



**Annual Report**

Financial Report 2019-20

**M U N I C I P A L**

**A S S O C I A T I O N**

**O F**

**V I C T O R I A**



**Guide to the financial statements**

**Components of the financial report**

The financial report contains three main sections:

**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.

1. **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:

* 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.

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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.

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**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.

* 1. **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.

* 1. **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.

1. **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:

* 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.

* 1. **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.

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M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A

F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**MAV**

**Combined Financial Report**

**2019-20**

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**Independent Auditor’s Report**

***To the Directors of Municipal Association of Victoria***

**Opinion**

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:

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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.









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 *Financial Management Act 1994* and applicable Australian Accounting Standards.

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M U N I C I P A L

A S S O C I A T I O N O F V I C T O R I A

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**Basis for Opinion**

I have conducted my audit in accordance with the *Audit Act 1994* which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the *Auditor’s Responsibilities for the Audit of the Financial statements* section of my report.

My independence is established by the *Constitution Act 1975*. 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 APES 110 *Code of Ethics for Professional Accountants* (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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.



**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.

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M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A F I N A N C I A L

R E P O R T 2 0 1 9 - 2 0

**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.



MELBOURNE

20 October 2020

Sanchu Chummar

*as delegate for the Auditor-General of Victoria*

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M U N I C I P A L A S S O C I A T I O N

O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**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.

**Municipal Association of Victoria**

Financial Report 2019-20

**Statement of Comprehensive Income**

For the year ended 30 June 2020

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F I N A N C I A L R E P O R T

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**COMBINED MAV - GENERAL FUND**

**The accompanying notes form an integral part of these statements.**

**Statement of Financial Position**

as at 30 June 2020

**COMBINED MAV - GENERAL FUND**

**The accompanying notes form an integral part of these statements. 1**

NOTE

**2020**

**$**

2019

$

**2020**

**$**

2019

$

CURRENT ASSETS

Cash and cash equivalents 9(a)

Investments 2(l)

Trade and other receivables 10,2(f)

Prepayments

**18,807,804**

**52,098,906**

**89,362,562**

**2,627,181**

39,359,961

45,532,165

69,243,176

1,881,991

**5,768,220**

**- 11,232,331**

**81,519**

5,214,896

- 9,404,416

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)

Property and equipment 12,2(h)

Right of use assets 6, 2(i)

Intangibles 13,2(h)

**95,162,669**

**354,906**

**2,464,917**

**162,261**

85,437,592

382,140

- 140,267

**- 332,281**

**2,464,917**

**162,261**

- 354,210

- 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

Premiums and Income in advance 11

Provision for employee entitlements 23

Provision for claims outstanding 14(a),2(t),2(u) Lease Liabilities 6, 2(i)

Other current liabilities

**9,730,930**

**66,009,615**

**971,050**

**32,864,666**

**957,822**

**764,707**

12,767,706

47,714,745

800,308

36,982,665

- 765,628

**2,717,328**

**6,211,301**

**926,865**

**- 957,822**

**764,707**

2,451,303

4,408,139

780,068

-

- 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

Provision for claims outstanding 14(a),2(t),2(u) Lease Liabilities 6, 2(i)

Other non-current liabilities

**97,188**

**150,404,435**

**1,622,575**

**126,493**

108,906

140,830,109

- 207,051

**84,707**

**- 1,622,576**

**126,493**

106,710

-

- 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

NOTE

**2020**

**$**

2019

$

**2020**

**$**

2019

$

**REVENUE** 4

**86,279,837**

76,575,855

**15,349,093**

16,477,855

**EXPENSES** 5(b)

**86,279,837**

**90,588,286**

76,575,855

81,578,104

**15,349,093**

**15,229,650**

16,477,855

17,352,415

**NET SURPLUS(DEFICIT)** 3

**OTHER COMPREHENSIVE INCOME**

**(4,308,449)**

**-**

(5,002,249)

-

**119,443**

**-**

(874,560)

-

**TOTAL COMPREHENSIVE INCOME(LOSS) FOR THE YEAR**

**(4,308,449)**

(5,002,249)

**119,443**

(874,560)



**Statement of Changes in Equity**

For the year ended 30 June 2020

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M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A

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**Statement of Changes in Equity**

for the year ended 30 June 2020

**COMBINED MAV - GENERAL FUND**

**Combined Statement of Cash Flows**

for the year ended 30 June 2020

**COMBINED MAV - GENERAL FUND**

**The accompanying notes form an integral part of these statements.**

NOTE

**2020**

**$**

2019

$

**2020**

**$**

2019

$

**CASH FLOW FROM OPERATING ACTIVITIES**

RECEIPTS

Premiums, subscriptions, grants and fees Interest and investment gain (loss) Reinsurance and other recoveries

PAYMENTS

Suppliers

Claim payments

**55,361,300**

**(2,114,709)**

**25,991,105**

**(49,632,070)**

**(42,341,178)**

77,425,433

795,413

14,881,021

(73,329,027)

(29,579,776)

**18,813,839**

**88,555**

**-**

**(17,102,714)**

**-**

26,603,745

256,352

-

(28,754,766)

-

**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) Proceeds from sale of fixed assets

Repayment of lease liabilities

Payments for fixed assets and intangibles

**(6,565,546)**

**- (984,349)**

**(266,710)**

30,559,318

60,857

- (202,649)

-

**- (984,349)**

**(262,007)**

- 60,857

- (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**

Cash at beginning of year

**(20,552,157)**

**39,359,961**

20,610,590

18,749,371

**553,324**

**5,214,896**

(2,035,481)

7,250,377

**CASH AT END OF YEAR** 9(a)

**18,807,804**

39,359,961

**5,768,220**

5,214,896

**2020**

**$**

2019

$

**2020**

**$**

2019

$

RETAINED EARNINGS

Balance at beginning of year Surplus/(deficit) from ordinary activities

**1,800,175**

**(4,308,449)**

6,802,424

(5,002,249)

**6,510,287**

**119,443**

7,384,847

(874,560)

**BALANCE AT END OF YEAR**

**(2,508,274)**

1,800,175

**6,629,730**

6,510,287



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

For the year ended 30 June 2020

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M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

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

1. **Summary of significant accounting policies**

Accounting Standards and Interpretations which became effective during the year.

Reference Title Summary Application Date of Standard Impact on MAV Financial Report Application Date

for MAV

AASB 1058 Income of Not-for-Profit 1 January 2019 Minimal impact. Most revenue 1 July 2019 Entities assessed as under agreement

(contract) - See AASB 15.

AASB 15 Revenue from Contracts 1 January 2019 See note 2(j)(w). $2.26m of 1 July 2019 with Customers revenue reported as Income in

advance rather than income at 30 June 2020.

AASB 16 Leases 1 January 2019 See note 2(i), 6. 1 July 2019

Accounting Standards and Interpretations issued but not yet effective.

Reference Title Summary Application Date of Standard Impact on MAV Financial Report Application Date

for MAV IFRS 17 Insurance Contracts 1 January 2023 IFRS 17 does not apply to not for N/A

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.

1. **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.

1. **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’).

1. **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.

1. **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

1. **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

1. **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.

1. **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: Leasehold Improvements at cost

Furniture and Equipment at cost Motor Vehicles at cost

Information Technology Equipment at cost Website at cost

Educational Programs at cost

Annual Rate

10%

20% - 33%

20%

33%

20%

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.

1. **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.

1. **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.

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M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0



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

For the year ended 30 June 2020

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M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**(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
  + A· mount 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.

1. **Investments**

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

1. **Comparative figures**

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

1. **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.

1. **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.

**2020**

**Investments Total**

**2019**

Investments Total

**Level 1**

**Level 2**

**52,098,906**

**Level 3**

**Total**

**52,098,906**

**-**

**-**

**-**

**52,098,906**

**-**

**52,098,906**

-

45,532,165

-

45,532,165

-

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.

**1 3**

M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0



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

For the year ended 30 June 2020

**1 4**

M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

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

1. **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.

1. **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.

1. **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:

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

1. **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.

1. **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:

1. 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
2. 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)
3. 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
4. In April 2020, the Victoria government enacted the COVID-19 Omnibus (Emergency Measures) At 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
5. 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.
6. 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
7. 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.
8. MAV procurement sales rebates have declined between 5% and 10% in the April to June 2020 period
9. 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
10. 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

**COMBINED**

**COMBINED**

**MAV - GENERAL FUND**

**COMBINED**

**5(a).**

**1 5**

M U N I C I P A L A S S O C I A T I O N

O F V I C T O R I A F I N A N C I A L R E P O R T

2 0 1 9 - 2 0

**CLAIMS EXPENSES** NOTE

**2020**

**$**

2019

$

Paid

Outstanding claims at end of financial year 14(a) Less: Outstanding claims at beginning of financial year

**42,341,178**

**183,269,101**

**(177,812,774)**

29,579,775

177,812,774

(169,362,151)

**TOTAL CLAIMS EXPENSES** 2(t) & 2(u)

**47,797,505**

38,030,398

NOTE

**2020**

**$**

2019

$

**2020**

**$**

2019

$

**4. REVENUE**

REVENUES FROM OPERATING ACTIVITY

Subscriptions/premiums

Reinsurance and other recoveries 2(v)

Performance bonus 30

Brokerage fees Management fee income

Seminars and sale of publications Sponsorship, membership and tender income

Grant income 25

Investment income (loss)

**46,060,445**

**31,056,823**

**- 1,361,195**

**2,345,444**

**535,688**

**2,449,231**

**4,512,012**

**(2,041,001)**

40,819,279

22,630,128

99,845

1,257,848

1,637,359

922,106

3,709,690

4,925,536

533,721

**3,152,774**

**-**

**- 1,361,195**

**3,119,019**

**535,688**

**2,579,701**

**4,512,012**

**88,704**

2,952,041

-

- 1,257,848

2,514,231

922,106

3,709,690

4,925,536

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

NOTE

**2020**

**$**

2019

$

**3. CONTRIBUTION TO OPERATING SURPLUS**

CONTRIBUTIONS FROM INSURANCE & WORKCARE ACTIVITIES

Premium income

Performance bonus 24

Reinsurance expense 2(x)

**42,974,934**

**- (17,474,379)**

37,936,134

99,845

(16,969,297)

**NET PREMIUM INCOME**

**25,500,554**

21,066,682

Claims expense 5(a)

Reinsurance and other recoveries 2(v)

**(47,797,505)**

**31,056,823**

(38,030,398)

