NSW WorkCover

NSW WorkCover Scheme Report 2012–13

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The NSW WorkCover Scheme 2012–2013 Annual Report has been prepared in accordance with the relevant legislation for the Hon. Andrew James Constance MP

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Letter to the Minister

31 October 2013

The Hon Andrew James Constance, MP
Minister for Finance and Services
Parliament House
Macquarie Street
Sydney NSW 2000

Dear Minister

I have pleasure in submitting for your information and presentation to Parliament, the WorkCover NSW Scheme Report for the financial year ended 30 June 2013. This is a companion document to be read in conjunction with the 2012-13 NSW WorkCover Annual Report submitted on 30 September 2013.

It provides detail of the Agency's scheme performance over the 2012-13 financial year.

Yours sincerely

Julie Newman *PSM*
Chief Executive Officer
WorkCover NSW

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Chief Executive Officer report

I am pleased to submit the 2012-13 NSW WorkCover Scheme Report for presentation to Parliament. This forms the second part of the WorkCover NSW Annual Report for the 2012/13 reporting period and should be read in conjunction with that report.

In June 2012 the government announced major reforms to the NSW workers compensation system to provide substantially improved financial support for seriously injured workers, and improved incentives and financial assistance to injured workers to facilitate their recovery and return to work while restoring the financial sustainability of the Scheme.

The reforms have already begun to take effect and are ensuring a fairer system, providing more generous payments to severely injured workers, and offering incentives to businesses to improve workplace safety.

As part of the changes, the WorkCover Independent Review Officer (WIRO) was established to provide an independent review of work capacity decisions for workers not satisfied with their case decision.

From 1 April 2013, WorkCover medical certificates were replaced with the WorkCover NSW certificate of capacity, to focus on an individual's capacity to work, rather than their incapacity or disability.

On 1 May 2013 the NSW Government announced an average premium rate reduction of 7.5 per cent from 30 June 2013 for the NSW Scheme returning more than $200 million back to NSW businesses. The premium reduction of 1% to 15% applies to 66% of NSW employers across 346 industries that have demonstrated improved safety and claims experience. Under the reforms, no employer in the Scheme was subject to a rate increase this year.

WorkCover has also introduced significant improvements to premiums for small business employers – including stable premiums for more employers, less red tape and incentives for employers to keep their workers safe and help them return to work if they do get injured.

As part of those improvements, WorkCover has developed a range of initiatives to support small employers, including broadening the definition of a small employer to include 95 per cent of all NSW employers in the Scheme. The NSW WorkCover Scheme is a managed fund scheme with the Workers Compensation Nominal Insurer underwriting the risk. The Nominal Insurer contracts Scheme Agents to deliver case management and policy services within the WorkCover Scheme.

These changes will underpin long term financial stability for businesses and their workers, and will ensure the sustainability of the Workers Compensation Scheme into the future.

Julie Newman *PSM*
Chief Executive Officer

NSW WorkCover Scheme performance

WorkCover is the regulator of the NSW workers compensation system and also exercises the powers of the Nominal Insurer to provide workers compensation insurance coverage for 271,000 employers and their workers in the event of a work-related injury or disease.

Funding

WorkCover receives funding from a number of sources, including contributions from the Workers Compensation Insurance Fund (WCIF) (after taking into account an estimation of WorkCover's net operating expenses), contributions from self-insurers, licensing fees, investment income and other miscellaneous sources of income.

The WCIF is funded through premium collections from employers and investment returns. Industry bears the direct cost of work health and safety services and the management of the workers compensation system in NSW.

NSW WorkCover Scheme

The NSW WorkCover Scheme is a managed fund scheme, with the Workers Compensation Nominal Insurer underwriting the risk.

The Workers Compensation Nominal Insurer is a not-for-profit legal entity, established in 2005, to issue policies of insurance and manage workers compensation claims for NSW employers. All premiums received are paid into the WCIF to meet the cost of claims and administration of the scheme. The assets of the WCIF are owned by the employers of NSW, who are also responsible for meeting any shortfall.

Scheme agents are appointed by WorkCover to:

- issue workers compensation insurance policies
- determine and collect insurance premiums
- manage workers compensation claims
- provide support for injured workers, including rehabilitation
- pay workers compensation benefits to injured workers
- manage any third party service providers (eg medical or rehabilitation services).

The seven scheme agents are:

- AAI Limited (trading as GIO)
- Allianz Australia Workers' Compensation (NSW) Limited
- CGU Workers Compensation (NSW) Limited
- Employers Mutual NSW Limited
- Gallagher Bassett Services Pty Ltd
- QBE Workers Compensation (NSW) Limited.
- Xchanging Integrated Services Australia Pty Ltd (trading as 'Xchanging')

Workers compensation reforms

Workers compensation reforms

In June 2012, the government announced significant changes to the NSW workers compensation system.

The reforms provide substantially improved financial support for the most seriously injured workers, and improved incentives and financial assistance to injured workers to facilitate their recovery and return to work, while restoring the financial sustainability of the scheme.

Improved benefits for seriously injured

On 17 September 2012, weekly benefits for the most seriously injured workers were increased by an average of 70 per cent, to a minimum of $736.72 per week.

Improved weekly benefits

Workers injured on or after 1 October 2012 now receive benefits based on their pre-injury earnings, including normal overtime and shift allowances for the first year. Workers receive 95 per cent of their pre-injury earnings for the first 13 weeks, up to the current indexed amount of $1903.70 per week, less any current earnings. This is extended to 130 weeks for a worker returning to work for 15 hours per week or more, and earning at least $155.

After the first 13 weeks, injured workers can continue receiving 80 per cent of normal pre-jury earnings, less any current earnings, for a period of time up to five years, depending on the level of their permanent impairment and engagement in work. Only seriously injured workers can continue to receive weekly benefits after five years.

Work capacity assessments

Employers are obliged to help injured workers return to work by finding suitable work where it is reasonably practical. Similarly, a worker who is fit for work is required to make reasonable attempts to return to suitable employment when it is safe to do so.

The introduction of work capacity assessments ensures a review of each seriously injured worker's medical, functional and vocational status, to help inform decisions about their capacity to return to work in suitable employment. Each injured worker must receive a work capacity assessment by 130 weeks, and a further review at least every two years.

Review of work capacity assessments

Injured workers can request a merit review by WorkCover of work capacity decisions made by insurers. If the worker is still not satisfied with the decision, access to the WorkCover Independent Review Officer (WIRO) to provide an independent review of work capacity decisions is available.

Since the reforms commenced, injured workers have requested a merit review by WorkCover for 2.3 per cent of work capacity decisions made, and less than 0.1 per cent of decisions have progressed to WIRO.

Focus on capacity

On 1 April 2013, WorkCover medical certificates were replaced with the WorkCover NSW certificate of capacity, which focuses on an individual's capacity to work, rather than their incapacity or disability.

WorkCover has implemented a medical profession engagement strategy (as part of a larger health care strategy) based on provider participation and collaboration that emphasises evidence-based practices focused on capacity, return to work, recovery at work and the health benefits of work.

Underwriting reform

On 1 May 2013, the NSW Government announced premium reform for the scheme, comprising:

- an average premium rate reduction of 7.5 per cent from 30 June 2013, returning more than $200 million to NSW businesses. The premium reduction of 1 per cent to 15 per cent applies to 66 per cent of NSW employers across 346 industries that have demonstrated improved safety and claims experience. Under the reforms, no employer in the scheme will receive a rate increase this year.
- the small employer incentives package, which provides financial incentives, reduced red tape and increased efficiencies for small employers.

Small employer incentives package

WorkCover has broadened the definition of a small employer to include 95 per cent of all NSW employers in the scheme. A range of initiatives to support small employers have been provided, including:

- a 10 per cent employer safety incentive premium discount upfront each policy period, which small employers retain if they have no injured worker off work for more than four weeks
- a return to work incentive for employers who have an injured worker, allowing them to still earn a 10 per cent reduction on their premium if the injured worker returns to work within 13 weeks
- a further 5 per cent discount for the annual payment of premiums
- eliminating the requirement to estimate wages, increasing the time to report actual wages, and aligning all renewal dates to a calendar month end.

Sustainable return to employment

Return to Work Engagement with Workplaces Program

A pilot program was completed over a 12-week period to help NSW businesses take proactive steps to provide suitable employment for injured workers. The program used an integrated approach, with WorkCover frontline staff and executives, employers of injured workers and scheme agent case managers participating.

WorkCover executives and scheme agent representatives visited nine large and medium employers, who were identified as those with the greatest capacity to help their injured workers return to work early. A further 182 small and medium employers were linked with eight WorkCover inspectors and scheme agent account managers and case managers, where it was identified that these employers had a worker who had capacity to work but had not yet returned to work.

Early observations from the pilot program indicate a genuine willingness of large employers to participate with a commitment to change being enhanced by the involvement of senior executives. Further, experience rated premiums and industry comparative reports were important influences for all employers to seek suitable employment opportunities for injured workers.

Job Cover Placement Program

This program was introduced in 1992 and involved a wage subsidy of $3600, over a three-month period, for an employer who employed an injured worker. In 2011, the program was enhanced to promote sustainable return to work opportunities across the NSW workers compensation system. Under the reformed program, the wage subsidy over a one-year period was increased to $27,400. Since the changes, the utilisation rate has increased by 88 per cent. The total spend on this program has been $7.5 million over 647 programs.

Severe Injury Management (SIM) Pilot Program

On 1 October 2011, WorkCover invested $4 million in a pilot program designed to provide workers with the most serious and permanent injuries a better quality of life, by helping them reach their maximum potential and participation in their communities.

The SIM program funds 21 severe-injury case managers to provide individualised case management services to 517 injured workers. Of these workers, 50 per cent have a brain injury, 17 per cent have spinal injuries, 16 per cent have an amputation, and the remaining 17 per cent have severe burns, blindness and other serious injuries.

Work injury damages

In NSW, a worker may be entitled to a claim for work injury damages if the injury is the result of employer negligence. The number of work injury damages has been increasing over the past years and WorkCover now funds 19 specialist case managers to ensure consistent practices in the management of these claims. These case managers work collaboratively to improve information sharing and identify emerging issues.

Investment operations and administration

Collaboration

In August 2012, the Department of Finance and Services and NSW Treasury established a working group to review the administration of investments across the NSW government. WorkCover has worked closely with the working group and other government entities to assess the scope for cost savings and efficiencies in the investment, administration and operation areas.

