



Annual Report

Financial Report 2019-20

Guide to the financial statements

Components of the financial report

The financial report contains three main sections:

- financial statements
- notes to the financial statements
- statements by the directors and auditor.

The financial statements consist of four main statements – Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows.

The notes to the financial statements detail the Association's accounting policies and set out the detailed values that are carried into the financial statements.

The statements by directors and auditor provide the views of the directors of the MAV and the independent auditor on the financial report.

Financial statements

1. Statement of Comprehensive Income

The Statement of Comprehensive Income shows:

- the MAV's revenue from its various activities
- expenses incurred in running the MAV and its business activities.

These expenses relate only to the business operations and do not include costs associated with the purchase of assets. The expense item 'depreciation' spreads the cost of the assets over the estimated life of the assets. The most important figure is the surplus/deficit for the year. A surplus means that revenues were greater than expenses and a deficit means expenses were greater than revenue.

2. Statement of Financial Position

The Statement of Financial Position shows the assets the Association owns and the liabilities it owes at 30 June. The Statement of Financial Position separates the assets and liabilities into current and non-current. Current means those assets or liabilities that will be either collected or that fall due within the next 12 months.

The components of the Statement of Financial Position are:

2.1 Current and non-current assets

Cash assets include cash held in the bank, petty cash, cash deposits and cash investments. Receivables are monies owed to the Association.

Prepayments are payments made in the current financial year which relate to the next financial year. For example, annual subscriptions, etc.

Property, plant and equipment represents the value of the equipment, furniture and fittings, computers, website and intranet, and motor vehicles owned by the Association.

Intangible assets are trademarks, educational programs and other intellectual property owned by the Association.

2.2 Current and non-current liabilities

Bank overdraft indicates the amount the Association owes its bankers on its daily operating account.

Payables are monies owed by the Association to its suppliers as at 30 June.

Premiums in advance are insurance premiums relating to the next financial year billed to members of the insurance fund before 30 June.

Provision for employee entitlements is the accounting term for annual leave, long service leave and retirement gratuities owed to staff.

Provision for claims outstanding represents insurance claims reported by members, together with an estimate of claims incurred but not yet reported, including an estimate of the costs of settlement for these claims.

2.3 Net assets

This term describes the difference between total assets and total liabilities. It represents the net worth of the Association as at 30 June.

3. Statement of cash flows

The statement of cash flows summarises cash payments and cash receipts for the year. The values may differ from those shown in the income statement because the income statement is prepared on an accrual basis. Cash is derived from, and is used in, two main areas:

3.1 Cash flows from operating activities

Receipts relate to all cash received into the Association's bank account from members and others who owed money to the Association in the form of fees or premiums. Receipts also include interest earned from the Association's cash investments. It does not include receipts from the sale of assets.

Payments relate to all cash paid out of the Association's bank account to staff, creditors and others. It does not include cash paid for the purchase of assets.

3.2 Cash flows from investing activities

This relates to cash receipts and cash payments resulting from either the sale or purchase of property, plant and equipment. The statement of cash flows concludes with cash at end of year, which indicates the cash the Association has at 30 June to meet its debts and liabilities.

Notes to the financial statements

To enable the reader to understand the basis on which the values shown in the statements are established, it is necessary to provide details of the Association's accounting policies. These are described in note 2. Apart from the accounting policies, the notes also give details behind many of the summary figures contained in the statements. The note numbers are shown beside the relevant items in the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Financial Position.

Where the Association wishes to disclose information which cannot be incorporated into the statements, this is shown in the notes. The notes should be read at the same time as the financial statements in order to get a full and clear picture of the financial statements.

Statement by directors

The statement by directors is made by two directors on behalf of the Board of the Municipal Association of Victoria. The statement states that, in the opinion of the Board, the financial statements present a true and fair view of the operations of the Association and that the Association can pay its debts as and when they fall due.

Independent audit report

This report is the independent auditor's opinion on the financial statements. It provides the reader of the financial statements a completely independent opinion of the financial statements of the Association. The opinion covers all statutory and accounting standards compliance requirements, as well as providing a view on the truth and fairness of the financial statements.

**MAV
Combined
Financial
Report
2019-20**



Independent Auditor's Report

To the Directors of Municipal Association of Victoria

Opinion	<p>I have audited the combined financial report of Municipal Association of Victoria (the association) and its controlled entities (together the combined entity), which comprises the:</p> <ul style="list-style-type: none"> • combined entity and association statement of financial position as at 30 June 2020 • combined entity and association statement of comprehensive income for the year then ended • combined entity and association statement of changes in equity for the year then ended • combined entity and association statement of cash flows for the year then ended • notes to the financial report, including significant accounting policies • statement by directors. <p>In my opinion, the financial report presents fairly, in all material respects, the financial positions of the combined entity and the association as at 30 June 2020 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of part 7 of the <i>Financial Management Act 1994</i> and applicable Australian Accounting Standards.</p>
----------------	--

Basis for Opinion	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor's Responsibilities for the Audit of the Financial statements</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the association and the combined entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's <i>APES 110 Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
--------------------------	---

Emphasis of matter

We draw attention to:

Note 29 of the financial report which describes the capital management plan of MAV WorkCare with respect to the recovery from the net liability position, which has been impacted by poor investment performance.

Note 36 of the financial report which describes the uncertainty of the approval by Work Safe Victoria to renew MAV's application for renewal of its self-insurer license.

Our opinion is not qualified in respect of the above matters.

Directors' responsibilities for the financial report

The Directors of the association are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Financial Management Act 1994*, and for such internal control as the Directors determines is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors is responsible for assessing the association and the consolidated entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.

Auditor's responsibilities for the audit of the financial report


As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the association and the combined entity's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors
- conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the association and the combined entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the association and the combined entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the association and combined entity to express an opinion on the financial report. I remain responsible for the direction, supervision and performance of the audit of the association and the combined entity. I remain solely responsible for my audit opinion.

I communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

MELBOURNE
20 October 2020



Sanchu Chummar
as delegate for the Auditor-General of Victoria

Municipal Association of Victoria

Financial Report 2019-20

Statement of Comprehensive Income

For the year ended 30 June 2020

	NOTE	COMBINED		MAV - GENERAL FUND	
		2020 \$	2019 \$	2020 \$	2019 \$
REVENUE	4	86,279,837	76,575,855	15,349,093	16,477,855
		86,279,837	76,575,855	15,349,093	16,477,855
EXPENSES	5(b)	90,588,286	81,578,104	15,229,650	17,352,415
NET SURPLUS(DEFICIT)	3	(4,308,449)	(5,002,249)	119,443	(874,560)
OTHER COMPREHENSIVE INCOME		-	-	-	-
TOTAL COMPREHENSIVE INCOME(LOSS) FOR THE YEAR		(4,308,449)	(5,002,249)	119,443	(874,560)

The accompanying notes form an integral part of these statements.

Statement of Financial Position

as at 30 June 2020

	NOTE	COMBINED		MAV - GENERAL FUND	
		2020 \$	2019 \$	2020 \$	2019 \$
CURRENT ASSETS					
Cash and cash equivalents	9(a)	18,807,804	39,359,961	5,768,220	5,214,896
Investments	2(l)	52,098,906	45,532,165	-	-
Trade and other receivables	10,2(f)	89,362,562	69,243,176	11,232,331	9,404,416
Prepayments		2,627,181	1,881,991	81,519	115,397
TOTAL CURRENT ASSETS		162,896,453	156,017,293	17,082,070	14,734,709
NON-CURRENT ASSETS					
Trade and other receivables	10,2(f)	95,162,669	85,437,592	-	-
Property and equipment	12,2(h)	354,906	382,140	332,281	354,210
Right of use assets	6, 2(i)	2,464,917	-	2,464,917	-
Intangibles	13,2(h)	162,261	140,267	162,261	140,267
TOTAL NON-CURRENT ASSETS		98,144,753	85,959,999	2,959,459	494,477
TOTAL ASSETS		261,041,207	241,977,292	20,041,529	15,229,186
CURRENT LIABILITIES					
Trade and other payables		9,730,930	12,767,706	2,717,328	2,451,303
Premiums and Income in advance	11	66,009,615	47,714,745	6,211,301	4,408,139
Provision for employee entitlements	23	971,050	800,308	926,865	780,068
Provision for claims outstanding	14(a),2(t),2(u)	32,864,666	36,982,665	-	-
Lease Liabilities	6, 2(i)	957,822	-	957,822	-
Other current liabilities		764,707	765,628	764,707	765,628
TOTAL CURRENT LIABILITIES		111,298,790	99,031,052	11,578,023	8,405,138
NON-CURRENT LIABILITIES					
Provision for employee entitlements	23	97,188	108,906	84,707	106,710
Provision for claims outstanding	14(a),2(t),2(u)	150,404,435	140,830,109	-	-
Lease Liabilities	6, 2(i)	1,622,575	-	1,622,576	-
Other non-current liabilities		126,493	207,051	126,493	207,051
TOTAL NON-CURRENT LIABILITIES		152,250,691	141,146,066	1,833,776	313,761
TOTAL LIABILITIES		263,549,481	240,177,118	13,411,799	8,718,899
NET ASSETS (LIABILITY)		(2,508,274)	1,800,175	6,629,730	6,510,287
EQUITY / (DEFICIENCY)		(2,508,274)	1,800,175	6,629,730	6,510,287

The accompanying notes form an integral part of these statements.

1

Statement of Changes in Equity

For the year ended 30 June 2020

	COMBINED		MAV - GENERAL FUND	
	2020	2019	2020	2019
	\$	\$	\$	\$
RETAINED EARNINGS				
Balance at beginning of year	1,800,175	6,802,424	6,510,287	7,384,847
Surplus/(deficit) from ordinary activities	(4,308,449)	(5,002,249)	119,443	(874,560)
BALANCE AT END OF YEAR	(2,508,274)	1,800,175	6,629,730	6,510,287

Combined Statement of Cash Flows

for the year ended 30 June 2020

	NOTE	COMBINED		MAV - GENERAL FUND	
		2020	2019	2020	2019
		\$	\$	\$	\$
CASH FLOW FROM OPERATING ACTIVITIES					
RECEIPTS					
Premiums, subscriptions, grants and fees		55,361,300	77,425,433	18,813,839	26,603,745
Interest and investment gain (loss)		(2,114,709)	795,413	88,555	256,352
Reinsurance and other recoveries		25,991,105	14,881,021	-	-
PAYMENTS					
Suppliers		(49,632,070)	(73,329,027)	(17,102,714)	(28,754,766)
Claim payments		(42,341,178)	(29,579,776)	-	-
NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES	9(b)	(12,735,552)	(9,806,936)	1,799,680	(1,894,669)
CASH FLOW FROM INVESTING ACTIVITIES					
Proceeds from redemption of investments (Application of investment funds)		(6,565,546)	30,559,318	-	-
Proceeds from sale of fixed assets		-	60,857	-	60,857
Repayment of lease liabilities		(984,349)	-	(984,349)	-
Payments for fixed assets and intangibles		(266,710)	(202,649)	(262,007)	(201,668)
NET CASH USED IN INVESTING ACTIVITIES		(7,816,605)	30,417,526	(1,246,356)	(140,811)
NET (DECREASE)/INCREASE IN CASH HELD		(20,552,157)	20,610,590	553,324	(2,035,481)
Cash at beginning of year		39,359,961	18,749,371	5,214,896	7,250,377
CASH AT END OF YEAR	9(a)	18,807,804	39,359,961	5,768,220	5,214,896

The accompanying notes form an integral part of these statements.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

1. Corporate information

The combined financial report of Municipal Association of Victoria (MAV) for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the directors on the date shown on the attached Statement by Directors.

The MAV is an Association incorporated by an Act of the Parliament of Victoria, Australia, known as the *Municipal Association Act 1907*.

The nature of the operations and principal activities of MAV are:

- to promote the efficient carrying out of municipal government throughout the state of Victoria and watch over and protect the interests, rights and privileges of municipal corporations
- to arrange contracts of insurance
- to arrange fidelity insurance for local government - MAV Insurance
- to provide a public liability insurance scheme for local government - MAV Insurance
- to provide a workers' compensation self-insurance scheme for local government - MAV WorkCare

2. Summary of significant accounting policies

Accounting Standards and Interpretations which became effective during the year.

<u>Reference</u>	<u>Title Summary</u>	<u>Application Date of Standard</u>	<u>Impact on MAV Financial Report</u>	<u>Application Date for MAV</u>
AASB 1058	Income of Not-for-Profit Entities	1 January 2019	Minimal impact. Most revenue assessed as under agreement (contract) - See AASB 15.	1 July 2019
AASB 15	Revenue from Contracts with Customers	1 January 2019	See note 2(j)(w). \$2.26m of revenue reported as Income in advance rather than income at 30 June 2020.	1 July 2019
AASB 16	Leases	1 January 2019	See note 2(i), 6.	1 July 2019

Accounting Standards and Interpretations issued but not yet effective.

<u>Reference</u>	<u>Title Summary</u>	<u>Application Date of Standard</u>	<u>Impact on MAV Financial Report</u>	<u>Application Date for MAV</u>
IFRS 17	Insurance Contracts	1 January 2023	IFRS 17 does not apply to not for profit public sector entities. The application and date for application is still to be determined by the AASB for not-for-profit public sector entities such as the MAV.	N/A

(a) Basis of preparation

The financial report is a general purpose financial report which has been drawn up in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, and having regard to the financial reporting requirements of the *Financial Management Act 1994*.

The principal accounting policies adopted in preparing the financial report are stated to assist in a general understanding of the financial report. Accounting policies have been consistently applied unless otherwise indicated.

The financial report is presented in Australian dollars. The MAV is a not for profit entity.

The accounts have been prepared on the accruals basis using historical costs and, except where stated, do not take into account current valuations of assets.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS').

Compliance with AIFRS ensures that the financial report for the 2020 financial year, comprising the financial statements and notes thereto, is materially consistent with the International Financial Reporting Standards ('IFRS').

(c) Principles of the combined entity

The financial report comprises the economic entity of the MAV and its controlled entities the Local Government Mutual Liability Insurance Scheme (trading as Liability Mutual Insurance - LMI) and the Commercial Crime Fund (CCF), referred to jointly as MAV Insurance, and the MAV WorkCare Self-Insurance Mutual Scheme (Commenced 1 November 2017), referred to as MAV WorkCare.

A controlled entity is any entity controlled by MAV (Incorporated under the *Municipal Association Act 1907*). Control exists where MAV has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with MAV to achieve the objectives of MAV.

The effects of all transactions between entities in the combined entity have been eliminated.

The financial statements of all the divisions, including MAV Insurance, and MAV WorkCare are prepared for the same reporting period as the MAV, using consistent accounting policies.

All interdivisional balances and transactions, including unrealised profits arising from intra-divisional transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

The equity in the insurance businesses of MAV Insurance and MAV WorkCare represent the assets of the members of each of the insurance mutual Schemes and are not available to the members of the MAV.

(d) Income tax

The MAV is a State and Territory Body (STB) and is exempt from income tax, in accordance with Division 1AB of Part III of the Income Tax Assessment Act

(e) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2020

(f) Trade and other receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the MAV will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts, other than outstanding reinsurance recoveries, more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(g) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the MAV prior to the end of the financial year that are unpaid and arise when the MAV becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(h) Property, equipment, motor vehicles and intangible assets

Property, equipment, leasehold improvements and motor vehicles are carried at cost less, where applicable, accumulated depreciation. On disposal the difference between the sales proceeds and the carrying amount of the asset is recognised as a gain or loss.

The depreciable amount of all fixed assets are depreciated/amortised on a straight line basis over their estimated useful lives to the entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The following depreciation and amortisation rates are in use:	Annual Rate
Leasehold Improvements at cost	10%
Furniture and Equipment at cost	20% - 33%
Motor Vehicles at cost	20%
Information Technology Equipment at cost	33%
Website at cost	20%
Educational Programs at cost	20%

The website and educational programs are treated as intangible assets with a finite life and is amortised over the useful life and tested for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in the accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in statement of comprehensive income in the expense category "Amortisation". The MAV does not have any intangible assets with indefinite useful lives.

(i) Employee entitlements

The liabilities arising in respect of employee entitlements (note 23) are measured at their nominal amounts: wages and salaries, annual leave and sick leave regardless of whether they are expected to be settled within twelve months of balance date. Other employee entitlements are expected to be settled within twelve months of balance date.

All other employee entitlements, including long service leave, are measured at the present value of the estimated future cash outflows in respect of services provided up to balance date. Liabilities are determined after taking into consideration estimated future increase in wages and salaries and past experience regarding staff leave. Related on-costs are included. Wage inflation has been applied at 2% consistent with MAV practice, compared to the DTF issued rate of 4.25%. The difference on the provision is \$30k.

Contributions made to an employee superannuation fund are charged as expenses when incurred.

(j) Revenue recognition

Grant and Project revenue - Grant and Project income is recognised at the point, or over time, when (or as) the performance obligation is satisfied.

Recognition is based on the underlying contractual terms.

Subscriptions - Subscriptions are recognised on an accrual basis.

Sponsorship, management and rental income - Income is recognised on an accrual basis

Brokerage income

Brokerage income comprises amounts received from third parties for the placement of insurance for members.

Management fee income

Management fees are received for managing grants, projects, MAV Insurance and MAV WorkCare activities.

Investment income

Investment income consists of interest which is recognised on a time-proportionate basis that takes into account the effective interest rate on the financial asset and movements in unit values in cash and fixed interest funds which are carried at fair value through the Statement of Comprehensive Income.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

(k) Leases

Policy applicable before 1 July 2019

A distinction is made between finance leases which, effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property, without transferring the legal ownership, and operating leases under which the lessor effectively retains substantially all the risks and benefits.

Where assets are acquired by means of finance leases, the present value of minimum lease payments is established as an asset at the beginning of the lease term and amortised on a straight line basis over the expected economic life. A corresponding liability is also established and each lease payment is allocated between such liability and interest expense.

Operating lease payments are charged to expense on a basis which is representative of the pattern of benefits derived from the leased property. Lease incentives received under operating leases are recognised as a liability.

Lease incentives received have been recognised as a liability. This liability recognised in respect of the lease incentive will be reduced by allocating lease rental payments between rental expense and reduction of the liability.

Policy applicable after 1 July 2019

The MAV has applied AASB 16 Leases using a modified retrospective approach with the cumulative effect of initial application recognised as an adjustment to the opening balance of accumulated surplus at 1 July 2019, with no restatement of comparative information. The MAV applied the approach consistently to all leases in which it is a lessee.

On transition to AASB 16 Leases, the MAV elected to apply the practical expedient to 'grandfather' the assessment of which transactions are leases. The MAV has applied this practical expedient to all of its contracts and therefore applied AASB 16 Leases only to contracts that were previously identified as leases.

- any lease payments made at or before the commencement date less any lease incentives received; plus
- any initial direct costs incurred; and
- an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, an appropriate incremental borrowing rate. Generally, the MAV uses an appropriate incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- Amount expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that Council is reasonably certain to exercise, lease payments in an optional renewal period if Council is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless Council is reasonably certain not to terminate early.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The value of the lease asset on commencement of the standard on 1 July 2019 was \$3.449 million. The value at 30 June 2020 was \$2.465 million and the liability of \$2.580 million.

The discount rate on transition was 5.34% representing the best estimate from the NAB at that time.

Please see note 6 for further information.

(l) Investments

Investments are valued at fair value at Statement of Financial Position date.

(m) Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(n) Cash flows

For the purposes of the Statement of Cash Flows, cash includes cash on hand and deposits held at call with banks and investments in cash in fixed interest funds net of outstanding bank overdrafts.

(o) Superannuation

The amount charged to the Statement of Comprehensive Income in respect of superannuation represents contributions made or due by the MAV to the relevant superannuation plans in respect to the services of the MAV's staff (both past and present). Superannuation contributions are made to the plans based on the relevant rules of each plan and any relevant compulsory superannuation requirements that the MAV is required to comply with.

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2020

(p) Fair value measurement

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the MAV determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The MAV does not have any level 3 financial assets.

Investments are holdings in managed investment funds that are not traded in a market considered active. The fair value of these assets is regularly revalued by the Investment Manager based on observable inputs or derivable from observable inputs. These are considered level 2 financial assets. The carrying amounts of financial assets and financial liabilities represent their approximate net fair value. All maturity dates are within twelve months. For the purpose of fair value disclosures, the MAV has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

<u>2020</u>	Level 1	Level 2	Level 3	Total
Investments	-	52,098,906	-	52,098,906
Total	-	52,098,906	-	52,098,906
<u>2019</u>				
Investments	-	45,532,165	-	45,532,165
Total	-	45,532,165	-	45,532,165

(q) Self-insurance licence - MAV WorkCare Self-Insurance Scheme

Under the Accident Compensation Act 1985 the MAV is specifically named as a body that can apply for a Workers' Compensation Self-Insurance Licence. Since 2015 the MAV has been working to establish the MAV WorkCare Scheme. In that time significant work has been completed on the organisational and financial structure of the Scheme, improving members Occupational Health & Safety systems and providing confidence that members can achieve one hundred percent conformance to the National Audit Tool at the end of the first licence period of three years. On 3 May 2017 WorkSafe Victoria approved the MAV as a self-insurer for a period of three years commencing from 4pm on 1 November 2017. MAV completed all conditions precedent and all pre-commencement action items to the satisfaction of WorkSafe Victoria and as a result commenced operating MAV WorkCare Self-Insurance Mutual Scheme on 1 November 2017. There were 31 inaugural members of the Scheme, including the MAV. On commencement of the Scheme WorkSafe Victoria transferred the Net Claims Outstanding Liability as at 31 October 2017 and also transferred the cash equivalent to the valuation of the Net Outstanding Claims Liability. Please see note 36 (Events Subsequent).

Summary of accounting policies relating to both MAV Insurance and MAV WorkCare

(r) Premiums

Premiums comprise amounts charged to members of the Schemes for policy cover and net of amounts returned to members as bonuses. The earned portion of premiums received is recognised as revenue. Premiums are treated as earned prorata from date of attachment of risk. The pattern of recognition over the policy is based on time, which is considered to closely approximate the pattern of risks undertaken.

(s) Premiums in advance

During the month of June each year, the Schemes issue premium notices to Scheme Members. The risk attaches to the premiums in the next accounting period and accordingly the revenue is recognised each following year commencing 1 July. Prior to each balance date members have committed to participate in either the Schemes or the Fund for the ensuing year and accordingly the premiums are disclosed in the Statement of Financial Position as "premiums receivable" with an offsetting liability described as "premiums in advance".

(t) Claims - MAV Insurance

Claims-incurred expense and liability for outstanding claims are recognised in respect of direct business. The liability covers claims incurred but not yet paid, incurred but not yet reported claims, and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by reviewing individual claim files and estimating claims not notified and settlement costs using statistical and actuarial techniques. The liability for outstanding claims is measured as the present value of the expected future payments, reflecting the fact that all the claims do not have to be paid out in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation". Advice from the MAV's actuary has estimated superimposed inflation to be 1.5% per annum (2019 1.5%) for personal injury non large claims and the discount rate at 0.63% (2019 1.17%). Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury. The expected future payments are then discounted to a present value at the reporting date using discount rates based on the investment opportunities available to the organisation on the amounts of funds sufficient to meet claims as they became payable. Details of rates applied are disclosed in note 28.

The MAV has purchased retrospective insurance cover on the net amount of all claims incurred up to 30 June 2018.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

Summary of accounting policies relating to both MAV Insurance and MAV WorkCare (Continued)

(u) Claims - MAV WorkCare

Claims-incurred expense and liability for outstanding claims are recognised in respect of direct business. The liability covers claims incurred but not yet paid, incurred but not yet reported claims, and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by reviewing individual claim files and estimating claims not notified and settlement costs using statistical and actuarial techniques. The liability for outstanding claims is measured as the present value of the expected future payments, reflecting the fact that all the claims do not have to be paid out in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and "superimposed inflation". Advice from the MAV's actuary has estimated superimposed inflation for weekly, medical and other payments to be 1.2% per annum and for common law payments to be 3.2% per annum (weighted average of 1.8% per annum). The discount rate used to value claims liabilities for the 2020 financial year is 1.05%.

Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury. The expected future payments are then discounted to a present value at the reporting date using discount rates based on the investment opportunities available to the organisation on the amounts of funds sufficient to meet claims as they became payable. Details of rates applied are disclosed in note 28.

(v) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not paid, claims incurred but not reported and unexpired risk liabilities are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(w) Revenue recognition

Revenue is recognised as a point in time, or over time, when (or as) the performance obligation is satisfied. Recognition is based on the underlying contractual terms.

The following specific recognition criteria is used:

- (i) Premiums - recognised in the period the fund is at risk
- (ii) Future reinsurance and other Recoveries - on an accruals basis
- (iii) Investment Income - on an accruals basis including adjustments to bring values of cash backed unit trusts to account as investment income
- (iv) Performance bonus - on an accruals basis when firm evidence is available confirming the amount and indicating payment.

(x) Reinsurance Expense

Reinsurance expense relates to insurance premiums paid to reinsurers in accordance with the established reinsurance strategy of the entity and in order to protect the insurance businesses from catastrophic and unforeseen claims.

