budget appropriations and total investment assets.

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 Commonwealth Superannuation Corporation. 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 2017	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	59,922	0	0	0	**59,922**
Employee Benefits	9	27	0	0	**36**
Superannuation Liabilities	62,787	188,362	1,196,118	23,823,453	**25,270,720**
Total Non-Derivatives	**122,719**	**188,389**	**1,196,118**	**23,823,453**	**25,330,678**
Derivatives					
Futures	558	0	0	0	**558**
Net Settled (Swaps)	3,199	957	2,131	13,062	**19,350**
Gross Settled FFX					
Inflow	1,844,306	0	0	0	**1,844,306**
(Outflow)	(1,827,300)	0	0	0	**(1,827,300)**
Total Derivatives	**20,764**	**957**	**2,131**	**13,062**	**36,914**

NOTE 9 FINANCIAL INSTRUMENTS – CONTINUED

9.3 Liquidity Risk - Continued

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**

9.4 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.

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 9 FINANCIAL INSTRUMENTS – CONTINUED

9.4 Fair Value of Financial Assets and Liabilities – Continued

(b) Recurring Fair Value Measurement of Assets and Liabilities

30 June 2017	Note No.	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Investments					
Asset Class – Investments Directly Held					
Fixed Income		132,950	181,949	0	**314,899**
Equities		1,936,929	0	297	**1,937,226**
Derivatives		696	18,425	0	**19,120**
Sub Total		**2,070,575**	**200,374**	**297**	**2,271,245**
Asset Class – Investments Indirectly Held					
Unit Trust – Cash		0	657,375	0	**657,375**
Unit Trust – Domestic & International Fixed income		0	424,264	0	**424,264**
Unit Trust – Domestic Unlisted Property		0	319,462	0	**319,462**
Unit Trust – Private Equity		0	0	136,632	**136,632**
Sub Total		**0**	**1,401,101**	**136,632**	**1,537,733**
Total Investments		**2,070,575**	**1,601,475**	**136,929**	**3,808,978**
Investment Financial Liabilities					
Fixed Income		0	138,255	0	**138,255**
Sub Total		**0**	**138,255**	**0**	**138,255**
Net Investment Financial Assets	6.3(a)	**2,070,575**	**1,463,219**	**136,929**	**3,670,722**

NOTE 9 FINANCIAL INSTRUMENTS – CONTINUED

9.4 Fair Value of Financial Assets and Liabilities – Continued

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

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					
Derivatives		0	141,786	0	**141,786**
Sub Total		0	0	0	**0**
		0	**141,786**	**0**	**141,786**
Net Investment Financial Assets	6.3(a)	**1,780,874**	**1,434,400**	**136,078**	**3,351,353**

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 – 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.

Superannuation Provision Account
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NOTE 9 FINANCIAL INSTRUMENTS – CONTINUED

9.4 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 and income capitalisation. Where appropriate, the direct comparison, hypothetical development, or the summation or cost approach method is used. Under the discounted cash flow 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.

NOTE 9 FINANCIAL INSTRUMENTS – CONTINUED

9.4 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 investment 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 2017[31] $'000	Valuation Technique	Unobservable Input	Range (Weighted Average)
Unit Trust – Private Equity	105,098	Adjusted Net Asset Value	Latest Net Asset Value from Investment Manager	0.000 - 2.269(0.413)
			Contributions since latest Net Asset Value from Investment Manager	0.000 – 1.000(0.114)
			Distributions since latest Net Asset Value from Investment Manager	0.000- 1.955(0.254)

[31]At 30 June 2017, ACT Private Equity Funds 1 and 2 are excluded from the fair value balance but not the Net Asset Value for the purposes of sensitivity analysis calculations.

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 - 2.269(0.413)	Fair value increase if the latest Net Asset Values from Investment Manager were higher
	Contributions since latest Net Asset Value from Investment Manager	0.000 – 1.000(0.114)	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- 1.955(0.254)	Fair value decrease if there have been distributions since latest Net Asset Value from Investment Manager

Superannuation Provision Account
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NOTE 9 FINANCIAL INSTRUMENTS – CONTINUED

9.4 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 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
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NOTE 9 FINANCIAL INSTRUMENTS – CONTINUED

9.5 Fair Value Hierarchy

Level 3 Reconciliation

30 June 2017	Unit Trusts $'000	Total $'000
Balance at 1 July 2016	**135,342**	**135,342**
Purchases during the Year	280	**280**
Issues during the Year	0	**0**
Sales during the Year	0	**0**
Settlements during the Year	8,194	**8,194**
Transfers into Level 3	0	**0**
Transfers out of Level 3	0	**0**
Total (Losses) on Level 3 Financial Instruments	(7,185)	**(7,185)**
Balance at 30 June 2017	**136,632**	**136,632**

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**

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 2017	Unit Trusts $'000	Total $'000
Trading Income		
Total (Losses) recognised in Statement of Income and	(7,185)	**(7,185)**
Expenses on Behalf of the Territory	**(7,185)**	**(7,185)**

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
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NOTE 9 FINANCIAL INSTRUMENTS – CONTINUED

9.5 Fair Value Hierarchy – Continued

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)**

Total losses for the period relating to the units in the private equity trust held at the end of the reporting period amounts to $7.185 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 2.19: 'Investments' and Note 9.1(b): 'Price Risk'.

9.6 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 2017 and 30 June 2016 is as follows:

30 June 2017	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	4,309	0	0	0	0	**4,309**
Receivables	0	7,282	0	0	0	**7,282**
Investments at FVTPL (Directly Held)						
Fixed Income	0	0	192,210	0	0	**192,210**
Equities	0	0	1,957,069	0	0	**1,957,069**
Derivatives	0	0	0	19,120	0	**19,120**
Investments at FVTPL (Indirectly Held)						
Cash	0	0	657,376	0	0	**657,376**
Fixed Income	0	0	424,266	0	0	**424,266**
Property	0	0	322,031	0	0	**322,031**
Private Equity	0	0	136,635	0	0	**136,635**
Financial Liabilities						
Payables	0	0	0	0	(1,202)	**(1,202)**

Superannuation Provision Account
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NOTE 9 FINANCIAL INSTRUMENTS – CONTINUED

9.6 Categorisation of Financial Assets and Liabilities – Continued

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
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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:

	2017 $'000	2016 $'000
Within One Year	244,306	24,400
Later than One Year but not longer than Five Years	100,200	52,500
Later than Five Years	6,211	6,000
Total Other Commitments[32]	**350,718**	**82,900**

[32]Other commitments represent the outstanding investment capital commitments at financial year end. These investment capital commitments are recognised through individual Subscription Agreements. The outstanding balance has increased over the 2016-17 financial year due to new investment capital commitments being made for investments in unlisted assets.

NOTE 11 RELATED PARTY DISCLOSURES

A related party is a person that controls or has significant influence over the reporting entity, or is a member of the Key Management Personnel (KMP) of the reporting entity or its parent entity, and includes their close family member and entities in which the KMP and/or their close family members individually or jointly have controlling interest.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Superannuation Provision Account, directly or indirectly.

KMP of the Superannuation Provision Account are the Portfolio Minister and certain members of the Senior Management Team.

The Head of Service and the ACT Executive comprising the Cabinet Ministers are KMP of the ACT Government and therefore related parties of the Superannuation Provision Account.

This note does not include typical citizen transactions between the KMP and the Superannuation Provision Fund that occur on terms and conditions no different to those applying to the general public.

(A) Controlling Entity
The Superannuation Provision Account is an ACT Government controlled entity.

(B) Key Management Personnel

B.1 Compensation of Key Management Personnel
Compensation of all Cabinet Ministers, including Portfolio Minister, is disclosed in the note on related party disclosures included in the ACT Executive's financial statements for the year ended 30 June 2017.

The members of the senior management team who are KMP of the Superannuation Provision Account are employees of the Chief Minister, Treasury and Economic Development Directorate and are compensated by the Chief Minister, Treasury and Economic Development Directorate.

Compensation by the Superannuation Provision Account to its KMP is NIL.

NOTE 11 RELATED PARTY DISCLOSURES – Continued

B.2 Transactions with Key Management Personnel
There were no transactions with KMP that were material to the financial statements of the Superannuation Provision Account.

B.3 Transactions with parties related to Key Management Personnel
There were no transactions with parties related KMP that were material to the financial statements of the Superannuation Provision Account.

(C) TRANSACTIONS WITH OTHER ACT GOVERNMENT CONTROLLED ENTITIES
All transactions with ACT Government controlled entities are disclosed in the relevant notes to the financial statements of the Superannuation Provision Account.

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 12 BUDGETARY REPORTING

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 2016-17 $'000	Original Budget[33] 2016-17 $'000	Variance $'000	Variance %	Variance Explanation
Distributions from Financial Investments	56,214	45,068	11,146	25%	Distribution revenue was higher than expected due mainly to higher than expected distribution income on the cash investments, as a result of maintaining a higher than expected exposure and investment manager outperformance, and higher than expected distribution income on the international fixed interest investments.
Gains on Investment	282,965	163,566	119,399	73%	Gains on investment were above the budget estimate due to the portfolio achieving a higher investment return than estimated, with a net return for the financial year of 10.2 per cent. The budget estimate for investment earnings incorporated an expected long term investment return assumption of 7.5 per cent.

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 12 BUDGETARY REPORTING – CONTINUED

Statement of Assets and Liabilities on Behalf of the Territory

	Actual 2016-17 $'000	Original Budget[33] 2016-17 $'000	Variance $'000	Variance %	Variance Explanation
Cash and Cash Equivalents	4,309	25,000	(20,691)	(83%)	Operational liquidity for the bank account at financial year end was reduced due to emerging cost funding requirements.
Receivables	7,282	5,726	1,556	27%	The distribution receivable from the Territory Banking Account is higher than the budget estimate due to maintaining a higher than expected investment allocation over the financial year.
Superannuation Liability (Current and Non-Current)	8,573,656	6,247,603	2,326,053	37%	The Budget estimates for the present value of the CSS and PSS defined benefit superannuation liability and the associated superannuation expense use a long term average discount rate assumption of 6 per cent. 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 estimate. The discount rate at 30 June 2017 was 3.51 per cent, increasing the total CSS/PSS superannuation liability valuation estimate by approximately $2.331 billion, from $6.243 billion to $8.574 billion (current and non-current liability).

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 12 BUDGETARY REPORTING – CONTINUED

Cash Flow Statement on Behalf of the Territory

	Actual 2016-17 $'000	Original Budget[33] 2016-17 $'000	Variance $'000	Variance %	Variance Explanation
Dividends from Financial Investments	56,496	50,990	5,506	11%	Dividend income was higher than the budget estimate due mainly to higher than expected dividend receipts from the international share investments.
Distributions from Financial Investments	61,662	45,068	16,594	37%	Distribution income was higher than the budget estimate due mainly to the receipt of higher than expected distribution income from the cash and international fixed income investments.
Other Receipts from Operating Activities	25,478	989	24,489	2476%	Other receipts were higher than the budget estimate due to gains associated with the currency hedging risk management activity on the international share investments across a broad range of currencies.
Proceeds from Sale/Maturity of Investments	33,932	0	33,932	#	Proceeds from the Sale/Maturity of investments is due to the sale of private equity investment assets and return of capital. Budget estimates incorporate a net purchase of investments.
Purchase of Investments	144,769	15,679	129,090	823%	Purchase of investments was higher than budget estimate due to higher than expected investment income operating receipts, lower than expected operating payments, the drawdown and payment of investment capital commitments and the re-investment of proceeds from the sale/maturity of investments.

[33]The Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting period (2016-17 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.

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

APPENDIX A – BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

2.1 Legislative Requirement

The *Financial Management Act 1996* (FMA) requires the preparation of annual financial statements for ACT Government agencies. The FMA and the Financial Management Guidelines issued under the Act, requires 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 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.

These general-purpose financial statements have been prepared to comply with 'Australian Accounting Standards' as required by the FMA. Accordingly, these financial statements have been prepared in accordance with:

(i) Australian Accounting Standards; and
(ii) ACT Accounting and Disclosure Policies.

2.2 Accrual Accounting

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.

2.3 Currency

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

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.

2.4 Individual Reporting Entity

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

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

APPENDIX A – BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS - CONTINUED

2.5 Territorial Items

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

2.6 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 2017 and the financial position of the Superannuation Provision Account at 30 June 2017.

2.7 Comparative Figures

Budget Figures
To facilitate a comparison with the Budget Papers, as required by the FMA, budget information for 2016-17 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.

2.8 Rounding

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

2.9 Going Concern

At 30 June 2017, the Superannuation Provision Account's liabilities ($8.575 billion) exceed its assets ($3.720 billion) by $4.855 billion ($7.273 billion at 30 June 2016). 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 currently materially supported by budget appropriation and the annual emerging cost payments are significantly less than total investment assets, the net liability position 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.

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

APPENDIX B – SIGNIFICANT ACCOUNTING POLICIES

2.10 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.

Dividend income is recognised on the ex- dividend date inclusive of with any related foreign withholding tax.

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.

SIGNIFICANT ACCOUNTING POLICIES – EXPENSES ADMINISTERED ON BEHALF OF THE TERRITORY

2.11 Employee Expenses (refer Note 5.2)

Refer to Note 2.23: 'Employee Expenses and Benefits for Superannuation Provision Account Employees' for the notes comprising significant accounting policies and other explanatory information.

2.12 Superannuation Expenses (refer Note 5.6)

Refer to Note 2.23: 'Employee Expenses and Benefits for Superannuation Provision Account Employees' and Note: 2.24 'Estimated CSS/PSS Defined Benefit Employer Superannuation Liabilities' for the notes comprising significant accounting policies and other explanatory information.

2.13 Supplies and Services refer Note 5.3)

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

SIGNIFICANT ACCOUNTING POLICIES – ASSETS ADMINISTERED ON BEHALF OF THE TERRITORY

2.14 Assets - Current and Non-Current (refer Notes 6.1, 6.2 and 6.3)

Assets classified as current or non-current in the Statement of Assets and Liabilities on Behalf of the Territory and relevant notes. Assets are classified as current where they are expected to be realised within 12 months after the reporting date. Assets, which do not fall within the current classification, are classified as non-current.

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

APPENDIX B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.15 Significant Accounting Judgement and Estimates - 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.

2.16 Cash and Cash Equivalents (refer Note 6.1)

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 transactional bank.

2.17 Receivables (refer Note 6.2)

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

Impairment Loss - 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. The 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 90 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.

APPENDIX B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.17 Receivables (refer Note 6.2) - Continued

Significant Accounting Judgements and Estimates – Allowance for Impairment Losses
The Superannuation Provision Account has made a significant estimate in the calculation of the allowance for impairment losses for receivables. This significant estimate is based on a number of categorisations of receivables. These categorisations are considered by management to be appropriate and accurate, based upon the pattern demonstrated in collecting receivables in the past financial years. The categorisations are associated with accounts in bankruptcy, unpaid objections and past write-offs.

2.18 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.

2.19 Investments (refer Note 6.3)

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 to Note 2.24: 'Estimated CSS/PSS Defined Benefit Employer Superannuation Liabilities') and benefit payments for Members of the Legislative Assembly Defined Benefit Superannuation Scheme (refer to Note 2.25: 'Estimated Superannuation Liabilities for Members of the Legislative Assembly').

The Chief Minister, Treasury and Economic Development Directorate manage the financial investment assets in accordance with an investment 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, 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 per annum over the long term. From 1 July 2017 the long term return objective has been reduced to CPI plus 4.75 per cent per annum.

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.

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

APPENDIX B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.19 Investments (refer Note 6.3) - Continued

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.

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.

APPENDIX B – SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2.19 Investments (refer Note 6.3) - Continued

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 9.5: 'Fair Value Hierarchy', based on the lowest level input that is significant to the fair value measurement as a whole.

2.20 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 6.3: 'Investments'.

SIGNIFICANT ACCOUNTING POLICIES – LIABILITIES ADMINISTERED ON BEHALF OF THE TERRITORY

2.21 Liabilities - Current and Non-Current (refer Notes 7.1, 7.2 and 7.3)

Liabilities classified as current or non-current in the Statement of Assets and Liabilities on Behalf of the Territory and relevant notes. Liabilities are classified as current where they are expected to be realised within 12 months after the reporting date. Liabilities, which do not fall within the current classification, are classified as non-current.

2.22 Payables (refer Note 7.1)

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 2017

APPENDIX B – SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2.23 Employee Expenses and Benefits for Superannuation Provision Account Employees (refer Note 7.3)

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.

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

Superannuation Expenses
The Superannuation Provision Account makes fortnightly payments to the Territory Banking Account to extinguish the 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) by the Superannuation Provision Account.

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 Provision Account accruing superannuation liability obligations are expensed as they are incurred.

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 Chief Minister, Treasury and Economic Development Directorate's Superannuation Provision Account (refer to Note 2.24: 'Estimated CSS/PSS Defined Benefit Employer Superannuation Liabilities').

Employee Benefits
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.

APPENDIX B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.23 Employee Expenses and Benefits for Superannuation Provision Account Employees (refer Note 7.3) - Continued

Annual leave liabilities have been estimated on the assumption they will be wholly settled within three years. In 2016-17 the rate used to estimate the present value of future:

(i) Annual leave payments is 99.8% (101.4% in 2015-16); and

(ii) Payments for long service leave is 103.4% (114.7% in 2015-16).

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.

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

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

2.24 Estimated CSS/PSS Defined Benefit Employer Superannuation Liabilities (refer Note 7.3)

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.

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

APPENDIX B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.24 Estimated CSS/PSS Defined Benefit Employer Superannuation Liabilities (refer Note 7.3) - Continued

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

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 the Chief Minister, Treasury and Economic Development Directorate's appointed consultant actuary, Willis Towers Watson. 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 2017, the Superannuation Provision Account recorded an unfunded superannuation liability of $4.853 billion. The reconciliation of the superannuation liabilities and expenses is detailed in Note 7.3: 'Estimated Superannuation Liabilities'.

Historical Analysis of Unfunded Superannuation Liability Obligations

At 30 June	**Note No.**	**2017 $'000**	**2016 $'000**	**2015 $'000**	**2014 $'000**
Total Assets	6.1-6.3	3,720,299	3,446,844	3,342,057	3,030,349
Estimated Superannuation Liability	7.3	8,571,724	10,714,570	8,485,855	7,471,004
Net Unfunded Liability		**(4,851,425)**	**(7,267,726)**	**(5,143,798)**	**(4,440,655)**

APPENDIX B – SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2.24 Estimated CSS/PSS Defined Benefit Employer Superannuation Liabilities (refer Note 7.3) - Continued

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	2017	2016	2015	2014
Discount Rate	3.51%	2.69%	3.66%	4.08%
Salary Inflation	2.75%	3.00%/3.50%[34]	3.50%	4.00%
Consumer Price Index	2.00%	2.50%	2.50%	2.50%

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

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 2016. Commonwealth Superannuation Corporation supplied at 30 June 2016 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 the Commonwealth Superannuation Corporation is unable to provide membership data at 30 June 2017 in time for the valuation of the estimated superannuation liability at 30 June 2017, the valuation estimate incorporates membership data at 30 June 2016, but projected forward to 30 June 2017. This allows for projected service and salaries at 30 June 2017, expected exits over the 2016-17 financial year, actual crediting rates on member and productivity accounts to 30 June 2017, as well as actual pension indexation rates.

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

APPENDIX B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.24 Estimated CSS/PSS Defined Benefit Employer Superannuation Liabilities (refer Note 7.3) - Continued

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	547	7,359	**7,906**
Number of Deferred Members	206	8,366	**8,572**
Number of Pensioners	6,063	4,314	**10,377**
Total Group A	**6,816**	**20,039**	**26,855**

Group B Membership Data	**CSS**	**PSS**	**Total**
Number of Contributing Members	256	3,150	**3,406**
Number of Deferred Members	134	3,106	**3,240**
Number of Pensioners	1,045	1,391	**2,436**
Total Group B	**1,435**	**7,647**	**9,082**
Total ACT Employee Membership	**8,251**	**27,686**	**35,937**

Limitations in Salary and Membership Data
Detailed checks are carried out by the Chief Minister, Treasury and Economic Development Directorate'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.

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

APPENDIX B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.24 Estimated CSS/PSS Defined Benefit Employer Superannuation Liabilities (refer Note 7.3) - Continued

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 2.69 per cent to estimate the closing 30 June 2016 superannuation liability. The closing 30 June 2017 liability is estimated at the discount rate at 30 June 2017 of 3.51 per cent. The actuarial gain or loss is the difference between the closing 30 June 2017 liability and the 30 June 2016 liability, adjusted for the projected 2016-17 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 the Commonwealth Superannuation Corporation 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 the Commonwealth Superannuation Corporation. 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 the Commonwealth Superannuation Corporation 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	**2017**	**2016**	**2015**	**2014**
	$'000	**$'000**	**$'000**	**$'000**
Emerging Cost Payment	230,525	211,146	198,209	178,215
Emerging Cost (Surplus)/Deficit	(10,053)	(14,232)	(13,681)	(12,967)
Annual Benefit Payment	**220,472**	**196,914**	**184,528**	**165,248**

The emerging cost amount agreed to be paid during 2016-17 was $230.525 million (2015-16 $211.146 million).

The actual superannuation payments paid by the Commonwealth Superannuation Corporation for the 2015-16 year were reviewed during 2016-17 by the actuary using Commonwealth Superannuation Corporation 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 2016, the surplus amounted to $10.053 million.

The surplus reduced the emerging cost amount paid to the Commonwealth Superannuation Corporation during the 2016-17 financial year from $230.525 million to $220.472 million (the 30 June 2015 emerging cost surplus of $14.232 million reduced the 2015-16 emerging cost amount paid from $211.146 million to $196.914 million).

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

APPENDIX B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.24 Estimated CSS/PSS Defined Benefit Employer Superannuation Liabilities (refer Note 7.3) - Continued

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.

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 9.3: 'Liquidity Risk'.

Significant Accounting Judgements and Estimates -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 the consultant actuary.

The following sensitivity analysis is based off the liability valuation at 30 June 2017, which incorporated a discount rate of 3.51 per cent, and the liability valuation at 30 June 2016, which incorporated a discount rate of 2.69 per cent.

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

APPENDIX B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.24 Estimated CSS/PSS Defined Benefit Employer Superannuation Liabilities (refer Note 7.3) - Continued

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 2017 Defined Benefit Obligation

Financial Assumptions	**Increase $'000**	**Decrease $'000**
Discount Rate (+/- 1%)	(1,366,000)	1,782,000
Consumer Price Index (+/- 1%)	1,279,000	(1,043,000)
Salary Inflation (+/- 1%)	423,000	(371,000)
Demographic Assumptions		
PSS Pensioner Election Rate (+/- 10%)	290,000	(291,000)

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)

2.25 Estimated Superannuation Liabilities for Members of the Legislative Assembly (refer Note 7.3)

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 2017

APPENDIX B – SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2.25 Estimated Superannuation Liabilities for Members of the Legislative Assembly (refer Note 7.3) - Continued

This defined benefit plan has only two remaining members, and due to the non-material nature of this defined benefit obligation, the computational estimate at 30 June 2017 is a reliable approximation of the value of the defined benefit obligation as required under AASB 119. At 30 June 2017 this liability is estimated at $1.932 million ($3.685 million at 30 June 2016).

Refer to Note 7.3: 'Estimated Superannuation Liabilities' for a reconciliation of this liability.

	2017 $'000	2016 $'000	2015 $'000	2014 $'000
Net Unfunded Liability	1,932	3,685	3,812	4,134

SIGNIFICANT ACCOUNTING POLICIES – OTHER NOTES

2.26 Budgetary Reporting (refer Note 12)

Explanations of major variances between the 2016-17 original budget and the 30 June 2017 actual results are discussed in Note 12: 'Budgetary Reporting.

Significant Judgements and Estimates

Significant judgements have been applied in determining what variances are considered 'major variances'. Variances are considered major if both of the following criteria are met:

(i) The line item is a significant line item: where either the line item actual amount accounts for more than 10% of the relevant associated category (Income, Expenses and Equity totals) or more than 10% of the 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.

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

APPENDIX C – IMPACT OF ACCOUNTING STANDARDS ISSUED BUT YET TO BE APPLIED

The following new and revised accounting standards and interpretations have been issued by the Australian Accounting Standards Board but do not apply to the current reporting period. These standards and interpretations are applicable to future reporting periods. 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.

Superannuation Provision Account does not intend to adopt these standards and interpretation early. Where applicable, these Australian Accounting Standards will be adopted from their application date. 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.

(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's financial assets. No material financial impact on Superannuation Provision Account is expected. This assessment is based on an initial assessment at this date, but may change on further review.

(ii) 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 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (application date 1 January 2018);

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

(iv) 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, 1049, Interpretation 2, 5, 10, 12, 16, 19 &127] (application date 1 January 2018);

(v) AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures (AASB 9, AASB 2009-11, AASB 2010-7, AASB 2011-7 & AASB 2011-8);

(vi) AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part C);

(vii) AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities [AASB 9 & 15] (application date 1 January 2019);
This standard inserts Australian requirements and authoritative implementation guidance for not-for-profit entities into AASB 9 and AASB 15. This guidance assists not-for-profit entities in applying those standards to particular transactions and other events. The amendments to AASB 9 address the initial measurement and recognition of non-contractual receivables arising from statutory requirements (including taxes, rates and fines). The amendments to AASB 15 address the following aspects of accounting for contracts with customers: identifying a contract with a customer; identifying performance obligations; and allocating the transaction price to performance obligations.

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

APPENDIX C – IMPACT OF ACCOUNTING STANDARDS ISSUED BUT YET TO BE APPLIED – CONTINUED

(viii) AASB 15 Revenue from Contracts with Customers (and applicable amendments) (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 111 Construction Contracts and AASB 118 Revenue. No material financial impact on Superannuation Provision Account is expected. This assessment is based on an initial assessment at this date, but may change on further review.

(ix) 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, 134, 137, 138, 139, 140, 1023, 1038, 1039, 1049, 1053, 1056, Interpretation 12, 127, 132, 1031, 1038 & 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.

(x) AASB 2015-8 Amendments to Australian Accounting Standards – Effective date of AASB 15 (application date 1 January 2017);
This standard deferred the application date of AASB 15 Revenue from Contracts with Customers to 1 January 2018. AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for Profit Entities further defers the application date of AASB 15 for not-for-profit entities until 1 January 2019.

(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.

(xii) AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB for Not-for-Profit Entities defers the effective date of AASB 15 for not-for-profit entities to 1 January 2019;

(xiii) AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities (application date 1 January 2017, which was the original mandatory effective date of AASB 15);
This standard amends the mandatory effective date of AASB 15 for not-for-profit entities so that AASB 15 is required to be applied by these entities for annual reporting periods beginning on or after 1 January 2019 instead of 1 January 2018

(xiv) AASB 1058 Income of Not-for-Profit Entities (application date 1 January 2019);
This standard clarifies and simplifies the income recognition requirements that apply to not-for-profit entities in conjunction with AASB 15 Revenue from Contracts with Customers. These standards supersede all the income recognition requirements relating to private sector not-for-profit entities, and the majority of income recognition requirements relating to public sector not-for-profit entities, previously in AASB 1004 Contributions. No material financial impact on Superannuation Provision Account is expected. This assessment is based on an initial assessment at this date, but may change on further review.

APPENDIX C – IMPACT OF ACCOUNTING STANDARDS ISSUED BUT YET TO BE APPLIED – CONTINUED

(xv) 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 and there is no material financial impact on Superannuation Provision Account. This assessment is based on an initial assessment at this date, but may change on further review.

(xvi) AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration (application date 1 January 2019);
This Interpretation addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. No material financial impact on Superannuation Provision Account is expected. This assessment is based on an initial assessment at this date, but may change on further review.

Superannuation Provision Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

APPENDIX D – 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 approximately 17.7 years.

At 30 June 2017, the current longest Commonwealth Government nominal bond on issue is the 21 March 2047, which matures in approximately 30 years and has a modified duration of approximately 18.8 years. Accordingly, the 2047 maturity is considered the most appropriate term proxy for discounting the superannuation liability at 30 June 2017. The 21 June 2039 Commonwealth Government bond was previously used as it was the longest benchmark government bond on issue at 30 June 2016. This bond has a modified duration of approximately 15.5 years.

The annualised yield on the 21 March 2047 Commonwealth Government bond as at 30 June 2017 was 3.51 per cent and the annualised yield on the 21 June 2039 Commonwealth Government bond was 3.31 per cent, a difference in yield of 0.20 per cent.

If the Superannuation Provision Account had continued to reference the yield on the 21 June 2039 Commonwealth Government bond as the discount rate, then the superannuation liability estimate would have been approximately $8.890 billion as compared to the current estimate at 30 June 2017 of approximately $8.572 billion. This small difference in yield has effectively reduced the liability estimate by $0.318 billion.

Statement of Performance

For the Year Ended

30 June 2017

Superannuation Provision Account

REPORT OF FACTUAL FINDINGS

SUPERANNUATION PROVISION ACCOUNT

To the Members of the ACT Legislative Assembly

Review opinion

I am providing an **unqualified review opinion** on the statement of performance of the Superannuation Provision Account for the year ended 30 June 2017.

During the review no matters were identified which indicate that the results of the accountability indicators reported in the statement of performance are not fairly presented in accordance with the *Financial Management Act 1996*.

Basis for the review opinion

The review was conducted in accordance with the Australian Auditing Standards. I have complied with the requirements of the Accounting Professional and Ethical Standards 110 *Code of Ethics for Professional Accountants*.

I believe that sufficient evidence was obtained during the review to provide a basis for the review opinion.

Responsibility for preparing and fairly presenting the statement of performance

The Under Treasurer is responsible for:

- preparing and fairly presenting the statement of performance in accordance with the *Financial Management Act 1996* and *Financial Management (Statement of Performance Scrutiny) Guidelines 2017*; and
- determining the internal controls necessary for the preparation and fair presentation of the statement of performance so that the results of accountability indicators and accompanying information are free from material misstatements, whether due to error or fraud.

Responsibility for the review of the statement of performance

Under the *Financial Management Act 1996* and *Financial Management (Statement of Performance Scrutiny) Guidelines 2017*, I am responsible for issuing a report of factual findings on the statement of performance of the Superannuation Provision Account.

As required by Australian Auditing Standards, the auditors:

- applied professional judgement and maintained scepticism;
- identified and assessed the risks of material misstatements due to error or fraud* and implemented procedures to address these risks so that sufficient evidence was obtained to form a review opinion; and
- reported the scope and timing of the review and any significant deficiencies in reporting practices identified during the review to the Under Treasurer.

(*The risk of not detecting material misstatements due to fraud is higher than the risk due to error, as fraud may involve collusion, forgery, intentional omissions or misrepresentations or the override of internal controls.)

Limitations on the scope of the review

The review was conducted in accordance with Australian Auditing Standards applicable to review engagements, to provide limited 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.

This review does not provide assurance on the:

- relevance or appropriateness of the accountability indicators reported in the statement of performance or the related performance targets;
- accuracy of explanations provided for variations between actual and targeted performance due to the often subjective nature of such explanations;
- adequacy of controls implemented by the Superannuation Provision Account; or
- integrity of reviewed statement of performance presented electronically or information hyperlinked to or from the statement of performance. Assurance can only be provided for the printed copy of the reviewed statement of performance.

M. Cooper

Dr Maxine Cooper
Auditor-General
1 September 2017

Superannuation Provision Account
Statement of Performance
For the Year Ended 30 June 2017

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 2017 and also fairly reflects the judgements exercised in preparing them.

Stephen Miners
Acting Under Treasurer
Chief Minister, Treasury and Economic Development Directorate
/ September 2017

Superannuation Provision Account
Statement of Performance
For the Year Ended 30 June 2017

Output	**SUPERANNUATION PROVISION ACCOUNT**				
Output 1	**SUPERANNUATION PROVISION ACCOUNT**				
Description:	Management of Territory Defined Benefit Employer Superannuation Liabilities and Financial Investment Assets				
		Original Target 2016-17	**Actual Result 2016-17**	**% Variance from Target**	**Explanation of Material Variances (+/- 5%)**
TOTAL COST ($'000)		**$595,118**	**$660,200**	**11%**	Total cost was $65.1 million higher than the budget estimate due to an increase in superannuation expense of $18.4 million, as a result of the higher than expected defined benefit superannuation liability valuation at 30 June 2016 increasing superannuation expense for the 2016-17 financial year, and the expensing of $46.1 million in investment capital losses.
Accountability Indicators					
a.	Difference between the investment earnings rate and the benchmark is to be ≥ 0	≥ 0	0.47%	5%	The investment portfolio achieved a gross of fees return of 10.37 per cent for the 2016-17 financial year. The return was above the performance benchmark return of 9.90 per cent due to positive return contributions from investment manager out-performance and portfolio allocation.
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%	98.6%	4%	There were 22,583 share voting proposals during the 2016-17 financial year with a total of 22,278 voting instructions, resulting in 98.6 per cent of voting rights being exercised.
d.	Completion of the Principles for Responsible Investment 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	4	4	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 2017

Explanation of the Accountability Indicators

a. The difference between the actual portfolio investment return (gross of fees) and the established portfolio 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 it is not exposed to any prohibited investments, in accordance with the Government's Responsible Investment Policy. For performance measurement, the actual portfolio direct share holdings will be compared with the prevailing prohibited shares list at the end of each month. The exposure measure will be 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 will be the total actual votes cast compared to total eligible voting items.

d. The 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. The monthly financial reporting will not be counted for the year if the financial statements are not prepared after the end of each month.

g. Involves the preparation of the previous year's (2015-16) annual financial statements for auditing and inclusion in the Chief Minister, Treasury and Economic Development Directorate 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 who have a defined benefit superannuation entitlement as at 30 June in accordance with the *Legislative Assembly (Members' Superannuation) 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 2017*.

Financial Statements

For the Year Ended

30 June 2017

Territory Banking Account

Management Discussion and Analysis
For the Territory Banking Account
Financial Year Ended 30 June 2017

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.

General Overview

The Chief Minister, Treasury and Economic Development Directorate, through the financial operations of the Territory Banking Account, is responsible for 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 2016-17, the key objectives and operations of the Territory Banking Account included:

- managing the investment plan and implementing and reporting on the financial investment assets of the Territory Banking Account, including the accounting and management of investment returns;
- managing and reporting on the financial borrowing liabilities of the Territory Banking Account;
- raising new Territory borrowings as required;
- managing cash flow and liquidity requirements, and completing the settlement of all financial obligations including: debt servicing obligations; administering the payments of budget appropriations to agencies; administering the receipt of Territory revenues; and
- budgeting, managing and reporting on the financial operations of the Territory Banking Account.

Overview of 2016-17 Financial Outcome

The Territory Banking Account is a multi-purpose entity responsible for territorial revenues and transfer of appropriation cash flow transactions, financial investment and financial borrowing liabilities of the Territory. The functions and financial transaction activities are established through the provisions of the *Financial Management Act 1996*. The Territory Banking Account is the central public account for the Territory.

The Territory Banking Account's financial results are a sub-set of the total Territory consolidated financial results. The financial results are an aggregate of the financial investment and borrowing transactions as well as the receipt of transfers of territorial related revenues from agencies and the payment of budget appropriation disbursements to agencies.

The operating result and the net asset (liability) position of the Territory Banking Account should only be viewed in combination with the total Territory financial results and budget estimates because of the combination of diverse transactions being reported through the Territory Banking Account.

At 30 June 2017, the Territory Banking Account's liabilities ($5,674.7 million) exceed its assets ($3,934.5 million) by $1,740.2 million ($1,919.9 million at 30 June 2016). 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. The Territory Banking Account has the support of the annual budget and provisions of the *Financial Management Act 1996* to continue to meet its financial obligations as they fall due.

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 provided in the 2016-17 financial statements of relevant agencies.

- The operating result for 2016-17 is a deficit of $149.5 million, being a $417.4 million or 74 per cent increase from the budget deficit estimate of $566.9 million.
- The net liability position of the Territory Banking Account of $1,740.2 million is a $528.9 million or 23 per cent increase from the budget net liability estimate of $2,269.1 million.

Financial Performance

The following financial information is based on the audited financial statements for 2015-16 and 2016-17, the 2016-17 Budget estimates, as well as the forward estimates from the 2017-18 Budget.