22,630,127

**NET CLAIMS EXPENSE** 15

**(16,740,682)**

(15,400,271)

NET UNDERWRITING RESULT

Fees received Investment income

Administration and general expenses

**8,759,872**

**58,615**

**(2,129,705)**

**(11,116,673)**

5,666,411

69,898

377,661

(10,241,659)

**INSURANCE ACTIVITY OPERATING SURPLUS MAV SURPLUS (DEFICIT)**

**(4,427,892)**

**119,443**

(4,127,689)

(874,560)

**TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD**

**(4,308,449)**

(5,002,249)



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

For the year ended 30 June 2020

**1 6**

M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**COMBINED MAV - GENERAL FUND**

**5(b). EXPENSES**

**6. LEASES**

**Right of Use Assets**

**3,449,266**

**-**

**(984,349)**

**2,464,917**

**957,822**

**1,622,576**

**-**

**2,580,398**

**957,822**

**1,622,576**

**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:**

**13,605**

**-**

**13,605**

**25,617**

**-**

**-**

**25,617**

Short-term leases

Leases of low value assets

**13,605**

**-**

**Total**

**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

Later than one year but not later than five years Later than five years

**25,617**

**-**

**-**

**TOTAL Lease Liabilities**

**25,617**

Balance at 1 July 2019 Additions

Amortisation Charge

**3,449,266**

**- (984,349)**

**Balance at 30 June 2020**

**2,464,917**

**Lease Liabilities**

Maturity analysis - contractual undiscounted cash flows Not later than one year

Later than one year but not later than five years Later than five years

**957,822**

**1,622,576**

**-**

**TOTAL Lease Liabilities**

**2,580,398**

Lease liabilities included in the Balance Sheet at 30 June: Current

Non-current

**957,822**

**1,622,576**

**TOTAL Lease Liabilities**

**2,580,398**

The following items have been recognised in the operating surplus:

NOTE

**2020**

**$**

2019

$

**2020**

**$**

2019

$

Reinsurance expense Claims expense

Scheme management fee 8

WorkSafe Self Insurer Levy Administration

ALGA membership

Amortisation of website and educational programs

Audit fees 7

Board of management expenses Depreciation of furniture and equipment Depreciation of motor vehicles

Depreciation of information technology equipment Depreciation of leasehold improvements

Grants and projects Actuarial fees Meetings and seminars

Amortisation of leases 6

Finance costs - leases Salary and payroll costs Stamp duty

**17,474,379**

**47,797,505**

**3,664,079**

**1,276,070**

**2,443,997**

**509,461**

**63,695**

**277,769**

**398,058**

**36,001**

**74,809**

**95,096**

**1,156**

**5,761,119**

**115,659**

**513,486**

**984,349**

**155,325**

**7,403,128**

**1,543,146**

16,969,297

38,030,398

4,159,301

570,468

4,926,159

498,443

39,429

341,224

418,471

34,656

74,953

85,248

364

7,077,555

167,600

1,184,487

-

- 5,814,451

1,185,600

**-**

**-**

**-**

**- 1,121,252**

**509,461**

**63,695**

**30,709**

**244,947**

**36,001**

**67,456**

**93,633**

**1,156**

**4,973,324**

**- 494,043**

**984,349**

**155,325**

**6,454,299**

**-**

-

-

-

- 3,889,695

498,443

39,429

38,620

277,558

34,656

66,988

84,334

364

6,226,612

- 1,165,720

-

- 5,029,996

-

**TOTAL EXPENDITURE**

**90,588,286**

81,578,104

**15,229,650**

17,352,415



**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:

**COMBINED**

**8. SCHEME MANAGEMENT FEES**

Scheme management fees are paid to the scheme manager for: Reinsurance placement - MAV Insurance

Risk management and administrative services - MAV Insurance Occupational Health and Safety - MAV WorkCare

Risk Identification and Prevention- MAV WorkCare Training and Education - MAV WorkCare

**TOTAL SCHEME MANAGEMENT FEES**

5(b)

1. **NOTES TO STATEMENT OF CASH FLOWS**
   1. **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**

**10.**

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

**1 7**

M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**Total**

**<30 days**

**31-60 days**

**61-90 days**

**>90 days**

**2020**

Combined

MAV General Fund

**65,309,861**

**11,232,331**

**62,842,486**

**11,232,331**

**-**

**-**

**-**

**-**

**2,467,375**

**-**

2019

Combined

MAV General Fund

**40,469,540**

**9,404,416**

**40,073,505**

**9,093,927**

**23,580**

**23,580**

**49,002**

**49,002**

**323,453**

**237,907**

NOTE

**2020**

**$**

2019

$

**2020**

**$**

2019

$

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 Depreciation Amortisation Amortisation - Leases

(Surplus)/deficit on disposal of assets Unrealised gains on investments **Changes in assets and liabilities**

(Increase)/decrease in accounts receivable 2(f) (Increase)/decrease in prepayments

Increase/(decrease) in accounts payable Increase/(decrease) in provision for employee entitlements

Increase/(decrease) in outstanding claims 2(t) Increase/(decrease) in premiums in advance

Increase/(decrease) in other liabilities

**(4,308,449)**

**207,062**

**63,695**

**984,349**

**-**

**-**

**(32,309,380)**

**(745,189)**

**(456,379)**

**159,019**

**5,456,327**

**18,294,871**

**(81,479)**

(5,002,249)

195,223

39,429

(40,343)

(273,642)

(1,790,608)

315,791

(16,502,667)

(164,454)

8,450,622

4,888,503

77,460

**119,443**

**198,246**

**63,695**

**984,349**

**-**

**-**

**(4,292,832)**

**33,878**

**2,846,424**

**124,794**

**- 1,803,162**

**(81,479)**

(874,560)

186,342

39,429

(40,343)

-

(1,418,101)

282,383

12,178

(159,458)

-

- 77,460

**NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES**

**(12,735,552)**

(9,806,937)

**1,799,680**

(1,894,670)

**RECEIVABLES**

Future reinsurance and other recoveries receivable 2(u) Discount to present value

**122,347,045**

**(3,131,676)**

118,082,626

(3,871,398)

**-**

**-**

-

-

Premiums receivable 2(s)

Other receivables

**119,215,369**

**58,842,511**

**6,467,350**

114,211,228

34,845,797

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 Non-current

**89,362,562**

**95,162,669**

69,243,176

85,437,592

**11,232,331**

**-**

9,404,416

-

**TOTAL**

**184,525,231**

154,680,768

**11,232,331**

9,404,416

NOTE

**2020**

**$**

2019

$

**2,369,981**

**556,307**

**295,117**

**295,117**

**147,559**

2,220,220

1,198,124

296,382

296,382

148,192

**3,664,080**

4,159,301

Audit services

**277,769**

341,224

**30,709**

38,620

**TOTAL AUDITORS FEES**

**277,769**

341,224

**30,709**

38,620



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

For the year ended 30 June 2020

**1 8**

M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**COMBINED MAV - GENERAL FUND**

1. **P**

NOTE **$** $ **$** $

1. **P**

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

LEASEHOLD IMPROVEMENTS

Movements during the year

1. **INTANGIBLE ASSETS**

Website, Licences and Educational Programs Less accumulated amortisation

**1,143,784**

**(981,523)**

1,058,096

(917,829)

**1,006,333**

**(844,072)**

920,645

(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 Additions

Disposals Amortisation

**140,267**

**85,689**

**- (63,695)**

134,769

44,927

- (39,429)

**140,267**

**85,689**

**- (63,695)**

134,769

44,927

- (39,429)

End of year

**162,261**

140,267

**162,261**

140,267

Beginning of year Additions Disposals

Depreciation

**25**

**10,252**

**- (1,156)**

389

-

- (364)

**25**

**10,252**

**- (1,156)**

389

-

- (364)

End of year

**9,121**

25

**9,121**

25

FURNITURE AND EQUIPMENT

Movements during the year Beginning of year Additions

Disposals

Depreciation

**37,910**

**42,557**

**- (36,001)**

61,061

11,505

- (34,656)

**37,910**

**42,557**

**- (36,001)**

61,061

11,505

- (34,656)

End of year

**44,466**

37,910

**44,466**

37,910

MOTOR VEHICLES

Movements during the year Beginning of year Additions

Disposals

Depreciation

**235,732**

**23,896**

**- (74,809)**

240,497

91,859

(21,671)

(74,953)

**209,381**

**23,896**

**- (67,456)**

206,180

91,859

(21,671)

(66,988)

End of year

**184,818**

235,732

**165,821**

209,381

INFORMATION TECHNOLOGY EQUIPMENT

Movements during the year Beginning of year Additions

Disposals

Depreciation

**108,474**

**103,122**

**- (95,096)**

139,364

54,358

- (85,248)

**106,894**

**99,612**

**- (93,633)**

137,851

53,377

- (84,334)

End of year

**116,501**

108,474

**112,873**

106,894

**ROPERTY AND EQUIPMENT**

Leasehold Improvements - at cost Less accumulated depreciation

**727,526**

**(718,405)**

717,275

(717,250)

**727,526**

**(718,405)**

717,275

(717,250)

**9,121**

25

**9,121**

25

Furniture and Equipment - at cost Less accumulated depreciation

**1,207,381**

**(1,162,915)**

1,164,824

(1,126,914)

**929,921**

**(885,455)**

887,364

(849,454)

**44,466**

37,910

**44,466**

37,910

Motor vehicles - at cost

Less accumulated depreciation

**404,988**

**(220,170)**

381,091

(145,360)

**368,220**

**(202,399)**

344,323

(134,942)

**184,818**

235,731

**165,821**

209,381

Information technology equipment- at cost Less accumulated depreciation

**1,105,693**

**(989,192)**

1,002,570

(894,096)

**1,099,447**

**(986,574)**

999,835

(892,941)

**116,501**

108,474

**112,873**

106,894

**TOTAL PROPERTY AND EQUIPMENT**

**354,906**

382,140

**332,281**

354,210

NOTE

**2020**

**$**

2019

$

**2020**

**$**

2019

$

**REMIUMS AND INCOME IN ADVANCE**

Contributions/Memberships billed in advance

**COMB 66,0092,601250**

**INED**

47,7142,704159

**MAV - GENE 6,211,2300210**

**RAL FUND**

4,408,1230919



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

for the year ended 30 June 2020

**COMBINED - MAV INSURANCE AND MAV WORKCARE**

**14 (**

**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**

**15. N**

**1 9**

M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A

F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**2020**

**Current Year Prior Year Total**

**$ $ $**

2019

Current Year Prior Year Total

$ $ $

**ET CLAIMS INCURRED**

Gross Claims and related Expenses - undiscounted

Discount

**42,136,382 1,430,730 43,567,111**

**(1,516,741) 5,747,135 4,230,394**

40,232,824 (12,722,882) 27,509,942

(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 Discount

**(20,000,711) (9,033,440) (29,034,151)**

**(2,101,455) 78,782 (2,022,672)**

(20,682,464) 3,474,167 (17,208,297)