(y) Impact of COVID 19 pandemic on MAV's operations in the 2019-20 financial report

On 30 January 2020, COVID 19 was declared as a global pandemic by the World Health Organisation. Since then, various measures have been taken by all three levels of Government in Australia to reduce the spread of COVID-19. The MAV has been instrumental in proactively engaging with federal and state governments and advocating on behalf of members during this time, whilst performing all activities remotely since late March 2020, including staff working from home. This situation and the measures introduced has been assessed as follows for the MAV for the financial year ended 30 June 2020:

- (i) For MAV Work Care there have been no noticeable impact on claims reporting, on weekly or other payments in the period March 2020 to June 2020, whilst medical payments have reduced by 25% for the same period
- (ii) For MAV Work Care we have assessed medical payments as payments likely to still be incurred post June 2020 and have applied a 75% catch-up rate to the value of the reduced payments up to 30 June 2020 (\$225,000)
- (iii) While there is limited evidence of return to work challenges to date for MAV Work Care, the ongoing COVID-19 situation means it is prudent to allow for some additional weekly benefits beyond 30 June 2020. For the outstanding claims valuation we have allowed for an additional \$200k
- (iv) In April 2020, the Victoria government enacted the COVID-19 Omnibus (Emergency Measures) Act 2020 which extends the notice period for 130 week termination to 39 weeks (previously 13 weeks) for MAV Work Care. MAV have identified claimants that have either already had 130 week termination or are likely to have one prior to 25 October 2020. The additional weekly benefits for these claimants is \$450,000
- (v) There has been no material impact on insurance experience that was allowed for in the setting of premiums for 2020-21. If COVID-19 related restrictions were to continue there could be a mixed impact on costs, putting upward pressure on some claim types and downwards on others.
- (vi) Restrictions on travel have resulted in reduced travel, motor vehicle and accommodation expenditure since March 2020 for MAV staff as face-to-face meetings have been replaced by online meetings
- (vii) MAV staff have been working remotely since late March 2020, resulting in some initial additional IT set up costs, offset by reduced onsite day-to-day operating costs for staff.
- (viii) MAV procurement sales rebates have declined between 5% and 10% in the April to June 2020 period
- (ix) Income relating to MAV conferences and training where these activities were to be held face to face either did not occur during April to June or were re-scheduled to 2020-21. For activities where Income was received or re-scheduled events this is recorded as Income in advance at 30 June 2020 to the value of \$517,000
- (x) Expenditure incurred for activities that have been re-scheduled to 2020-21 is recorded as prepaid expenditure at 30 June 2020 to the value of \$221,000

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2020

	NOTE	COMBINED	
		2020	2019
		\$	\$
3. CONTRIBUTION TO OPERATING SURPLUS			
CONTRIBUTIONS FROM INSURANCE & WORKCARE ACTIVITIES			
Premium income		42,974,934	37,936,134
Performance bonus	24	-	99,845
Reinsurance expense	2(x)	(17,474,379)	(16,969,297)
NET PREMIUM INCOME		25,500,554	21,066,682
Claims expense	5(a)	(47,797,505)	(38,030,398)
Reinsurance and other recoveries	2(v)	31,056,823	22,630,127
NET CLAIMS EXPENSE	15	(16,740,682)	(15,400,271)
NET UNDERWRITING RESULT		8,759,872	5,666,411
Fees received		58,615	69,898
Investment income		(2,129,705)	377,661
Administration and general expenses		(11,116,673)	(10,241,659)
INSURANCE ACTIVITY OPERATING SURPLUS		(4,427,892)	(4,127,689)
MAV SURPLUS (DEFICIT)		119,443	(874,560)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD		(4,308,449)	(5,002,249)

	NOTE	COMBINED		MAV - GENERAL FUND	
		2020	2019	2020	2019
		\$	\$	\$	\$
4. REVENUE					
REVENUES FROM OPERATING ACTIVITY					
Subscriptions/premiums		46,060,445	40,819,279	3,152,774	2,952,041
Reinsurance and other recoveries	2(v)	31,056,823	22,630,128	-	-
Performance bonus	30	-	99,845	-	-
Brokerage fees		1,361,195	1,257,848	1,361,195	1,257,848
Management fee income		2,345,444	1,637,359	3,119,019	2,514,231
Seminars and sale of publications		535,688	922,106	535,688	922,106
Sponsorship, membership and tender income		2,449,231	3,709,690	2,579,701	3,709,690
Grant income	25	4,512,012	4,925,536	4,512,012	4,925,536
Investment income (loss)		(2,041,001)	533,721	88,704	156,060
TOTAL REVENUE FROM OPERATING ACTIVITIES		86,279,837	76,535,512	15,349,093	16,437,512
REVENUES FROM NON-OPERATING ACTIVITIES					
Gain on disposal of non-current assets		-	40,343	-	40,343
TOTAL REVENUE FROM OUTSIDE THE OPERATING ACTIVITIES		-	40,343	-	40,343
TOTAL REVENUE		86,279,837	76,575,855	15,349,093	16,477,855

5(a). CLAIMS EXPENSES	NOTE	COMBINED	
		2020	2019
		\$	\$
Paid		42,341,178	29,579,775
Outstanding claims at end of financial year	14(a)	183,269,101	177,812,774
Less: Outstanding claims at beginning of financial year		(177,812,774)	(169,362,151)
TOTAL CLAIMS EXPENSES	2(t) & 2(u)	47,797,505	38,030,398

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

		COMBINED		MAV - GENERAL FUND	
		2020	2019	2020	2019
		\$	\$	\$	\$
5(b). EXPENSES					
The following items have been recognised in the operating surplus:					
	NOTE				
Reinsurance expense		17,474,379	16,969,297	-	-
Claims expense		47,797,505	38,030,398	-	-
Scheme management fee	8	3,664,079	4,159,301	-	-
WorkSafe Self Insurer Levy Administration		1,276,070	570,468	-	-
ALGA membership		2,443,997	4,926,159	1,121,252	3,889,695
Amortisation of website and educational programs		509,461	498,443	509,461	498,443
Audit fees	7	63,695	39,429	63,695	39,429
Board of management expenses		277,769	341,224	30,709	38,620
Depreciation of furniture and equipment		398,058	418,471	244,947	277,558
Depreciation of motor vehicles		36,001	34,656	36,001	34,656
Depreciation of information technology equipment		74,809	74,953	67,456	66,988
Depreciation of leasehold improvements		95,096	85,248	93,633	84,334
Grants and projects		1,156	364	1,156	364
Actuarial fees		5,761,119	7,077,555	4,973,324	6,226,612
Meetings and seminars		115,659	167,600	-	-
Amortisation of leases	6	513,486	1,184,487	494,043	1,165,720
Finance costs - leases		984,349	-	984,349	-
Salary and payroll costs		155,325	-	155,325	-
Stamp duty		7,403,128	5,814,451	6,454,299	5,029,996
		1,543,146	1,185,600	-	-
TOTAL EXPENDITURE		90,588,286	81,578,104	15,229,650	17,352,415

6. LEASES

Right of Use Assets

Balance at 1 July 2019	3,449,266	3,449,266
Additions	-	-
Amortisation Charge	(984,349)	(984,349)
Balance at 30 June 2020	2,464,917	2,464,917

Lease Liabilities

Maturity analysis - contractual undiscounted cash flows		
Not later than one year	957,822	957,822
Later than one year but not later than five years	1,622,576	1,622,576
Later than five years	-	-
TOTAL Lease Liabilities	2,580,398	2,580,398

Lease liabilities included in the Balance Sheet at 30 June:

Current	957,822	957,822
Non-current	1,622,576	1,622,576
TOTAL Lease Liabilities	2,580,398	2,580,398

The MAV has elected not to recognise right-of use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The MAV recognises the leases payments associated with these leases as an expense on a straight-line basis over the lease term.

Expenses relating to:

Short-term leases	13,605	13,605
Leases of low value assets	-	-
Total	13,605	13,605

Non-cancellable lease commitments - Short term and low-value leases

Commitments for minimum lease payments for short-term and low-value leases are payable as follows.		
Not later than one year	25,617	25,617
Later than one year but not later than five years	-	-
Later than five years	-	-
TOTAL Lease Liabilities	25,617	25,617

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2020

7. AUDITORS FEES

Amounts paid or due and payable for audit services:

Audit services	277,769	341,224	30,709	38,620
TOTAL AUDITORS FEES	277,769	341,224	30,709	38,620

		COMBINED	
		2020	2019
NOTE		\$	\$
8. SCHEME MANAGEMENT FEES			
Scheme management fees are paid to the scheme manager for:			
	Reinsurance placement - MAV Insurance	2,369,981	2,220,220
	Risk management and administrative services - MAV Insurance	556,307	1,198,124
	Occupational Health and Safety - MAV WorkCare	295,117	296,382
	Risk Identification and Prevention- MAV WorkCare	295,117	296,382
	Training and Education - MAV WorkCare	147,559	148,192
	TOTAL SCHEME MANAGEMENT FEES	3,664,080	4,159,301

9. NOTES TO STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents at balance date as shown in the Statement of Cash Flows are held in S & P rated AA- and A- cash deposits and reconciled to the related items in the Statement of Financial Position as follows:

		COMBINED		MAV - GENERAL FUND	
		2020	2019	2020	2019
NOTE		\$	\$	\$	\$
	Cash and cash equivalents	18,807,804	39,359,961	5,768,220	5,214,896
	TOTAL CASH AND CASH EQUIVALENTS	18,807,804	39,359,961	5,768,220	5,214,896

(b) Reconciliation of Net Cash Used In Operating Activities to Operating Profit (Loss)

	Surplus (Deficit) for year	(4,308,449)	(5,002,249)	119,443	(874,560)
	Depreciation	207,062	195,223	198,246	186,342
	Amortisation	63,695	39,429	63,695	39,429
	Amortisation - Leases	984,349		984,349	
	(Surplus)/deficit on disposal of assets	-	(40,343)	-	(40,343)
	Unrealised gains on investments	-	(273,642)	-	-
Changes in assets and liabilities					
	(Increase)/decrease in accounts receivable	2(f) (32,309,380)	(1,790,608)	(4,292,832)	(1,418,101)
	(Increase)/decrease in prepayments	(745,189)	315,791	33,878	282,383
	Increase/(decrease) in accounts payable	(456,379)	(16,502,667)	2,846,424	12,178
	Increase/(decrease) in provision for employee entitlements	159,019	(164,454)	124,794	(159,458)
	Increase/(decrease) in outstanding claims	2(t) 5,456,327	8,450,622	-	-
	Increase/(decrease) in premiums in advance	18,294,871	4,888,503	1,803,162	-
	Increase/(decrease) in other liabilities	(81,479)	77,460	(81,479)	77,460
	NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES	(12,735,552)	(9,806,937)	1,799,680	(1,894,670)

10. RECEIVABLES

	Future reinsurance and other recoveries receivable	2(u) 122,347,045	118,082,626	-	-
	Discount to present value	(3,131,676)	(3,871,398)	-	-
		119,215,369	114,211,228	-	-
	Premiums receivable	2(s) 58,842,511	34,845,797	-	-
	Other receivables	6,467,350	5,623,743	11,232,331	9,404,416
	TOTAL RECEIVABLES	184,525,231	154,680,768	11,232,331	9,404,416
Represented By:					
	Current	89,362,562	69,243,176	11,232,331	9,404,416
	Non-current	95,162,669	85,437,592	-	-
	TOTAL	184,525,231	154,680,768	11,232,331	9,404,416

The ageing analysis of trade receivables excluding future reinsurance and other recoveries receivable are as follows:

	Total	<30 days	31-60 days	61-90 days	>90 days
2020					
Combined	65,309,861	62,842,486	-	-	2,467,375
MAV General Fund	11,232,331	11,232,331	-	-	-
2019					
Combined	40,469,540	40,073,505	23,580	49,002	323,453
MAV General Fund	9,404,416	9,093,927	23,580	49,002	237,907

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

NOTE	COMBINED		MAV - GENERAL FUND	
	2020 \$	2019 \$	2020 \$	2019 \$
11. PREMIUMS AND INCOME IN ADVANCE				
Contributions/Memberships billed in advance	66,009,615	47,714,745	6,211,301	4,408,139
12. PROPERTY AND EQUIPMENT				
Leasehold Improvements - at cost	727,526	717,275	727,526	717,275
Less accumulated depreciation	(718,405)	(717,250)	(718,405)	(717,250)
	9,121	25	9,121	25
Furniture and Equipment - at cost	1,207,381	1,164,824	929,921	887,364
Less accumulated depreciation	(1,162,915)	(1,126,914)	(885,455)	(849,454)
	44,466	37,910	44,466	37,910
Motor vehicles - at cost	404,988	381,091	368,220	344,323
Less accumulated depreciation	(220,170)	(145,360)	(202,399)	(134,942)
	184,818	235,731	165,821	209,381
Information technology equipment- at cost	1,105,693	1,002,570	1,099,447	999,835
Less accumulated depreciation	(989,192)	(894,096)	(986,574)	(892,941)
	116,501	108,474	112,873	106,894
TOTAL PROPERTY AND EQUIPMENT	354,906	382,140	332,281	354,210

Reconciliations of the carrying amounts of property and equipment at the beginning and end of the financial year.

LEASEHOLD IMPROVEMENTS

Movements during the year				
Beginning of year	25	389	25	389
Additions	10,252	-	10,252	-
Disposals	-	-	-	-
Depreciation	(1,156)	(364)	(1,156)	(364)
End of year	9,121	25	9,121	25

FURNITURE AND EQUIPMENT

Movements during the year				
Beginning of year	37,910	61,061	37,910	61,061
Additions	42,557	11,505	42,557	11,505
Disposals	-	-	-	-
Depreciation	(36,001)	(34,656)	(36,001)	(34,656)
End of year	44,466	37,910	44,466	37,910

MOTOR VEHICLES

Movements during the year				
Beginning of year	235,732	240,497	209,381	206,180
Additions	23,896	91,859	23,896	91,859
Disposals	-	(21,671)	-	(21,671)
Depreciation	(74,809)	(74,953)	(67,456)	(66,988)
End of year	184,818	235,732	165,821	209,381

INFORMATION TECHNOLOGY EQUIPMENT

Movements during the year				
Beginning of year	108,474	139,364	106,894	137,851
Additions	103,122	54,358	99,612	53,377
Disposals	-	-	-	-
Depreciation	(95,096)	(85,248)	(93,633)	(84,334)
End of year	116,501	108,474	112,873	106,894

13. INTANGIBLE ASSETS

Website, Licences and Educational Programs	1,143,784	1,058,096	1,006,333	920,645
Less accumulated amortisation	(981,523)	(917,829)	(844,072)	(780,378)
	162,261	140,267	162,261	140,267

Reconciliation of the carrying amounts of intangible assets at the beginning and end of the financial year.

INTANGIBLE ASSETS

Movement during the year				
Beginning of year	140,267	134,769	140,267	134,769
Additions	85,689	44,927	85,689	44,927
Disposals	-	-	-	-
Amortisation	(63,695)	(39,429)	(63,695)	(39,429)
End of year	162,261	140,267	162,261	140,267

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2020

COMBINED - MAV INSURANCE AND MAV WORKCARE

	NOTE	2020 \$	2019 \$
14 (a). OUTSTANDING CLAIMS			
Central Estimate		185,893,191	184,033,049
Discount to present value		(6,950,669)	(11,193,320)
Excesses and recoveries - discounted to present value		156,051	363,549
		179,098,573	173,203,278
Claims handling costs		4,170,528	4,609,496
Risk margin	14(b)	-	-
TOTAL OUTSTANDING CLAIMS		183,269,101	177,812,774
Comprising:			
Current		32,864,665	36,982,665
Non-current		150,404,436	140,830,109
TOTAL CLAIMS PROVISION	2(t)& (u)	183,269,101	177,812,774

14 (b). RISK MARGIN - PROCESS FOR DETERMINING RISK MARGIN

As at 30 June 2020, both the MAV Insurance Board and the MAV WorkCare Board determined that the outstanding claims liability is to be held at the 50% probability of sufficiency on the basis of the non-discretionary mutual structure of LMI and the captive, non-discretionary mutual structure of MAV WorkCare. As a result, a 0% risk margin was applied to the central estimate (2019 0%) to achieve the desired level of sufficiency. Please see Note 28.

14 (c). Reconciliation of movement in discounted outstanding claims liability

	2020			2019		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
Outstanding claims brought forward	177,812,775	114,211,227	63,601,548	169,362,151	101,693,508	67,668,643
Changes in assumptions	26,789,081	28,681,115	(1,892,034)	15,031,109	14,585,611	445,498
Increase in claims incurred/recoveries anticipated	21,008,424	2,375,708	18,632,716	22,999,290	8,044,517	14,954,773
Incurred claims recognised in Statement of Comprehensive Income	47,797,505	31,056,823	16,740,682	38,030,399	22,630,128	15,400,271
Claim payments/recoveries during the year	(42,341,179)	(26,180,197)	(16,160,982)	(29,579,775)	(10,112,409)	(19,467,366)
Outstanding claims carried forward	183,269,101	119,087,853	64,181,248	177,812,775	114,211,227	63,601,548
Debtor Excesses and Reinsurance Recoveries on Paid Claims	-	4,918,613	(4,918,613)	-	3,514,475	(3,514,475)
TOTAL NET OUTSTANDING CLAIMS	183,269,101	114,169,240	69,099,861	177,812,775	110,696,752	67,116,023

	2020			2019		
	Current Year \$	Prior Year \$	Total \$	Current Year \$	Prior Year \$	Total \$
15. NET CLAIMS INCURRED						
Gross Claims and related Expenses - undiscounted	42,136,382	1,430,730	43,567,111	40,232,824	(12,722,882)	27,509,942
Discount	(1,516,741)	5,747,135	4,230,394	(2,266,827)	12,787,284	10,520,457
Gross Claims and related expenses – discounted	40,619,641	7,177,865	47,797,505	37,965,998	64,603	38,030,399
Reinsurance and other recoveries - undiscounted	(20,000,711)	(9,033,440)	(29,034,151)	(20,682,464)	3,474,167	(17,208,297)
Discount	(2,101,455)	78,782	(2,022,672)	(1,443,793)	(3,978,038)	(5,421,831)
Reinsurance and other recoveries – discounted	(22,102,164)	(8,954,658)	(31,056,823)	(22,126,257)	(503,871)	(22,630,128)
NET CLAIMS INCURRED	18,517,476	(1,776,794)	16,740,682	15,839,740	(439,469)	15,400,271

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

16. CLAIMS DEVELOPMENT TABLE

ACCIDENT YEAR	2016	2017	2018	2019	2020	Total
		\$	\$	\$	\$	\$
GROSS ESTIMATE OF ULTIMATE CLAIMS COST - MAV WORKCARE AND MAV INSURANCE COMBINED						
At end year of accident	22,303,614	20,097,434	37,835,001	37,811,359	40,833,936	
One year later	20,487,169	36,613,268	36,892,630	39,320,195	-	
Two years later	33,114,951	34,637,741	36,762,073	-	-	
Three years later	31,830,100	32,159,060	-	-	-	
Four years later	37,170,548	-	-	-	-	
Current estimate of cumulative claims cost	37,170,548	32,159,060	36,762,073	39,320,195	40,833,936	186,245,813
Cumulative payments	(16,395,430)	(11,289,110)	(9,547,018)	(5,210,066)	(1,778,263)	(44,219,887)
Outstanding claims – undiscounted	20,775,118	20,869,949	27,215,056	34,110,129	39,055,673	142,025,925
Discount						(4,888,359)
Claims handling expense 2015 and prior						2,873,201
						43,258,333
COMBINED GROSS OUTSTANDING CLAIMS	14 (c)					183,269,101

ACCIDENT YEAR	2016	2017	2018	2019	2020	Total
	\$	\$	\$	\$	\$	\$
GROSS ESTIMATE OF ULTIMATE CLAIMS COST - MAV WORKCARE AND MAV INSURANCE COMBINED						
At end year of accident	3,710,694	3,367,525	14,316,484	14,383,034	17,871,544	
One year later	3,740,554	15,263,171	14,328,012	15,230,567	-	
Two years later	14,648,934	14,633,082	14,284,172	-	-	
Three years later	14,433,607	13,533,024	-	-	-	
Four years later	14,276,894	-	-	-	-	
Current estimate of cumulative claims cost	14,276,894	13,533,024	14,284,172	15,230,567	17,871,544	75,196,201
Cumulative payments	(10,024,830)	(7,538,197)	(7,352,930)	(4,808,022)	(1,644,775)	(31,368,754)
Outstanding claims - undiscounted	4,252,064	5,994,827	6,931,241	10,422,545	16,226,769	43,827,447
Discount						(2,249,292)
Claims handling expense 2015 and prior						2,873,201
						19,729,892
NET OUTSTANDING CLAIMS	14(c)					64,181,248
Debtor Excesses and Reinsurance Recoveries on Paid Claims						4,918,613
TOTAL NET OUTSTANDING CLAIMS	14(c)					69,099,861

These tables show the trend in the balance of outstanding claims.

MAV INSURANCE

	NOTE	2020 \$	2019 \$
17 (a). OUTSTANDING CLAIMS			
Central Estimate		116,716,794	113,347,242
Discount to present value		(2,738,970)	(4,676,653)
Excesses and recoveries		156,051	363,549
		114,133,875	109,034,138
Claims handling costs		45,270	53,488
Risk margin	20(b)	-	-
TOTAL OUTSTANDING CLAIMS		114,179,145	109,087,626
Comprising:			
Current		19,189,697	25,208,001
Non-current		94,989,448	83,879,625
TOTAL CLAIMS PROVISION	2(t)	114,179,145	109,087,626

17 (b). RISK MARGIN - PROCESS FOR DETERMINING RISK MARGIN

As at 30 June 2020, the MAV Insurance Board determined that the outstanding claims liability is to be held at the 50% probability of sufficiency on the basis of the non-discretionary mutual structure of LMI. As a result, a 0% risk margin was applied to the central estimate (2019 0%) to achieve the desired level of sufficiency. Please see Note 28.

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2020

17 (c). Reconciliation of movement in discounted outstanding claims liability

	2020			2019		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
Outstanding claims brought forward	109,087,627	111,321,357	(2,233,731)	101,804,456	104,701,920	(2,897,464)
Changes in assumptions	27,576,087	28,215,621	(639,535)	16,387,032	15,195,360	1,191,672
Increase in claims incurred/recoveries anticipated	5,091,518	538,827	4,552,691	7,283,170	6,205,259	1,077,911
Incurred claims recognised in Statement of Comprehensive Income	32,667,605	28,754,448	3,913,157	23,670,202	21,400,619	2,269,583
Claim payments/recoveries during the year	(27,576,087)	(25,991,105)	(1,584,982)	(16,387,032)	14,781,175	(1,605,857)
Outstanding claims carried forward	114,179,145	114,084,701	94,444	109,087,626	111,321,357	(2,233,731)
Debtor excesses and reinsurance recoveries on paid claims	-	4,918,613	(4,918,613)	-	(3,514,475)	3,514,475
Total net outstanding claims	114,179,145	109,166,088	5,013,056	109,087,626	107,806,882	1,280,744

	2020			2019		
	Current Year \$	Prior Year \$	Total \$	Current Year \$	Prior Year \$	Total \$
18. NET CLAIMS INCURRED						
MAV INSURANCE						
Gross claims and related expenses -	25,006,938	5,930,482	30,937,420	23,445,320	(4,332,338)	19,112,982
Discount	(668,831)	2,399,016	1,730,185	(1,108,451)	5,665,672	4,557,221
Gross claims and related expenses – discounted	24,338,107	8,329,496	32,667,604	22,336,868	1,333,335	23,670,203
Reinsurance and other recoveries - undiscounted	(17,892,661)	(8,615,829)	(26,508,491)	(18,769,120)	2,795,477	(15,973,643)
Discount	(2,346,711)	100,753	(2,245,958)	(1,684,567)	(3,742,409)	(5,426,976)
Reinsurance and other recoveries – discounted	(20,239,372)	(8,515,076)	(28,754,448)	(20,453,687)	(946,932)	(21,400,619)
NET CLAIMS INCURRED	4,098,735	(185,580)	3,913,156	1,883,182	386,402	2,269,584

19. CLAIMS DEVELOPMENT TABLE

ACCIDENT YEAR	2016	2017	2018	2019	2020	Total
		\$	\$	\$	\$	\$
GROSS ESTIMATE OF ULTIMATE CLAIMS						
At end year of accident	22,303,614	20,097,434	21,743,945	22,793,891	24,705,870	
One year later	20,487,169	21,295,287	21,194,033	23,080,037		
Two years later	18,332,131	20,143,548	21,196,000			
Three years later	17,579,579	18,803,428				
Four years later	23,198,558					
Current estimate of cumulative claims cost	23,198,558	18,803,428	21,196,000	23,080,037	24,705,870	110,983,893
Cumulative payments	(8,227,244)	(4,609,804)	(2,711,017)	(578,488)	(379,569)	(16,506,122)
Outstanding claims – undiscounted	14,971,314	14,193,624	18,484,983	22,501,549	24,326,301	94,477,771
Discount						(2,090,309)
Claims handling expense						31,569
2015 and prior						21,760,114
COMBINED GROSS OUTSTANDING CLAIMS	17a) & 17(c)					114,179,145
NET ESTIMATE OF ULTIMATE CLAIMS COST -						
At end year of accident	3,710,694	3,367,525	35,959	1,278,911	3,851,527	
One year later	3,740,554	68,793	47,759	1,300,067		
Two years later	90,797	174,862	107,740			
Three years later	335,276	263,365				
Four years later	457,093					
Current estimate of cumulative claims cost	457,093	263,365	107,740	1,300,067	3,851,527	5,979,792
Cumulative payments	(2,008,833)	(944,863)	(547,373)	(332,364)	(246,081)	(4,079,513)
Outstanding claims - undiscounted	(1,551,740)	(681,498)	(439,632)	967,703	3,605,446	1,900,279
Discount						(69,077)
Claims handling Expense						31,569
2015 and prior						(1,768,327)
TOTAL NET OUTSTANDING CLAIMS	17(c)					94,444
Debtor Excesses and Reinsurance Recoveries on Paid Claims						4,918,613
TOTAL NET OUTSTANDING CLAIMS	17(c)					5,013,056

These tables show the trend in the balance of outstanding claims.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

MAV WORKCARE

	NOTE	2020 \$	2019 \$
MAV WorkCare			
20 (a). OUTSTANDING CLAIMS			
Central Estimate		69,176,397	70,685,807
Discount to present value		(4,211,699)	(6,516,667)
		64,964,698	64,169,140
Claims handling costs		4,125,258	4,556,008
Risk margin	20(b)	-	-
TOTAL OUTSTANDING CLAIMS		69,089,956	68,725,148
Comprising:			
Current		13,674,968	11,774,664
Non-current		55,414,988	56,950,484
TOTAL CLAIMS PROVISION	2(u)	69,089,956	68,725,148

20 (b). RISK MARGIN - PROCESS FOR DETERMINING RISK MARGIN

As at 30 June 2020, the MAV WorkCare Board determined that the outstanding claims liability is to be held at the 50% probability of sufficiency on the basis of the captive, non-discretionary mutual structure of MAV WorkCare. As a result, a 0% risk margin was applied to the central estimate to achieve the desired level of sufficiency. Please see Note 28.

20 (c). Reconciliation of movement in discounted outstanding claims liability

	2020			2019		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
Outstanding claims brought forward	68,725,148	(2,889,869)	65,835,279	67,557,695	(890,281)	66,667,414
Changes in assumptions	(787,006)	(465,494)	(1,252,500)	(1,355,924)	609,749	(746,175)
Increase in claims incurred/recoveries anticipated	15,916,906	(1,836,881)	14,080,025	15,716,120	(1,839,258)	13,876,862
Incurred claims recognised in Statement of Comprehensive Income	15,129,900	(2,302,375)	12,827,525	14,360,196	(1,229,509)	13,130,687
Claim payments/recoveries during the year	(14,765,092)	189,092	(14,576,000)	(13,192,742)	(770,080)	(13,962,822)
Outstanding claims carried forward	69,089,956	(5,003,153)	64,086,803	68,725,148	(2,889,869)	65,835,279

	2020			2019		
	Current Year \$	Prior Year \$	Total \$	Current Year \$	Prior Year \$	Total \$
21. NET CLAIMS INCURRED						
MAV WorkCare						
Gross Claims and related Expenses -	17,129,443	(4,499,752)	12,629,691	16,787,504	(8,390,544)	8,396,960
Discount	(847,911)	3,348,120	2,500,209	(1,158,376)	7,121,612	5,963,236
Gross Claims and related expenses – discounted	16,281,532	(1,151,632)	15,129,900	15,629,128	(1,268,932)	14,360,196
Reinsurance and other recoveries - undiscounted	(2,108,050)	(417,610)	(2,525,660)	(1,913,344)	(678,690)	(1,234,654)
Discount	245,256	(21,971)	223,285	240,774	(235,629)	5,145
Reinsurance and other recoveries – discounted	(1,862,794)	(439,581)	(2,302,375)	(1,672,570)	443,061	(1,229,509)
NET CLAIMS INCURRED	14,418,738	(1,591,213)	12,827,525	13,956,558	(825,871)	13,130,687

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2020

22. CLAIMS DEVELOPMENT TABLE

ACCIDENT YEAR	2016	2017	2018	2019	2020	Total
		\$	\$	\$	\$	\$
GROSS ESTIMATE OF ULTIMATE CLAIMS						
At end year of accident	-	-	16,091,056	15,017,468	16,128,067	
One year later	-	15,317,981	15,698,598	16,240,158		
Two years later	14,782,820	14,494,192	15,566,073			
Three years later	14,250,521	13,355,632				
Four years later	13,971,991					
Current estimate of cumulative claims cost	13,971,991	13,355,632	15,566,073	16,240,158	16,128,067	75,261,920
Cumulative payments	(8,168,186)	(6,679,306)	(6,836,000)	(4,631,578)	(1,398,695)	(27,713,765)
Outstanding claims – undiscounted	5,803,804	6,676,325	8,730,073	11,608,580	14,729,372	47,548,154
Discount						
Claims handling expense 2015 and prior						2,841,632
MAV WORKCARE GROSS OUTSTANDING CLAIMS	20a) &20 (c)					69,089,956
NET ESTIMATE OF ULTIMATE CLAIMS COST						
At end year of accident	-	-	14,280,525	13,104,123	14,020,017	
One year later	-	15,194,378	14,280,253	13,930,501		
Two years later	14,558,137	14,458,220	14,176,431			
Three years later	14,098,331	13,269,659				
Four years later	13,819,801					
Current estimate of cumulative claims cost	13,819,801	13,269,659	14,176,431	13,930,501	14,020,017	69,216,409
Cumulative payments	(8,015,997)	(6,593,334)	(6,805,558)	(4,475,658)	(1,398,695)	(27,289,241)
Outstanding claims - undiscounted	5,803,804	6,676,325	7,370,873	9,454,842	12,621,322	41,927,168
Discount						
Claims handling Expense 2015 and prior						(2,180,215)
MAV WORKCARE NET OUTSTANDING CLAIMS	20(c)					64,086,804

These tables show the trend in the balance of outstanding claims.