Table 1 – Total Net Cost of Services

	Actual 2015-16 $'000	Budget 2016-17 $'000	Actual 2016-17 $'000	Estimate 2017-18 $'000	Estimate 2018-19 $'000	Estimate 2019-20 $'000	Estimate 2020-21 $'000
Total Expenses	4,669.4	4,901.5	4,573.5	5,099.6	5,298.8	5,112.2	5,255.2
Total Revenue	4,070.5	4,334.6	4,424.0	4,538.0	4,624.5	4,742.4	4,961.1
Net Cost	**598.9**	**566.9**	**149.5**	**561.6**	**674.4**	**369.8**	**294.2**

Comparison to 2016-17 Budget

The Territory Banking Account's net cost of services for 2016-17 of $149.5 million was $417.4 million or 74 per cent lower than the 2016-17 Budget estimate of $566.9 million.

The main reasons for this result are:

- higher than estimated investment earnings of $29.8 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 2016-17 financial year is 2.67 per cent (net of fees) compared with the benchmark return of 1.55 per cent;
- higher than estimated transfer revenues of $68.2 million reflecting underlying agency activity; and
- lower than estimated appropriation expenses to agencies of $341.5 million reflecting underlying agency requirements.

Comparison to 2015-16 Actual

Total net cost of services for 2016-17 of $149.5 million was $449.4 million or a 75 per cent decrease compared to the 2015-16 actual result of $598.9 million due primarily to:

- higher transfer revenues of $370.2 million; and
- lower appropriation expenses to agencies of $102.8 million.

Total Expenditure

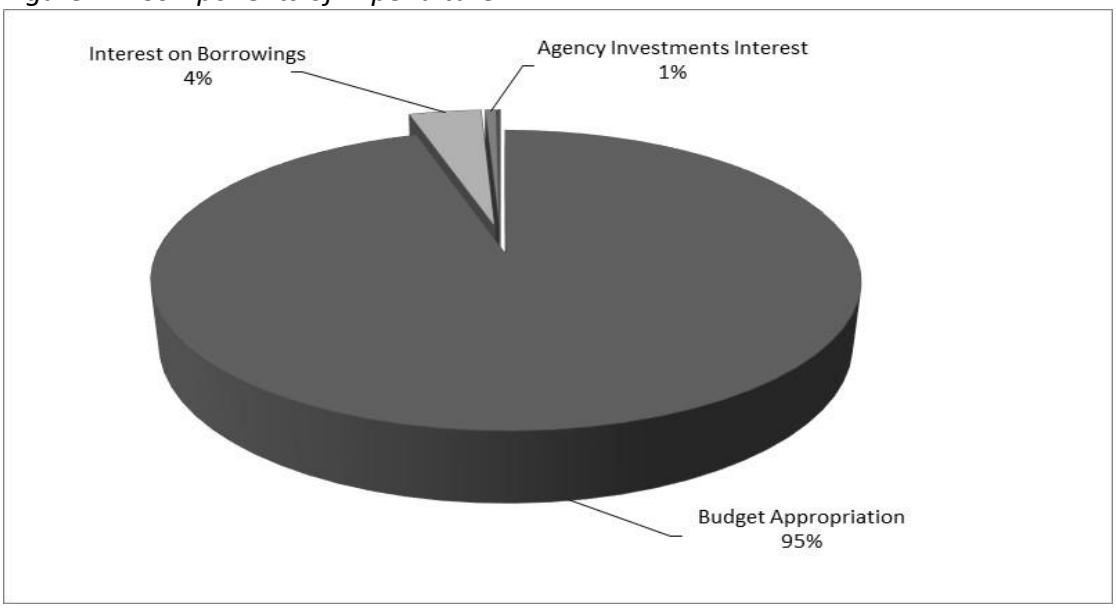
Components of Expenditure

The major components of total Territory Banking Account's expenses recognised for 2016-17 of $4,573.5 million relate to the transfer of budget appropriations to agencies ($4,354.7 million) and interest expenses ($209.8 million).

Appropriation expenses comprise controlled recurrent payments ($2,974.9 million); payments for expenses on behalf of the Territory ($543.9 million); and capital injections ($835.9 million).

Interest expenses comprise interest on borrowings ($182.6 million); and interest payments to agencies for investment deposit earnings ($27.2 million).

Figure 1 – Components of Expenditure



Comparison to 2016-17 Budget

Total Territory Banking Account expenses of $4,573.5 million were $327.9 million or 7 per cent lower than the 2016-17 Budget estimate of $4,901.5 million mainly due to:

- lower than estimated appropriation expenses to agencies of $341.5 million;
- lower borrowing interest expenses of $4.1 million reflecting the timing and volume of new borrowings raised; and
- higher interest payments to agencies of $9.4 million reflecting higher balances of funds held on investment with the Territory Banking Account over the year.

Comparison to 2015-16 Actual

Total Territory Banking Account expenses of $4,573.5 million were $95.8 million or 2 per cent lower than the 2015-16 result of $4,669.4 million mainly due to:

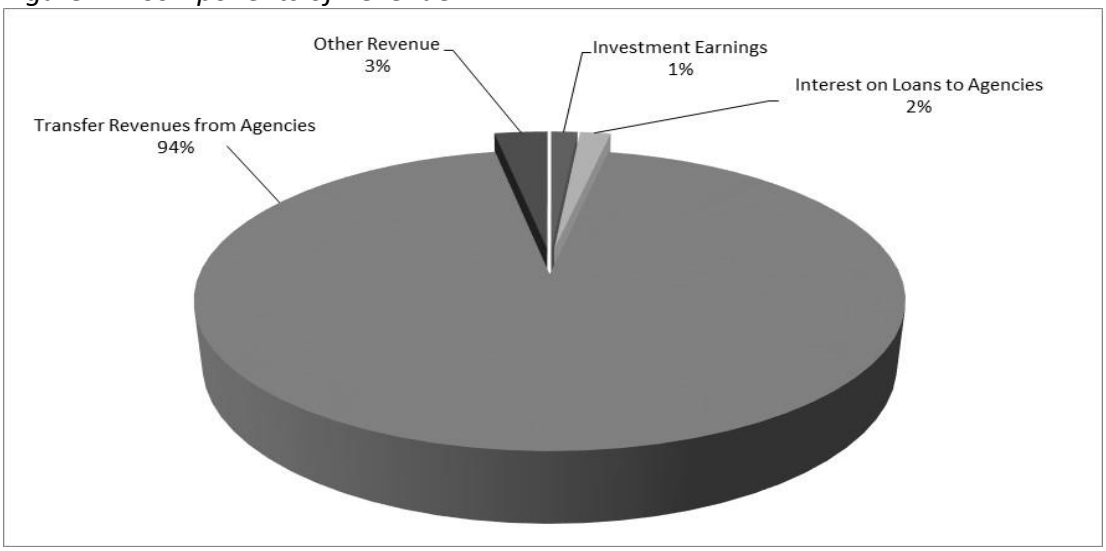
- lower appropriation expenses to agencies of $102.8 million;
- higher borrowing interest expenses of $8.8 million due to a higher balance of outstanding borrowings over the year; and
- lower interest payments to agencies of $7.2 million due to lower investment returns on their funds held on investment with the Territory Banking Account over the year.

Total Revenue

Components of Revenue

The components of total Territory Banking Account's revenues recognised for 2016-17 of $4,424.0 million include investment earnings ($56.1 million); interest from loans provided to agencies ($74.9 million); transfer revenues from agencies ($4,163.3 million); and other revenue ($129.6 million).

Figure 2 – Components of Revenue



Comparison to 2016-17 Budget

Total Territory Banking Account revenue of $4,424.0 million was $89.4 million or 2 per cent higher than the 2016-17 Budget estimate of $4,334.6 million mainly due to:

- higher than estimated investment earnings of $29.8 million due to higher levels of funds invested and a higher than estimated investment return; and
- higher transfer revenues of $68.2 million.

Comparison to 2016-17 Actual

Total Territory Banking Account revenue of $4,424.0 million was $353.5 million or 9 per cent higher than the 2015-16 result of $4,070.5 million mainly due to:

- lower investment earnings of $8.4 million due to lower investment returns on funds held on investment over the year; and
- higher transfer revenues of $370.2 million.

Financial Position

Components of Total Assets

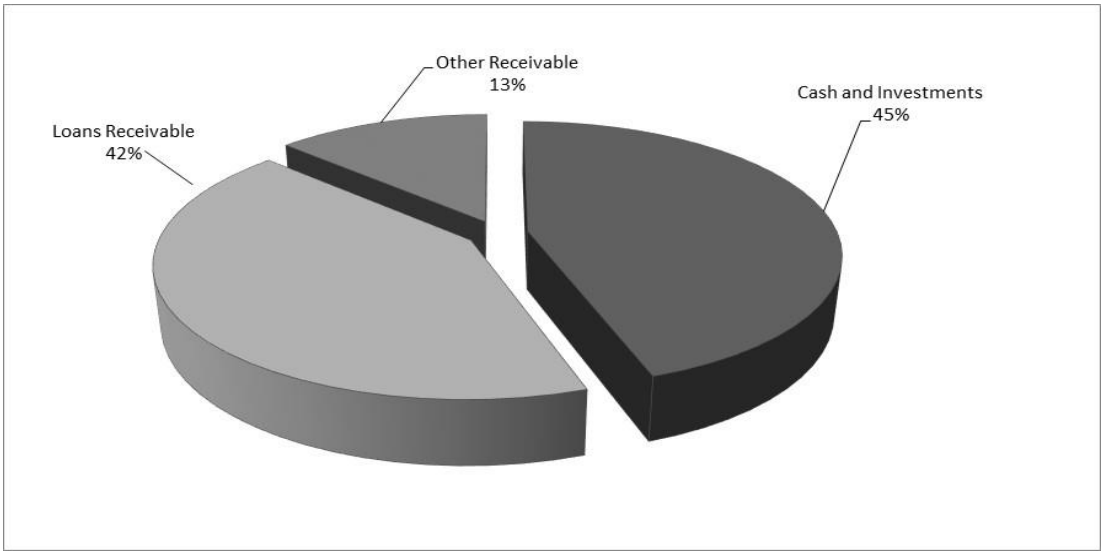
The major components of total Territory Banking Account's assets are cash and investments ($1,760.7 million); and loans and other receivables ($2,173.7 million).

Cash and investments comprise cash and investment assets of the Territory Banking Account as well as investments made on behalf of a directorate or territory authority. To facilitate an efficient cash and investment management structure, a centralised investment platform facility is provided through the Territory Banking Account which makes available a range of single and multi-asset class funds for directorates and territory authorities to meet their specific investment objectives.

Loans and receivables comprise loans provided to agencies, either from budget appropriation or directly funded by bond issuances in the financial markets via the Territory's domestic debt issuance program.

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

Figure 3 – Components of Assets



Comparison to 2016-17 Budget

The total asset position at 30 June 2017 was $3,934.5 million being $959.4 million or 32 per cent higher than the budget of $2,975.1 million. This was mainly due to:

- cash and investments being $1,001.1 million higher than estimated. Actual cash and investment balances are the aggregate of underlying agency investment activity ($495.9 million) and Territory Banking Account cash and investments

($505.2 million) reflecting the timing and amounts of underlying territorial cash flows;

- loan receivables being $60.3 million lower than estimated mainly due to a lower borrowing requirement by Icon Water Limited; and
- other receivables, mainly in relation to agency transfer revenues, being $18.566 million higher than estimated.

Comparison to 2015-16 Actual

The total asset position at 30 June 2017 was $3,934.5 million being $218.5 million or 6 per cent higher than the 2015-16 result of $3,716.0 million. This was due to:

- cash and investments being $143.8 million higher than the previous year. Actual cash and investment balances are the aggregate of underlying agency investment activity ($1.2 million) and Territory Banking Account cash and investments ($142.6 million) reflecting the timing and amounts of underlying territorial cash flows;
- loan receivables being $50.5 million higher in relation to Icon Water Limited; and
- other receivables, mainly in relation to agency transfer revenues, being $24.1 million higher than the previous year.

Summary of Financial Investment Assets Returns for 2016-17

The total aggregate investment portfolio investment return for the 2016-17 financial year is 2.72 per cent (gross of fees) compared to the benchmark return 1.55 per cent, comprising:

Cash Enhanced Fund (3.24 per cent)

- The fund invests in cash facilities, term deposits, bank bills, negotiable certificates of deposit, and debt securities (bonds). The investment objective of the fund is to out-perform the return of the Bloomberg Ausbond Bank Bill index. The annual index return was 1.82 per cent.
- The performance of the fund over the financial year was positively impacted by the portfolio's exposure to securities in the Australian mortgage backed sector with credit spreads tightening and market valuations increasing.

Australian Fixed Interest (0.27 per cent)

- The fund invests in debt securities (bonds) issued by the Commonwealth Government, Australian State Government authorities, and investment grade corporate issuers. The investment objective of the fund is to match the return of the Bloomberg AusBond Composite index (benchmark) before fees and charges. The annual index return was 0.25 per cent.

- The investment performance has been negatively impacted by market valuation losses on the debt securities held in the fund due to increases in longer-term domestic interest rates over the period.

Conservative Index Fund (3.00 per cent)

- The fund invests across multiple asset classes with a bias toward income assets. The fund targets a 70 per cent allocation to income asset classes such as cash, Australian and international fixed interest and a 30% allocation to growth asset classes such as Australian and international shares.
- The investment objective is to track the weighted average return of the various indices of the underlying asset class benchmarks, before taking into account fees, expenses and tax. The annual benchmark return was 3.41 per cent.

Balanced Index Fund (-0.42 per cent)

- The fund invests across multiple asset classes with a balance between income and growth assets. The fund targets a 50 per cent allocation to income asset classes such as cash, Australian and international fixed interest and a 50 per cent allocation to growth asset classes such as Australian and international shares.
- The investment objective is to track the weighted average return of the various indices of the underlying asset class benchmarks, before taking into account fees, expenses and tax. The annual benchmark return was -0.41 per cent.

Total Liabilities

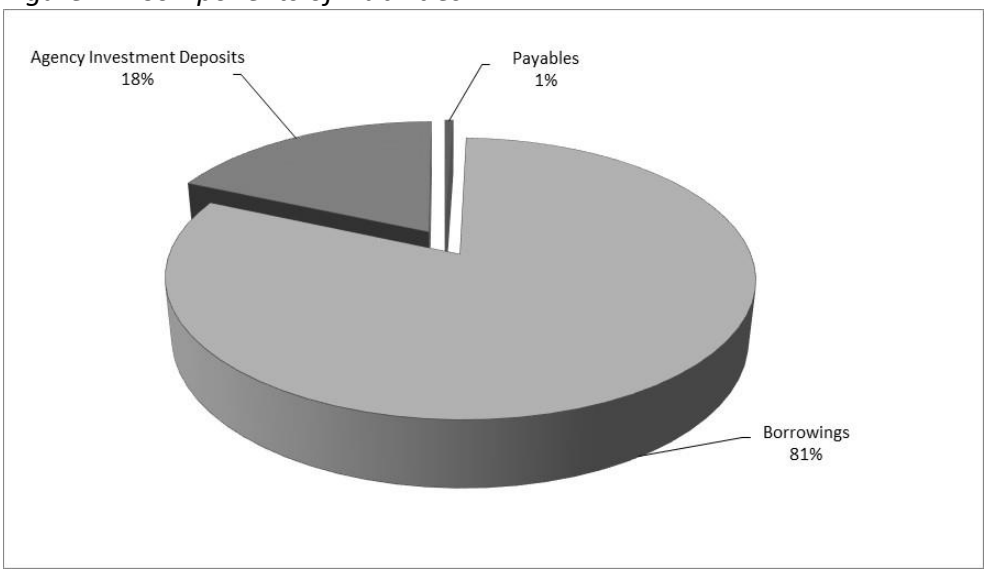
Components of Total Liabilities

The major components of total Territory Banking Account's liabilities are interest bearing liabilities comprising borrowings ($4,599.6 million) and agency investment deposits ($1,043.9 million); and payables ($31.1 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 through the Territory domestic debt issuance program.

Debt securities issued include short-term discount debt securities with maturities of less than 12 months; nominal fixed rate bonds where the interest cost (coupon) is fixed for the life of each bond with the repayment of principal at maturity; and inflation-linked bonds where the interest and principal repayments are indexed to inflation and the repayment of principal over time or at maturity. The debt funding program has been supplemented by loans provided from the Commonwealth Government.

Figure 4 – Components of Liabilities



Comparison to 2016-17 Budget

The total liability position at 30 June 2017 was $5,674.6 million being $430.4 million or 8 per cent higher than the budget of $5,244.2 million. This was mainly due to:

- borrowings being $65.0 million lower than estimated due to a lower than estimated market financing requirement; and
- agency investment deposits being $495.8 million higher than estimated.

Comparison to 2015-16 Actual

The total liability position at 30 June 2017 was $5,674.6 million being $39.7 million or 1 per cent higher than the 2015-16 result of $5,634.9 million mainly due to:

- payables in relation to borrowing and agency investment deposit interest being $9.3 million lower;
- borrowings being $47.8 million higher, comprising market financed borrowings of $51.6 million and Commonwealth financed borrowings of $3.9 million; and
- agency investment deposits being $1.2 million lower.

Summary of Financial Borrowings

Debt management objectives include: managing the Government's liquidity and financial payment obligations; meeting the ongoing capital requirements of the ACT Government; raising capital at a competitive cost in line with peers having regard to the Territory's credit rating and issuer profile; establishing bond lines of select debt maturity and volume; maximising investor participation and diversification; and minimising interest rate volatility and refinancing risk.

A summary of the outstanding financial borrowings as reported in the Territory Banking Account is detailed below:

Figure 5 - Total Outstanding Market Borrowings and Loans

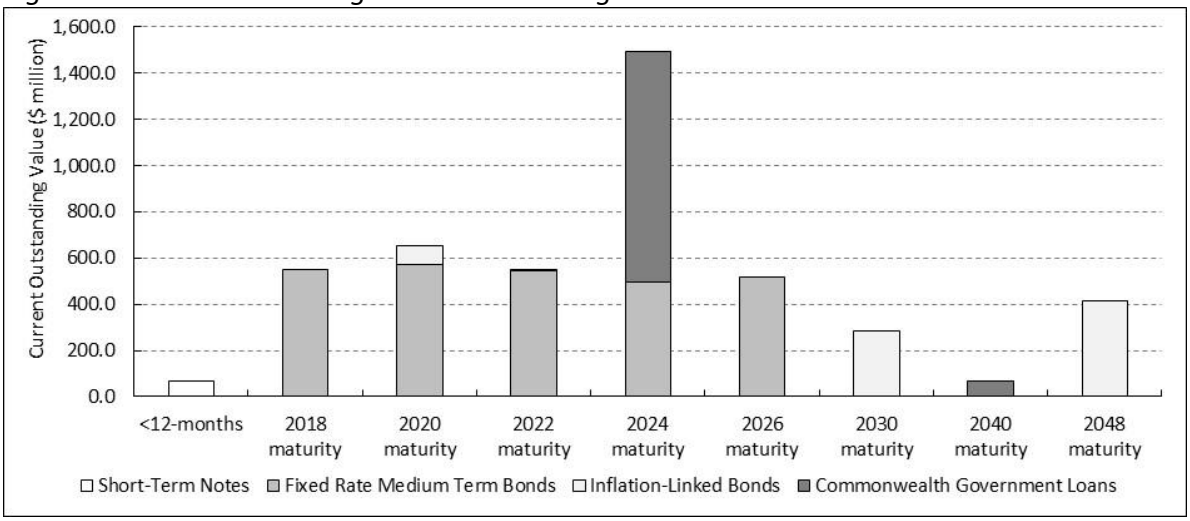


Table 1 – Electronic Promissory Notes on Issue

Coupon[1]	Maturity	Face Value $m	Principal Outstanding $m	Timing of Interest Payment[2]	
1.77%	Dec 2018	70	69	At maturity	Dec

Notes:

1. The coupon rate is the fixed interest rate used to calculate interest payment over the term of the Note.
2. At maturity the face value of the Note comprising principal and Interest is paid.

Table 2 – Nominal Fixed Rate Bonds on Issue

Coupon[1]	Maturity	Face Value $m	Principal Outstanding[2] $m	Timing of Interest Payments[3]	
5.50%	Jun 2018	550	550.5	Semi-annual	Jun, Dec
4.25%	May 2020	570	570.8	Semi-annual	May, Nov
4.25%	Apr 2022	550	543.9	Semi-annual	Apr, Oct
4.00%	May 2024	500	494.0	Semi-annual	May, Nov
2.50%	May 2026	525	518.9	Semi-annual	May, Nov

Notes:

1. The coupon rate is the fixed interest rate used to calculate interest payments over the life of the bond.
2. Estimated capital value outstanding as at 30 June 2017. The difference between principal outstanding and the face value reflects the unamortised issuance premium or discount.
3. Interest is paid semi-annually with the capital value repaid at maturity.

Table 3 – Inflation Linked Bonds on Issue

Coupon	Maturity	Face Value $m	Principal Outstanding $m	Timing of Payments	
3.74%[1]	Apr 2020	250	80.1	Quarterly	Jan, Apr, Jul, Oct
2.83%[1]	Jun 2048	420	414.5	Quarterly	Mar, Jun, Sep, Dec
3.50%[2]	Jun 2030	250	285.5	Quarterly	Mar, Jun, Sep, Dec

Notes:

1. Indexed Annuity Bond. Annuity payments are made quarterly comprising both principal and interest amounts. Both the interest and principal payments are adjusted for movements in the Consumer Price Index (CPI). There is no capital value repayment at maturity.
2. Capital Indexed Bond. The capital value of the security is adjusted for movements in the CPI. Interest is paid quarterly at a fixed rate on the adjusted capital value. The adjusted capital value of the security is repaid at maturity.

Table 4 – Commonwealth Loans

Coupon[1]	Maturity	Face Value $m	Principal Outstanding[2] $m	Timing of Interest Payments[3]	
12.57%	Jun 2023	19	3.3	Annual	Jun
4.50%	Jun 2040	174	68.5	Annual	Jun
2.71%	Jun 2024	1,000	1,000.0	Annual	Jun

Notes:

1. The fixed interest rate used to calculate the annual interest payments.
2. Principal and interest is paid annually in arrears in accordance with established amortising loan schedules.

INDEPENDENT AUDIT REPORT

TERRITORY BANKING ACCOUNT

To the Members of the ACT Legislative Assembly

Audit opinion

I am providing an **unqualified audit opinion** on the financial statements of the Territory Banking Account for the year ended 30 June 2017. The financial statements 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.

In my opinion, the financial statements:

(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 Territory Banking Account and results of its operations and cash flows.

Basis for the audit opinion

The audit was conducted in accordance with the Australian Auditing Standards. I have complied with the requirements of the Accounting Professional and Ethical Standards 110 *Code of Ethics for Professional Accountants*.

I believe that sufficient evidence was obtained during the audit to provide a basis for the audit opinion.

Responsibility for preparing and fairly presenting the financial statements

The Under Treasurer is responsible for:

- preparing and fairly presenting the financial statements in accordance with the *Financial Management Act 1996* and relevant Australian Accounting Standards;
- determining the internal controls necessary for the preparation and fair presentation of financial statements so that they are free from material misstatements, whether due to error or fraud; and
- assessing the ability of the Territory Banking Account to continue as a going concern and disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting in preparing the financial statements.

Responsibility for the audit of the financial statements

Under the *Financial Management Act 1996*, the Auditor-General is responsible for issuing an audit report that includes an independent audit opinion on the financial statements of the Territory Banking Account.

Level 4, 11 Moore Street Canberra City ACT 2601 PO Box 275 Civic Square ACT 2608
T 02 6207 0833 **F** 02 6207 0826 **E** actauditorgeneral@act.gov.au **W** www.audit.act.gov.au

As required by Australian Auditing Standards, the auditors:

- applied professional judgement and maintained scepticism;
- identified and assessed the risks of material misstatements due to error or fraud and implemented procedures to address these risks so that sufficient evidence was obtained to form an audit opinion. The risk of not detecting material misstatements due to fraud is higher than the risk due to error, as fraud may involve collusion, forgery, intentional omissions or misrepresentations or the override of internal controls;
- obtained an understanding of internal controls to design audit procedures for forming an audit opinion;
- evaluated accounting policies and estimates used to prepare the financial statements and disclosures made in the financial statements;
- evaluated the overall presentation and content of the financial statements, including whether they present the underlying transactions and events in a manner that achieves fair presentation;
- reported the scope and timing of the audit and any significant deficiencies in internal controls identified during the audit to the Under Treasurer; and
- assessed the going concern* basis of accounting used in the preparation of the financial statements.

(*Where the auditor concludes that a material uncertainty exists which cast significant doubt on the appropriateness of using the going concern basis of accounting, the auditor is required to draw attention in the audit report to the relevant disclosures in the financial statements or, if such disclosures are inadequate, the audit opinion is to be modified. The auditor's conclusions on the going concern basis of accounting are based on the audit evidence obtained up to the date of this audit report. However, future events or conditions may cause the entity to cease to continue as a going concern.)

Limitations on the scope of the audit

An audit provides a high level of assurance about whether the financial statements are free from material misstatements, whether due to fraud or error. However, an audit cannot provide a guarantee that no material misstatements exist due to the use of selective testing, limitations of internal control, persuasive rather than conclusive nature of audit evidence and use of professional judgement in gathering and evaluating evidence.

An audit does not provide assurance on the:

- reasonableness of budget information included in the financial statements;
- prudence of decisions made by the Territory Banking Account;
- adequacy of controls implemented by the Territory Banking Account; or
- integrity of audited financial statements presented electronically or information hyperlinked to or from the financial statements. Assurance can only be provided for the printed copy of the audited financial statements.

M. Cooper

Dr Maxine Cooper
Auditor-General
19 September 2017

Territory Banking Account
Financial Statements
For the Year Ended 30 June 2017

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 2017 and the financial position of the Territory Banking Account on that date.

Stephen Miners
Acting Under Treasurer
Chief Minister, Treasury and Economic Development Directorate
19 September 2017

Territory Banking Account
Financial Statements
For the Year Ended 30 June 2017

Statement by the Chief Finance Officer

In my opinion, the financial statements have been prepared in accordance with the Australian Accounting Standards, 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 2017 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
19 September 2017

Territory Banking Account
Statement of Income and Expenses on Behalf of the Territory
For the Year Ended 30 June 2017

	Note No.	Actual 2017 $'000	Original Budget 2017 $'000	Actual 2016 $'000
Income				
Interest	4.1	114,331	100,659	115,832
Distributions	4.2	8,635	4,527	14,632
Gains on Investments	4.3	8,115	0	7,535
Transfers from ACT Government Agencies	4.4	4,163,390	4,095,174	3,793,183
Other Income	4.5	129,575	134,263	139,307
Total Income		**4,424,046**	**4,334,623**	**4,070,490**
Expenses				
Payments to ACT Government Agencies	5.1	4,354,716	4,696,240	4,457,547
Interest Expenses	5.2	209,848	204,477	208,322
Losses on Investments	5.3	8,060	0	2,240
Investment Administration Expenses	5.4	790	668	829
Other Expenses	5.5	123	90	443
Total Expenses		**4,573,537**	**4,901,475**	**4,669,380**
Operating Deficit		**(149,492)**	**(566,852)**	**(598,891)**
Total Comprehensive Deficit		**(149,492)**	**(566,852)**	**(598,891)**

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 2017

	Note No.	Actual 2017 $'000	Original Budget 2017 $'000	Actual 2016 $'000
Current Assets				
Cash	6.1	348,359	0	227,460
Loans and Receivables	6.2	911,371	832,692	514,496
Investments	6.3	1,144,223	496,345	1,141,603
Total Current Assets		**2,403,953**	**1,329,037**	**1,883,559**
Non Current Assets				
Loans and Receivables	6.2	1,262,417	1,382,897	1,584,598
Investments	6.3	268,130	263,218	246,872
Total Non Current Assets		**1,530,547**	**1,646,115**	**1,831,470**
Total Assets		**3,934,500**	**2,975,152**	**3,715,029**
Current Liabilities				
Payables	7.1	31,104	31,507	40,384
Interest-Bearing Liabilities	7.2	1,534,054	983,246	884,349
Total Current Liabilities		**1,565,158**	**1,014,753**	**924,733**
Non-Current Liabilities				
Interest-Bearing Liabilities	7.2	4,109,496	4,229,459	4,710,220
Total Non-Current Liabilities		**4,109,496**	**4,229,459**	**4,710,220**
Total Liabilities		**5,674,654**	**5,244,212**	**5,634,953**
Net Liabilities		**(1,740,155)**	**(2,269,060)**	**(1,919,924)**
Equity				
Accumulated Deficits		(1,740,155)	(2,269,060)	(1,919,924)
Total Equity		**(1,740,155)**	**(2,269,060)**	**(1,919,924)**

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 2017

	Note No.	Accumulated (Deficits) Actual 2017 $'000	Total Equity Actual 2017 $'000	Original Budget 2017 $'000
Balance at 1 July 2016		**(1,919,924)**	**(1,919,924)**	**(2,087,624)**
Comprehensive Income				
Operating (Deficit)		(149,492)	(149,492)	(566,852)
Total Comprehensive (Deficit)		**(2,069,416)**	**(2,069,416)**	**(2,654,476)**
Capital Distributions	8.1	329,261	329,261	385,416
Total Transactions Involving Owners Affecting Accumulated Deficits		**329,261**	**329,261**	**385,416**
Balance at 30 June 2017		**(1,740,155)**	**(1,740,155)**	**(2,269,060)**

		Accumulated (Deficits) Actual 2016 $'000	Total Equity Actual 2016 $'000
Balance at 1 July 2015		**(1,459,641)**	**(1,459,641)**
Comprehensive Income			
Operating (Deficit)		(598,891)	(598,891)
Total Comprehensive (Deficit)		**(2,058,532)**	**(2,058,532)**
Transactions Involving Owners Affecting Accumulated Deficits			
Capital Distributions	8.1	138,604	138,604
Total Transactions Involving Owners Affecting Accumulated Deficits		**138,604**	**138,604**
Balance at 30 June 2016		**(1,919,924)**	**(1,919,924)**

Territory Banking Account
Cash Flow Statement on Behalf of the Territory
For the Year Ended 30 June 2017

	Note No.	Actual 2017 $'000	Original Budget 2017 $'000	Actual 2016 $'000
Cash Flows from Operating Activities				
Receipts				
Interest Received		120,005	99,236	108,178
Distributions Received		10,986	4,527	11,668
Transfers from ACT Government Agencies		4,163,833	4,064,514	3,618,106
Goods and Services Tax Input Tax Credits from the ATO		65	61	125
Other Receipts		129,099	132,374	139,046
Total Receipts from Operating Activities		**4,423,988**	**4,300,712**	**3,877,122**
Payments				
Borrowing Costs		214,479	202,904	193,390
Payments to General Government Agencies for Outputs		2,919,225	2,968,012	2,906,938
Payments to Public Trading Enterprise Agencies for Outputs		55,660	55,592	54,854
Payments to Agencies for Expenses on Behalf of the Territory		543,886	607,561	511,687
Goods and Services Tax paid to Suppliers		65	61	119
Other Payments		123	91	550
Total Payments from Operating Activities		**3,733,438**	**3,834,221**	**3,667,538**
Net Cash Inflows from Operating Activities	9	**690,550**	**466,491**	**209,584**
Cash Flows from Investing Activities				
Receipts				
Proceeds from Sale/Maturity of Investments		0	708,574	48,495
Loan Repayments from Agencies		24,077	23,639	239,640
Proceeds from ACT Government Agencies' Deposits		4,750	1,001	130,479
Distributions from ACT Government Agencies		292,901	390,751	133,269
Total Receipts from Investing Activities		**321,728**	**1,123,965**	**551,883**
Payments				
Purchase of Investments		28,000	0	0
Loans Provided to Agencies		69,404	132,919	247,696
Capital Payments to ACT Government Agencies		835,945	1,065,057	984,068
Repayment of ACT Government Agencies' Deposits		0	498,635	118,214
Total Payments from Investing Activities		**933,349**	**1,696,611**	**1,349,978**
Net Cash (Outflows) from Investing Activities		**(611,621)**	**(572,646)**	**(798,095)**

Territory Banking Account
Cash Flow Statement on Behalf of the Territory (Continued)
For the Year Ended 30 June 2017

Cash Flows from Financing Activities	Note No.	Actual 2017 $'000	Original Budget 2017 $'000	Actual 2016 $'000
Receipts				
Proceeds from Borrowings		45,824	110,008	585,351
Total Receipts from Financing Activities		**45,824**	**110,008**	**585,351**
Payments				
Repayment of Borrowings		3,853	3,853	3,711
Total Payments from Financing Activities		**3,853**	**3,853**	**3,711**
Net Cash Inflows from Financing Activities		**41,971**	**106,155**	**581,640**
Net Increase/(Decrease) in Cash		120,899	0	(6,871)
Cash at Beginning of Reporting Period		227,460	0	234,331
Cash at End of Reporting Period	6.1	**348,359**	**0**	**227,460**

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

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

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, 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 the Chief Minister, Treasury and Economic Development Directorate, 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 by the Chief Minister, Treasury and Economic Development Directorate.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Refer to the following appendices for the notes comprising significant accounting policies and other explanatory information:

(i) Appendix A - Basis of Preparation of the Financial Statements;

(ii) Appendix B - Significant Accounting Policies; and

(iii) Appendix C - Impact of Accounting Standards Issued But Yet to Be Applied.

NOTE 3 CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES

Refer to Appendix D - Change in Accounting Policy, Accounting Estimates.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 4 INCOME ADMINISTERED ON BEHALF OF THE TERRITORY

4.1 Interest

4.1.1 Interest from Investments

	2017 $'000	2016 $'000
On Investments Directly Held[1]	28,585	28,629
On Investments Indirectly Held	0	1
Cash at Bank[2]	10,771	13,670
Total Interest from Investments	**39,356**	**42,300**

[1] Investments directly held represent assets directly owned and held through a discretely managed fund.
[2] Represents interest for ACT Government agencies transactional bank account balances, including the Territory Banking Account, from Westpac Banking Corporation. The decrease in 2016-17 is due to a lower average interest rate applying to the balances held in transactional banking accounts during the year.

4.1.2 Interest from Loans and Advances

ACTION	300	343
Chief Minister, Treasury and Economic Development Directorate	1,241	1,524
Icon Water Limited[3]	73,434	70,846
University of Canberra[4]	0	820
Total Interest from Loans and Advances	**74,975**	**73,533**

[3] The increase in 2016-17 from 2015-16 is mainly due to a higher average balance of outstanding loans over the year.
[4] The decrease in 2016-17 from 2015-16 is due to the full repayment of loans.

Total Interest	**114,331**	**115,832**

4.2 Distributions

On Investments Indirectly Held	8,635	14,632
Total Distributions[5]	**8,635**	**14,632**

[5] 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 decrease in 2016-17 reflects lower investment returns impacting the amount of distribution earned.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 4 INCOME ADMINISTERED ON BEHALF OF THE TERRITORY - CONTINUED

4.3 Gains on Investments at Fair Value through Profit or Loss

4.3.1 Realised Gains

	2017 $'000	2016 $'000
On Investments Directly Held	3,532	4,499
Total Realised Gains[6]	**3,532**	**4,499**

[6] For investments directly held, the variance in realised gains from year to year reflects the trading activity (purchase and sale of securities) of the investment managers and the underlying asset class market returns achieved over the financial year.

4.3.2 Unrealised Gains

On Investments Directly Held	4,584	0
On Investments Indirectly Held	0	3,036
Total Unrealised Gains[7]	**4,584**	**3,036**

[7] The variance in unrealised gains from year to year for investments directly held reflects the trading activity (purchase and sale of securities) of the investment managers and the underlying asset class market returns achieved over the financial year. Gains on investments indirectly held reflects underlying asset class returns and distributions paid from the relevant unit trust. Refer also to Note 5.3.

Total Gains on Investments at Fair Value through Profit or Loss	**8,115**	**7,535**

4.4 Transfers from ACT Government Agencies

ACT Gambling and Racing Commission	53,111	53,369
Chief Minister, Treasury and Economic Development Directorate	3,968,981	3,551,632
Environment, Planning and Sustainable Development Directorate	141,574	19,939
Health Directorate	1,269	1,587
Justice and Community Safety Directorate	9,907	9,169
Transport Canberra and City Services Directorate	(11,452)	157,488
Total Transfers from ACT Government Agencies[8]	**4,163,390**	**3,793,183**

[8] 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 2016-17 financial statements of each agency.