(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

Outstanding claims brought forward Changes in assumptions

Increase in claims incurred/recoveries anticipated

**2020**

**Gross Reinsurance Net**

**$ $ $ 177,812,775 114,211,227 63,601,548**

2019

Gross Reinsurance Net

$ $ $ 169,362,151 101,693,508 67,668,643

**26,789,081 28,681,115 (1,892,034)**

**21,008,424 2,375,708 18,632,716**

15,031,109 14,585,611 445,498

22,999,290 8,044,517 14,954,773

Incurred claims recognised in Statement of Comprehensive Income

Claim payments/recoveries during the year

**47,797,505 31,056,823 16,740,682**

**(42,341,179) (26,180,197) (16,160,982)**

38,030,399 22,630,128 15,400,271

(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

NOTE

**2020**

**$**

2019

$

**a). OUTSTANDING CLAIMS**

Central Estimate Discount to present value

Excesses and recoveries - discounted to present value

**185,893,191**

**(6,950,669)**

**156,051**

184,033,049

(11,193,320)

363,549

Claims handling costs

Risk margin 14(b)

**179,098,573**

**4,170,528**

**-**

173,203,278

4,609,496

-

**TOTAL OUTSTANDING CLAIMS**

**183,269,101**

177,812,774

**Comprising:**

Current Non-current

**32,864,665**

**150,404,436**

36,982,665

140,830,109

**TOTAL CLAIMS PROVISION** 2(t)& (u)

**183,269,101**

177,812,774



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

For the year ended 30 June 2020

**2 0**

M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**16. CLAIMS DEVELOPMENT TABLE**

ACCIDENT YEAR 2016 2017 2018 2019 2020 Total

$ $ $ $ $

ACCIDENT YEAR 2016 2017 2018 2019 2020 Total

$ $ $ $ $ $

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

**MAV INSURANCE**

**17 (**

**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.

NOTE

**2020**

**$**

2019

$

**a). OUTSTANDING CLAIMS**

Central Estimate Discount to present value Excesses and recoveries

**116,716,794**

**(2,738,970)**

**156,051**

113,347,242

(4,676,653)

363,549

Claims handling costs

Risk margin 20(b)

**114,133,875**

**45,270**

**-**

109,034,138

53,488

-

**TOTAL OUTSTANDING CLAIMS**

**114,179,145**

109,087,626

**Comprising:**

Current Non-current

**19,189,697**

**94,989,448**

25,208,001

83,879,625

**TOTAL CLAIMS PROVISION** 2(t)

**114,179,145**

109,087,626

**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 2,873,201

2015 and prior 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

**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 2,873,201

2015 and prior 43,258,333

**COMBINED GROSS OUTSTANDING CLAIMS** 14 (c) 183,269,101



**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**

**18. N**

**19. CLAIMS DEVELOPMENT TABLE**

**NET ESTIMATE OF ULTIMATE CLAIMS COST -**

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

**2 1**

M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A

F I N A N C I A L R E P O R T

2 0 1 9 - 2 0

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

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

**2020**

**Current Year Prior Year Total**

**$ $ $**

2019

Current Year Prior Year Total

$ $ $

**ET CLAIMS INCURRED MAV INSURANCE**

Gross claims and related expenses - Discount

**25,006,938 5,930,482 30,937,420**

**(668,831) 2,399,016 1,730,185**

23,445,320 (4,332,338) 19,112,982

(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 Discount

**(17,892,661) (8,615,829) (26,508,491)**

**(2,346,711) 100,753 (2,245,958)**

(18,769,120) 2,795,477 (15,973,643)

(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

**2020**

**Gross Reinsurance Net**

**$ $ $**

2019

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

Increase in claims incurred/recoveries anticipated

**27,576,087 28,215,621 (639,535)**

**5,091,518 538,827 4,552,691**

16,387,032 15,195,360 1,191,672

7,283,170 6,205,259 1,077,911

Incurred claims recognised in Statement of Comprehensive Income

Claim payments/recoveries during the year

**32,667,605 28,754,448 3,913,157**

**(27,576,087) (25,991,105) (1,584,982)**

23,670,202 21,400,619 2,269,583

(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

**2 2**

M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**MAV WORKCARE**

**2020** 2019

NOTE **$** $

**MAV WorkCare**

**20 (**

**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**

**21. N**

**2020**

**Current Year Prior Year Total**

**$ $ $**

2019

Current Year Prior Year Total

$ $ $

**ET CLAIMS INCURRED**

**MAV WorkCare**

Gross Claims and related Expenses - Discount

**17,129,443 (4,499,752) 12,629,691**

**(847,911) 3,348,120 2,500,209**

16,787,504 (8,390,544) 8,396,960

(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 Discount

**(2,108,050) (417,610) (2,525,660)**

**245,256 (21,971) 223,285**

(1,913,344) (678,690) (1,234,654)

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

Outstanding claims brought forward

**2020**

**Gross Reinsurance Net**

**$ $ $ 68,725,148 (2,889,869) 65,835,279**

2019

Gross Reinsurance Net

$ $ $ 67,557,695 (890,281) 66,667,414

Changes in assumptions

Increase in claims incurred/recoveries anticipated

**(787,006) (465,494) (1,252,500)**

**15,916,906 (1,836,881) 14,080,025**

(1,355,924) 609,749 (746,175)

15,716,120 (1,839,258) 13,876,862

Incurred claims recognised in Statement of Comprehensive Income

Claim payments/recoveries during the year

**15,129,900 (2,302,375) 12,827,525**

**(14,765,092) 189,092 (14,576,000)**

14,360,196 (1,229,509) 13,130,687

(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

**a). OUTSTANDING CLAIMS**

Central Estimate Discount to present value

Claims handling costs

Risk margin 20(b)

**69,176,397**

**(4,211,699)**

70,685,807

(6,516,667)

**64,964,698**

**4,125,258**

**-**

64,169,140

4,556,008

-

**TOTAL OUTSTANDING CLAIMS**

**69,089,956**

68,725,148

**Comprising:**

Current Non-current

**13,674,968**

**55,414,988**

11,774,664

56,950,484

**TOTAL CLAIMS PROVISION** 2(u)

**69,089,956**

68,725,148



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

for the year ended 30 June 2020

**22. CLAIMS DEVELOPMENT TABLE**

**NET ESTIMATE OF ULTIMATE CLAIMS COST**

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

**COMBINED**

**MAV - GENERAL FUND**

**23. P**

**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

**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).

**2 3**

M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

Balance at beginning of year Entitlements paid

Increase in provision

**909,214**

**(321,796)**

**480,817**

1,073,665

(329,220)

164,769

**886,778**

**(321,796)**

**446,590**

1,046,236

(329,220)

169,762

**BALANCE AT END OF YEAR**

**1,068,238**

909,214

**1,011,572**

886,778

NOTE

**2020**

**$**

2019

**$**

**2020**

**$**

2019

$

**ROVISIONS FOR EMPLOYEE ENTITLEMENTS**

The aggregate amount of employee entitlement liability is comprised of:

Provisions (current) Provisions (non-current)

**971,050**

**97,188**

800,308

108,906

**926,865**

**84,707**

780,068

106,710

**TOTAL EMPLOYEE ENTITLEMENTS**

**1,068,238**

909,214

**1,011,572**

886,778

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** 20(c) 64,086,804

**CLAIMS**

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** (2,798,049)

Claims handling expense 2,841,632

2015 and prior 21,498,220

**MAV WORKCARE GROSS OUTSTANDING** 20a) &20( c) 69,089,956

**CLAIMS**



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

For the year ended 30 June 2020

**2 4**

M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

1. **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 makes 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:

1. 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
2. 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**

**Non- Interest Earning**

**MAV - GENERAL FUND**

**Floating Interest Rate**

**Non- Interest Earning**

**Floating Interest Rate**

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**

**Non- Interest Earning**

**MAV - GENERAL FUND**

**Floating Interest Rate**

**Non- Interest Earning**

**Floating Interest Rate**

2019

$

$

$

$

**FINANCIAL ASSETS**

Cash and cash equivalents Investments

Trade and other receivables

**TOTAL FINANCIAL ASSETS**

-

- 154,680,768

39,359,961

45,532,165

-

-

- 9,404,416

5,214,896

-

-

154,680,768

84,892,126

9,404,416

5,214,896

**Weighted average interest rate**

0.6%

2.5%

**FINANCIAL LIABILITIES**

Outstanding claims

Unearned premiums/subscriptions Trade and other payables

**TOTAL FINANCIAL LIABILITIES**

184,033,049

47,714,745

12,767,706

-

-

-

- 4,408,139

2,451,303

-

-

-

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.

**2 5**

M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**FINANCIAL LIABILITIES**

Outstanding claims

Unearned premiums/subscriptions Trade and other payables

**185,893,191 - - -**

**66,009,615 - - -**

**9,730,930 - 2,717,328 -**

**TOTAL FINANCIAL LIABILITIES**

**261,633,736 - 2,717,328 -**

**Weighted Average Interest Rate**

**0% 0%**

**2020**

**$ $ $ $**

**FINANCIAL ASSETS**

Cash and cash equivalents Investments

Trade and other receivables

**- 18,807,804 - 5,768,220**

**- 52,098,906 - -**

**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%**



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

For the year ended 30 June 2020

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M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**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:**

**COMBINED MAV - GENERAL FUND**

**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**

**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**

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)**

NOTE

**2020**

**$**

2019

$

**2020**

**$**

2019

$

3 months or less 3-12 months

1-5 years

Over 5 years

**57,241,060**

**58,995,802**

**99,472,888**

**59,787,582**

34,786,594

60,368,859

89,952,935

61,913,601

**8,928,629**

**2,649,394**

**1,833,776**

**-**

6,859,442

1,545,696

313,761

-

**275,497,332**

247,021,991

**13,411,799**

8,718,899



**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**

**3-12 months**

**1-5 years**

**>5years**

**Total**

**<3 months**

**$**

**$**

**$**

**$**

**$**

**MAV GENERAL FUND FINANCIAL ASSETS**

Cash and cash equivalents Trade and other receivables

5,214,896

9,404,416

-

-

-

-

-

-

5,214,896

9,404,416

14,619,312

-

-

-

14,619,312

**MAV GENERAL FUND FINANCIAL LIABILITIES**

Trade and other payables

Other liabilities

2,451,303

4,408,139

- 1,545,696

- 313,761

-

-

2,451,303

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.