NOTE	COMBINED		MAV - GENERAL FUND	
	2020	2019	2020	2019
	\$	\$	\$	\$
23. PROVISIONS FOR EMPLOYEE ENTITLEMENTS				
The aggregate amount of employee entitlement liability is comprised of:				
Provisions (current)	971,050	800,308	926,865	780,068
Provisions (non-current)	97,188	108,906	84,707	106,710
TOTAL EMPLOYEE ENTITLEMENTS	1,068,238	909,214	1,011,572	886,778

Reconciliation of the carrying amounts of provision for employee entitlements at the beginning and end of the financial year

EMPLOYEE ENTITLEMENTS

Movement during the year				
Balance at beginning of year	909,214	1,073,665	886,778	1,046,236
Entitlements paid	(321,796)	(329,220)	(321,796)	(329,220)
Increase in provision	480,817	164,769	446,590	169,762
BALANCE AT END OF YEAR	1,068,238	909,214	1,011,572	886,778

24. SUPERANNUATION

The MAV makes the majority of its employer superannuation contributions in respect of its employees to the Local Authorities Superannuation Fund (the Fund). This Fund has two categories of membership, accumulation and defined benefit, each of which is funded differently. The defined benefit section provides lump sum benefits based on years of service and final average salary. The defined contribution section receives fixed contributions from the MAV and the MAV's legal or constructive obligation is limited to these contributions.

Obligations for contributions to the Fund are recognised as an expense in the Statement of Comprehensive Income when they are made or due.

The amount of superannuation contributions paid by the MAV to the accumulation and defined benefit Fund during the reporting period was \$612,519 (2019 \$550,261).

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

24. SUPERANNUATION (continued)

Accumulation

The Fund's accumulation category, Vision MySuper/Vision Super Saver, receives both employer and employee contributions on a progressive basis. Employer contributions are normally based on a fixed percentage of employee earnings (for the year ended 30 June 2020, this was 9.5% required under the Superannuation Guarantee Legislation). Our commitment to defined contribution plans is limited to making contributions in accordance with our minimum statutory requirements. No further liability accrued to the employer as the superannuation benefits accruing to employees are represented by their share of the net assets of the Fund.

Defined Benefit

As provided under Paragraph 34 of AASB 119, the MAV does not use defined benefit accounting for its defined benefit obligations under the Fund's Defined Benefit category. This is because the Fund's Defined Benefit category is a multi-employer sponsored plan.

As a multi-employer sponsored plan, the Fund was established as a mutual scheme to allow for the mobility of the workforce between the participating employers without attaching a specific liability to particular employees and their current employer. Therefore, there is no proportional split of the defined benefit liabilities, assets or costs between the participating employers as the defined benefit obligation is a floating obligation between the participating employers and the only time that the aggregate obligation is allocated to specific employers is when a call is made. As a result, the level of participation of the MAV in the Fund cannot be measured as a percentage compared with other participating employers. While there is an agreed methodology to allocate any shortfalls identified by the Fund Actuary for funding purposes, there is no agreed methodology to allocate benefit liabilities, assets and costs between the participating employers for accounting purposes. Therefore, the Actuary is unable to allocate benefit liabilities, assets and costs between employers for the purposes of AASB 119.

Funding arrangements

The MAV makes employer contributions to the defined benefit category of the Fund at rates determined by the Trustee on the advice of the Fund's Actuary. The Fund's employer funding arrangements comprise of three components:

1. Regular contributions - which are ongoing contributions needed to fund the balance of benefits for current members and pensioners
2. Funding calls – which are contributions in respect of each participating employer's share of any funding shortfalls that arise
3. Retrenchment increments – which are additional contributions to cover the increase in liability arising from retrenchments.

The MAV is also required to make additional contributions to cover the contribution tax payable on the contributions referred to above. Employees are also required to make member contributions to the Fund. As such, assets accumulate in the Fund to meet member benefits, as defined in the Trust Deed, as they accrue.

Employer contributions

Regular contributions

On the basis of the results of the most recent full actuarial investigation conducted by the Fund's Actuary as at 30 June 2020, the MAV makes employer contributions to the Fund's Defined Benefit category at rates determined by the Fund's Trustee. For the year ended 30 June 2020, this rate was 9.5% of members' salaries. This rate is expected to increase in line with the required Superannuation Guarantee contribution rate. In addition, the MAV reimburses the Fund to cover the excess of the benefits paid as a consequence of retrenchment above the funded resignation or retirement benefit (the funded resignation or retirement benefit is calculated as the VBI multiplied by the benefit).

Funding calls

The Fund is required to comply with the superannuation prudential standards. Under the superannuation prudential standard SPS 160, the Fund is required to target full funding of its vested benefits.

There may be circumstances where:

- (a) a fund is in an unsatisfactory financial position at an actuarial investigation (i.e. its vested benefit index (VBI) is less than 100% at the date of the actuarial investigation); or
- (b) a fund's VBI is below its shortfall limit at any time other than at the date of the actuarial investigations.

If either of the above occur, the fund has a shortfall for the purposes of SPS 160 and the fund is required to put a plan in place so that the shortfall is fully funded within three years of the shortfall occurring. There may be circumstances where the Australian Prudential Regulation Authority (APRA) may approve a period longer than three years.

The Fund monitors its VBI on a quarterly basis and the Fund has set its shortfall limit at 97% VBI.

The full actuarial investigation of the Fund's liability for accrued benefits was based on the Fund's position as at 30 June 2020.

This actuarial investigation was completed in September 2020 and confirmed that the Fund's Vested Benefits Index (VBI) was greater than 100% and as a consequence no call on member assets was required.

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2020

25. GRANT INCOME

The MAV receives grant monies from various sources including from various Federal and State Government Departments on behalf of local government.

	COMBINED		MAV - GENERAL FUND	
	2020	2019	2020	2019
	\$	\$	\$	\$
Recognised in the Statement of Comprehensive Income				
Grant Income	4,512,012	4,925,536	4,512,012	4,925,536
The MAV does not receive any other government assistance.				

26. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The Combined group's exposure to interest rate risk and the effective average interest rate for the classes of financial assets is set out below:

	COMBINED		MAV - GENERAL FUND	
	Non-Interest Earning	Floating Interest Rate	Non-Interest Earning	Floating Interest Rate
	2020			
	\$	\$	\$	\$
FINANCIAL ASSETS				
Cash and cash equivalents	-	18,807,804	-	5,768,220
Investments	-	52,098,906	-	-
Trade and other receivables	184,525,231	-	11,232,331	-
TOTAL FINANCIAL ASSETS	184,525,231	70,906,710	11,232,331	5,768,220
Weighted Average Interest Rate		0.5%		0.7%
FINANCIAL LIABILITIES				
Outstanding claims	185,893,191	-	-	-
Unearned premiums/subscriptions	66,009,615	-	-	-
Trade and other payables	9,730,930	-	2,717,328	-
TOTAL FINANCIAL LIABILITIES	261,633,736	-	2,717,328	-
Weighted Average Interest Rate		0%		0%

Investments are considered level two financial assets in accordance with AASB 13 (Fair Value Measurement). The carrying amounts of financial assets and financial liabilities represent their approximate net fair value. All maturity dates are within twelve months.

	COMBINED		MAV - GENERAL FUND	
	Non-Interest Earning	Floating Interest Rate	Non-Interest Earning	Floating Interest Rate
	2019			
	\$	\$	\$	\$
FINANCIAL ASSETS				
Cash and cash equivalents	-	39,359,961	-	5,214,896
Investments	-	45,532,165	-	-
Trade and other receivables	154,680,768	-	9,404,416	-
TOTAL FINANCIAL ASSETS	154,680,768	84,892,126	9,404,416	5,214,896
Weighted average interest rate		0.6%		2.5%
FINANCIAL LIABILITIES				
Outstanding claims	184,033,049	-	-	-
Unearned premiums/subscriptions	47,714,745	-	4,408,139	-
Trade and other payables	12,767,706	-	2,451,303	-
TOTAL FINANCIAL LIABILITIES	244,515,500	-	6,859,442	-
Weighted average interest rate		0%		0%

Investments are considered level 2 financial assets in accordance with AASB 13 (Fair Value Measurement). The carrying amounts of financial assets and financial liabilities represent their approximate net fair value. All maturity dates are within twelve months.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

26. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as at 30 June 2020. Cash flows for financial assets and liabilities without fixed amount or timing are based on conditions existing at 30 June 2020.

The remaining contractual maturities of the financial liabilities are:

	NOTE	COMBINED		MAV - GENERAL FUND	
		2020	2019	2020	2019
		\$	\$	\$	\$
3 months or less		57,241,060	34,786,594	8,928,629	6,859,442
3-12 months		58,995,802	60,368,859	2,649,394	1,545,696
1-5 years		99,472,888	89,952,935	1,833,776	313,761
Over 5 years		59,787,582	61,913,601	-	-
		275,497,332	247,021,991	13,411,799	8,718,899

LIQUIDITY RISK

Maturity analysis of financial assets and liabilities based on management's expectation.

The risk implied from the values in the table below, reflects a balanced view of cash inflows and outflows. These liabilities originate from insurance contracts and other financial assets used in the ongoing operations of the business. These assets are considered in the MAV's overall liquidity risk. To monitor existing financial assets and liabilities as well as to enable effective controlling of future risks, the MAV has established a comprehensive risk reporting covering its insurance business that reflects the management of expected settlement of financial assets and liabilities.

Year ended 30 June 2020	<3 months	3-12 months	1-5 years	>5years	Total
	\$	\$	\$	\$	\$
COMBINED FINANCIAL ASSETS					
Cash and cash equivalents	18,807,804	-	-	-	18,807,804
Investments	52,098,906	-	-	-	52,098,906
Trade and other receivables	61,749,721	15,542,347	63,883,279	35,028,278	176,203,625
	132,656,431	15,542,347	63,883,279	35,028,278	247,110,334
COMBINED FINANCIAL LIABILITIES					
Outstanding claims	8,229,237	24,687,712	97,626,630	59,787,582	190,331,162
Unearned premiums/subscriptions	34,350,920	31,658,696	-	-	66,009,615
Trade and other payables	14,660,903	2,649,394	1,846,258	-	19,156,555
TOTAL FINANCIAL LIABILITIES	57,241,060	58,995,802	99,472,888	59,787,582	275,497,332
NET MATURITY	75,415,371	(43,453,455)	(35,589,608)	(24,759,305)	(28,386,997)

Year ended 30 June 2019

COMBINED

FINANCIAL ASSETS

Cash and cash equivalents	51,059,961	-	-	-	51,059,961
Investments	33,832,165	11,700,000	-	-	45,532,165
Trade and other receivables	47,018,868	20,132,296	59,485,880	31,028,141	157,665,185
	131,910,993	31,832,296	59,485,880	31,028,141	254,257,310

COMBINED

FINANCIAL LIABILITIES

Outstanding claims	9,349,789	27,888,905	89,952,935	61,913,601	189,105,231
Unearned premiums/subscriptions	15,234,791	32,479,954	-	-	47,714,745
Trade and other payables	16,752,689	-	-	-	16,752,689
Other liabilities	-	1,545,696	313,761	-	1,859,457
TOTAL FINANCIAL LIABILITIES	41,337,268	61,914,555	90,266,696	61,913,601	255,432,122
NET MATURITY	90,573,725	(30,082,260)	(30,780,816)	(30,885,460)	(1,174,811)

Year ended 30 June 2020

	<3 months	3-12 months	1-5 years	>5years	Total
	\$	\$	\$	\$	\$
MAV GENERAL FUND FINANCIAL ASSETS					
Cash and cash equivalents	5,768,220	-	-	-	5,768,220
Trade and other receivables	11,232,331	-	-	-	11,232,331
	17,000,551	-	-	-	17,000,551
MAV GENERAL FUND FINANCIAL LIABILITIES					
Trade and other payables	2,717,328	-	-	-	2,717,328
Other liabilities	6,211,301	2,649,394	1,833,776	-	10,694,471
Total Financial Liabilities	8,928,629	2,649,394	1,833,776	-	13,411,799
NET MATURITY	8,071,922	(2,649,394)	(1,833,776)	-	3,588,752

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2020

26. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

Year ended 30 June 2019	<3 months	3-12 months	1-5 years	>5years	Total
	\$	\$	\$	\$	\$
MAV GENERAL FUND					
FINANCIAL ASSETS					
Cash and cash equivalents	5,214,896	-	-	-	5,214,896
Trade and other receivables	9,404,416	-	-	-	9,404,416
	14,619,312	-	-	-	14,619,312
MAV GENERAL FUND					
FINANCIAL LIABILITIES					
Trade and other payables	2,451,303	-	-	-	2,451,303
Other liabilities	4,408,139	1,545,696	313,761	-	6,267,596
Total Financial Liabilities	6,859,442	1,545,696	313,761	-	8,718,899
NET MATURITY	7,759,870	(1,545,696)	(313,761)	-	5,900,413

INSURANCE RISK - MAV INSURANCE

Risk management objectives and policies for mitigating insurance risk

The MAV's local government mutual liability scheme trading as Liability Mutual Insurance (LMI) is established by the *Municipal Association Act 1907*. Membership is available to local government councils and prescribed bodies. LMI operates in Victoria and Tasmania to provide services to members in respect of their potential and actual liabilities. A member may seek indemnity from LMI in respect of a claim.

Actuarial models, using information from LMI's management information systems are used to confirm contributions and monitor claim patterns. Past experience and statistical methods are used as part of the process.

The principal risk is that the frequency and severity of claims is greater than expected. Civil Liability Risk events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

Objectives in managing risk arising from insurance and policies for mitigating those risks

LMI has an objective to control insurance risk thereby reducing the volatility of its operating surplus. In addition to the inherent uncertainty of civil liability risks, which can lead to variability in the loss experience, operating surpluses can also be affected by external factors, such as competition and movements in asset values.

LMI relies on a strong relationship with its members and actively encourages them to adopt practices of risk management that reduce the incidence of claims to LMI.

Reinsurance strategy

LMI adopts a conservative approach towards management of risk and does this by utilising various risk transfer options. The MAV Insurance Board determines the level of risk, which is appropriate for LMI having regard to ordinary concepts of prudence and regulatory constraints. The risk transfer arrangements adopted by LMI include the utilisation of commercial reinsurance / excess arrangements. These arrangements include constant review of both reinsurers' financial strength, and ensuring spread of risk among reinsurers who meet the requirements of the MAV Insurance policies. These risk transfer arrangements assist LMI to limit exposures to large single claims and catastrophic events. These programs are reviewed each year to ensure that they continue to meet the risk needs of LMI.

Terms and conditions of membership

Membership of LMI is offered to eligible bodies and renewed annually on 30 June. Payment of the annual contribution confirms continuation of membership. Termination of membership is subject to at least 14 days written notice of intention as laid out by the Rules.

Product features

LMI operates in Victoria and Tasmania. Should a claim be accepted, LMI provides indemnity to the member for \$600 million Public / Products Liability and \$600 million for Professional Indemnity insurance, in excess of any self-insured amount, for any claim incurred anywhere throughout the world.

Operating surpluses arise from the total contributions charged to members less the amounts paid to cover claims and the expenses incurred by LMI.

Management of risks

The key insurance risks that affect LMI are contribution risk and claims experience risk.

Contribution risk is the risk that LMI does not charge contributions appropriate for the indemnity cover it provides. LMI partially manages contribution risk through its proactive approach to risk management that addresses all material risks both financial and non-financial. There are no specific terms and conditions that are expected to have a material impact on the financial statements.

Claims experience risk is managed through the non-financial risk assessment and risk management and reinsurance management process. Claims experience is monitored on an ongoing basis to ensure that any adverse trending is addressed. The Scheme is able to reduce the claims experience risk of severe losses through the reinsurance program, and by managing the concentration of insurance risks. LMI is a non-discretionary mutual fund which, under the Constitution has the ability to obtain contributions from members to pay liabilities and expenses.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

26. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

INSURANCE RISK - MAV WORKCARE

Risk management objectives and policies for mitigating insurance risk

The MAV WorkCare Self-Insurance mutual liability scheme - trading as MAV WorkCare (the Scheme) was established in 2017 and commenced operations on 1 November 2017. Membership is available to local government councils and prescribed bodies. The Scheme operates in Victoria to provide services to members in respect of their potential and actual workers' compensation liabilities.

Actuarial models, using information from the Scheme's management information systems are used to confirm contributions and monitor claim patterns. Past experience and statistical methods are used as part of the process.

The principal risk is that the frequency and severity of claims is greater than expected. Risk events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

Objectives in managing risk arising from insurance and policies for mitigating those risks

The Scheme has an objective to control insurance risk thereby reducing the volatility of its operating surplus. In addition to the inherent uncertainty of workers compensation liability risks, which can lead to variability in the loss experience, operating surpluses can also be affected by external factors, such as competition and movements in asset values.

The Scheme relies on a strong relationship with its members and actively encourages them to adopt practices of risk management that reduce the incidence of claims to the Scheme.

Reinsurance strategy

The Scheme adopts a conservative approach towards management of risk and does this by utilising various risk transfer options. The MAV WorkCare Board determines the level of risk, which is appropriate for the Scheme having regards to ordinary concepts of prudence and regulatory constraints. The risk transfer arrangements adopted by the Scheme include the utilisation of commercial reinsurance / excess arrangements. These arrangements include constant review of both reinsurers' financial strength, and ensuring reinsurers meet the requirements of the MAV WorkCare policies. These risk transfer arrangements assist the Scheme to limit exposures to large single claims and catastrophic events. These programs are reviewed each year to ensure that they continue to meet the risk needs of the Scheme.

Terms and conditions of membership

Membership to the Scheme is for the initial three year period of the self-insurance licence ending on 31 October 2020. Current members were requested to advise MAV of their intention to renew their membership of the Scheme for the second licence period of either four year or six years by 28 February 2020. Other eligible local government bodies were also invited to join the Scheme at that time. Termination of membership will be determined if the member does not renew for the second licence period.

Product features

The Scheme operates in Victoria. Should a claim be accepted, the Scheme provides an unlimited indemnity to the member. The Scheme purchases excess insurance cover over \$500,000 per claim from a qualified insurance company that meets the financial criteria set down in the operational policies of MAV WorkCare. The financial strength of the insurer is continually assessed to ensure it meets policy guidelines of an S&P rating of A as well as US \$25 million of free cash on its balance sheet.

Operating surpluses arise from the total contributions charged to members less the amounts paid to cover claims and the expenses incurred by the Scheme.

Management of risks

The key insurance risks that affect the Scheme are contribution risk and claims experience risk.

Contribution risk is the risk that the Scheme does not charge contributions appropriate for the indemnity cover it provides. The Scheme partially manages contribution risk through its proactive approach to risk management that addresses all material risks both financial and non-financial. There are no specific terms and conditions that are expected to have a material impact on the financial statements.

Claims experience risk is managed through the non-financial risk assessment and risk management and reinsurance management process. Claims experience is monitored on an ongoing basis to ensure that any adverse trending is addressed. The Scheme is able to reduce the claims experience risk of severe losses through an active OH&S and risk management program, the reinsurance arrangements, and by managing the concentration of insurance risks. The Scheme is a non-discretionary mutual fund which, under the Constitution has the ability to obtain contributions from members to pay liabilities and expenses.

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2020

26. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

MAV GROUP

Concentration of insurance risks

Insurance risk is managed by taking a long term approach to setting the annual contribution rates that eliminates price fluctuations, through appropriate investment strategy, reinsurance and by maintaining an active state-wide risk management profile. The MAV keeps abreast of changes in the general economic, legal and commercial environment in which it operates. The MAV spreads its risk of reinsurance failure by ensuring reinsurers are of high financial quality and can meet their commitments to the MAV. The MAV maintains policies and strategies and receives advice from an independent actuary on at least an annual basis in order to determine the concentration and amount of risk exposure.

		CREDIT RATING					Total
		AAA	AA	AA-	A	Speculative Grade	
		+/- \$'000	+/- \$'000	+/- \$'000	\$'000	\$'000	
Reinsurance and other recoveries on outstanding claims	2020	-	-	-	44,978	-	46,632
	2019	-	-	-	46,024	-	47,045
Reinsurance and other recoveries on paid claims	2020	-	-	-	2,373	-	2,373
	2019	-	-	-	1,333	-	1,333

PAST DUE BUT NOT IMPAIRED

		Neither past due nor impaired	Less than 3 months	3 to 6 months	6 months to 1 year	Greater than 1 year	Impaired	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
		Reinsurance and other recoveries on paid claims	2020	-	2,373	-	-	-
2019	-		1,333	-	-	-	-	1,333

CREDIT RISK

The MAV is exposed to credit risk on insurance contracts as a result of exposure to reinsurers. The credit risk of reinsurers is managed through the Reinsurance Management Strategies and policies that includes regularly monitoring both the financial rating of the reinsurers both prior to and during the reinsurance program and the flow of payments coming from the reinsurers. Investments in cash and cash equivalents at balance date as shown in the Statement of Cash Flows are held in S&P rated AA- and A- rated cash deposits.

PRICE RISK

Investments held are subject to price risk. Investments are cash at bank, fixed interest funds and variable price units held with the VFMC.

INTEREST RATE RISK

MAV Combined is exposed to interest rate risk from its cash and cash equivalents.

Variable	Current Rate	Change variable to +0.5%/-0.5%	Operating surplus (deficit) at 30 June 2020	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$
IMPACT OF CHANGES IN INTEREST RATE ON FINANCIAL ASSETS				
MAV GROUP				
Base value at 30 June 2020	0.5%		(4,308,449)	(2,508,274)
Interest Rate p.a.		1.0%	(4,269,499)	(2,469,324)
		0.0%	(4,347,398)	(2,547,224)

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

27. ACCOUNTING ESTIMATES AND JUDGEMENTS

The MAV makes estimates and judgements in respect of certain key assets and liabilities. Estimates and judgements are continually reviewed and are based on past 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 and judgements are applied are described below.

a) Estimation of outstanding claims liability

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the Statement of Financial Position date, including the cost of claims incurred but not yet reported ("IBNR"). The MAV take all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome may be different from the original liability established.

Provisions are calculated gross of all recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers and any third party.

The determination of an appropriate outstanding claims provision for MAV Insurance involves:

- (i) Establishing a case estimate for each reported claim at year-end taking into account legal advice where appropriate on larger claims;
- (ii) Allowance for incurred but not reported claims as confirmed by the actuarial review on 30 June 2020
- (iii) Allowances for wage inflation of 1.64%, as assumed by the Actuary
- (iv) Allowances for discount at 0.63%, as assumed by the Actuary
- (v) A risk margin of 0% of net outstanding claims after the effect of reinsurance has been applied, as assumed by the actuary.

Refer to Note 28 for details

The determination of an appropriate outstanding claims provision for MAV WorkCare involves:

- (i) Establishing a case estimate for each reported claim at year-end taking into account legal advice where appropriate
- (ii) Allowance for incurred but not reported claims as confirmed by the actuarial review on 30 June 2020
- (iii) An allowance of 6.35% for claim settlement expenses, as assumed by the Actuary;
- (iv) Allowances for wage inflation of 1.75%, as assumed by the Actuary
- (v) Allowances for discount at 1.05%, as assumed by the Actuary
- (vi) A risk margin of 0% of net outstanding claims after the effect of reinsurance has been applied, as assumed by the actuary.

Refer to Note 28 b) for details

Details of specific actuarial assumptions used in deriving the outstanding claims liability at year-end are detailed in note 28.

b) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts were estimated for each fund year, from the payments to date and estimated outstanding claims history at 30 June 2020, taking into account the reinsurance terms applying to that fund year.

28. ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial Assumptions

MAV INSURANCE

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

	2020	2019
Key Actuarial Assumptions		
Wage inflation	1.64%	2.64%
Discount rate	0.63%	1.17%
Risk margin	0.00%	0.00%
Superimposed inflation	1.50%	1.50%

Process used to determine actuarial assumptions

A description of the processes used to determine the above key actuarial assumptions is provided below:

Liability Mutual Insurance has provided public and professional indemnity insurance to local government bodies in Victoria and Tasmania and other bodies constituted under any Act for any public or local governing purpose since 30 September 1993. The Actuary was supplied with details of all transactions (payments, recoveries, changes of estimates) from 30 September 1993 to 30 June 2020. The individual claim payments and case estimates reconciled closely with totals in Liability Mutual Insurance financial statements for each year of cover. The actuary subdivided the claims data into four claim types (Public Liability - Personal Injury, Public Liability - Property Damage, Professional Indemnity and the 2009 Bushfire claims) and made separate estimates of the gross outstanding claims liabilities for each of these claim types. The actuary estimated the gross outstanding claims liabilities for each claim type using five different actuarial methods. Large claims (claims above \$250,000 in 2009 dollars) were estimated based on a numbers times average size method and non-large claims were estimated using four different actuarial methods- payments per claim incurred, payments per claim finalised, incurred cost development and projection of case estimates. The actuary selected a combination of these methods for estimating the outstanding claims. Payments were projected with a payment pattern, based on past experience. Estimates of outstanding excesses were based on a numbers times average size method and estimates of non reinsurance recoveries were made by a recoveries per claim method.

Estimates of reinsurance recoveries were made from projected gross payments, excesses and non reinsurance recoveries, allowing for the different insurance treaties applying to each year. Based on Access Economics, June 2020 forecasts for Victorian average weekly claims, inflation was assumed to be 1.64%. The discount rate was assumed to be 0.63% pa, derived from the yields on Commonwealth Government bonds.

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2020

28. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

MAV WORKCARE

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

	2020	2019
Key Actuarial Assumptions		
Wage inflation	1.75%	2.50%
Claim administration expense	6.35%	7.40%
Discount rate	1.05%	1.50%
Risk margin	0.00%	0.00%
Superimposed inflation	1.80%	1.78%

Process used to determine actuarial assumptions

A description of the processes used to determine the above key actuarial assumptions is provided below:

MAV WorkCare commenced business operations on 1 November 2017. It provides workers compensation insurance for thirty Local Government Authorities and the Municipal Association of Victoria. The Actuary was supplied with details of all transactions (payments, recoveries, estimates) to 30 June 2020. The individual claim payments and case estimates reconciled closely with totals in MAV WorkCare's financial statements for the year of cover. The actuary subdivided the claims data into 2 groups (Above Excess and Below Excess) and made separate estimates of the gross outstanding claims liabilities for each claim type. The actuary estimated the gross outstanding claims liabilities for Above Excess (Standard) claims by splitting the payments on Above Excess claims into 5 different sub-groups and modelling each sub-group separately. Above Excess claims were predominantly estimated using a numbers times average size method (PPCI). Below Excess (Minor) claims were modelled separately and utilised a numbers times average size method. Payments were projected with a payment pattern, based on past experience. Estimates of non reinsurance recoveries were made by a recoveries per claim method. Outstanding non reinsurance recoveries for accident periods up to and including 2016/17 were reduced to 0% to allow for the inability of MAV WorkCare to claim recoveries for these accident periods. Reinsurance recoveries for periods post 1 November 2017 were estimated by considering a total payment model and a total payment model where payments are capped at the expected excess of loss limit. The difference between these two models is the implied reinsurance recovery that would have been received if a similar reinsurance contract had been in place for historical periods. There has been no allowance for reinsurance recoveries for periods prior to 1 November 2017.