NOTE 4 INCOME ADMINISTERED ON BEHALF OF THE TERRITORY - CONTINUED

4.5 Other Income

4.5.1 Employer Superannuation Contributions

	2017 $'000	2016 $'000
Employer Superannuation Contributions	127,973	137,640
Total Employer Superannuation Contributions[9]	**127,973**	**137,640**

[9] Employer Superannuation Contributions represent employer contributions made by ACT Government agencies 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.

4.5.2 Investment Fee Rebates

On Investments Indirectly Held (Designated)	475	369
Total Investment Fee Rebates[10]	**475**	**369**

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

4.5.3 Other

Other Revenue	1,126	1,298
Total Other[11]	**1,126**	**1,298**

[11] Includes money declared unclaimed in accordance with section 53A of the *Financial Management Act 1996* and unclaimed money revenue from the Public Trustee and Guardian.

Total Other Income	**129,575**	**139,307**
Total Income	**4,424,046**	**4,070,490**

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 5 EXPENSES ADMINISTERED ON BEHALF OF THE TERRITORY

5.1 Payments to ACT Government Agencies

5.1.1 Controlled Recurrent Payments

	2017 $'000	2016 $'000
Auditor-General	2,857	2,759
ACT Gambling and Racing Commission	4,853	4,726
ACT Local Hospital Network	629,964	601,790
Canberra Institute of Technology	69,619	69,157
Capital Metro Agency	0	7,525
Chief Minister, Treasury and Economic Development Directorate	323,202	410,779
Community Services Directorate	276,558	251,972
Cultural Facilities Corporation	8,606	8,378
Education Directorate	628,063	626,616
Electoral Commissioner	7,007	2,872
Environment, Planning and Sustainable Development Directorate	100,662	49,842
Health Directorate	290,692	272,366
Housing ACT	43,973	43,453
Icon Water Limited	11,687	11,401
Independent Competition and Regulatory Commission	0	260
Justice and Community Safety Directorate	253,406	249,458
Legal Aid Commission (ACT)	13,478	10,446
Office of the Legislative Assembly	8,649	8,221
Public Trustee and Guardian	2,146	1,120
Transport Canberra and City Services Directorate	299,463	328,651
Total Controlled Recurrent Payments[12]	**2,974,885**	**2,961,792**

5.1.2 Payments for Expenses on Behalf of the Territory

ACT Executive	10,478	9,120
Chief Minister, Treasury and Economic Development Directorate	74,607	71,191
Education Directorate	272,646	260,174
Environment, Planning and Sustainable Development Directorate	1,671	1,989
Health Directorate	6,290	1,213
Justice and Community Safety Directorate	170,069	161,542
Office of the Legislative Assembly	8,125	6,458
Total Payments for Expenses on Behalf of the Territory[12]	**543,886**	**511,687**

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 5 EXPENSES ADMINISTERED ON BEHALF OF THE TERRITORY - CONTINUED

5.1.3 Capital Injections

	2017 $'000	2016 $'000
Canberra Institute of Technology	4,742	9,397
Capital Metro Agency	0	13,163
Chief Minister, Treasury and Economic Development Directorate	251,151	351,979
Community Services Directorate	3,172	1,512
Cultural Facilities Corporation	2,184	3,377
Education Directorate	25,970	48,315
Electoral Commissioner	64	331
Environment, Planning and Sustainable Development Directorate	68,668	7,768
Health Directorate	146,213	138,299
Housing ACT	7,934	13,975
Justice and Community Safety Directorate	30,226	49,599
Office of the Legislative Assembly	1,293	6,884
Superannuation Provision Account	155,525	211,146
Transport Canberra and City Services Directorate	138,803	128,324
Total Capital Injections[12]	**835,945**	**984,068**
Total Payments for Expenses to ACT Government Agencies[12]	**4,354,716**	**4,457,547**

[12] Controlled Recurrent Payments, 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 2016-17 financial statements of each agency.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 5 EXPENSES ADMINISTERED ON BEHALF OF THE TERRITORY - CONTINUED

5.2 Interest Expense

	2017 $'000	2016 $'000
Promissory Notes[13]	34	4,634
Inflation-Linked Bonds[14]	39,190	38,373
Fixed Rate Nominal Bonds[15]	112,607	100,095
ACT Government Agencies Investment Returns[16]	27,223	34,503
Commonwealth Loan[17]	30,794	30,717
Total Interest Expenses	**209,848**	**208,322**

[13] The lower borrowing cost in 2016-17 is due to the limited use of this funding facility during the year.
[14] The higher borrowing cost in 2016-17 is mainly due to higher levels of loans outstanding over the year ended 30 June 2017.
[15] The higher borrowing cost in 2016-17 is due to a higher average amount of borrowings outstanding over the year compared to the previous year.
[16] The lower payments in 2016-17 mainly reflects lower investment returns and different agency investment deposit balances compared with 2015-16.
[17] The actual outcome in 2016-17 is in accordance with the payment schedule.

5.3 Losses on Investments at Fair Value through Profit or Loss

On Investments Directly Held (Designated)	0	2,240
On Investments Indirectly Held (Designated)	8,060	0
Total Losses on Investments at FVTPL[18]	**8,060**	**2,240**

[18] For investments directly held, the variance in losses from year to year reflects the trading activity (purchase and sale of securities) of the investment managers and the underlying asset class market returns achieved over the financial year. Losses on investments indirectly held reflect underlying asset class returns and distributions paid from the relevant unit trust. Refer also to Note 4.3.2.

5.4 Investment Administration Expenses

Investment Management Services	643	676
Master Custody Investment Administration	147	152
Total Investment Administration Expenses[19]	**790**	**829**

[19] 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.

5.5 Other Expenses

Other Expenses	123	443
Total Other Expenses[20]	**123**	**443**

[20] No debt issuance dealer fees were required to be paid in 2016-17 compared with the previous year because no new term borrowings were required in 2016-17.

Total Expenses	**4,573,537**	**4,669,380**

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 6 ASSETS ADMINISTERED ON BEHALF OF THE TERRITORY

6.1 Cash

	2017 $'000	2016 $'000
Cash Held at Bank	348,359	227,460
Total Cash[21]	**348,359**	**227,460**

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

6.2 Loans and Receivables

6.2.1 Current – Transfer Revenues and Distributions Receivable from ACT Government Agencies

ACT Gambling and Racing Commission	3,837	5,191
Chief Minister, Treasury and Economic Development Directorate	382,135	368,745
Environment, Planning and Sustainable Development Directorate	60,037	3,883
Justice and Community Safety Directorate	3,222	2,937
Land Development Agency	39,505	14,193
Transport Canberra and City Services Directorate	1,622	59,491
Total Current Transfers Revenue Receivable[22]	**490,358**	**454,440**

[22] Variations are driven by agency activity in relation to revenue collected by agencies referred to in Note 4.4 and are explained in the 2016-17 financial statements of agencies.

6.2.2 Current – Loan Interest Receivable from ACT Government Agencies

Icon Water Limited	5,410	4,922
Total Current Loan Interest Receivable	**5,410**	**4,922**

6.2.3 Current – Investment Interest Receivable

Cash Enhanced, Fixed Income and Diversified Funds[23]	19,271	31,476
Total Current Investment Interest Receivable	**19,271**	**31,476**

[23] The decrease from the previous year reflects lower income available for distribution at the end of the period. The level of distribution for funds will vary from period to period.

NOTE 6 ASSETS ADMINISTERED ON BEHALF OF THE TERRITORY - CONTINUED

6.2.4 Current – Loans Receivable from ACT Government Agencies

	2017 $'000	2016 $'000
ACTION	341	341
Chief Minister, Treasury and Economic Development Directorate[24]	2,500	51
Icon Water Limited[25, 26]	393,488	23,261
Total Current Loans Receivable	**396,329**	**23,653**

[24] Comprises repayable capital injection loans from Chief Minister, Treasury and Economic Development Directorate that were provided for the purpose of the provision of loan funding to Community Housing Canberra Limited and for the former Exhibition Park Corporation. The increase in 2016-17 for the current year reflects the commencement of annual principal repayments for the Community Housing Canberra Limited loan ($2.5 million). The $0.51 million receivable at 30 June 2016 is no longer a current receivable (and is included in the non-current receivable balance) as the terms and conditions of the loan for the former Exhibition Park Corporation were amended resulting in loan repayments now commencing from 1 October 2018.
[25] Increase from 2015-16 reflects a new loan ($70 million) for Icon Water Limited that was provided via a short term promissory note issue in the year and a maturing fixed rate loan to be repaid in June 2018 ($300 million).

6.2.5 Current – Other Receivable

Australian Taxation Office (Goods and Services Tax)	2	5
Total Current Other Receivable	**2**	**5**
Total Current Loans and Receivables	**911,371**	**514,496**

6.2.6 Non-Current – Loans Receivable from ACT Government Agencies

ACTION	1,705	2,045
Chief Minister, Treasury and Economic Development Directorate[24]	67,112	69,561
Icon Water Limited[25, 26]	1,193,600	1,512,922
Total Non-Current Loans Receivable	**1,262,417**	**1,584,598**

[26] Loans to Icon Water Limited comprise promissory notes, fixed rate nominal bonds and inflation-linked bonds. Details of Territory external borrowings from which these loans are financed are disclosed in the Territory Banking Account Management Discussion and Analysis.

Total Loans and Receivables[27]	**2,173,787**	**2,099,094**

[27] The Territory Banking Account does not hold any collateral for these 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 6 ASSETS ADMINISTERED ON BEHALF OF THE TERRITORY - CONTINUED

6.3 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[28]	**2017 $'000**	**2016 $'000**
Financial Assets at Fair Value:		
Discount Securities	215,266	243,172
Fixed Income Securities	1,116,903	1,115,000
Unit Trust	28,073	0
Derivatives	289	0
Financial Liabilities at Fair Value		
Derivatives	163	932
	1,360,368	**1,357,240**
Other Financial Instruments at Balance Date		
Cash, Receivables and Other Assets	80,640	56,646
Payables	28,653	25,412
	51,987	**31,234**
Net Financial Investments	**1,412,353**	**1,388,475**

[28] 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	1,144,223	1,140,602
Investments Indirectly Held	268,130	247,872
Total Financial Investment Assets at Fair Value	**1,412,353**	**1,388,475**

(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[29]	1,144,223	1,140,602
Total Investments Directly Held	**1,144,223**	**1,140,602**

[29] For the year ended 30 June 2017, the net investment return was 3.18% (2015-16: 2.51%).

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 6 ASSETS ADMINISTERED ON BEHALF OF THE TERRITORY - CONTINUED

6.3 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	2017 $'000	2016 $'000
Unit Trust – Cash[30]	0	1,001
Unit Trust – Fixed Income[31]	240,044	246,872
Unit Trust - Conservative Indexed Fund[32]	20,456	0
Unit Trust – Balanced Indexed Fund[33]	7,630	0
Total Investments Indirectly Held[34]	**268,130**	**247,873**

[30] For the year ended 30 June 2017, this investment facility was no longer used.
[31] For the year ended 30 June 2017, the net investment return was 0.26% (2015-16: 6.84%).
[32] New fund established during the year. For the year ended 30 June 2017, the net investment return from inception to reporting date was -0.51%.
[33] New fund established during the year. For the year ended 30 June 2017, the net investment return from inception to reporting date was 3.00%.
[34] Investment levels are an aggregate of underlying agencies' investing activities.

Total Financial Investments by Asset Class	**1,412,353**	**1,388,475**

NOTE 7 LIABILITIES ADMINISTERED ON BEHALF OF THE TERRITORY

7.1 Payables

7.1.1 Current – Accrued Interest Payable to ACT Government Agencies

ACT Government Agencies' Investment Interest[35]	15,394	25,210
Total Accrued Interest Payable to Agencies	**15,394**	**25,210**

[35] Accrued interest payable is determined by the distributable income for the period reflecting the trading activity of the investment managers, the individual asset class market returns achieved over the financial year and the amount of funds under investment. Levels of distributable income payable will vary from period to period.

7.1.2 Current – Accrued Interest Payable External

Promissory Notes	34	0
Inflation-Linked Bonds	12,037	12,023
Fixed Rate Nominal Bonds	3,640	3,151
Total Accrued Interest Payable External	**15,711**	**15,174**
Total Payables[36]	**31,104**	**40,384**

[36] All payables are current and not overdue.

NOTE 7 LIABILITIES ADMINISTERED ON BEHALF OF THE TERRITORY - CONTINUED

7.2 Interest-Bearing Liabilities

7.2.1 Current – ACT Government Agency Investment Deposits

	2017 $'000	2016 $'000
General Government Sector Agencies	835,663	857,411
Total ACT Government Agency Investment Deposits[37]	**835,663**	**857,411**

[37] Actual results reflect underlying agency investment activity.

7.2.2 Current – External Borrowings

Promissory Notes[38]	69,411	0
Inflation-Linked Bonds	24,443	23,084
Fixed Rate Nominal Bonds[39]	550,535	0
Commonwealth Borrowings[40]	54,002	3,853
Total External Borrowings[41]	**698,391**	**26,937**

[38] Short-term borrowings were issued during the year to finance a loan to Icon Water Limited. Refer Note 6.2.4.
[39] The increase in the current balance reflects a maturing fixed rate medium term note to be paid in June 2018.
[40] Includes the first scheduled repayment of $50 million in relation to the loan provided by the Commonwealth for the asbestos eradication scheme. This payment will be made in June 2018.

Total Current Interest-Bearing Liabilities	**1,534,054**	**884,349**

7.2.3 Non-Current – ACT Government Agency Investment Deposits

General Government Sector Agencies	208,311	185,351
Total ACT Government Agency Investment Deposits	**208,311**	**185,351**

7.2.4 Non-Current – External Borrowings

Inflation-Linked Bonds	755,706	776,428
Fixed Rate Nominal Bonds[39]	2,127,646	2,676,606
Commonwealth Borrowings[40]	1,017,833	1,071,835
Total External Borrowings[41]	**3,901,185**	**4,524,869**

[41] Details of Territory external loans and borrowings are disclosed in the Territory Banking Account Management Discussion and Analysis.

Total Non-Current Interest-Bearing Liabilities	**4,109,496**	**4,710,220**
Total Interest-Bearing Liabilities	**5,643,550**	**5,594,569**

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 8 EQUITY

8.1 Distributions from ACT Government Agencies

	2017	2016
	$'000	$'000
ACT Insurance Authority	50,000	60,000
Chief Minister, Treasury and Economic Development Directorate	88,813	73,269
Environment, Planning and Sustainable Development Directorate	136,311	0
Land Development Agency	54,137	5,335
Total Distributions from ACT Government Agencies[42]	**329,261**	**138,604**

[42] Variations are driven by agency activity and are explained in the 2016-17 financial statements of each agency.

8.2 Movements in Equity during the Financial Year

Accumulated Deficits	(1,740,155)	(1,919,924)
Total Equity	**(1,740,155)**	**(1,919,924)**

Reconciliation of Movements in Equity During the Year

Accumulated Funds

Balance at the Beginning of the Reporting Period	**(1,919,924)**	**(1,459,641)**
Operating (Deficit)	(149,492)	(598,891)
Capital Distributions	329,261	138,604
Total Balance at the End of the Reporting Period	**(1,740,155)**	**(1,919,924)**

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

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

	2017 $'000	2016 $'000
Total Cash Disclosed on the Statement of Assets and Liabilities on Behalf of the Territory	348,359	227,460
Cash at the End of the Reporting Period as Recorded in the Cash Flow Statement on Behalf of the Territory	**348,359**	**227,460**

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

Operating (Deficit)	(149,492)	(598,891)
Non Cash Items		
Capital Payments to ACT Government Agencies	872,306	984,068
Net Change in Value of Financial Investments and Liabilities	1,214	5,281
Cash Before Changes in Operating Assets and Liabilities	**724,028**	**390,458**
Changes in Operating Assets and Liabilities		
(Increase)/Decrease in Income Receivable	(24,199)	(191,356)
Increase/(Decrease) in Interest Payable	(9,279)	10,482
Net Changes in Operating Assets and Liabilities	**(33,479)**	**(180,874)**
Net Cash Inflow from Operating Activities	**690,550**	**209,584**

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 10 FINANCIAL INSTRUMENTS

The Chief Minister, Treasury and Economic Development Directorate 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. The Chief Minister, Treasury and Economic Development Directorate, 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 investment 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 the Chief Minister, Treasury and Economic Development Directorate. The Investment Advisory Board and asset consultant's advice is considered along with all other available information by the Chief Minister, Treasury and Economic Development Directorate when formulating investment policy positions and recommendations.

The Chief Minister, Treasury and Economic Development Directorate does not undertake investment management in-house. Investments are managed by the engagement of investment managers under an investment management agreement or by direct investment into unit trusts. 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*. The Chief Minister, Treasury and Economic Development Directorate, 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.

To facilitate an efficient cash and investment management structure, a centralised investment platform facility is provided by the Territory Banking Account which makes available a range of single and multi-asset class funds for Territory agencies to meet their specific investment objectives. The investment strategies adopted within the Territory Banking Account investment portfolio are primarily influenced by the investment objectives and the time horizon over which these are to be achieved. Where there is a high reliance on the income generated and a low ability to tolerate investment risk the investment exposure is limited to defensive, income producing assets ranging from domestic money market discount securities (cash) to domestic fixed interest debt securities (bonds). Where there is a greater tolerance for increased investment risk due to the underlying risk profile of the liabilities being funded, the investment exposure may include investment in growth asset classes (both domestic and international), for example property and shares.

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.

The Chief Minister, Treasury and Economic Development Directorate 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 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.

NOTE 10 FINANCIAL INSTRUMENTS – CONTINUED

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: managing the Government's liquidity and financial payment obligations; meeting the ongoing capital requirements of the Government; raising capital at a competitive cost in line with peers having regard to the Territory's credit rating and issuer profile; establishing bond lines of select debt maturity and volume; maximising investor participation and diversification; and minimising interest rate volatility and refinancing risk. 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 10.1 to 10.3 on the following pages.

10.1 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 10.1(b): 'Price Risk and Inflation Risk'.

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

30 June 2017	**Fixed Rate Instruments**		**Variable Rate Instruments**	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Financial Assets	183,712	197,579	1,468,460	1,254,016
Financial Liabilities	134,171	148,855	717,613	722,086
Net Exposure before the effect of Derivatives	**49,541**	**48,724**	**750,847**	**531,930**

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 1.50% (2016: 1.75%) 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.

NOTE 10 FINANCIAL INSTRUMENTS – CONTINUED

10.1 Market Risk - Continued

(a) Interest Rate Risk - Continued

30 June 2017	**Fixed Rate Instruments**		**Variable Rate Instruments**	
	+1.0% Profit/(Loss) and Equity Impact $'000	**-1.0% Profit/(Loss) and Equity Impact $'000**	**+1.0% Profit/(Loss) and Equity Impact $'000**	**-1.0% Profit/(Loss) and Equity Impact $'000**
Financial Assets	(1,837)	1,837	14,685	(14,685)
Financial Liabilities	(1,342)	1,342	7,176	(7,176)
Net (Decrease)/Increase	**(495)**	**495**	**7,509**	**(7,509)**

30 June 2016	**Fixed Rate Instruments**		**Variable Rate Instruments**	
	+1.0% Profit/(Loss) and Equity Impact $'000	**-1.0% Profit/(Loss) and Equity Impact $'000**	**+1.0% Profit/(Loss) and Equity Impact $'000**	**-1.0% Profit/(Loss) and Equity Impact $'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)**

(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 unitised pooled single and multi-asset class trusts which are exposed to changes in unit prices.

The table below summarises the main exposure to price risk.

		Exposure to Unit Prices	
	Note No.	**2017 $'000**	**2016 $'000**
Fixed Income and Diversified Funds – Unit Trusts	6.3(b)(ii)	268,130	247,872
Total Exposure		**268,130**	**247,872**

NOTE 10 FINANCIAL INSTRUMENTS – CONTINUED

10.1 Market Risk - Continued

(b) Price Risk and Inflation Risk - Continued

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	
	2017	**2016**
	$'000	**$'000**
Financial Assets (Inflation Linked Bonds)	781,270	800,785
Financial Liabilities (Inflation Linked Bonds)	780,148	799,512
Net Exposure	**1,122**	**1,272**

To manage exposures to the price risk of pooled unit trusts, investments are diversified in accordance with the particular investment strategy.

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

Taking into account past performance, future expectations and economic forecasts the estimated impact on profit or loss and the impact on equity in the table below are 'reasonably possible' over the next twelve months if price risk changes by the following volatility factors from the target benchmarks with all other variables held constant.

30 June 2017

	Profit & Loss (+/- Impact) $'000	**Equity (+/- Impact) $'000**
Investment Assets		
Total Increase/(Decrease)		
Fixed Income (+/- 6%)	14,400	14,400
Diversified Funds		
- Conservative Indexed Fund (+/- 6%)	1,227	1,227
– Balanced Indexed Fund (+/- 9%)	686	686
Inflation Rate (+/- 1%)	321/58	312/58

NOTE 10 FINANCIAL INSTRUMENTS – CONTINUED

10.1 Market Risk - Continued

(b) Price Risk and Inflation Risk - Continued

30 June 2016

	Profit & Loss (+/- Impact) $'000	Equity (+/- Impact) $'000
Investment Assets		
Total Increase/(Decrease)		
Fixed Income (+/- 5%)	14,800	14,800
Inflation Rate (+/- 1%)	360/57	360/57

(c) Currency Risk

As at reporting date, the Territory Banking Account has positions in credit derivatives contracts to manage its exposure to credit risk - Note 10.2 Credit Risk. Credit derivatives transacted in foreign currency are hedged back to Australian dollars by the relevant investment manager by employing currency derivatives to mitigate the adverse impact of the Australian dollar exchange rate relative to that of other foreign currencies. As a consequence, the Territory Banking Account holds monetary and non-monetary assets that are denominated in currencies other than the Australian dollar.

The table below summarises the Territory Banking Account main exposures to foreign currency risk.

30 June 2017	**Note No.**	**AUD $'000**	**USD $'000**	**Total $'000**
Cash		72,249	1,695	73,944
Financial Assets at FVTPL		1,360,587	0	1,360,587
Other Assets		7,161	0	7,161
Total Assets		**1,439,997**	**1,695**	**1,441,692**
Financial Liabilities at FVTPL		219	0	219
Other Liabilities		29,118	0	29,118
Total Liabilities		**29,337**	**0**	**29,337**
Net Assets	6.3(a)	**1,410,660**	**1,695**	**1,412,355**

10.1 Market Risk – Continued

(c) Currency Risk

Currency Risk Sensitivity Disclosure Analysis

The following table summarises the 'reasonably possible' impact of 2017: +/- 10 per cent strengthening/weakening of the Australian dollar against foreign currency cash balances on the Territory Banking 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 9.1(b): 'Price Risk'.

	10% Movement	
	Profit & Loss (+/- Impact)	Equity (+/- Impact)
30 June 2017	**$'000**	**$'000**
Currency		
USD	169	169
Total Increase/(Decrease)	**169**	**169**

10.2 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 fixed income (debt) securities. For the purposes of sensitivity analysis, exposure to credit risk is performed on securities directly held by the Territory Banking Account as at reporting date. The following table details the credit risk exposure as at reporting date.

30 June 2017	**Credit Quality of Fixed Income Rated Instruments**				
	AAA	**AA**	**A**	**BBB**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Directly Held					
Cash Enhanced Fund	379,208	213,290	389,725	109,942	**1,092,165**
Total	379,208	213,290	389,725	109,942	**1,092,165**

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**
Total	355,809	219,416	492,044	43,242	**1,110,511**

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.*

NOTE 10 FINANCIAL INSTRUMENTS – CONTINUED

10.2 Credit Risk - Continued

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 the Chief Minister, Treasury and Economic Development Directorate.

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 2016).

10.3 Liquidity Risk

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

The Chief Minister, Treasury and Economic Development Directorate'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. The Chief Minister, Treasury and Economic Development Directorate, 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.

The Chief Minister, Treasury and Economic Development Directorate 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.

NOTE 10 FINANCIAL INSTRUMENTS – CONTINUED

10.3 Liquidity Risk - Continued

30 June 2017	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	44,828	0	0	0	**44,828**
Interest-Bearing Liabilities	14,720	859,667	2,007,382	3,183,521	**6,065,290**
Total Non Derivatives	**59,549**	**859,667**	**2,007,382**	**3,183,521**	**6,110,119**
Derivatives					
Net Settled (Swaps)	0	50	168	0	**219**
Gross Settled FFX					
Inflow	1,767	0	0	0	**1,767**
(Outflow)	(1,696)	0	0	0	**(1,696)**
Total Derivatives	**71**	**50**	**168**	**0**	**290**

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**

NOTE 10 FINANCIAL INSTRUMENTS – CONTINUED

10.4 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.

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.

		2017		2016	
	Note No.	Carrying Amount $'000	Fair Value $'000	Carrying Amount $'000	Fair Value $'000
Financial Assets					
Loans and Receivables	6.2	2,173,787	2,367,518	2,099,094	2,374,434
Financial Liabilities					
Interest-Bearing Liabilities	7.2	5,643,550	5,946,830	5,594,569	6,113,387

NOTE 10 FINANCIAL INSTRUMENTS – CONTINUED

10.4 Fair Value of Financial Assets and Liabilities - Continued

(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.

(b) Recurring Fair Value Measurement of Assets and Liabilities

30 June 2017	**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	215,266	876,899	0	**1,092,165**
Financial Derivatives	218	72	0	**290**
Investments Indirectly Held				
Unit Trust – Fixed Income Cash	0	240,004	0	**240,004**
Unit Trust – Diversified Funds	0	28,073	0	**28,073**
Financial Liabilities				
Investments Directly Held				
Financial Derivatives	0	163	0	**163**
Financial Assets and Liabilities for which Fair Values are Disclosed				
Financial Assets				
Loans and Receivables	0	2,367,518	0	**2,367,518**
Financial Liabilities				
Interest-Bearing Liabilities	0	5,946,830	0	**5,946,830**
Net Assets	**215,484**	**(2,434,427)**	**0**	**(2,218,943)**

NOTE 10 FINANCIAL INSTRUMENTS – CONTINUED

10.4 Fair Value of Financial Assets and Liabilities - Continued

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

30 June 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'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)**

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.

NOTE 10 FINANCIAL INSTRUMENTS – CONTINUED

10.4 Fair Value of Financial Assets and Liabilities - Continued

(c) Valuation Techniques and Inputs - Continued

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 2017 was assessed to be insignificant.

10.5 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 2017 and 30 June 2016 is as follows:

30 June 2017	**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	6.2	2,173,787	0	0	0	**2,173,787**
Financial Assets at FVTPL						
Directly Held						
Cash Enhanced Fund	6.3	0	1,144,097	126	0	**1,144,223**
Indirectly Held						
Fixed Income-Unit Trust	6.3	0	240,044	0	0	**240,044**
Diversified-Unit Trust	6.3	0	28,086	0	0	**28,086**
Financial Liabilities						
Payables	7.1	0	0	0	31,104	**31,104**
Interest-Bearing Liabilities	7.2	0	0	0	5,643,550	**5,643,550**

NOTE 10 FINANCIAL INSTRUMENTS – CONTINUED

10.5 Categorisation of Financial Assets and Liabilities - Continued

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	6.2	2,099,094	0	0	0	**2,099,094**
Financial Assets at FVTPL						
Directly Held						
Cash Enhanced Fund	6.3	0	1,139,670	932	0	**1,140,602**
Indirectly Held						
Cash Fund Unit Trust	6.3	0	1,001	0	0	**1,001**
Fixed Income Unit Trust	6.3	0	246,872	0	0	**246,872**
Financial Liabilities						
Payables	7.1	0	0	0	40,384	**40,384**
Interest-Bearing Liabilities	7.2	0	0	0	5,594,569	**5,594,569**

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 the Chief Minister, Treasury and Economic Development Directorate (2016-17: $44,457 and 2015-16: $42,829).

NOTE 12 RELATED PARTY DISCLOSURES

A related party is a person that controls or has significant influence over the reporting entity, or is a member of the Key Management Personnel (KMP) of the reporting entity or its parent entity, and includes their close family member and entities in which the KMP and/or their close family members individually or jointly have controlling interest.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Territory Banking Account, directly or indirectly.

KMP of the Territory Banking Account are the Portfolio Minister and certain members of the Senior Management Team.

The Head of Service and the ACT Executive comprising the Cabinet Ministers are KMP of the ACT Government and therefore related parties of Territory Banking Account.

This note does not include typical citizen transactions between the KMP and the Territory Banking Account that occur on terms and conditions no different to those applying to the general public.

NOTE 12 RELATED PARTY DISCLOSURES – CONTINUED

(A) CONTROLLING ENTITY

The Territory Banking Account is an ACT Government controlled entity.

(B) KEY MANAGEMENT PERSONNEL

B.1 Compensation of Key Management Personnel

Compensation of all Cabinet Ministers, including the Portfolio Minister, is disclosed in the note on related party disclosures included in the ACT Executive's financial statements for the year ended 30 June 2017.

The members of the senior management team who are KMP of the Territory Banking Account are employees of Chief Minister, Treasury and Economic Development Directorate and are compensated by the Chief Minister, Treasury and Economic Development Directorate.

Compensation by the Territory Banking Account to its KMP is NIL.

B.2 Transactions with Key Management Personnel

There were no transactions with KMP that were material to the financial statements of the Territory Banking Account.

B.3 Transactions with parties related to Key Management Personnel

There were no transactions with parties related KMP that were material to the financial statements of the Territory Banking Account.

(C) TRANSACTIONS WITH OTHER ACT GOVERNMENT CONTROLLED ENTITIES

All transactions with ACT Government controlled entities are disclosed in the relevant notes to the financial statements of the Territory Banking Account.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 13 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 2016-17 $'000	Original Budget[43] 2016-17 $'000	Variance $'000	Variance %	Variance Explanation
Total Gains on Investments	8,115	0	8,115	#	The variance in total gains from year to year for investments directly held reflects the trading activity of the investment managers and the underlying asset class market returns achieved over the financial year and for investments indirectly held, reflects underlying asset class returns and distributions paid from the relevant unit trust. Budget estimates do not anticipate financial investment gains.
Total Losses on Investments	8,060	0	8,060	#	The variance in total losses from year to year for investments directly held reflects the trading activity of the investment managers and the underlying asset class market returns achieved over the financial year and for investments indirectly held, reflects underlying asset class returns and distributions paid from the relevant unit trust. 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 2017

NOTE 13 BUDGETARY REPORTING - EXPLANATIONS OF MAJOR VARIANCES BETWEEN ACTUAL AND ORGINAL BUDGET AMOUNTS - CONTINUED

Statement of Assets and Liabilities on Behalf of the Territory

	Actual 2016-17 $'000	Original Budget[43] 2016-17 $'000	Variance $'000	Variance %	Variance Explanation
Cash	348,359	0	348,359	#	Actual result reflects operational and liquidity needs as well as timing of end-of-year cash flow transactions. Budget estimates do not anticipate cash balances.
Investments (Current and Non Current)	1,412,353	759,563	652,790	86%	This variation is due mainly to a higher than expected level of funds held on investment as at 30 June 2017. Actual investment balances reflect agency activities (actual $1.043 billion versus budget estimate of $548 million) and cash inflows and outflows to the Territory Banking Account (actual $716 million versus budget estimate $211 million).

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 13 BUDGETARY REPORTING - EXPLANATIONS OF MAJOR VARIANCES BETWEEN ACTUAL AND ORGINAL BUDGET AMOUNTS - CONTINUED

Cash Flow Statement on Behalf of the Territory

	Actual 2016-17 $'000	Original Budget[43] 2016-17 $'000	Variance $'000	Variance %	Variance Explanation
Payments to Agencies for Expenses on Behalf of the Territory	543,886	607,561	-63,675	-10%	The variation is driven by agency activity, reflecting agency requirements.
Distributions from Government Agencies	292,901	390,751	-97,850	-25%	The variation is driven by agency activity, reflecting agency activities.
Capital Payments to Government Agencies	835,945	1,065,057	-229,112	-22%	The variation is driven by agency activity, reflecting agency requirements.
Proceeds from Borrowings	45,824	110,008	-64,184	-58%	This represents the proceeds of new borrowings offset against repayments of borrowings. The actual result reflects the actual level of borrowing transactions conducted on behalf of Icon Water Limited.

[43] The Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting period (2016-17 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.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

APPENDIX A – BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

2.1 Legislative Requirement

The *Financial Management Act 1996* (FMA) requires the preparation of annual financial statements for ACT Government agencies. The FMA and the Financial Management Guidelines issued under the Act, requires 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) The significant accounting policies adopted for the year; and
(vi) 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.

These general-purpose financial statements have been prepared to comply with 'Australian Accounting Standards as required by the FMA. Accordingly, these financial statements have been prepared in accordance with:

(i) Australian Accounting Standards; and
(ii) ACT Accounting and Disclosure Policies.

2.2 Accrual Accounting

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.

2.3 Currency

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

Functional and Presentation Currency
Items included in the Territory Banking 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.

2.4 Individual Reporting Entity

The Territory Banking Account is prescribed as a Directorate under the FMA and is an individual reporting entity.

APPENDIX A – BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS - CONTINUED

2.5 Territorial Items

The Chief Minister, Treasury and Economic Development Directorate produces Territorial financial statements for the Territory Banking Account. The Territorial financial statements include income, expenses, assets and liabilities that the Chief Minister, Treasury and Economic Development Directorate administers on behalf of the Territory, but does not control.

2.6 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 2017 and the financial position of the Territory Banking Account at 30 June 2017.

2.7 Comparative Figures

Budget Figures
To facilitate a comparison with the Budget Papers, as required by the FMA, budget information for 2016-17 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.

2.8 Rounding

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

2.9 Going Concern

At 30 June 2017, Territory Banking Account's liabilities ($5.675 billion) exceed its assets ($3.935 billion) by $1.740 billion ($1.920 billion at 30 June 2016). 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 Territory Banking Account has the support of the annual budget and provisions of the FMA to continue to meet its financial obligations. Refer also to Note 10.3: 'Liquidity Risk'.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

APPENDIX B –SIGNIFICANT ACCOUNTING POLICIES

SIGNIFICANT ACCOUNTING POLICIES – INCOME ADMINISTERED ON BEHALF OF THE TERRITORY

2.10 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.

Distribution Income
Distribution income is 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 Controlled Recurrent Payments. 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.

SIGNIFICANT ACCOUNTING POLICIES – EXPENSES ADMINISTERED ON BEHALF OF THE TERRITORY

2.11 Interest Expenses (refer Note 5.2)

Borrowing costs are expensed as incurred.

SIGNIFICANT ACCOUNTING POLICIES – ASSETS ADMINISTERED ON BEHALF OF THE TERRITORY

2.12 Assets - Current and Non-Current (refer Notes 6.1, 6.2 and 6.3)

Assets classified as current or non-current in the Statement of Assets and Liabilities on Behalf of the Territory and relevant notes. Assets are classified as current where they are expected to be realised within 12 months after the reporting date. Assets, which do not fall within the current classification, are classified as non-current.

APPENDIX B –SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

SIGNIFICANT ACCOUNTING POLICIES – ASSETS ADMINISTERED ON BEHALF OF THE TERRITORY – CONTINUED

2.13 Significant Accounting Judgement and Estimates - 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 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, to reflect any private equity stock restrictions on redemptions, future commitments, and other specific factors of the investment and fund manager.

2.14 Cash and Cash Equivalents (refer Note 6.1)

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.

2.15 Loans and Receivables (refer Note 6.2)

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. Amounts are generally received within 30 days of being recorded as receivables. 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 90 days overdue.

APPENDIX B –SIGNIFICANT ACCOUNTING POLICIES –CONTINUED

2.15 Loans and Receivables (refer Note 6.2) - Continued

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 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 2017, it has been assessed that there is no objective evidence that the loans and receivables of the Territory Banking Account are impaired.

Significant Accounting Judgements and Estimates – Allowance for Impairment Losses
The Territory Banking Account has made a significant estimate in the calculation of the allowance for impairment losses for receivables in the Territorial Financial Statements. This significant estimate is based on a number of categorisations of receivables. These categorisations are considered by management to be appropriate and accurate, based upon the pattern demonstrated in collecting receivables in the past financial years. The categorisations are associated with accounts in bankruptcy, unpaid objections and past write-offs.