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M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0



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

For the year ended 30 June 2020

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M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**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 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.

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 AA-**

**AAA**

**AA**

**A**

**Speculative**

**Grade**

**Not Rated**

**Total**

**+/-**

**$'000**

**+/-**

**$'000**

**+/-**

**$'000**

**$'000**

**$'000**

**$'000**

**$'000**

Reinsurance and other recoveries on outstanding claims

**-**

**-**

**-**

**44,978**

**-**

**1,654**

**46,632**

**2020**

2019

**-**

**-**

**-**

46,024

-

1,021

47,045

Reinsurance and other recoveries on paid claims

**-**

-

**-**

-

**-**

-

**2,373**

1,333

**-**

-

**-**

-

**2,373**

1,333

**2020**

2019

**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**

2019

**-**

**-**

**2,373**

1,333

**-**

**-**

**-**

**-**

**-**

**-**

**-**

**-**

**2,373**

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 Interest Rate p.a.

0.5%

(4,308,449)

(2,508,274)

1.0%

0.0%

(4,269,499)

(4,347,398)

(2,469,324)

(2,547,224)

**2 9**

M U N I C I P A L

A S S O C I A T I O N O F V I C T O R I A

F I N A N C I A L R E P O R T 2 0 1 9 - 2 0



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

For the year ended 30 June 2020

**3 0**

M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

1. **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.

* 1. **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:

1. Establishing a case estimate for each reported claim at year-end taking into account legal advice where appropriate on larger claims;
2. Allowance for incurred but not reported claims as confirmed by the actuarial review on 30 June 2020
3. Allowances for wage inflation of 1.64%, as assumed by the Actuary
4. Allowances for discount at 0.63%, as assumed by the Actuary
5. 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:

1. Establishing a case estimate for each reported claim at year-end taking into account legal advice where appropriate
2. Allowance for incurred but not reported claims as confirmed by the actuarial review on 30 June 2020
3. An allowance of 6.35% for claim settlement expenses, as assumed by the Actuary;
4. Allowances for wage inflation of 1.75%, as assumed by the Actuary
5. Allowances for discount at 1.05%, as assumed by the Actuary
6. 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

Claim administration expense Discount rate

Risk margin Superimposed inflation

**Process used to determine actuarial assumptions**

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

**1.75%**

**6.35%**

**1.05%**

**0.00%**

**1.80%**

2.50%

7.40%

1.50%

0.00%

1.78%

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.

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.

**Discount Rate**

**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 Wage inflation rate p.a.

1.75%

(4,308,449)

(6,410,449)

(2,508,274)

(4,610,274)

2.25%

1.25%

(2,306,449)

(506,274)

**3 1**

M U N I C I P A L

A S S O C I A T I O N

O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0



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

For the year ended 30 June 2020

**3 2**

M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**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 Operating Total**

**to +0.5%/-0.5% surplus (deficit) Accumulated**

**at 30 June 2020 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 Operating Total**

**Current Rate surplus (deficit) Accumulated**

**+1%/-1% at 30 June 2020 Funds after the**

**impact of applying variable**

**% % $ $**

**IMPACT OF CHANGES IN CLAIMS ADMINSTRATION 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 (continued)**

**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:

1. Letter of set off over a bank deposit amounting to $11.7 million.
2. 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:

1. 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.
2. 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).

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M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0



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

For the year ended 30 June 2020

**3 4**

M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**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 Data allowance 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

**3376.. REVEELNATTESDSUPABRSTEIQEUSENT**

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.

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M U N I C I P A L A S S O C I A T I O N O F V I C T O R I A F I N A N C I A L R E P O R T

2 0 1 9 - 2 0



**Statement by directors**

As at 30 June 2020

**3 6**

M U N I C I P A L A S S O C I A T I O N

O F V I C T O R I A F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

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

1. 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
2. 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;
3. 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;
4. the accompanying Combined Financial Statements present fairly in all material respects the state of affairs of the association as at that date;
5. 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 Cr. Mike Symon Kerry Thompson**

President Director 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**

**3 7**

M A V I N S U R A N C E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0



INSURANCE

**Independent Auditor’s Report**

***To the Directors of the MAV Insurance***

**Opinion**

I have audited the financial report of the MAV Insurance (the scheme) which comprises the:













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.

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 *Financial Management Act 1994* and applicable Australian Accounting Standards.

**Basis for**

**Opinion**

I have conducted my audit in accordance with the *Audit Act 1994* which incorporates the

Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the *Auditor’s Responsibilities for the Audit of the Financial Report* section of my report.

My independence is established by the *Constitution Act 1975.* 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 *Code of Ethics for Professional Accountants* (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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a

basis for my opinion.

**3 8**

M A V I N S U R A N C E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**Directors’ responsibilities 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 the *Financial Management Act 1994*, 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.

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.



INSURANCE

MELBOURNE

20 October 2020

Sanchu Chummar

*as delegate for the Auditor-General of Victoria*

**3 9**

M A V I N S U R A N C E

F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**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.



INSURANCE

**Statement of Comprehensive Income**

For the year ended 30 June 2020

**4 0**

M A V I N S U R A N C E

F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**COMBINED LIABILITY MUTUAL INSURANCE COMMERCIAL CRIME**

**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**

**The accompanying notes form an integral part of these statements. 1**

NOTE

CURRENT ASSETS

Cash and cash equivalents 2(e),8(a)

Trade and other receivables 9

**2020**

**$**

**1,258,143**

**66,468,706**

2019

$

3,242,187

58,036,544

**2020**

**$**

**1,126,735**

**66,468,562**

2019

$

**3,115,258**

**58,036,112**

**2020**

**$**

**131,408**

**145**

2019

$

**126,929**

**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

Premiums in advance 10

Outstanding Claims 11(a)

**4,703,104**

**39,011,594**

**19,189,697**

8,367,381

26,580,386

25,208,001

**4,678,477**

**39,011,594**

**19,189,697**

**8,342,947**

**26,580,386**

**25,208,001**

**24,627**

**-**

**-**

**24,434**

**-**

**-**

**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**

**2020**

**$**

2019

$

**2020**

**$**

2019

$

**2020**

**$**

2019

$

NOTE

Premium revenue 3

Performance bonus 18

Reinsurance expense 2(s)

**26,480,386**

**- (16,422,424)**

22,634,305

99,845

(16,011,380)

**26,480,386**

**- (16,422,424)**

22,634,305

99,845

(16,011,380)

**-**

**-**

**-**

-

-

-

**NET PREMIUM INCOME**

**10,057,962**

6,722,770

**10,057,962**

6,722,770

**-**

-

Claims expense 4(a)

Reinsurance and other recoveries 3

**(32,667,605)**

**28,754,448**

(23,670,203)

21,400,619

**(32,667,605)**

**28,754,448**

(23,670,203)

21,400,619

**-**

**-**

-

-

**NET CLAIMS EXPENSE** 12

**(3,913,157)**

(2,269,584)

**(3,913,157)**

(2,269,584)

**-**

-

**NET UNDERWRITING RESULT**

Management fees 2(i),3

Investment income 3

Administration and general expenses 4(b)

**6,144,805**

**58,609**

**44,791**

**(5,964,203)**

4,453,186

69,893

326,008

(6,699,598)

**6,144,805**

**- 42,761**

**(5,907,563)**

4,453,186

- 321,289

(6,608,925)

**- 58,609**

**2,030**

**(56,640)**

-

**69,893**

**4,719**

**(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)**



INSURANCE

**Statement of Changes in Equity**

For the year ended 30 June 2020

**4 1**

M A V I N S U R A N C E F I N A N C I A L R E P O R T

2 0 1 9 - 2 0

**COMBINED LIABILITY MUTUAL INSURANCE COMMERCIAL CRIME**

**Statement of Cash Flows for the year ended 30 June 2020**

**COMBINED LIABILITY MUTUAL INSURANCE COMMERCIAL CRIME**

**The accompanying notes form an integral part of these statements.**

NOTE

**CASH FLOW FROM OPERATING ACTIVITIES**

RECEIPTS

Premiums and fees Interest received Performance bonus

Reinsurance and other recoveries

PAYMENTS

Trade and other payables Claim payments

**2020**

**$**

**26,089,624**

**45,077**

**- 25,991,105**

**(26,533,763)**

**(27,576,087)**

2019

$

22,823,017

54,893

99,845

14,781,176

(38,236,120)

(16,387,032)

**2020**

**$**

**25,457,793**

**42,761**

**- 25,991,105**

**(25,904,095)**

**(27,576,087)**

2019

$

22,185,423

47,647

99,845

14,781,176

(37,443,386)

(16,387,032)

**2020**

**$**

**631,831**

**2,316**

**-**

**-**

**(629,668)**

**-**

2019

$

637,594

7,246

-

-

(792,734)

-

**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

RETAINED EARNINGS

Balance at beginning of year Surplus/(Deficit) from ordinary activities

**2020**

**$**

**(83,234)**

**284,002**

2019

$

1,767,277

(1,850,511)

**2020**

**$**

**(186,161)**

**280,003**

2019

$

1,648,289

(1,834,450)

**2020**

**$**

**102,927**

**3,999**

2019

$

118,988

(16,061)

**BALANCE AT END OF YEAR**

**200,768**

(83,234)

**93,842**

(186,161)

**106,926**

102,927



INSURANCE

**Notes to and forming part of the financial statements**

For the year ended 30 June 2020

**4 2**

M A V I N S U R A N C E F I N A N C I A L R E P O R T

2 0 1 9 - 2 0

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 initally 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).

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Accounting Standards and Interpretations which became effective during the year.

Reference Title Summary Application Date of Standard Impact on MAV Financial Application

AASB Income of Not-for- 1 January 2019 Minimal impact. Most revenue 1 July 2019 1058 Profit Entities assessed as under agreement

(contract) - See AASB 15.

AASB 15 Revenue from 1 January 2019 Minimal impact. See note 2(q). 1 July 2019 Contracts with

Customers

Accounting Standards and Interpretations issued but not yet effective.