Based on economic forecasts, market based expectations for longer term CPI expectations and a long term CPI wage gap, wage inflation was assumed to be 1.75%. The discount rate was assumed to be 1.05% pa., derived from the yields on Commonwealth Government bonds.

The Actuary has assumed a risk margin of 0% of the net liabilities to give a probability of 50% that the provisions will prove adequate to meet the relevant liabilities.

MAV GROUP - Interest rate risk

VARIABLE	IMPACT OF MOVEMENT IN VARIABLE
Wage inflation	Expected future payments are inflated to take account of inflationary increases. An increase or decrease in the assumed levels of economic inflation would have a corresponding impact on claims expense, with particular reference to longer tail claims.
Discount Rate	The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposing impact on total claims expense.
Case Estimate Development	Case estimates are initially established in accordance with established guidelines and by reference to the known facts. Where new information becomes available the initial case estimate will change. This development movement is applied to open claims and will have a corresponding impact on claims expense.

Wage inflation rate sensitivity

Expected future payments are inflated to take account of inflationary increases. An increase or decrease in the assumed levels of economic inflation would have a corresponding impact on claims expense, with particular reference to longer tail claims.

Variable	Current Rate	Change variable to +0.5%/-0.5%	Operating surplus (deficit) at 30 June 2020	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$
IMPACT OF CHANGES IN KEY VARIABLES				
MAV GROUP				
Base value at 30 June 2020	1.75%		(4,308,449)	(2,508,274)
Wage inflation rate p.a.		2.25%	(6,410,449)	(4,610,274)
		1.25%	(2,306,449)	(506,274)

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

28. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

MAV GROUP

Interest rate sensitivity

The reinsurance indemnity contracts contain no clauses that expose the Scheme, directly to interest rate risk. The reinsurance contracts are long term arrangements, reviewed and payable annually.

Variable	Current Rate	Change variable to +0.5%/-0.5%	Operating surplus (deficit) at 30 June 2020	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$
IMPACT OF CHANGES IN DISCOUNT RATES				
MAV GROUP				
Base value at 30 June 2020	0.63%		(4,308,449)	(2,508,274)
Discount rate p.a.		1.13%	(2,225,449)	(425,274)
		0.13%	(6,191,449)	(4,391,274)

Claims handling sensitivity

Future claims handling expenses represent administrative costs relating to the payment of claims incurred to date.

Variable	Current Rate	Change to the Current Rate +1%/-1%	Operating surplus (deficit) at 30 June 2020	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$
IMPACT OF CHANGES IN CLAIMS ADMINISTRATION EXPENSE				
MAV GROUP				
Base value at 30 June 2020	1.0%		(4,308,449)	(2,508,274)
Claim administration expense		2.00%	(5,403,449)	(3,603,274)
		0.00%	(3,213,449)	(1,413,274)

29 CAPITAL MANAGEMENT OBJECTIVES AND ECONOMIC DEPENDENCY

The MAV is specifically excluded from the provisions of the Insurance Act and from APRA regulation. There is no externally imposed capital requirement on MAV Insurance. The MAV has committed to WorkSafe Victoria that MAV WorkCare will maintain a capital position in excess of 85% of its total liabilities. If the capital position of MAV WorkCare should fall below 100% of total liabilities the MAV is to introduce a capital management plan to ensure MAV WorkCare returns to surplus over time. The MAV's capital management philosophy is focused on capital efficiency and effective risk management to support a progressive business model for the benefit of members of both MAV Insurance and MAV WorkCare. The Board of directors and management have in place a strategic plan that is aligned to achieving the MAV's capital management philosophy with an objective of achieving and maintaining a net surplus position within both MAV Insurance and MAV WorkCare businesses. Key elements of this plan include premium setting, risk management, claims management and reinsurance management. The capital management plan includes a review of the investment strategy and establishing increased flexibility in the Scheme cost structures.

The MAV operates LMI as a non-discretionary mutual fund, and under Sections 6.4 and 6.5 of the Constitution the MAV has the ability to obtain contributions from members to meet any shortfall in the Provision set aside in respect of that Insurance Year.

Section 6.4 of the Constitution, states that each Participant (member) will remain liable to make further contributions to the Scheme in respect of any insurance year in which it was a participant to the extent of its participant's share of any shortfall in the provision set aside in respect of that insurance year, and such liability will continue whether or not the Participant remains a Participant in future Insurance Years.

The MAV operates MAV WorkCare as a captive, non-discretionary mutual fund, and under Schedule 1, Part B, Clause 3 of the Participation Agreement the MAV has the ability to obtain contributions from members to meet any shortfall in the Provision set aside in respect of that Insurance Year. Schedule 1, Part B, Clause 7 of the Participation Agreement, provides the ability for MAV to make additional calls on each Participant (member) will remain liable to make further contributions to the scheme in respect of any insurance year in which it was a participant to the extent of its participant's share of any shortfall in the provision set aside in respect of that insurance year, and such liability will continue whether or not the Participant remains a Participant in future Insurance Years (Please refer to note 36 Events Subsequent)

The MAV reported to ASIC in March 2020 that a net asset deficiency had occurred, as required under MAV's Australian Financial Services (AFS) licence to operate the LMI Scheme and continues to report on a periodic basis to ASIC.

30. PERFORMANCE BONUS

The Liability Insurance Mutual Scheme, in conjunction with similar Local Government Self Insured Mutual Liability Schemes around Australia has entered into a profit sharing arrangement with its primary reinsurers, based on the National Local Government claims experience. The arrangement enables any surplus of reinsurance premium over the amount of claims paid for each year over the five-year reinsurance period to be shared between the various Schemes and the reinsurers on a proportional basis. The last year the arrangement relates to is 2007-08. There are no known expected future performance payments expected.

No performance bonus was received during the year (2019 \$99,845).

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2020

31. CONTINGENT LIABILITIES

MAV INSURANCE

During the normal course of business, MAV Insurance may be exposed to contingent liabilities from litigation arising from its insurance and reinsurance activities, which if they should crystallise may adversely affect the financial position and performance of MAV. Provisions are made for obligations that are probable and able to be quantified.

In June 2014, MAV Insurance committed to purchasing retrospective stop-loss reinsurance for the 2009 and 2011 financial years.

The policies provide coverage for the first \$1 million in claim costs with a cap of \$5 million in the aggregate in each of the years.

LMI benefits from the 2009 policy when aggregate claim costs below \$1 million reach \$22 million and the 2011 policy provides coverage when aggregate claim costs reach \$20 million. The effect of the policies is to provide additional protection from adverse development for claim costs below \$1 million. The reinsurance policies commenced at the close of business on 30 June 2014.

MAV WORKCARE

During the normal course of business, the Scheme may be exposed to contingent liabilities from litigation arising from its activities, which if they should crystallise may adversely affect the financial position and performance of MAV WorkCare. Provisions are made for obligations that are probable and able to be quantified.

On 1 November 2017 MAV WorkCare commenced business as a licensed self-insurer under the WIRC Act. WorkSafe granted the licence to MAV WorkCare to commence business as a self-insurer for an initial period of three years subject to meeting performance and financial conditions. MAV met all the conditions required to be met by WorkSafe prior to commencement. One of the conditions related to the provision of a bank guarantee equivalent to one hundred and fifty per cent (150%) of the net liabilities of the Scheme. The National Australia Bank has provided a bank guarantee on behalf of the MAV to WorkSafe in the amount of \$102.206 million.

In order for the National Australia Bank to provide the Bank Guarantee the following securities were provided by the MAV:

- a) Letter of set off over a bank deposit amounting to \$11.7 million.
- b) Security Interest and Charge over the cash and investments of the MAV WorkCare Self-Insurance Scheme.

MAV WorkCare is also subject to Covenants and Undertakings it has provided to the Bank:

- a) That the market value of the cash and investments held by MAV WorkCare is to be maintained at a minimum of 65% of the Bank Guarantee amount at all times. The MAV currently has a waiver on this requirement from the NAB.
- b) Where WorkSafe make a claim on the Bank Guarantee and the cash reserves are insufficient to clear the liability, the MAV will undertake to make a claim on its members within 30 days.

MAV is operating the MAV WorkCare Scheme as a going concern and will continue to do so unless a determination is made by WorkSafe Victoria to refuse a licence beyond the initial 3 year period (Please refer to note 36 Events Subsequent). In the event of a licence refusal any unused portion of premiums received in advance may be returned to Scheme members.

MAV GENERAL FUND

The MAV has arranged for its banker, the National Australia Bank, to provide a Bank Guarantee for the sum of \$396,316 to the MAV's landlord, the Reserve Bank of Australia, as security for its lease rental obligations at Levels 11 & 12 & 16, 60 Collins Street Melbourne, 3000. No other material contingent liabilities have arisen in the year ended 30 June, 2020.

32. MAV WORKCARE - SELF-INSURANCE LICENCE

On the 3 May 2017 the MAV was awarded a workers' compensation self-insurance licence under the Accident Compensation Act 1985. The self insurance licence is for a three year period and MAV WorkCare requires the self-insurance licence in order to conduct its business and earn both current and future revenue. On commencement of the Scheme WorkSafe paid to MAV WorkCare the sum of \$65,856,545 which was the Statistical Case Estimate (SCE) of claims outstanding for the thirty-one inaugural members of the Scheme. The independent actuary to the Scheme estimated the value of the claims outstanding, including claims handling expenses, for the thirty-one inaugural members of the Scheme that were transferred by WorkSafe to the Scheme, net of recoveries, at \$67,478,639. This resulted in a deficit of \$1,622,094 at commencement.

33. SPECIAL PURPOSE VEHICLE

In October 2014, the MAV established a special purpose vehicle, Local Government Funding Vehicle (LGFV), to facilitate the issuing of debt instruments for and on behalf of its members. The MAV considers itself the sponsor of this SPV as it was involved in establishment of the pooled borrowing vehicle. The LGFV is designed to aggregate a portfolio of non-amortising fixed rate council loans and issue loan backed bonds with matching maturities arranged by financial institutions.

Upon establishment of each Bond Issuance, the MAV incurs costs professional advice in connection with the transaction. These costs are recovered from the SPV so that that MAV bears no net costs. The MAV is also entitled to earn a fixed fee of up to \$24,000 per annum for the management of the SPV.

The MAV has no interest in the SPV at the reporting date, nor has it transferred any assets to the SPV during the reporting period. In the event of a default by participating councils, the MAV is not exposed to any loss.

The Directors have determined that the MAV does not have control over the SPV under IFRS 10 Consolidated Financial Statements, and as such, the assets and liabilities of the SPV are not included in the financial statements of the MAV.

34. GENERAL INSURANCE AGREEMENT

The MAV signed the "General Insurance Agreement" (the Agreement) dated 30 June 2016 with Jardine Lloyd Thompson (JLT). The agreement is a replacement of the agreement dated 17 July 1987 (Existing Agreement). For the 15 year term of the Agreement, the MAV agrees to not directly or indirectly provide insurance broking services to local government bodies in Victoria or to persons who are associated with or employed by local government bodies. The agreement provides that JLT pay an annual licence fee to the MAV consistent with the Existing Agreement. The annual licence fee received by the MAV for the year ended 30 June 2020 was \$1.361 million (2019 \$1.257m).

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

35. REMUNERATION OF KEY MANAGEMENT PERSONNEL

MAV Board Members receive an annual allowance. There are twelve Board members, including two Deputy Presidents, plus the President. They also receive reimbursement of travel costs and a data allowance. All benefits paid have been included in the tables below. The key management person is the Chief Executive Officer of the MAV.

	Annual Allowance	Data allowance
President	\$ 69,590	\$ 416
Deputy Presidents	14,347	416
Board Members	9,769	416

	COMBINED		MAV - GENERAL FUND	
	2020	2019	2020	2019
	\$	\$	\$	\$
MAV Board Members				
Short term employment benefits	252,875	277,558	252,875	277,558
Post employment benefits	-	-	-	-
MAV WorkCare Board Members				
Short term employment benefits	70,000	88,175	-	-
Post employment benefits	-	-	-	-
MAV Insurance Board Members				
Short term employment benefits	83,111	52,738	-	-
Post employment benefits	-	-	-	-
Key Management Personnel				
Short term employment benefits	621,533	621,959	293,077	621,959
Post employment benefits	52,862	29,535	21,659	29,535
Total				
Short term employment benefits	1,027,520	1,040,430	545,953	899,517
Post employment benefits	52,862	29,535	21,659	29,535

Details of the total remuneration paid to each Director

Board Member	Annual Allowance	Data Allowance	Expenses	TOTAL
Jami Klisaris	14,347	416	745	15,508
Josh Gilligan	9,769	416	2,052	12,237
Malcolm Hole	9,769	416	5,257	15,442
Peter Perkins	9,769	416	2,300	12,485
Rohan Leppert	9,769	416	1,904	12,089
Ron Janas	9,769	416	4,459	14,643
Ruth Gstrein	14,347	416	8,469	23,232
Coral Ross	69,590	416	5,642	75,648
Michael Symon	9,769	416	2,476	12,661
Murray Emerson	9,769	416	5,353	15,538
Sean O'Reilly	9,769	416	1,071	11,256
Nathan Hansford	9,769	416	6,701	16,886
Jennifer Anderson	9,769	416	5,065	15,250
Total 2020	\$ 195,971	\$ 5,410	\$ 51,494	\$ 252,875
Total 2019	\$ 192,795	\$ 5,325	\$ 79,437	\$ 277,558

Loans to Directors

The MAV has a strict policy of not providing loans to Directors. No loans were made to or are payable by Directors during the year.

Insurance

The activities of the MAV board members are covered by the MAV directors' and officers' indemnity insurance policy effected by the MAV.

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2020

37. RELATED PARTIES

In March 2020, the MAV submitted an application for a self-insurer licence renewal for MAV Work Care beyond the initial three year period for a further six years. On 20 August 2020, the MAV received correspondence from Work Safe Victoria indicating their intention to refuse the MAV's application for renewal. Pursuant to s 381(1)(c) of the Workplace Injury Rehabilitation and Compensation Act 2013 the MAV has made a written submission in response to the correspondence received. At the date of signing the financial statements no determination has been yet made by Work Safe Victoria.

On 17 September 2020, the COVID-19 Omnibus (Emergency Measures) and Other Acts Amendment Bill 2020 was introduced into Victorian Parliament. This bill seeks to extend a range of the emergency measures that were implemented under the previous Omnibus Act that was introduced in April 2020. Under the current Omnibus Bill, the 130-week notice period under section 191 of the WIRC Act and 114B(1)(b) of the AC Act was extended from 13 weeks to 39 weeks. The extension of the notice period was due to expire on 25 October 2020, however this bill proposes that the extension will apply to all workers who are due to transition off weekly payments on 130 week grounds until 31 December 2020. If this legislation is passed, the effect of the bill will be that injured workers whose weekly payments are due to be terminated as a result of the second entitlement period expiring on or before 31 December 2020 will need to be provided 39 weeks' notice of termination, rather than just 13 weeks notice under the usual provisions. The Bill also assists WorkSafe inspectors in enforcing compliance with occupational health and safety laws, to ensure employers are meeting their obligations.

37. RELATED PARTIES

The MAV is a body corporate established under the *Municipal Association Act of 1907* to provide services for and represent local government authorities in Victoria. The Board of the MAV is elected from its members. The MAV and its wholly owned and controlled entities trade with each other and with its members in the normal course of business and on an arm's length basis. The Liability Mutual Insurance Scheme was formed by a Deed of Establishment which provides for the MAV to appoint a Committee of Management (MAV Insurance Board) to be responsible for the administration of the Scheme. Total expenses of \$510,000 (2019 \$500,000 were payable to the MAV from the Liability Mutual Insurance Scheme being payment for administrative support, and overseeing the management of the insurance activities, including the conduct of bi-monthly Board meeting. In accordance with the *Municipal Association Act 1907* the MAV is required to establish a Fidelity Fund to provide commercial crime insurance for its members. The MAV paid insurance premiums to the Liability Mutual Insurance Scheme \$22,036 (2019 \$22,036) and to the Commercial Crime Fund \$10,764 (2019 \$10,764).

The MAV WorkCare Self-Insurance Scheme was formed by a Deed of Participation which provides for the MAV to appoint the MAV WorkCare Board to be responsible for the administration of the Scheme. Total expenses of \$Nil (2019 \$Nil) were payable to the MAV from MAV WorkCare being payment for administrative support, and overseeing the management of the workcare activities, including the conduct of bi-monthly Board meeting. MAV WorkCare will reimburse the \$1.266 million cost to establish the Workers' compensation self insurance licence over the three year period of the licence. The MAV pays workers compensation premium to MAV WorkCare \$34,463 (2019 \$36,096). The MAV General Fund has a subordinated loan with MAV Work Care for \$4m. This entry is eliminated for MAV Combined.

The MAV pays superannuation contributions to Vision Super Pty Ltd as per Note 24. Kerry Thompson the CEO of the MAV is a Directors of Vision Super Pty Ltd and received Directors fees. The Directors fees for Kerry Thompson were deducted from her salary paid by the MAV.

Statement by directors

As at 30 June 2020

In the opinion of directors of The Municipal Association of Victoria:

- (a) the accompanying Statement of Comprehensive Income drawn up so as to present fairly in all material respects the result of the association for the year ended 30 June 2020
- (b) the accompanying Statement of Financial Position is drawn up so as to present fairly in all material respects the state of affairs of the association as at that date;
- (c) at the date of this statement there are reasonable grounds to believe that the association will be able to pay its debts as and when they fall due;
- (d) the accompanying Combined Financial Statements present fairly in all material respects the state of affairs of the association as at that date;
- (e) the financial statements and notes also materially consistent with the international financial reporting standards as disclosed in note 2(b).

The financial statements and combined financial statements have been made out in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.

Signed in



Cr. Coral Ross
President



Cr. Mike Symon
Director



Kerry Thompson
Chief Executive Officer

Melbourne
2/10/2020

OTHER INFORMATION

Legal form:

The MAV is an association incorporated by the *Municipal Association Act 1907*

Domicile:

Melbourne, Australia

Address of registered office and principal place of business:

Level 12, 60 Collins Street, Melbourne, 3000, Victoria, Australia

Nature of the operation and principal activities:

The MAV represents, promotes and supports the interest of Victorian local governments and their communities.

Number of employees:

Average number of equivalent full time employees during the year was 52.5

**MAV
INSURANCE
Financial
Report
2019-20**

Independent Auditor's Report

To the Directors of the MAV Insurance

Opinion	<p>I have audited the financial report of the MAV Insurance (the scheme) which comprises the:</p> <ul style="list-style-type: none"> • statement of financial position as at 30 June 2020 • statement of comprehensive income for the year then ended • statement of changes in equity for the year then ended • statement of cash flows for the year then ended • notes to the financial statements, including significant accounting policies • statement by directors. <p>In my opinion the financial report presents fairly, in all material respects, the financial position of the scheme as at 30 June 2020 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of part 7 of the <i>Financial Management Act 1994</i> and applicable Australian Accounting Standards.</p>
Basis for Opinion	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor's Responsibilities for the Audit of the Financial Report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the scheme in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
Directors' responsibilities for the financial report	<p>The Directors of the scheme are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the <i>Financial Management Act 1994</i>, and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.</p> <p>In preparing the financial report, the Directors are responsible for assessing the scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.</p>

Auditor's responsibilities for the audit of the financial report As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the scheme's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors
- conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the scheme's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the scheme to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

MELBOURNE
20 October 2020



Sarchu Chummar

as delegate for the Auditor-General of Victoria

Statement of Comprehensive Income

For the year ended 30 June 2020

		COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	NOTE	2020	2019	2020	2019	2020	2019
		\$	\$	\$	\$	\$	\$
Premium revenue	3	26,480,386	22,634,305	26,480,386	22,634,305	-	-
Performance bonus	18	-	99,845	-	99,845	-	-
Reinsurance expense	2(s)	(16,422,424)	(16,011,380)	(16,422,424)	(16,011,380)	-	-
NET PREMIUM INCOME		10,057,962	6,722,770	10,057,962	6,722,770	-	-
Claims expense	4(a)	(32,667,605)	(23,670,203)	(32,667,605)	(23,670,203)	-	-
Reinsurance and other recoveries	3	28,754,448	21,400,619	28,754,448	21,400,619	-	-
NET CLAIMS EXPENSE	12	(3,913,157)	(2,269,584)	(3,913,157)	(2,269,584)	-	-
NET UNDERWRITING RESULT		6,144,805	4,453,186	6,144,805	4,453,186	-	-
Management fees	2(i),3	58,609	69,893	-	-	58,609	69,893
Investment income	3	44,791	326,008	42,761	321,289	2,030	4,719
Administration and general expenses	4(b)	(5,964,203)	(6,699,598)	(5,907,563)	(6,608,925)	(56,640)	(90,673)
OPERATING SURPLUS/(DEFICIT)		284,002	(1,850,511)	280,003	(1,834,450)	3,999	(16,061)
Other comprehensive income		-	-	-	-	-	-
TOTAL COMPREHENSIVE SURPLUS/(DEFICIT) FOR THE YEAR		284,002	(1,850,511)	280,003	(1,834,450)	3,999	(16,061)

The accompanying notes form an integral part of these statements

Statement of Financial Position as at 30 June 2020

		COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	NOTE	2020	2019	2020	2019	2020	2019
		\$	\$	\$	\$	\$	\$
CURRENT ASSETS							
Cash and cash equivalents	2(e),8(a)	1,258,143	3,242,187	1,126,735	3,115,258	131,408	126,929
Trade and other receivables	9	66,468,706	58,036,544	66,468,562	58,036,112	145	432
TOTAL CURRENT ASSETS		67,726,850	61,278,731	67,595,297	61,151,370	131,553	127,361
NON-CURRENT ASSETS							
Trade and other receivables	9	90,367,760	82,673,428	90,367,760	82,673,428	-	-
TOTAL NON-CURRENT ASSETS		90,367,760	82,673,428	90,367,760	82,673,428	-	-
Total Assets		158,094,610	143,952,159	157,963,057	143,824,798	131,553	127,361
CURRENT LIABILITIES							
Trade and other payables		4,703,104	8,367,381	4,678,477	8,342,947	24,627	24,434
Premiums in advance	10	39,011,594	26,580,386	39,011,594	26,580,386	-	-
Outstanding Claims	11(a)	19,189,697	25,208,001	19,189,697	25,208,001	-	-
TOTAL CURRENT LIABILITIES		62,904,394	60,155,768	62,879,768	60,131,334	24,627	24,434
NON-CURRENT LIABILITY							
Outstanding Claims	11(a)	94,989,448	83,879,625	94,989,448	83,879,625	-	-
TOTAL NON-CURRENT LIABILITY		94,989,448	83,879,625	94,989,448	83,879,625	-	-
TOTAL LIABILITIES		157,893,842	144,035,393	157,869,215	144,010,959	24,627	24,434
NET ASSETS		200,768	(83,234)	93,842	(186,161)	106,926	102,927
EQUITY		200,768	(83,234)	93,842	(186,161)	106,926	102,927

The accompanying notes form an integral part of these statements.

1

Statement of Changes in Equity

For the year ended 30 June 2020

	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$
RETAINED EARNINGS						
Balance at beginning of year	(83,234)	1,767,277	(186,161)	1,648,289	102,927	118,988
Surplus/(Deficit) from ordinary activities	284,002	(1,850,511)	280,003	(1,834,450)	3,999	(16,061)
BALANCE AT END OF YEAR	200,768	(83,234)	93,842	(186,161)	106,926	102,927

Statement of Cash Flows for the year ended 30 June 2020

		COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	NOTE	2020	2019	2020	2019	2020	2019
		\$	\$	\$	\$	\$	\$
CASH FLOW FROM OPERATING ACTIVITIES							
RECEIPTS							
Premiums and fees		26,089,624	22,823,017	25,457,793	22,185,423	631,831	637,594
Interest received		45,077	54,893	42,761	47,647	2,316	7,246
Performance bonus		-	99,845	-	99,845	-	-
Reinsurance and other recoveries		25,991,105	14,781,176	25,991,105	14,781,176	-	-
PAYMENTS							
Trade and other payables		(26,533,763)	(38,236,120)	(25,904,095)	(37,443,386)	(629,668)	(792,734)
Claim payments		(27,576,087)	(16,387,032)	(27,576,087)	(16,387,032)	-	-
NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES	8(b)	(1,984,044)	(16,864,221)	(1,988,523)	(16,716,327)	4,479	(147,894)
CASH FLOW FROM INVESTING ACTIVITY							
Proceeds from redemption of investments		-	18,179,942	-	18,179,942	-	-
NET CASH PROVIDED BY INVESTING ACTIVITIES		-	18,179,942	-	18,179,942	-	-
NET INCREASE/(DECREASE) IN CASH HELD		(1,984,044)	1,315,721	(1,988,523)	1,463,615	4,479	(147,894)
Cash at beginning of year		3,242,187	1,926,466	3,115,258	1,651,643	126,929	274,823
CASH AT END OF YEAR	8(a)	1,258,143	3,242,187	1,126,735	3,115,258	131,408	126,929

The accompanying notes form an integral part of these statements.

Notes to and forming part of the financial statements

For the year ended 30 June 2020

1. CORPORATE INFORMATION

The combined financial report of MAV Insurance (The Group) for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the directors of the Municipal Association of Victoria (MAV) on the date shown on the attached Statement by Directors.

MAV Insurance is the insurance division of the MAV. The MAV is an association incorporated by an Act of the Parliament of Victoria known as the *Municipal Association Act 1907*.

The nature of the operations and principal activities of MAV Insurance are the provision of public liability, professional indemnity by the Liability Mutual Insurance Scheme (The Scheme) and arranging fidelity insurance by the Commercial Crime Fund (The Fund) for its members located in Victoria and Tasmania and community groups within its council member boundaries.

On 1 July 2010 the Commercial Crime Fund ceased to write insurance business on its own account. From this date the Fund facilitated insurance for its members via a policy issued initially by Zurich Insurance Australia and now by Chubb. The Fund undertook this change in business due to the inability of the Fund to offer the broad terms and conditions currently available in the market. This is due to the restrictions placed on the Fund by the provisions of the Municipal Association Act 1907. From 1 January 2011 the Fund is not at risk for any insurance claim that might be made against it.

The MAV has purchased retrospective insurance cover on the net amount of all claims incurred by the Liability Mutual Insurance Scheme up to 30 June 2018. (Refer to Note 20).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards and Interpretations which became effective during the year.

<u>Reference</u>	<u>Title Summary</u>	<u>Application Date of Standard</u>	<u>Impact on MAV Financial</u>	<u>Application</u>
AASB 1058	Income of Not-for-Profit Entities	1 January 2019	Minimal impact. Most revenue assessed as under agreement (contract) - See AASB 15.	1 July 2019
AASB 15	Revenue from Contracts with Customers	1 January 2019	Minimal impact. See note 2(q).	1 July 2019

Accounting Standards and Interpretations issued but not yet effective.

