WorkCover QUEENSLAND

2017 CONSOLIDATED FINANCIAL STATEMENTS

Contents

Consolidated statement of comprehensive income

For the year ended 30 June 2017

	Note	2017 $'000	2016 $'000
Net premium revenue	P1	1,416,387	1,357,376
Gross claims expense	C1	(1,336,756)	(1,561,439)
Claims recoveries revenue	C1	72,337	82,117
Net claims incurred	C1	(1,264,419)	(1,479,322)
Underwriting expenses	S1	(31,900)	(26,962)
Underwriting result		**120,068**	**(148,908)**
Investment income	F1	423,718	98,657
Other income		1,699	1,737
Other expenses		(12,378)	(10,646)
Operating result for the year before income tax equivalent		**533,107**	**(59,160)**
Income tax equivalent (expense)/benefit	O1(a)	(152,255)	20,953
Operating result for the year		**380,852**	**(38,207)**
Other comprehensive income			
Items that will not be reclassified subsequently to operating result:			
Revaluation of land and building	O3(b)	7,672	(1,577)
Income tax effect on revaluation of land and building	O1(a)	(2,302)	473
Other comprehensive income for the year, net of income tax equivalent		**5,370**	**(1,104)**
Total comprehensive income for the year		**386,222**	**(39,311)**

The above consolidated statement of comprehensive income is to be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 30 June 2017

	Note	2017 $'000	2016 $'000
Current assets			
Cash and cash equivalents	F2	353,315	187,454
Recoveries receivable on outstanding claims	C2(b)	55,180	51,060
Receivables	F2	13,981	26,104
Other financial assets - Managed unit trusts	F2	875,153	940,858
Other financial assets - Derivatives	F2	185,219	74,211
Current tax assets		-	44,365
Other assets		9,218	1,770
Total current assets		**1,492,066**	**1,325,822**
Non-current assets			
Recoveries receivable on outstanding claims	C2(b)	116,199	109,796
Receivables	F2	800	917
Other financial assets - Managed unit trusts	F2	3,192,390	2,724,802
Other financial assets - Derivatives	F2	227,249	296,159
Property, plant and equipment	S4	52,391	46,263
Intangible assets	S5	3,110	4,322
Other assets		1,959	2,607
Total non-current assets		**3,594,098**	**3,184,866**
Total assets		**5,086,164**	**4,510,688**
Current liabilities			
Payables	F2	22,590	25,236
Unearned premium liability	P2	5,522	9,895
Outstanding claims liability	C2(a)	1,053,659	1,050,265
Current tax liabilities		95,965	-
Employee benefits liabilities	S2(a)	16,081	15,778
Other financial liabilities - Derivatives	F2	61,893	15,864
Other liabilities		119	116
Total current liabilities		**1,255,829**	**1,117,154**
Non-current liabilities			
Deferred tax liabilities	O1(a)	55,256	13,591
Unearned premium liability	P2	321	-
Outstanding claims liability	C2(a)	1,648,596	1,641,467
Employee benefits liabilities	S2(a)	2,012	1,964
Other financial liabilities - Derivatives	F2	9,238	10,322
Other liabilities		16	16
Total non-current liabilities		**1,715,439**	**1,667,360**
Total liabilities		**2,971,268**	**2,784,514**
Net assets		**2,114,896**	**1,726,174**
Equity			
Contributed equity	O3(a)	2,500	-
Asset revaluation surplus	O3(b)	18,297	12,927
Investment fluctuation reserve	O3(c)	1,499,845	1,156,344
Accumulated surplus		594,254	556,903
Total equity		**2,114,896**	**1,726,174**

The above consolidated statement of financial position is to be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the year ended 30 June 2017

	Contributed equity $'000	Asset revaluation surplus $'000	Investment fluctuation reserve $'000	Accumulated surplus $'000	Total $'000
Balance at 1 July 2015	-	14,031	1,237,280	514,174	1,765,485
Operating result for the year	-	-	-	(38,207)	(38,207)
Other comprehensive income for the year	-	(1,104)	-	-	(1,104)
Total comprehensive income for the year	-	(1,104)	-	(38,207)	(39,311)
Transfer from investment fluctuation reserve to accumulated surplus	-	-	(80,936)	80,936	-
Total transactions with owners, recorded directly in equity	-	-	(80,936)	80,936	-
Balance at 30 June 2016	-	12,927	1,156,344	556,903	1,726,174
Balance at 1 July 2016	-	12,927	1,156,344	556,903	1,726,174
Operating result for the year	-	-	-	380,852	380,852
Other comprehensive income for the year	-	5,370	-	-	5,370
Total comprehensive income for the year	-	5,370	-	380,852	386,222
Net transfers in from other Queensland Government entities	2,500	-	-	-	2,500
Transfer to investment fluctuation reserve from accumulated surplus	-	-	343,501	(343,501)	-
Total transactions with owners, recorded directly in equity	2,500	-	343,501	(343,501)	2,500
Balance at 30 June 2017	2,500	18,297	1,499,845	594,254	2,114,896

The amounts disclosed above are net of tax.