Operational due diligence

In 2012-13, WorkCover has continued to conduct operational and risk reviews of the investment managers and investment products in which the WCIF invests. Thirteen products across four managers were reviewed in this period.

Custody arrangements

Following the introduction of the *Safety, Return to Work and Support Act 2012*, the new governance structure and the oversight of other statutory funds, WorkCover sought and was granted an expansion and extension to the existing Custody and Related Services Agreement between the Nominal Insurer and State Street Bank and Trust.

Governance arrangements

With the introduction of the *Safety, Return to Work and Support Act 2012*, a new governance structure was introduced. In August 2012, the SRWS Board replaced the WorkCover Authority Board. The new Board is responsible for setting the investment strategy for the WCIF and reporting the WCIF performance to the Minister.

The Board has established an investment committee to assist in discharging its functions. This committee reviews the investment strategy for the funds and makes recommendations to the Board as appropriate. WorkCover staff and the investment committee continue to assess structures and initiatives to establish appropriate levels of risk and return, improve the efficiency and solvency of the WCIF, and ensure that the Scheme can meet future claims.

Since its inception, the investment committee has been developing its foundation governance documents, including its investment beliefs statement and investment policy statement.

Workers Compensation Insurance Fund strategic asset allocation

The strategic asset allocation that has been approved by the SRWS Board is as follows:

Australian Equities	11.00%
International Equities	12.00%
International Equities - Emerging Markets	5.00%
Australian Unlisted Property	6.00%
Australian Fixed Interest	19.00%
Australian Inflation-linked Bonds	30.00%
Credit	6.00%
Alternatives	6.00%
Infrastructure Debt	4.00%
Cash	1.00%
Total fund	**100.00%**

Diversified Growth Assets	50.00%
Defensive Assets	50.00%
Total fund	**100.00%**

2012–13 returns

Performance	1 Year (%)	3 Year (% p.a.)	5 Year (% p.a.)	Since Inception* (% p.a.)
WCIF	10.18	8.65	5.58	6.15
Benchmark**	8.13	8.04	5.10	5.55
Excess	2.05	0.61	0.48	0.60

* Since inception date is 30 November 2005.

**Benchmark is a composite benchmark based on the WCIF's strategic asset allocation.

WCIF investment costs

The estimated cost of running the WCIF investments for the financial year ending June 2013 was approximately 0.36 per cent of the average value of the WCIF investment over the year. Of the 0.36 per cent, external investment management expenses amounted to 86 per cent of the cost. The increase in investment management fees is due to performance fees paid to investment managers. The WCIF's investment fee arrangements in certain asset classes are aligned to investment manager performance. Base fees paid to investment managers were approximately 47 per cent of WCIF's investment running costs, while performance fees were 38 per cent of WCIF investment running costs.

NSW WorkCover Scheme Financial Statements

Overview of the NSW WorkCover Scheme Financial Performance

The Workers Compensation Nominal Insurer is a not for profit entity that operates as a licensed workers compensation insurer which trades as "The NSW Workcover Scheme". These accounts include Workers Compensation Insurance Fund (Insurance Fund) into which the Nominal Insurer deposits all premiums and from which it meets Scheme costs.

The WorkCover Authority acts for the Nominal Insurer. The Nominal Insurer is not and does not represent the State of New South Wales or any authority of the State. The insurance claim liabilities of the Nominal Insurer can only be satisfied from the Insurance Fund and are not liabilities of the State, WorkCover Authority or any other authority of the State.

The results of the Scheme's underwriting operations and the Scheme's financial position are shown in the following table:

	2012–13	2011–12
	$m	$m
Operating Result		
Net earned premiums	2,616	2,509
Expected investment credit (Risk Free Rate)	400	547
Other income	11	9
Claims incurred (excluding external factors)	(1,529)	121
Operating expenses	(849)	(723)
Premium Deficiency Reserve	12	24
Surplus (Deficit) from underwriting operations	**661**	**2,487**
Impact on result from external factors		
Difference between actual and expected long term investment returns	930	394
Change in inflation assumptions and discount rates	209	(1,193)
Change in claims handling expense	6	(295)
Risk Margin	-	(527)
Surplus (Deficit) from ordinary activities	**1,806**	**866**
Financial Position		
Total assets	15,397	14,565
Total liabilities	(15,088)	(16,062)
Accumulated surplus (deficit)	**309**	**(1,497)**

The above table has not been audited

The table is based on PricewaterhouseCoopers Actuarial Pty Ltd's calculations of the surplus from underwriting operations as set out in their actuarial report on the Scheme dated 9 October 2013.

Surplus from ordinary activities

The surplus from ordinary activities of the NSW WorkCover Scheme for the year ended 30 June 2013 was $1,806 million. High investment returns, together with a reduction in Scheme claim costs has significantly contributed to the improved result.

WorkCover in its capacity as acting for the Nominal Insurer, decided to adopt a risk margin for the Scheme as at 30 June 2013 based on a probability of adequacy of 80 per cent equating to a risk margin for claim liabilities of 16.2 per cent.

Accumulated surplus

The Scheme has an accumulated surplus of $309 million, relative to a deficit of $1,497 million at June 2012.

Statement by Chief Executive Officer and Chairman

NSW WORKCOVER SCHEME

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

I state that in my opinion:

(a) The accompanying financial statements of the Workers Compensation Nominal Insurer, whose registered business name is 'The NSW WorkCover Scheme', exhibit a true and fair view of its financial position as at 30 June 2013 and its performance for the year ended on that date; and

(b) These statements and notes have been prepared in accordance and comply with Australian Accounting Standards.

Further, I am not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

Michael Carapiet
Chairman
Safety, Return to Work and Support Board

28 October 2013

Julie Newman PSM
Chief Executive Officer
Safety, Return to Work and Support
acting for the Workers Compensation Nominal Insurer

28 October 2013

NSW WORKERS COMPENSATION
NOMINAL INSURER

Actuarial Certificate
Outstanding claims liabilities at 30 June 2013

PricewaterhouseCoopers (PwC) has been contracted by the WorkCover Authority of NSW (WorkCover Authority), acting for the NSW Workers Compensation Nominal Insurer (Nominal Insurer), to make estimates of the outstanding claims liabilities as at 30 June 2013 of the NSW WorkCover Scheme.

Data

PwC has relied on historical data and other quantitative and qualitative information supplied by the WorkCover Authority acting for the Nominal Insurer, and other parties without audit or independent verification. We did, however, review this information for reasonableness and internal consistency, where possible. The accuracy of our results is dependent upon the accuracy and completeness of the underlying data.

Basis of Our Estimates

We have made central estimates of the outstanding claims liabilities – this means that our assumptions have been selected to yield estimates that are not knowingly above or below the ultimate liabilities. Our estimates include allowances for:

- Future inflation and investment return;
- Future expected recoveries; and
- A risk margin of 16.2% of the net outstanding claims liability. This is intended to provide a probability of adequacy of 80%.

Allowance for expected impact of June 2012 legislative changes

Legislation was passed on the 22 June 2012 which results in significant changes to the benefits provided by the NSW WorkCover Scheme. Allowance has been made in the valuation for the impact of these reforms to the extent to which this can be reliability estimated, balancing the range of plausible outcomes and risks in deriving an appropriate central estimate result.

Valuation Results

The PwC estimated liability for the NSW WorkCover Scheme as at 30 June 2013, net of recoveries, is $13,557 million. This amount is made up as follows:

pwc

Table 1 - NSW WorkCover Scheme Outstanding Claims Liability at 30 June 2013	$m
Gross Outstanding Claims	14,007
Less Anticipated Recoveries	450
Net Outstanding Claims	13,557

The gross outstanding claims liability for the NSW WorkCover Scheme also includes an allowance for expenses of $1,086 million to meet the cost of management of claims outstanding (including claims incurred but yet to be reported) as at 30 June 2013.

The allowance for claim handling expenses included in the WorkCover NSW Scheme liability equates to 9.9% of the gross outstanding claims liability.

It is a decision for the WorkCover Authority acting for the Nominal Insurer as to the amount adopted in the accounts.

Uncertainty

There is a limitation upon the accuracy of the estimates in this certificate in that there is an inherent uncertainty in any estimate of outstanding claim liabilities. This is due to the fact that the ultimate liability for claims is subject to the outcome of events yet to occur. These include, but are not limited to, the likelihood of injured workers lodging claims under the Scheme, the amount of compensation paid and the attitudes of claimants towards settlement of their claims and uncertainty surrounding the impact of the various reforms to Scheme design and operation which have occurred.

In our judgement, we have employed techniques and assumptions that are appropriate, and we believe the conclusions presented herein are reasonable, given the information currently available. However, it should be recognised that future claim development is likely to deviate, perhaps materially, from our estimates.

Reports

Full details of data, method, assumptions and results for the NSW WorkCover Scheme are set out in our report dated 9 October 2013.

Relevant Standards

Our estimates and reports for the NSW WorkCover Scheme are prepared in accordance with the Australian Accounting Standard AASB1023, the Institute of Actuaries of Australia's Professional Standard 300, which relates to estimation of outstanding claims liabilities, and Accounting Guidance Release AAG13.

Michael Playford

Michael Playford
FIAA
9 October 2013

INDEPENDENT AUDITOR'S REPORT

Workers Compensation Nominal Insurer (trading as the NSW WorkCover Scheme)

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of the Workers Compensation Nominal Insurer trading as the NSW WorkCover Scheme (the Scheme), which comprise the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows, for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Scheme as at 30 June 2013, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

My opinion should be read in conjunction with the rest of this report.

Emphasis of matter

I draw attention to the outstanding claims' liabilities in Note 15. The note describes the significant inherent uncertainty associated with estimating the Scheme's outstanding claims' liabilities of $14.0 billion as a result of the reforms to the Scheme. Whilst the liabilities are calculated using the standard actuarial approach, there is significant uncertainty regarding the estimate of the claims' liabilities because of limited experience available. This uncertainty is likely to remain until sufficient post reform claims' experience for the Scheme is available. My opinion was not qualified in respect of this matter.

The Board's Responsibility for the Financial Statements

The members of the Board, acting for the Scheme, are responsible for the preparation of the financial statements that give a true and fair view in accordance with Australian Accounting Standards, and for such internal control as the members of the Board determines is necessary to enable the preparation of financial statements that give a true and fair view and that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Scheme's preparation of the financial statements that give a true and fair view in order to design audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the members of the Board, as well as evaluating the overall presentation of the financial statements.