Reference Title Summary Application Date of Standard Impact on MAV Financial Application IFRS 17 Insurance Contracts 1 January 2023 IFRS 17 does not apply to not N/A

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.

* 1. **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.

* 1. **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’).

* 1. **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.

* 1. **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.

* 1. **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.



INSURANCE

**Notes to and forming part of the financial statements**

For the year ended 30 June 2020

**4 3**

M A V I N S U R A N C E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

1. **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.

1. **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.

1. **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%

1. **Management fees**

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

1. **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.

1. **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.

1. **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”.

1. **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% ).



INSURANCE

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

For the year ended 30 June 2020

**4 4**

M A V I N S U R A N C E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

1. **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.

1. **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.

1. **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.

1. **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.

1. Premiums - recognised in the period the fund is at risk.
2. Future reinsurance and other Recoveries - on an accruals basis.
3. 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.
4. Performance bonus - on an accruals basis when firm evidence is available confirming the amount and indicating payment.
5. **Comparative figures**

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

1. **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.

1. **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.

1. **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:

1. 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



INSURANCE

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

For the year ended 30 June 2020

**4 5**

M A V I N S U R A N C E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

for the year ended 30 June 2020

**COMBINED LIABILITY MUTUAL INSURANCE COMMERCIAL CRIME**

**3. R**

**4(a)**

**4(b)**

1. **A**
2. **S**

**UDIT 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

**-**

-

**CHEME MANAGEMENT FEES**

Included within administration and general expenses are management fees paid to the service provider for:

Reinsurance placement

Risk management and administrative services

**2,369,981**

**556,307**

2,220,220

1,238,924

**2,369,981**

**556,307**

2,220,220

1,163,124

**-**

**-**

- 75,800

**TOTAL SCHEME MANAGEMENT FEES**

**2,926,288**

3,459,144

**2,926,288**

3,383,344

**-**

75,800

NOTE

**2020**

**$**

2019

**$**

**2020**

**$**

2019

$

**2020**

**$**

2019

$

**EVENUE FROM ORDINARY ACTIVITIES** REVENUES FROM OPERATING ACTIVITIES

Premiums

Performance bonus 18

Reinsurance and other recoveries 2(p) Management fees received

**26,480,386**

**- 28,754,448**

**58,609**

22,634,305

99,845

21,400,619

69,893

**26,480,386**

**- 28,754,448**

**-**

22,634,305

99,845

21,400,619

-

**-**

**-**

**- 58,609**

-

- 0

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

**CLAIMS EXPENSES**

Paid

Outstanding claims at end of financial

year 11(a) & 2(m)

Less: Outstanding claims at beginning of financial year

**27,576,087**

**114,179,145**

**(109,087,627)**

16,387,033

109,087,626

(101,804,456)

**27,576,087**

**114,179,145**

**(109,087,627)**

16,387,033

109,087,626

(101,804,456)

**-**

**-**

**-**

-

-

-

**TOTAL CLAIMS EXPENSES**

**32,667,605**

23,670,203

**32,667,605**

23,670,203

**-**

-

**ADMINISTRATION & GENERAL EXPENSES**

The following items have been recognised in the operating surplus/(deficit):

Administration Actuary fees

Audit fees 5

Depreciation of furniture and equipment Depreciation of leasehold improvements

Scheme management fees 6

Stamp duty

**1,215,290**

**115,659**

**163,820**

**-**

**- 2,926,288**

**1,543,146**

1,684,840

163,480

206,535

-

- 3,459,144

1,185,600

**1,158,650**

**115,659**

**163,820**

**-**

**- 2,926,288**

**1,543,146**

1,669,966

163,480

206,535

-

- 3,383,344

1,185,600

**56,640**

**-**

**-**

**-**

**-**

**-**

**-**

14,873

-

-

-

- 75,800

-

**TOTAL EXPENDITURE**

**5,964,203**

6,699,599

**5,907,563**

6,608,925

**56,640**

90,673



INSURANCE

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

For the year ended 30 June 2020

**4 6**

M A V I N S U R A N C E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**COMBINED LIABILITY MUTUAL INSURANCE COMMERCIAL CRIME**

**2020** 2019 **2020** 2019 **2020** 2019

NOTE **$ $ $** $ **$** $

1. **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 **-** - **-** - - -

1. **NOTES TO THE STATEMENT OF CASH FLOWS**
   1. **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

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

Surplus (deficit) for year Adjustments for:

Depreciation Amortisation

Unrealised gains on investments Changes in assets and liabilities:

(Increase) in trade and other receivables 2(f)

Increase/(decrease) in trade and other payables

(Increase) in provision for reinsurance recoveries

(Decrease) in premiums in advance

Increase/(decrease) in outstanding claims 2(m)

**1,258,143**

**284,002**

**-**

**-**

**-**

**(13,363,152)**

**(3,664,275)**

**(2,763,344)**

**12,431,208**

**5,091,517**

3,242,187

(1,850,511)

-

- (273,642)

(4,124,184)

(15,225,692)

(6,619,444)

3,946,082

7,283,171

**1,126,735**

**280,003**

**-**

**-**

**-**

**(13,363,438)**

**(3,664,469)**

**(2,763,344)**

**12,431,208**

**5,091,517**

3,115,258

(1,834,450)

-

- (273,642)

(4,124,545)

(15,093,498)

(6,619,444)

3,946,082

7,283,171

**131,408**

**3,999**

**-**

**-**

**-**

**286**

**193**

**-**

**-**

**-**

126,929

(16,061)

-

-

-

361

(132,194)

-

-

-

**NET CASH (USED IN) OPERATING ACTIVITIES**

**(1,984,044)**

(16,864,221)

**(1,988,523)**

(16,716,327)

**4,479**

(147,894)



INSURANCE

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

for the year ended 30 June 2020

**COMBINED**

**LIABILITY MUTUAL INSURANCE**

**COMMERCIAL CRIME**

**9. TR**

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**

2019

Combined

Liability Mutual Insurance Commercial Crime Fund

29,388,615

29,388,183

432

29,388,615

29,388,183

432

-

-

-

-

-

-

-

-

-

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

**COMBINED**

**LIABILITY MUTUAL INSURANCE**

**COMMERCIAL CRIME**

**10. P**

**11(**

**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**

**4 7**

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**2020**

**Gross Reinsurance Net**

**$ $ $**

2019

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

Increase in claims incurred/recoveries anticipated

**27,576,087 28,215,621 (639,535)**

**5,091,518 538,827 4,552,691**

16,387,032 15,195,360 1,191,672

7,283,170 6,205,259 1,077,911

Incurred claims recognised in income statement

Claim payments during the year

**32,667,605 28,754,448 3,913,157**

**(27,576,087) (25,991,105) (1,584,982)**

23,670,202 21,400,619 2,269,583

(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

NOTE

**2020**

**$**

2019

$

**2020**

**$**

2019

$

**2020**

$

2019

$

**REMIUMS IN ADVANCE**

Contributions billed in advance 2(l)

**a) OUTSTANDING CLAIMS**

Central estimate 2(m)

Discount to present value

Excesses and recoveries - Discount to present value

**39,011,594**

**116,716,794**

**(2,738,970)**

**156,051**

26,580,386

113,347,242

(4,676,653)

363,549

**39,011,594**

**116,716,794**

**(2,738,970)**

**156,051**

26,580,386

113,347,242

(4,676,653)

363,549

-

**-**

**-**

**-**

-

-

-

-

Claims handling costs

Risk margin 11(b)

**114,133,875**

**45,270**

**-**

109,034,138

53,488

-

**114,133,875**

**45,270**

**-**

109,034,138

53,488

-

**-**

**-**

**-**

-

-

-

**TOTAL OUTSTANDING CLAIMS**

**114,179,145**

109,087,626

**114,179,145**

109,087,626

**-**

-

Comprising:

**CURRENT**

**NON-CURRENT**

**19,189,697**

**94,989,448**

25,208,001

83,879,625

**19,189,697**

**94,989,448**

25,208,001

83,879,625

**-**

**-**

-

-

**TOTAL OUTSTANDING CLAIMS**

**114,179,145**

109,087,626

**114,179,145**

109,087,626

**-**

-

**2020**

Combined **42,751,766 42,751,766 - - -**

Liability Mutual Insurance **42,751,621 42,751,621 - - -**

Commercial Crime Fund **145 145 - - -**

NOTE

**2020**

**$**

2019

$

**2020**

**$**

2019

$

**2020**

$

2019

$

**ADE AND OTHER RECEIVABLES**

Future reinsurance and other recoveries receivable

Discount to present value

2(p)

**116,598,543**

**(2,513,842)**

115,587,303

(4,265,946)

**116,598,543**

**(2,513,842)**

115,587,303

(4,265,946)

**-**

**-**

-

-

Less provision for doubtful debts Premiums receivable

Other receivables

**114,084,701**

**- 42,692,225**

**59,541**

111,321,357

- 29,238,425

150,189

**114,084,701**

**- 42,692,225**

**59,396**

111,321,357

- 29,238,425

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**

**NON-CURRENT**

**66,468,706**

**90,367,760**

58,036,544

82,673,428

**66,468,562**

**90,367,760**

58,036,112

82,673,428

**145**

**-**

432

-

**TOTAL**

**156,836,466**

140,709,972

**156,836,322**

140,709,540

**145**

432



INSURANCE

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

For the year ended 30 June 2020

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M A V I N S U R A N C E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**12. NET CLAIMS INCURRED**

**2020** 2019

**Current Year Prior Year Total**

**$ $ $**

Current Year Prior Year Total

$ $ $

**COMMERCIAL CRIME FUND**

Gross claims and related expenses – undiscounted

Discount

**- - -**

**-**

- **-** -

- **-** -

Gross Claims and related expenses – discounted

**- - -**

- **-** -

Reinsurance and other recoveries – undiscounted

Discount

**- - -**

**- - -**

- - -

- - -

Reinsurance and other recoveries – discounted

**- - -**

- - -

**NET CLAIMS INCURRED**

**- - -**

- - -

**2020**

2019

**Current Year Prior Year Total**

**$ $ $**

Current Year Prior Year Total

$ $ $

**COMBINED**

Gross claims and related expenses – undiscounted

Discount

**25,006,938 5,930,482 30,937,420**

**(668,831) 2,399,016 1,730,185**

23,445,320 (4,332,338) 19,112,982

(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 – undiscounted

Discount

**(17,892,661) (8,615,829) (26,508,491)**

**(2,346,711) 100,753 (2,245,958)**

(18,769,120) 2,795,477 (15,973,643)