2.16 Taxation

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

APPENDIX B –SIGNIFICANT ACCOUNTING POLICIES –CONTINUED

2.17 Investments (refer Note 6.3)

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.

The Chief Minister, Treasury and Economic Development Directorate 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 range of asset classes subject to the underlying agency investment strategy.

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 FMA. 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.

APPENDIX B –SIGNIFICANT ACCOUNTING POLICIES –CONTINUED

2.17 Investments (refer Note 6.3) - 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 10.5: 'Categorisation of Financial Assets and Liabilities', based on the lowest level input that is significant to the fair value measurement as a whole.

2.18 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 6.3: 'Investments'.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

SIGNIFICANT ACCOUNTING POLICIES – LIABILITIES ADMINISTERED ON BEHALF OF THE TERRITORY

2.19 Liabilities - Current and Non-Current (refer Notes 7.1 and 7.2)

Liabilities are classified as current or non-current in the Statement of Assets and Liabilities on Behalf of the Territory and relevant notes. Liabilities are classified as current where they are expected to be realised within 12 months after the reporting date. Liabilities, which do not fall within the current classification, are classified as non-current.

2.20 Payables (refer Note 7.1)

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.

2.21 Interest-Bearing Liabilities (refer Note 7.2)

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.

2.22 Budgetary Reporting (refer Note 13)

Explanations of major variances between the 2016-17 original budget and the 30 June 2017 actual results are discussed in Note 13: 'Budgetary Reporting'.

Significant Judgements and Estimates
Significant judgements have been applied in determining what variances are considered 'major variances'. Variances are considered major if both of the following criteria are met:

(i) The line item is a significant line item: where either the line item actual amount accounts for more than 10% of the relevant associated category (Income, Expenses and Equity totals) or more than 10% of the 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.

Territory Banking Account
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

APPENDIX C – IMPACT OF ACCOUNTING STANDARDS ISSUED BUT YET TO BE APPLIED

ACCOUNTING STANDARDS ISSUED BUT YET TO BE APPLIED

The following new and revised accounting standards and interpretations have been issued by the Australian Accounting Standards Board but do not apply to the current reporting period. These standards and interpretations are applicable to future reporting periods. 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.

Territory Banking Account does not intend to adopt these standards and interpretation early. Where applicable, these Australian Accounting Standards will be adopted from their application date. 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.

(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's financial assets. No material financial impact on Territory Banking Account is expected. Territory Banking Account will make a more detailed assessment of the impact over the next 12 months.

(ii) 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 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (application date 1 January 2018);

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

(iv) 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, 1049, Interpretation 2, 5, 10, 12, 16, 19 &127] (application date 1 January 2018);

(v) AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures (AASB 9, AASB 2009-11, AASB 2010-7, AASB 2011-7 & AASB 2011-8);

(vi) AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part C);

(vii) AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities [AASB 9 & 15] (application date 1 January 2019);
This standard inserts Australian requirements and authoritative implementation guidance for not-for-profit entities into AASB 9 and AASB 15. This guidance assists not-for-profit entities in applying those standards to particular transactions and other events. The amendments to AASB 9 address the initial measurement and recognition of non-contractual receivables arising from statutory requirements (including taxes, rates and fines). The amendments to AASB 15 address the following aspects of accounting for contracts with customers: identifying a contract with a customer; identifying performance obligations; and allocating the transaction price to performance obligations.

(viii) 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 111 Construction Contracts and AASB 118 Revenue. No material financial impact on Territory Banking Account is expected.

APPENDIX C – IMPACT OF ACCOUNTING STANDARDS ISSUED BUT YET TO BE APPLIED

ACCOUNTING STANDARDS ISSUED BUT YET TO BE APPLIED –CONTINUED

(ix) 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, 134, 137, 138, 139, 140, 1023, 1038, 1039, 1049, 1053, 1056, Interpretation 12, 127, 132, 1031, 1038 & 1052] (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 15.

(x) AASB 2015-8 Amendments to Australian Accounting Standards – Effective date of AASB 15 (application date 1 January 2017);
This standard deferred the application date of AASB 15 Revenue from Contracts with Customers to 1 January 2018. AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for Profit Entities further defers the application date of AASB 15 for not-for-profit entities until 1 January 2019.

(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 ASSB 15.

(xii) AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB for Not-for-Profit Entities defers the effective date of AASB 15 for not-for-profit entities to 1 January 2019;

(xiii) AASB 2016-7 Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-profit Entities (application date 1 January 2017, which was the original mandatory effective date of AASB 15); This standard amends the mandatory effective date of AASB 15 for not-for-profit entities so that AASB 15 is required to be applied by these entities for annual reporting periods beginning on or after 1 January 2019 instead of 1 January 2018.

(xiv) AASB 1058 Income of Not- for- Profit Entities (application date 1 January 2019);
This standard clarifies and simplifies the income recognition requirements that apply to not-for-profit entities in conjunction with AASB 15 Revenue from Contracts with Customers. These standards supersede all the income recognition requirements relating to private sector not-for-profit entities, and the majority of income recognition requirements relating to public sector not-for-profit entities, previously in AASB 1004 Contributions. No material financial impact on Territory Banking Account is expected.

(xv) 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 and there is no material financial impact on Territory Banking Account.

(xvi) AASB Interpretation 22 Foreign Currency Transactions and Advance Consideration (application date 1 January 2019);
This Interpretation addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. No material financial impact on Territory Banking Account is expected. This assessment is based on an initial assessment at this date, but may change on further review.

APPENDIX D – CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES

Change in Accounting Policy

There were no changes in accounting policies for the Territory Banking Account for the year ended 30 June 2017.

Changes in Accounting Estimates

There were no changes in accounting estimates for the Territory Banking Account for the year ended 30 June 2017.

Statement of Performance

For the Year Ended

30 June 2017

Territory Banking Account

REPORT OF FACTUAL FINDINGS

TERRITORY BANKING ACCOUNT

To the Members of the ACT Legislative Assembly

Review opinion

I am providing an **unqualified review opinion** on the statement of performance of the Territory Banking Account for the year ended 30 June 2017.

During the review no matters were identified which indicate that the results of the accountability indicators reported in the statement of performance are not fairly presented in accordance with the *Financial Management Act 1996*.

Basis for the review opinion

The review was conducted in accordance with the Australian Auditing Standards. I have complied with the requirements of the Accounting Professional and Ethical Standards 110 *Code of Ethics for Professional Accountants*.

I believe that sufficient evidence was obtained during the review to provide a basis for the review opinion.

Responsibility for preparing and fairly presenting the statement of performance

The Under Treasurer is responsible for:

- preparing and fairly presenting the statement of performance in accordance with the *Financial Management Act 1996* and *Financial Management (Statement of Performance Scrutiny) Guidelines 2017*; and
- determining the internal controls necessary for the preparation and fair presentation of the statement of performance so that the results of accountability indicators and accompanying information are free from material misstatements, whether due to error or fraud.

Responsibility for the review of the statement of performance

Under the *Financial Management Act 1996* and *Financial Management (Statement of Performance Scrutiny) Guidelines 2017*, the Auditor-General is responsible for issuing a report of factual findings on the statement of performance of the Territory Banking Account.

As required by Australian Auditing Standards, the auditors:

- applied professional judgement and maintained scepticism;
- identified and assessed the risks of material misstatements due to error or fraud* and implemented procedures to address these risks so that sufficient evidence was obtained to form a review opinion; and
- reported the scope and timing of the review and any significant deficiencies in reporting practices identified during the review to the Under Treasurer.

(*The risk of not detecting material misstatements due to fraud is higher than the risk due to error, as fraud may involve collusion, forgery, intentional omissions or misrepresentations or the override of internal controls.)

Limitations on the scope of the review

The review was conducted in accordance with Australian Auditing Standards applicable to review engagements, to provide limited 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.

This review does not provide assurance on the:

- relevance or appropriateness of the accountability indicators reported in the statement of performance or the related performance targets;
- accuracy of explanations provided for variations between actual and targeted performance due to the often subjective nature of such explanations;
- adequacy of controls implemented by the Territory Banking Account; or
- integrity of reviewed statement of performance presented electronically or information hyperlinked to or from the statement of performance. Assurance can only be provided for the printed copy of the reviewed statement of performance.

M. Cooper.

Dr Maxine Cooper
Auditor-General
19 September 2017

Territory Banking Account
Statement of Performance
For the Year Ended 30 June 2017

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 2017 and also fairly reflects the judgements exercised in preparing them.

Stephen Miners
Acting Under Treasurer
Chief Minister, Treasury and Economic Development Directorate
19 September 2017

Territory Banking Account
Statement of Performance
For the Year Ended 30 June 2017

Output	**TERRITORY BANKING ACCOUNT**				
Output 1	**TERRITORY BANKING ACCOUNT**				
Description:	Management of the ACT's investment and borrowing activities and the central banking account of the Government				
		Original Target 2016-17	**Actual Result 2016-17**	**% Variance from Target**	**Explanation of Material Variances (+/- 5%)**
TOTAL COST ($'000)		$4,901,475	$4,573,537	(7%)	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 investment earnings rate and the benchmark is to be ≥ 0	≥ 0	1.17%	75%	The investment portfolio achieved an investment return for the 2016-17 financial year of 2.72 per cent compared with the performance benchmark return of 1.55 per cent. The better performance was mainly as a result of exposure to securities in the Australian mortgage backed sector with credit spreads tightening and market valuations increasing in the year.
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 2017

Explanation of the Accountability Indicators

a. The difference between the actual portfolio investment return (gross of fees) and the established portfolio 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 TBA 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 servicing 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. The monthly financial reporting will not be counted for the year if the financial statements are not prepared after the end of each month.

g. Involves the preparation of the previous year's (2015-16) annual financial statements for auditing and inclusion in the Chief Minister, Treasury and Economic Development Directorate 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.

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 2017*.

Financial Statements

For the Year Ended

30 June 2017

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.

One of the key changes to the CTP regulator's financial statements during 2015-16 and 2016-17 financial years has been the impact of transferring the Personal Injury Register (PIR) onto the ACT Government's ICT platform.

Under the CTP Act, the CTP regulator is required to maintain a current register of all claims lodged for personal injury following motor vehicle accidents occurring within the borders of the ACT. These claims are recorded on the ACT's Personal Injury Register (PIR).

The PIR was previously hosted and maintained by QLD Treasury. In 2015-16, QLD Treasury advised that it no longer had the capacity to continue providing services to the ACT. As a result, the PIR was migrated to the ACT. Upgrades to the PIR were required to allow the software to function as intended on the ACT Government's ICT platform. This work commenced in 2015-16, and was finalised in 2016-17.

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 2016-17 and 2015-16, and the forward estimates contained in the 2017-18 Budget Statements.

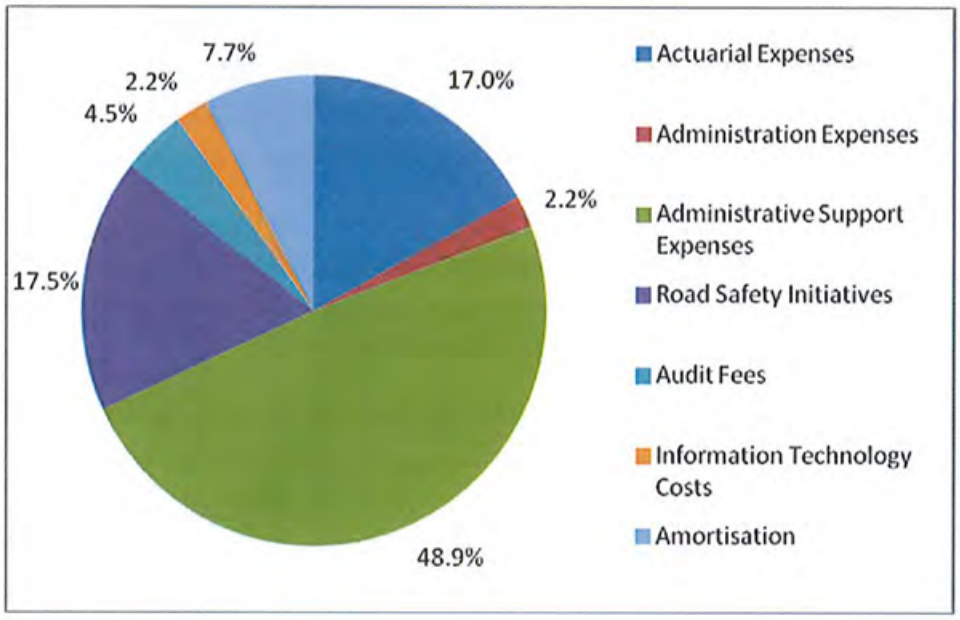
Total Expenses

1. Components of Expenses

For the financial year ended 30 June 2017, the CTP regulator recorded total expenses of $0.401 million. The largest component was administrative support expenses within supplies and services, which represents 48.9 per cent of the total expenditure or $0.196 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 2016-17. The CTP regulator did not employ any staff during 2016-17.

Figure 1 indicates the components of the CTP regulator's expenses for 2016-17.

Figure 1 – Components of Expenses



2. *Comparison to Budget*

Total expenses of $0.401 million were $0.105 million, or 21 per cent lower than the 2016-17 Budget of $0.506 million. This was mainly due to lower than anticipated expenses on actuarial costs ($0.039 million), information technology ($0.081 million), and amortisation ($0.015 million). This was partly offset by an increase in expenses relating to road safety initiatives ($0.030 million).

3. *Comparison to 2015-16 Actual Expenses*

Total expenses of $0.401 million in 2016-17 were essentially in line with the 2015-16 actual result of $0.409 million. The decrease in actuarial expenses ($0.028 million), and Information Technology Costs ($0.025 million) was largely offset by an increase in administrative support costs ($0.016 million) associated with the reimbursement of salary and superannuation expenses for CMTEDD staff to undertake the CTP regulator's functions in 2016-17 and an increase in amortisation of intangible assets ($0.031 million) associated with capital upgrades to the CTP scheme's Personal Injury Register (PIR).

4. *Future Trends*

Expenses are budgeted to increase by $0.135 million (33.7 per cent) in 2017-18 mainly due to:

- higher ICT costs associated with improving the reporting functions of the PIR;
- amortisation costs relating to the ACT PIR system being recorded for a full year; and
- higher actuarial costs due to increased scheme actuarial work on the overall scheme performance.

Expenses are expected to remain steady in 2018-19.

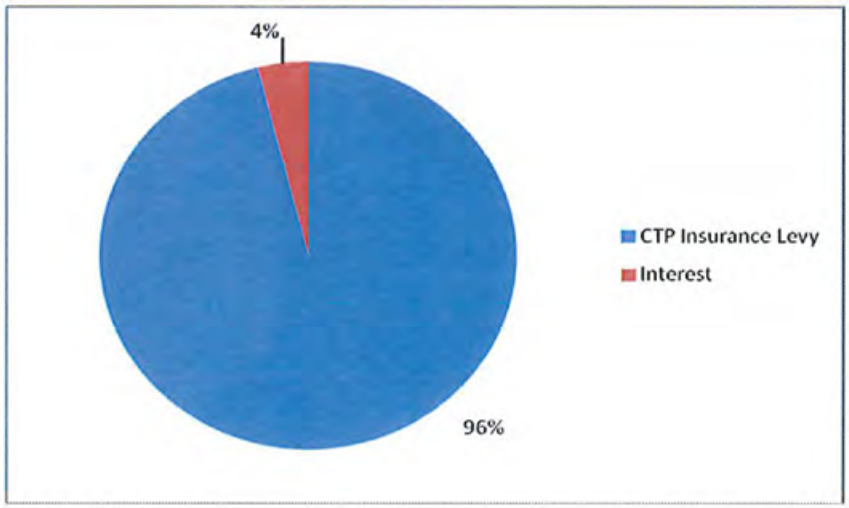
Total Income

1. *Components of Income*

For the year ended 30 June 2017, the CTP regulator recorded a total income of $0.532 million. The CTP regulator's income was derived from the levy on ACT CTP vehicle registrations ($0.511 million) and interest from cash at bank ($0.021 million).

Figure 2 indicates the components of the CTP regulator's income for 2016-17.

Figure 2 – Components of Income



2. *Comparison to Budget*

Revenue for the year ended 30 June 2017 was $0.026 million (5 per cent) higher than the 2016-17 Budget of $0.506 million. This was mainly due to higher than expected vehicle registrations throughout the year which attracted the CTP Insurance Levy.

3. *Comparison to 2015-16 Actual Income*

Total revenue of $0.532 million for 2016-17 was $0.021 million higher (4 per cent) than the 2015-16 actual revenue of $0.511 million due to higher levy collections.

4. *Future Trends*

Income is budgeted to increase slightly by $0.004 million (0.8 per cent) in 2017-18 due 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

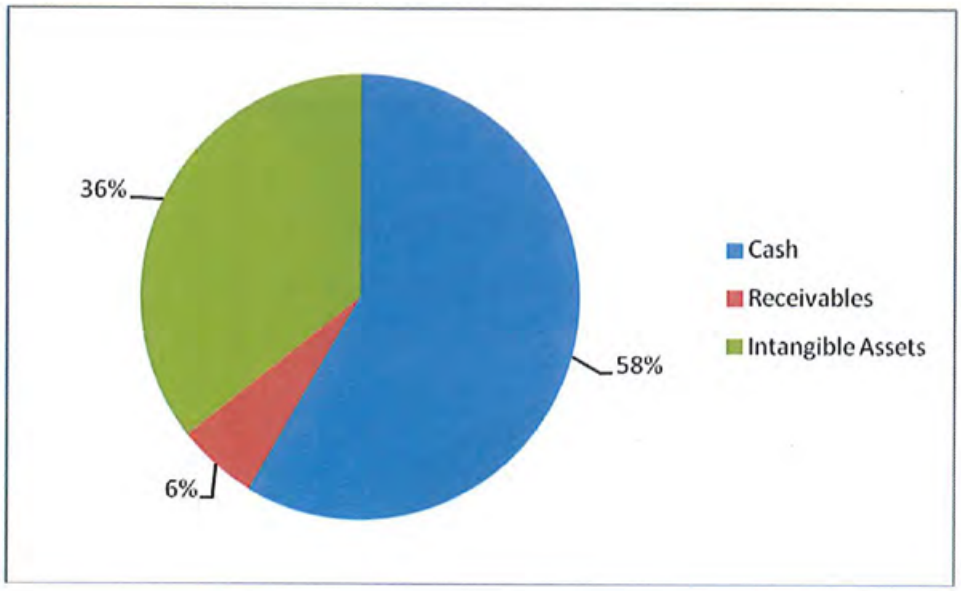
Total Assets

1. *Components of Total Assets*

The total asset position at 30 June 2017 was $0.789 million and shows the CTP regulator held 58 per cent of its assets in cash.

Figure 3 indicates the components of the CTP regulator's total assets as at 30 June 2017.

Figure 3 – Total Assets at 30 June 2017



2. *Comparison to Budget*

Total assets of $0.789 million at 30 June 2017 were $0.180 million or 30 per cent higher than the Budget of $0.609 million mainly due to cash held at the bank associated with:

- lower than anticipated cash outflows on areas in actuarial and information technology;
- higher than budgeted CTP insurance levy; and
- higher than budgeted interest revenue.

3. *Comparison to 2015-16 Actuals*

Total assets at 30 June 2017 of $0.789 million were $0.088 million, or 13 per cent higher than the 30 June 2016 actual result of $0.701 million. The increase was mainly due to the finalisation of the Personal Injury Register project.

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 At 30 June	Prior Year Actual 2016 $'000	Current Year Budget 2017 $'000	Current Year Actual 2017 $'000	Forward Year Budget 2018 $'000s	Forward Year Budget 2019 $'000s	Forward Year Budget 2020 $'000s
Current Assets	*540*	*372*	*508*	*420*	*452*	*495*
Current Liabilities	*93*	*20*	*50*	*20*	*20*	*20*
Current Ratio	*5.81:1*	*18.60:1*	*10.16:1*	*21.0:1*	*22.60:1*	*24.75:1*

The CTP regulator's current ratio at 30 June 2017 was 10.16:1, which is lower than the budgeted current ratio of 18.60:1.

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 frequency of how often motorists register their vehicles decreases in the future, as this would reduce revenue.

Total Liabilities

1. Components of Total Liabilities

The CTP regulator's total liabilities of $0.050 million at 30 June 2017 relate to accrued expenses associated with audit fees, actuarial expenses, ICT expenses and administration expenses.

2. Comparison to Budget

Total liabilities of $0.050 million, at 30 June 2017 were $0.030 million or 150 per cent higher than the Budget of $0.020 million. This was mainly due to higher than anticipated actuarial expenses accrued at 30 June 2017.

3. Comparison to 2015-16 Actuals

The actual liabilities of $0.050 million at 30 June 2017 were $0.043 million or 46 per cent lower than the 30 June 2016 actual amount of $0.093 million. This was mainly due the absence of any accruals relating to the PIR Project, now complete, ($0.062 million in 2015-16), partly offset by higher than anticipated actuarial expenses accrued at 30 June 2017.

INDEPENDENT AUDIT REPORT

ACT COMPULSORY THIRD-PARTY INSURANCE REGULATOR

To the Members of the ACT Legislative Assembly

Audit opinion

I am providing an **unqualified audit opinion** on the financial statements of the ACT Compulsory Third-Party Insurance Regulator for the year ended 30 June 2017. The financial statements comprise the operating statement, balance sheet, statement of changes in equity, cash flow statement, statement of appropriation and accompanying notes.

In my opinion, the financial statements:

(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 ACT Compulsory Third-Party Insurance Regulator and results of its operations and cash flows.

Basis for the audit opinion

The audit was conducted in accordance with the Australian Auditing Standards. I have complied with the requirements of the Accounting Professional and Ethical Standards 110 *Code of Ethics for Professional Accountants*.

I believe that sufficient evidence was obtained during the audit to provide a basis for the audit opinion.

Responsibility for preparing and fairly presenting the financial statements

The ACT Compulsory Third-Party Insurance Regulator is responsible for:

- preparing and fairly presenting the financial statements in accordance with the *Financial Management Act 1996* and relevant Australian Accounting Standards;
- determining the internal controls necessary for the preparation and fair presentation of financial statements so that they are free from material misstatements, whether due to error or fraud; and
- assessing the ability of the ACT Compulsory Third-Party Insurance Regulator to continue as a going concern and disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting in preparing the financial statements.

Responsibility for the audit of the financial statements

Under the *Financial Management Act 1996*, the Auditor-General is responsible for issuing an audit report that includes an independent audit opinion on the financial statements of the ACT Compulsory Third-Party Insurance Regulator.

As required by Australian Auditing Standards, the auditors:

- applied professional judgement and maintained scepticism;
- identified and assessed the risks of material misstatements due to error or fraud and implemented procedures to address these risks so that sufficient evidence was obtained to form an audit opinion. The risk of not detecting material misstatements due to fraud is higher than the risk due to error, as fraud may involve collusion, forgery, intentional omissions or misrepresentations or the override of internal controls;
- obtained an understanding of internal controls to design audit procedures for forming an audit opinion;
- evaluated accounting policies and estimates used to prepare the financial statements and disclosures made in the financial statements;
- evaluated the overall presentation and content of the financial statements, including whether they present the underlying transactions and events in a manner that achieves fair presentation;
- reported the scope and timing of the audit and any significant deficiencies in internal controls identified during the audit to the ACT Compulsory Third-Party Insurance Regulator; and
- assessed the going concern* basis of accounting used in the preparation of the financial statements.

(*Where the auditor concludes that a material uncertainty exists which cast significant doubt on the appropriateness of using the going concern basis of accounting, the auditor is required to draw attention in the audit report to the relevant disclosures in the financial statements or, if such disclosures are inadequate, the audit opinion is to be modified. The auditor's conclusions on the going concern basis of accounting are based on the audit evidence obtained up to the date of this audit report. However, future events or conditions may cause the entity to cease to continue as a going concern.)

Limitations on the scope of the audit

An audit provides a high level of assurance about whether the financial statements are free from material misstatements, whether due to fraud or error. However, an audit cannot provide a guarantee that no material misstatements exist due to the use of selective testing, limitations of internal control, persuasive rather than conclusive nature of audit evidence and use of professional judgement in gathering and evaluating evidence.

An audit does not provide assurance on the:

- reasonableness of budget information included in the financial statements;
- prudence of decisions made by the ACT Compulsory Third-Party Insurance Regulator;
- adequacy of controls implemented by the ACT Compulsory Third-Party Insurance Regulator; or
- integrity of audited financial statements presented electronically or information hyperlinked to or from the financial statements. Assurance can only be provided for the printed copy of the audited financial statements.

Ajay Sharma
Acting Director, Financial Audits
25 August 2017

ACT Compulsory Third-Party Insurance Regulator
Financial Statements
For the Year Ended 30 June 2017

Statement of Responsibility

In my opinion, the financial statements 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 2017 and the financial position of the ACT CTP Insurance regulator on that date.

K. Da

Karen Doran
ACT Compulsory Third-Party Insurance Regulator
24 August 2017

ACT Compulsory Third-Party Insurance Regulator
Financial Statements
For the Year Ended 30 June 2017

Statement by the Chief Finance Officer

In my opinion, the financial statements have been prepared in accordance with the Australian Accounting Standards, and are in agreement with the 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 2017 and the financial position of the ACT CTP Insurance regulator on that date.

Lisa Holmes
Chief Finance Officer
ACT CTP Regulator's Office
23 August 2017

ACT Compulsory Third-Party Insurance Regulator
Operating Statement
For the Year Ended 30 June 2017

	Note No.	Actual 2017 $'000	Original Budget 2017 $'000	Actual 2016 $'000
Income				
Revenue				
CTP Insurance Levy	3	511	488	489
Interest	4	21	18	22
Total Revenue		532	506	511
Total Income		**532**	**506**	**511**
Expenses				
Supplies and Services	5	370	420	409
Amortisation	6	31	47	-
Other Expenses		-	39	-
Total Expenses		**401**	**506**	**409**
Operating Surplus		**131**	**-**	**102**
Total Comprehensive Income		**131**	**-**	**102**

The above Operating Statement should be read in conjunction with the accompanying notes.
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 2017

	Note No.	Actual 2017 $'000	Original Budget 2017 $'000	Actual 2016 $'000
Current Assets				
Cash and Cash Equivalents	8	461	331	483
Receivables	9	47	41	57
Total Current Assets		**508**	**372**	**540**
Non Current Assets				
Intangible Assets	10	281	237	-
Capital Works in Progress	11	-	-	161
Total Non Current Assets		**281**	**237**	**161**
Total Assets		**789**	**609**	**701**
Current Liabilities				
Payables	12	50	20	93
Total Current Liabilities		**50**	**20**	**93**
Total Liabilities		**50**	**20**	**93**
Net Assets		**739**	**589**	**608**
Equity				
Accumulated Funds		739	589	608
Total Equity		**739**	**589**	**608**

The above Balance Sheet should be read in conjunction with the accompanying notes.
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 2017

For the Year Ended 30 June 2017	Accumulated Funds Actual 2017 $'000	Total Equity Actual 2017 $'000	Original Budget 2017 $'000
Balance at 1 July 2016	608	608	589
Comprehensive Income			
Operating Surplus	131	131	-
Total Comprehensive Income	739	739	-
Balance at 30 June 2017	739	739	589

For the Year Ended 30 June 2016	Accumulated Funds Actual 2016 $'000	Total Equity Actual 2016 $'000
Balance at 1 July 2015	506	506
Comprehensive Income		
Operating Surplus	102	102
Total Comprehensive Income	102	102
Balance at 30 June 2016	608	608

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes. 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 2017

	Note No.	Actual 2017 $'000	Original Budget 2017 $'000	Actual 2016 $'000
Cash Flows from Operating Activities				
Receipts				
CTP Insurance Levy		509	488	485
Interest Received		21	18	22
Goods and Services Tax Input Tax Credits from the Australian Taxation Office		41	-	20
Total Receipts from Operating Activities		**571**	**506**	**527**
Payments				
Supplies and Services		350	420	400
Goods and Services Tax Paid to Suppliers		30	-	30
Other		-	39	-
Total Payments for Operating Activities		**380**	**459**	**430**
Net Cash Inflows from Operating Activities	14	**191**	**47**	**97**
Cash Flows from Investing Activities				
Payments				
Capital Works in Progress		-	-	99
Intangible Assets		213	107	-
Total Payments from Investing Activities		**213**	**107**	**99**
Net Cash (Outflows) from Investing Activities		**(213)**	**(107)**	**(99)**
Net (Decrease) in Cash and Cash Equivalents		**(22)**	**(60)**	**(2)**
Cash and Cash Equivalents at the Beginning of the Reporting Period		**483**	**391**	**485**
Cash and Cash Equivalents at the End of the Reporting Period	8	**461**	**331**	**483**

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

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 2017

ACT Compulsory Third-Party Insurance Regulator
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

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

Refer to: Appendix A – Basis of Preparation of the Financial Statements;
Appendix B – Significant Accounting Policies; and
Appendix C – Impact of Accounting Standards issued but yet to be applied.

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 the 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.

	2017 $'000	2016 $'000
Compulsory Third-Party Insurance Levy	511	489
Total Compulsory Third-Party Insurance Levy	**511**	**489**

NOTE 4. INTEREST

	2017 $'000	2016 $'000
Interest (Westpac Banking Corporation)	21	22
Total Interest	**21**	**22**

NOTE 5. SUPPLIES AND SERVICES

Actuarial Expenses [1]	68	96
Administration Expenses	9	6
Administrative Support Expenses [2]	196	180
Road Safety Initiatives	70	76
Audit Fees [3]	18	17
Information Technology Costs [4]	9	34
Total Supplies and Services	**370**	**409**

1. The decrease is primarily due to the three year review of the CTP Scheme that was undertaken in 2015-16, but was not required in 2016-17.

2. Administrative support expenses are associated with the reimbursement of salary and superannuation expenses for the Chief Minister, Treasury & Economic Development Directorate 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 2016-17 and the associated wage increases applied in accordance with the current Enterprise

3. Refer to Note 7: *Auditor's Remuneration.*

4. Delays in completing the required PIR software upgrades meant the system was not functioning as intended until the end of December 2016. This resulted in lower than anticipated support and maintenance costs for the 2016-17 financial year, as these charges could not be applied until the system was functioning as required.

NOTE 6. AMORTISATION

	2017 $'000	2016 $'000
Intangible Asset	31	-
Total Intangible Assets	31	-

The CTP regulator's intangible assets relate to its Personal Injury Register (PIR). Software has a finite useful life. Software is amortised on a straight-line basis over its useful life, over a period not exceeding 5 years.

The upgrades to the PIR were not completed until December 2016. Amortisation of the asset commenced in January 2017.

NOTE 7. AUDITOR'S REMUNERATION

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

Audit Services		
Audit fees paid or payable to the ACT Audit Office	18	17
Total Audit Fees	**18**	**17**

No other services were provided by the ACT Audit Office.

NOTE 8. CASH AND CASH EQUIVALENTS

The CTP regulator holds one bank account with the Westpac Bank as part of the whole-of-government banking arrangements.

Cash at Bank	461	483
Total Cash and Cash Equivalents	**461**	**483**

The CTP regulator does not have any credit facilities.

NOTE 9. RECEIVABLES

	2017	2016
Current Receivables	**$'000**	**$'000**
Receivables Relating to the Levy	45	43
Net GST Receivable from the Australian Taxation Office	2	14
Total Receivables	**47**	**57**

No receivables are overdue or impaired at 30 June 2017.

Classification of ACT Government/Non-ACT Government Receivables

Receivables with Non-ACT Government Entities		
Receivables Relating to the Levy	45	43
Net GST Receivable from the Australian Taxation Office	2	14
Total Receivables with Non-ACT Government Entities	**47**	**57**
Total Receivables	**47**	**57**

NOTE 10. INTANGIBLE ASSETS

The CTP regulator has internally generated software. The internally generated software consists of one software system, the ACT Personal Injury Register.

The Personal Injury Register was classified as Capital Works In Progress at 30 June 2016 (Refer Note 11). The upgrades to the PIR were not completed until December 2016 and all associated costs were capitalised in accordance with the project completion date.

Internally Generated Software		
Computer Software at Cost	312	-
Less: Accumulated Amortisation	(31)	-
Total Internally Generated Software	**281**	**-**

NOTE 10. INTANGIBLE ASSETS (CONTINUED)

Reconciliation of Intangible Assets

The following table shows the movement of Intangible Assets during 2016-17.

	Internally Generated Software	Total
	$'000	$'000
Carrying Amount at the Beginning of the Reporting Period	-	-
Additions	312	-
Amortisation	(31)	-
Carrying Amount at the End of the Reporting Period	**281**	**-**

NOTE 11. 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.

	2017 $'000	2016 $'000
Software Works in Progress	-	161
Total Capital Works in Progress	**-**	**161**

There were no Capital Works in Progress for the CTP regulator at 30 June 2017. The software upgrade to the ACT CTP regulator's Personal Injury Register (PIR) that was recognised as Capital Works in Progress at 30 June 2016 was completed during the 2016-17 financial year. The software has been recognised as an Intangible Asset (Refer Note 10), and is being amortised in accordance with its assessed useful life.

NOTE 11. CAPITAL WORKS IN PROGRESS (CONTINUED)

Reconciliation of Capital Works in Progress

The following table shows the movement of Capital Works in Progress during 2016-17.

	Software Works in Progress $'000	Total $'000
Carrying Amount at the Beginning of the Reporting Period	161	161
Additions	151	151
Capital Works in Progress completed and transferred to Intangible Assets	(312)	(312)
Carrying Amount at the End of the Reporting Period	-	-

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	161
Capital Works in Progress completed and transferred to Intangible Assets	-	-
Carrying Amount at the End of the Reporting Period	**161**	**161**

NOTE 12. PAYABLES

Current Payables	2017 $'000	2016 $'000
Accrued Expenses [1]	50	93
Total Payables	**50**	**93**

[1] In 2015-16, a large proportion of payables ($62,000) related to the upgrade of the Personal Injury Register. This project was completed during 2016-17, and hence there were no payables associated with the project remaining due at 30 June 2017.

Classification of ACT Government/Non-ACT Government Payables

Payables with ACT Government Entities		
Accrued Expenses	20	79
Total Payables with ACT Government Entities	**20**	**79**
Payables with Non-ACT Government Entities		
Accrued Expenses	30	14
Total Payables with Non-ACT Government Entities	**30**	**14**
Total Payables	**50**	**93**

No payables are overdue for payment.

NOTE 13. 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 cash and cash equivalents and receivables as indicated in the Balance Sheet.

NOTE 13. FINANCIAL INSTRUMENTS (CONTINUED)

The receivable at 30 June 2017 is mainly associated with the CTP Levy for June 2017 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.

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.

The carrying amounts and fair value of financial assets and liabilities at balance date are:

	Note No.	Carrying Amount 2017 $'000	Fair Value 2017 $'000	Carrying Amount 2016 $'000	Fair Value 2016 $'000
Financial Assets					
Cash and Cash Equivalents	8	461	461	483	483
Total Financial Assets		**461**	**461**	**483**	**483**
Financial Liabilities					
Payables	12	50	50	93	93
Total Financial Liabilities		**50**	**50**	**93**	**93**

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.

	2017 $'000	2016 $'000
Carrying Amount of each Category of Financial Asset and Financial Liability		
Financial Liabilities		
Financial Liabilities Measured at Amortised Cost	50	93

NOTE 14. 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.

	2017 $'000	2016 $'000
Total Cash and Cash Equivalents recorded in the Balance Sheet	461	483
Cash and Cash Equivalents at the End of the Reporting Period as recorded in the Cash Flow Statement	**461**	**483**

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

Operating Surplus	131	102
Add / (Less) Non-Cash Items		
Amortisation of Intangibles	31	-
Cash before changes in Assets and Liabilities	**162**	**102**
Change in Assets and Liabilities		
Decrease / (Increase) in Receivables	10	(15)
Increase in Payables	19	10
Net Cash Inflows from Operating Activities	**191**	**97**

NOTE 15. 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 4.0% for 2016-17 for all CTP Insurance policies collected.

All cash is paid directly to the Office of the Nominal Defendant.