<u>Reference</u>	<u>Title Summary</u>	<u>Application Date of Standard</u>	<u>Impact on MAV Financial</u>	<u>Application</u>
IFRS 17	Insurance Contracts	1 January 2023	IFRS 17 does not apply to not for profit public sector entities. The application and date for application is still to be determined by the AASB for not-for-profit public sector entities such as the MAV.	N/A

(a) Basis of preparation

The financial report is a general purpose financial report which has been drawn up in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, and having regard to the financial reporting requirements of the *Financial Management Act*

The principal accounting policies adopted in preparing the financial report are stated to assist in a general understanding of the financial report. Accounting policies have been consistently applied unless otherwise indicated.

The financial report is presented in Australian dollars. MAV Insurance is a Not for Profit entity.

The accounts have been prepared on the accruals basis using historical costs and, except where stated, do not take into account current valuations of assets.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, is materially consistent with the International Financial Reporting Standards ('IFRS').

(c) The basis of the combined report

The combined financial report relates to the insurance activities of the MAV being its controlled entities the Local Government Mutual Liability Insurance Scheme (trading as Liability Mutual Insurance, - LMI) "the Scheme", and the Commercial Crime Fund (the "Fund"). The MAV is the only legal entity. Neither insurance entity has control over the other. The effects of all transactions between entities in the combined entity have been eliminated.

The financial statements of the entities are prepared for the same reporting period as the MAV, using consistent accounting policies.

(d) Income tax

The MAV is a State and Territory Body (STB) and is exempt from income tax, in accordance with Division 1AB of Part III of the Income Tax Assessment Act 1997.

(e) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Notes to and forming part of the financial statements

For the year ended 30 June 2020

(f) Trade and other receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised where there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue, other than outstanding reinsurance recoveries, are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(g) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(h) Property, furniture, equipment, and website

Property, furniture, equipment and website are carried at cost, less where applicable, accumulated depreciation and impairment.

On disposal of an item of property, furniture, equipment and website the difference between the sales proceeds and the carrying amount of the asset is recognised as a gain or loss.

All fixed assets are depreciated/amortised on a straight line basis over their estimated useful lives to the entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The following depreciation and amortisation rates are in use:

	Annual Rate
Leasehold Improvements at cost	10%
Furniture and Equipment	20%
Website at cost	20%

(i) Management fees

Management fees comprise amounts received from members to manage and pay expenses for and on behalf of the Commercial Crime Fund.

(j) Investment income

Investment income consists of interest which is recognised on a time-proportionate basis that takes into account the effective interest rate on the financial asset and movements in unit values in cash and fixed interest funds which are carried at fair value through the Statement of Comprehensive Income.

(k) Premiums

Premiums comprise amounts charged to members of the Schemes for policy cover, net of amounts returned to members as bonuses. The earned portion of premiums received is recognised as revenue. Premiums are treated as earned from date of attachment of risk. The pattern of recognition over the policy is based on time, which is considered to closely approximate the pattern of risks undertaken.

(l) Premiums in advance

During the month of June each year, the Liability Mutual Insurance Scheme issued premium notices to Scheme members. The risk attaches to the premiums in the next accounting period and accordingly the revenue is recognised each following year commencing 1 July. Prior to each balance date members have committed to participate in either the Scheme or the Fund for the ensuing year and accordingly the premiums are disclosed in the Statement of Financial Position as "premiums receivable" with an offsetting liability described as "premiums in advance".

(m) Claims

Claims-incurred expense and liability for outstanding claims are recognised in respect of direct business. The liability covers claims incurred but not yet paid, incurred but not yet reported claims, and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by reviewing individual claim files and estimating claims not notified and settlement costs using statistical and actuarial techniques. The liability for outstanding claims is measured as the present value of the expected future payments, reflecting the fact that all the claims do not have to be paid out in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and superimposed inflation. Advice from the MAV's actuary has estimated superimposed inflation to be 1.5% per annum (2019: 1.5%) for personal injury non large claims and the discount rate at 0.63% (2019: 1.17%).

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

(n) Investments

Investments are valued at fair value at balance date. Investment income includes interest received and receivable on investments and changes in fair values of investments in cash and fixed interest funds.

(o) Cash flows

For the purposes of the Statement of Cash Flows, cash includes cash on hand and deposits held at call with banks net of outstanding bank overdrafts.

(p) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not paid, claims incurred but not reported and unexpired risk liabilities are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(q) Revenue recognition

Revenue is recognised at a point in time, or over time, when (or as) the performance obligation is satisfied. Recognition is based on the underlying contractual terms. The following specific recognition criteria must also be met before revenue is recognised.

- (i) Premiums - recognised in the period the fund is at risk.
- (ii) Future reinsurance and other Recoveries - on an accruals basis.
- (iii) Investment Income - on an accruals basis including adjustments made to account for changes in the value of cash backed unit trusts to account as investment income.
- (iv) Performance bonus - on an accruals basis when firm evidence is available confirming the amount and indicating payment.

(r) Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(s) Reinsurance Expense

Reinsurance expense relates to insurance premiums paid to reinsurers in accordance with the established reinsurance strategy of the entity and in order to protect the Insurance businesses from catastrophic and unforeseen claims.

(t) Fair Value Measurement

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the MAV determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. MAV does not have any level 3 financial assets.

Cash and cash equivalents is considered level 1 financial assets.

(u) Impact of COVID 19 pandemic on MAV's Insurance operations and 2019-20 financial report

On 30 January 2020, COVID 19 was declared as a global pandemic by the World Health Organisation. Since then, various measures have been taken by all three levels of Government in Australia to reduce the spread of COVID-19. The MAV has been instrumental in proactively engaging with federal and state governments and advocating on behalf of members during this time, whilst performing all activities remotely since late March 2020, including staff working from home. This situation and the measures introduced has been assessed as follows for MAV Insurance for the financial year ended 30 June 2020:

- (i) There has been no material impact on insurance experience that was allowed for in the setting of premiums for 2020-21. If restrictions were to continue there could be a mixed impact on costs, putting upward pressure on some claim types and downwards on others.
- (ii) Restrictions on travel have resulted in reduced travel, motor vehicle and accommodation expenditure since March 2020 for MAV Insurance as face-to-face meetings have been replaced by online meetings

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

		COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	NOTE	2020	2019	2020	2019	2020	2019
		\$	\$	\$	\$	\$	\$
3. REVENUE FROM ORDINARY ACTIVITIES							
REVENUES FROM OPERATING ACTIVITIES							
Premiums		26,480,386	22,634,305	26,480,386	22,634,305	-	-
Performance bonus	18	-	99,845	-	99,845	-	-
Reinsurance and other recoveries	2(p)	28,754,448	21,400,619	28,754,448	21,400,619	-	0
Management fees received		58,609	69,893	-	-	58,609	69,893
TOTAL REVENUE FROM OPERATING ACTIVITIES		55,293,443	44,204,662	55,234,834	44,134,769	58,609	69,893
REVENUES FROM NON-OPERATING ACTIVITIES							
Investment income		44,791	326,008	42,761	321,289	2,030	4,719
TOTAL REVENUE FROM OUTSIDE THE OPERATING ACTIVITIES		44,791	326,008	42,761	321,289	2,030	4,719
TOTAL REVENUE FROM ORDINARY ACTIVITIES		55,338,234	44,530,670	55,277,595	44,456,058	60,639	74,612
4(a) CLAIMS EXPENSES							
Paid		27,576,087	16,387,033	27,576,087	16,387,033	-	-
Outstanding claims at end of financial year	11(a) & 2(m)	114,179,145	109,087,626	114,179,145	109,087,626	-	-
Less: Outstanding claims at beginning of financial year		(109,087,627)	(101,804,456)	(109,087,627)	(101,804,456)	-	-
TOTAL CLAIMS EXPENSES		32,667,605	23,670,203	32,667,605	23,670,203	-	-
4(b) ADMINISTRATION & GENERAL EXPENSES							
The following items have been recognised in the operating surplus/(deficit):							
Administration		1,215,290	1,684,840	1,158,650	1,669,966	56,640	14,873
Actuary fees		115,659	163,480	115,659	163,480	-	-
Audit fees	5	163,820	206,535	163,820	206,535	-	-
Depreciation of furniture and equipment		-	-	-	-	-	-
Depreciation of leasehold improvements		-	-	-	-	-	-
Scheme management fees	6	2,926,288	3,459,144	2,926,288	3,383,344	-	75,800
Stamp duty		1,543,146	1,185,600	1,543,146	1,185,600	-	-
TOTAL EXPENDITURE		5,964,203	6,699,599	5,907,563	6,608,925	56,640	90,673
5. AUDIT FEES							
Amounts payable or due and payable for audit services:							
Audit of the entity		163,820	206,535	163,820	206,535	-	-
TOTAL AUDIT FEE		163,820	206,535	163,820	206,535	-	-
6. SCHEME MANAGEMENT FEES							
Included within administration and general expenses are management fees paid to the service provider for:							
Reinsurance placement		2,369,981	2,220,220	2,369,981	2,220,220	-	-
Risk management and administrative services		556,307	1,238,924	556,307	1,163,124	-	75,800
TOTAL SCHEME MANAGEMENT FEES		2,926,288	3,459,144	2,926,288	3,383,344	-	75,800

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

		COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	NOTE	2020	2019	2020	2019	2020	2019
		\$	\$	\$	\$	\$	\$
7. PROPERTY, FURNITURE AND EQUIPMENT							
Leasehold improvements - at cost		-	-	-	-	-	-
Less accumulated depreciation		-	-	-	-	-	-
Furniture and equipment - at cost		277,460	277,460	277,460	277,460	-	-
Less accumulated depreciation		(277,460)	(277,460)	(277,460)	(277,460)	-	-
TOTAL PROPERTY, FURNITURE AND EQUIPMENT		-	-	-	-	-	-
Reconciliations of the carrying amounts of property, furniture and equipment at the beginning and end of the financial year.							
LEASEHOLD IMPROVEMENTS							
Movements during the year							
Beginning of year		-	-	-	-	-	-
Additions		-	-	-	-	-	-
Disposals		-	-	-	-	-	-
Depreciation		-	-	-	-	-	-
End of year		-	-	-	-	-	-
PROPERTY, FURNITURE AND EQUIPMENT							
Movements during the year							
Beginning of year		-	-	-	-	-	-
Additions		-	-	-	-	-	-
Disposals		-	-	-	-	-	-
Depreciation		-	-	-	-	-	-

8. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents at balance date as shown in the Statement of Cash Flows are held in NAB cash deposits and are reconciled to the related items in the Statement of Financial Position as follows:

		COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	NOTE	2020	2019	2020	2019	2020	2019
		\$	\$	\$	\$	\$	\$
Cash and Cash Equivalents		1,258,143	3,242,187	1,126,735	3,115,258	131,408	126,929
(b) Reconciliation of Net Cash (Used In)/provided by Operating Activities to Operating Surplus/(Deficit)							
Surplus (deficit) for year		284,002	(1,850,511)	280,003	(1,834,450)	3,999	(16,061)
<u>Adjustments for:</u>							
Depreciation		-	-	-	-	-	-
Amortisation		-	-	-	-	-	-
Unrealised gains on investments		-	(273,642)	-	(273,642)	-	-
<u>Changes in assets and liabilities:</u>							
(Increase) in trade and other receivables	2(f)	(13,363,152)	(4,124,184)	(13,363,438)	(4,124,545)	286	361
Increase/(decrease) in trade and other payables		(3,664,275)	(15,225,692)	(3,664,469)	(15,093,498)	193	(132,194)
(Increase) in provision for reinsurance recoveries		(2,763,344)	(6,619,444)	(2,763,344)	(6,619,444)	-	-
(Decrease) in premiums in advance		12,431,208	3,946,082	12,431,208	3,946,082	-	-
Increase/(decrease) in outstanding claims	2(m)	5,091,517	7,283,171	5,091,517	7,283,171	-	-
NET CASH (USED IN) OPERATING ACTIVITIES		(1,984,044)	(16,864,221)	(1,988,523)	(16,716,327)	4,479	(147,894)

Notes to and forming part of the financial statements (continued)

for the year ended 30 June 2020

		COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	NOTE	2020 \$	2019 \$	2020 \$	2019 \$	2020 \$	2019 \$
9. TRADE AND OTHER RECEIVABLES							
Future reinsurance and other recoveries receivable	2(p)	116,598,543	115,587,303	116,598,543	115,587,303	-	-
Discount to present value		(2,513,842)	(4,265,946)	(2,513,842)	(4,265,946)	-	-
		114,084,701	111,321,357	114,084,701	111,321,357	-	-
Less provision for doubtful debts		-	-	-	-	-	-
Premiums receivable		42,692,225	29,238,425	42,692,225	29,238,425	-	-
Other receivables		59,541	150,189	59,396	149,758	145	432
		42,751,766	29,388,614	42,751,621	29,388,183	145	432
TOTAL RECEIVABLES		156,836,466	140,709,972	156,836,322	140,709,540	145	432
Represented By:							
CURRENT		66,468,706	58,036,544	66,468,562	58,036,112	145	432
NON-CURRENT		90,367,760	82,673,428	90,367,760	82,673,428	-	-
TOTAL		156,836,466	140,709,972	156,836,322	140,709,540	145	432

Reinsurance recoveries are due from reinsurers with S&P ratings of AA- and A. Other recoveries are due from unrated Local Authorities based in Victoria and Tasmania.

The ageing analysis of premiums receivable and other receivables are as follows:

	Total	<30 days	31 - 60 days	61 - 90 days	>90 days
2020					
Combined	42,751,766	42,751,766	-	-	-
Liability Mutual Insurance	42,751,621	42,751,621	-	-	-
Commercial Crime Fund	145	145	-	-	-
2019					
Combined	29,388,615	29,388,615	-	-	-
Liability Mutual Insurance	29,388,183	29,388,183	-	-	-
Commercial Crime Fund	432	432	-	-	-

All premiums receivable and other receivables are due from Local Authorities based in Victoria and Tasmania.

		COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	NOTE	2020 \$	2019 \$	2020 \$	2019 \$	2020 \$	2019 \$
10. PREMIUMS IN ADVANCE							
Contributions billed in advance	2(l)	39,011,594	26,580,386	39,011,594	26,580,386	-	-
11(a) OUTSTANDING CLAIMS							
Central estimate	2(m)	116,716,794	113,347,242	116,716,794	113,347,242	-	-
Discount to present value		(2,738,970)	(4,676,653)	(2,738,970)	(4,676,653)	-	-
Excesses and recoveries - Discount to present value		156,051	363,549	156,051	363,549	-	-
		114,133,875	109,034,138	114,133,875	109,034,138	-	-
Claims handling costs		45,270	53,488	45,270	53,488	-	-
Risk margin	11(b)	-	-	-	-	-	-
TOTAL OUTSTANDING CLAIMS		114,179,145	109,087,626	114,179,145	109,087,626	-	-
Comprising:							
CURRENT		19,189,697	25,208,001	19,189,697	25,208,001	-	-
NON-CURRENT		94,989,448	83,879,625	94,989,448	83,879,625	-	-
TOTAL OUTSTANDING CLAIMS		114,179,145	109,087,626	114,179,145	109,087,626	-	-

11(b) RISK MARGIN - PROCESS FOR DETERMINING RISK MARGIN

As at 30 June 2020, the MAV Insurance Board determined that the outstanding claims liability is to be held at the 50% probability of sufficiency on the basis of the non-discretionary mutual structure of the LMI Scheme. As a result, a 0% risk margin was applied to the central estimate (2019: 0%) to achieve the desired level of sufficiency. Please see Note 17.

11(c) COMBINED RECONCILIATION OF MOVEMENT IN DISCOUNTED OUTSTANDING CLAIMS LIABILITY

	2020			2019		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
Outstanding claims brought forward	109,087,627	111,321,357	(2,233,731)	101,804,456	104,701,920	(2,897,458)
Changes in assumptions	27,576,087	28,215,621	(639,535)	16,387,032	15,195,360	1,191,672
Increase in claims incurred/recoveries anticipated	5,091,518	538,827	4,552,691	7,283,170	6,205,259	1,077,911
Included claims recognised in income statement	32,667,605	28,754,448	3,913,157	23,670,202	21,400,619	2,269,583
Claim payments during the year	(27,576,087)	(25,991,105)	(1,584,982)	(16,387,032)	14,781,175	(1,605,857)
Outstanding claims carried forward	114,179,145	114,084,701	94,444	109,087,626	111,321,357	(2,233,731)
Debtor Excesses and Reinsurance Recoveries on Paid Claims	-	4,918,613	(4,918,613)	-	(3,514,475)	3,514,475
TOTAL NET OUTSTANDING CLAIMS	114,179,145	109,166,088	5,013,056	109,087,626	107,806,882	1,280,744

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

12. NET CLAIMS INCURRED

	2020			2019		
	Current Year \$	Prior Year \$	Total \$	Current Year \$	Prior Year \$	Total \$
COMBINED						
Gross claims and related expenses – undiscouted	25,006,938	5,930,482	30,937,420	23,445,320	(4,332,338)	19,112,982
Discount	(668,831)	2,399,016	1,730,185	(1,108,451)	5,665,672	4,557,221
Gross Claims and related expenses – discounted	24,338,108	8,329,497	32,667,605	22,336,869	1,333,334	23,670,203
Reinsurance and other recoveries – undiscouted	(17,892,661)	(8,615,829)	(26,508,491)	(18,769,120)	2,795,477	(15,973,643)
Discount	(2,346,711)	100,753	(2,245,958)	(1,684,567)	(3,742,409)	(5,426,976)
Reinsurance and other recoveries – discounted	(20,239,372)	(8,515,076)	(28,754,448)	(20,453,687)	(946,932)	(21,400,619)
NET CLAIMS INCURRED	4,098,736	(185,579)	3,913,157	1,883,182	386,402	2,269,584

	2020			2019		
	Current Year \$	Prior Year \$	Total \$	Current Year \$	Prior Year \$	Total \$
LIABILITY MUTUAL INSURANCE						
Gross claims and related expenses – undiscouted	25,006,938	5,930,482	30,937,420	23,445,320	(4,332,338)	19,112,982
Discount	(668,831)	2,399,016	1,730,185	(1,108,451)	5,665,672	4,557,221
Gross Claims and related expenses – discounted	24,338,107	8,329,498	32,667,605	22,336,868	1,333,335	23,670,203
Reinsurance and other recoveries – undiscouted	(17,892,661)	(8,615,829)	(26,508,491)	(18,769,120)	2,795,477	(15,973,643)
Discount	(2,346,711)	100,753	(2,245,958)	(1,684,567)	(3,742,409)	(5,426,976)
Reinsurance and other recoveries – discounted	(20,239,372)	(8,515,076)	(28,754,448)	(20,453,687)	(946,932)	(21,400,619)
NET CLAIMS INCURRED	4,098,736	(185,579)	3,913,157	1,883,182	386,402	2,269,584

	2020			2019		
	Current Year \$	Prior Year \$	Total \$	Current Year \$	Prior Year \$	Total \$
COMMERCIAL CRIME FUND						
Gross claims and related expenses – undiscouted	-	-	-	-	-	-
Discount	-	-	-	-	-	-
Gross Claims and related expenses – discounted	-	-	-	-	-	-
Reinsurance and other recoveries – undiscouted	-	-	-	-	-	-
Discount	-	-	-	-	-	-
Reinsurance and other recoveries – discounted	-	-	-	-	-	-
NET CLAIMS INCURRED	-	-	-	-	-	-

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

13. CLAIMS DEVELOPMENT TABLE

ACCIDENT YEAR	2016	2017	2018	2019	2020	Total
	\$	\$	\$	\$	\$	\$
GROSS ESTIMATE OF ULTIMATE CLAIMS COST -						
LIABILITY MUTUAL INSURANCE						
At end year of accident	22,303,614	20,097,434	21,743,945	22,793,891	24,705,870	
One year later	20,487,169	21,295,287	21,194,033	23,080,037		
Two years later	18,332,131	20,143,548	21,196,000			
Three years later	17,579,579	18,803,428				
Four years later	23,198,558					
Current estimate of cumulative claims cost	23,198,558	18,803,428	21,196,000	23,080,037	24,705,870	110,983,893
Cumulative payments	(8,227,244)	(4,609,804)	(2,711,017)	(578,488)	(379,569)	(16,506,122)
Outstanding claims – undiscounted	14,971,314	14,193,624	18,484,983	22,501,549	24,326,301	94,477,771
Discount						(2,090,309)
Claims handling expense						31,569
2015 and prior						21,760,114
LIABILITY MUTUAL INSURANCE – TOTAL GROSS OUTSTANDING CLAIMS						114,179,145
	11(c)					
NET ESTIMATE OF ULTIMATE CLAIMS COST -						
LIABILITY MUTUAL INSURANCE						
At end year of accident	3,710,694	3,367,525	35,959	1,278,911	3,851,527	
One year later	3,740,554	68,793	47,759	1,300,067		
Two years later	90,797	174,862	107,740			
Three years later	335,276	263,365				
Four years later	457,093					
Current estimate of cumulative claims cost	457,093	263,365	107,740	1,300,067	3,851,527	5,979,792
Cumulative payments	(2,008,833)	(944,863)	(547,373)	(332,364)	(246,081)	(4,079,513)
Outstanding claims - undiscounted	(1,551,740)	(681,498)	(439,632)	967,703	3,605,446	1,900,279
Discount						(69,077)
Claims handling Expense						31,569
2015 and prior						(1,768,327)
LIABILITY MUTUAL INSURANCE - NET OUTSTANDING CLAIMS						94,444
	11(c)					
Debtor Excesses and Reinsurance Recoveries on Paid Claims						4,918,612
TOTAL NET OUTSTANDING CLAIMS						5,013,056
	11(c)					

These tables show the trend in the balance of outstanding claims.

14. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group's exposure to interest rate risk and the effective average interest rate for the classes of financial assets is set out below:

		COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		Non- Interest Earning	Floating Interest Rate	Non- Interest Earning	Floating Interest Rate	Non – Interest Earning	Floating Interest Rate
		\$	\$	\$	\$	\$	\$
2020							
FINANCIAL ASSETS							
Cash and cash equivalents	5	-	1,258,143	-	1,126,735	-	131,408
Investments		-	-	-	-	-	-
Trade and other receivables	9	156,836,322	145	156,836,322	-	-	145
TOTAL FINANCIAL ASSETS		156,836,322	1,258,288	156,836,322	1,126,735	-	131,553
Weighted Average Interest Rate			0.3%		0.3%		0.8%
FINANCIAL LIABILITIES							
Outstanding claims	11(a)	114,179,145	-	114,179,145	-	-	-
Unearned premiums/subscriptions	10	39,011,594	-	39,011,594	-	-	-
Trade and other payables		4,703,104	-	4,678,477	-	24,627	-
TOTAL FINANCIAL LIABILITIES		157,893,842	-	157,869,215	-	24,627	-
Weighted Average Interest Rate			0.0%		0.0%		0.0%

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

14. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	Non- Interest Earning	Floating Interest Rate	Non- Interest Earning	Floating Interest Rate	Non – Interest Earning	Floating Interest Rate
	\$	\$	\$	\$	\$	\$
2019						
FINANCIAL ASSETS						
Cash and cash equivalents	-	3,242,187	-	3,115,258	-	126,929
Investments	-	-	-	-	-	-
Trade and other receivables	140,709,972	-	140,709,540	-	432	-
TOTAL FINANCIAL ASSETS	140,709,972	3,242,187	140,709,540	3,115,258	432	126,929
Weighted Average Interest Rate		2.8%		2.8%		2.3%
FINANCIAL LIABILITIES						
Outstanding claims	109,087,626	-	109,087,626	-	-	-
Unearned premiums/subscriptions	26,580,386	-	26,580,386	-	-	-
Trade and other payables	8,367,381	-	8,342,947	-	24,434	-
TOTAL FINANCIAL LIABILITIES	144,035,393	-	144,010,959	-	24,434	-
Weighted Average Interest Rate		0.00%		0.00%		0.00%

Investments are considered level 2 financial assets in accordance with AASB 13 (Fair Value Measurement). The carrying amounts of financial assets and financial liabilities represent their approximate fair value. All maturity dates are within twelve months.

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as at 30 June 2020. Cash flows for financial assets and liabilities without fixed amounts or timing are based on conditions existing at 30 June 2020.

The remaining contractual maturities of the financial liabilities are:

	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$
3 months or less	19,248,596	21,397,044	19,223,969	21,372,610	24,627	24,434
3-12 months	43,636,477	38,928,526	43,636,477	38,928,526	-	-
1-5 years	66,141,704	59,220,604	66,141,704	59,220,604	-	-
Over 5 years	31,449,984	28,802,326	31,449,984	28,802,326	-	-
	160,476,761	148,348,500	160,452,134	148,324,066	24,627	24,434

LIQUIDITY RISK

Maturity analysis of financial assets and liabilities based on management's expectation

The risk implied from the values in the table below, reflects a balanced view of cash inflows and outflows. These liabilities originate from insurance contracts and other financial assets used in the ongoing operations of the business. These assets are considered in the MAV's overall liquidity risk. To monitor existing financial assets and liabilities as well as to enable effective controlling of future risks, the MAV has established a comprehensive risk reporting covering its insurance business that reflects the management of settlement of financial assets and liabilities. Amounts are undiscounted.

Year ended 30 June 2020	<3 months	3-12 months	1-5 years	>5years	Total
	\$	\$	\$	\$	\$
COMBINED					
FINANCIAL ASSETS					
Cash and cash equivalents	1,258,143	-	-	-	1,258,143
Investments	-	-	-	-	-
Trade and other receivables	50,465,057	15,385,347	62,958,903	30,541,001	159,350,307
	51,723,200	15,385,347	62,958,903	30,541,001	160,608,451
COMBINED					
FINANCIAL LIABILITIES					
Outstanding claims	4,792,594	14,377,781	66,141,704	31,449,984	116,762,064
Unearned premiums/subscriptions	9,752,899	29,258,696	-	-	39,011,594
Trade and other payables	4,703,104	-	-	-	4,703,104
TOTAL FINANCIAL LIABILITIES	19,248,596	43,636,477	66,141,704	31,449,984	160,476,761
NET MATURITY	32,474,604	(28,251,130)	(3,182,802)	(908,983)	131,689

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

14. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

Year ended 30 June 2019	<3 months \$	3-12 months \$	1-5 years \$	>5years \$	Total \$
COMBINED FINANCIAL ASSETS					
Cash and cash equivalents	3,242,187	-	-	-	3,242,187
Investments	-	-	-	-	-
Trade and other receivables	37,582,795	20,037,326	58,834,581	28,521,648	144,976,350
	40,824,982	20,037,326	58,834,581	28,521,648	148,218,537
COMBINED FINANCIAL LIABILITIES					
Outstanding claims	6,384,567	18,993,236	59,220,604	28,802,326	113,400,733
Unearned premiums/subscriptions	6,645,097	19,935,290	-	-	26,580,387
Trade and other payables	8,342,947	-	-	-	8,342,947
TOTAL FINANCIAL LIABILITIES	21,372,611	38,928,526	59,220,604	28,802,326	148,324,067
NET MATURITY	19,452,371	(18,891,200)	(386,023)	(280,678)	(105,530)

Risk management objectives and policies for mitigating insurance risk

The MAV's local government mutual liability scheme (trading as Liability Mutual Insurance) is established by legislation contained in the *Municipal Association Act 1907*. Membership is available to local government councils and prescribed bodies. The Scheme operates in Victoria and Tasmania to provide services to members in respect of their potential and actual liabilities. A member may seek indemnity from the Scheme in respect of a claim.

Actuarial models, using information from the Scheme's management information systems are used to confirm contributions and monitor claim patterns. Past experience and statistical methods are used as part of the process.