(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**

**Current Year Prior Year Total**

**$ $ $**

2019

Current Year Prior Year Total

$ $ $

**LIABILITY MUTUAL INSURANCE**

Gross claims and related expenses – undiscounted

Discount

**25,006,938 5,930,482 30,937,420**

**(668,831) 2,399,016 1,730,185**

23,445,320 (4,332,338) 19,112,982

(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 – undiscounted

Discount

**(17,892,661) (8,615,829) (26,508,491)**

**(2,346,711) 100,753 (2,245,958)**

(18,769,120) 2,795,477 (15,973,643)

(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



INSURANCE

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

For the year ended 30 June 2020

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M A V I N S U R A N C E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

1. **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** 114,179,145

**GROSS OUTSTANDING CLAIMS** 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** 11(c) 94,444

Debtor Excesses and Reinsurance Recoveries on Paid Claims 4,918,612

**TOTAL NET OUTSTANDING CLAIMS** 11(c) 5,013,056

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

1. **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 Floating Non- Interest Floating Non – Interest Floating Earning Interest Rate Earning Interest Rate Earning Interest Rate**

**$** $ **$** $ $ $

**2020**

**FINANCIAL ASSETS**

**FINANCIAL LIABILITIES**

Outstanding claims 11(a)

Unearned premiums/subscriptions 10

Trade and other payables

**114,179,145 - 114,179,145 - - -**

**39,011,594 - 39,011,594 - - -**

**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%**

Cash and cash equivalents 5

Investments

Trade and other receivables 9

**- 1,258,143 - 1,126,735 - 131,408**

**- - - - - - 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%**



INSURANCE

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

For the year ended 30 June 2020

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M A V I N S U R A N C E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**14. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)**

**COMBINED LIABILITY MUTUAL INSURANCE COMMERCIAL CRIME**

**Non- Interest Floating Non- Interest Floating Non – Interest Floating Earning Interest Rate Earning Interest Rate Earning 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

**$** $ **$** $ **$** $

**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**

3 months or less 3-12 months

1-5 years

Over 5 years

**19,248,596**

**43,636,477**

**66,141,704**

**31,449,984**

21,397,044

38,928,526

59,220,604

28,802,326

**19,223,969**

**43,636,477**

**66,141,704**

**31,449,984**

21,372,610 **24,627** 24,434

38,928,526 **-** -

59,220,604 **-** -

28,802,326 **-** -

**160,476,761**

148,348,500

**160,452,134**

148,324,066 **24,627** 24,434



INSURANCE

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

For the year ended 30 June 2020

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M A V I N S U R A N C E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**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.



INSURANCE

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

For the year ended 30 June 2020

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M A V I N S U R A N C E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**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**

**Speculative Not Rated Total**

**AAA AA AA- A Grade**

**+/- +/- +/-**

**$'000 $'000 $'000 $'000 $'000 $'000 $'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 - **- - 2,373 - - 2,373**

on paid claims **2020**

2019 - - - 1,333 - - 1,333

**PAST DUE BUT NOT IMPAIRED**

**Neither past due Less than 3 3 to 6 months 6 months to 1 Greater than 1 Impaired Total nor impaired months year year**

**$'000 $'000 $'000 $'000 $'000 $'000 $'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 Operating Total variable to surplus (deficit) Accumulated**

**+0.5%/-0.5% at 30 June 2020 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



INSURANCE

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

For the year ended 30 June 2020

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M A V I N S U R A N C E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

1. **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.

* 1. **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:

1. Establishing a case estimate for each reported claim at year-end taking into account legal advice where appropriate on larger claims;
2. Allowance for incurred but not reported claims as confirmed by the actuarial review on 30 June 2020;
3. Allowances for claim inflation of 1.64%, as assumed by the Actuary;
4. Allowances for discount at 0.63%, as assumed by the Actuary;
5. 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 Case estimates are initially established in accordance with established guidelines and by reference to the known facts. Where new development 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.



INSURANCE

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

For the year ended 30 June 2020

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M A V I N S U R A N C E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

1. **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 Operating Total variable to surplus (deficit) Accumulated**

**+0.5%/-0.5% at 30 June 2020 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 Operating Total variable to surplus (deficit) Accumulated**

**+0.5%/-0.5% at 30 June 2020 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 Operating Total Current Rate surplus (deficit) Accumulated**

**+1.0%/-1.0% at 30 June 2020 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

1. **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.

1. **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 peformance payments expected. No performance bonus was received during the year (2019 $99,845).



INSURANCE

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

For the year ended 30 June 2020

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M A V I N S U R A N C E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

1. **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.

1. **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.

1. **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**

**$**

Chairperson **25,000**

Independent Board members **15,000**

**COMBINED LIABILITY MUTUAL INSURANCE COMMERCIAL CRIME**

**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.

**2020**

2019

**2020**

2019

**2020**

2019

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

**-**

-



INSURANCE

**Statement by the MAV Insurance Board**

As at 30 June 2020

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M A V I N S U R A N C E

F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

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

1. 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
2. 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
3. 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
4. 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 Kerry Thompson**

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:

1. 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
2. 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
3. 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
4. the accompanying Combined Financial Statements present fairly in all material respects the state of affairs of the association as at that date
5. 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 Cr. Mike Symon Kerry Thompson**

President Director 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**

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M A V W O R K C A R E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0



WORKCARE

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Fax: +61 3 8650 7777

ey.com/au

Independent audit or’s report t o t he members of MAV WorkCare

Opinion

We have audited the financial repor t 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 equit y 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 repor t. 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 Wor kSafe 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. Responsibilit ies of t he Directors for the Financial Report

The directors of the Scheme are responsible for the preparat ion and fair presentat ion of the financial report in accordance with Australian Accounting Standards and for such internal control as the

directors determine is necessary to enable the preparat ion and fair presentat ion of the financial report that is free from mat erial 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 eit her intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

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WORKCARE

Auditor's Responsibilit ies for the Audit of t he 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 repor t 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 mat erial 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:



Ident ify and assess the risks of mat erial misstatement of the financial repor t, 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 effect iveness 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 repor t. However, future event s 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 present ation.

We communicate with the directors regarding, among other matters, the planned scope and t iming of

the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Maree Pallisco Partner Melbourne

2 October 2020

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WORKCARE

**Statement of Comprehensive Income**

For the year ended 30 June 2020

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**The accompanying notes form an integral part of these statements.**

**Statement of Financial Position**

as at 30 June 2020

NOTE

CURRENT ASSETS

Cash and cash equivalents Investments

Trade and other receivables 9

Prepayments and deposits

**2020**

**$**

**11,781,440**

**52,098,906**

**16,547,315**

**2,545,663**

2019

$

30,902,878

45,532,165

5,963,774

1,766,595

**TOTAL CURRENT ASSETS**

**82,973,324**

84,165,412

NON-CURRENT ASSETS

Trade and other receivables 9

Motor vehicles, furniture and equipment 7

**4,794,909**

**22,625**

2,764,164

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

MAV subordinate loan 20

Premiums in advance 10

Provision for employee entitlements

Outstanding claims 11(a)

**3,196,290**

**4,000,000**

**20,786,720**

**44,182**

**13,674,968**

2,110,579

4,000,000

16,726,219

20,240

11,774,664

**TOTAL CURRENT LIABILITIES**

**41,702,160**

34,631,702

NON-CURRENT LIABILITY

Provision for employee entitlements

Outstanding claims 11(a)

**12,482**

**55,414,988**

2,196

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)

**2020**

**$**

2019

$

NOTE

Premium revenue 3

Re-insurance expense

**16,494,548**

**(1,051,955)**

15,301,829

(957,917)

**NET PREMIUM INCOME**

**15,442,593**

14,343,912

Claims expense 4(a)

Reinsurance and other recoveries 3

**(15,129,900)**

**2,302,375**

(14,360,196)

1,229,509

**NET CLAIMS EXPENSE**

**(12,827,525)**

(13,130,687)

**NET UNDERWRITING RESULT**

Net investment gain (loss) 3

Administration and general expenses 4(b)

**2,615,068**

**(2,174,495)**

**(5,152,469)**

1,213,225

51,653

(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)



WORKCARE

**Statement of Changes in Equity**

For the year ended 30 June 2020

**6 1**

M A V W O R K C A R E F I N A N C I A L R E P O R T

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2019

$

**(2,349,695)**

**(2,277,181)**

**(4,626,876)**

**Statement of Cash Flows for the year ended 30 June 2020**

**CASH FLOW FROM OPERATING ACTIVITIES**

**The accompanying notes form an integral part of these statements.**

NOTE

RECEIPTS

Premiums and fees

Interest and investment gain (loss)

PAYMENTS

Suppliers

Claim payments

**2020**

**$**

**11,327,874**

**(2,248,341)**

**(6,865,629)**

**(14,765,089)**

2019

$

28,178,843

484,169

(6,518,315)

(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

Receipts from (Payments to) investment activities

**- (3,512)**

**(6,566,741)**

- (981)

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**

RETAINED EARNINGS

Balance at the Beginning of the year (Deficit) from ordinary activities

**2020**

**$**

**(4,626,876)**

**(4,711,895)**

**BALANCE AT END OF YEAR**

**(9,338,771)**



WORKCARE

**Notes to and forming part of the financial statements**

For the year ended 30 June 2020

**6 2**

M A V W O R K C A R E F I N A N C I A L R E P O R T

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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.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Accounting Standards and Interpretations which became effective during the year.

Reference Title Summary Application Date of Standard Impact on MAV Financial Report Application Date AASB 1058 Income of Not-for-Profit 1 January 2019 Minimal impact. Most revenue 1 July 2019

Entities assessed as under agreement

(contract) - See AASB 15.

AASB 15 Revenue from Contracts with 1 January 2019 Minimal impact. See note 2(o). 1 July 2019 Customers

Accounting Standards and Interpretations issued but not yet effective.

Reference Title Summary Application Date of Standard Impact on MAV Financial Report Application Date

for MAV

IFRS 17 Insurance Contracts 1 January 2023 IFRS 17 does not apply to not N/A

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.

1. **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.

1. **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).

1. **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.

1. **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.

1. **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.

1. **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.



WORKCARE

**Notes to and forming part of the financial statements**

For the year ended 30 June 2020

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M A V W O R K C A R E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

1. **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%

1. **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.

1. **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.

1. **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”.

1. **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.