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

My opinion does *not* provide assurance:

- about the future viability of the Scheme
- that it has carried out its activities effectively, efficiently and economically
- about the effectiveness of its internal control
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about other information which may have been hyperlinked to/from the financial statements.

Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and other relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies, but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by the possibility of losing clients or income.

A Oyetunji
Director, Financial Audit Services

28 October 2013
SYDNEY

Statement of Comprehensive Income for the year ended 30 June 2013

	Note	2013 $'000	2012 $'000
Revenues			
Earned premiums	4	2,616,246	2,509,027
Recoveries	4	84,254	122,984
Investment income	5	1,330,690	996,014
Other income		10,355	8,755
Total Revenue		**4,041,545**	**3,636,780**
Expenses			
Actuarial fees		6,109	5,821
Auditor remuneration	7	1,505	1,747
Bad debts written-off		55,242	52,896
Claims incurred	4	1,398,729	2,016,319
Debt collection fees		18,415	15,119
Fund manager remuneration		31,884	14,784
Impairment of trade and other receivables	10	(5,471)	(23,303)
Interest expense		35,764	58,846
Operating lease expenses		756	-
Scheme agent remuneration		417,404	389,256
Statutory levies			
Workcover Authority		168,557	150,511
Dust diseases		77,970	72, 107
Mine safety		6,820	5,994
Increase (decrease) in unexpired risk provision		(11,637)	(24,600)
Wage audit fees		13,614	15,193
Other operating expenses		20,063	20,147
Total Expenses		**2,235,724**	**2,770,837**
Surplus/{Deficit)		**1,805,821**	**865,943**
Other Comprehensive Income			
Items that will not be reclassified to surplus/(deficit)		-	-
Items that may be reclassified subsequently to surplus/deficit		-	-
Total Comprehensive Income		**1,805,821**	**865,943**

The accompanying notes form part of these financial statements.

Statement of Financial Position as at 30 June 2013

	Note	2013 $'000	2012 $'000
Current assets			
Cash and cash equivalents	8	481,137	518,415
Recoveries receivable	9	128,895	135,203
Trade and other receivables	10	699,010	713,254
Prepayments and other assets		76,760	67,127
Other financial assets	11	13,689,313	12,784,387
Total current assets		**15,075,115**	**14,218,386**
Non-current assets			
Recoveries receivable	9	321,358	346,124
Trade and other receivables	10	335	348
Total non-current assets		**321,693**	**346,472**
Total assets		**15,396,808**	**14,564,858**
Current liabilities			
Trade and other payables	13	502,345	812,197
Borrowings	8	13,987	14,196
Unearned premiums	14	414,700	397,959
Outstanding claims	15	2,230,270	2,376,739
Unexpired risk premium	17	4,363	16,000
Security deposits	19	34,852	42,041
Other financial liabilities	11	110,707	164,817
Total current liabilities		**3,311,224**	**3,823,949**
Non-current liabilities			
Outstanding claims	15	11,777,105	12,238,251
Total non-current liabilities		**11,777,105**	**12,238,251**
Total liabilities		**15,088,329**	**16,062,200**
Net assets/(liabilities)		**308,479**	**(1,497,342)**
Equity			
Accumulated (deficiency)/surplus		**308,479**	**(1,497,342)**

The accompanying notes form part of these financial statements.

Statement of Changes in Equity for the year ended 30 June 2013

	Note	2013 $'000	2012 $'000
Accumulated (deficiency)/surplus			
Balance at the beginning of financial year		**(1,497,342)**	**(2,363,285)**
Surplus/(Deficit) for the year		1,805,821	865,943
Other Comprehensive Income		-	-
Total Comprehensive Income		1,805,821	865,943
Transactions with owners in their capacity as owners		-	-
Balance at the end of the financial year		**308,479**	**(1,497,342)**

The accompanying notes form part of these financial statements.

Statement of Cashflows for the year ended 30 June 2013

	Note	2013 $'000 Inflows (Outflows)	2012 $'000 Inflows (Outflows)
Cash flows from operating activities			
Premiums received		2,846,326	2,722,991
Claims paid		(2,031,869)	(2,163,973)
		814,457	559,018
Scheme agent management fees paid		(560,192)	(347,736)
Dividends received		112,111	99,246
Fund manager fees paid		(20,662)	(20,431)
GST paid		(184,729)	(182,810)
Interest received		344,309	385,829
Proceeds from sale of other financial assets		24,410,139	21,720,864
Payments for other financial assets		(24,754,388)	(22,295,980)
Recoveries received		112,933	109,185
Security deposits received		9,082	22,447
Security deposits paid		(18,432)	(24,944)
Statutory levies paid		(254,062)	(227,500)
Other payments		(59,077)	(58,916)
Other receipts		11,442	30,157
Net cash provided by/ (used in) operating activities	16	**(37,069)**	**(231,571)**
Cash and cash equivalents at the beginning of the financial year		504,219	735,790
Cash and cash equivalents at the end of the financial year	8	**467,150**	**504,219**

The accompanying notes form part of these financial statements.

Notes to and forming part of the Financial Statements

1. Constitution and functions

The Nominal Insurer is established under the *Workers Compensation Act 1987* and was created on 18 February 2005 by the *Workers Compensation Amendment (Insurance Reform) Act 2003*. It commenced operation on 1 July 2005. The Nominal Insurer is a not for profit entity that operates as a licensed workers compensation insurer and trades under the registered business name of "The NSW WorkCover Scheme". The Scheme's financial statements include the Workers Compensation Insurance Fund (Insurance Fund) that holds premiums and all other funds received and is used to meet the Scheme's liabilities.

The WorkCover Authority of NSW (WorkCover) acts for the Nominal Insurer.

The Act states that the Nominal Insurer is not and does not represent the state or any authority of the state. The insurance claim liabilities of the Nominal Insurer can only be satisfied from the Insurance Fund and are not liabilities of the State, WorkCover or any other authority of the state. The Scheme is not consolidated as part of the NSW Total State Sector Accounts or WorkCover.

Under the *Safety, Return to Work and Support Board Act 2012*, the SRWS Board determines the investment policies for the Insurance Fund and reports to the Minister on the investment performance of the Insurance Fund.

The financial statements for the year ended 30 June 2013 were authorised for issue by the Chief Executive Officer of WorkCover acting for the Nominal Insurer on 28 October 2013.

2. Summary of significant accounting policies

a. Basis of preparation

These general purpose financial statements have been prepared in accordance with authoritative pronouncements of the Australian Accounting Standards Board including Australian Accounting Standards and interpretations.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss and the measurement of the outstanding claims liability and recoveries at fair value.

b. Accounting Standards issued but not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the reporting period ending 30 June 2013. These are outlined in the table below.

AASB Amendment	Affected Standards	Operative Date
AASB13	Fair Value Measurement	1 Jan 2013
AASB 2011-8	Amendments to Australian Accounting Standards arising from AASB 13	1 Jan 2013
AASB 2012-2	Amendments to Australian Accounting Standards (AASB 7) – Disclosures – Offsetting Financial Assets and Financial Liabilities (June 2012)	1 Jan 2013
AASB 2012-6	Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures	1 Jan 2013
AASB 7 (NFP)	Financial Instruments: Disclosures (for not-for-profit entities)	1 Jan 2013
AASB 107 (NFP)	Statement of Cash Flows (for not-for-profit entities)	1 Jan 2013
AASB 118 (NFP)	Revenue (for not-for-profit entities)	1 Jan 2013
AASB 2010-2	Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	1 July 2013
AASB 2012-1	Amendments to Australian Accounting Standards – Fair Value Measurement – Reduced Disclosure Requirements	1 July 2013
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (AASB 132)	1 Jan 2014
AASB 9	Financial Instruments (September 2012)	1 Jan 2015
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	1 Jan 2015

These Standards are concerned with disclosures and will have no direct impact on the Scheme's financial results.

c. Functional and presentation currency and rounding

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency, which is the functional currency of the reporting entity.

Notes to and forming part of the Financial Statements

2 Summary of significant accounting policies (continued)

d. Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 12 – Financial instruments
- Note 15 – Outstanding claims

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Where receivables are outstanding beyond the normal trading terms, management assesses the likelihood of the recovery of these receivables. An appropriate allowance for impairment is made. (Refer Note 10).

e. Revenue/Expense recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for the major business activities as follows:

i. The earned portion of premiums received and receivable, excluding unclosed business, is recognised as revenue. Premium is treated as earned from the date of attachment of risk. The pattern of recognition over the policy periods is based on time, which is considered to approximate the pattern of risks underwritten. Unclosed business has not been included as revenue as the amount involved is not considered to be material.

ii. Recoveries revenue and claims incurred expenses are recognised as the movement of recoveries receivable (Note 9) and outstanding claims (Note 15), which are based on estimates provided by WorkCover's consulting actuary, PricewaterhouseCoopers Actuarial Pty Ltd. Taylor Fry consulting actuaries, have peer reviewed these estimates and support the conclusions of PricewaterhouseCoopers.

   Claims expense is the amount incurred on claims by the Scheme during the year plus the amount, which the consulting actuary has estimated as at 30 June 2013 as being the movement in the amount required to meet the cost of claims reported but not yet paid, claims incurred which are yet to be reported and the escalation in reported and reopened claims. The liability for the outstanding claims is estimated as the inflated and discounted values of the expected future payments, reflecting the fact that these payments will be spread over future years. The expected future payments are estimated on the basis of the ultimate cost of settling claims (including claims handling allowances), which is affected by factors arising during the period to settlement. The provision includes an allowance for claims handling expenses and a risk margin.

   The *Workers Compensation Legislation Amendment Act 2012* has resulted in claim payments being closely aligned to pre injury average weekly earnings of injured workers. Projected inflation factors take into account these and other relevant factors relating to future claims levels. The expected future payments are then discounted to a value at the end of the reporting period using rates of interest, which use appropriate risk free discount rates, consistent with Australian Accounting Standard AASB 1023 General Insurance Contracts. Details of inflation and discount rates applied are included in Note 15.

   Recoveries receivable on paid claims, reported claims not yet paid and claims incurred but not yet reported are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries receivable are estimated at the inflated and discounted values of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

iii. Investment revenue is brought to account on an accruals basis. Dividends on quoted shares are deemed to accrue when the relevant shareholding becomes ex-dividend. Differences between the net market values of investments at the end of the reporting period and their net market values at the end of the previous reporting period (or cost of acquisition, if acquired during the reporting period) are recognised as revenue in the Statement of Comprehensive Income.

iv. Fund manager remuneration includes base fees which are generally paid quarterly. In some cases additional performance bonus fees may be payable under the remuneration contract if returns above benchmark levels are achieved.

f. Provisions

Provisions for claims are recognised when the Scheme has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the Statement of Financial Position date. The discount rate represents a risk free rate derived from market yields on Commonwealth government bonds.

g. Taxation

The Australian Taxation Office has issued Private Rulings that the income of the Workers Compensation Nominal Insurer is not assessable income and that the Workers Compensation Insurance Fund is exempt from income tax from when these entities were established in 2005 to June 2014.