15. THIRD PARTY MONIES COLLECTED ON BEHALF OF THE NOMINAL DEFENDANT FUND (CONTINUED)

	2017 $'000	2016 $'000
Levy Collected		
Levies from insurers	5,497	4,662
Levies from the Commonwealth Government	17	15
Levies from the ACT Government	49	42
Total Levy Collected [1]	**5,563**	**4,719**

[1] In 2016-17 the Nominal Defendant Levy was increased from 3.3% to 4.0%. This increase, along with higher than anticipated vehicle growth in the ACT resulted in more CTP policies being issued in the reporting period. This has led to increased premium collections.

Cash Disclosure		
Balance at the Beginning of the Reporting Period	-	-
Cash Receipts	5,563	4,719
Cash Payments	5,563	4,719
Balance at the End of the Reporting Period	-	-
Financial Position		
Balance at the Beginning of the Reporting Period	-	-
Receivables outstanding	1,519	1,230
Payables outstanding	1,519	1,230
Balance at the End of the Reporting Period	-	-

16. RELATED PARTY DISCLOSURES

A related party is a person that controls or has significant influence over the reporting entity, or is a member of the Key Management Personnel (KMP) of the reporting entity or its parent entity, and includes their close family members and entities in which the KMP and/or their close family members individually or jointly have controlling interests.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the CTP regulator, directly or indirectly.

KMP of the CTP regulator are the Portfolio Minister, the CTP regulator and certain members of the Senior Management Team.

The Head of Service and the ACT Executive comprising the Cabinet Ministers are KMP of the ACT Government and therefore related parties of the CTP regulator.

This note does not include typical citizen transactions between the KMP and the CTP regulator that occur on terms and conditions no different to those applying to the general public.

(A) CONTROLLING ENTITY

The CTP regulator is an ACT Government controlled entity.

16. RELATED PARTY DISCLOSURES (CONTINUED)

(B) KEY MANAGEMENT PERSONNEL

B.1 Compensation of Key Management Personnel

Compensation of all Cabinet Ministers, including the Portfolio Minister, is disclosed in the note on related party disclosures included in the ACT Executive's financial statements for the year ended 30 June 2017.

The CTP regulator and other members of the Senior Management team who are KMP of the CTP regulator are employees of Chief Minister, Treasury & Economic Development Directorate (CMTEDD) and are compensated by CMTEDD.

Compensation by the CTP regulator to KMP is NIL.

B.2 Transactions with Key Management Personnel

There were no transactions with KMP that were material to the financial statements of the CTP regulator.

B.3 Transactions with parties related to Key Management Personnel

There were no transactions with parties related to KMP, including transactions with KMP's close family members or other related entities that were material to the financial statements of the CTP regulator.

(C) TRANSACTIONS WITH OTHER ACT GOVERNMENT CONTROLLED ENTITIES

All transactions with ACT Government controlled entities are disclosed in the relevant notes to the financial statements of the CTP regulator.

ACT Compulsory Third-Party Insurance Regulator
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

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 2016-17 $'000	Original Budget[1] 2016-17 $'000	Variance $'000	Variance %	Variance Explanation
Supplies and Services	370	420	(50)	-12%	The decrease in Supplies and Services mainly relates to lower than anticipated actuarial expenses largely due to a lower number of tasks being carried out (such as reviews associated with new insurers entering the ACT market), and a reduction in ongoing maintenance costs of the Personal Injury Register (PIR) due to the PIR implementation project being completed later than anticipated in the budget. These costs are partially offset by the CTP regulator's commitment to Road Safety Initiatives ($0.070 million) that were budgeted against other expenses.

ACT Compulsory Third-Party Insurance Regulator
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 17. BUDGETARY REPORTING (CONTINUED)

Balance Sheet Line Items	Actual 2016-17	Original Budget[1] 2016-17	Variance	Variance	Variance Explanation
	$'000	$'000	$'000	%	
Cash and Cash Equivalents	461	331	130	39%	The higher than budgeted Cash and Cash Equivalents balance predominantly relates to lower than anticipated expenses during the year.
Intangible Assets	281	237	44	19%	The transition of the ACT Personal Injury Register database onto the ACT Government's ICT Platform was completed later than anticipated in the budget. As a result, there was lower than anticipated accumulated amortisation for the asset.
Payables	50	20	30	150%	The increase in payables largely relates to higher than anticipated accrued expenses for actuarial services for work performed but not invoiced by 30 June 2017.

NOTE 17. BUDGETARY REPORTING (CONTINUED)

Cash Flow Statement Line Items	Actual 2016-17 $'000	Original Budget[1] 2016-17 $'000	Variance $'000	Variance %	Variance Explanation
Supplies and Services	350	420	(70)	-17%	The decrease in Supplies and Services mainly relates to lower than anticipated actuarial expenses largely due to lower than anticipated ad hoc work being carried out, and a reduction in ongoing maintenance costs of the Personal Injury Register due to the PIR implementation project being completed later than anticipated in the budget. These costs are partially offset by the CTP regulator's commitment to Road Safety Initiatives (0.070 million) that were budgeted against other expenses.
Intangible Assets	213	107	106	99%	The transition of the ACT Personal Injury Register database onto the ACT Government's ICT Platform commenced in 2015-16. The transition was slower than anticipated and as a result, higher than anticipated cash outflows were incurred in 2016-17 to complete the project.

[1] Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting period (2016-17 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.

ACT Compulsory Third-Party Insurance Regulator
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

APPENDIX A: BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

LEGISLATIVE REQUIREMENT

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 Australian Accounting Standards 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.

(a) Accrual Accounting

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.

(b) Currency

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

(c) Individual Reporting Entity

The CTP regulator is an individual reporting entity.

(d) 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 2017, and the financial position of the CTP regulator at 30 June 2017.

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.

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.

GOING CONCERN

The 2016-17 financial statements have been prepared on a going concern basis as the ongoing functions, activities and fund of the CTP Regulator are set out in the 2017-18 Statement of Intent.

APPENDIX B: SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue Recognition

Revenue is recognised at the fair value of the consideration received or receivable in the Operating Statement.

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.

(b) Interest

Interest revenue is recognised using the effective interest method.

(c) Employee Benefits

The CTP regulator does not employ any staff. The CTP regulator's functions are undertaken by officers from Chief Minister, Treasury & Economic Development Directorate (CMTEDD) who carry out the CTP regulator's functions. In 2016-17, 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'.

(d) Amortisation

Amortisation is used in relation to Intangible Assets. Amortisation for non-current assets is determined as follows:

Class of Asset	Amortisation	Useful Life (Years)
Internal Generated Intangibles	Straight Line	5 years

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

(e) Assets - Current and Non-Current

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

(f) Cash and Cash Equivalents

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.

(g) 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 2017 is mainly associated with the CTP Levy for June 2017 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 2017 (2015-16: Nil).

(h) Intangible Assets

The CTP regulator's intangible assets are comprised of internally generated and externally acquired software for internal use. Externally acquired software is recognised when:

a) It is probable that the expected future benefits attributable to the software will flow to the CTP regulator;

b) The cost of the software can be reliably measured; and

c) The acquisition cost is equal to or exceeds $50,000.

Internally generated software is recognised when it meets the general recognition criteria outlined above and where it also meets the specific recognition criteria relating to intangible assets arising from the development phase of an internal project.

Software has a finite useful life. Software is amortised on a straight-line basis over its useful life, over a period not exceeding 5 years.

Intangible Assets are measured at cost.

(i) Liabilities – Current and Non-Current

Liabilities are classified as current or non-current in the Balance Sheet and the relevant notes. Liabilities are classified as current when they are due to be settled within 12 months after the reporting dateor the CTP regulator does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Liabilities which do not fall within the current classification, are classified as non-current.

(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.

APPENDIX C: IMPACT OF ACCOUNTING STANDARDS ISSUED BUT YET TO BE APPLIED

The CTP regulator has assessed the accounting standards that have been issued by the Australian Accounting Standards Board. These standards and interpretations are applicable to a future reporting period and no material financial impact is expected. The CTP regulator does not intend to adopt the standards or interpretations early. Where applicable, the Australian Accounting Standards will be adopted from their application dates.

Statement of Performance

For the Year Ended

30 June 2017

ACT Compulsory Third-Party

Insurance Regulator

REPORT OF FACTUAL FINDINGS

ACT COMPULSORY THIRD-PARTY INSURANCE REGULATOR

To the Members of the ACT Legislative Assembly

Review opinion

I am providing an **unqualified review opinion** on the statement of performance of the ACT Compulsory Third-Party Insurance Regulator (the Regulator) for the year ended 30 June 2017.

During the review no matters were identified which indicate that the results of the accountability indicators reported in the statement of performance are not fairly presented in accordance with the *Financial Management Act 1996*.

Basis for the review opinion

The review was conducted in accordance with the Australian Auditing Standards. I have complied with the requirements of the Accounting Professional and Ethical Standards 110 *Code of Ethics for Professional Accountants*.

I believe that sufficient evidence was obtained during the review to provide a basis for the review opinion.

Responsibility for preparing and fairly presenting the statement of performance

The Regulator is responsible for:

- preparing and fairly presenting the statement of performance in accordance with the *Financial Management Act 1996* and *Financial Management (Statement of Performance Scrutiny) Guidelines 2017*; and
- determining the internal controls necessary for the preparation and fair presentation of the statement of performance so that the results of accountability indicators and accompanying information are free from material misstatements, whether due to error or fraud.

Responsibility for the review of the statement of performance

Under the *Financial Management Act 1996* and *Financial Management (Statement of Performance Scrutiny) Guidelines 2017*, the Auditor-General is responsible for issuing a report of factual findings on the statement of performance of the Regulator.

As required by Australian Auditing Standards, the auditors:

- applied professional judgement and maintained scepticism;
- identified and assessed the risks of material misstatements due to error or fraud* and implemented procedures to address these risks so that sufficient evidence was obtained to form a review opinion; and
- reported the scope and timing of the review and any significant deficiencies in reporting practices identified during the review to the Regulator.

(*The risk of not detecting material misstatements due to fraud is higher than the risk due to error, as fraud may involve collusion, forgery, intentional omissions or misrepresentations or the override of internal controls.)

Limitations on the scope of the review

The review was conducted in accordance with Australian Auditing Standards applicable to review engagements, to provide limited 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 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.

This review does not provide assurance on the:

- relevance or appropriateness of the accountability indicators reported in the statement of performance or the related performance targets;
- accuracy of explanations provided for variations between actual and targeted performance due to the often subjective nature of such explanations;
- adequacy of controls implemented by the Regulator; or
- integrity of reviewed statement of performance presented electronically or information hyperlinked to or from the statement of performance. Assurance can only be provided for the printed copy of the reviewed statement of performance.

Ajay Sharma
Acting Director, Financial Audits
25 August 2017

ACT Compulsory Third-Party Insurance Regulator
Statement of Performance
For the Year Ended 30 June 2017

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 2017, and also fairly reflects the judgements exercised in preparing it.

K. Doran

Karen Doran
ACT Compulsory Third-Party Insurance Regulator
24 August 2017

ACT Compulsory Third-Party Insurance Regulator
Statement of Performance
For the Year Ended 30 June 2017

	Original Target 2016-17	Actual Result 2016-17	Variance from Original Target	Explanation of Material Variances
TOTAL COST ($'000)	506	401	(20.8%)	The lower than expected cost is largely due to lower actuarial costs, lower than anticipated information technology costs associated with the Personal Injury Register, and lower amortisation due to a delay in the finalisation of a software project. This was partly offset by higher expenses relating to road safety initiatives.
Accountability Indicators				
a. CTP premiums are approved in accordance with the *Road Transport (Third-Party Insurance) Act 2008* (CTP Act). **(Note 1)**	Review annual CTP premium filings.	In 2016-17, all Compulsory Third-Party (CTP) premium filings submitted to the CTP regulator were approved in accordance with the CTP Act.	-	
b. The scheme is fully funded. **(Note 2)**	Actuarial review of premium filing applications by 30/6/2017.	In 2016-17, all premium filing applications received by the CTP regulator were reviewed by the scheme actuary by 30/6/2017.	-	
c. Make guidelines under the Act. **(Note 3)**	Monitor and revise Premium Guidelines and Early Payment Guidelines by 30/6/2017 as necessary.	Premium Guidelines were monitored but revisions were not necessary before 30/6/2017. Early Payment Guidelines were monitored and revised, with new Guidelines becoming effective on 18/11/2016.	-	
d. To continue to refine the system of CTP insurance for vehicles in the ACT in conjunction with insurers. **(Note 4)**	Participation at Industry Council of Australia (ICA) meetings.	The CTP regulator and insurers met twice during 2016-17 at meetings facilitated by the ICA.	-	

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

ACT Compulsory Third-Party Insurance Regulator
Statement of Performance (continued)
For the Year Ended 30 June 2017

	Original Target 2016-17	Actual Result 2016-17	Variance from Original Target	Explanation of Material Variances
e. Promote public awareness of the causes of motor accidents through funding measures directed at reducing causes of motor vehicle accidents. **(Note 5)**	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 contributed $70,000 towards road safety strategies in 2016-17.	-	
f. Complaints handling within 10 working days of receipt of the complaint. **(Note 6)**	85% compliance.	100% compliance.	18%	All complaints received by the CTP regulator were responded to within 10 working days of receipt.

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

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 2017.*

Notes:

1. Premium filings were received from NRMA in July 2016 and from GIO in November 2016. An additional premium filing was also received from NRMA in April 2017. Premium filings were due from AAMI and APIA in April 2017, however Suncorp requested an extension for these filings until 30 September 2017, which was granted by the CTP regulator. A high level review of the current premiums for AAMI and APIA was undertaken to ensure that the current premiums were still valid for the extension period. All of the premium filings (and granted extensions) were assessed and approved in accordance with the Act.

- 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.
- 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.

2. 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.

3. The guidelines under the Act were discussed as a standing item at the 2016-17 Industry Council of Australia meetings, as well as out-of-session with insurers. A range of matters have been discussed throughout 2016-17 that will be incorporated into guideline amendments in 2017-18 once they have been further progressed and finalised (these were, however, not due to be finalised in 2016-17). The Early Payment Guidelines were revised to provide guidance on the submission of the early payment claim form following amendments to the claims forms, and became effective 18 November 2016.

4. The CTP regulator and insurers met twice during 2016-17 at meetings facilitated by the ICA (out-of-session correspondence was also conducted with insurers on important issues). The meetings and emails included discussion of matters relating to improving the operation of the CTP scheme.

5. The CTP regulator contributed $70,000 in 2016-17, to various road safety strategies aimed at mitigating third-party motor vehicle injuries. This comprises of $50,000 for a tailgating campaign and $20,000 for a vehicle safety campaign.

6. 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 2017

Lifetime Care and Support Fund

Lifetime Care and Support Fund
Management Discussion and Analysis
For the Year Ended 30 June 2017

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. As part of the ACT Government's decision to implement a National Injury Insurance Scheme, amendments were made to the LTCS Act to extend the LTCS Scheme to also cover catastrophically injured ACT private sector workers from 1 July 2016.

The LTCS Scheme is funded by two levies. The LTCS Levy relating to motor accident injuries applies to all Compulsory Third Party Insurance (CTP) policies issued under the *Road Transport (Third-Party Insurance) Act 2008* on or after 1 July 2014. LTCS Levy relating to work injuries applies to each workers' compensation insurer and self-insurer who writes workers compensation policies for the purposes of the *Workers Compensation Act 1951* from 1 July 2016.

Overview of the 2016-17 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 2016-17 is a surplus of $9.295 million, compared to the budgeted surplus of $0.090 million. This operating surplus is mainly due to the impact of one new potential participant to the LTCS Scheme during 2016-17 which was lower than the number of new participants anticipated in the Budget.

At 30 June 2017, the LTCS fund's current assets ($4.006 million) exceed its current liabilities ($1.144 million). Its total assets ($32.092 million) also exceed total liabilities ($22.710 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".

Lifetime Care and Support Fund
Management Discussion and Analysis
For the Year Ended 30 June 2017

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.

The investment returns that contribute towards the sufficiency of funds have exposure to market fluctuations. The associated risk is mitigated by ensuring funds are invested in multi-asset unit trusts in accordance with the LTCS fund's approved investment strategy that aims to achieve the long-term funding of the LTCS Scheme.

Directorate's Territorial Statement of Income and Expenses

The following financial information is based on the audited Financial Statements for 2016-17 and the forward estimates contained in the 2017-18 Budget Statements.

Total Expenses

1. Components of Total Expenses

For the financial year ended 30 June 2017, the LTCS fund recorded total expenses of $6.221 million. The expenses mainly comprise of participants' treatment and care expenses ($3.886 million), finance costs ($1.061 million) and losses on investments ($0.914 million).

The participants' treatment and care expenses include provision for the future treatment and care costs of the new and potential LTCS Scheme participants as well as movements in provision for existing participants.

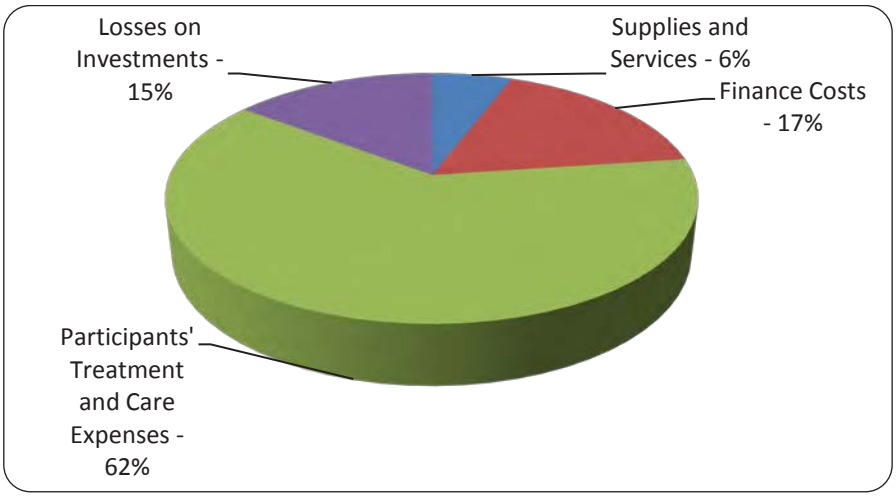
The finance cost is associated with the unwinding of the discount rate on the provision for future treatment and care costs of the LTCS Scheme participants.

Losses on investments are unrealised losses resulting from changes in the fair value of the investments. Unrealised gains/losses are at a point in time and fluctuate over time. Offsetting the losses on the expense side are distributions from investments on the income side. The focus of the LTCS fund's investments is on achieving the long-term funding of the LTCS Scheme rather than focusing on the financial position over shorter periods, particularly in the early years.

The supplies and services expenses ($0.360 million) mainly include administrative support expenses ($0.170 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 2016-17.

Figure 1 – Components of Total Expenses



2. Comparison to Original Budget

Total expenses were $8.537 million (or 58%) lower than the 2016-17 Budget of $14.758 million. This was mainly due to one new potential participant to the LTCS Scheme during 2016-17, which was lower than the number of new participants anticipated in the Budget. The application was received in June 2017 and was pending assessment as at 30 June 2017. This applicant has subsequently been accepted into the LTCS Scheme in August 2017. The expense was also influenced by the changes to participants' injury severity levels.

3. Comparison to 2015-16 Actual

Total expenses were $4.690 million (or 306%) higher than last year's actual expenses of $1.531 million. This was mainly due to:

- the increase in the participants' treatment and care expenses resulting from the impact of one new potential participant entering the LTCS Scheme during 2016-17, compared to no new participants entering the LTCS Scheme during 2015-16. The 2016-17 participants' treatment and care expenses were also influenced by changes to participants' injury severity levels and the change in the Model used by the new Scheme actuary for estimating the provision for participants' future treatment and care costs at 30 June 2017.
- the unrealised loss on investments resulting from changes in the fair value of the investments. The investment of funds not required in the short-term commenced during 2016-17.

4. Future Trends

In the 2017-18 Budget, future expenses were estimated based on similar actuarially assessed average number of new participants entering the LTCS Scheme each year. The treatment and care costs of the LTCS Scheme's future participants and the associated timing of payments is reassessed each year for the purposes of the Budget based on independent actuarial projections. It must be recognised that the actual number of new participants and their associated treatment and care expense profiles will be volatile, particularly in the early years of the Scheme.

Lifetime Care and Support Fund
Management Discussion and Analysis
For the Year Ended 30 June 2017

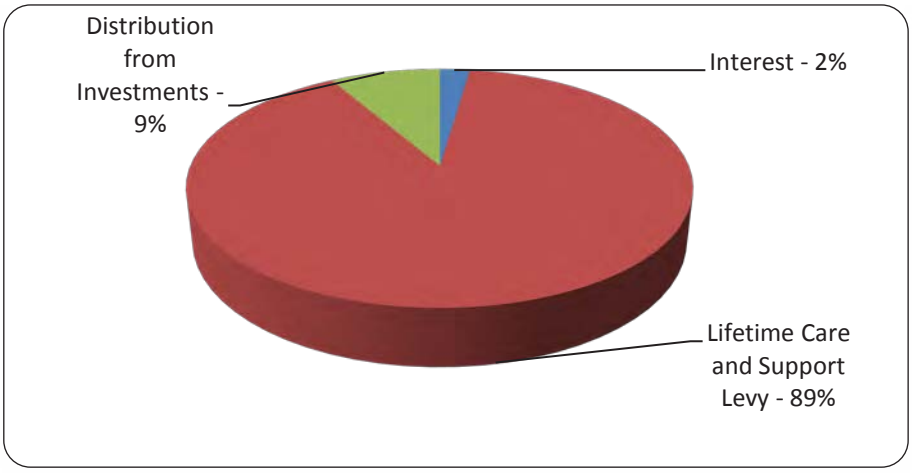
Total Income

1. Components of Total Income

For the financial year ended 30 June 2017, the LTCS fund recorded total income of $15.516 million, derived from the LTCS Levy ($13.858 million), interest from cash at bank ($0.354 million) and distribution from investments with the Territory Banking Account ($1.304 million).

Figure 2 indicates the components of the LTCS fund's income for 2016-17.

Figure 2 – Components of Total Income



2. Comparison to Original Budget

Income for the financial year was $1.205 million, or 8 per cent above the 2016-17 Budget of $14.311 million. This was mainly associated with the distribution from investments with the Territory Banking Account which was higher than what was anticipated in the Budget. However, offsetting this on the expense side were unrealised losses on investments.

3. Comparison to 2015-16 Actual

Total income was $5.629 million or 57% higher than last year's actual income of $9.887 million. This was mainly due to the LTCS levy on workers compensation insurers and self insurers that commenced from 1 July 2016 ($3.8 million) and the distribution from investments with the Territory Banking Account ($1.304 million) which commenced during 2016-17. The higher combined income from interest and distribution from investments in 2016-17 was associated with the returns on a higher investment base.

4. Future Trends

In the 2017-18 Budget, income is estimated to increase in the future mainly due to the returns associated with the continuing investment of funds not required in the short-term. Income is also expected to increase due to 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.

Lifetime Care and Support Fund
Management Discussion and Analysis
For the Year Ended 30 June 2017

Directorate's Territorial Statement of Assets and Liabilities

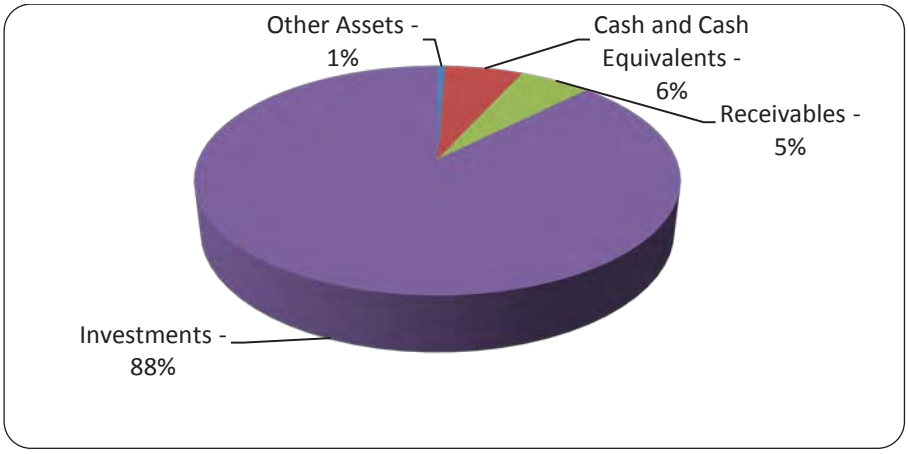
Total Assets

1. Components of Total Assets

The total asset position at 30 June 2017 was $32.092 million which was mainly made up of investments ($28.086 million), cash ($1.988 million) and receivables ($1.818 million). The receivables are mainly associated with the LTCS Levy ($0.930 million) and distributions from investments with the Territory Banking Account ($0.870 million).

Figure 3 indicates the components of the LTCS fund's total assets as at 30 June 2017.

Figure 3 – Components of Total Assets at 30 June 2017



2. Comparison to Budget

Total assets at 30 June 2017 were $ 1.468 million (or 5%) higher than the Budget. This was mainly associated with the receivable for distributions from investments with the Territory Banking Account ($0.870 million), not anticipated in the Budget.

3. Comparison to 30 June 2016 Actual

Total assets were $13.634 million or 74% higher than assets at 30 June 2016 of $18.458 million. This was mainly due to the additional year's worth of LTCS levy collections. The investment of funds not required in the short-term commenced during 2016-17 resulting in the lower cash at bank balance and higher investments balance.

These assets, together with future investment income are required to fund the present and likely future treatment and care costs of participants in the LTCS Scheme (over their lifetime), when the liability becomes payable.

Total Liabilities

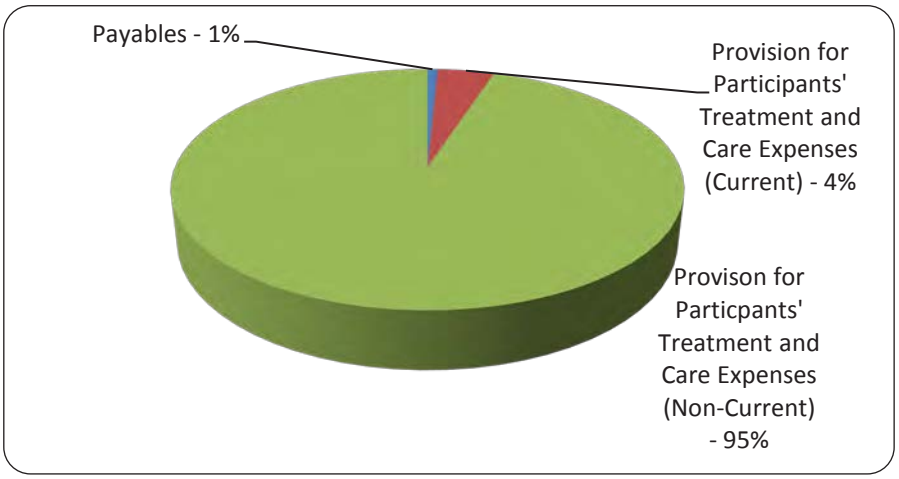
1. Components of Total Liabilities

The LTCS fund's total liabilities of $22.710 million at 30 June 2017 largely relate to the provision for future treatment and care costs of participants in the LTCS Scheme, of which the current

component is $0.968 million and the non-current component is $21.566 million. The provision reflects the present value of the participants' expected lifetime treatment and care costs.

Figure 4 below shows the components of the LTCS fund's total liabilities as at 30 June 2017.

Figure 4 – Components of Total Liabilities at 30 June 2017



2. Comparison to Budget

Liabilities at 30 June 2017 were $9.387 million (or 29%) lower than the Budget of $32.097 million. This was mainly due to the impact of one new potential participant entering the LTCS Scheme during 2016-17 (application received but pending assessment as at 30 June 2017 and subsequently accepted in August 2017). This was lower than the number of new participants anticipated in the Budget. The 2016-17 provision for participants' treatment and care expenses was also influenced by the changes to participants' injury severity levels and the change in the Model used by the new Scheme actuary for estimating the provision at 30 June 2017.

3. Comparison to 30 June 2016 Actual

Total liabilities at 30 June 2017 were $4.339 million (or 24%) higher than the liabilities at 30 June 2016 of $18.371 million. This was mainly associated with the provision for the future treatment and care costs of one new potential participant entering the LTCS Scheme during 2016-17. The provision was also impacted by the changes to participants' injury severity levels, unwinding of the discount rate, based on an independent actuarial assessment as well as the change in the Model used by the new actuary for estimating the provision at 30 June 2017.

INDEPENDENT AUDIT REPORT

LIFETIME CARE AND SUPPORT FUND

To the Members of the ACT Legislative Assembly

Audit opinion

I am providing an **unqualified audit opinion** on the financial statements of the Lifetime Care and Support Fund for the year ended 30 June 2017. The financial statements 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.

In my opinion, the financial statements:

(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 Lifetime Care and Support Fund and results of its operations and cash flows.

Emphasis of matter

Without modifying the audit opinion, I draw attention to the significant uncertainty associated with estimating the provision for future treatment and care costs of participants in the Lifetime Care and Support Fund and the related expenses due to the long-term nature of the provision and limited claims experience. This is disclosed in the financial statements in Note 16: 'Provision for Participants' Treatment and Care Expenses' and Appendix B: 'Significant Accounting Policies, Notes 10 and 16 – Provision for Participants' Treatment and Care Expenses'.

Basis for the audit opinion

The audit was conducted in accordance with the Australian Auditing Standards. I have complied with the requirements of the Accounting Professional and Ethical Standards 110 *Code of Ethics for Professional Accountants*.

I believe that sufficient evidence was obtained during the audit to provide a basis for the audit opinion.

Responsibility for preparing and fairly presenting the financial statements

The Under Treasurer is responsible for:

- preparing and fairly presenting the financial statements in accordance with the *Financial Management Act 1996* and relevant Australian Accounting Standards;
- determining the internal controls necessary for the preparation and fair presentation of financial statements so that they are free from material misstatements, whether due to error or fraud; and
- assessing the ability of the Lifetime Care and Support Fund to continue as a going concern and disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting in preparing the financial statements.

Responsibility for the audit of the financial statements

Under the *Financial Management Act 1996*, the Auditor-General is responsible for issuing an audit report that includes an independent audit opinion on the financial statements of the Lifetime Care and Support Fund.

As required by Australian Auditing Standards, the auditors:

- applied professional judgement and maintained scepticism;
- identified and assessed the risks of material misstatements due to error or fraud and implemented procedures to address these risks so that sufficient evidence was obtained to form an audit opinion. The risk of not detecting material misstatements due to fraud is higher than the risk due to error, as fraud may involve collusion, forgery, intentional omissions or misrepresentations or the override of internal controls;
- obtained an understanding of internal controls to design audit procedures for forming an audit opinion;
- evaluated accounting policies and estimates used to prepare the financial statements and disclosures made in the financial statements;
- evaluated the overall presentation and content of the financial statements, including whether they present the underlying transactions and events in a manner that achieves fair presentation;
- reported the scope and timing of the audit and any significant deficiencies in internal controls identified during the audit to the Under Treasurer; and
- assessed the going concern* basis of accounting used in the preparation of the financial statements.

(*Where the auditor concludes that a material uncertainty exists which cast significant doubt on the appropriateness of using the going concern basis of accounting, the auditor is required to draw attention in the audit report to the relevant disclosures in the financial statements or, if such disclosures are inadequate, the audit opinion is to be modified. The auditor's conclusions on the going concern basis of accounting are based on the audit evidence obtained up to the date of this audit report. However, future events or conditions may cause the entity to cease to continue as a going concern.)

Limitations on the scope of the audit

An audit provides a high level of assurance about whether the financial statements are free from material misstatements, whether due to fraud or error. However, an audit cannot provide a guarantee that no material misstatements exist due to the use of selective testing, limitations of internal control, persuasive rather than conclusive nature of audit evidence and use of professional judgement in gathering and evaluating evidence.

An audit does not provide assurance on the:

- reasonableness of budget information included in the financial statements;
- prudence of decisions made by the Lifetime Care and Support Fund;
- adequacy of controls implemented by the Lifetime Care and Support Fund; or
- integrity of audited financial statements presented electronically or information hyperlinked to or from the financial statements. Assurance can only be provided for the printed copy of the audited financial statements.

Ajay Sharma
Acting Director, Financial Audits
25 August 2017

LIFETIME CARE AND SUPPORT FUND
FINANCIAL STATEMENTS
For the Year Ended 30 June 2017

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 2017 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
24 August 2017

Karen Doran
Lifetime Care and Support Commissioner
of the ACT
24 August 2017

LIFETIME CARE AND SUPPORT FUND
FINANCIAL STATEMENTS
For the Year Ended 30 June 2017

STATEMENT BY THE CHIEF FINANCE OFFICER

In my opinion, the financial statements have been prepared in accordance with the Australian Accounting Standards, 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 2017 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
23 August 2017

LIFETIME CARE AND SUPPORT FUND

TERRITORIAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

Lifetime Care and Support Fund
Statement of Income and Expenses on Behalf of the Territory
For the Year Ended 30 June 2017

	Note No.	Actual 2017 $'000	Original Budget 2017 $'000	Actual 2016 $'000
Income				
Revenue				
Lifetime Care and Support Levy	3	13,858	13,744	9,522
Interest	4	354	31	365
Distribution from Investments with the Territory Banking Account	5	1,304	536	-
Total Revenue		15,516	14,311	9,887
Gains				
Gains on Investments	6	-	537	-
Total Gains		-	537	-
Total Income		**15,516**	**14,848**	**9,887**
Expenses				
Supplies and Services	7	360	538	367
Finance Costs	9	1,061	1,170	1,027
Participants' Treatment and Care Expenses	10	3,886	13,050	137
Losses on Investments	6	914	-	-
Total Expenses		**6,221**	**14,758**	**1,531**
Operating Surplus		**9,295**	**90**	**8,356**
Total Comprehensive Income		**9,295**	**90**	**8,356**

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 2017

	Note No.	Actual 2017 $'000	Original Budget 2017 $'000	Actual 2016 $'000
Current Assets				
Cash and Cash Equivalents	11	1,988	1,800	17,265
Receivables	12	1,818	825	897
Other Assets	13	200	-	296
Total Current Assets		**4,006**	**2,625**	**18,458**
Non-Current Assets				
Investments	14	28,086	27,999	-
Total Non-Current Assets		**28,086**	**27,999**	**-**
Total Assets		**32,092**	**30,624**	**18,458**
Current Liabilities				
Payables	15	176	155	279
Provision for Participants' Treatment and Care Expenses	16	968	2,403	505
Total Current Liabilities		**1,144**	**2,558**	**784**
Non-Current Liabilities				
Provision for Participants' Treatment and Care Expenses	16	21,566	29,539	17,587
Total Non-Current Liabilities		**21,566**	**29,539**	**17,587**
Total Liabilities		**22,710**	**32,097**	**18,371**
Net Assets/ (Liabilities)		**9,382**	**(1,473)**	**87**
Equity				
Accumulated Funds/ (Deficit)		9,382	(1,473)	87
Total Equity		**9,382**	**(1,473)**	**87**

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 2017

	Accumulated Funds Actual 2017 $'000	Total Equity Actual 2017 $'000	Original Budget 2017 $'000
Balance at 1 July 2016	87	87	(1,563)
Comprehensive Income			
Operating Surplus	9,295	9,295	90
Total Comprehensive Income	**9,295**	**9,295**	**90**
Balance at 30 June 2017	**9,382**	**9,382**	**(1,473)**

	(Deficit)/ Accumulated Funds Actual 2016 $'000	Total Equity Actual 2016 $'000
Balance at 1 July 2015	(8,269)	(8,269)
Comprehensive Income		
Operating Surplus	8,356	8,356
Total Comprehensive Income	**8,356**	**8,356**
Balance at 30 June 2016	**87**	**87**

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 2017

	Note No.	Actual 2017 $'000	Original Budget 2017 $'000	Actual 2016 $'000
Cash Flows from Operating Activities				
Receipts				
Lifetime Care and Support Levy		13,814	13,744	9,442
Interest Received		354	31	365
Distribution from Investments with the Territory Banking Account		434	536	-
Goods and Services Tax Input Tax Credits from the Australian Taxation Office		63	-	75
Total Receipts from Operating Activities		**14,665**	**14,311**	**9,882**
Payments				
Supplies and Services		370	537	358
Goods and Services Tax Paid to Suppliers		70	-	67
Participants' Treatment and Care		502	1,622	635
Total Payments for Operating Activities		**942**	**2,159**	**1,060**
Net Cash Inflows from Operating Activities	18	**13,723**	**12,152**	**8,822**
Cash Flows from Investing Activities				
Payments				
Purchase of Investments		29,000	11,452	-
Total Payments for Investing Activities		**29,000**	**11,452**	**-**
Net Cash (Outflows) from Investing Activities		**(29,000)**	**(11,452)**	**-**
Net Cash Inflows/(Outflows) from Financing Activities		**-**	**-**	**-**
Net (Decrease)/ Increase in Cash and Cash Equivalents		**(15,277)**	**700**	**8,822**
Cash and Cash Equivalents at the Beginning of the Reporting Period		17,265	1,100	8,443
Cash and Cash Equivalents at the End of the Reporting Period	11	**1,988**	**1,800**	**17,265**

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 2017

Note Index

Lifetime Care and Support Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

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. Amendments to the LTCS Act extended the LTCS Scheme to also cover catastrophically injured workers for injuries occurring on or after 1 July 2016 in the course of the worker's private sector employment in the ACT.