1. **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.

1. **Cash flows**

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

1. **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.

1. **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.

1. Premiums - recognised in the period the fund is at risk
2. Future reinsurance and other Recoveries - on an accruals basis
3. 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.
4. **Comparative figures**

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

1. **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.



WORKCARE

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

For the year ended 30 June 2020

**6 4**

M A V W O R K C A R E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

1. **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.

**2020 Level 1 Level 2 Level 3 Total**

**Investments** - 52,098,906 - 52,098,906

**Total** - 52,098,906 - 52,098,906

**2019**

Investments - 45,532,165 - 45,532,165

Total - 45,532,165 - 45,532,165

1. **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.

1. **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:

1. 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
2. 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)
3. 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
4. In April 2020, the Victoria government enacted the COVID-19 Omnibus (Emergency Measures) At 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
5. 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
6. 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.



WORKCARE

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

For the year ended 30 June 2020

**6 5**

M A V W O R K C A R E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**3. R**

**4(a).**

**4(b). ADMINISTRATION & GENERAL EXPENSES**

The following items have been recognised in the operating (deficit):

1. **A**
2. **S**

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

Administration

Audit fees 5

Depreciation of motor vehicles

Depreciation of information technology equipment Staffing costs and consultants

Levy

Scheme management fees 6

**1,629,446**

**139,800**

**7,354**

**1,463**

**1,360,545**

**1,276,070**

**737,791**

900,947

96,069

7,966

914

1,220,619

570,468

740,956

**TOTAL EXPENDITURE**

**5,152,469**

3,542,059

**UDIT FEES**

Amounts payable or due and payable for audit services: Audit of the entity

Audits-other

**83,240**

**56,560**

96,069

-

**TOTAL AUDIT FEE**

**139,800**

96,069

**CHEME MANAGEMENT FEES**

Included within administration and general expenses are Risk Identification and prevention

Occupational Health and Safety

Training and Education

**TOTAL SCHEME MANAGEMENT FEES**

**295,116**

**295,116**

**147,559**

296,382

296,382

148,192

**737,791**

740,956

NOTE

**2020**

**$**

2019

$

**EVENUE FROM ORDINARY ACTIVITIES**

REVENUES FROM OPERATING ACTIVITIES

Premiums

Reinsurance and other recoveries

**16,494,548**

**2,302,375**

15,301,829

1,229,509

**TOTAL REVENUE FROM OPERATING ACTIVITIES**

**18,796,923**

16,531,338

REVENUES FROM NON-OPERATING ACTIVITIES

Investment income Realised investment loss

**224,361**

**(2,398,856)**

1,998,140

(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

**CLAIMS EXPENSES**

Paid

Outstanding claims at end of financial year Less: Outstanding claims at beginning

**14,765,092**

**69,089,956**

**(68,725,148)**

13,192,743

68,725,148

(67,557,695)

**TOTAL CLAIMS EXPENSES**

**15,129,900**

14,360,196



WORKCARE

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

For the year ended 30 June 2020

**6 6**

M A V W O R K C A R E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

1. **M**
2. **NOTES TO THE STATEMENT OF CASH FLOWS**
   1. **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 Adjustments for:

Depreciation

Changes in assets and liabilities:

(Increase) decrease in trade and other receivables and

prepayments 2(f)

Increase(decrease) in employee entitlements Increase (decrease) in trade and other payables Increase in premiums in advance

Increase in outstanding claims 2(m)

**(4,711,895)**

**8,816**

**(13,393,352)**

**34,227**

**1,085,711**

**4,060,501**

**364,807**

(2,277,181)

8,881

6,316,587

(4,993)

2,798,787

942,421

1,167,452

**NET CASH (USED IN) OPERATING ACTIVITIES**

**(12,551,185)**

8,951,953

for the year ended 30 June 2020

NOTE

**2020**

**$**

2019

$

**OTOR VEHICLES, FURNITURE AND EQUIPMENT**

Motor vehicles

Less accumulated depreciation

**36,768**

**(17,771)**

36,768

(10,418)

**18,997**

26,350

Furniture and equipment - at cost Less accumulated depreciation

**6,246**

**(2,618)**

2,735

(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 Additions

Disposals

Depreciation

**26,350**

**-**

**- (7,353)**

34,317

-

- (7,967)

End of year

**18,997**

26,350

FURNITURE AND EQUIPMENT

Movements during the year Beginning of year Additions

Disposals

Depreciation

**1,580**

**3,511**

**- (1,463)**

1,513

981

- (914)

End of year

**3,628**

1,580



WORKCARE

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

For the year ended 30 June 2020

**6 7**

M A V W O R K C A R E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

NOTE

**2020**

$

2019

$

**9. TRADE AND OTHER RECEIVABLES**

Future reinsurance and other recoveries receivable Discount to present value

**5,620,986**

**(617,834)**

3,284,418

(394,548)

Less provision for doubtful debts Premiums receivable

Other receivables

**5,003,152**

**- 16,150,286**

**188,786**

2,889,870

- 5,607,373

230,695

**TOTAL RECEIVABLES**

**21,342,224**

8,727,938

**Represented By: CURRENT**

**NON-CURRENT**

**16,547,315**

**4,794,909**

5,963,774

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**

2019

MAV WorkCare 5,838,068 5,752,522 - - 85,546

**10. P**

**11(a**

**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**

**12. NET CLAIMS INCURRED**

**2020**

2019

**Current Year Prior Year Total**

**$ $ $**

Current Year Prior Year Total

$ $ $

**COMBINED**

Gross claims and related expenses – undiscounted Discount

**17,129,443 (4,499,752) 12,629,691**

**(847,911) 3,348,120 2,500,209**

16,787,504 (8,390,544) 8,396,960

(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 Discount

**(2,108,050) (417,610) (2,525,660)**

**245,256 (21,971) 223,285**

(1,913,344) 678,690 (1,234,654)

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

**2020**

**Gross Reinsurance Net**

**& Recoveries**

**$ $ $**

2019

Gross Reinsurance & Net Recoveries

$ $ $

Outstanding claims brought forward

**68,725,148 (2,889,869) 65,835,279**

67,557,695 (890,281) 66,667,414

Changes in assumptions

Increase in claims incurred/recoveries anticipated

**(787,006) (465,494) (1,252,500)**

(1,355,924) 609,749 (746,175)

15,716,120 (1,839,258) 13,876,862

**15,916,906 (1,836,881) 14,080,025**

Incurred claims recognised in income statement Claim payments during the year

**15,129,900 (2,302,375) 12,827,525**

**(14,765,092) 189,092 (14,576,000)**

14,360,196 (1,229,509) 13,130,687

(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

**REMIUMS IN ADVANCE**

Contributions billed in advance

**2020**

$

2019

$

**20,786,720**

16,726,219

**). OUTSTANDING CLAIMS**

Central estimate Discount to present value

Claims handling costs

**69,176,397**

**(4,211,699)**

70,685,807

(6,516,667)

**64,964,698**

**4,125,258**

64,169,140

4,556,008

**TOTAL OUTSTANDING CLAIMS**

**69,089,956**

68,725,148

Comprising:

**CURRENT**

**NON-CURRENT**

**13,674,968**

**55,414,988**

11,774,664

56,950,484

**TOTAL OUTSTANDING CLAIMS**

**69,089,956**

68,725,148

**2020**

MAV WorkCare **16,339,072 13,871,697 - - 2,467,375**



WORKCARE

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

For the year ended 30 June 2020

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M A V W O R K C A R E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**13. CLAIMS DEVELOPMENT TABLE**

**NET ESTIMATE OF ULTIMATE CLAIMS COST**

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

At end year of accident One year later

Two years later Three years later Four years later

- - 14,280,525 13,104,123 14,020,017

- 15,194,378 14,280,253 13,930,501

14,558,137 14,458,220 14,176,431

14,098,331 13,269,659

13,819,801

Current estimate of cumulative claims cost Cumulative payments

13,819,801 13,269,659 14,176,431 13,930,501 14,020,017 69,216,409

(8,015,997) (6,593,334) (6,805,558) (4,475,658) (1,398,695) (27,289,241)

Outstanding claims - undiscounted

**Discount**

Claims handling Expense 2015 and prior

5,803,804 6,676,325 7,370,873 9,454,842 12,621,322 41,927,168

(2,180,215)

2,841,632

21,498,220

**MAV WORKCARE NET OUTSTANDING CLAIMS 11c**

64,086,804

ACCIDENT YEAR

2016 2017 2018 2019 2020 Total

$ $ $ $ $ $

**GROSS ESTIMATE OF ULTIMATE CLAIMS COST**

At end year of accident One year later

Two years later Three years later Four years later

- - 16,091,056 15,017,468 16,128,067

- 15,317,981 15,698,598 16,240,158

14,782,820 14,494,192 15,566,073

14,250,521 13,355,632

13,971,991

Current estimate of cumulative claims cost Cumulative payments

13,971,991 13,355,632 15,566,073 16,240,158 16,128,067 75,261,920

(8,168,186) (6,679,306) (6,836,000) (4,631,578) (1,398,695) (27,713,765)

Outstanding claims – undiscounted

**Discount**

Claims handling expense 2015 and prior

5,803,804 6,676,325 8,730,073 11,608,580 14,729,372 47,548,154

(2,798,049)

2,841,632

21,498,220

**MAV WORKCARE GROSS OUTSTANDING CLAIMS 11c**

69,089,956



WORKCARE

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

For the year ended 30 June 2020

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M A V W O R K C A R E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**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:

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 3-12 months

1-5 years

Over 5 years

**29,063,836**

**12,709,931**

**31,497,407**

**28,337,598**

13,257,356

21,440,333

30,732,331

33,111,275

**101,608,772**

98,541,297

**FINANCIAL LIABILITIES**

Outstanding claims

Unearned premiums/subscriptions Trade and other payables

68,725,148 -

16,726,219 -

6,133,015 -

**TOTAL FINANCIAL LIABILITIES**

91,584,382 -

**Weighted Average Interest Rate**

0.0%

**2019**

**FINANCIAL ASSETS**

Cash and cash equivalents Investments

Trade and other receivables

30,902,879

45,532,165

5,963,774 -

**TOTAL FINANCIAL ASSETS**

5,963,774 76,435,044

**Weighted Average Interest Rate**

**0.07%**

**FINANCIAL LIABILITIES**

Outstanding claims

Unearned premiums/subscriptions Trade and other payables/loans

**69,089,956 -**

**20,786,720 -**

**7,252,954 -**

**TOTAL FINANCIAL LIABILITIES**

**97,129,630 -**

**Weighted Average Interest Rate**

**0.0%**

**Non- Interest Floating Interest Earning Rate**

**$** $

**2020**

**FINANCIAL ASSETS**

Cash and cash equivalents Investments

Trade and other receivables

**11,781,440**

**52,098,906**

**16,425,905 121,410**

**TOTAL FINANCIAL ASSETS**

**16,425,905 64,001,756**

**Weighted Average Interest Rate**

**0.47%**



WORKCARE

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

For the year ended 30 June 2020

**7 0**

M A V W O R K C A R E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**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.