Notes to and forming part of the Financial Statements

2 Summary of significant accounting policies (continued)

h. Cash and cash equivalents

For Statement of Cash Flow presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and bank overdrafts that are repayable on demand.

The Scheme includes as operating cash flows the purchase and sale of financial assets as premiums less claims cost paid to date are invested to meet future workers compensation claim costs.

i. Investments and other financial assets

Investments are initially recognised at fair value. Investments are subsequently measured "at fair value through profit or loss" as they are acquired principally for the purpose of trading. Gains or losses on these assets are recognised in the Statement of Comprehensive Income.

Purchases and sales of investments are recognised on trade date – the date on which the Scheme commits to purchase or sell the asset.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Scheme establishes fair value by using various valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models: making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Investments and other financial assets are held primarily for the purpose of being traded and are classified as current assets. Accordingly all of the Scheme's financial assets and financial liabilities are at fair value through profit or loss – classified as held for trading.

The Nominal Insurer holds 99.7% of the Investment in AQR Wholesale Managed Fund. The Scheme does not consolidate the minority interest portion of this investment as the residual amount is not material (2013: $6 million; 2012: $nil) to the Scheme Financial Statements.

j. Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Scheme designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Scheme documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Scheme also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of any derivative financial instruments used for hedging purposes, if any, are disclosed in Note 12.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Statement of Comprehensive Income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the Statement of Comprehensive Income within other income or other expense together with the gain or loss relating to the ineffective portion and changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk.

k. Fair value estimation

The fair value of financial assets and financial liabilities is estimated for recognition and measurement for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the Statement of Financial Position date. The quoted market price used for financial assets held by the Scheme is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price without any deduction for transaction costs.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Scheme uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the Statement of Financial Position date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Scheme for similar financial instruments.

i. Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Notes to and forming part of the Financial Statements

2 Summary of significant accounting policies (continued)

k. Fair value estimation (continued)

ii. Derivatives recorded at fair value through profit or loss

Derivatives include interest rate swaps and futures, credit default swaps, cross currency swaps and forward foreign currency contracts, and options on interest rates, foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Derivative financial instruments are subsequently remeasured at fair value.

iii. Financial assets or financial liabilities designated at fair value through profit and loss.

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis;

  or,

- The asset and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;

  or,

- The financial instrument contains an embedded derivative that would otherwise need to be separately recorded.

iv. Investments in unlisted property trusts

The fair value of units in unlisted property trusts is the price at which the unit could be exchanged between knowledgeable, willing parties in an arms length transaction. A “willing seller” is not a forced seller prepared to sell at any price. The fair values of investments in unlisted property trusts are based on valuations of the underlying properties in each Trust. The properties are valued in accordance with the valuation policies of the relevant managers.

These financial statements set out the fair value as at the end of the reporting period.

v. Investments in infrastructure debt

Due to the lack of an active market in infrastructure debt instruments, fair value is determined by the Scheme engaging an independent expert to evaluate and value each instrument.

This valuation takes into account not only the earnings rate of the instrument but also the risk of non-payment of interest/principal, earnings potential of the infrastructure and debt refinancing risks.

l. Trade and other payables

These amounts represent liabilities for goods and services provided to the Scheme prior to the end of financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

m. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis.

n. Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured making an allowance for impairment.

Where a legally enforceable debt exists, claims costs recoverable from uninsured employers are classified as Trade and other receivables.

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off directly to the Statement of Comprehensive Income when identified. An impairment allowance is recognised when there is objective evidence that the Scheme will not be able to collect the receivable. In particular evidence of it becoming probable that the employer will be placed into receivership, administration, liquidation or bankruptcy and potential recovery receivable from these proceedings are the major factors used.

Where credit terms have been renegotiated, the date that the premium debt was incurred remains unchanged. Consequently, ageing of premium debts applies from the date that the debt was incurred and not from the date of renegotiation.

o. Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Scheme has a legal right to offset the amounts and it intends either to settle on a net basis or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under Australian Accounting Standards.

Notes to and forming part of the Financial Statements

2 Summary of significant accounting policies (continued)

p. Recoveries

Recoveries relate principally to amounts that the Scheme Actuaries estimate can be recovered from other insurers for workers compensation injuries. These recoveries relate to amounts already incurred on a claim or amounts estimated to be recovered from the estimated claim liabilities.

Accordingly they are not regarded as a financial instrument under Australian Accounting Standards and are not included in financial assets.

q. Repurchase and reverse repurchase transactions

Securities sold subject to a simultaneous agreement to repurchase these securities at a certain later date at a fixed price (repurchase agreements) are retained in the financial statements and are measured in accordance with their original measurement principles. The proceeds of the sale are reported as liabilities and are carried at amortised cost and the underlying asset continues to be recognised in the Scheme's financial statements.

Securities purchased under agreements to resell (reverse repurchase agreements) are reported not as purchases of the securities, but as receivables and are carried in the Statement of Financial Position at amortised cost and the underlying asset is not recognised in the Scheme's financial statements.

Securities lent by the Scheme are not derecognised from the Scheme's Statement of Financial Position. When the counterparty has the rights to sell or repledge the securities, the Scheme reclassifies them in the Statement of Financial Position as pledged financial assets at fair value through profit or loss.

r. Comparative information

Where necessary, comparative information has been reclassified to enhance comparability in respect of changes in presentation adopted in the current year.

3. Financial risk management objectives and policies

The principal financial instruments are detailed in Notes 11 and 12.

The main purpose of these financial instruments is to meet the liabilities of the Nominal Insurer. Investment policies are put in place with the intention for the net financial assets to outperform the growth in these liabilities.

The Scheme also has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

4. Underwriting result

	2013	2012
	$'000	$'000
Earned premiums	2,616,246	2,509,027
Less:		
Claims incurred	(1,398,729)	(2,016,319)
Recoveries revenue	84,254	122,984
Net claims incurred (Note 6)	**(1,314,475)**	**(1,893,335)**
Underwriting result	**1,301,771**	**615,692**

5. Investment income

	2013	2012
	$'000	$'000
Dividends	250,074	154,847
Interest	379,184	424,133
Other income	2,828	3,133
Realised gain on sale of investments	515,486	270,746
Unrealised gain on investments	183,118	143,155
Investment income	**1,330,690**	**996,014**

Notes to and forming part of the Financial Statements

6. Net claims incurred

Direct Business	Current year	Prior year	2013 Total	2012 Total
	$M	$M	$M	$M
Gross claims incurred & related expenses – undiscounted	3,574	(13)	3,561	(3,977)
Reinsurance & other recoveries – undiscounted	86	22	108	(72)
Net claims incurred – undiscounted	3,488	(35)	3,453	(4,049)
Discount & discount movement – gross claims incurred	(1,111)	(1,051)	(2,162)	5,993
Discount & discount movement – reinsurance & other recoveries	(10)	(14)	(24)	(51)
Net discount movement	(1,101)	(1,037)	(2, 138)	5,942
Net claims incurred (Note 4)	**2,387**	**(1,072)**	**1,315**	**1,893**

Explanation of material variances – prior years

Undiscounted gross claims incurred has reduced to reflect the anticipated savings of the recent workers compensation reforms.

Undiscounted recoveries are expected to be lower due to a reduction in recoveries expected.

The decrease in prior year claims incurred is due to increased government bond yields. As a result, higher discounting has been applied to the gross outstanding claims.

The increase in the yield curve resulted in a higher discounting being applied to the outstanding recoveries.

7. Remuneration of auditors

	2013	2012
	$'000	$'000
The Auditor General of NSW		
Audit of the financial report	122	122
External Audit of Scheme Agents and Master Custodian		
Audit or review of reports	1,373	1,324
Other non-audit services	10	301
Total	1,383	1,625
Total Audit Remuneration	**1,505**	**1,747**

The auditor for the NSW WorkCover Scheme is the Auditor General of NSW.

8. Cash and cash equivalents

	2013	2012
	$'000	$'000
Cash at bank	**481,137**	**518,415**

The above figures are reconciled to cash at the end of the financial year as shown in the Statement of Cash Flows as follows:

Cash	419,946	407,865
Money Market Deposits	61,191	110,550
Total cash at bank	481,137	518,415
Bank overdraft	(13,987)	(14, 196)
Balances as per Statement of Cash Flows	**467,150**	**504,219**

a. Interest rate risk exposure

Details of the Scheme's exposure to interest rate changes on borrowings are set out in Note 12.

b. Fair value disclosures

The carrying amount of the Scheme's borrowings approximates their fair value.

c. Bank overdrafts

The bank overdraft may be drawn at any time and is non interest bearing.

Notes to and forming part of the Financial Statements

9. Recoveries receivable

	2013	2012
	$'000	$'000
Current		
Actuarially assessed recoveries	128,895	135,203
Non-Current		
Actuarially assessed recoveries	321,358	346,124
Total recoveries receivable	**450,253**	**481,327**

Recoveries arise principally where a worker is injured in a motor vehicle accident and is not at fault. The majority of the costs of these claims are recovered from the third party motor vehicle insurers. The credit quality of these recoveries is considered high as these insurers are licensed by the Australian Prudential Regulation Authority, which imposes strict limits on capital adequacy of these insurers. The Scheme's consulting actuaries assess the amount of recovery potential for the Scheme.

10. Trade and other receivables

	2013	2012
	$'000	$'000
Current		
Premiums receivable	454,869	473,300
Interest, dividends and other investment income receivable	146,058	77,031
Trade proceeds yet to be settled	55,081	112,068
Deposits held with brokers/counter parties:		
Margin calls	56,742	79,408
Amounts legally recoverable from uninsured employers	1,430	1,715
Other receivables	3,044	6,225
GST receivable	19,100	7,038
	736,324	756,785
Less : Allowance for impairment loss	(37,314)	(43,531)
Total trade and other receivables	**699,010**	**713,254**
Non Current		
Amounts legally recoverable from uninsured employers	4,330	3,596
Less : Allowance for impairment loss	(3,995)	(3,248)
Total trade and other receivables	**335**	**348**

a. Status of trade receivables

Class of financial asset	2013	2012
	$'000	$'000
Maximum exposure within normal terms	568,274	623,151
Past due	131,071	90,451
Impaired	41,309	46,779
Renegotiated terms	-	-
	740,654	**760,381**

Employers are able to pay premiums on a lump sum, quarterly instalment basis or a monthly instalment basis, dependant on the size of the employer's premium.