The LTCS Scheme is funded by two levies: a levy on Compulsory Third-Party Insurance (CTP) policies and a levy on workers' compensation insurers and self-insurers.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Refer to the following appendices for the notes comprising significant accounting policies and other explanatory information:

Appendix A - Basis of Preparation of the Financial Statements
Appendix B - Significant Accounting Policies
Appendix C - Impact of Accounting Standards Issued But Yet to Be Applied

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 a motor accident or work injury 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 is an amount 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 is determined each year in accordance with the report of an independent actuary (for the contribution period 2016-17 by Cumpston Sarjeant Pty Ltd).

The LTCS Commissioner determined the LTCS Levy relating to motor accident injuries for the 2016-17 contribution period to be $35.00 (2015-16: $34.00) for a 12-month CTP insurance 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, to continue at 20% of the unrestricted LTCS levy. This equates to $7.00 for a 12 month CTP policy on these vehicles.

The LTCS Levy relating to motor accident injuries 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.

The LTCS Act was amended to extend the LTCS Scheme to include catastrophically injured private sector workers from 1 July 2016. The LTCS Commissioner determined the LTCS Levy relating to work injuries for the 2016-17 contribution period to be $3.8 million apportioned across each workers' compensation insurer and self-insurer who writes workers compensation policies for the purposes of the *Workers Compensation Act 1951*. The allocation is based on their estimated market share.

	2017 $'000	2016 $'000
Lifetime Care and Support Levy - Motor Accident Injuries [1]	10,058	9,522
Lifetime Care and Support Levy - Workers Injuries [2]	3,800	-
Total Lifetime Care and Support Levy	**13,858**	**9,522**

[1] The increase in the LTCS Levy from the previous year is due to an increase in the levy rate from $34 in 2015-16 to $35 in 2016-17 for a 12-month CTP insurance policy and an increase in the number of vehicles registered.

[2] The LTCS Act was amended to extend the LTCS Scheme to include catastrophically injured workers from 1 July 2016. The LTCS Levy on workers' compensation insurers and self-insurers commenced from 1 July 2016.

NOTE 4. INTEREST

	2017 $'000	2016 $'000
Revenue from Non-ACT Government Entities		
Interest Revenue [1]	354	365
Total Interest Revenue from Non-ACT Government Entities	**354**	**365**
Total Interest Revenue	**354**	**365**
Total interest revenue from financial assets not at fair value through profit and loss	354	365

[1] Interest revenue is associated with the cash balance held in the bank during the reporting period. The decrease is mainly due to the lower balance resulting from the investment of funds not required in the short-term. It reflects investments being made progressively during 2016-17 rather than in one lump sum amount.

NOTE 5. DISTRIBUTION FROM INVESTMENTS WITH THE TERRITORY BANKING ACCOUNT

Revenue from ACT Government Entities		
Distribution from Investments with the Territory Banking Account [1]	1,304	-
Total Distribution from Investments with the Territory Banking Account	**1,304**	**-**

[1] Distribution from investments with the Territory Banking Account is associated with the investment of funds during 2016-17 in accordance with the long-term investment strategy outlined in the LTCS fund's Investment Plan. Investments commenced during 2016-17.

NOTE 6. LOSSES ON INVESTMENTS

Losses on Investments [1]	914	-
Total Losses on Investments	**914**	**-**

[1] Losses on investments reflect the unrealised loss resulting from changes in the fair value of the investments with the Territory Banking Account.
Investments were made in accordance with the LTCS fund's long-term investment strategy outlined in the Investment Plan, during 2016-17.

NOTE 7. SUPPLIES AND SERVICES

	2017 $'000	2016 $'000
Actuarial Expenses	31	49
Administration Expenses	1	3
Administrative Support Expenses [1]	170	155
Advertising	2	-
Audit Fees [2]	46	43
Consultants	7	12
Information and Technology Costs	6	10
LTCS Scheme Claims Handling Costs [3]	97	95
Total Supplies and Services	**360**	**367**

[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.

[2.] Refer Note 8: *Auditor's Remuneration.*

[3.] During 2015-16, certain administrative functions associated with the ACT LTCS Scheme participants were transferred to the New South Wales Lifetime Care and Support Authority (NSW LTCSA) due to their expertise and efficiencies of scale. LTCS claims handling costs are associated with the charge from the NSW LTCSA in relation to the services provided to the LTCS fund. The related cost of services $0.129 million (2015-16: $0.127 million) is split between corporate and set up services (reflected here) and claims handling costs (reflected in 'Claims Handling Costs' under Note 10: *Participants' Treatment and Care Expenses).*

NOTE 8. 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.

Audit Services		
Audit fees paid or payable to the ACT Audit Office	46	43
Total Audit Fees	**46**	**43**

No other services were provided by the ACT Audit Office.

NOTE 9. FINANCE COSTS

	2017 $'000	2016 $'000
Unwinding of Discount Rate [1]	1,061	1,027
Total Finance Costs	**1,061**	**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.
The amount of unwinding of discount expensed was assessed by the independent actuary.
Also, refer Note 16: *Provision for Participants' Treatment and Care Expenses.*

NOTE 10. PARTICIPANTS' TREATMENT AND CARE EXPENSES

Attendant Care	33	12
Education and Vocational Support Services [1]	53	15
Equipment	42	53
Home Modifications	2	-
Hospital [2]	54	6
International Exchange Rate and Transfer Fees	-	10
Medical [3]	61	81
Participants' Assessment and Review	28	12
Rehabilitation [3]	93	140
Support Services [4]	107	94
	473	423
Claims Handling Costs [5]	32	32
Movement in Provision for Future Participants' Treatment and Care Costs [6]	3,381	(318)
Total Participants' Treatment and Care Expenses	**3,886**	**137**

[1.] The increase mainly relates to the cost of an aid at an educational institute for one of the Scheme's younger participants.

[2.] The increase mainly relates to follow up surgery required for the LTCS Scheme's participants in 2016-17.

[3.] The decrease in medical and rehabilitation costs reflects improvements in the health status of a number of the LTCS Scheme's participants.

[4.] Support services include the cost of travel and accommodation for the LTCS Scheme participants, their relatives and providers as required and case management.

[5.] 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 Costs' under Note 7: *Supplies and Services*).

[6.] Refer Note 16: *Provision for Participants' Treatment and Care Expenses.*

NOTE 11. CASH AND CASH EQUIVALENTS

	2017 $'000	2016 $'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.

Cash at Bank [1]	1,988	17,265
Total Cash and Cash Equivalents	**1,988**	**17,265**

[1] The decrease is mainly due to the investment of funds not required in the short-term, during 2016-17.

NOTE 12. RECEIVABLES

Current Receivables		
LTCS Levy Receivable [1]	930	886
Net Goods and Services Tax Receivable	18	11
Other Receivables (Distribution from Investments) [2]	870	-
Total Current Receivables	1,818	897
Total Receivables	**1,818**	**897**

[1] The LTCS Levy Receivable is associated with the LTCS Levy for June remitted to the LTCS fund in July.

[2] Other Receivables are associated with the amount of distribution from investments with the Territory Banking Account for the quarter ended 30 June 2017, received in July 2017. The investment of funds commenced during 2016-17.

No receivables are past due or impaired.

Classification of ACT Government/Non-ACT Government Receivables

Receivables with ACT Government Entities		
Other Receivables (Distribution from Investments)	870	-
Total Receivables with ACT Government Entities	**870**	**-**
Receivables with Non-ACT Government Entities		
LTCS Levy Receivable	930	886
Net Goods and Services Tax Receivable	18	11
Total Receivables with Non-ACT Government Entities	**948**	**897**
Total Receivables	**1,818**	**897**

NOTE 13. OTHER ASSETS

	2017 $'000	2016 $'000
Current Other Assets		
Prepayments [1]	200	296
Total Current Other Assets	**200**	**296**
Total Other Assets	**200**	**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.
The decrease is due to the refund of part of the reserve held by the NSW LTCSA on account of lower than anticipated quarterly participants' payments made by the NSW LTCSA.

NOTE 14. INVESTMENTS

The LTCS fund made long-term investments with the Territory Banking Account during the financial year 2016-17 in accordance with the approved investment strategy outlined in the LTCS fund's Investment Plan.
The investments are allocated to multi-asset unit trusts: the Conservative Index Fund and the Balanced Index Fund, through the Territory Banking Account.
The total carrying amount of the investments below have been measured at fair value. All investments are designated at Fair Value through Profit or Loss.

Non-Current Investments		
Investments with the Territory Banking Account – Conservative Index Fund [1]	20,456	-
Investments with the Territory Banking Account – Balanced Index Fund [1]	7,630	-
Total Non-Current Investments	28,086	-
Total Investments	**28,086**	**-**

[1] The LTCS fund commenced investments with the Territory Banking Account during 2016-17 in accordance with the Investment Plan. There were no funds invested during 2015-16.
Also, refer to Appendix B: *Significant Accounting Policies - Assets - Investments.*

NOTE 15. PAYABLES

	2017 $'000	2016 $'000
Current Payables		
Accrued Expenses [1]	176	279
Total Current Payables	**176**	**279**
Total Payables	**176**	**279**

[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 decrease is mainly associated with the invoice from NSW LTCSA for the reimbursement of payments made to the ACT participants for the last quarter ended 30 June. The amount for the quarter April-June 2016 was higher compared to the amount for the quarter April-June 2017 as it included expenses received in bulk from a hospital in relation to a participant.

No payables are overdue for payment.

Classification of ACT Government/Non-ACT Government Payables

Payables with ACT Government Entities		
Accrued Expenses [2]	46	43
Total Payables with ACT Government Entities	**46**	**43**
Payables with Non-ACT Government Entities		
Accrued Expenses	130	236
Total Payables with Non-ACT Government Entities	**130**	**236**
Total Payables	**176**	**279**

[2.] Relates to audit fees payable to the ACT Audit Office.

NOTE 16. 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.

Current Provision for Participants' Treatment and Care Expenses	2017 $'000	2016 $'000
Provision for the Participants' Treatment and Care Expenses	968	505
Total Current Provision for Participants' Treatment and Care Expenses	**968**	**505**
Non-Current Provision for Participants' Treatment and Care Expenses		
Provision for the Participants' Treatment and Care Expenses	21,566	17,587
Total Non-Current Provision for Participants' Treatment and Care Expenses	**21,566**	**17,587**
Total Provision for Participants' Treatment and Care Expenses[1]	**22,534**	**18,092**

Reconciliation of the Provision for Treatment and Care Expenses:

Provision at the Beginning of the Reporting Period	**18,092**	**17,383**
Additional Provision Recognised for New Participants [2]	2,364	-
Unwinding of Discount Rate [3]	1,061	1,027
Treatment and Care Payments	(598)	(339)
Other Movements in the Provision for Existing Participants [4]	1,615	21
Provision at the End of the Reporting Period	**22,534**	**18,092**

[1] The increase is mainly associated with the provision for one new potential participant to the LTCS Scheme. The application was received in June 2017 and was being assessed as at 30 June 2017. The increase is also influenced by changes to participants' injury severity levels and the change in the Model used by the new actuary for estimating the provision for participants' treatment and care costs at 30 June 2017. No new participants entered the LTCS Scheme during 2015-16.

At 30 June 2017 there were five participants who had been accepted in to the LTCS Scheme (four of which had been accepted as lifetime participants) and one applicant pending assessment. At 30 June 2016 there were four interim participants and one lifetime participant who had been accepted into the LTCS Scheme.

[2] The increase is associated with the one application to the LTCS Scheme received in June 2017. No new participants entered the LTCS Scheme during 2015-16.

The one new applicant who was pending assessment as at 30 June 2017, was subsequently accepted into the LTCS Scheme as an interim participant in August 2017. Also, refer Note 19: *Events Occurring After Balance Date.*

[3] Refer Note 9: *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) to reflect the extension of the LTCS Scheme to workers. For 2016-17 movements in the provision were also impacted by the change in the underlying Model used by the new actuary for estimating the provision for participants' treatment and care costs.

Also, refer to Appendix B: *Significant Accounting Policies - Liabilities - Provision for Participants' Treatment and Care Expenses.*

NOTE 16. PROVISION FOR PARTICIPANTS' TREATMENT AND CARE EXPENSES - CONTINUED

At 30 June 2017, the liabilities for all claims incurred up to this date under the LTCS Scheme were estimated by actuaries at Finity Consulting Pty Ltd (30 June 2016: 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:

	2017 $'000	2016 $'000
Within one year	968	505
Later than one year but not later than five years	3,988	1,418
Later than five years	17,578	16,169
Total Provision for Participants' Treatment and Care Expenses	**22,534**	**18,092**

For the economic parameters, a gap approach, whereby the gap between the discount rate of 5.5% (2015-16: 6%) and inflation rate relevant to the sector of 3.5% (2015-16: 4%) is 2% (2015-16: 2%), has been applied by the actuary.

The weighted mean term of the liabilities is as follows:

Uninflated, undiscounted [1]	22.1 years	34.9 years
Inflated, discounted [1]	18.9 years	26.4 years

[1] The decrease is mainly associated with the improvement in participants' injury severity scores and the change in the Model used by the new actuary for estimating the provision for participants' treatment and care costs at 30 June 2017.

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 three 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	**22,534**	
Change in economic 'gap' to 2.5% per annum	20,902	-7.2%
Change in economic 'gap' to 1.5% per annum	24,717	9.7%
Additional 0.75 IBNR claims [1]	24,571	9.0%
No IBNR claims [1]	21,516	-4.5%
Attendant care costs increase by 10%	24,365	8.1%
Attendant care costs decrease by 10%	20,677	-8.2%
Zero superimposed inflation	19,956	-11.4%
Death of a participant within the next five years	19,364	-14.1%

[1] IBNR represents 'Incurred But Not yet Reported' claims associated with potential claimants reported late.

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 Appendix B: *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 and also in relation to its investments.
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.
The LTCS fund's investments in the pooled unit trusts also have currency exposure. Currency hedging strategies are employed within the underlying investment funds in accordance with the relevant currency hedging policies. The sensitivity analysis of any currency risk is addressed within the price risk of the funds.

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 2017 is mainly associated with the LTCS Levy and distribution from investments with the Territory Banking Account. The LTCS levy is in relation to motor accident injuries for June 2017 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. The distribution from investments receivable is in relation to quarter ended 30 June 2017, which was received in July 2017. As a result, the LTCS fund's exposure to bad debts in relation to its receivables is not significant.
The LTCS fund's investments in the pooled unit trusts has credit exposure to both domestic and international investment grade issuers in accordance with the relevant Fund's investment objective. The sensitivity analysis of credit risk is addressed within the price risk of the funds.

NOTE 17. 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 sufficient cash balance which will allow payment of all current financial liabilities when they fall due. The investments made through the Territory Banking Account are intended to be held for a period longer than twelve months. However, the investments are redeemable and are able to be withdrawn upon request (convertible to cash), if required.

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 price risk which the LTCS fund is exposed to results from its investments with the Territory Banking Account. The investments are held in unit trusts: the Conservative Index Fund and the Balanced Index Fund. The underlying investments are managed by an external fund manager (Vanguard Investments Australia Limited). The prices of the units in both investment funds fluctuate in value. The price fluctuations are caused by movements in the underlying investment funds comprising each unit trust. Both unit trusts have an exposure to a diversified portfolio of securities. The unit trusts exposure include cash, domestic and international fixed interest bonds and equities.

Sensitivity Analysis

Taking into account past performance, future expectations and economic forecasts, the estimated impact on profit or loss and the impact on equity in the table below are 'reasonably possible' over the next twelve months if the price risk changes by the volatility factored from the target benchmarks with all other variables held constant.

		% Increase in Index		% Decrease in Index	
2017		**Profit/(loss) Impact $'000**	**Equity Impact $'000**	**Profit/(loss) Impact $'000**	**Equity Impact $'000**
Investment Assets					
Conservative Index Fund	(+/-6%)	1,227	1,227	(1,227)	(1,227)
Balanced Index Fund	(+/-9%)	1,841	1,841	(1,841)	(1,841)
Total Increase/(Decrease)		**3,068**	**3,068**	**(3,068)**	**(3,068)**

NOTE 17. 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 2017 $'000	Fair Value 2017 $'000	Carrying Amount 2016 $'000	Fair Value 2016 $'000
Financial Assets					
Cash and Cash Equivalents	11	1,988	1,988	17,265	17,265
Receivables					
- Distribution from Investments	12	870	870	-	-
Investments	14	28,086	28,086	-	-
Total Financial Assets		**30,944**	**30,944**	**17,265**	**17,265**
Financial Liabilities					
Payables	15	176	176	279	279
Total Financial Liabilities		**176**	**176**	**279**	**279**

Carrying Amount of Each Category of Financial Asset and Financial Liability

	2017 $'000	2016 $'000
Financial Assets		
Financial Assets at Fair Value through the profit and Loss		
- Designated upon Initial Recognition	28,086	-
Financial Assets Measured at Amortised Cost	870	-
Financial Liabilities		
Financial Liabilities Measured at Amortised Cost	176	279
Gains/ (Losses) on Each Category of Financial Asset and Financial Liability		
Financial Assets at Fair Value through the profit and Loss		
- Designated upon Initial Recognition	(914)	-

The LTCS fund does not have any financial assets in the 'Available for Sale' category or the 'Held to Maturity' 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.

NOTE 17. FINANCIAL INSTRUMENTS - CONTINUED

Fair Value Hierarchy

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

2017	Classification According to Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Financial Assets				
Investments with the Territory Banking Account	-	28,086	-	28,086
	-	28,086	-	28,086

The above classification is 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. 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).

Transfer Between Categories

There have been no transfers of financial assets between Level 1 and Level 2 during the current financial year.

Maturity Analysis

The LTCS fund does not have any financial assets or liabilities which mature outside the following financial year. The investments made through the Territory Banking Account do not have a defined term, they are intended to continue over the longer-term.

NOTE 18. CASH FLOW RECONCILIATION

(a) Reconciliation of Cash and Cash Equivalents 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

	2017 $'000	2016 $'000
Total Cash and Cash Equivalents Disclosed in the Statement of Assets and Liabilities on Behalf of the Territory	1,988	17,265
Cash and Cash Equivalents at the End of the Reporting Period as Recorded in the Cash Flow Statement on Behalf of the Territory	**1,988**	**17,265**

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

Operating Surplus	9,295	8,356
Add/(Less) Non-Cash Items		
Losses on Investments	914	-
Cash Before Changes in Operating Assets and Liabilities	**10,209**	**8,356**
Changes in Operating Assets and Liabilities		
(Increase) in Receivables	(921)	(71)
Decrease/(Increase) in Other Assets	96	(296)
(Decrease)/ Increase in Payables	(103)	124
Increase in Provision for Participants' Treatment and Care Expenses	4,442	709
Net Changes in Operating Assets and Liabilities	**3,514**	**466**
Net Cash Inflows from Operating Activities	**13,723**	**8,822**

NOTE 19. EVENTS OCCURRING AFTER BALANCE DATE

One application was received in June 2017 to participate in the LTCS Scheme. The application was being assessed as at 30 June 2017. In August 2017 the LTCS Commissioner accepted the applicant to enter the LTCS Scheme as an interim participant. The applicants' estimated future treatment and care costs are included in the actuarial projections and reflected under Note 16: *Provision for Participants' Treatment and Care Expenses.*

NOTE 20. RELATED PARTY DISCLOSURES

A related party is a person that controls or has significant influence over the reporting entity, or is a member of the Key Management Personnel (KMP) of the reporting entity or its parent entity, and includes their close family members and entities in which the KMP and/or their close family members individually or jointly have controlling interests.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the LTCS fund, directly or indirectly.

KMP of the LTCS fund are the Portfolio Minister, the LTCS Commissioner and certain members of the Senior Management Team.

The Head of Service and the ACT Executive comprising the Cabinet Ministers are KMP of the ACT Government and therefore related parties of the LTCS Fund.

This note does not include typical citizen transactions between the KMP and the LTCS fund that occur on terms and conditions no different to those applying to the general public.

(A) CONTROLLING ENTITY

The LTCS fund is an ACT Government controlled entity.

(B) KEY MANAGEMENT PERSONNEL

B.1 Compensation of Key Management Personnel

Compensation of all Cabinet Ministers, including the Portfolio Minister, is disclosed in the note on related party disclosures included in the ACT Executive's financial statements for the year ended 30 June 2017.

The LTCS Commissioner and other members of the Senior Management team who are KMP of the LTCS fund are employees of CMTEDD and are compensated by CMTEDD.

Compensation by the LTCS fund to its KMP is nil.

B.2 Transactions with Key Management Personnel

There were no transactions with KMP that were material to the financial statements of the LTCS fund.

B.3 Transactions with parties related to Key Management Personnel

There were no transactions with parties related to KMP that were material to the financial statements of the LTCS fund.

(C) TRANSACTIONS WITH OTHER ACT GOVERNMENT CONTROLLED ENTITIES

All transactions with ACT Government controlled entities are disclosed in the relevant notes to the financial statements of the LTCS fund.

Lifetime Care and Support Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 21. BUDGETARY REPORTING

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

(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 2016-17 $'000	Original Budget[1] 2016-17 $'000	Variance $'000	Variance %	Variance Explanation
Participants' Treatment and Care Expenses	3,886	13,050	(9,164)	-70%	Mainly due to one application received for participating in the LTCS Scheme during 2016-17, which is lower than the number of new participants anticipated in the Budget.
Losses on Investments	914	-	914	#	Due to the unrealised loss resulting from changes in the fair value of the investments. The Budget anticipated a net gain of $0.537 million (reflected separately under 'Gains').

[1] Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting period (2016-17 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.

NOTE 21. BUDGETARY REPORTING - CONTINUED

Statement of Assets and Liabilities on Behalf of The Territory Line Items	Actual 2016-17 $'000	Original Budget[1] 2016-17 $'000	Variance $'000	Variance %	Variance Explanation
Cash and Cash Equivalents	1,988	1,800	188	10%	Mainly due to the timing of investment of funds not required in the short-term, in accordance with the investment strategy outlined in the fund's Investment Plan.
Receivables	1,818	825	993	120%	Mainly due to the receivable associated with distribution from investments with the Territory Banking Account for the quarter ended 30 June 2017, received in July 2017. This was not anticipated in the Budget.
Payables	176	155	21	14%	Mainly due to participants' treatment and care costs accrued at 30 June 2017 being higher than what was estimated in the Budget. These costs will vary quarter to quarter depending on participants' needs.
Current Provision for Participants' Treatment and Care Expenses	968	2,403	(1,435)	-60%	Mainly due to lower participants in the LTCS Scheme than what was anticipated in the Budget.
Non-Current Provision for Participants' Treatment and Care Expenses	21,566	29,539	(7,973)	-27%	Mainly due to one application received for participating in the LTCS Scheme during 2016-17, which is lower than the number of new participants anticipated in the Budget. The provision also reflects movements arising from changes to participants' injury severity levels and the change in the underlying Model used by the new actuary in estimating the provision for participants' treatment and care costs.

[1] Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting period (2016-17 Budget Statements). These amounts have not been adjusted to reflect supplementary appropriation or appropriation instruments.

Lifetime Care and Support Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 21. BUDGETARY REPORTING - CONTINUED

Statement of Changes in Equity on Behalf of the Territory

These line items are covered in other financial statements

Cash Flow Statement on Behalf of the Territory Line Items	Actual 2016-17 $'000	Original Budget[1] 2016-17 $'000	Variance $'000	Variance %	Variance Explanation
Supplies and Services	370	537	(167)	-31%	Mainly due to lower administrative costs associated with the extension of the LTCS Scheme to include catastrophically injured private sector workers from 1 July 2016 (no participants up to 30 June 2017). Also, due to splitting claims handling costs paid to the NSW LTCSA between supplies and services (to represent corporate costs) and participants' treatment and care costs. In comparison all of the budget for this expense is against supplies and services.
Participants' Treatment and Care	502	1,622	(1,120)	-69%	Mainly due to the lower than anticipated payments for participants' treatment and care costs.
Purchase of Investments	29,000	11,452	17,548	153%	Mainly due to the delay in the investment of funds last financial year due to uncertainties in the investment markets at the time. This was followed by accelerated investments resulting in the overall balance at 30 June 2017 to be in line with the total amount of investments in the Budget.

[1] Original Budget refers to the amounts presented to the Legislative Assembly in the original budgeted financial statements in respect of the reporting period (2016-17 Budget Statements). These amounts have not been adjusted to reflect supplementary appropriation or appropriation instruments.

Lifetime Care and Support Fund
Appendices A, B and C – Forming Part of Note 2 of the Financial Statements
For the Year Ended 30 June 2017

APPENDIX A - BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

LEGISLATIVE REQUIREMENT

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 an agency'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 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) other statements as 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 Australian Accounting Standards as required by the FMA. Accordingly, these financial statements have been prepared in accordance with:

(i) Australian Accounting Standards; and

(ii) ACT Accounting and Disclosure Policies.

ACCRUAL ACCOUNTING

The financial statements have been prepared using the accrual basis of accounting, which recognises the effects of transactions and events when they occur. The financial statements have also been prepared according to the historical cost convention, except for financial instruments which are valued at fair value in accordance with the (re)valuation policies applicable to the LTCS fund during the reporting period.

CURRENCY

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

INDIVIDUAL REPORTING ENTITY

The LTCS fund is an individual reporting entity.

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.

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 2017, together with the financial position of the LTCS fund as at 30 June 2017.

APPENDIX A - BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS - CONTINUED

COMPARATIVE FIGURES

BUDGET FIGURES

To facilitate a comparison with the Budget Papers, as required by the FMA, budget information for 2016-17 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.

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.

GOING CONCERN

At 30 June 2017, the LTCS fund's current assets ($4.006 million) are sufficient to meet its current liabilities ($1.144 million). Its total assets ($32.092 million) exceed its total liabilities ($22.710 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.

The 2016-17 financial statements have been prepared on a going concern basis as the LTCS fund has been funded in 2017-18 Budget and the Budget Papers include forward estimates for the LTCS fund.

APPENDIX B - SIGNIFICANT ACCOUNTING POLICIES

SIGNIFICANT ACCOUNTING POLICIES – INCOME

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.

NOTE 3 - LIFETIME CARE AND SUPPORT LEVY

The LTCS Scheme is funded by two levies: a levy on Compulsory Third-Party Insurance (CTP) policies and a levy on private sector workers' compensation insurers and self-insurers.

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. In relation to the motor accident injuries 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 relating to work injuries applies to each workers' compensation insurer and self insurer who writes workers compensation policies for the purposes of the *Workers Compensation Act 1951*. The allocation is based on their estimated market share.

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 in relation to the motor accident stream, control is established when a taxpayer registers a motor vehicle and pays the LTCS Levy. In relation to the worker injury stream control is established on the issue of the relevant invoice to the insurer setting out the details of the levy.

NOTE 4 - INTEREST

Interest revenue is recognised using the effective interest method.

NOTE 5 - DISTRIBUTION FROM INVESTMENTS WITH THE TERRITORY BANKING ACCOUNT

Distribution revenue is received from investments with the Territory Banking Account. This is recognised on an accrual basis using data supplied by the Territory Banking Account.

NOTES 6 - GAINS/ LOSSES ON INVESTMENTS

Gains or losses on investments held at fair value through Profit or Loss consist of unrealised amounts resulting from changes in the fair value of an investment. These gains and losses are included in the Statement of Income and Expenses on Behalf of the Territory in the period in which they arise.

SIGNIFICANT ACCOUNTING POLICIES – EXPENSES

NOTE 9 - FINANCE COSTS

Finance costs are expensed in the reporting period in which they are incurred.

APPENDIX B - SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

SIGNIFICANT ACCOUNTING POLICIES – ASSETS

ASSETS - CURRENT AND NON-CURRENT

Assets are classified as current or non-current in the Statement of Assets and Liabilities on Behalf of the Territory and relevant notes. Assets are classified as current where they are expected to be realised within 12 months after the reporting date. Assets, which do not fall within the current classification, are classified as non-current.

NOTE 11 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash at bank.

NOTE 12 - 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.

The receivable at 30 June 2017 is mainly associated with the LTCS Levy and distributions from investments with the Territory Banking Account. The LTCS Levy receivable is in relation to the motor accident injuries, for June 2017 which was collected by Access Canberra on behalf of the LTCS fund and received by the LTCS fund in July 2017. The distribution from investments receivable is in relation to quarter ended 30 June 2017, received in July 2017.

No bad debts were written off during the year ended 30 June 2017 (30 June 2016: Nil).

NOTE 14 - INVESTMENTS

The LTCS fund made long-term investments during the financial year 2016-17 in accordance with the approved investment strategy outlined in the LTCS fund's Investment Plan.

The investments are allocated to multi-asset unit trusts: the Conservative Index Fund and the Balanced Index Fund, through the Territory Banking Account. The underlying investments are managed by an external fund manager (Vanguard Investments Australia Limited). The Conservative Index Fund has a short to medium term investment horizon, targeting a steady source of income with some capital growth potential. The Balanced Index Fund has a medium term investment horizon, seeking a balance between income generation and capital growth potential. The investments are intended to be held for a period longer than twelve months. However, the invested funds are able to be withdrawn upon request, if required. The investments' long-term strategic asset allocation aims to achieve the investment objectives outlined in the LTCS fund's Investment Plan. The investment strategy is on achieving the long-term funding of the LTCS scheme, rather than focusing on the financial position over shorter periods, particularly in the early years.

The prices of the units in both funds, fluctuate in value. The total carrying amount of the investments has been measured at fair value. Subsequent to initial measurement, these investments are re-measured to fair value with changes in their fair value (gain/loss) recognised in the Statement of Income and Expenses on Behalf of the Territory. Distributions earned on these investments are recorded separately under distributions revenue. Distributions from the investments are received quarterly.

APPENDIX B - SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

NOTE 14 - INVESTMENTS - CONTINUED

SIGNIFICANT JUDGEMENTS AND ESTIMATES

The fair value of LTCS fund's investment portfolio is based on the underlying pool of investments, which have quoted market prices at the reporting date. The quoted market price used is the current bid price. The valuations are provided by a professional fund manager used by the Territory Banking Account for the purposes of these investments.

SIGNIFICANT ACCOUNTING POLICIES – LIABILITIES

LIABILITIES - CURRENT AND NON-CURRENT

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. 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. Liabilities, which do not fall within the current classification, are classified as non-current.

NOTE 15 - 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.

NOTES 10 AND 16 - 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. Amendments to the LTCS Act extended the LTCS Scheme to also cover catastrophically injured workers for injuries occurring on or after 1 July 2016 in the course of the worker's private sector employment in the ACT.

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 3.5% per annum (2015-16: 4%) and a discount rate of 5.5% per annum (2015-16: 6%).

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.*

SIGNIFICANT JUDGEMENTS AND ESTIMATES

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.

APPENDIX B - SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

NOTES 10 AND 16 - PROVISION FOR PARTICIPANTS' TREATMENT AND CARE EXPENSES - CONTINUED

SIGNIFICANT JUDGEMENTS AND ESTIMATES - CONTINUED

At 30 June 2017, the liabilities for all claims incurred up to this date under the LTCS Scheme were estimated by actuaries at Finity Consulting Pty Ltd (30 June 2016: Cumpston Sarjeant Pty Ltd). The new actuary used their own Model for estimating the provision for participants' treatment and care costs at 30 June 2017. This influenced the estimate for the provision for participants' treatment and care expenses.

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. The liability at 30 June 2017 includes the estimated treatment and care expenses of one applicant who was pending assessment at balance date but was expected to be accepted into the LTCS Scheme. The applicant was subsequently accepted as an interim participant in August 2017. Also, refer Note 19: *Events Occurring After Balance Date.*

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 three 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 16: *Provision for Participants' Treatment and Care Expenses.*

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 2016-17 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 7: *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.

NOTE 21 - BUDGETARY REPORTING

SIGNIFICANT JUDGEMENTS AND ESTIMATES

Significant judgements have been applied in determining what variances are considered 'major variances'. Variances are considered major if both of the following criteria are met:

- The line item is a significant line item: where either the line item actual amount accounts for more than 10% of the relevant associated category (Income, Expenses and Equity totals) or more than 10% of the 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.

APPENDIX B - SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

NOTE 21 - BUDGETARY REPORTING - CONTINUED

SIGNIFICANT JUDGEMENTS AND ESTIMATES - CONTINUED

Explanations of major variances between the 2016-17 original budget and the 2016-17 actual results are discussed in Note 21: *Budgetary Reporting.*

APPENDIX C – IMPACT OF ACCOUNTING STANDARDS ISSUED BUT YET TO BE APPLIED

The LTCS fund has assessed the accounting standards that have been issued by the Australian Accounting Standards Board. These standards and interpretations are applicable to a future reporting period and no material financial impact is expected. The LTCS fund does not intend to adopt the standards or interpretations early. Where applicable, the Australian Accounting Standards will be adopted from their application dates.

Statement of Performance

For the Year Ended

30 June 2017

Lifetime Care and Support Fund

REPORT OF FACTUAL FINDINGS

LIFETIME CARE AND SUPPORT FUND

To the Members of the ACT Legislative Assembly

Review opinion

I am providing an **unqualified review opinion** on the statement of performance of the Lifetime Care and Support Fund (the Fund) for the year ended 30 June 2017.

During the review no matters were identified which indicate that the results of the accountability indicators reported in the statement of performance are not fairly presented in accordance with the *Financial Management Act 1996*.

Basis for the review opinion

The review was conducted in accordance with the Australian Auditing Standards. I have complied with the requirements of the Accounting Professional and Ethical Standards 110 *Code of Ethics for Professional Accountants*.

I believe that sufficient evidence was obtained during the review to provide a basis for the review opinion.

Responsibility for preparing and fairly presenting the statement of performance

The Under Treasurer is responsible for:

- preparing and fairly presenting the statement of performance in accordance with the *Financial Management Act 1996* and *Financial Management (Statement of Performance Scrutiny) Guidelines 2017*; and
- determining the internal controls necessary for the preparation and fair presentation of the statement of performance so that the results of accountability indicators and accompanying information are free from material misstatements, whether due to error or fraud.

Responsibility for the review of the statement of performance

Under the *Financial Management Act 1996* and *Financial Management (Statement of Performance Scrutiny) Guidelines 2017*, the Auditor-General is responsible for issuing a report of factual findings on the statement of performance of the Fund.

As required by Australian Auditing Standards, the auditors:

- applied professional judgement and maintained scepticism;
- identified and assessed the risks of material misstatements due to error or fraud* and implemented procedures to address these risks so that sufficient evidence was obtained to form a review opinion; and
- reported the scope and timing of the review and any significant deficiencies in reporting practices identified during the review to the Fund.

(*The risk of not detecting material misstatements due to fraud is higher than the risk due to error, as fraud may involve collusion, forgery, intentional omissions or misrepresentations or the override of internal controls.)

Limitations on the scope of the review

The review was conducted in accordance with Australian Auditing Standards applicable to review engagements, to provide limited 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.

This review does not provide assurance on the:

- relevance or appropriateness of the accountability indicators reported in the statement of performance or the related performance targets;
- accuracy of explanations provided for variations between actual and targeted performance due to the often subjective nature of such explanations;
- adequacy of controls implemented by the Fund; or
- integrity of reviewed statement of performance presented electronically or information hyperlinked to or from the statement of performance. Assurance can only be provided for the printed copy of the reviewed statement of performance.