The principal risk is that the frequency and severity of claims is greater than expected. Civil Liability Risk events are, by their nature, random, and the actual number and size of events during any one-year may vary from those estimated using established statistical techniques.

Objectives in managing risk arising from insurance and policies for mitigating those risks

The Scheme has an objective to control insurance risk thereby reducing the volatility of its operating surplus. In addition to the inherent uncertainty of civil liability risks, which can lead to variability in the loss experience, operating surpluses can also be affected by external factors, such as competition and movements in asset values.

The Scheme relies on a strong relationship with its members and actively encourages them to adopt practices of risk management that reduce the incidence of claims to the Scheme.

Reinsurance strategy

The Scheme adopts a conservative approach towards management of risk and does this by utilising various risk transfer options. The MAV Insurance Board determines the level of risk, which is appropriate for the Scheme having regard to ordinary concepts of prudence and regulatory constraints. The risk transfer arrangements adopted by the Scheme include the utilisation of commercial reinsurance / excess arrangements. These arrangements include constant review of both reinsurers' financial strength, and ensuring spread of risk among reinsurers who meet the requirements of the MAV insurance policies. These risk transfer arrangements assist the Scheme to limit exposures to large single claims and catastrophic events. These programs are reviewed each year to ensure that they continue to meet the risk needs of the Scheme. In 2018 the Scheme purchased retrospective re-insurance that fully reinsures all claims made against the Scheme up to 30 June 2018. Refer Note 20.

Terms and conditions of membership

Membership to the Scheme is offered to eligible bodies and renewed annually on 30 June. Payment of the annual contribution confirms continuation of membership. Termination of membership is subject to at least 14 days written notice of intention as laid out by the Scheme Rules.

Product features

The Scheme operates in Victoria and Tasmania. Should a claim be accepted the Scheme provides indemnity to the member in respect of its civil liabilities for \$600 million Public / Products Liability and \$600 million for Professional Indemnity insurance, in excess of any self-insured amount, for any claim incurred anywhere throughout the world.

Operating surpluses and deficits arise from the total contributions charged to members less the amounts paid to cover claims and the expenses incurred by the Scheme.

Management of risks

The key insurance risks that affect the Scheme are contribution risk, and claims experience risk.

Contribution risk is the risk that the Scheme does not charge contributions appropriate for the indemnity cover it provides. The Scheme manages contribution risk through its proactive approach to risk management that addresses all material risks both financial and non-financial. There are no specific terms and conditions that are expected to have a material impact on the financial statements.

Claims experience risk is managed through the non-financial risk assessment and risk management and reinsurance management process. Claims experience is monitored on an ongoing basis to ensure that any adverse trending is addressed. The Scheme is able to reduce the claims experience risk of severe losses through the reinsurance program, and by managing the concentration of insurance risks. LMI is a non-discretionary mutual fund which, under the Constitution has the ability to obtain contributions from members to pay liabilities and expenses.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

14. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

Concentration of insurance risks

Insurance risk is managed by taking a long term approach to setting the annual contribution rates that eliminates price fluctuations, through appropriate investment strategy, reinsurance and by maintaining an active state-wide risk management profile. The Scheme keeps abreast of changes in the general economic, legal and commercial environment in which it operates. The Scheme spreads its risk of reinsurance failure by ensuring reinsurers are of high financial quality and can meet their commitments to the MAV. The MAV maintains policies and strategies and receives advice from an independent actuary on at least an annual basis in order to determine the concentration and amount of risk exposure.

		CREDIT RATING						
		AAA +/- \$'000	AA +/- \$'000	AA- +/- \$'000	A \$'000	Speculative Grade \$'000	Not Rated \$'000	Total \$'000
Reinsurance and other recoveries on outstanding claims	2020	-	-	-	41,230	-	399.0	41,629
	2019	-	-	-	43,966	-	189.0	44,155
Reinsurance and other recoveries on paid claims	2020	-	-	-	2,373	-	-	2,373
	2019	-	-	-	1,333	-	-	1,333

		PAST DUE BUT NOT IMPAIRED						Total \$'000
		Neither past due nor impaired \$'000	Less than 3 months \$'000	3 to 6 months \$'000	6 months to 1 year \$'000	Greater than 1 year \$'000	Impaired \$'000	
Reinsurance and other recoveries on paid claims	2020	-	2,373	-	-	-	-	2,373
	2019	-	1,333	-	-	-	-	1,333

Credit risk

The Scheme is exposed to credit risk on insurance contracts as a result of exposure to reinsurers. The credit risk of reinsurers is managed through the Scheme's Reinsurance Management Strategy and policies that includes regularly monitoring both the financial rating of the reinsurers both prior to and during the reinsurance program and the flow of payments coming from the reinsurers. Investments in cash and cash equivalents at balance date as shown in the Statement of Cash Flows are held in S&P rated AA- and A- rated cash deposits.

Price risk

Investments held are not subject to price risk.

Interest rate risk

MAV Insurance is exposed to interest rate risk from its cash, cash equivalents and investments.

Variable	Current Rate	Change variable to +0.5%/-0.5% at 30 June 2020	Operating surplus (deficit) at 30 June 2020	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$
IMPACT OF CHANGES IN INTEREST RATE ON FINANCIAL ASSETS				
MAV INSURANCE				
Base value at 30 June 2020	0.3%		284,002	200,768
Interest Rate p.a.		0.8%	285,127	201,893
		-0.2%	282,877	199,643

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

15. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Scheme makes estimates and judgements in respect of certain key assets and liabilities. Estimates and judgements are continually reviewed and are based on past 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 and judgements are applied are described below.

(a) Estimation of outstanding claims liability

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported ("IBNR") to the Scheme. The Scheme takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome may be different from the original liability established.

Provisions are calculated gross of all recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers and any third party.

The determination of an appropriate outstanding claims provision involves:

- (i) Establishing a case estimate for each reported claim at year-end taking into account legal advice where appropriate on larger claims;
- (ii) Allowance for incurred but not reported claims as confirmed by the actuarial review on 30 June 2020;
- (iii) Allowances for claim inflation of 1.64%, as assumed by the Actuary;
- (iv) Allowances for discount at 0.63%, as assumed by the Actuary;
- (v) A risk margin of 0% of net outstanding claims after the effect of reinsurance has been applied, as assumed by the actuary.

Refer to Note 11 b) for details

Details of specific actuarial assumptions used in deriving the outstanding claims liability at year-end are detailed in note 16.

(b) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts were estimated for each fund year, from the payments to date and estimated outstanding claims history at 30 June 2020, taking into account the reinsurance terms applying to that fund year.

16. ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial assumptions

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

	2020	2019
Key actuarial assumptions		
Wage inflation	1.64%	2.64%
Claim administration expense	0.00%	0.00%
Discount rate	0.63%	1.17%
Risk margin	0.00%	0.00%
Superimposed inflation	1.50%	1.50%

Process used to determine actuarial assumptions

A description of the processes used to determine the above key actuarial assumptions is provided below:

Liability Mutual Insurance has provided public and professional indemnity insurance to local government bodies in Victoria and Tasmania and other bodies constituted under any Act for any public or local governing purpose since 30 September 1993. The Actuary was supplied with details of all transactions (payments, recoveries, changes of estimates) from 30 September 1993 to 30 June 2020. The individual claim payments and case estimates reconciled closely with totals in Liability Mutual Insurance financial statements for each year of cover. The actuary subdivided the claims data into four claim types (Public Liability - Personal Injury, Public Liability - Property Damage, Professional Indemnity and the 2009 Bushfire claims) and made separate estimates of the gross outstanding claims liabilities for each of these claim types. The actuary estimated the gross outstanding claims liabilities for each claim type using five different actuarial methods. Large claims (claims above \$250,000 in 2009 dollars) were estimated based on a numbers times average size method and non-large claims were estimated using four different actuarial methods- payments per claim incurred, payments per claim finalised, incurred cost development and projection of case estimates. The actuary selected a combination of these methods for estimating the outstanding claims. Payments were projected with a payment pattern, based on past experience. Estimates of outstanding excesses were based on a numbers times average size method and estimates of non reinsurance recoveries were made by a recoveries per claim method.

Estimates of reinsurance recoveries were made from projected gross payments, excesses and non reinsurance recoveries, allowing for the different insurance treaties applying to each year. Based on Access Economics June 2020 forecasts for Victorian average weekly wage inflation was assumed to be 1.64%. The discount rate was assumed to be 0.63% pa., derived from the yields on Commonwealth Government bonds.

The Actuary has assumed a risk margin of 0% of the net liabilities to give a probability of 50% that the provisions will prove adequate to meet the relevant liabilities.

VARIABLE	IMPACT OF MOVEMENT IN VARIABLE
Wage inflation	Expected future payments are inflated to take account of inflationary increases. An increase or decrease in the assumed levels of economic inflation would have a corresponding impact on claims expense, with particular reference to longer tail claims.
Discount rate	The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposing impact on total claims expense.
Case estimate development	Case estimates are initially established in accordance with established guidelines and by reference to the known facts. Where new information becomes available the initial case estimate will change. This development movement is applied to open claims and will have a corresponding impact on claims expense.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

16. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

Wage Inflation rate sensitivity

Expected future payments are inflated to take account of inflationary increases. An increase or decrease in the assumed levels of economic inflation would have a corresponding impact on claims expense, with particular reference to longer tail claims.

Variable	Current Rate	Change variable to +0.5%/-0.5%	Operating surplus (deficit) at 30 June 2020	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$
IMPACT OF CHANGES IN KEY VARIABLES				
LIABILITY MUTUAL INSURANCE				
Base value at 30 June 2020	1.64%		280,003	93,842
Wage inflation rate p.a.		2.14%	278,003	91,842
		1.14%	282,003	95,842

Discount rate sensitivity

The reinsurance indemnity contracts contain no clauses that expose the Scheme, directly to interest rate risk. The reinsurance contracts are long term arrangements, reviewed and payable annually.

Variable	Current Rate	Change variable to +0.5%/-0.5%	Operating surplus (deficit) at 30 June 2020	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$
IMPACT OF CHANGES IN DISCOUNT RATES				
LIABILITY MUTUAL INSURANCE				
Base value at 30 June 2020	0.63%		280,003	93,842
Discount rate p.a.		1.13%	363,003	176,842
		0.13%	197,003	10,842

Claims handling sensitivity

Future claims handling expenses represent administrative costs relating to the payment of claims incurred to date.

Variable	Current Rate	Change to the Current Rate +1.0%/-1.0%	Operating surplus (deficit) at 30 June 2020	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$
IMPACT OF CHANGES IN KEY VARIABLES				
LIABILITY MUTUAL INSURANCE				
Base value at 30 June 2020	0.0%		280,003	93,842
Claim administration expense		1.0%	(814,997)	(1,001,158)
		-1.0%	1,375,003	1,188,842

17. CAPITAL MANAGEMENT OBJECTIVES AND ECONOMIC DEPENDENCY

The MAV is specifically excluded from the provisions of the Insurance Act and from APRA regulation. There is no externally imposed capital requirement on the MAV. The MAV's capital management philosophy is focused on capital efficiency and effective risk management to support a progressive business model for the benefit of members of both LMI and the Commercial Crime Fund. The Board of directors and management have in place a strategic plan that is aligned to achieving the MAV's capital management philosophy with an objective to remain in surplus. Key elements of this plan include premium setting, risk management, claims management and reinsurance management. Key elements of the capital management plan include a review of the investment strategy and establishing increased flexibility in the Scheme cost structures.

The MAV operates LMI which is a non-discretionary mutual fund, and under Sections 6.4 and 6.5 of the Constitution the MAV has the ability to obtain contributions from members to meet any shortfall in the Provision set aside in respect of that insurance year.

Section 6.4 of the Constitution, states that each Participant (member) will remain liable to make further contributions to the Scheme in respect of any insurance year in which it was a participant to the extent of its participant's share of any shortfall in the provision set aside in respect of that insurance year, and such liability will continue whether or not the Participant remains a Participant in future insurance years.

18. PERFORMANCE BONUS

The Liability Insurance Mutual Scheme, in conjunction with similar Local Government Self Insured Mutual Liability Schemes around Australia has entered into a profit sharing arrangement with its primary reinsurers, based on the National Local Government claims experience. The arrangement enables any surplus of reinsurance premium over the amount of claims paid for each year over the five-year reinsurance period to be shared between the various Schemes and the reinsurers on a proportional basis. The last year the arrangement relates to is 2007-08. There are no known expected future performance payments expected. No performance bonus was received during the year (2019 \$99,845).

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

19. CONTINGENT LIABILITY

During the normal course of business, the Scheme may be exposed to contingent liabilities from litigation arising from its insurance and reinsurance activities, which if they should crystallise may adversely affect the financial position and performance of MAV. Provisions are made for obligations that are probable and able to be quantified.

In June 2014, MAV Insurance committed to purchasing retrospective stop-loss reinsurance for the 2009 and 2011 financial years.

The policies provide coverage for the first \$1 million in claim costs with a cap of \$5 million in the aggregate in each of the years. The Liability Mutual Insurance Scheme benefits from the 2009 policy when aggregate claim costs below \$1 million reach \$22 million and the 2011 policy provides coverage when aggregate claim costs reach \$20 million. The effect of the policies is to provide additional protection to the Scheme from adverse development of claim costs below \$1 million. The reinsurance policies commenced at the close of business on 30 June 2014. No other material contingent liabilities have arisen in the year ended 30 June 2020.

20. PURCHASE OF RETROSPECTIVE INSURANCE COVER - LIABILITY MUTUAL INSURANCE SCHEME

The MAV has purchased retrospective reinsurance cover on the net amount of all MAV Insurance outstanding net claims liabilities from 30 June 2018 for the 2008/2009 to 2017/2018 accident years incurred up to 30 June 2018. The coverage has a retrospective date of 30 June 2018. The MAV authorised management to negotiate the retrospective coverage on 8 June 2018. Subsequent to this, MAV received an offer to purchase retrospective coverage on 30 August 2018. The MAV Board endorsed the purchase of coverage on 14 September 2018 and a contract was signed on 18 September 2018. The discounted net amount of claims reinsured was \$21.7 million. A premium of \$20 million has been agreed with a single reinsurer which has an S&P credit rating of A+. The premium amount was paid quarterly on 1 October, 2018, 1 January 2019, 1 April 2019 and 1 July 2019.

21. RELATED PARTIES

The MAV is a body corporate established under the *Municipal Association Act of 1907* to provide services for and represent Local Government authorities in Victoria. The MAV and its wholly owned controlled entities trade with its members in the normal course of business and on an arm's length basis. The Deed of Establishment provides for the MAV to appoint a Committee of Management (MAV Insurance Board) to be responsible for the administration of the Scheme. Total expenses of \$510,000 (2019 \$500,000) were payable to the MAV being payment for administrative support, and overseeing the management of the insurance activities, including the conduct of bi-monthly Board meeting. The MAV pays insurance premiums to the Liability Mutual Insurance Scheme \$22,036 (2019 \$22,036) and to the Commercial Crime Fund \$10,764 (2019 \$10,764). Other than this, there were no other related party transactions.

Board members during the year

R. Spence (Independent Chair)
 Cr. C. Ross (MAV President)
 M. Guilmartin (Independent)
 J. Bennie (Greater Dandenong City Council - Chief Executive Officer)
 Dr. K. Stephenson (LGAT - Chief Executive Officer)
 K. Thompson (MAV - Chief Executive Officer)
 Cr. M. Emerson (MAV Board Representative)
 A. Paul (Clarence City Council - General Manager) Retired 7 July 2019
 K. Williams (Independent) From 1 November 2019
 K. Reid (Independent) From 1 November 2019
 P. Woodhouse (Independent) From 1 November 2019
 B. Richards (Independent) From 1 November 2019

Key management personnel remuneration

Independent Board members receive meeting fees. The key management person is the MAV Chief Executive Officer.

	Annual Meeting Allowance		COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2020	2019	2020	2019	2020	2019	2020	2019
Chairperson	\$ 25,000							
Independent Board members	\$ 15,000							
Short-term remuneration of MAV Insurance Board and key management personnel (Cost of key management personnel is recovered by the MAV)	\$ 181,110	\$ 144,528	\$ 181,110	\$ 144,528				
Post employment benefits	\$ 9,310	\$ 8,720	\$ 9,310	\$ 8,720				

Loans to MAV Insurance Board members

No loans were made to or are payable by Insurance Board Members during the year.

Other transactions

There were no other material transactions with Insurance Board Members.

Insurance

The activities of the MAV Insurance Board members are covered by the MAV directors and officers indemnity insurance policy effected by the MAV.

22. SUBSEQUENT EVENTS

There were no material events subsequent to the year end that require reporting.

Statement by the MAV Insurance Board

As at 30 June 2020

In the opinion of the members of the MAV Insurance Board:

- (a) the financial statements and notes of the combined entity are drawn up so as to present fairly in all material respects the results of Liability Mutual Insurance and the Commercial Crime Fund for the year ended 30 June 2020
- (b) the accompanying Statement of Financial Position is drawn up so as to present fairly in all material respects the state of affairs of Liability Mutual Insurance and the Commercial Crime Fund as at that date
- (c) at the date of this statement there are reasonable grounds to believe that Liability Mutual Insurance and the Commercial Crime Fund will be able to pay its debts as and when they fall due
- (d) the financial statements and notes also comply with the International Financial Reporting Standards as disclosed in note 2 (b).

The financial statements have been made out in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.

On behalf of the MAV Insurance Board

Rob Spence
MAV Insurance Board Chairman




Chief Executive Officer - Municipal Association of Victoria

Melbourne
28/09/2020

STATEMENT BY DIRECTORS

In accordance with a resolution of the directors of the Municipal Association of Victoria, we state that:

In the opinion of the Directors:

- (a) the accompanying Statement of Comprehensive Income is drawn up so as to present fairly in all material respects the result of the association for the year ended 30 June 2020
- (b) the accompanying Statement of Financial Position is drawn up so as to present fairly in all material respects the state of affairs of the association as at that date
- (c) at the date of this statement there are reasonable grounds to believe that the association will be able to pay its debts as and when they fall due
- (d) the accompanying Combined Financial Statements present fairly in all material respects the state of affairs of the association as at that date
- (e) the financial statements and notes also materially consistent with the international financial reporting standards as disclosed in note 2(b).

The financial statements and combined financial statements have been made out in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.

Signed in accordance with the resolution of Directors.



Cr. Coral Ross
President



Cr. Mike Symon
Director



Kerry Thompson
Chief Executive Officer

Melbourne
2/10/2020

OTHER INFORMATION

Legal form:

MAV Insurance is the insurance division of the MAV. The MAV is an association incorporated by the *Municipal Association of Victoria Act 1907*.

Domicile:

Melbourne, Australia

Address of registered office:

Level 12, 60 Collins Street, Melbourne, 3000, Australia

Principal place of business:

Level 11, 60 Collins Street, Melbourne, 3000, Australia

Nature of the operation and principal activities:

The MAV has the power provided to it by the *Municipal Association of Victoria Act 1907* to establish Liability Mutual Insurance and the Commercial Crime Fund in order to provide public liability, professional indemnity and fidelity insurance to Local Government and Water Authorities.

Number of employees

Nil

MAV WorkCare Financial Report 2019-20



8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67
Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Independent auditor's report to the members of MAV WorkCare

Opinion

We have audited the financial report of MAV WorkCare (the "Scheme"), which comprises the statement of financial position as at 30 June 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the statement by directors.

In our opinion, MAV WorkCare's financial report presents fairly, in all material respects, the financial position of the Scheme as at 30 June 2020, and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Scheme in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Capital Management and Economic Dependency, Risk Margin and Renewal of WorkSafe License

We draw attention to:

Note 17 of the financial statements which describes the capital management plan of MAV WorkCare with respect to achieving an operating surplus, which has been impacted by investment performance in the current year;

Note 11(a) and 11(b) of the financial statements which details the valuation of the outstanding claims liability as at 30 June 2020, to which a 0% risk margin has been applied to the central case estimate.

Note 21 of the financial statements which describes the intent of Work Safe Victoria to refuse MAV's application for a self-insurer license renewal beyond the initial three-year period expiring on 31 October 2020.

Our opinion is not qualified in respect of the above matters.

Responsibilities of the Directors for the Financial Report

The directors of the Scheme are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.



Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

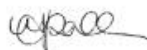
As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Ernst & Young



Maree Pallisco
Partner
Melbourne

2 October 2020

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

Statement of Comprehensive Income

For the year ended 30 June 2020

		2020	2019
		\$	\$
	NOTE		
Premium revenue	3	16,494,548	15,301,829
Re-insurance expense		(1,051,955)	(957,917)
NET PREMIUM INCOME		15,442,593	14,343,912
Claims expense	4(a)	(15,129,900)	(14,360,196)
Reinsurance and other recoveries	3	2,302,375	1,229,509
NET CLAIMS EXPENSE		(12,827,525)	(13,130,687)
NET UNDERWRITING RESULT		2,615,068	1,213,225
Net investment gain (loss)	3	(2,174,495)	51,653
Administration and general expenses	4(b)	(5,152,469)	(3,542,059)
OPERATING (DEFICIT)		(4,711,895)	(2,277,181)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE (DEFICIT) FOR THE YEAR		(4,711,895)	(2,277,181)

The accompanying notes form an integral part of these statements.

Statement of Financial Position

as at 30 June 2020

		2020	2019
		\$	\$
	NOTE		
CURRENT ASSETS			
Cash and cash equivalents		11,781,440	30,902,878
Investments		52,098,906	45,532,165
Trade and other receivables	9	16,547,315	5,963,774
Prepayments and deposits		2,545,663	1,766,595
TOTAL CURRENT ASSETS		82,973,324	84,165,412
NON-CURRENT ASSETS			
Trade and other receivables	9	4,794,909	2,764,164
Motor vehicles, furniture and equipment	7	22,625	27,930
TOTAL NON-CURRENT ASSETS		4,817,534	2,792,094
TOTAL ASSETS		87,790,858	86,957,506
CURRENT LIABILITIES			
Trade and other payables		3,196,290	2,110,579
MAV subordinate loan	20	4,000,000	4,000,000
Premiums in advance	10	20,786,720	16,726,219
Provision for employee entitlements		44,182	20,240
Outstanding claims	11(a)	13,674,968	11,774,664
TOTAL CURRENT LIABILITIES		41,702,160	34,631,702
NON-CURRENT LIABILITY			
Provision for employee entitlements		12,482	2,196
Outstanding claims	11(a)	55,414,988	56,950,484
TOTAL NON-CURRENT LIABILITY		55,427,470	56,952,680
TOTAL LIABILITIES		97,129,630	91,584,382
NET LIABILITIES		(9,338,771)	(4,626,876)
EQUITY		(9,338,771)	(4,626,876)

Statement of Changes in Equity

For the year ended 30 June 2020

	2020 \$	2019 \$
RETAINED EARNINGS		
Balance at the Beginning of the year	(4,626,876)	(2,349,695)
(Deficit) from ordinary activities	(4,711,895)	(2,277,181)
BALANCE AT END OF YEAR	(9,338,771)	(4,626,876)

Statement of Cash Flows for the year ended 30 June 2020

CASH FLOW FROM OPERATING ACTIVITIES

	NOTE	2020 \$	2019 \$
RECEIPTS			
Premiums and fees		11,327,874	28,178,843
Interest and investment gain (loss)		(2,248,341)	484,169
PAYMENTS			
Suppliers		(6,865,629)	(6,518,315)
Claim payments		(14,765,089)	(13,192,743)
NET CASHFLOWS FROM OPERATING ACTIVITIES	8(b)	(12,551,185)	8,951,954
CASH FLOW FROM INVESTING ACTIVITY			
Proceeds from sale of fixed assets		-	-
Payments for fixed assets and intangibles		(3,512)	(981)
Receipts from (Payments to) investment activities		(6,566,741)	12,379,376
NET CASH FROM (USED) IN INVESTING ACTIVITIES		(6,570,253)	12,378,395
NET INCREASE (DECREASE) IN CASH HELD		(19,121,438)	21,330,349
Cash at beginning of year		30,902,878	9,572,530
CASH AT END OF YEAR	8(a)	11,781,440	30,902,878

The accompanying notes form an integral part of these statements.

Notes to and forming part of the financial statements

For the year ended 30 June 2020

1. CORPORATE INFORMATION

The financial report of MAV WorkCare (the Scheme) for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the directors of the Municipal Association of Victoria (MAV) on the date shown on the attached Statement by Directors.

MAV WorkCare is the workers' compensation insurance division of the MAV. This division commenced business on 1 November 2017. The MAV is an association incorporated by an Act of the Parliament of Victoria known as the *Municipal Association Act 1907*.

The nature of the operations and principal activities of MAV WorkCare is the provision of workers compensation insurance for its members and other Local Government Authorities. The MAV is specifically named in the *Workplace Injury Rehabilitation and Compensation Act 2013* (Vic) (WIRC Act) as an entity that can hold a self-insurance licence for the benefit of its members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards and Interpretations which became effective during the year.

<u>Reference</u>	<u>Title Summary</u>	<u>Application Date of Standard</u>	<u>Impact on MAV Financial Report</u>	<u>Application Date</u>
AASB 1058	Income of Not-for-Profit Entities	1 January 2019	Minimal impact. Most revenue assessed as under agreement (contract) - See AASB 15.	1 July 2019
AASB 15	Revenue from Contracts with Customers	1 January 2019	Minimal impact. See note 2(o).	1 July 2019

Accounting Standards and Interpretations issued but not yet effective.

<u>Reference</u>	<u>Title Summary</u>	<u>Application Date of Standard</u>	<u>Impact on MAV Financial Report</u>	<u>Application Date for MAV</u>
IFRS 17	Insurance Contracts	1 January 2023	IFRS 17 does not apply to not for profit public sector entities. The application and date for application is still to be determined by the AASB for not-for-profit public sector entities such as the MAV.	N/A

(a) Basis of preparation

The financial report is a general purpose financial report which has been drawn up in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, and having regard to the financial reporting requirements of the *Financial Management Act 1994*.

The principal accounting policies adopted in preparing the financial report are stated to assist in a general understanding of the financial report. Accounting policies have been consistently applied unless otherwise indicated.

The financial report is presented in Australian dollars. MAV WorkCare is a Not for Profit entity.

The accounts have been prepared on the accruals basis using historical costs and, except where stated, do not take into account current valuations of assets.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, is materially consistent with the International Financial Reporting Standards (IFRS).

(c) Income tax

The MAV is a State and Territory Body (STB) and is exempt from income tax, in accordance with Division 1AB of Part III of the *Income Tax Assessment Act 1997*.

(d) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(e) Trade and other receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised where there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue, other than outstanding reinsurance recoveries, are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(f) Trade and other payables

Trade and other payables are carried at amortised cost and, due to their short term nature, are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

Notes to and forming part of the financial statements

For the year ended 30 June 2020

(g) Motor Vehicles, Furniture and Equipment

Motor vehicles, Furniture and Equipment are carried at cost, less where applicable, accumulated depreciation and impairment.

On disposal of an item of motor vehicles, furniture and equipment the difference between the sales proceeds and the carrying amount of the asset is recognised as a gain or loss.

All fixed assets are depreciated/amortised on a straight line basis over their estimated useful lives to the entity commencing from the time the asset is held ready for use.

The following depreciation and amortisation rates are in use:

	Annual Rate
Motor Vehicles	20%
Furniture and Equipment	33%

(h) Investment income

Investment income consists of interest which is recognised on a time-proportionate basis that takes into account the effective interest rate on the financial asset and movements in unit values in cash and fixed interest funds which are carried at fair value through the Statement of Comprehensive Income.