Security deposits are held by the Scheme for future potential premiums for those employers that participate in the Retro-Paid Loss Premium Method (Refer Note 19).

Apart from a limited number of industries covered by specialised insurance arrangements all employers in New South Wales are able to take out a workers compensation insurance policy with the Scheme. Accordingly the credit quality of these debts is viewed as the average of the credit quality of employers in the State.

Notes to and forming part of the Financial Statements

10. Trade and other receivables (continued)

b. Allowance for impairment status of receivables

An allowance for impairment loss is recognised when there is objective evidence that a trade receivable is impaired (refer Note 2(n) to the Financial Statements). As outlined in that Note the Scheme writes off bad debts direct to expenses. Where a bad debt is subsequently recovered the amount is included in other income. The impairment account is adjusted based on an assessment of the individual debts due and is increased or decreased accordingly.

Reconciliation of impairment account – receivables

Class of financial asset	2013	2012
	$'000	$'000
Opening impairment account balance	46,779	70,081
Current period impairment charge (income)	(5,471)	(23,303)
Closing impairment account balance	**41,309**	**46,779**

Ageing of receivables	2013		
	Total	Past due but not impaired	Considered Impaired
	$'000	$'000	$'000
Within normal terms	568,274	-	-
Less than 3 months overdue	106,648	98,489	8,159
3 months to 6 months overdue	22,970	15,604	7,366
Greater than 6 months overdue	42,762	16,978	25,784
	740,654	**131,071**	**41,309**

Ageing of receivables	2012		
	Total	Past due but not impaired	Considered Impaired
	$'000	$'000	$'000
Within normal terms	623,151	-	-
Less than 3 months overdue	41,226	36,026	5,200
3 months to 6 months overdue	26,208	21,509	4,699
Greater than 6 months overdue	69,796	32,916	36,880
	760,381	**90,451**	**46,779**

11. Other financial assets and liabilities

	2013	2012
	$'000	$'000
Other financial assets – current		
Indexed and interest bearing securities	8,200,430	8,338,018
Australian equities	1,197,952	1,204,647
International equities	2,217,894	1,547,003
Unit trusts	1,987,752	1,535,912
Derivatives	85,285	158,807
	13,689,313	**12,784,387**
Other financial liabilities – current		
Derivatives	110,707	164,817
Net financial assets	**13,578,606**	**12,619,570**

Notes to and forming part of the Financial Statements

12. Financial instruments

The Nominal Insurer is ultimately responsible for identifying and controlling financial risks including the establishment of an overall financial risk management strategy and policy.

Market price risk

Market price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Market price risk arises as a result of the Scheme holding and trading investments as part of its asset allocation.

The Scheme seeks to manage exposure to market price risk so that it can generate sufficient returns to meet the Scheme's current and future liabilities and mitigate the risk that the Scheme's investments will be insufficient to meet such liabilities. The Scheme's portfolio of investments is invested in accordance with its strategic asset allocation. The goal of the strategic asset allocation is to construct a portfolio that achieves the Scheme's investment objectives including a return in excess of the liability discount rate while limiting the probability of large declines in the Scheme's funding ratio.

The actual asset allocations can deviate from the benchmark asset allocation due to:

- Scheme cash flows;
- Fluctuations in market prices; and
- Dynamic asset allocation decisions.

Dynamic asset allocation refers to medium term shifts away from the strategic asset allocation which are designed to capture market opportunities or to mitigate risks.

The deviations in actual versus benchmark asset allocation at the end of the reporting period were within the agreed tolerance limits for all asset classes.

Based on the asset allocation the Investment Committee, typically with advice from the Insurance Fund's asset consultant, appoints investment managers in each asset class. Management of the Insurance Fund's assets is allocated to the appointed investment managers. Each investment manager is subject to restrictions in relation to the types of assets in which it may invest, and in relation to the composition of investments within certain asset types. These restrictions are expressed in formalised mandates typically contained in individually negotiated Investment Management Agreements or as described in Information Memoranda (or similar documents) issued by the relevant investment manager where the investment is via a pooled fund. The investment mandates are monitored on a daily basis to ensure that investment managers are compliant with their mandates and relevant agreements.

Each investment manager is responsible for managing security specific risk using its distinct management style. Each investment manager is also responsible for constructing a portfolio that aims to achieve its own investment objectives while complying with the restrictions and guidelines contained in the mandate or Information Memoranda.

A risk budgeting framework is used to help determine an appropriate strategic asset allocation for the Scheme. This framework incorporates the risk and return characteristics of the different asset classes in the portfolio and additional factors such as inflation and interest rates. Within this framework, a number of risk measures are employed including the frequency of negative returns, the volatility of the investment portfolio relative to the value of the liability and Value-at-Risk (VaR) forecasts.

The Scheme's asset consultant conducts the risk budgeting analysis utilizing:

- Assumptions regarding the expected level of return, risk and correlations between price and wage inflation, bond yields and returns from different asset classes (for example equities, bonds, property, alternative assets)
- Assumptions regarding the duration of inflation-linked and other liabilities consistent with those used by the Scheme Actuary.

The analysis incorporates scenario analysis to determine the risk and return of different investment strategies relative to the change in the liabilities over a period. The analysis is primarily used to compare different investment strategies, and then to determine the investment strategy that has the appropriate level of risk, given the risk and return objectives of the Scheme.

The risk budgeting analysis is based on certain simplifying assumptions such as statistical characteristics of investment returns, volatilities and correlations, that may not represent actual outcomes. It is also important to note that the analysis only allows for some economic factors such as inflation and bond yields, which affect the value of the Scheme liabilities. It does not allow for other factors such as the claims loss ratio, claims incidence and recovery rates, which also affect the value of the Scheme liabilities. As such, the analysis may not be accurate in its assessment of the liability.

The VaR risk measure seeks to estimate the potential investment loss over a given holding period at a specified confidence level. The VaR methodology is a statistically-defined, probability-based approach to risk assessment that takes into account market volatilities as well as risk diversification by identifying offsetting positions and correlations between financial instruments and markets. The VaR methodology allows risks to be measured consistently across all markets and financial instruments and to be aggregated into a single risk number.

The risk budgeting framework assesses the Scheme's VaR at the 95th percentile confidence level over a 12 month time period. This represents the minimum expected reduction in the value of the Scheme's investment portfolio which has a 5 per cent chance of occurring over a one year period.

In addition to a VaR measure, the risk budgeting framework is also used to assess the following risk and return characteristics:

- Expected return on the investment portfolio;
- Probability of meeting return targets that incorporate measures of wage inflation; and
- The performance of the investment portfolio under different economic scenarios.

The most recent VaR analysis performed by asset consultant Mercer Investments (Australia) limited was conducted in October 2013 based on the June 2013 financial instruments and showed expected one year VaR of $221.4 million based on a confidence interval of 95 per cent. This is equivalent to a portfolio loss of 1.6%. The VaR analysis performed by the same consultant based on the June 2012 financial instruments showed an expected VaR of $151.0 million based on a confidence interval of 95 per cent. This is equivalent to a portfolio loss of 1.2%.

Notes to and forming part of the Financial Statements

12. Financial instruments (continued)

Interest rate risk

Interest rate risk is the risk that the (fair) value of a financial instrument will fluctuate because of changes in market interest rates. The value of the Scheme's liabilities is also affected by interest rate fluctuations.

i. Exposure:

Interest rate risk arises as a result of the Scheme holding financial instruments which are subject directly or indirectly to changes in value as a result of interest rate fluctuations. Scheme liabilities are similarly subject directly or indirectly to changes in value as a result of interest rate fluctuations.

ii. Risk management objective, policies and processes:

WorkCover manages the interest rate and inflation risk of the Insurance Fund primarily through its strategic asset allocation and mandate objective setting. At 30 June 2013 the Insurance Fund had a 19 per cent allocation to Australian Commonwealth and state government bonds to mitigate interest rate risk of Scheme liabilities and a further 30 per cent allocation to Australian Commonwealth and state government inflation linked bonds to mitigate inflation risk of Scheme liabilities.

iii. Quantitative analysis of exposure:

The table below summarises the Scheme's exposure to interest rate risks. It includes the Scheme's indexed and interest-bearing financial assets and liabilities at fair values, categorised by the earlier of their contractual re-pricing or maturity dates.

The table does not show all assets and liabilities of the Scheme. Assets and liabilities NOT shown in the table below are NOT indexed and interest bearing and are therefore not directly exposed to interest rate risk.

2013						
		Fixed interest rate maturing in				
	Floating interest rate	3 months or less	4 to 12 months	1 to 5 years	Over 5 years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Class						
Cash	419,946	-	-	-	-	419,946
Money market deposits	61,191	-	-	-	-	61,191
Indexed and interest bearing securities	4,113,523	275,295	503,279	1,600,085	1,708,248	8,200,430
Interest rate swaps	-	-	3,216	461	2,085	5,762
Options on fixed income	-	-	6,150	-	-	6,150
Interest rate futures	-	3,131	185	-	-	3,316
Assets	**4,594,660**	**278,426**	**512,830**	**1,600,546**	**1,710,333**	**8,696,795**
Interest rate swap	-	-	(4,814)	(3,713)	(17,294)	(25,821)
Interest rate futures	-	(3, 154)	-	-	-	(3, 154)
Liabilities	**-**	**(3, 154)**	**(4,814)**	**(3,713)**	**(17,294)**	**(28,975)**

2012						
		Fixed interest rate maturing in				
	Floating interest rate	3 months or less	4 to 12 months	1 to 5 years	Over 5 years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Class						
Cash	407,865	-	-	-	-	407,865
Money market deposits	110,550	-	-	-	-	110,550
Indexed and interest bearing securities	-	476,759	457,279	2,468,596	4,935,384	8,338,018
Interest rate swaps	-	-	6,924	-	10,311	17,235
Options on fixed income	-	8,643	16,152	-	-	24,795
Interest rate swaps	-	395	-	-	-	395
Assets	**518,415**	**485,797**	**480,355**	**2,468,596**	**4,945,695**	**8,898,858**
Interest rate swap	-	-	(6,864)	(3,291)	(31,002)	(41,157)
Interest rate futures	-	(992)	(514)	-	-	(1,506)
Liabilities	**-**	**(992)**	**(7,378)**	**(3,291)**	**(31,002)**	**(42,663)**

Notes to and forming part of the Financial Statements

12. Financial instruments (continued)

Interest rate risk (continued)

The Scheme's exposure to interest rate price risk is considered a component of market price risk and is quantified as part of the VaR analysis discussed under Market Price Risk.