**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.

**Year ended 30 June 2020**

**<3 months 3-12 months 1-5 years >5years Total**

**$ $ $ $ $**

**FINANCIAL ASSETS**

Cash and cash equivalents Investments

Trade and other receivables

**11,781,440 11,781,440**

**52,098,906 - - - 52,098,906**

**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

Unearned premiums/subscriptions Trade and other payables/lons

**3,436,644 10,309,931 31,484,925 28,337,598 73,569,098**

**18,386,720 2,400,000 - - 20,786,720**

**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)**



WORKCARE

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

For the year ended 30 June 2020

**7 1**

M A V W O R K C A R E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

1. **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**

**Neither past due nor impaired Less than 3 3 to 6 months 6 months to 1 year Greater than 1 Impaired Total months year**

**$'000 $'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 Operating surplus Total**

**variable to (deficit) at 30 June Accumulated**

**+0.3%/-0.3% 2020 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)

1. **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.

* 1. **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:

1. Establishing a case estimate for each reported claim at year-end taking into account legal advice where appropriate on larger claims
2. Allowance for incurred but not reported claims as confirmed by the actuarial review on 30 June 2020
3. An allowance of 6.35% for claim administration expenses, as assumed by the Actuary
4. Allowances for claim inflation of 1.75%, as assumed by the Actuary
5. Allowances for discount at 1.05%, as assumed by the Actuary
6. 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.



WORKCARE

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

For the year ended 30 June 2020

**7 2**

M A V W O R K C A R E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**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 2.50%

Average claims handling expense 7.40%

Discount rate 1.50%

Risk margin 0.00%

Superimposed inflation 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.

**1.75%**

**6.35%**

**1.05%**

**0.00%**

**1.80%**



WORKCARE

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

For the year ended 30 June 2020

**7 3**

M A V W O R K C A R E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**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 Operating surplus Total**

**variable to (deficit) at 30 June Accumulated**

**+0.5%/-0.5% 2020 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 Operating surplus Total**

**variable to (deficit) at 30 June Accumulated**

**+0.5%/-0.5% 2020 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 Operating surplus Total**

**Current Rate (deficit) at 30 June Accumulated**

**+2%/-2% 2020 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)



WORKCARE

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

For the year ended 30 June 2020

**7 4**

M A V W O R K C A R E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

1. **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.

1. **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.

1. **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:

* 1. Letter of set off over a bank deposit amounting to $11.7 million
  2. 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:

1. 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.

1. 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.



WORKCARE

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

For the year ended 30 June 2020

**7 5**

M A V W O R K C A R E F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**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.



WORKCARE

**Statement by the MAV WorkCare Board**

As at 30 June 2020

**7 6**

M A V W O R K C A R E

F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

In the opinion of the MAV WorkCare Board:

1. 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
2. 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
3. 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
4. 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 Kerry Thompson**

MAV WorkCare Board Chair 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:

1. 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;
2. 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;
3. 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
4. the accompanying Combined Financial Statements present fairly in all material respects the state of affairs of the association as at that date;
5. 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 Cr. Mike Symon Kerry Thompson**

Presid**C**en**r.**t **Coral Ross Cr. Mike S**D**ym**ire**o**c**n**tor **Kerry**C**T**hi**h**e**o**f **m**Ex**p**e**s**c**o**u**n**tive Officer

President Director Chief Executive Officer

Melbourne

2/10/2019

**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**

**7 7**

M A V L G E H E A L T H P L A N F I N A N C I A L R E P O R T 2 0 1 9 - 2 0



LGE HEALTH PLAN

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**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:

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**7 8**

M A V L G E H E A L T H P L A N F I N A N C I A L R E P O R T 2 0 1 9 - 2 0



LGE HEALTH PLAN

•

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

Maree Pallisco Partner Melbourne

2 October 2020

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**7 9**

M A V L G E H E A L T H P L A N F I N A N C I A L R E P O R T 2 0 1 9 - 2 0



LGE HEALTH PLAN

**Statement of Comprehensive Income**

For the year ended 30 June 2020

**8 0**

M A V L G E H E A L T H P L A N F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**The accompanying notes form an integral part of these statements.**

**Statement of Financial Position**

at 30 June 2020

**The accompanying notes form an integral part of these statements.**

NOTE

**2020**

**$**

2019

$

CURRENT ASSETS

Cash and cash equivalents 4(a)

Trade and other receivables 5

**2,251,283**

**43,301**

1,866,234

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

NOTE

**2020**

**$**

2019

$

**REVENUE**

REVENUE FROM OPERATING ACTIVITIES

Administration allowance income Interest income

**468,530**

**29,880**

521,383

42,067

TOTAL REVENUE

**EXPENSES**

**498,410**

563,450

Hospital excesses refunded Administration overhead

**183,622**

**9,434**

184,879

3,859

TOTAL EXPENSES

**193,056**

188,738

**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**

**305,354**

374,712



LGE HEALTH PLAN

**Statement of Changes in Equity**

For the year ended 30 June 2020

**8 1**

M A V L G E H E A L T H P L A N F I N A N C I A L

R E P O R T 2 0 1 9 - 2 0

**Statement of Cash Flows**

for the year ended 30 June 2020

**The accompanying notes form an integral part of these statements.**

NOTE

**2020**

**$**

2019

$

**CASH FLOW FROM OPERATING ACTIVITIES**

RECEIPTS

Administration allowance Interest received

PAYMENTS

Hospital excesses refunded Administration overhead

**556,886**

**25,254**

**(183,622)**

**(13,469)**

436,185

43,975

(194,542)

(3,859)

**NET CASH FLOWS FROM OPERATING ACTIVITIES** 4(b)

**385,049**

281,759

**NET INCREASE IN CASH HELD**

Cash at beginning of year

**385,049**

**1,866,234**

281,759

1,584,475

**CASH AT END OF YEAR** 4(a)

**2,251,283**

1,866,234

**2020**

**$**

2019

$

RETAINED EARNINGS

Balance at beginning of year Surplus from ordinary activities

**1,985,230**

**305,354**

1,610,518

374,712

**BALANCE AT END OF YEAR**

**2,290,584**

1,985,230



LGE HEALTH PLAN

**Notes to and forming part of the financial statements**

For the year ended 30 June 2020

**8 2**

M A V L G E H E A L T H P L A N F I N A N C I A L R E P O R T

2 0 1 9 - 2 0

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.

1. **Summary of significant accounting policies**

Accounting Standards and Interpretations which became effective during the year.

Reference Title Summary Application Date of Standard Application Impact

Date for MAV

AASB 1058 Income of Not-for- 1 January 2019 1 July 2019 Minimal Profit Entities Impact

AASB 15 Revenue from 1 January 2019 1 July 2019 Minimal

Contracts with Impact

Customers

Accounting Standards and Interpretations issued but not yet effective.

Reference Title Summary Application Date of Standard Application Impact

Date for MAV

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.

1. **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.

1. **Statement of compliance**

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

1. **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.

1. **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.



LGE HEALTH PLAN

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

For the year ended 30 June 2020

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M A V L G E H E A L T H P L A N F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

1. **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.

1. **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.

1. **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.

1. **Comparative figures**

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

1. **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 in fixed interest funds net of outstanding bank overdrafts.

1. **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.

1. **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:

* 1. 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.



LGE HEALTH PLAN

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

For the year ended 30 June 2020

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M A V L G E H E A L T H P L A N F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

1. **A**
2. **NOTES TO STATEMENT OF CASH FLOWS**
   1. **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:**
3. **T**

**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 -

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

**Changes in assets and liabilities** (Increase)/decrease in accounts receivable Increase/(decrease) in accounts payable

**305,354**

**83,730**

**(4,035)**

374,712

(93,056)

103

**NET CASH FLOW FROM OPERATING ACTIVITIES**

**385,049**

281,759

**RADE AND OTHER RECEIVABLES**

Other receivables

**43,301**

127,031

**TOTAL TRADE AND OTHER RECEIVABLES**

**43,301**

127,031

**Represented By:**

Current Non-current

**43,301**

**-**

127,031

-

**TOTAL**

**43,301**

127,031

**udit Fees**

Amounts payable or due and payable for audit services: NOTE

**2020**

**$**

2019

$

Audit services

**8,274**

8,112

**8,274**

8,112



LGE HEALTH PLAN

**Notes to and forming part of the financial statements**

For the year ended 30 June 2020

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M A V L G E H E A L T H P L A N F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

**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- Floating**

**Interest Interest**

**Earning Rate**

**FINANCIAL LIABILITIES**

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- Floating**

**Interest Interest**

**Earning 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

Trade and other payables

**4,000 -**

**TOTAL FINANCIAL LIABILITIES**

**4,000 -**

**Weighted Average Interest Rate**

**0%**

**2020 2020**

**$ $**

**FINANCIAL ASSETS**

Cash and cash equivalents Trade and other receivables

**- 2,251,283**

**33,840 9,461**

**TOTAL FINANCIAL ASSETS**

**33,840 2,260,743**

**Weighted Average Interest Rate**

**1.4%**



LGE HEALTH PLAN

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

For the year ended 30 June 2020

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M A V L G E H E A L T H P L A N F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

1. **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**

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

1. **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.

1. **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.

1. **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.

1. **SUBSEQUENT EVENTS**

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

1. **CONTINGENT LIABILITIES**

There are no contingent liabilities.



LGE HEALTH PLAN

**Statement by directors**

As at 30 June 2020

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M A V L G E H E A L T H P L A N

F I N A N C I A L R E P O R T 2 0 1 9 - 2 0

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

1. 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
2. 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
3. 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
4. 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. CCorr.aCloRraol sRsoss Cr. MCikre. SMymikoenSymon KerrKy TehrroymTpshoonmpson**

PresiPdreenstident DirecDtorirector ChieCf EhxieecfuEtivxeeOcuffitcivere 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**

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