(i) Premiums

Premiums comprise amounts charged to members of the Scheme for policy cover, net of amounts returned to members as bonuses. The earned portion of premiums received is recognised as revenue. Premiums are treated as earned from date of attachment of risk. The pattern of recognition over the policy is based on time, which is considered to closely approximate the pattern of risks undertaken.

(j) Premiums in advance

During the month of June each year, the Scheme issues premium notices to Scheme members. The risk attaches to the premiums in the next accounting period and accordingly the revenue is recognised each following year commencing 1 July. Members have committed to participate in the Scheme for the three year licence period and accordingly the premiums are disclosed in the Statement of Financial Position as "premiums receivable" with an offsetting liability described as "premiums in advance".

(k) Claims

Claims-incurred expense and liability for outstanding claims are recognised in respect of direct business. The liability covers claims incurred but not yet paid, incurred but not yet reported claims, and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by reviewing individual claim files and estimating claims not notified and settlement costs using statistical and actuarial techniques. The liability for outstanding claims is measured as the present value of the expected future payments, reflecting the fact that all the claims do not have to be paid out in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and superimposed inflation. Advice from the MAV's actuary has estimated superimposed inflation for weekly, medical and other payments to be 1.2% per annum and for Common Law payments to be 3.2% per annum. The discount rate has been estimated at 1.05%.

Superimposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury. The expected future payments are then discounted to a present value at the reporting date using discount rates based on the investment opportunities available to the organisation on the amounts of funds sufficient to meet claims as they become payable. Details of rates applied are disclosed in note 16.

(l) Investments

Investments are valued at fair market value at balance date. Investment income includes gains and losses on investments and changes in net market values of investments in cash and fixed interest funds. Investments include term deposits with a maturity of greater than 90 days on placement.

(m) Cash flows

For the purposes of the Statement of Cash Flows, cash includes cash on hand and deposits held at call with banks.

(n) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not paid, claims incurred but not reported and unexpired risk liabilities are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(o) Revenue recognition

Revenue is recognised at a point in time, or over time, when (or as) the performance obligation is satisfied. Recognition is based on the underlying contractual terms. The following specific recognition criteria must also be met before revenue is recognised.

- (i) Premiums - recognised in the period the fund is at risk
- (ii) Future reinsurance and other Recoveries - on an accruals basis
- (iii) Investment Income - on an accruals basis including adjustments made to account for changes in the value of cash backed unit trusts to account as investment income.

(p) Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(q) Reinsurance Expense

Reinsurance expense relates to insurance premiums paid to reinsurers in accordance with the established reinsurance strategy of the entity and in order to protect the Insurance businesses from catastrophic and unforeseen claims.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

(r) Fair Value Measurement

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the MAV determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. MAV does not have any level 3 financial assets.

Investments represent holdings in managed investment funds that are not traded in a market considered active. The fair value of these assets is regularly revalued by the Investment Manager based on observable inputs or derivable from observable inputs. These are considered level 2 financial assets. The carrying amounts of financial assets and financial liabilities represent their approximate net fair value. All maturity dates are within twelve months. For the purpose of fair value disclosures, the MAV has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

<u>2020</u>	Level 1	Level 2	Level 3	Total
Investments	-	52,098,906	-	52,098,906
Total	-	52,098,906	-	52,098,906
<u>2019</u>				
Investments	-	45,532,165	-	45,532,165
Total	-	45,532,165	-	45,532,165

(s) Establishment of the MAV WorkCare Self-Insurance Scheme

Under the *Accident Compensation Act 1985* the MAV is specifically named as a body that can apply for a Workers' Compensation Self-Insurance Licence. Since 2015 the MAV has been working to establish the MAV WorkCare Scheme. In that time significant work has been completed on the organisational and financial structure of the Scheme, improving members Occupational Health & Safety systems and providing WorkSafe Victoria with a target for the members to achieve one hundred percent conformance to the National Audit Tool by the end of the first licence period of three years. On 3 May 2017, WorkSafe Victoria approved the MAV as a self-insurer for a period of three years commencing from 4pm on 1 November 2017. MAV completed all conditions precedent and all pre-commencement action items to the satisfaction of WorkSafe Victoria and as a result commenced operating MAV WorkCare Self-Insurance Mutual Scheme on 1 November 2017. There were 31 inaugural members of the Scheme, including the MAV. All members of the Scheme are committed to the Scheme for the first licence period of three years in accordance with the Participation Agreement. On commencement of the Scheme WorkSafe Victoria transferred the Net Claims Outstanding Liability as at 31 October 2017, as per the Statistical Case Estimate (SCE), and also transferred the cash equivalent to the valuation of the Net Outstanding Claims Liability. The cost of acquiring the self insurance licence of \$1,266,590 has been expensed.

(t) Impact of COVID 19 pandemic on MAV's operations and 2019-20 financial report

On 30 January 2020, COVID 19 was declared as a global pandemic by the World Health Organisation. Since then, various measures have been taken by all three levels of Government in Australia to reduce the spread of COVID-19. The MAV has been instrumental in proactively engaging with federal and state governments and advocating on behalf of members during this time, whilst performing all activities remotely since late March 2020, including staff working from home. This situation and the measures introduced has been assessed as follows for the MAV Work Care Scheme for the financial year ended 30 June 2020:

- (i) There have been no noticeable impact on claims reporting, on weekly or other payments in the period March 2020 to June 2020, whilst medical payments have reduced by 25% for the same period
- (ii) We have assessed medical payments as payments likely to still be incurred post June 2020 and have applied a 75% catch-up rate to the value of the reduced payments up to 30 June 2020 (\$225,000)
- (iii) While there is limited evidence of return to work challenges to date, the ongoing COVID-19 situation means it is prudent to allow for some additional weekly benefits beyond 30 June 2020. For the outstanding claims valuation we have allowed for an additional \$200k
- (iv) In April 2020, the Victoria government enacted the COVID-19 Omnibus (Emergency Measures) Act 2020 which extends the notice period for 130 week termination to 39 weeks (previously 13 weeks). MAV have identified claimants that have either already had 130 week termination or are likely to have one prior to 25 October 2020. The additional weekly benefits for these claimants is \$450,000
- (v) Restrictions on travel have resulted in reduced travel, motor vehicle and accommodation expenditure since March 2020 for MAV Work Care staff as face-to-face meetings have been replaced by online meetings
- (vi) MAV staff have been working remotely since late March 2020, resulting in some initial additional IT set up costs, offset by reduced onsite day-to-day operating costs for staff.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

NOTE	2020 \$	2019 \$
3. REVENUE FROM ORDINARY ACTIVITIES		
REVENUES FROM OPERATING ACTIVITIES		
Premiums	16,494,548	15,301,829
Reinsurance and other recoveries	2,302,375	1,229,509
TOTAL REVENUE FROM OPERATING ACTIVITIES	18,796,923	16,531,338
REVENUES FROM NON-OPERATING ACTIVITIES		
Investment income	224,361	1,998,140
Realised investment loss	(2,398,856)	(1,946,487)
TOTAL REVENUE FROM OUTSIDE THE OPERATING ACTIVITIES	(2,174,495)	51,653
TOTAL REVENUE FROM ORDINARY ACTIVITIES	16,622,428	16,582,991
4(a). CLAIMS EXPENSES		
Paid	14,765,092	13,192,743
Outstanding claims at end of financial year	69,089,956	68,725,148
Less: Outstanding claims at beginning	(68,725,148)	(67,557,695)
TOTAL CLAIMS EXPENSES	15,129,900	14,360,196
4(b). ADMINISTRATION & GENERAL EXPENSES		
The following items have been recognised in the operating (deficit):		
Administration	1,629,446	900,947
Audit fees	139,800	96,069
Depreciation of motor vehicles	7,354	7,966
Depreciation of information technology equipment	1,463	914
Staffing costs and consultants	1,360,545	1,220,619
Levy	1,276,070	570,468
Scheme management fees	737,791	740,956
TOTAL EXPENDITURE	5,152,469	3,542,059
5. AUDIT FEES		
Amounts payable or due and payable for audit services:		
Audit of the entity	83,240	96,069
Audits-other	56,560	-
TOTAL AUDIT FEE	139,800	96,069
6. SCHEME MANAGEMENT FEES		
Included within administration and general expenses are		
Risk Identification and prevention	295,116	296,382
Occupational Health and Safety	295,116	296,382
Training and Education	147,559	148,192
TOTAL SCHEME MANAGEMENT FEES	737,791	740,956

The Scheme service provider also received claims handling costs which are included in total claims cost.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

	NOTE	2020 \$	2019 \$
7. MOTOR VEHICLES, FURNITURE AND EQUIPMENT			
Motor vehicles		36,768	36,768
Less accumulated depreciation		(17,771)	(10,418)
		18,997	26,350
Furniture and equipment - at cost		6,246	2,735
Less accumulated depreciation		(2,618)	(1,155)
		3,628	1,580
		22,625	27,930
Reconciliations of the carrying amounts of property, furniture and equipment at the beginning and end of the financial year.			
MOTOR VEHICLES			
Movements during the year			
Beginning of year		26,350	34,317
Additions		-	-
Disposals		-	-
Depreciation		(7,353)	(7,967)
End of year		18,997	26,350
FURNITURE AND EQUIPMENT			
Movements during the year			
Beginning of year		1,580	1,513
Additions		3,511	981
Disposals		-	-
Depreciation		(1,463)	(914)
End of year		3,628	1,580

8. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents at balance date as shown in the Statement of Cash Flows are held in NAB cash deposits and are reconciled to the related items in the Statement of Financial Position as follows:

	NOTE	2020 \$	2019 \$
Cash and Cash Equivalents		11,781,440	30,902,878
TOTAL CASH		11,781,440	30,902,878

(b) Reconciliation of Net Cash (Used In) Operating Activities to Operating Surplus/(Deficit)

Surplus/(deficit) for year		(4,711,895)	(2,277,181)
<u>Adjustments for:</u>			
Depreciation		8,816	8,881
<u>Changes in assets and liabilities:</u>			
(Increase) decrease in trade and other receivables and prepayments	2(f)	(13,393,352)	6,316,587
Increase(decrease) in employee entitlements		34,227	(4,993)
Increase (decrease) in trade and other payables		1,085,711	2,798,787
Increase in premiums in advance		4,060,501	942,421
Increase in outstanding claims	2(m)	364,807	1,167,452
NET CASH (USED IN) OPERATING ACTIVITIES		(12,551,185)	8,951,953

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

NOTE	2020 \$	2019 \$
9. TRADE AND OTHER RECEIVABLES		
Future reinsurance and other recoveries receivable	5,620,986	3,284,418
Discount to present value	(617,834)	(394,548)
	5,003,152	2,889,870
Less provision for doubtful debts	-	-
Premiums receivable	16,150,286	5,607,373
Other receivables	188,786	230,695
TOTAL RECEIVABLES	21,342,224	8,727,938
Represented By:		
CURRENT	16,547,315	5,963,774
NON-CURRENT	4,794,909	2,764,164
TOTAL	21,342,224	8,727,938

Reinsurance recoveries are due from a reinsurer with an S&P rating of A. Other recoveries are due from unrated Local Authorities based in Victoria.

The ageing analysis of premiums receivable and other receivables are as follows:

	Total	<30 days	31 - 60 days	61 - 90 days	>90 days
2020					
MAV WorkCare	16,339,072	13,871,697	-	-	2,467,375
2019					
MAV WorkCare	5,838,068	5,752,522	-	-	85,546

	2020 \$	2019 \$
10. PREMIUMS IN ADVANCE		
Contributions billed in advance	20,786,720	16,726,219
11(a). OUTSTANDING CLAIMS		
Central estimate	69,176,397	70,685,807
Discount to present value	(4,211,699)	(6,516,667)
	64,964,698	64,169,140
Claims handling costs	4,125,258	4,556,008
TOTAL OUTSTANDING CLAIMS	69,089,956	68,725,148
Comprising:		
CURRENT	13,674,968	11,774,664
NON-CURRENT	55,414,988	56,950,484
TOTAL OUTSTANDING CLAIMS	69,089,956	68,725,148

11(b) RISK MARGIN - PROCESS FOR DETERMINING RISK MARGIN

As at 30 June 2020, the MAV WorkCare Board determined that the outstanding claims liability is to be held at the 50% probability of sufficiency on the basis of the mutual structure of the MAV WorkCare Scheme. As a result, a 0% risk margin was applied to the central estimate to achieve the desired level of sufficiency. Please see Note 17.

11(c) RECONCILIATION OF MOVEMENT IN DISCOUNTED OUTSTANDING CLAIMS LIABILITY

	2020			2019		
	Gross \$	Reinsurance & Recoveries \$	Net \$	Gross \$	Reinsurance & Recoveries \$	Net \$
Outstanding claims brought forward	68,725,148	(2,889,869)	65,835,279	67,557,695	(890,281)	66,667,414
Changes in assumptions	(787,006)	(465,494)	(1,252,500)	(1,355,924)	609,749	(746,175)
Increase in claims incurred/recoveries anticipated	15,916,906	(1,836,881)	14,080,025	15,716,120	(1,839,258)	13,876,862
Incurrd claims recognised in income statement	15,129,900	(2,302,375)	12,827,525	14,360,196	(1,229,509)	13,130,687
Claim payments during the year	(14,765,092)	189,092	(14,576,000)	(13,192,742)	(770,080)	(13,962,822)
Outstanding claims carried forward	69,089,956	(5,003,152)	64,086,804	68,725,148	(2,889,869)	65,835,279

12. NET CLAIMS INCURRED

	2020			2019		
	Current Year \$	Prior Year \$	Total \$	Current Year \$	Prior Year \$	Total \$
COMBINED						
Gross claims and related expenses – undiscounted	17,129,443	(4,499,752)	12,629,691	16,787,504	(8,390,544)	8,396,960
Discount	(847,911)	3,348,120	2,500,209	(1,158,376)	7,121,612	5,963,236
Gross Claims and related expenses – discounted	16,281,532	(1,151,632)	15,129,900	15,629,128	(1,268,932)	14,360,196
Reinsurance and other recoveries undiscounted	(2,108,050)	(417,610)	(2,525,660)	(1,913,344)	678,690	(1,234,654)
Discount	245,256	(21,971)	223,285	240,774	(235,629)	5,145
Reinsurance and other recoveries – discounted	(1,862,794)	(439,581)	(2,302,375)	(1,672,570)	443,061	(1,229,509)
NET CLAIMS INCURRED	14,418,738	(1,591,213)	12,827,525	13,956,558	(825,871)	13,130,687

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

13. CLAIMS DEVELOPMENT TABLE

ACCIDENT YEAR	2016	2017	2018	2019	2020	Total
	\$	\$	\$	\$	\$	\$
GROSS ESTIMATE OF ULTIMATE CLAIMS COST						
At end year of accident	-	-	16,091,056	15,017,468	16,128,067	
One year later	-	15,317,981	15,698,598	16,240,158		
Two years later	14,782,820	14,494,192	15,566,073			
Three years later	14,250,521	13,355,632				
Four years later	13,971,991					
Current estimate of cumulative claims cost	13,971,991	13,355,632	15,566,073	16,240,158	16,128,067	75,261,920
Cumulative payments	(8,168,186)	(6,679,306)	(6,836,000)	(4,631,578)	(1,398,695)	(27,713,765)
Outstanding claims – undiscounted	5,803,804	6,676,325	8,730,073	11,608,580	14,729,372	47,548,154
Discount						(2,798,049)
Claims handling expense						2,841,632
2015 and prior						21,498,220
MAV WORKCARE GROSS OUTSTANDING CLAIMS 11c						69,089,956
NET ESTIMATE OF ULTIMATE CLAIMS COST						
At end year of accident	-	-	14,280,525	13,104,123	14,020,017	
One year later	-	15,194,378	14,280,253	13,930,501		
Two years later	14,558,137	14,458,220	14,176,431			
Three years later	14,098,331	13,269,659				
Four years later	13,819,801					
Current estimate of cumulative claims cost	13,819,801	13,269,659	14,176,431	13,930,501	14,020,017	69,216,409
Cumulative payments	(8,015,997)	(6,593,334)	(6,805,558)	(4,475,658)	(1,398,695)	(27,289,241)
Outstanding claims - undiscounted	5,803,804	6,676,325	7,370,873	9,454,842	12,621,322	41,927,168
Discount						(2,180,215)
Claims handling Expense						2,841,632
2015 and prior						21,498,220
MAV WORKCARE NET OUTSTANDING CLAIMS 11c						64,086,804

These tables show the trend in the balance of outstanding claims.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

14. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

MAV Work Care's exposure to interest rate risk and the effective average interest rate for the classes of financial assets is set out below:

	Non- Interest Earning	Floating Interest Rate
	\$	\$
2020		
FINANCIAL ASSETS		
Cash and cash equivalents		11,781,440
Investments		52,098,906
Trade and other receivables	16,425,905	121,410
TOTAL FINANCIAL ASSETS	16,425,905	64,001,756
Weighted Average Interest Rate		0.47%
FINANCIAL LIABILITIES		
Outstanding claims	69,089,956	-
Unearned premiums/subscriptions	20,786,720	-
Trade and other payables/loans	7,252,954	-
TOTAL FINANCIAL LIABILITIES	97,129,630	-
Weighted Average Interest Rate		0.0%
2019		
FINANCIAL ASSETS		
Cash and cash equivalents		30,902,879
Investments		45,532,165
Trade and other receivables	5,963,774	-
TOTAL FINANCIAL ASSETS	5,963,774	76,435,044
Weighted Average Interest Rate		0.07%
FINANCIAL LIABILITIES		
Outstanding claims	68,725,148	-
Unearned premiums/subscriptions	16,726,219	-
Trade and other payables	6,133,015	-
TOTAL FINANCIAL LIABILITIES	91,584,382	-
Weighted Average Interest Rate		0.0%

Investments are considered level 2 financial assets in accordance with AASB 13 (Fair Value Measurement). The carrying amounts of financial assets and financial liabilities represent their approximate fair value. All maturity dates are within twelve months.

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as at 30 June 2020. Cash flows for financial assets and liabilities without fixed amounts or timing are based on conditions existing at 30 June 2020.

The remaining contractual maturities of the financial liabilities are:

	COMBINED	
	2020	2019
	\$	\$
3 months or less	29,063,836	13,257,356
3-12 months	12,709,931	21,440,333
1-5 years	31,497,407	30,732,331
Over 5 years	28,337,598	33,111,275
	101,608,772	98,541,297

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

14. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

LIQUIDITY RISK

Maturity analysis of financial assets and liabilities based on management's expectation

The risk implied from the values in the table below, reflects a balanced view of cash inflows and outflows. These liabilities originate from workers' compensation insurance contracts and other financial assets used in the ongoing operations of the business. These assets are considered in the MAV's overall liquidity risk. To monitor existing financial assets and liabilities as well as to enable effective controlling of future risks, the MAV has established a comprehensive risk reporting covering its workcare insurance business that reflects the management of settlement of financial assets and liabilities.

Year ended 30 June 2020	<3 months \$	3-12 months \$	1-5 years \$	>5years \$	Total \$
FINANCIAL ASSETS					
Cash and cash equivalents	11,781,440				11,781,440
Investments	52,098,906	-	-	-	52,098,906
Trade and other receivables	52,333	157,000	924,376	4,487,277	5,620,986
	63,932,680	157,000	924,376	4,487,277	69,501,333
FINANCIAL LIABILITIES					
Outstanding claims	3,436,644	10,309,931	31,484,925	28,337,598	73,569,098
Unearned premiums/subscriptions	18,386,720	2,400,000	-	-	20,786,720
Trade and other payables/loans	7,240,472	-	12,482	-	7,252,954
TOTAL FINANCIAL LIABILITIES	29,063,836	12,709,931	31,497,407	28,337,598	101,608,772
NET MATURITY	34,868,844	(12,552,930)	(30,573,031)	(23,850,322)	(32,107,440)

Risk management objectives and policies for mitigating insurance risk

The MAV WorkCare Self-Insurance mutual liability Scheme (trading as MAV WorkCare) was established in 2017 and commenced operations on 1 November 2017. Membership is available to local government councils and prescribed bodies. The Scheme operates in Victoria to provide services to members in respect of their potential and actual workers' compensation liabilities.

Actuarial models, using information from the Scheme's management information systems are used to confirm premiums and monitor claim patterns. Past experience and statistical methods are used as part of the process.

The principal risk is that the frequency and severity of claims is greater than expected. Risk events are, by their nature, random, and the actual number and size of events during any one-year may vary from those estimated using established statistical techniques.

Objectives in managing risk arising from insurance and policies for mitigating those risks

The Scheme has an objective to control insurance risk thereby reducing the volatility of its operating surplus. In addition to the inherent uncertainty of occupational health and safety risks, which can lead to variability in the loss experience, operating surpluses can also be affected by external factors, such as movements in asset values.

The Scheme relies on a strong relationship with its members and provides members with occupational health and safety risk management and return to work programs and encourages members to implement these programs in order to reduce the incidence of injuries to workers leading to less claims to the Scheme.

Reinsurance strategy

The Scheme adopts a conservative approach towards management of risk and does this by utilising various risk transfer options. The MAV WorkCare Board determines the level of risk, which is appropriate for the Scheme having regards to ordinary concepts of prudence and regulatory constraints. The risk transfer arrangements adopted by the Scheme include the utilisation of commercial reinsurance / excess arrangements. These arrangements include constant review of both reinsurers' financial strength, and ensuring reinsurers meet the requirements of the MAV WorkCare policies. These risk transfer arrangements assist the Scheme to limit exposures to large single claims and catastrophic events. These programs are reviewed each year to ensure that they continue to meet the risk needs of the Scheme.

Terms and conditions of membership

Membership to the Scheme is for the initial three year period of the self-insurance licence ending on 31 October 2020. Current members will be requested to advise MAV of their intention to renew their membership of the Scheme for the second licence period of either four year or six years by 28 February 2020. Other eligible local government bodies will also be invited to join the Scheme at that time. Termination of membership will be determined if the member does not renew for the second licence period.

Product features

The Scheme operates in Victoria. Should a claim be accepted the Scheme provides an unlimited indemnity to the member. The Scheme purchases excess insurance cover over \$500,000 per claim from a qualified insurance company that meets the financial criteria set down in the operational policies of MAV WorkCare. The financial strength of the insurer is continually assessed to ensure it meets policy guidelines of an S&P rating of A as well as US\$25 million of free cash on its balance sheet.

Operating surpluses arise from the total contributions charged to members less the amounts paid to cover claims and the expenses incurred by the Scheme.

Management of risks

The key insurance risks that affect the Scheme are contribution risk, and claims experience risk. The Scheme is a captive insurer for the period of the licence.

Contribution risk is the risk that the Scheme does not charge contributions appropriate for the indemnity cover it provides. The Scheme partially manages contribution risk through its proactive approach to risk management that addresses all material risks both financial and non-financial. There are no specific terms and conditions that are expected to have a material impact on the financial statements.

Claims experience risk is managed through the non-financial risk assessment and risk management and reinsurance management process. Claims experience is monitored on an ongoing basis to ensure that any adverse trending is addressed. The Scheme is able to reduce the claims experience risk of severe losses through an active OH&S and risk management program, the reinsurance arrangements, and by managing the concentration of insurance risks. The Scheme is a captive insurer established as a non-discretionary mutual fund which, under the Constitution has the ability to obtain contributions from members to pay liabilities and expenses and the power to call on members to cover any future losses that are not recovered by contributions.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

14. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

Concentration of insurance risks

Insurance risk is managed by taking a long term approach to setting the annual contribution rates that eliminates price fluctuations, through appropriate investment strategy, reinsurance and by maintaining an active state-wide risk management profile. The Scheme keeps abreast of changes in the general economic, legal and commercial environment in which it operates. The Scheme spreads its risk of reinsurance failure by ensuring reinsurers are of high financial quality and can meet their commitments to the MAV. The MAV maintains policies and strategies and receives advice from an independent actuary on at least an annual basis in order to determine the concentration and amount of risk exposure.

	CREDIT RATING	AAA	AA	AA-	A	Speculative	Not Rated	Total
		+/-	+/-	+/-				
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Reinsurance and other recoveries on outstanding claims	2020	-	-	-	3,748	-	1,255	5,003
	2019	-	-	-	2,058	-	832	2,890
Reinsurance and other recoveries on paid claims	2020	-	-	-	-	-	-	-
	2019	-	-	-	-	-	-	-

		PAST DUE BUT NOT IMPAIRED					Impaired	Total
		Neither past due nor impaired	Less than 3 months	3 to 6 months	6 months to 1 year	Greater than 1 year		
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Reinsurance and other recoveries on paid claims	2020	-	-	-	-	-	-	
	2019	-	-	-	-	-	-	

Credit risk

The Scheme is exposed to credit risk on insurance contracts as a result of exposure to reinsurers. The credit risk of reinsurers is managed through the Scheme's Reinsurance Management Strategy and policies that includes regularly monitoring both the financial rating of the reinsurers both prior to and during the reinsurance program and the flow of payments coming from the reinsurers. Investments in cash and cash equivalents at balance date as shown in the Statement of Cash Flows are held in S&P rated AA- and A-rated cash deposits.

Price risk

Investments held are not subject to price risk.

Interest rate risk

MAV WorkCare is exposed to interest rate risk from its investments, cash and cash equivalents.

MAV WorkCare manages its interest rate risk with the advice and assistance of its Investment Adviser and its independent actuary. The 2020 financial year has proved difficult for the Scheme. Interest rate risk exposure showing the effect on the net operating result and total accumulated resulting from 'reasonably possible' changes in interest rate risk at 30 June 2020 is set out in the table below.

Variable	Current Rate	Change variable to +0.3%/-0.3%	Operating surplus (deficit) at 30 June 2020	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$
IMPACT OF CHANGES IN INTEREST RATE ON FINANCIAL ASSETS				
Base value at 30 June 2020	0.47%		(4,711,895)	(9,338,771)
Interest Rate p.a.		0.77%	(4,519,890)	(9,146,766)
		0.17%	(4,903,900)	(9,530,777)

15. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Scheme makes estimates and judgements in respect of certain key assets and liabilities. Estimates and judgements are continually reviewed and are based on past 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 and judgements are applied are described below.

(a) Estimation of outstanding claims liability

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported ("IBNR") to the Scheme. The Scheme takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome may be different from the original liability established.

Provisions are calculated gross of all recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers and any third party.

The determination of an appropriate outstanding claims provision involves:

- Establishing a case estimate for each reported claim at year-end taking into account legal advice where appropriate on larger claims
- Allowance for incurred but not reported claims as confirmed by the actuarial review on 30 June 2020
- An allowance of 6.35% for claim administration expenses, as assumed by the Actuary
- Allowances for claim inflation of 1.75%, as assumed by the Actuary
- Allowances for discount at 1.05%, as assumed by the Actuary
- A risk margin of 0% of net outstanding claims after the effect of reinsurance has been applied, as assumed by the actuary

Refer to Note 11 b) for details

Details of specific actuarial assumptions used in deriving the outstanding claims liability at year-end are detailed in note 16.