The Scheme is exposed to interest rate cash flow risk on its floating rate interest bearing securities as interest income earned varies according to prevailing market interest rates.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

i. Exposure:

The Scheme is exposed to foreign exchange risk as a result of the foreign currency denominated investments held as part of its asset allocation.

ii. Risk management objective, policies and processes:

Independent investment managers appointed by the Nominal Insurer manage foreign exchange risk. The investment grade credit (developed markets) managers fully hedge their exposures. An independent investment manager has been appointed to implement a currency hedge strategy for the developed markets' equity exposure. No hedging is undertaken on the value of assets invested in emerging markets.

The primary instruments used to achieve the foreign currency overlay are forward foreign exchange contracts.

The positions are reported on an ongoing basis by the Scheme's custodian, State Street Bank and Trust Company, under a Service Level Agreement and reporting is provided both daily and monthly by the custodian to management for monitoring.

iii. Quantitative analysis of exposure:

A summary of the Scheme's exposure to foreign exchange risk, including of foreign currency derivatives is shown in the table below:

	2013				
	US Dollars	Euro	British Pounds	Other currencies	Total
	AUD $'000	AUD $'000	AUD $'000	AUD $'000	AUD $'000
International equities	1,110,513	205,690	112,628	789,063	2,217,894
International trusts	28,726	14,646	-	799	44,171
International listed property trusts	385	4,465	-	13,001	17,851
International discounted securities	3,134	-	-	-	3,134
International floating rate securities	9,459	19,289	-	-	28,748
International bonds	115,752	3,954	-	-	119,706
Foreign currency derivatives (Assets)	1,133	29	1	674	1,837
Foreign currency derivatives (Liabilities)	(8,069)	(1,441)	(184)	(1,220)	(10,914)
Swap derivative (Liability)	(56,543)	(9,934)	-	-	(66,477)
Foreign exchange exposure position	**1,204,490**	**236,698**	**112,445**	**802,317**	**2,355,950**

	2012				
	US Dollars	Euro	British Pounds	Other currencies	Total
	AUD $'000	AUD $'000	AUD $'000	AUD $'000	AUD $'000
International equities	750,571	155,549	83,880	557,003	1,547,003
International trusts	23,495	-	-	7,691	31,186
International listed property trusts	8,224	451	-	6,144	14,819
International discounted securities	5,759	-	-	-	5,759
International floating rate securities	-	-	4,637	-	4,637
International bonds	143,366	32,536	1,531	-	177,433
Foreign currency derivatives (Assets)	1,798	86	84	189	2,157
Foreign currency derivatives (Liabilities)	(996)	-	-	(1,060)	(2,056)
Swap derivative (Asset)	521	217	-	178	916
Swap derivative (Liability)	(82,745)	(23,711)	-	(246)	(106,702)
Foreign exchange exposure position	**849,993**	**165,128**	**90,132**	**569,899**	**1,675,152**

Notes to and forming part of the Financial Statements

12. Financial instruments (continued)

Liquidity risk

The Scheme is exposed to liquidity risk from holding financial assets that may not be readily convertible to cash to meet financial liabilities and claims costs.

i. Exposure:

The financial assets of the Scheme that may not be readily convertible to cash are largely receivables (refer Note 10) and investments in over-the-counter or thinly traded investments, principally unlisted property trusts and infrastructure debt.

ii. Risk management objective, policies and processes:

The Scheme maintains adequate liquidity to meet the daily cash requirements for claims payments and other operating costs.

To assist in meeting its liquidity risk management objectives, the Scheme maintains a cash balance and invests most of its assets in investments that are traded in active markets that can be readily disposed of. The Scheme also has the ability to borrow in the short term to ensure settlement of amounts due if required.

The Scheme invests a proportion of its assets in less liquid listed investments or investments that are not traded on active markets and this is strictly controlled in accordance with the asset allocation together with a policy which limits exposure to illiquid investments.

Each investment manager is responsible for cashflow management of the assets that have been mandated to them. That is, each investment manager is responsible for managing settlement liquidity risk. The custodian supplies daily reporting to each investment manager to assist them in this process.

iii. Quantitative analysis of exposure:

The financial liabilities of the Scheme comprise cash due to brokers, derivative positions, interest and other payables. The types of financial liabilities of the Scheme were similar at 30 June 2012.

Cash due to brokers is payable on demand. Interest and other payables are typically settled within 30 days. If the derivative positions are closed out prior to maturity by entering into offsetting transactions, the Scheme settles its derivative obligations in cash rather than physical delivery.

Liability maturity

All of the Scheme's financial liabilities relate to derivatives whose maturity is listed below:

	2013			
	Less than 1 month	2 to 12 months	Greater than 12 months	Total
	$'000	$'000	$'000	$'000
Derivatives	3,887	15,429	91,391	110,707

	2012			
	Less than 1 month	2 to 12 months	Greater than 12 months	Total
	$'000	$'000	$'000	$'000
Derivatives	1,426	11,096	152,295	164,817

The other Scheme liabilities are either claims related whose maturity is disclosed in Note 15 or are related to insurance operations and have a maturity of less than 12 months.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

i. Exposure:

Credit risk arises from the Scheme's investments as a result of the investment managers trading with various counterparties and purchasing the debt of corporate and government borrowers. These activities could result in the Scheme not being able to receive obligations as a result of a failing counterparty. The Scheme's main credit risk concentration is spread between cash, indexed and interest bearing investments and over-the-counter, in-the-money derivatives.

Credit risk also arises from the Scheme's receivables. Disclosures relating to the Scheme's receivables are included in Note 10.

ii. Risk management objective, policies and processes:

Credit guidelines have been determined to ensure the Scheme has controlled levels of credit concentration. These guidelines are at a total Insurance Fund level, with further asset class specific restrictions in investment manager's mandates where applicable. In addition, where possible collateral arrangements may be implemented to reduce the Scheme's exposure.

The exposure is reported against set guidelines both from an individual managers' compliance and at a total Insurance Fund level. Reporting is provided by the Scheme's custodian and delivered to management for monitoring.

Credit risk arising on financial instruments is mitigated by investing primarily in rated instruments as determined by Standard's and Poor's, Moody's or Fitch. The Insurance Fund minimises its credit risk by monitoring counterparty creditworthiness.

Notes to and forming part of the Financial Statements

12. Financial instruments (continued)

Credit risk (continued)

iii. Quantitative analysis of exposure:

The Scheme's maximum credit risk exposure at balance date in relation to each class of recognised financial asset, other than derivative financial instruments, is the carrying amount of those assets as indicated in the Statement of Financial Position.

In relation to over the counter derivative financial instruments, credit risk arises from the potential failure of counter parties to meet their obligations under the contract or arrangement.

Derivatives

The use of derivative financial instruments is governed by the Scheme's policies. The Scheme enters into derivative contracts for the purpose of gaining market and/or duration exposure or hedging.

The table below shows the fair value of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of a derivative is measured. The notional amounts are indicative of the exposure of the Scheme to movements in the instrument underlying the derivatives. The notional amounts do not represent the credit risk of the derivative positions that is equal to the fair value.

The fair value amounts reported in the Statement of Financial Position, and the amounts reported in the following tables are the net value of individual swap positions where there is the ability to settle the swaps on a net basis and the Nominal Insurer intends to settle on this basis.

	2013		
	Assets	**Liabilities**	**Notional amount**
	$'000	**$'000**	**$'000**
Futures:			
Share price index futures	1,623	-	160,998
Interest rate futures	3,316	3,154	350,769
Options:			
Options on fixed income	6,150	-	900,000
Options on futures	25	-	8,390
Forwards:			
Forward foreign exchange contracts	1,837	10,914	678,849
Swaps:			
Interest rate swaps	5,762	25,821	773,700
Inflation swaps	2,349	4,341	481,400
Cross currency swaps	64,223	66,454	57,699
Credit default swaps	-	23	6,555
	85,285	**110,707**	**3,418,360**

	2012		
	Assets	**Liabilities**	**Notional amount**
	$'000	**$'000**	**$'000**
Futures:			
Share price index futures	8	1,134	211,126
Commodity futures	1,126	732	39,911
Interest rate futures	395	1,506	1,242,984
Options:			
Options on bonds	24,795	-	300,000
Options on foreign currency	37	15	12,922
Options on futures	16	-	63
Forwards:			
Forward foreign exchange contracts	2,156	2,056	177,228
Swaps:			
Interest rate swaps	17,235	41,157	721,219
Inflation swaps	1,240	11,553	700,100
Cross currency swaps	110,883	105,461	199,897
Credit default swaps	738	997	47,022
Non-deliverable forward swaps	178	206	21,635
	158,807	**164,817**	**3,674,107**

Notes to and forming part of the Financial Statements

12. Financial instruments (continued)

Credit risk (continued)

Indexed and interest bearing investments

The majority of the indexed and interest bearing investments held by the Scheme are held with issuers rated investment grade by Standard and Poor's, Moody's or Fitch. The ratings assigned to the Scheme's indexed and interest bearing investments at the end of the reporting period were as follows:

	2013	2012
	%	%
Rating		
AAA/aaa	67%	73%
AA/Aa	21%	14%
A/A	5%	5%
BBB	5%	4%
No Rating	2%	4%
Total	**100%**	**100%**

Transfer of financial assets: repurchase agreements

During the year, the Scheme transferred $386 million (2012 $596 million) of securities to counterparties of the Scheme under repurchase agreements, but has retained substantially all the credit risk associated with the transferred assets.

Due to retention of substantially all the risks and rewards of these assets, the Scheme continues to recognise these assets in the Scheme's financial statements, and the proceeds of sale are reported as liabilities and are carried at amortised cost. The counterparties have an obligation to return the securities to the Scheme.

The following table sets out carrying amounts of transferred financial assets and the related liability at the reporting date.