Ajay Sharma
Acting Director, Financial Audits
25 August 2017

LIFETIME CARE AND SUPPORT FUND
STATEMENT OF PERFORMANCE
For the Year Ended 30 June 2017

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 2017 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
24 August 2017

Karen Doran
Lifetime Care and Support Commissioner
of the ACT

24 August 2017

LIFETIME CARE AND SUPPORT FUND
STATEMENT OF PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2017

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. Amendments to the *Lifetime Care and Support (Catastrophic Injuries) Act 2014* (LTCS Act) extend the LTCS Scheme to include catastrophically injured private sector workers where an injury occurring on or after 1 July 2016 is suffered arising out of, or in the course of, the workers' employment and the ACT is the state of connection. The key outputs delivered in 2016-17 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; •collecting feedback from participants on their expectations and experience with the LTCS scheme; • 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; • undertaking investments in accordance with the fund's Investment Strategy; and • determining LTCS Levies in accordance with Part 10 of the LTCS Act.

	Original Target 2016-17	Actual Result 2016-17	% Variance from Original Target	Explanation of Material Variances (+/- 5%)
TOTAL COST ($'000)	$14,758	$6,221	-58%	The lower actual result is mainly associated with the lower than anticipated participants' treatment and care costs due to one potential participant to the LTCS Scheme for 2016-17, which is lower than the number of new participants anticipated in the Budget. The application was received in June 2017 and was being assessed as at 30 June 2017. Volatility is expected each year regarding the number of new participants and their associated treatment and care expenses.
PAYMENT FOR EXPENSES ON BEHALF OF THE TERRITORY ($'000)	$0	$0	0%	The LTCS fund did not budget or receive appropriation from the ACT Government to fund its expenses.
Accountability Indicators Provision of LTCS Scheme in the ACT				
a. Independent actuarial review to advise on the required fund contributions	1	1	0%	
b. Determine LTCS Levies	2	2	0%	
c. Undertake an annual client feedback process	1	1	0%	
d. LTCS Guidelines available-include workers	1	1	0%	
e. Application Form available-for workers	1	1	0%	
f. Difference between the investment earning rate and the benchmark is to be ≥ 0	≥ 0	-0.37	-100%	The investment portfolio achieved an investment return for the 2016-17 financial year of 2.97 per cent (performance benchmark return of 3.34 per cent). The underperformance to benchmark is mainly attributed to transaction costs associated with implementing the investment strategy.

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 actuarial review for the 2017-18 contribution period was undertaken by Cumpston Sarjeant Pty Ltd in two parts to cover the motor vehicle and workers injury streams. The actuary's report was received in the second half of the financial year 2016-17.

b. In accordance with section 84 of the LTCS Act, the LTCS Commissioner must determine the LTCS Levy for a contribution period. The two Levy determinations for motor vehicles and workers for the 2017-18 contribution period were notified on the Legislation Register on 1 June 2017.

c. This new indicator for 2016-17 requires the LTCS Commissioner to seek formal feedback from Scheme participants during the financial year. The focus and process for each year's feedback will be decided by the LTCS Commissioner. The survey for 2016-17 was undertaken in the second half of 2016-17 with the final report received in June 2017.

d. With the extension of the LTCS Scheme in 2016-17 to include work injuries, the Guidelines have been amended to include workers. The Guidelines were notified on the Legislation Register on 30 June 2016 and were effective from 1 July 2016. The Guidelines are also available on the LTCS website.

e. With the extension of the LTCS Scheme in 2016-17 to include work injuries, an Application Form specific for work injuries has been issued. The Application Form was notified on the Legislation Register on 1 July 2016 and is also available on the LTCS website.

f. This new indicator has been included for 2016-17 following the development of the long term investment strategy. The difference between the actual annual portfolio investment earnings rate (gross of fees) and the established performance benchmark is a measure of the relative performance of the investment fund(s) to the benchmark.

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 2017*.

Financial Statements

For the Year Ended

30 June 2017

Office of the Nominal Defendant

of the ACT

INDEPENDENT AUDIT REPORT

OFFICE OF THE NOMINAL DEFENDANT OF THE ACT

To the Members of the ACT Legislative Assembly

Audit opinion

I am providing an **unqualified audit opinion** on the financial statements of the Office of the Nominal Defendant of the ACT (the Fund) for the year ended 30 June 2017. The financial statements comprise the operating statement, balance sheet, statement of changes in equity, cash flow statement and accompanying notes.

In my opinion, the financial statements:

(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 and results of its operations and cash flows.

Basis for the audit opinion

The audit was conducted in accordance with the Australian Auditing Standards. I have complied with the requirements of the Accounting Professional and Ethical Standards 110 *Code of Ethics for Professional Accountants*.

I believe that sufficient evidence was obtained during the audit to provide a basis for the audit opinion.

Responsibility for preparing and fairly presenting the financial statements

The Under Treasurer is responsible for:

- preparing and fairly presenting the financial statements in accordance with the Australian Accounting Standards;
- determining the internal controls necessary for the preparation and fair presentation of financial statements so that they are free from material misstatements, whether due to error or fraud; and
- assessing the ability of the Fund to continue as a going concern and disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting in preparing the financial statements.

Responsibility for the audit of the financial statements

The Auditor-General is responsible for issuing an audit report that includes an independent audit opinion on the financial statements of the Fund.

As required by Australian Auditing Standards, the auditors:

- applied professional judgement and maintained scepticism;
- identified and assessed the risks of material misstatements due to error or fraud and implemented procedures to address these risks so that sufficient evidence was obtained to

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form an audit opinion. The risk of not detecting material misstatements due to fraud is higher than the risk due to error, as fraud may involve collusion, forgery, intentional omissions or misrepresentations or the override of internal controls;

- obtained an understanding of internal controls to design audit procedures for forming an audit opinion;
- evaluated accounting policies and estimates used to prepare the financial statements and disclosures made in the financial statements;
- evaluated the overall presentation and content of the financial statements, including whether they present the underlying transactions and events in a manner that achieves fair presentation;
- reported the scope and timing of the audit and any significant deficiencies in internal controls identified during the audit to the Under Treasurer; and
- assessed the going concern* basis of accounting used in the preparation of the financial statements.

(*Where the auditor concludes that a material uncertainty exists which cast significant doubt on the appropriateness of using the going concern basis of accounting, the auditor is required to draw attention in the audit report to the relevant disclosures in the financial statements or, if such disclosures are inadequate, the audit opinion is to be modified. The auditor's conclusions on the going concern basis of accounting are based on the audit evidence obtained up to the date of this audit report. However, future events or conditions may cause the entity to cease to continue as a going concern.)

Limitations on the scope of the audit

An audit provides a high level of assurance about whether the financial statements are free from material misstatements, whether due to fraud or error. However, an audit cannot provide a guarantee that no material misstatements exist due to the use of selective testing, limitations of internal control, persuasive rather than conclusive nature of audit evidence and use of professional judgement in gathering and evaluating evidence.

An audit does not provide assurance on the:

- reasonableness of budget information included in the financial statements;
- prudence of decisions made by the Fund;
- adequacy of controls implemented by the Fund; or
- integrity of the audited financial statements presented electronically or information hyperlinked to or from the financial statements. Assurance can only be provided for the printed copy of the audited financial statements.

Ajay Sharma
Acting Director, Financial Audits
15 September 2017

Office of the Nominal Defendant of the ACT
Financial Statements
For the Year Ended 30 June 2017

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 2017 and the financial position of the Fund on that date.

Stephen Miners
Acting Under Treasurer
Chief Minister, Treasury and Economic Development Directorate
Delegate for the Chief Executive Officer,
ACT Insurance Authority
15 September 2017

Office of the Nominal Defendant of the ACT
Financial Statements
For the Year Ended 30 June 2017

Statement by the General Manager

In my opinion, the financial statements have been prepared in accordance with Australian Accounting Standards 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 2017 and the financial position of the Fund on that date.

John Fletcher
General Manager
ACT Insurance Authority
15 September 2017

Office of the Nominal Defendant of the ACT
Operating Statement
For the Year Ended 30 June 2017

	Note No.	Actual 2017 $'000	Actual 2016 $'000
Income			
Interest and Distributions	4	**736**	845
Levies	5	**5,852**	4,751
Other Revenue	6	**1,822**	1,026
Unrealised Gain on Investments	7	**-**	294
Total Income		**8,410**	6,916
Expenses			
Claims Expenses	8	**8,658**	7,550
Supplies and Services	9	**473**	411
Unrealised Loss on Investment	10	**352**	-
Total Expenses		**9,483**	7,961
Operating (Deficit)		**(1,073)**	(1,045)
Other Comprehensive Income		**-**	-
Total Comprehensive (Deficit)		**(1,073)**	(1,045)

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

Office of the Nominal Defendant of the ACT
Balance Sheet
As at 30 June 2017

	Note No.	Actual 2017 $'000	Actual 2016 $'000
Current Assets			
Cash and Cash Equivalents	12	**21,976**	20,902
Receivables	13	**1,752**	1,501
Total Current Assets		**23,728**	22,403
Non-Current Assets			
Investments	14	**5,984**	6,336
Total Non-Current Assets		**5,984**	6,336
Total Assets		**29,712**	28,739
Current Liabilities			
Payables	15	**228**	284
Provision for Claims Payable	16	**7,274**	6,219
Total Current Liabilities		**7,502**	6,503
Non-Current Liabilities			
Provision for Claims Payable	16	**23,738**	22,692
Total Non-Current Liabilities		**23,738**	22,692
Total Liabilities		**31,240**	29,195
Net (Liabilities)		**(1,528)**	(456)
Equity			
Accumulated (Deficit)		**(1,528)**	(456)
Total Equity		**(1,528)**	(456)

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 2017

	Accumulated Funds Actual 2017 $'000	Total Equity Actual 2017 $'000
Balance at 1 July 2016	**(456)**	**(456)**
Comprehensive Income		
Operating (Deficit)	**(1,073)**	**(1,073)**
Total Comprehensive (Deficit)	**(1,073)**	**(1,073)**
Balance at 30 June 2017	**(1,528)**	**(1,528)**

	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)	(1,045)	(1,045)
Balance at 30 June 2016	(456)	(456)

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 2017

	Note No.	Actual 2017 $'000	Actual 2016 $'000
Cash Flows from Operating Activities			
Receipts			
Interest and Distributions		**806**	776
Recoveries		**870**	41
Fees, Fines and Other Receipts		**937**	1,034
Levies		**5,563**	4,719
Goods and Services Input Tax Credits from the Australian Taxation Office		**520**	352
Goods and Services Tax Collected from Customers		**67**	-
Total Receipts from Operating Activities		**8,764**	6,922
Payments			
Supplies and Services		**536**	260
Payment of Claims		**6,556**	3,921
Goods and Services Tax Remitted to the Australian Taxation Office		**62**	-
Goods and Services Tax Paid to Suppliers		**537**	289
Total Payments for Operating Activities		**7,691**	4,470
Net Cash Inflows from Operating Activities	18(b)	**1,073**	2,452
Net Increase in Cash and Equivalents		**1,073**	2,452
Cash and Cash Equivalents at the Beginning of the Reporting Period		**20,902**	18,450
Cash and Cash Equivalents at the end of the Reporting Period	18(a)	**21,976**	20,902

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

Office of the Nominal Defendant of the ACT
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

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 2017

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.

Funds required to satisfy the cost of claims and other relevant expenses for the Fund are not guarantee by the ACT Government however, Part 4.10A of the *Road Transport (Third-Party Insurance) Act 2008* allows the CTP Regulator to collect amounts from licensed insurers and recognised self-insurers to meet the cost of nominal defendant claims.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Refer to the following appendices for the notes comprising significant accounting policies and other explanatory information.

Appendix A – Basis of Preparation of the Financial Statements

Appendix B – Significant Accounting Policies

Appendix C – Impact of Accounting Standards Issued but Yet to be Applied

NOTE 3 CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES

Refer to Appendix D – Change in Accounting Policy and Accounting Estimates.

NOTE 4 INTEREST AND DISTRIBUTIONS

	2017 $'000	2016 $'000
Interest and Distributions		
Interest from Short-term Investments	**471**	501
Distributions from Long-term Investments [a]	**180**	284
Interest from Banks	**84**	60
Total Interest and Distributions	**736**	845

[a] The rate of return decreased for long-term investments to 3.0% in 2016-17 (4.6% in 2015-16), this decrease in rate resulted in lower distribution revenue being received by the Fund.

NOTE 5 LEVIES

The ACT Compulsory Third Party Regulator determines and 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. The levy rate was set at 4.0% for 2016-17, an increase from 3.3% in 2015-16.

	2017 $'000	2016 $'000
Levies		
Levies from Insurers	**5,783**	4,694
Levies from the Commonwealth Government	**18**	15
Levies from the ACT Government	**51**	42
Total Levies	**5,852**	4,751

NOTE 6 OTHER REVENUE

	2017 $'000	2016 $'000
Other Revenue		
Unregistered Vehicle Permits	**567**	574
Unregistered Vehicle Fines	**384**	411
Insured Recoveries [a]	**769**	21
Uninsured Owner/Driver Recoveries [b]	**101**	20
Total Other Revenue	**1,822**	1,026

[a] The increase in insured recoveries relates to an increase in the number and amounts received from Third-Party Insurers for contribution to settled claims during 2016-17.
[b] The increase in uninsured owner/driver recoveries is the result of a number of successful negotiations with debtors to settle debts with one off lump sum payments.

NOTE 7 UNREALISED GAINS ON INVESTMENTS

	2017 $'000	2016 $'000
Unrealised Gains on Investments	-	294
Total Unrealised Gains on Investments	-	294

Unrealised gains on investments are the increases 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 $1.013 at 30 June 2017 ($1.072 at 30 June 2016). This decrease in unit value in the fixed interest investment resulted in an unrealised loss in 2016-17 (refer to Note 10: 'Unrealised Loss on Investments').

NOTE 8 CLAIMS EXPENSES

	2017 $'000	2016 $'000
Claims Expenses		
Settlements [a]	**4,358**	1,983
Medical Costs [b]	**170**	601
Investigation Costs	**18**	10
Legal Costs [c]	**2,009**	1,324
Provision for Claims Payable [d]	**2,102**	3,632
Total Claims Expenses	**8,658**	7,550

[a] The increase in settlements is due to an increase in the number of claims, including number of large claims which were settled in 2016-17.
[b] The decrease in medical costs were due to one large claim with three claimants requiring surgery and hospital accommodation paid during 2015-16.
[c] Legal costs were higher in 2016-17 due to the costs associated in settling a number of large claims.
[d] Represents the movement in the provision for claims payable resulting from the 2016-17 actuarial estimate (refer to Note 16: 'Provision for Claims Payable').

NOTE 9 SUPPLIES AND SERVICES

	2017 $'000	2016 $'000
Supplies and Services		
Administration Expenses	**57**	63
Audit Fees	**28**	26
Administrative Services provided by ACT Insurance Authority and Default Insurance Fund [a]	**388**	322
Total Supplies and Services	**473**	411

[a] The method for attributing administrative services between the Office of the Nominal Defendant, ACT Insurance Authority and Default Insurance Fund was revised on 1 January 2017. The previous method was based on apportioning costs by a set percentage. The revised approach considered workload levels based on portions of open claims and financial transactions by entity which has slightly increased the expense.

NOTE 10 UNREALISED LOSS ON INVESTMENTS

	2017 $'000	2016 $'000
Unrealised Loss on Investments	**352**	-
Total Unrealised Loss on Investments	**352**	-

The unit price of the Fixed Interest Trust Fund was $1.013 at 30 June 2017 ($1.072 at 30 June 2016). This decrease in unit value in the fixed interest investment resulted in an unrealised loss in 2016-17.

NOTE 11 AUDITOR'S REMUNERATION

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

	2017 $'000	2016 $'000
Audit fees paid or payable to the ACT Audit Office	**28**	26
Total Audit Fees	**28**	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 2.7% (2.91% in 2015-16). These funds are able to be withdrawn upon request and are not subject to movement in market value.

	2017 $'000	2016 $'000
Cash at Bank	**4,415**	3,575
Short-term Investments	**17,560**	17,327
Total Cash and Cash Equivalents	**21,976**	20,902

The increase in cash and cash equivalents is due to the net inflows from operating activities of $1.07 million.

NOTE 13 RECEIVABLES

	2017 $'000	2016 $'000
Current Receivables		
Accrued Interest [a]	**43**	114
Goods and Services Tax Receivable	**103**	84
Accrued Fees and Fines for Unregistered Vehicles and Unregistered Vehicle Permits	**87**	72
Accrued Levies	**1,519**	1,231
Total Receivables	**1,752**	1,501

[a] The decrease in accrued interest is the result of a decrease in the cents per unit rate applied to the Fixed Interest Trust Fund of 0.73 cents per unit at 30 June 2017 (1.93 cents per unit at 30 June 2016).

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.

	2017 $'000	2016 $'000
Non-Current Investments		
Investment with the Public Trustee and Guardian	5,984	6,336
Total Investments	**5,984**	6,336

NOTE 15 PAYABLES

	2017 $'000	2016 $'000
Current Payables		
Trade Creditors [a]	**224**	276
Accrued Expenses	**4**	8
Total Payables	**228**	284

[a] The decrease in trade creditors is due to a $50k recovery for the Default Insurance Fund being received in the Nominal Defendant bank account on 30 June 2016, which was payable to the Default Insurance Fund during 2016-17.

No payables are overdue.

NOTE 16 PROVISION FOR CLAIMS PAYABLE

	2017 $'000	2016 $'000
Inflated and Discounted Liability		
Gross Central Estimate	**31,135**	29,035
Recoveries	**(2,457)**	(2,302)
Claims Handling Expense	**2,335**	2,178
Net Central Estimate	**31,012**	28,911
Current Provision for Claims Payable		
Provision for Claims Payable	**7,274**	6,219
Non-Current Provision for Claims Payable		
Provision for Claims Payable	**23,738**	22,692
Total Provision for Claims Payable	**31,012**	28,911

The provision for claims payable is an actuarial assessment based on assumptions outlined in Appendix D Change in Accounting Policy and Accounting Estimates– Actuarial Assumptions.
The key factors impacting the increase in the gross central estimate since 30 June 2016 are as a result of natural growth (i.e. increases in the number of registered vehicles and the impacts of inflation), the differences in actual and expected payments and case estimates and changes in the assumed future inflation and discount rates.

NOTE 16 PROVISION FOR CLAIMS PAYABLE – CONTINUED

Reconciliation to 30 June 2017 Gross Outstanding Claims

	($'000)
Net central estimate including claims handling expenses at 30 June 2016	**28,911**
Adjustment to gross excluding claims handing expenses	124
Gross central estimate at 30 June 2016	**29,035**
Less expected payments (1 July 2016 to 30 June 2017)	(6,298)
Plus unwind of discount	453
Expected gross central estimate at 30 June 2017	**23,190**
Add/(Less) impact of:	
- Actual vs expected claim payments	216
- Other experience impacts	1,180
- Change in blending of actuarial methods	(1,002)
- Change in projected case estimate assumptions	(55)
- Change in economic assumptions	(627)
Revised gross central estimate at 30 June 2017 (prior periods)	**22,902**
Outstanding amounts arising from accident periods 1 July 2016 to 30 June 2017	8,232
Gross central estimate at 30 June 2017	**31,135**
Adjustment to net including claims handling expenses	(122)
Net central estimate including claims handling expenses at 30 June 2017	**31,012**

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 Appendix B – 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.

	Carrying Amount	(1.0%)	1.0%
	2017 $'000	Profit/(Loss) $'000	Profit/(Loss) $'000
Financial Assets:			
Cash and Cash Equivalents	21,976	(220)	220

(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 2017. 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.

2017	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	2.37%	**4,415**	-	-	-	-	**4,415**
Short-term Investments	12	2.70%	**17,560**	-	-	-	-	**17,560**
Accrued Interest	13		-	-	-	-	**43**	**43**
Investments	14		-	-	-	-	**5,984**	**5,984**
Total Financial Assets			**21,976**	-	-	-	**6,027**	**28,003**
Financial Liabilities								
Payables	15		-	-	-	-	**(224)**	**(224)**
Total Financial Liabilities			-	-	-	-	**(224)**	**(224)**
Net Financial Assets			**21,976**	-	-	-	**5,803**	**27,779**

Reconciliation of Net Financial Assets to Net Liabilities as per the Balance Sheet	**Note No.**	**2017 $'000**
Net Financial Assets (as above)		**27,779**
Goods and Services Tax Receivable	13	**103**
Accrued Revenue	13	**1,606**
Accrued Expenses	15	**(4)**
Provision for Claims Payable	16	**(31,012)**
Net Liabilities as per the Balance Sheet		**(1,528)**

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 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 Liabilities as per the Balance Sheet	**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)

NOTE 17 FINANCIAL INSTRUMENTS – CONTINUED

	2017	2016
Carrying Amount of Each Category of Financial Assets	**$'000**	**$'000**
Financial Assets		
Financial Assets at Fair Value through the Profit and Loss Designated upon Initial Recognition	**5,984**	6,336
Loans and Receivables Measured at Amortised Cost	**43**	114
Financial Liabilities		
Financial Liabilities Measured at Amortised Cost	**224**	**276**
(Loss)/Gains on Each Category of Financial Asset		
Financial Assets at Fair Value through the Profit and Loss Designated upon Initial Recognition	**(352)**	294

(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 Government Fixed Interest Trust Fund which fluctuate in value. The price fluctuations in the units of the Government Fixed Interest Trust Fund are caused by movements in the underlying investments of the fund. 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 fund 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 -/+ 3.42%.

	Units Held 30 June 2017	Unit Value 30 June 2017	Carrying Amount	(3.42%) Profit/(Loss)	+3.42% Profit/(Loss)
	Number of Units	**$**	**$ 000**	**$ 000**	**$ 000**
Financial Assets:					
Investments with the Public Trustee and Guardian	5,909,583.37	1.013	5,984	(205)	205

NOTE 17 FINANCIAL INSTRUMENTS – CONTINUED

(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:

	Note No.	Carrying Amount 2017 $'000	Fair Value 2017 $'000	Carrying Amount 2016 $'000	Fair Value 2016 $'000
Financial Assets					
Cash and Cash Equivalents	12	**21,976**	**21,976**	20,902	20,902
Receivables	13	**43**	**43**	114	114
Investments	14	**5,984**	**5,984**	6,336	6,336
Total Financial Assets		**28,003**	**28,003**	27,352	27,352
Financial Liabilities					
Payables	15	**224**	**224**	276	276
Total Financial Liabilities		**224**	**224**	276	276

(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			
2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Financial Assets				
Investment with the Public Trustee and Guardian	**-**	**5,984**	**-**	**5,984**

	Classification According to the Fair Value Hierarchy			
2016	**Level 1**	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
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, 2 or 3 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 2017

NOTE 18 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

	2017 $'000	2016 $'000
Total Cash Recorded in the Balance Sheet	**21,976**	20,902
Cash at the End of the Reporting Period as Recorded in the Cash Flow Statement	**21,976**	20,902

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

	2017 $'000	2016 $'000
Operating (Deficit)	**(1,073)**	(1,045)
Add/(Less) Items Classified as Investing or Financing		
Unrealised Loss/(Gains) on Investments	**352**	(294)
Cash before Operating Assets and Liabilities	**(721)**	(1,339)
Changes in Operating Assets and Liabilities		
(Increase) in Receivables	**(251)**	(30)
(Decrease)/Increase in Payables	**(56)**	188
Increase in the Provision for Claims Payable	**2,101**	3,633
Net Changes in Operating Assets and Liabilities	**1,794**	3,791
Net Cash Inflows from Operating Activities	**1,073**	2,452

NOTE 19 EVENTS OCCURRING AFTER BALANCE DATE

There were no events occurring after 30 June 2017 which would affect the financial statements of the Fund in the current or future reporting periods.

NOTE 20 RELATED PARTY DISCLOSURES

A related party is a person that controls or has significant influence over the reporting entity, or is a member of the Key Management Personnel (KMP) of the reporting entity or its parent entity, and includes their close family members and entities in which the KMP and/or their close family members individually or jointly have controlling interests.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly.

KMP of the Fund are the Under Treasurer and the General Manager of the ACT Insurance Authority.

The Head of Service and the ACT Executive comprising the Cabinet Ministers are KMP of the ACT Government and therefore related parties of the Fund.

This note does not include typical citizen transactions between the KMP and the Fund that occur on terms and conditions no different to those applying to the general public.

(a) Controlling Entity

The Office of the Nominal Defendant of the ACT is an ACT Government related entity.

(b) Key Management Personnel

(b) (1) Compensation of Key Management Personnel

Compensation of all Cabinet Ministers, including the Portfolio Minister, is disclosed in the note on related party disclosures included in the ACT Executive's financial statements for the year ended 30 June 2017.

Compensation of the Head of Service is included in the note on related party disclosures included in the Chief Minister, Treasury and Economic Development Directorate's (CMTEDD) financial statements for the year ended 30 June 2017.

One of the KMP of the Fund is an employee of CMTEDD and is compensated by CMTEDD and one of the KMP of the Fund is an employee of the ACT Insurance Authority and is compensated by the ACT Insurance Authority. No KMP were compensated by the Fund.

(b) (2) Transactions with Key Management Personnel

There were no transactions with KMP that were material to the financial statements of the Fund.

(b) (3) Transactions with parties related to Key Management Personnel

There were no transactions with parties related to the KMP, including transactions with KMP's close family members or other related entities that were material to the financial statements of the Fund.

(c) Transactions with Other ACT Government Controlled Entities

All transactions with ACT Government controlled entities are disclosed in the relevant notes to the financial statements of the Fund.

Office of the Nominal Defendant of the ACT
Appendix A – Basis of Preparation of the Financial Statements
Forming Part of Note 2 of the Financial Statements
For the Year Ended 30 June 2017

LEGISLATIVE REQUIREMENT

These general purpose financial statements have been prepared to comply with Australian Accounting Standards as required by the FMA. Accordingly these financial statements have been prepared in accordance with:

(i) Australian Accounting Standards; and
(ii) ACT Accounting and Disclosure Policies.

ACCRUAL ACCOUNTING

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.

CURRENCY

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

INDIVIDUAL REPORTING ENTITY

The Fund is an individual reporting entity.

REPORTING PERIOD

These financial statements state the financial performance, change in equity and cash flows of the Fund for the year ended 30 June 2017 and with the financial position of the Fund at 30 June 2017.

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.

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.

Office of the Nominal Defendant of the ACT
Appendix B – Significant Accounting Policies
Forming Part of Note 2 of the Financial Statements
For the Year Ended 30 June 2017

SIGNIFICANT ACCOUNTING POLICIES – INCOME

REVENUE RECOGNITION

Revenue is recognised at the fair value of the consideration received or receivable in the Operating Statement.

NOTE 4 – INTEREST AND DISTRIBUTIONS

Interest revenue is recognised using the effective interest method.

Distribution revenue is received from investments with the Public Trustee and Guardian ACT Fixed Interest Portfolio. This is recognised on an accrual basis using data supplied by the Public Trustee and Guardian ACT.

NOTE 5 – 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.

NOTE 6 – 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.

SIGNIFICANT ACCOUNTING POLICIES – EXPENSES

NOTE 8 – CLAIMS EXPENSES

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

SIGNIFICANT ACCOUNTING POLICIES – ASSETS

ASSETS – CURRENT AND NON-CURRENT

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

NOTE 12 – CASH AND CASH EQUIVALENTS

Cash includes cash at bank. Fund money held with the Public Trustee and Guardian Cash Trust Fund is classified as Cash Equivalent. The 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. Short-term investments held in a Cash Trust Account are managed by an external fund manager on behalf of the Public Trustee and Guardian.

SIGNIFICANT ACCOUNTING POLICIES – INCOME – CONTINUED

NOTE 13 – 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.

NOTE 14 – 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 gains 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 loss 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 (refer to Note 7 – 'Unrealised Gains on Investments' and Note 10 – 'Unrealised Loss on Investments'). Fair value is based on an underlying pool of investments which have quoted market prices at reporting date.

SIGNIFICANT ACCOUNTING POLICIES – LIABILITIES

LIABILITIES – CURRENT AND NON-CURRENT

Liabilities classified as current or non-current in the Balance Sheet and in the relevant notes. Liabilities are classified as current when they are due to be settled within 12 months after the reporting date or the Fund doesn't have an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date. Liabilities which do not fall within the current classification are non-current.

NOTE 15 – 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 payables and accrued expenses.

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

SIGNIFICANT ACCOUNTING POLICIES – LIABILITIES – CONTINUED

NOTE 16 – PROVISION FOR CLAIMS PAYABLE

Recoveries

The Fund may receive recoveries from 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.

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).

Provision for Claims Payable

An estimate of the provision for claims payable is completed annually by an independent actuary. The Fund has used the services of KPMG Actuarial Pty Limited to provide a full assessment of the provision for claims payable at 30 June 2017. The movement in the provision for claims payable can either reduce claims expense in the case of a reduction in liability or increase claims expense in the case of an increase in liability.

The 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.

Office of the Nominal Defendant of the ACT
Appendix C – Impact of Accounting Standards Issued But Yet to be Applied Forming Part of Note 2 of the Financial Statements For the Year Ended 30 June 2017

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.

The Fund is currently assessing the impact of the standards below, and while it is assumed there will be no material financial impact from their implementation there is potentially an impact on the classification, measurement and disclosures of the Fund's financial assets. The Fund will make a more detailed assessment of the impact over the next 12 months.

- AASB 9 *Financial Instruments* (December 2014) (application date 1 Jan 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 the Fund's financial assets.
- 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 & 1038 and Interpretations 2, 5, 10, 12, 19 & 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.
- AASB 2014-1 Amendments to Australian Accounting Standards – Part E Financial Instruments [AASB 1, 3, 4, 5,7,9 (December 2009), 9 (December 2010), 101, 102, 108, 112, 118, 120, 121, 132, 136, 137,139, Interpretation 2, 5,10, 12, 16, 19, and 107] (application date 1 Jan 2018);
  Part E of this standard defers the application of AASB 9 to 1 January 2018.
- 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, 1049, Interpretation 2, 5, 10, 12, 16, 19 &127] (application date 1 Jan 2018).
  This standard makes consequential amendments to a number of standards and interpretations as a result the issuing of AASB 9 (December 2014).

Office of the Nominal Defendant of the ACT
Appendix D – Change in Accounting Policy and Accounting Estimates
Forming Part of Note 3 of the Financial Statements
For the Year Ended 30 June 2017

CHANGE IN ACCOUNTING ESTIMATES

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

Changes in Actuarial Assumptions

The Fund uses actuaries 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'). As a result of experience during the year and changes in valuation assumptions the provision of claims payable has increased by $2.101 million ($3.633 million increase in 2015-16) (refer to Note 8: 'Claims Expense' and Note 16: 'Provision for Claims Payable').

Actuarial Assumptions

The actuarial process for estimating the 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.

Office of the Nominal Defendant of the ACT
Appendix D – Change in Accounting Policy and Accounting Estimates – Continued

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 2017 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.

Office of the Nominal Defendant of the ACT
Appendix D – Change in Accounting Policy and Accounting Estimates – Continued

Actuarial Assumptions – Continued

Table 1 – Selected Actuarial Assumptions – outlines the main assumptions which were made in estimating the provision for claims payable

Assumption	2017	2016
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)	**$154,263**	$145,531
Incurred development factors (Method 3)	**Peak of 2.10 reducing to 1**	Peak of 1.40 reducing to 1
Claims inflation – wage inflation	**3.5% p.a.**	3.75% p.a.
Claims inflation – superimposed inflation	**2.5% p.a.**	3.0% p.a.
Discount rate	**2.18%**	1.75%
Discounted average term to settlement	**3.0 years**	3.1 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 2.1 (i.e. an increase of 110%) in any particular development year.

Claims Inflation Rate

A base wage inflation rate of 3.5% per annum has been selected. However, claims costs have a tendency to increase above the rate of wage inflation over time. A rate of 2.5% 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.

Office of the Nominal Defendant of the ACT
Appendix D – Change in Accounting Policy and Accounting Estimates – Continued

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 2017 on Commonwealth bonds, which gives a weighted average discount rate of 2.18%.

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 $'000	Difference from net provision for claims payable $'000	Difference %
Net provision for claims payable		**31,012**		
Projected case estimate development – until year 8	+5%	32,161	1,148	3.7
Payment per claim incurred – average claim size	+5%	31,793	781	2.5
Incurred chain ladder first development factor	+10%	31,411	398	1.3
Claims inflation rate	+1%	31,657	645	2.1
Discount rate	-1%	31,936	924	3.0

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 over time 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.

Office of the Nominal Defendant of the ACT
Appendix D – Change in Accounting Policy and Accounting Estimates – Continued

Actuarial Assumptions – Continued

Uncertainty

General sources of uncertainty

General areas of uncertainty include:

- data error – the base data can contain material errors or may not be representative of the current portfolio of 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. Initial reports for the 2017 accident year are lower than the 2016 year at the same stage of development, however the factors of this is unclear. There is a risk that the low initial reports will be counteracted by higher than expected reports over the next 12 months. To the extent that the lower observed frequency reflects changes in claimant behaviour, there is also a risk that the reduction in numbers does not have a commensurate impact on cost. Models that project cost based on continuation of the past average claim sizes could potentially understate the liability;
- 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; and
- 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.

Financial Statements

For the Year Ended

30 June 2017

Default Insurance Fund

INDEPENDENT AUDIT REPORT

DEFAULT INSURANCE FUND

To the Members of the ACT Legislative Assembly

Audit opinion

I am providing an **unqualified audit opinion** on the financial statements of the Default Insurance Fund (the Fund) for the year ended 30 June 2017. The financial statements comprise the operating statement, balance sheet, statement of changes in equity, cash flow statement and accompanying notes.

In my opinion, the financial statements:

(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 and results of its operations and cash flows.

Basis for the audit opinion

The audit was conducted in accordance with the Australian Auditing Standards. I have complied with the requirements of the Accounting Professional and Ethical Standards 110 *Code of Ethics for Professional Accountants*.

I believe that sufficient evidence was obtained during the audit to provide a basis for the audit opinion.

Responsibility for preparing and fairly presenting the financial statements

The Fund Manager is responsible for:

- preparing and fairly presenting the financial statements in accordance with the Australian Accounting Standards;
- determining the internal controls necessary for the preparation and fair presentation of financial statements so that they are free from material misstatements, whether due to error or fraud; and
- assessing the ability of the Fund to continue as a going concern and disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting in preparing the financial statements.

Responsibility for the audit of the financial statements

The Auditor-General is responsible for issuing an audit report that includes an independent audit opinion on the financial statements of the Fund.

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As required by Australian Auditing Standards, the auditors:

- applied professional judgement and maintained scepticism;
- identified and assessed the risks of material misstatements due to error or fraud and implemented procedures to address these risks so that sufficient evidence was obtained to form an audit opinion. The risk of not detecting material misstatements due to fraud is higher than the risk due to error, as fraud may involve collusion, forgery, intentional omissions or misrepresentations or the override of internal controls;
- obtained an understanding of internal controls to design audit procedures for forming an audit opinion;
- evaluated accounting policies and estimates used to prepare the financial statements and disclosures made in the financial statements;
- evaluated the overall presentation and content of the financial statements, including whether they present the underlying transactions and events in a manner that achieves fair presentation;
- reported the scope and timing of the audit and any significant deficiencies in internal controls identified during the audit to the Fund Manager; and
- assessed the going concern* basis of accounting used in the preparation of the financial statements.

(*Where the auditor concludes that a material uncertainty exists which cast significant doubt on the appropriateness of using the going concern basis of accounting, the auditor is required to draw attention in the audit report to the relevant disclosures in the financial statements or, if such disclosures are inadequate, the audit opinion is to be modified. The auditor's conclusions on the going concern basis of accounting are based on the audit evidence obtained up to the date of this audit report. However, future events or conditions may cause the entity to cease to continue as a going concern.)

Limitations on the scope of the audit

An audit provides a high level of assurance about whether the financial statements are free from material misstatements, whether due to fraud or error. However, an audit cannot provide a guarantee that no material misstatements exist due to the use of selective testing, limitations of internal control, persuasive rather than conclusive nature of audit evidence and use of professional judgement in gathering and evaluating evidence.

An audit does not provide assurance on the:

- reasonableness of budget information included in the financial statements;
- prudence of decisions made by the Fund;
- adequacy of controls implemented by the Fund; or
- integrity of the audited financial statements presented electronically or information hyperlinked to or from the financial statements. Assurance can only be provided for the printed copy of the audited financial statements.