(b) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts were estimated for each fund year, from the payments to date and estimated outstanding claims history at 30 June 2020, taking into account the reinsurance terms applying to that fund year.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

16. ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial assumptions

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

	2020	2019
Key actuarial assumptions		
Wage inflation	1.75%	2.50%
Average claims handling expense	6.35%	7.40%
Discount rate	1.05%	1.50%
Risk margin	0.00%	0.00%
Superimposed inflation	1.80%	1.78%

Process used to determine actuarial assumptions

A description of the processes used to determine the above key actuarial assumptions is provided below:

MAV WorkCare commenced business operations on 1 November 2017. It provides workers compensation insurance for thirty Local Government Authorities and the Municipal Association of Victoria. The Actuary was supplied with details of all transactions (payments, recoveries, estimates) to 30 June 2020. The individual claim payments and case estimates reconciled closely with totals in MAV WorkCare's financial statements for the year of cover. The actuary subdivided the claims data into 2 groups (Above Excess and Below Excess) and made separate estimates of the gross outstanding claims liabilities for each claim type. The actuary estimated the gross outstanding claims liabilities for Above Excess (Standard) claims by splitting the payments on Above Excess claims into 5 different sub-groups and modelling each sub-group separately. Above Excess claims were predominantly estimated using a numbers times average size method (PPCI). Below Excess (Minor) claims were modelled separately and utilised a numbers times average size method. Payments were projected with a payment pattern, based on past experience. Estimates of non reinsurance recoveries were made by a recoveries per claim method. Outstanding non reinsurance recoveries for accident periods up to and including 2016/17 were reduced to 0% to allow for the inability of MAV WorkCare to claim recoveries for these accident periods. Reinsurance recoveries for periods post 1 November 2017 were estimated by considering a total payment model and a total payment model where payments are capped at the expected excess of loss limit. The difference between these two models is the implied reinsurance recovery that would have been received if a similar reinsurance contract had been in place for historical periods. There has been no allowance for reinsurance recoveries for periods prior to 1 November 2017. Based on economic forecasts, market based expectations for longer term CPI expectations and a long term CPI-wage gap, wage inflation was assumed to be 1.75%. The discount rate was assumed to be 1.05% pa., derived from the yields on Commonwealth government bonds.

The Actuary has assumed a risk margin of 0% of the net liabilities to give a probability of 50% that the provisions will prove adequate to meet the relevant liabilities.

VARIABLE	IMPACT OF MOVEMENT IN VARIABLE
Wage inflation	Expected future payments are inflated to take account of inflationary increases. An increase or decrease in the assumed levels of economic inflation would have a corresponding impact on claims expense, with particular reference to longer tail claims.
Discount rate	The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposing impact on total claims expense.
Case estimate development	Case estimates are initially established in accordance with established guidelines and by reference to the known facts. Where new information becomes available the initial case estimate will change. This development movement is applied to open claims and will have a corresponding impact on claims expense.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

16. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

Wage Inflation rate sensitivity

Expected future payments are inflated to take account of inflationary increases. An increase or decrease in the assumed levels of economic inflation would have a corresponding impact on claims expense, with particular reference to longer tail claims.

Variable	Current Rate	Change variable to +0.5%/-0.5%	Operating surplus (deficit) at 30 June 2020	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$

IMPACT OF CHANGES IN KEY VARIABLES

Base value at 30 June 2020	1.75%		(4,711,895)	(9,338,771)
Wage Inflation rate p.a.		2.25%	(6,586,242)	(11,213,119)
		1.25%	(2,945,020)	(7,571,896)

Discount rate sensitivity

The reinsurance indemnity contracts contain no clauses that expose the Scheme, directly to interest rate risk. The reinsurance contracts are long term arrangements, reviewed

Variable	Current Rate	Change variable to +0.5%/-0.5%	Operating surplus (deficit) at 30 June 2020	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$

IMPACT OF CHANGES IN DISCOUNT RATES

Base value at 30 June 2020	1.05%		(4,711,895)	(9,338,771)
Discount rate p.a.		1.55%	(3,068,621)	(7,695,497)
		0.55%	(6,475,909)	(11,102,786)

Claims handling sensitivity

Future claims handling expenses represent administrative costs relating to the payment of claims incurred to date.

Variable	Current Rate	Change to the Current Rate +2%/-2%	Operating surplus (deficit) at 30 June 2020	Total Accumulated Funds after the impact of applying variable
	%	%	\$	\$

IMPACT OF CHANGES IN KEY VARIABLES

Base value at 30 June 2020	6.35%		(4,711,895)	(9,338,771)
Claim administration expense		8.35%	(6,011,189)	(10,638,065)
		4.35%	(3,412,601)	(8,039,478)

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

17. CAPITAL MANAGEMENT OBJECTIVES AND ECONOMIC DEPENDENCY

The MAV is specifically excluded from the provisions of the Insurance Act and from APRA regulation. The only externally imposed capital requirement on the MAV is within the self-insurance licence conditions imposed by WorkSafe. The capital ratio of MAV WorkCare must be greater than 85% of net liabilities. If the capital ratio falls below 100% the MAV must put in place strategies to return to a capital ratio of 100% or better. The MAV's capital management philosophy is focused on capital efficiency and effective risk management to support a progressive business model for the benefit of members of the Scheme. The Board of directors and management have in place a strategic plan that is aligned to achieving the MAV's capital management philosophy with an objective to achieve a surplus. Key elements of the plan include premium setting, risk management, claims management and reinsurance management. Key elements of the capital management plan include a review of the investment strategy and establishing increased flexibility in the scheme cost structures. MAV is operating the MAV WorkCare Scheme as a going concern and will continue to do so unless a determination is made by WorkSafe Victoria to refuse a licence beyond the initial 3 year period (Please refer to note 21 Subsequent Events). MAV WorkCare has considered the future operation of the Scheme and has issued premium notices for the 2020-21 year. These premium notices are expected to result in the Scheme operating in a surplus position for 2020-21. All members of the Scheme are committed to the Scheme for the first licence period of three years in accordance with the Participation Agreement and (in the absence of notice to exit) for a further period of either four or six years depending on the term of licence renewal granted by WorkSafe Victoria.

The MAV operates MAV WorkCare as a captive, non-discretionary mutual fund, and under Schedule 1, Part B, Clause 3 of the Participation Agreement, the MAV has the ability to obtain contributions from members to meet any shortfall in the Provision set aside in respect of that Insurance Year.

Schedule 1, Part B, Clause 7 of the Participation Agreement, provides the ability for MAV to make additional calls on each Participant (member) who remain liable to make further contributions to the Scheme in respect of any insurance year in which it was a participant to the extent of its participant's share of any shortfall in the provision set aside in respect of that insurance year, and such liability will continue whether or not the Participant remains a Participant in future Insurance Years.

18. LOSS ON TRANSFER OF LIABILITIES ON COMMENCEMENT OF THE SCHEME

On 1 November 2017 MAV WorkCare commenced business as a licensed self-insurer under the WIRC Act. WorkSafe granted the licence to MAV WorkCare on 3 May 2017 to commence business as a self-insurer subject to meeting performance and financial conditions. MAV met all the conditions required to be met by WorkSafe prior to commencement. On commencement of the Scheme WorkSafe paid to MAV WorkCare the sum of \$65,856,545 which was the Statistical Case Estimate (SCE) of claims outstanding for the 31 inaugural members of the Scheme. The independent actuary to the Scheme estimated the value of the claims outstanding, including claims handling expenses, for the 31 inaugural members of the Scheme that were transferred by WorkSafe to the Scheme, net of recoveries, at \$67,478,639. This resulted in a deficit of \$1,622,094 at commencement.

19. CONTINGENT LIABILITY

During the normal course of business, the Scheme may be exposed to contingent liabilities from litigation arising from its activities, which if they should crystallise may adversely affect the financial position and performance of MAV WorkCare. Provisions are made for obligations that are probable and able to be quantified.

On 1 November 2017 MAV WorkCare commenced business as a licensed self-insurer under the WIRC Act. WorkSafe granted the licence to MAV WorkCare to commence business as a self-insurer subject to meeting performance and financial conditions. MAV met all the conditions required to be met by WorkSafe prior to commencement. One of the conditions related to the provision of a bank guarantee equivalent to one hundred and fifty per cent (150%) of the net liabilities of the Scheme. The National Australia Bank has provided a bank guarantee on behalf of the MAV to WorkSafe in the amount of \$102.207 million.

In order for the National Australia Bank to provide the Bank Guarantee the following securities were provided by the MAV:

- a) Letter of set off over a bank deposit amounting to \$11.7 million
- b) Security Interest and Charge over the cash and investments of the MAV WorkCare Self-Insurance Scheme

MAV WorkCare is also subject to Covenants and Undertakings it has provided to the Bank:

- a) That the market value of the cash and investments held by MAV WorkCare is to be maintained at a minimum of 65% of the Bank Guarantee amount at all times. The MAV currently has a waiver on this requirement from the NAB.

- b) Where WorkSafe make a claim on the Bank Guarantee and the cash reserves are insufficient to clear the liability, the MAV will undertake to make a claim on its members within 30 days.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

20. RELATED PARTIES

The MAV is a body corporate established under the *Municipal Association Act of 1907* to provide services for and represent local government authorities in Victoria. The MAV and its wholly owned controlled entities trade with its members in the normal course of business and on an arm's length basis. The Participation Agreement provides for the MAV to appoint the MAV WorkCare Board to be responsible for the administration of the Scheme. The MAV pays workers compensation insurance premiums to MAV WorkCare \$36,096 (2019 \$36,096). The MAV General Fund has a subordinated loan to MAV WorkCare to the value of \$4 million. Some administrative items are paid on behalf of MAV Work Care by MAV General and reimbursed. Other than these, there were no other related party transactions.

Board members during the year

M. Duncan (Independent Chair)
M. Ulbrick (Independent)
P. Digby (Independent)
J. Dore (Independent)
R. Spence (Independent)
Cr. C. Ross (MAV President)
Cr. N. Hansford (MAV Board Representative)
K. Thompson (MAV Chief Executive Officer)

Key management personnel remuneration

Independent Board members receive meeting fees. The key management person is the Director - MAV WorkCare

	Annual Sitting Fee
Chairperson	\$ 25,000
Independent board members	15,000
	2020
	\$
Short-term remuneration of MAV WorkCare board and key management personnel (cost of key management personnel is recovered by the MAV)	300,457
Post employment benefits	21,894

Loans to MAV WorkCare Board members

No loans were made to or are payable by WorkCare board members during the year.

Other transactions

There were no other material transactions with WorkCare board Members.

Insurance

The activities of the MAV WorkCare board members are covered by the MAV directors and officers indemnity insurance policy effected by the MAV.

21. SUBSEQUENT EVENTS

In March 2020, the MAV submitted an application for a self-insurer licence renewal beyond the initial three year period for a further six years. On 20 August 2020, the MAV received correspondence from WorkSafe Victoria indicating their intention to refuse the MAV's application for renewal. Pursuant to s 381(1)(c) of the Workplace Injury Rehabilitation and Compensation Act 2013 the MAV has made a written submission in response to the correspondence received. At the date of signing the financial statements no determination has been yet been made by WorkSafe Victoria.

On 17 September 2020, the COVID-19 Omnibus (Emergency Measures) and Other Acts Amendment Bill 2020 was introduced into Victorian Parliament. This bill seeks to extend a range of the emergency measures that were implemented under the previous Omnibus Act that was introduced in April 2020. Under the current Omnibus Bill, the 130-week notice period under section 191 of the WIRC Act and 114B(1)(b) of the AC Act was extended from 13 weeks to 39 weeks. The extension of the notice period was due to expire on 25 October 2020, however this bill proposes that the extension will apply to all workers who are due to transition off weekly payments on 130 week grounds until 31 December 2020. If this legislation is passed, the effect of the bill will be that injured workers whose weekly payments are due to be terminated as a result of the second entitlement period expiring on or before 31 December 2020 will need to be provided 39 weeks' notice of termination, rather than just 13 weeks notice under the usual provisions. The Bill also assists WorkSafe inspectors in enforcing compliance with occupational health and safety laws, to ensure employers are meeting their obligations.

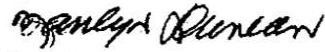
Statement by the MAV WorkCare Board

As at 30 June 2020

In the opinion of the MAV WorkCare Board:

- (a) the accompanying Statement of Comprehensive Income is drawn up so as to present fairly in all material respects the result of the association for the year ended 30 June 2020
- (b) the accompanying Statement of Financial Position is drawn up so as to present fairly in all material respects the state of affairs of MAV WorkCare as at that date
- (c) at the date of this statement there are reasonable grounds to believe that MAV WorkCare will be able to pay its debts as and when they fall due
- (d) the accompanying Combined Financial Statements present fairly in all material respects the state of affairs of the association as at that date

Signed



Marilyn Duncan
MAV WorkCare Board Chair



Kerry Thompson
Chief Executive Officer - Municipal Association of Victoria

Melbourne
29/09/2020

STATEMENT BY DIRECTORS

In accordance with a resolution of the directors of the Municipal Association of Victoria, we state that:

In the opinion of the Directors:

- (a) the accompanying Statement of Comprehensive Income drawn up so as to present fairly in all material respects the result of the association for the year ended 30 June 2020;
- (b) the accompanying Statement of Financial Position is drawn up so as to present fairly in all material respects the state of affairs of the association as at that date;
- (c) at the date of this statement there are reasonable grounds to believe that the association will be able to pay its debts as and when they fall due; and
- (d) the accompanying Combined Financial Statements present fairly in all material respects the state of affairs of the association as at that date;
- (e) the financial statements and notes also are materially consistent with the international financial reporting standards as disclosed in note 2(b).

The financial statements and combined financial statements have been made out in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.

Signed in accordance with the resolution of Directors.



Cr. Coral Ross
President

Melbourne
2/10/2019



Cr. Mike Symon
Director



Kerry Thompson
Chief Executive Officer

Address of registered office:

Level 12, 60 Collins Street, Melbourne, 3000, Australia

Principal place of business:

Level 11, 60 Collins Street, Melbourne, 3000, Australia

Nature of the operation and principal activities:

The MAV has been approved by WorkSafe to operate a self-insurance workers compensation Scheme for its members and their employees.

Number of employees:

Seven

MAV LGE Health Plan Financial Report 2019-20



8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67
Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Independent Auditor's Report to the Members of LGE Health Plan

Opinion

We have audited the financial report of LGE Health Plan (the Plan), which comprises the statement of financial position as at 30 June 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the statement by directors.

In our opinion, the LGE Health Plan financial report presents fairly, in all material respects, the financial position of the Plan as at 30 June 2020, and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Plan in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Directors for the Financial Report

The directors of the Plan are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Plan's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Plan or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

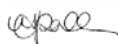


- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Plan to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Ernst & Young



Maree Pallisco
Partner
Melbourne

2 October 2020

A member firm of Ernst & Young Global Limited
Liability limited by a scheme approved under Professional Standards Legislation

Statement of Comprehensive Income

For the year ended 30 June 2020

	NOTE	2020 \$	2019 \$
REVENUE			
REVENUE FROM OPERATING ACTIVITIES			
Administration allowance income		468,530	521,383
Interest income		29,880	42,067
TOTAL REVENUE		498,410	563,450
EXPENSES			
Hospital excesses refunded		183,622	184,879
Administration overhead		9,434	3,859
TOTAL EXPENSES		193,056	188,738
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		305,354	374,712

The accompanying notes form an integral part of these statements.

Statement of Financial Position

at 30 June 2020

	NOTE	2020 \$	2019 \$
CURRENT ASSETS			
Cash and cash equivalents	4(a)	2,251,283	1,866,234
Trade and other receivables	5	43,301	127,031
TOTAL CURRENT ASSETS		2,294,584	1,993,265
TOTAL ASSETS		2,294,584	1,993,265
CURRENT LIABILITIES			
Trade and other payables		4,000	8,035
TOTAL CURRENT LIABILITIES		4,000	8,035
TOTAL LIABILITIES		4,000	8,035
NET ASSETS		2,290,584	1,985,230
EQUITY		2,290,584	1,985,230

The accompanying notes form an integral part of these statements.

Statement of Changes in Equity

For the year ended 30 June 2020

	2020 \$	2019 \$
RETAINED EARNINGS		
Balance at beginning of year	1,985,230	1,610,518
Surplus from ordinary activities	305,354	374,712
BALANCE AT END OF YEAR	2,290,584	1,985,230

Statement of Cash Flows

for the year ended 30 June 2020

	NOTE	2020 \$	2019 \$
CASH FLOW FROM OPERATING ACTIVITIES			
RECEIPTS			
Administration allowance		556,886	436,185
Interest received		25,254	43,975
PAYMENTS			
Hospital excesses refunded		(183,622)	(194,542)
Administration overhead		(13,469)	(3,859)
NET CASH FLOWS FROM OPERATING ACTIVITIES	4(b)	385,049	281,759
NET INCREASE IN CASH HELD			
Cash at beginning of year		1,866,234	1,584,475
CASH AT END OF YEAR	4(a)	2,251,283	1,866,234

The accompanying notes form an integral part of these statements.

Notes to and forming part of the financial statements

For the year ended 30 June 2020

1. Corporate information

The LGE Health Plan was established by the Municipal Association of Victoria (MAV). The MAV has joined with GMHBA and Choosewell Pty Ltd to offer attractive health insurance plans to council staff at reduced cost. The LGE Health Plan is owned and operated by the MAV and is not a provider of health insurance products.

The MAV is an Association incorporated by an Act of the Parliament of Victoria, Australia, known as the *Municipal Association Act 1907*.

The nature of the operations and principal activities of the MAV are:

- to promote the efficient carrying out of municipal government throughout the state of Victoria and watch over and protect the interests, rights and privileges of municipal corporations
- to arrange fidelity insurance for local government
- to arrange contracts of insurance
- to provide a public liability insurance scheme for local government

The financial report of LGE Health Plan for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the directors of the MAV on the date shown on the attached Statement by Directors.

2. Summary of significant accounting policies

Accounting Standards and Interpretations which became effective during the year.

<u>Reference</u>	<u>Title Summary</u>	<u>Application Date of Standard</u>	<u>Application Date for MAV</u>	<u>Impact</u>
AASB 1058	Income of Not-for-Profit Entities	1 January 2019	1 July 2019	Minimal Impact
AASB 15	Revenue from Contracts with Customers	1 January 2019	1 July 2019	Minimal Impact

Accounting Standards and Interpretations issued but not yet effective.

<u>Reference</u>	<u>Title Summary</u>	<u>Application Date of Standard</u>	<u>Application Date for MAV</u>	<u>Impact</u>
IFRS 17	Insurance Contracts	1 January 2023	N/A	IFRS 17 does not apply to not for profit public sector entities. The application and date for application is still to be determined by the AASB for not-for-profit public sector entities such as the MAV.

(a) Basis of preparation

The financial report is a general purpose financial report which has been drawn up in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, and having regard to the financial reporting. The principal accounting policies adopted in preparing the financial report are stated to assist in a general understanding of the financial report. Accounting policies have been consistently applied unless otherwise indicated.

The financial report is presented in Australian dollars. The MAV, and therefore LGE Health Plan, is a Not for Profit entity.

The accounts have been prepared on the accruals basis using historical costs and, except where stated, do not take into account current valuations of assets.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standard ('AIFRS').

(c) Income tax

The MAV is a State and Territory Body (STB) and is exempt from income tax, in accordance with Division 1AB of Part III of the *Income Tax Assessment Act 1997* and therefore LGE Health Plan is exempt from income tax.

(d) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

(e) Trade and other receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the LGE Health Plan will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment.

(f) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the LGE Health Plan prior to the end of the financial year that are unpaid and arise when the LGE Health Plan becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(g) Revenue recognition

Administration allowance income

An administration allowance is paid by GMHBA to the LGE Health Plan. The allowance is recognised on an accrual basis.

Interest income

Interest received is accounted for on an accrual basis.

(h) Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(i) Cash flows

For the purposes of the Statement of Cash Flows, cash includes cash on hand and deposits held at call with banks and investments in fixed interest funds net of outstanding bank overdrafts.

(j) Fair value measurement

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the MAV determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. LGE Health Plan does not have any level 3 financial assets.

The carrying amounts of financial assets and financial liabilities represent their approximate net fair value. All maturity dates are within twelve months. For the purpose of fair value disclosures, the LGE Health Plan has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(k) Impact of COVID 19 pandemic on MAV's operations and 2019-20 financial report

On 30 January 2020, COVID 19 was declared as a global pandemic by the World Health Organisation. Since then, various measures have been taken by all three levels of Government in Australia to reduce the spread of COVID-19. The MAV has been instrumental in proactively engaging with federal and state governments and advocating on behalf of members during this time, whilst performing all activities remotely since late March 2020, including staff working from home. This situation and the measures introduced has been assessed as follows for the LGE Health Plan for the financial year ended 30 June 2020:

Revenue:

- (i) Income has slightly declined in the April to June 2020 period

Expenditure:

- (i) There has been a slight reduction in hospital excesses refunded due to some restrictions on elective surgery in the April to June period. The net impact has been an increase to the net surplus during this period.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

3. Audit Fees		2020	2019
Amounts payable or due and payable for audit services:	NOTE	\$	\$
Audit services		8,274	8,112
		8,274	8,112

4. NOTES TO STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents at balance date as shown in the Statement of Cash Flows are held in NAB cash deposits and reconciled to the related items in the Statement of Financial Position as follows:

	NOTE	2020 \$	2019 \$
Cash and cash equivalents		2,251,283	1,866,234
TOTAL CASH AND CASH EQUIVALENTS		2,251,283	1,866,234

(b) Reconciliation of Net Cash Used In Operating Activities to Operating Profit

Profit for year		305,354	374,712
Changes in assets and liabilities			
(Increase)/decrease in accounts receivable		83,730	(93,056)
Increase/(decrease) in accounts payable		(4,035)	103
NET CASH FLOW FROM OPERATING ACTIVITIES		385,049	281,759

5. TRADE AND OTHER RECEIVABLES

Other receivables		43,301	127,031
TOTAL TRADE AND OTHER RECEIVABLES		43,301	127,031
Represented By:			
Current		43,301	127,031
Non-current		-	-
TOTAL		43,301	127,031

The ageing analysis of trade receivables are as follows:

	Total	< 30 days	>30 days
2020			
LGE EMPLOYEE HEALTH PLAN	43,301	33,840	9,461
2019			
LGE EMPLOYEE HEALTH PLAN	127,031	127,031	-

Notes to and forming part of the financial statements

For the year ended 30 June 2020

6. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The LGE Health Plan's exposure to interest rate risk and the effective average interest rate for the classes of financial assets is set out below:

	Non- Interest Earning	Floating Interest Rate
	2020	2020
	\$	\$
FINANCIAL ASSETS		
Cash and cash equivalents	-	2,251,283
Trade and other receivables	33,840	9,461
TOTAL FINANCIAL ASSETS	33,840	2,260,743
Weighted Average Interest Rate		1.4%
FINANCIAL LIABILITIES		
Trade and other payables	4,000	-
TOTAL FINANCIAL LIABILITIES	4,000	-
Weighted Average Interest Rate		0%

Cash and cash equivalents are considered level 1 financial assets in accordance with AASB 7 (Financial Instruments). The carrying amounts of financial assets and financial liabilities represent their approximate net fair value. All maturity dates are within twelve months.

	Non- Interest Earning	Floating Interest Rate
	2019	2019
	\$	\$
FINANCIAL ASSETS		
Cash and cash equivalents	-	1,866,234
Trade and other receivables	127,031	-
TOTAL FINANCIAL ASSETS	127,031	1,866,234
Weighted average interest rate		2.4%
FINANCIAL LIABILITIES		
Trade and other payables	8,035	-
TOTAL FINANCIAL LIABILITIES	8,035	-
Weighted average interest rate		0%

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as at 30 June 2020. Cash flows for financial assets and liabilities without fixed amount or timing are based on conditions existing at 30 June 2020.

The remaining contractual maturities of the financial liabilities are:

	2020	2019
NOTE	\$	\$
3 months or less	4,000	8,035
3-12 months	-	-
1-5 years	-	-
Over 5 years	-	-
	4,000	8,035

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2020

6. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

LIQUIDITY RISK

Maturity analysis of financial assets and liabilities based on management's expectation.

The risk implied from the values in the table below, reflects a balanced view of cash inflows and outflows. These liabilities originate from financial assets used in the ongoing operations of the business. These assets are considered in the MAV's overall liquidity risk. To monitor existing financial assets and liabilities as well as to enable effective controlling of future risks, the MAV has established a comprehensive risk reporting covering its business that reflects the management of expected settlement of financial assets and liabilities.

Year ended 30 June 2020	<3 months	3 - 12 months	Total
	\$	\$	\$
FINANCIAL ASSETS			
Cash and cash equivalents	922,079	1,329,204	2,251,283
Trade and other receivables	1,489	41,812	43,301
	923,567	1,371,016	2,294,584
FINANCIAL LIABILITIES			
Trade and other payables	4,000	-	4,000
Other liabilities	-	-	-
Total Financial Liabilities	4,000	-	4,000
NET MATURITY	919,567	1,371,016	2,290,584
<hr/>			
Year ended 30 June 2019	<3 months	3 - 12 months	Total
	\$	\$	\$
FINANCIAL ASSETS			
Cash and cash equivalents	1,866,234	-	1,866,234
Trade and other receivables	127,031	-	127,031
	1,993,265	-	1,993,265
LGE EMPLOYEE HEALTH FUND			
FINANCIAL LIABILITIES			
Trade and other payables	8,035	-	8,035
Other liabilities	-	-	-
Total Financial Liabilities	8,035	-	8,035
NET MATURITY	1,985,230	-	1,985,230

7. REMUNERATION OF KEY MANAGEMENT PERSONNEL

No remuneration was paid to Key Management Personnel by the LGE Health Plan during the year.

Loans to Directors

The LGE Health Plan has a strict policy of not providing loans to Directors. No loans were made to or are payable by Directors during the year.

Other Transactions

There were no other material transactions with Directors.

8. EQUITY

If the LGE Health Plan agreement was not to continue, an administrative levy of \$125 per Employee Member (excl. GST) will be paid from the LGE Health Plan to fund costs associated with putting in place alternative arrangements for Employee Members. The remaining balance of the LGE Health Plan will be returned to Participant Organisations as outlined in the agreement.

9. RELATED PARTIES

The MAV is a body corporate established under the Municipal Association Act of 1907 to provide services for and represent local government authorities in Victoria. The MAV and its wholly owned controlled entities trade with its members in the normal course of business and on an arm's length basis. There were no related party transactions during the year.

10. SUBSEQUENT EVENTS

There were no material events subsequent to the year end that require reporting.

11. CONTINGENT LIABILITIES

There are no contingent liabilities.

Statement by directors

As at 30 June 2020

In the opinion of directors of The Municipal Association of Victoria:

- (a) the accompanying Statement of Comprehensive Income of the LGE Health Plan is drawn up so as to present fairly in all material respects the result of the Plan for the year ended 30 June 2020
- (b) the accompanying Statement of Financial Position is drawn up so as to present fairly in all material respects the state of affairs of the LGE Health Plan as at that date
- (c) at the date of this statement there are reasonable grounds to believe that the LGE Health Plan will be able to pay its debts as and when they fall due
- (d) the financial statements and notes also are materially consistent with the International Financial Reporting Standards as disclosed in note 2(b).

The financial statements have been made out in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.

Signed in accordance with the resolution of directors of the Municipal Association of Victoria.



Cr. Coral Ross
President



Cr. Mike Symon
Director



Kerry Thompson
Chief Executive Officer

Melbourne
2/10/2020

OTHER INFORMATION

Legal form:

The MAV is an association incorporated by the *Municipal Association Act 1907*. The LGE Health Plan is a division of the MAV.

Domicile:

Melbourne, Australia

Address of registered office and principal place of business:

Level 12, 60 Collins Street, Melbourne, 3000, Victoria, Australia

Nature of the operation and principal activities:

The MAV represents, promotes and supports the interest of Victorian local governments and their communities.

Number of employees:

Average number of equivalent full time employees during the year is 0 EFT.



Municipal Association of Victoria
Level 12, 60 Collins Street, Melbourne
GPO Box 4326, Melbourne 3001
Phone: 03 9667 5555
Fax: 03 9667 5550
Email: inquiries@mav.asn.au
mav.asn.au