	2013	2012
	$'000	$'000
Carrying amount of transferred assets	385,649	596,095
Carrying amount of associated secured bank facility	(318,104)	(571,784)
Fair Value of transferred assets	385,649	596,095
Carrying amount of associated secured bank facility	(318,104)	(571,784)
Net Position	**67,545**	**24,311**

Notes to and forming part of the Financial Statements

12. Financial instruments (continued)

Fair value estimation

The carrying amounts of the Scheme's financial assets and liabilities at the end of the reporting period approximated their fair values as all financial assets and liabilities held were either at fair value at the end of the reporting period ('marked to market') or were short term in nature.

The financial assets and liabilities are classified in accordance with the following fair value measurement hierarchy:

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

	2013			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Other Financial assets				
Indexed and interest bearing securities	4,835,386	3,132,906	232,138	8,200,430
Australian equities	1,197,952	-	-	1,197,952
International equities	2,212,783	5,111	-	2,217,894
Unit Trusts	275,345	917,704	794,703	1,987,752
Derivatives	4,964	80,321	-	85,285
	8,526,430	**4,136,042**	**1,026,841**	**13,689,313**
Other Financial liabilities				
Derivatives	3,154	107,553	-	110,707

	2012			
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Other Financial assets				
Indexed and interest bearing securities	244,917	7,917,403	175,698	8,338,018
Australian equities	1,204,647	-	-	1,204,647
International equities	1,547,003	-	-	1,547,003
Unit Trusts	393,132	339,664	803,116	1,535,912
Derivatives	26,378	132,429	-	158,807
	3,416,077	**8,389,496**	**978,814**	**12,784,387**
Other Financial liabilities				
Derivatives	3,389	161,428	-	164,817

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets of the Scheme is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example over-the-counter derivatives) is determined using valuation techniques. A variety of methods are used which include assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for debt securities for disclosure purposes. Evaluations of such securities are based on market data. Vendors utilise evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and when available loan performance data. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise debt instruments and derivative financial instruments.

The transfers out of level 3 arose from instruments which are now commonly traded and currently have observable market derived prices available for these securities.

Notes to and forming part of the Financial Statements

12. Financial instruments (continued)

Fair value estimation (continued)

The following tables present the changes in level 3 instruments for the year ended 30 June 2013.

	2013	2012
	$'000	$'000
Opening balance	978,814	784,544
Transfers into level 3	-	-
Purchases of securities	110,141	181,329
Other increases	-	-
Sale of securities	(65,421)	(7, 182)
Transfers out of level 3	(12,856)	
Gain/(loss) recognised in Profit and Loss (investment Income)	16,163	20,123
Closing Balance	**1,026,841**	**978,814**
Total gains/(losses) for the period included in profit or loss that relate to assets held at the end of the reporting period (shown in investment income)	16,163	20,123

An analysis of the fair value measurements for level 3 securities has indicated that amending the assumptions used in the valuation to reasonably possible alternate assumptions would have an immaterial impact on the values of these securities or the Scheme's position.

Financial assets pledged as collateral

Scheme's financial assets pledged as collateral are $nil (2012: $nil), apart from cash held in margin accounts with the brokers/counter parties across various markets for exchange traded derivatives (refer Note 10) and for Over the Counter securities.

Margin accounts for exchange traded derivatives are held by the relevant exchange to keep the derivative position open and are adjusted daily based on the underlying derivatives marked to market. For over the counter securities the Scheme pays cash to the counter party where the trade documents stipulated that collateral is required to be paid. This collateral is adjusted as stipulated by the terms of the trade document based on underlying derivatives marked to market.

Where the Scheme holds collateral, this is held only in cash.

As outlined previously the Scheme closes out its positions prior to maturity or settles positions in cash rather than physical delivery.

13. Trade and other payables

	2013	2012
	$'000	$'000
Agent remuneration	34,628	129,312
Investment purchases	65,941	28,139
Goods and Services Tax	37,003	35,507
Repurchase agreements	318,104	571,784
Other	46,669	47,455
Total payables	**502,345**	**812,197**

14. Unearned premiums

	2013	2012
	$'000	$'000
Unearned premiums	414,700	397,959

Unearned premium represents the amount of premium that has been received relating to periods of coverage in the next financial year. Unearned premium is determined using the pro-rata method.

Notes to and forming part of the Financial Statements

15. Outstanding claims

The Nominal Insurer only provides Workers Compensation Insurance to those NSW employers who are not covered by self or specialised insurance arrangements. The wide geographic area, number of employers provided with insurance and variety of industries provided with insurance, reduces the Scheme's risk volatility. Managing the remaining insurance risk is part of the Scheme's governance and management philosophy with risk being reduced through:

- Detailed review of consulting actuaries, bi-annual actuarial valuation projections and cost drivers to enable early detection of emerging issues and cost pressures.
- Actively monitoring claims and expense patterns to detect increasing expenditure and ensure it is facilitating return to work strategies.
- Designing premium formulas that reflect the cost of injuries in particular industries and for larger employers related to their actual claims costs to encourage employers to reduce injuries and facilitate injured workers to return to work.
- Design of benefits that provide incentives to injured workers to work with the Scheme and employers to encourage a return to work.
- Partnering with regulators including WorkCover to reduce injury rates and detect any fraudulent activities.
- Designing remuneration for Scheme Agents that encourages them to achieve Scheme objectives.
- Investment allocation strategies that manage investment risks (refer Note 12).
- Actively monitoring and projecting the Scheme's cashflow to ensure premiums are paid and injured worker entitlements are provided in a timely manner.

The nature of the Scheme's insurance operations including the requirement of all employers in NSW to have a policy, the wide geographic/industry spread of risks, the level of Scheme Assets and the ability to amend future premiums, has resulted in the Scheme concluding that reinsurance of Scheme liabilities is not appropriate.

	2013	2012
	$'000	$'000
a. Expected future gross claims payments (undiscounted)	21,574,920	20,020,501
Discount to present value	(7,567,545)	(5,405,511)
Liability for outstanding claims	**14,007,375**	**14,614,990**
Current	2,230,270	2,376,739
Non-Current	11,777,105	12,238,251
	14,007,375	**14,614,990**
b. Expected future actuarial assessment of recoveries (undiscounted)	521,505	528,768
Discount to present value	(71,252)	(47,441)
Discounted actuarial assessment of recoveries	**450,253**	**481,327**
c. Net outstanding claims per actuarial report	**13,557,122**	**14,133,663**

The overall outstanding claims liability of the Nominal Insurer is calculated by the consulting actuaries using a range of recognised, aggregate actuarial methods, appropriate for the characteristics of the various types of claim liability under scrutiny. The liability for the outstanding claims is estimated as the inflated and discounted values of the expected future payments, reflecting the fact that these payments will be spread over future years. The expected future payments are estimated on the basis of the ultimate cost of settling claims (including claims handling expenses) which is affected by factors arising during the period to settlement.

The provision for claims handling expenses is calculated as a percentage of the gross outstanding claims central estimate to recognise the ultimate expense of managing outstanding claims until they are finalised and closed. The percentage for claims handling expenses is 9.9 per cent (2012 10 per cent).

Significant reforms to workers compensation legislation gained assent on 27 June 2012 with some reforms being effective from when the Bill was tabled while others are effective from later dates. Many of the reforms are still in the process of being implemented. Estimating the financial impact of the reforms requires significant actuarial assumptions to be made, which with the passage of time may prove to differ perhaps materially from actual outcomes. This is especially the case as some of these changes will significantly impact claimant and provider behaviour which will take several years to be able to be accurately assessed. As a result at this point in time, there is significant uncertainty in estimating the financial impact of the reforms.

Accordingly WorkCover in its capacity as acting for the Nominal Insurer decided to adopt a probability of adequacy for the Scheme for 2013 of 80 per cent (2012 80 per cent). The consulting actuary has assessed this requires a risk margin of 16.2 per cent (2012 16 per cent) or $1.89 billion (2012 $2 billion).

In arriving at this decision on the probability of adequacy required, WorkCover also took into account the special circumstances of the Scheme such as the legislative provisions to set and retrospectively adjust premiums and employers being required to fund any deficit as part of future premiums.

Notes to and forming part of the Financial Statements

15. Outstanding claims (continued)

The consulting actuaries state in their certificate that there is inherent uncertainty in any estimate of outstanding claims liabilities. Whilst in their judgement they have employed techniques and assumptions that are appropriate, it should be recognised that future claim development is likely to deviate, perhaps materially, from their estimates. They state that examples of this uncertainty include but are not limited to the likelihood of injured workers lodging claims under the Scheme, the amount of compensation paid and the attitudes of claimants towards settlement of their claims and uncertainty surrounding the impact of the various reforms to Scheme design and operation which have occurred.

Based on the consulting actuaries assessment of the Scheme's exposure to asbestos claims, an explicit provision of $112 million (2012: $169 million) for such claims has been included in the overall outstanding claims liability.

Movement in claim liabilities and recoveries

	2013	2012
	$'000	$'000
Claims liabilities		
Opening balance	14,614,990	14,737,322
Adjustment arising from changes in:		
• Actuarial assumptions	(513,568)	(2,313,277)
• Discount/inflation rates	131,147	1,818,698
• Risk margins	(84,711)	458,547
Expected expenses on 2012/13 claim payments	(200,280)	(175,660)
Claims incurred in current year	2,067,249	2,242,877
Claims payments	(2,007,452)	(2,153,517)
Claims liabilities 30 June 2013	**14,007,375**	**14,614,990**
Recoveries		
Opening balance	481,327	469,796
Adjustment arising from changes in:		
• Actuarial assumptions	33,337	(30,300)
• Discount/inflation rates	5,081	39,851
• Risk margin	(4,332)	16,769
Recoveries incurred in current year	67,680	117,724
Recoveries received (excluding GST recoveries)	(107,736)	(103,385)
GST recoveries	(25, 104)	(29, 128)
Recoveries receivable 30 June 2013	**450,253**	**481,327**

Claims development

The Scheme provides ongoing weekly benefits to injured workers who are unable to return to preinjury levels of work up to retirement age, (or if injured after retirement age one year after the date of claim). This results in a significant portion of Scheme liabilities relating to injuries many years in the past that may not be settled for many years.

Under the 2012 reforms the maximum number of years an injured worker who is not seriously injured can remain in weekly benefits is 5 years, with medical benefits to continue for a year after the weekly benefits end.