Ajay Sharma
Acting Director, Financial Audits
14 September 2017

Default Insurance Fund
Financial Statements
For the Year Ended 30 June 2017

Statement by the Fund Manager

In my opinion, the Financial Statements have been prepared in accordance with the Australian Accounting Standards, 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 2017 and the financial position of the Fund on that date.

John Fletcher
Fund Manager
Default Insurance Fund
14 September 2017

DEFAULT INSURANCE FUND (DIF)

Comprised of the
Collapsed Insurer Fund (CIF) and
Uninsured Employer Fund (UEF)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

Default Insurance Fund
Operating Statement
For the Year Ended 30 June 2017

	Note No.	CIF Actual 2017 $'000	CIF Actual 2016 $'000	UEF Actual 2017 $'000	UEF Actual 2016 $'000	DIF Actual 2017 $'000	DIF Actual 2016 $'000
Income							
Interest and Distributions	4	486	508	236	224	**722**	**732**
Levies	5	-	-	2,663	817	**2,663**	**817**
Recoveries (Losses)/Earnings	6	7	653	(59)	134	**(52)**	**787**
Other Revenue	7	-	-	106	158	**106**	**158**
Total Income		**493**	**1,161**	**2,946**	**1,333**	**3,439**	**2,494**
Expenses							
Employee Expenses	8	-	-	48	75	**48**	**75**
Superannuation Expenses	8	-	-	8	24	**8**	**24**
Claims (Credit)/Expense	9	(34)	72	167	536	**133**	**608**
Supplies and Services	10	47	46	163	157	**210**	**203**
Total Expenses		**13**	**118**	**386**	**792**	**399**	**910**
Operating Surplus		**480**	**1,043**	**2,560**	**541**	**3,040**	**1,584**
Other Comprehensive Income		-	-	-	-	-	-
Total Comprehensive Income		**480**	**1,043**	**2,560**	**541**	**3,040**	**1,584**

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

Default Insurance Fund
Balance Sheet
At 30 June 2017

	Note No.	CIF Actual 2017 $'000	CIF Actual 2016 $'000	UEF Actual 2017 $'000	UEF Actual 2016 $'000	DIF Actual 2017 $'000	DIF Actual 2016 $'000
Current Assets							
Cash and Cash Equivalents	12	18,290	17,908	10,188	8,218	**28,478**	**26,126**
Receivables	13	-	-	585	747	**585**	**747**
Total Current Assets		**18,290**	**17,908**	**10,773**	**8,965**	**29,063**	**26,873**
Non-Current Assets							
Receivables	13	-	-	578	666	**578**	**666**
Total Non-Current Assets		**-**	**-**	**578**	**666**	**578**	**666**
Total Assets		**18,290**	**17,908**	**11,351**	**9,631**	**29,641**	**27,539**
Current Liabilities							
Payables	14	2	2	72	62	**74**	**64**
Employee Benefits	15	-	-	-	13	**-**	**13**
Provision for Claims Payable	16	40	83	1,032	817	**1,072**	**900**
Total Current Liabilities		**42**	**85**	**1,104**	**892**	**1,146**	**977**
Non-Current Liabilities							
Provision for Claims Payable	16	908	963	7,145	8,198	**8,053**	**9,161**
Total Non-Current Liabilities		**908**	**963**	**7,145**	**8,198**	**8,053**	**9,161**
Total Liabilities		**950**	**1,048**	**8,249**	**9,090**	**9,199**	**10,138**
Net Assets		**17,340**	**16,860**	**3,102**	**541**	**20,442**	**17,401**
Equity							
Accumulated Funds		17,340	16,860	3,102	541	**20,442**	**17,401**
Total Equity		**17,340**	**16,860**	**3,102**	**541**	**20,442**	**17,401**

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 2017

	CIF Accumulated Funds Actual 2017 $'000	UEF Accumulated Funds Actual 2017 $'000	DIF Accumulated Funds Actual 2017 $'000
Balance at 1 July 2016	**16,860**	**541**	**17,401**
Comprehensive Income			
Operating Surplus	480	2,560	**3,040**
Total Comprehensive Surplus	**480**	**2,560**	**3,040**
Balance at 30 June 2017	**17,340**	**3,102**	**20,442**

	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	**1,043**	**541**	**1,584**
Balance at 30 June 2016	**16,860**	**541**	**17,401**

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 2017

	Note No.	CIF Actual 2017 $'000	CIF Actual 2016 $'000	UEF Actual 2017 $'000	UEF Actual 2016 $'000	DIF Actual 2017 $'000	DIF Actual 2016 $'000
Cash Flow From Operating Activities							
Receipts							
Interest and Distributions Received		486	508	236	224	**722**	**732**
Levies		-	-	2,676	2,266	**2,676**	**2,266**
Recoveries		7	654	153	138	**160**	**792**
Goods and Services Input Tax Credits from the Australian Taxation Office		-	-	59	59	**59**	**59**
Other Revenue		-	-	135	118	**135**	**118**
Total Receipts from Operating Activities		**493**	**1,162**	**3,259**	**2,805**	**3,752**	**3,967**
Payments							
Employee		-	-	69	122	**69**	**122**
Supplies and Services		47	47	157	126	**204**	**173**
Payment of Claims		64	22	1,003	1,512	**1,067**	**1,534**
Goods and Services Tax Paid to Suppliers		-	-	60	59	**60**	**59**
Total Payments for Operating Activities		**111**	**69**	**1,289**	**1,819**	**1,400**	**1,888**
Net Cash Inflows from Operating Activities	18(b)	**382**	**1,093**	**1,970**	**986**	**2,351**	**2,079**
Net Increase in Cash and Cash Equivalents		**382**	**1,093**	**1,970**	**986**	**2,351**	**2,079**
Cash and Cash Equivalents at the Beginning of the Reporting Period		17,908	16,815	8,218	7,232	**26,126**	**24,047**
Cash and Cash Equivalents at the End of the Reporting Period	18(a)	**18,290**	**17,908**	**10,188**	**8,218**	**28,478**	**26,126**

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 2017

NOTE INDEX

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

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.

The Fund keeps separate accounts for the Uninsured Employer Fund (UEF) for claims made against employers without compulsory insurance policies and for the Collapsed Insurer Fund (CIF) for claims made against an insurer which cannot provide the indemnity.

Funds required to satisfy the cost of claims and other relevant expenses for the Fund are not guarantee by the ACT Government however, Part 8.2 of the *Workers Compensation ACT 1951* allows the Fund Manager to impose contributions and supplementary contributions on approved insurers and self-insurers to meet the cost of claims.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Refer to the following appendices for the notes comprising significant accounting policies and other explanatory information.

Appendix A – Basis of Preparation of the Financial Statements

Appendix B – Significant Accounting Policies

Appendix C – Impact of Accounting Standards Issued but Yet to be Applied

NOTE 3 CHANGE IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES

Refer to Appendix D – Change in Accounting Policy and Accounting Estimates.

NOTE 4 INTEREST AND DISTRIBUTIONS

	2017 $'000	2016 $'000
Interest and Distributions		
Distributions from the Cash Trust Account	**474**	471
Interest from Bank	**12**	37
Collapsed Insurer Fund	**486**	508
Distributions from the Cash Trust Account	**157**	163
Interest from Bank	**79**	61
Uninsured Employer Fund	**236**	224
Total Interest and Distributions	**722**	732

NOTE 5 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. In 2016-17, the Fund Manager imposed contributions from insurers and self-insurers equal to 1.4% of gross written premiums (1.4% in 2015-16).

	2017 $'000	2016 $'000
Uninsured Employer Fund		
Levies Received	**2,663**	2,457
Levies Attributed to Unfunded Component	**-**	(1,640)
Total Levies	**2,663**	817

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 6 RECOVERIES (LOSSES)/EARNINGS

	2017 $'000	2016 $'000
Insurer – Collapsed Insurer Fund [a]	**7**	653
Other – Uninsured Employer Fund [b]	**(59)**	134
Total Recoveries	**(52)**	787

[a] Recoveries from Insurer - Collapsed Insurer Fund in 2015-16 were payments received from the HIH Liquidator. The Fund relies on the administrators of the failed insurance companies to determine the amounts received. Only one small payment was received from HIH in 2016-17. No further recoveries are expected in the future at this stage.

[b] Recoveries collected under legislation and from court award contributions to settlements were significantly lower during 2016-17 compared with 2015-16. These lower amounts along with a reduction in claims related receivables has resulted in a decrease in recoveries for the Uninsured Employer Fund. Refer to Note: 13 'Receivables'.

NOTE 7 OTHER REVENUE

	2017 $'000	2016 $'000
Uninsured Employer Fund		
Fines	**63**	66
Services Provided to the Nominal Defendant [a]	**43**	92
Total Other Revenue	**106**	158

[a] The decrease in services provided to the Nominal Defendant is due to these services now being provided by the Default Insurance Fund to now being provided by the ACT Insurance Authority from 1st January 2017. This resulted in a reduction in revenue from providing these services to the Nominal Defendant.

NOTE 8 EMPLOYEE AND SUPERANNUATION EXPENSES

	2017 $'000	2016 $'000
Uninsured Employer Fund		
Employee Expenses		
Salaries	**47**	94
Increase/(Decrease) in Employee Benefits	**1**	(19)
Total Employee Expenses [a]	**48**	75
Superannuation Expenses		
Superannuation Contribution to the Territory Banking Account	**8**	21
Productivity Benefit	**-**	3
Total Superannuation Expenses [a]	**8**	24

[a] Expenses relating to both employee and superannuation expenses decreased due to the employees being transferred to the ACT Insurance Authority cost centre, this change came in to effect as of the 1st January 2017.

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 9 CLAIMS (CREDIT)/EXPENSES

	2017 $'000	2016 $'000
Settlements	**15**	-
Medical and Rehabilitation Costs	**4**	-
Weekly Compensation	**22**	22
Legal Costs	**23**	-
Provision for Claims Payable	**(98)**	50
Collapsed Insurer Fund [a]	**(34)**	72
Settlements	**231**	566
Medical and Rehabilitation Costs	**143**	133
Weekly Compensation	**95**	95
Legal and Disbursements Costs	**536**	712
Provision for Claims Payable	**(838)**	(970)
Uninsured Employer Fund [b]	**167**	536
Total Claims Expenses	**133**	608

[a] The decrease in the CIF's claim expense is mostly due to a decrease in the CIF provision for claims payable resulting from the 2016-17 actuarial estimate (refer to Note 16: 'Provision for Claims Payable'), this was offset by the settlement of one new claim.

[b] The claims expenses for the UEF have decreased as the result of a reduction in the number and size of settlements along with the decrease in the UEF provision for claims payable resulting from the 2016-17 actuarial estimate (refer to Note 16: 'Provision for Claims Payable').

NOTE 10 SUPPLIES AND SERVICES

	Note No.	2017 $'000	2016 $'000
Actuarial Costs		**9**	10
Audit Fees	11	**14**	13
Investment Commission Fees		**24**	23
Collapsed Insurer Fund		**47**	46
Actuarial Costs		**15**	15
Audit Fees	11	**14**	13
Investment Commission Fees		**8**	8
Support Services		**126**	119
Other		**-**	2
Uninsured Employer Fund		**163**	157
Total Supplies and Services		**210**	203

NOTE 11 AUDITOR'S REMUNERATION

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

	2017 $'000	2016 $'000
Audit Services		
Audit fees paid or payable to the ACT Audit Office	**28**	26
Total Audit Fees	**28**	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 a Cash Trust Account. The investment earned an average floating interest rate of 2.7% in 2016-17 (2.91% in 2015-16). These funds are able to be withdrawn upon request and are not subject to movements in their market value.

	2017 $'000	2016 $'000
Cash and Cash Equivalents		
Cash at Bank	**680**	294
Investments	**17,610**	17,614
Collapsed Insurer Fund	**18,290**	17,908
Cash at Bank	**2,580**	2,613
Investments [a]	**7,608**	5,605
Uninsured Employer Fund	**10,188**	8,218
Total Cash and Cash Equivalents	**28,478**	26,126

[a] The Uninsured Employer Fund investments increased due to surplus funds being invested.

NOTE 13 RECEIVABLES

	Note No.	2017 $'000	2016 $'000
Uninsured Employer Fund			
Current Receivables			
Levies Receivable		**568**	580
Services Supplied to the Nominal Defendant		**-**	92
Other		**-**	50
Goods and Services Tax Receivable		**17**	15
		585	737
Other Receivables			
Claims Related		**-**	10
Total Current Receivables		**585**	747
Non-Current Receivables			
Claims Related		**578**	666
Total Non-Current Receivables		**578**	666

Ageing of Receivables

	Not Overdue	Overdue			Total
		Less than 30 Days	30 to 60 Days	Greater than 60 Days	
	$'000	$'000	$'000	$'000	$'000
2017					
Current Receivables					
Not Impaired[1] Receivables	**582**	**3**	**-**	**-**	**585**
Impaired Receivables	**-**	**-**	**-**	**-**	**-**
Non-Current Receivables					
Not Impaired[1] Receivables	**578**	**-**	**-**	**-**	
Impaired Receivables	**-**	**-**	**-**	**-**	**-**

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	-	-	-	-	-

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

Default Insurance Fund
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2017

NOTE 14 PAYABLES

	2017 $'000	2016 $'000
Current Payables		
Accrued Expenses	**2**	2
Collapsed Insurer Fund	**2**	2
Trade Creditors	**66**	58
Pay As You Go (PAYG) withholding payable	**5**	3
Accrued Expenses	**1**	1
Uninsured Employer Fund	**72**	62
Total Current Payables	**74**	64

No payables are overdue.

NOTE 15 EMPLOYEE BENEFITS

	2017 $'000	2016 $'000
Uninsured Employer Fund		
Current Employee Benefits		
Accrued Salaries	-	1
Annual Leave	-	10
Long Service Leave	-	2
Total Current Employee Benefits	-	13

	2017 Number	2016 Number
Employee Numbers		
Full-Time Equivalents at the End of the Reporting Period	-	0.8

The Default Insurance Fund employees and their benefits transferred to the ACT Insurance Authority during 2016-17.

NOTE 16 PROVISION FOR CLAIMS PAYABLE

	Note No.	2017 $'000	2016 $'000
(a) Total Provision for Claims Payable by Fund			
Current Provision for Claims Payable		**40**	83
Non-Current Provision for Claims Payable		**908**	963
Collapsed Insurer Fund [a]		**948**	1,046
Current Provision for Claims Payable		**1,032**	817
Non-Current Provision for Claims Payable		**7,145**	8,198
Uninsured Employer Fund [b]		**8,177**	9,015
Total Provision for Claims Payable		**9,125**	10,061

[a] The decrease of $0.098 million in CIF's provision for claims payable is largely a result of lower forecasts for claims inflation and higher discount rates, together with reducing liability as the portfolio claim size and numbers reduce to nil.

[b] The decrease of $0.838 million in UEF's provision for claims payable is largely a result of lower forecasts for claims inflation and higher discount rates.

(b) Change in Basis - In the 12 months from 30 June 2016 to 30 June 2017

Inflated and Discounted Liability at 30 June 2017 (Gross of Recoveries)

	CIF Component $'000	UEF Component $'000	Total DIF $'000
Reported	403	1,595	1,998
Incurred But Not Reported (IBNR)	422	5,515	5,937
Claims Handling Expense	123	1,067	1,190
Total Provision for Claims Payable	**948**	**8,177**	**9,125**

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**

NOTE 16 PROVISION FOR CLAIMS PAYABLE - CONTINUED

(c) Reconciliation of movement in provision for claims payable

	CIF ($'000)	UEF ($'000)	Total ($'000)
Gross inflated, discounted liability at 30 June 2016 (including claims handling expenses)	1,046	9,015	10,061
Remove the impact of claims handling expenses	(136)	(1,176)	(1,312)
Gross inflated, discounted liability at 30 June 2016 (excluding claims handling expenses)	910	7,839	8,749
Remove the impact of inflation and discounting	(65)	(1,372)	(1,437)
Gross uninflated, undiscounted liability at 30 June 2016	844	6,467	7,312
Actual payments during 2016-17	(63)	(887)	(951)
Expected gross uninflated, undiscounted liability of outstanding claims at 30 June 2017 in June 2016 Values (excluding claims handling expenses)	**781**	**5,580**	**6,361**
Expected inflation from June 2016 to June 2017 at 3.75%	29	209	238
Expected gross uninflated, undiscounted liability of outstanding claims at 30 June 2017 in June 2017 Values (excluding claims handling expenses)	**810**	**5,789**	**6,600**
General data and modelling changes	3	(490)	(487)
Change in IBNR numbers	-	1,306	1,306
Change in IBNR size	-	(1,185)	(1,185)
Gross uninflated, undiscounted liability of outstanding claims at 30 June 2017 for prior accident years	**813**	**5,421**	**6,234**
Gross uninflated, undiscounted liability of outstanding claims at 30 June 2017 for the 2017 accident years	-	1,255	1,255
Gross uninflated, undiscounted liability of outstanding claims at 30 June 2017 for all accident years (excluding claims handling expenses)	**813**	**6,676**	**7,489**
Impact of inflating and discounting	11	435	446
Gross inflated, discounted liability of outstanding claims at 30 June 2017 for all accident years (excluding claims handling expenses)	**825**	**7,110**	**7,935**
Add in claims handling expenses	123	1,067	1,190
Gross inflated, discounted liability of outstanding claims at 30 June 2017 for all accident years (including claims handling expenses)	**948**	**8,177**	**9,125**

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 Appendix B - 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%**
	2017	**Profit/(Loss)**	**Profit/(Loss)**
	$'000	**$'000**	**$'000**
Financial Assets:			
Cash and Cash Equivalents	**28,478**	**(285)**	**285**

(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.

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 current 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 2017. 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.

2017	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	12	**2.37**	**680**	**-**	**-**	**-**	**-**	**680**
Investments	12	**2.70**	**17,610**	**-**	**-**	**-**	**-**	**17,610**
Uninsured Employer Fund								
Cash at Bank	12	**2.37**	**2,580**	**-**	**-**	**-**	**-**	**2,580**
Investments	12	**2.70**	**7,608**	**-**	**-**	**-**	**-**	**7,608**
Receivables	13		**-**	**-**	**-**	**-**	**568**	**568**
Total Financial Assets			**28,478**	**-**	**-**	**-**	**568**	**29,046**
Financial Liabilities								
Collapsed Insurer Fund								
Payables	14		**-**	**-**	**-**	**-**	**(2)**	**(2)**
Uninsured Employer Fund								
Payables	14		**-**	**-**	**-**	**-**	**(67)**	**(67)**
Total Financial Liabilities			**-**	**-**	**-**	**-**	**(69)**	**(69)**
Net Financial Assets			**28,478**	**-**	**-**	**-**	**499**	**28,977**

Reconciliation of Net Financial Assets to Net Assets as per the Balance Sheet	**Note No.**	**2017 $'000**
Net Financial Assets (as above)		**28,977**
Claims Related Receivable	13	**578**
Goods and Services Tax Receivable	13	**17**
Pay As You Go (PAYG) withholding payable	14	**(5)**
Provision for Claims Payable	16	**(9,125)**
Net Assets as per the Balance Sheet		**20,442**

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 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	12	2.81	294	-	-	-	-	294
Investments	12	2.91	17,614	-	-	-	-	17,614
Uninsured Employer Fund								
Cash at Bank	12	2.81	2,613	-	-	-	-	2,613
Investments	12	2.91	5,605	-	-	-	-	5,605
Receivables	13		-	-	-	-	722	722
Total Financial Assets			**26,126**	**-**	**-**	**-**	**722**	**26,848**
Financial Liabilities								
Collapsed Insurer Fund								
Payables	14		-	-	-	-	(2)	(2)
Uninsured Employer Fund								
Payables	14		-	-	-	-	(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 Related Receivable	13	676
Taxation Receivable	13	15
Pay As You Go (PAYG) withholding payable	14	(3)
Employee Benefits	15	(13)
Provision for Claims Payable	16	(10,061)
Net Assets as per the Balance Sheet		**17,401**

NOTE 17 FINANCIAL INSTRUMENTS - CONTINUED

	2017 $'000	2016 $'000
Carrying Amount of Each Category of Financial Asset and Financial Liability		
Financial Assets		
Loans and Receivables Measured at Amortised Cost	**568**	722
Financial Liabilities		
Financial Liabilities Measured at Amortised Cost	**69**	61

(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 2017 $'000	Fair Value 2017 $'000	Carrying Amount 2016 $'000	Fair Value 2016 $'000
Financial Assets				
Cash and Cash Equivalents	**28,478**	**28,478**	26,126	26,126
Receivables	**568**	**568**	722	722
Total Financial Assets	**29,046**	**29,046**	26,848	26,848
Financial Liabilities				
Payables	**69**	**69**	61	61
Total Financial Liabilities	**69**	**69**	61	61

NOTE 18 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

	2017 $'000	2016 $'000
Total Cash and Cash Equivalents Recorded in the Balance Sheet	28,478	26,126
Cash and Cash Equivalents at the End of the Reporting Period as Recorded in the Cash Flow Statement	**28,478**	**26,126**

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

	2017 $'000	2016 $'000
Operating Surplus	3,040	1,584
Cash before Changes in Operating Assets and Liabilities	**3,040**	**1,584**
Changes in Operating Assets and Liabilities		
Decrease in Receivables	250	1,414
(Decrease) in Outstanding Claims Payable	(936)	(920)
Increase in Payables	10	24
(Decrease) in Employee Benefits	(13)	(23)
Net Changes in Operating Assets and Liabilities	**(689)**	**495**
Net Cash Inflows from Operating Activities	**2,351**	**2,079**

NOTE 19 EVENTS OCCURRING AFTER BALANCE DATE

On 1 July 2017, the *Worker's Compensation Amendment Act 2016 (No 2)* will come into effect providing benefits to workers in relation to claims for imminently fatal asbestos-related disease through the Uninsured Employer Fund. The Fund Manager has completed an assessment of the effect of the changes in legislation and has advised the licensed ACT workers compensations insurers and self-insurers of the levy rate for 2017-18. The determination is to increase the contribution rate from 1.4%, currently imposed in 2016-17, to 2.9% for 2017-18.

The ACT Government has called upon the final repayment of the capital funds injected into the Collapsed Insurer Fund following the collapse of HIH Insurance in 2001. The Fund and the ACT Government have agreed to return the remaining $11.3 million owed from the capital injection provided by the ACT Government to the ACT Budget during 2017-18.

NOTE 20 RELATED PARTY DISCLOSURES

A related party is a person that controls or has significant influence over the reporting entity, or is a member of the Key Management Personnel (KMP) of the reporting entity or its parent entity, and includes their close family members and entities in which the KMP and/or their close family members individually or jointly have controlling interests.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly.

The only KMP of the Fund is the Fund Manager.

The Head of Service and the ACT Executive comprising the Cabinet Ministers are KMP of the ACT Government and therefore related parties of the Fund.

This note does not include typical citizen transactions between the KMP and the Fund that occur on terms and conditions no different to those applying to the general public.

(a) Controlling Entity

The Default Insurance Fund is an ACT Government related entity.

(b) Key Management Personnel

(b) (1) Compensation of Key Management Personnel

Compensation of all Cabinet Ministers, including the Portfolio Minister, is disclosed in the note on related party disclosures included in the ACT Executive's financial statements for the year ended 30 June 2017.

Compensation of the Head of Service is included in the note on related party disclosures included in the Chief Minister, Treasury and Economic Development Directorate's (CMTEDD) financial statements for the year ended 30 June 2017.

The only KMP of the Fund is an employee of the ACT Insurance Authority and is compensated by the ACT Insurance Authority. No KMP were compensated by the Fund.

(b) (2) Transactions with Key Management Personnel

There were no transactions with KMP that were material to the financial statements of the Fund.

(b) (3) Transactions with parties related to Key Management Personnel

There were no transactions with parties related to KMP, including transactions with KMP's close family members or other related entities that were material to the financial statements of the Fund.

(c) Transactions with Other ACT Government Controlled Entities

All transactions with ACT Government controlled entities are disclosed in the relevant notes to the financial statements of the Fund.

Default Insurance Fund
Appendix A – Basis of Preparation of the Financial Statements
Forming Part of Note 2 of the Financial Statements
For the Year Ended 30 June 2017

LEGISLATIVE REQUIREMENT

These general purpose financial statements have been prepared to comply with Australian Accounting Standards as required by the FMA. Accordingly these 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.

ACCRUAL ACCOUNTING

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.

CURRENCY

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

INDIVIDUAL REPORTING ENTITY

The Fund is an individual reporting entity.

REPORTING PERIOD

These financial statements state the financial performance, change in equity and cash flows of the Fund for the year ended 30 June 2017 and with the financial position of the Fund at 30 June 2017.

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.

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.

Default Insurance Fund
Appendix B – Significant Accounting Policies
Forming Part of Note 2 of the Financial Statements
For the Year Ended 30 June 2017

SIGNIFICANT ACCOUNTING POLICIES - INCOME

REVENUE RECOGNITION

Revenue is recognised at the fair value of the consideration received or receivable in the Operating Statement.

NOTE 4 – INTEREST AND DISTRIBUTIONS

Interest revenue is recognised using the effective interest method.

Distributions revenue is received from investments in a Fixed Interest Portfolio held with the Public Trustee and Guardian. This is recognised on an accrual basis using data supplied by the Public Trustee and Guardian.

NOTE 5 – 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 2016-17 the Fund Manager imposed contributions from insurers and self-insurers equal to 1.4% of gross written premiums (1.4% in 2015-16). Levies are recognised in the Operating Statement when they have been levied.

NOTE 6 – 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.

NOTE 7 – OTHER REVENUE

Other revenue includes support services revenue provided by the Nominal Defendant and fines from non-complying employers. Fines are recognised as revenue at the time of receipt.

SIGNIFICANT ACCOUNTING POLICIES - EXPENSE

NOTE 8 – EMPLOYEE AND SUPERANNUATION EXPENSES

Employee Expenses

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.

Superannuation Expenses

The Fund makes fortnightly payments directly to superannuation funds for those members of the Public Sector who are part of superannuation accumulation schemes. This includes the Public Sector Superannuation Scheme Accumulation Plan (PSSAP) and schemes of employee choice.

SIGNIFICANT ACCOUNTING POLICIES –EXPENSE - CONTINUED

NOTE 8 – EMPLOYEE AND SUPERANNUATION EXPENSES - CONTINUED

Superannuation Expenses - continued

The Fund's accruing superannuation liability obligations are expensed as they are incurred.

NOTE 9 – CLAIMS EXPENSES

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

SIGNIFICANT ACCOUNTING POLICIES - ASSETS

ASSETS – CURRENT AND NON-CURRENT

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

NOTE 12 – CASH AND CASH EQUIVALENTS

Cash includes cash at bank. Fund money held with the Public Trustee and Guardian Cash Trust Fund is classified as Cash Equivalent. The 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. Short-term investments held in a Cash Trust Account are managed by an external fund manager on behalf of the Public Trustee and Guardian.

NOTE 13 – 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 collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. An allowance for impairment is raised when some doubt as to the collection exists. The allowance for impairment is based on objective evidence and a review of overdue balances. The 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.

SIGNIFICANT ACCOUNTING POLICIES – LIABILITIES

LIABILITIES – CURRENT AND NON-CURRENT

Liabilities classified as current or non-current in the Balance Sheet and in the relevant notes. Liabilities are classified as current when they are due to be settled within 12 months after the reporting date or the Fund doesn't have an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date. Liabilities which do not fall within the current classification are non-current.

NOTE 14 – 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 payables, Goods and Services Taxation (GST), Pay As You Go (PAYG) and accrued expenses.

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

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

NOTE 16 – PROVISION FOR CLAIMS PAYABLE

An estimate of the provision for claims payable is completely annually be an independent actuary. The Fund appointed Taylor Fry Consulting Actuaries as their independent actuary in March 2017, previously these services were undertaken by KPMG Actuarial Pty Limited.

Taylor Fry Consulting Actuaries completed a full assessment in July 2017 of the provision for claims payable at 30 June 2017. The movement in outstanding claims liability can either reduce claims expense in the case of a reduction in liability or increase claims expense in the case of an increase in liability.

The 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.

Default Insurance Fund
Appendix C – Impact of Accounting Standards Issued But Yet to be Applied Forming Part of Note 2 of the Financial Statements For the Year Ended 30 June 2017

IMPACT OF ACCOUNTING STANDARDS ISSUED BUT YET TO BE APPLIED

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

The Fund is currently assessing the impact of the standards below, and while it is assumed there will be no material financial impact from their implementation there is potentially an impact on the classification, measurement and disclosures of the Fund's financial assets. The Fund will make a more detailed assessment of the impact over the next 12 months.

- AASB 9 Financial Instruments (December 2014) (application date 1 Jan 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 the Authority's financial assets.
- 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 & 1038 and Interpretations 2, 5, 10, 12, 19 & 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.
- AASB 2014-1 Amendments to Australian Accounting Standards – Part E Financial Instruments [AASB 1, 3, 4, 5,7,9 (December 2009), 9 (December 2010), 101, 102, 108, 112, 118, 120, 121, 132, 136, 137,139, Interpretation 2, 5,10, 12, 16, 19, and 107] (application date 1 Jan 2018);
  Part E of this standard defers the application of AASB 9 to 1 January 2018.
- 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, 1049, Interpretation 2, 5, 10, 12, 16, 19 &127] (application date 1 Jan 2018).
  This standard makes consequential amendments to a number of standards and interpretations as a result the issuing of AASB 9 (December 2014).

Default Insurance Fund
Appendix D – Change in Accounting Policy and Accounting Estimates Forming Part of Note 3 of the Financial Statements For the Year Ended 30 June 2017

CHANGE IN ACCOUNTING ESTIMATES

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

Changes in Actuarial Assumptions

During 2016-17 the Fund appointed Taylor Fry Consulting Actuaries to estimate the provision for claims payable (liability) and related claims expenses, this valuation has previously been conducted by KPMG Actuarial Pty Limited. Actuarial assumptions are based on past claims experience, risk exposure and projections of economic variables. As a result of experience during the year and changes in valuation assumptions the provision of claims payable decreased by $0.098 million for CIF ($0.50 million increase in 2015-16) and decreased by $0.838 million for UEF ($0.970 million decrease in 2015-16) (refer to Note 9: 'Claims (Credit)/Expenses' and Note 16: 'Provision for Claims Payable').

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.

Actuarial Assumptions

The actuarial process for estimating 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.

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 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
Appendix D – Change in Accounting Policy and Accounting Estimates - Continued

Actuarial Assumptions - Continued

The approach used to estimate the provision for claims payable in the Collapsed Insurers Fund, excluding National Employers Mutual was as follows:

- historical claim payments gross of recoveries were inflated to 30 June 2017 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 further allowance was made for incurred but not yet reported IBNR claims;
- 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.

The approach used to estimate the provision for claims payable in respect of National Employers Mutual was as follows:

- future claims payments on the one open claim were projected, based on payments in 2016-17;
- probability of survival factors were applied to each payment based on the claimant's age of 70 at 30 June 2017; 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.

No provision was made for claims payable in respect of Palmdale.

Default Insurance Fund
Appendix D – Change in Accounting Policy and Accounting Estimates - Continued

Actuarial Assumptions – Continued

Process Used to Determine Assumptions

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

Projected IBNR 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 the numbers 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, 20% of new claims are projected to be reported in 2017-18.

Gross average IBNR claim size

The gross average claims size assumption has been determined based on an analysis of past average claim size, with an allowance for past wage inflation and an estimate of past superimposed inflation of 1.75%.

Claims inflation rate

Future claims inflation is based on forecasts of Average Weekly Earnings (AWE) for ACT from Access Economics' five year business outlook at 30 June 2017, blended with long term forecasts for AWE. When applied to the forecast payments, this is equivalent to a single rate of 3.34% for UEF and 3.19% for CIF. However, claim costs have a tendency to increase above the rate of wage inflation over time. A rate of 0.5% 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 market yields at 30 June 2017 on long-duration Commonwealth Government bonds have been used, which gives weighted average discount rates of 2.00% and 2.94% 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 to settlement

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.

Recoveries

The percentage of recoveries is based on historic recovery patterns. A decrease in the percentage of recoveries would lead to higher net claim payments.

Claims handling expenses

An assumption of 15% loading for expenses has been applied to the gross central estimate for the Fund at 30 June 2017. This is unchanged from the previous valuation at 30 June 2016.

Default Insurance Fund
Appendix D – Change in Accounting Policy and Accounting Estimates - Continued

Actuarial Assumptions – Continued

Table 1 – Main assumptions in determining the provision for claims payable

Assumption	**Collapsed Insurer Fund**		**Uninsured Employer Fund**	
	2017	**2016**	**2017**	**2016**
Projected IBNR claim numbers	**Nil**	Nil	**37.2**	30.4
Gross average IBNR claim size	**Nil**	Nil	**$139,250**	$163,678
Claims Inflation rate per annum – Wage Inflation	**3.19%**	3.75%	**3.34%**	3.75%
Claims Inflation rate per annum – Superimposed inflation	**0.50%**	1.75%	**0.50%**	1.75%
Discount rate per annum	**2.00%**	1.6%	**2.94%**	1.8%
Average weighted term to settlement	**2.8 years**	3.8 years	**7.0 years**	4.5 years
Recoveries	**0%**	0%	**8%**	9%
Claims handling expenses	**15%**	15%	**15%**	15%
Past Superimposed Inflation	**Not Applicable**	Not Applicable	**1.75%**	Not Applicable

Default Insurance Fund
Appendix D – Change in Accounting Policy and Accounting Estimates - Continued

Actuarial Assumptions – Continued

Sensitivity Analysis

The Fund's provision for claims payable is calculated using methods that 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, changes were made to key assumptions and the impact on the outstanding claims result was quantified. This is referred to as a sensitivity analysis.

Table 2 - shows a number of sensitivities on the UEF net liability. These sensitivities indicate the considerable sensitivity to the number of late claims, which is very uncertain.

Uninsured Employer Fund - Sensitivities of net liability to various model assumptions					
Sensitivity	**Assumption**	**Changed to**	**Scenario net provision for claims payable $'000**	**Difference from net provision for claims payable $'000**	**Difference %**
Net provision for claims payable			**7,599**		
IBNER	10%	20%	7,753	154	2
Number of late claims per annum	1 claim	1.9 claims	11,145	3,545	47
Number of late claims per annum	1 claim	0.6 claims	6,232	(1,367)	(18)
Historical superimposed inflation	1.75%	0%	6,899	(700)	(9)
Average claim size	$139,250	$120,000	6,783	(817)	(11)
Average claim size	$139,250	$160,000	8,480	880	12
Tail claim	7%	17%	7,640	40	1
Future inflation	Equivalent rate 3.34%	Previous valuation 3.75%	7,832	233	3
Future superimposed inflation	0.50%	Previous valuation 1.75%	8,329	729	10
Future discount rate	Equivalent rate 2.94%	Previous valuation 1.80%	7,990	391	5

Default Insurance Fund
Appendix D – Change in Accounting Policy and Accounting Estimates - Continued

Actuarial Assumptions – Continued

Sensitivity Analysis - Continued

Table 3 - shows a number of sensitivities on the CIF net liability. These sensitivities indicate the considerable sensitivity to the number and cost of IBNR claims, both of which are very uncertain.

Collapsed Insurance Fund - Sensitivities of net liability to various model assumptions					
Sensitivity	**Assumption**	**Changed to**	**Scenario net provision for claims payable $'000**	**Difference from net provision for claims payable $'000**	**Difference %**
Net provision for claims payable			**948**		
Future inflation	Equivalent rate 3.19%	Previous valuation 3.75%	973	25	3
Future superimposed inflation	0.50%	Previous valuation 1.75%	967	19	2
Future discount rate	Equivalent rate 2.00%	Previous valuation 1.80%	982	34	4
IBNR claim cost	$350,000	$200,000	768	(180)	(19)
IBNR claim cost	$350,000	$700,000	1,368	420	44

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).

Claims frequency and average claim size

The provision for claims payable is calculated by reference to expected claim frequency and average claim sizes. An increase in the claim frequency and/or 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.

Default Insurance Fund
Appendix D – Change in Accounting Policy and Accounting Estimates - Continued

Actuarial Assumptions – Continued

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.

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.
- Case estimates have been relied upon 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 as they may be claimed under the scheme. However, as such claims are expected to be infrequent, the exact impact on any given year is unknown.