	2013	2012
	$'000	$'000
Outstanding claims liabilities		
• Prior to 10 years ago	5,510,317	6,274,458
• 9 years ago	835,553	670,629
• 8 years ago	1,132,708	805,448
• 7 years ago	1,178,060	1,005,629
• 6 years ago	1,470,912	1,066,256
• 5 years ago	1,505,708	1,358,274
• 4 years ago	1,784,725	1,562,707
• 3 years ago	2,260,890	1,755,882
• 2 years ago	2,619,961	2,255,309
• up to 1 year ago	3,276,086	3,265,909
	21,574,920	**20,020,501**

Notes to and forming part of the Financial Statements

15. Outstanding claims (continued)

Claims liability maturity

The maturity profile of the Scheme's claim liabilities are estimated by the consulting actuaries to mature in the following periods.

	2013	2012
	$'000	$'000
Outstanding claims net of recoveries maturing:		
• within 1 year	2,101,375	2,241,536
• 2 to 5 years	5,588,494	5,655,747
• more than 5 years	5,867,253	6,236,380
	13,557,122	**14,133,663**

Core claims liability variables

Actuarial analysis performed by the Scheme's consulting actuaries have determined that as the Scheme's benefit structure provides ongoing weekly benefits support to injured workers the core variables that drive the Schemes liabilities are the inflation rate for benefits and the discount rate of these liabilities to reflect the earnings on Scheme investments. Income support benefits to injured workers are indexed half yearly while other payments such as medical costs are considered to increase at least in line with inflation.

Weekly benefits are based on workers average weekly earnings. For claims incurred prior to 1 October 2012 weekly benefits are indexed to the Labour Price Index (LPI), while claims incurred after that date are indexed to the Consumer Price Index (CPI). Other Scheme costs continue to align with movements in the LPI

The following average inflation and discount rates were used in the measurement of outstanding claims:

	2013	2012
	%pa	%pa
For the first succeeding year		
Inflation rate		
LPI	3.50	3.50
CPI	2.50	2.50
Discount rate	2.54	2.79
For subsequent years		
Inflation rate		
LPI	3.06 – 3.50	2.39 – 3.50
CPI	2.06 – 2.50	1.39 – 2.50
Discount rate	2.61 – 5.41	2. 79 – 4.39

The weighted average discounted expected term from the balance date to settlement of the outstanding claims is estimated to be 7.5 years (2012: 7.4 years).

Sensitivity analysis

The impact of changes in key variables is summarised in the table below. Sensitivity analysis is conducted by the consulting actuaries on each variable whilst holding all other variables constant.

Variable	Movement In variable	2013 Impact on		2012 Impact on	
		profit/(loss)	liabilities	profit/(loss)	liabilities
		$'000	$'000	$'000	$'000
Inflation rate	+1 %	(351,919)	351,919	(375,023)	375,023
	-1%	335,766	(335,766)	357,631	(357,631)
Discount rate	+1%	364,796	(364,796)	366,389	(366,389)
	-1%	(390,723)	390,723	(391,659)	391,659

Notes to and forming part of the Financial Statements

16. Reconciliation of surplus/(deficit) for the year to net cash provided by operating activities

	2013	2012
	$'000	$'000
Surplus/ (Deficit) from operating activities:	1,805,821	865,943
Expenses/Revenues not involving cash inflows/outflows:		
Bad debts written off	55,242	52,896
Impairment of trade receivables	(5,471)	(23,303)
Increase in actuarially assessed claim liabilities	(607,615)	(122,331)
Decrease/(increase) in actuarially assessed recoveries receivable	31,074	(11,531)
Increase/(reduction) in unearned premiums	16,741	20,715
Increase/(decrease) in unexpired risk provision	(11,637)	(24,600)
Unrealised loss/(gain) on investments	(183,118)	(143,155)
Decrease/(Increase) in operating assets:		
Financial assets	(681,129)	(1,491,673)
Interest and dividends receivable	(46,361)	9,485
Premiums receivable	(38,582)	(49,504)
Trade debtors and prepayments	(17,191)	15,923
(Decrease)/Increase in operating liabilities:		
Trade and other payables	(328,094)	646,012
Security deposits received	(7,189)	(2,298)
Collateral from brokers	(19,560)	25,850
Net cash provided by/(used in) operating activities	**(37,069)**	**(231,571)**

17. Liability Adequacy Test

At 30 June 2013 the Scheme has an unearned premium provision of $415 million (2012: $398 million). This unearned premium was based on policies on risk during 2012/13 but where the period of coverage extends into 2013/14.

The present value of expected future cash flows for future claims relating to the unearned premium is estimated to be $461 million (2012: $399 million), with this increasing to $466 million (2012: $471 million) once a risk margin of 17.9 per cent to give a 80 per cent probability of adequacy is added. This is the same probability of adequacy that is used for the Scheme valuation.

Accordingly the Scheme's consulting actuaries after allowing for unearned premium related to expected future premium adjustments of $47 million (2012: $57 million) have advised that the unearned premium provision is not adequate to meet the anticipated claims. Accordingly they have advised that an additional unexpired risk provision of $4 million is required to be made by the Scheme. In 2012 the actuaries determined that an unexpired risk provision of $16 million was required.

18. Commitments

At 30 June 2013 the Scheme has a lease commitment with the State Property Authority.

	2013	2012
	$'000	$'000
• within 1 year	874	613
• 1 to 5 years	683	1,599
• more than 5 years	-	-
	1,557	**2,212**

As at the 30 June 2013 the NSW WorkCover Scheme was required to contribute $233 million (2012: $162 million) to the WorkCover Authority Fund in monthly instalments by 30th June 2014.

As at the 30 June 2013 the NSW WorkCover Scheme was required to contribute $78 million (2012: $76 million) to the Workers Compensation Dust Diseases Fund in 12 equal monthly instalments by 30th June 2014.

As at the 30 June 2013 the NSW WorkCover Scheme was required to contribute $7.6 million (2012: $6.8 million) to the Mine Safety Levy in 4 equal quarterly instalments by 30th June 2014.

Notes to and forming part of the Financial Statements

19. Security deposits and bank guarantees

Since 30 June 2009 large employers may apply to have their workers compensation premium calculated under an alternative premium method, called the Retro-Paid Loss Premium Method, provided they meet specified work health and safety, injury management and financial criteria. Under this methodology employers pay a deposit premium for the insured period, with subsequent adjustments made over the next four years to reflect the actual costs of claims incurred plus a contribution to those costs such as very high value claims that are shared across all employers. As the premium is not finalised till five years post the commencement of risk under the policy, the employers are required to lodge a security for the difference between the premium paid to date and the maximum amount of premium the employer may need to pay under the Retro-Paid Loss Premium Method.

Under section 172A of the *Workers Compensation Act 1987,* the NSW WorkCover Scheme administers security deposits, bank guarantees and securities lodged by employers who elect to participate in the Retro-Paid Loss Premium Method.

As at 30 June 2013, the Scheme held deposits of $35 million (2012: $42 million) and bank guarantees of $756 million (2012: $536 million). These deposits are held on trust for the payment of employers potential liability to pay workers compensation premium.

Earnings on funds deposited with the Scheme for this purpose are paid directly to the entity that lodged the Security Deposit provided that the security held meets the minimum level required for the applicable employers.

End of Audited Financial Statements

Appendices

Appendix 1: Legislation and statutory amendments

Principal legislation administered

Acts

Constitution of WorkCover

- *Workplace Injury Management and Workers Compensation Act 1998*

Workers Compensation

- *Workplace Injury Management and Workers Compensation Act 1998*
- *Workers Compensation Act 1987*
- *Workers Compensation (Bush Fire, Emergency and Rescue Services) Act 1987*
- *Workers' Compensation (Dust Diseases) Act 1942*
- *Associated General Contractors Insurance Company Limited Act 1980*
- *Bishopsgate Insurance Australia Limited Act 1983*
- *Safety, Return to Work and Support Board Act 2012*

Other

- Sporting Injuries Insurance Act 1978

Regulations

Workplace Injury Management and Workers Compensation Act 1998 and ***Workers Compensation Act 1987***
Workers Compensation Regulation 2010
Workers Compensation Commission Rules 2011

Workers Compensation (Bush Fire, Emergency and Rescue Services) Act 1987
Workers Compensation (Bush Fire, Emergency and Rescue Services) Regulation 2007

Workers' Compensation (Dust Diseases) Act 1942
Workers' Compensation (Dust Diseases) Regulation 2008

Sporting Injuries Insurance Act 1978
Sporting Injuries Insurance Regulation 2009
Sporting Injuries Insurance Rule 1997

Changes to acts

Workers Compensation Legislation Amendment Act 2012
Date of commencement of Schs 1 and 4 [1], 1.10.2012, sec 2 (1) and 2012 (474) LW 28.9.2012.

Changes to regulations

Workers Compensation (Bush Fire, Emergency and Rescue Services) Regulation 2012
Date of commencement, on publication on LW being 3.8.2012.

Workers Compensation Amendment (Miscellaneous) Regulation 2012
Date of commencement, 17.9.2012.

Workers Compensation Amendment (Transitional) Regulation 2012
Date of commencement, 1.10.2012.

Workers Compensation Amendment (Further Transitional) Regulation 2012
Date of commencement, on publication on LW being 21.12.2012.

Workers Compensation Amendment (Disclosure of Information) Regulation 2012
Date of commencement, on publication on LW being 7.12.2012.

Workers Compensation Amendment (Latest Index Number) Regulation 2013
Date of commencement, on publication on LW being 22.3.2013.

Workers Compensation Amendment (Small Employers Wages Returns) Regulation 2013
Date of commencement, 4pm on 30.6.2013.

New and amending subordinate legislation under the *Workers Compensation Act 1987* and the *Workplace Injury Management and Workers Compensation Act 1998*

Workers Compensation Commission Rules 2011
The rules provide rules for the Workers Compensation Commission. The Rules were tabled on 7 June 2013 and commenced on 1 July 2013.

Workers Compensation (Weekly Payments Indexation) Order 2013
Date of commencement, on publication on LW being 28.3.2013.

Workers Compensation (Weekly Payments Indexation) Amendment (Current Weekly Earnings) Order 2013
Date of commencement, on publication on LW being 28.6.2013.

These orders index various amounts under the workers compensation legislation.

REPEALED LEGISLATION

- *Workers' Compensation (Brucellosis) Act 1979* (repeal effective on 8 July 2011)
- *Workmen's Compensation (Lead Poisoning – Broken Hill) Act 1922* (repeal effective on 6 January 2012)
- *The Standard Insurance Company Limited and Certain Other Insurance Companies Act 1963* (repeal effective on 6 July 2012)

Appendix 2: Response to significant matters raised in the outgoing audit report

There were no significant matters raised in the outgoing audit report.