The above consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the year ended 30 June 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Premiums received		1,412,297	1,353,451
Interest received		18,964	17,811
Unit trust distributions received		266,493	333,987
GST received		141,996	136,290
GST paid		(141,551)	(135,725)
Claims paid		(1,326,053)	(1,332,815)
Claims recoveries received		67,142	73,445
Other operating income received		1,977	1,737
Other operating expenses paid		(42,794)	(36,103)
Income tax equivalent refunded/(paid)		27,438	(24,351)
Net cash from operating activities	O2	**425,909**	**387,727**
Cash flows from investing activities			
Acquisition of investments		(272,844)	(341,621)
Proceeds from sale of investments		11,396	100,510
Acquisition of intangible assets		(89)	(1,456)
Acquisition of property, plant and equipment		(1,011)	(6,750)
Proceeds from sale of property, plant and equipment		-	84
Net cash (used in) investing activities		**(262,548)**	**(249,233)**
Cash flows from financing activities			
Non-reciprocal cash transfer		2,500	-
Net cash provided by financing activities		**2,500**	**-**
Net increase in cash and cash equivalents		165,861	138,494
Cash and cash equivalents at 1 July		187,454	48,960
Cash and cash equivalents at 30 June		**353,315**	**187,454**

The above consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

WorkCover Queensland is a not-for-profit statutory body established by the *Workers' Compensation and Rehabilitation Act 2003*. WorkCover Queensland is controlled by the Queensland State Government and is the main provider of workers' compensation insurance in Queensland.

WorkCover Queensland's principal place of business is 280 Adelaide Street, Brisbane, Queensland, Australia.

These general purpose financial statements are prepared on an accrual basis and in accordance with Australian Accounting Standards (AASBs) made by the Australian Accounting Standards Board (AASB), other authoritative pronouncements of the AASB, *Financial Accountability Act 2009*, *Financial Accountability Regulation 2009, Financial and Performance Management Standard 2009*, the *Workers' Compensation and Rehabilitation Act 2003* and the *Workers' Compensation and Rehabilitation Regulation 2014*.

The measurement basis is historical cost, unless the application of fair value, present value, or net realisable value is required by the relevant accounting standard or as nominated in the notes to the consolidated financial statements.

Assets and liabilities are classified as either 'current' or 'non-current' in the consolidated statement of financial position and the associated notes. Assets are classified as current where their carrying amount is expected to be realised within 12 months after the reporting date. Liabilities are classified as current when they are due to be settled within 12 months after the reporting date or there is not an unconditional right to defer settlement to beyond 12 months after the reporting date. All other assets and liabilities are classified as non-current.

The presentation currency is Australian dollars. Amounts included in these consolidated financial statements have been rounded to the nearest $1,000 or, where the amount is less than $500, to zero, unless disclosure of the full amount is specifically required.

WorkCover Queensland's Chair, Ms Flavia Gobbo, authorised this report for issue on 29 August 2017.

Basis of consolidation

These financial statements represent the financial statements for the consolidated entity 'WorkCover', consisting of the parent entity, WorkCover Queensland, and its controlled entity, the WorkCover Employing Office (WEO). All group transactions and balances are consolidated in full.

The transactions of a subsidiary are included in the consolidated financial statements from the date on which control over the subsidiary commences until the date on which control ceases. An entity controls another entity if it has:

- power over the entity (i.e. existing rights that give it the current ability to direct the relevant activities of the entity);
- exposure or rights to variable returns from its involvement with the entity; and
- the ability to use its power over the entity to affect its returns.

WEO is a statutory body established under the *Workers' Compensation and Rehabilitation Act 2003*. A work performance arrangement exists between WorkCover Queensland and WEO which requires WEO to provide staff to perform work for WorkCover Queensland. WEO has only this agreement and is unlikely to make another. Further to this, WorkCover Queensland has been deemed to act as WEO's principal under the delegation of powers, due to the fact that it exercises its own discretion and is not subject to specific direction by the Minister regarding WEO. Based on the above and other relevant factors, WEO is assessed as a structured entity under AASB 12 *Disclosure of Interests in Other Entities* that is controlled by WorkCover Queensland in accordance with AASB 10 *Consolidated Financial Statements* and is therefore consolidated into WorkCover Queensland's financial statements.

These financial statements do not separately disclose the financial statements of WorkCover Queensland excluding WEO due to the immaterial differences between the consolidated and parent entity's financial statements. These differences are disclosed in note O5.

A summary of WEO's financial statements is provided in note O6.

Significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements have been included in the relevant note to which the policies relate. These policies have been consistently applied for all years presented unless otherwise stated.

Accounting judgements and estimates

The preparation of consolidated financial statements requires the use of accounting estimates. It also requires management to exercise its judgement in the process of applying WorkCover's accounting policies. Estimates and accounting policy judgements are continually evaluated and are based on factors such as historical experience and expectations of future events that are believed to be reasonable under the circumstances. Changes to accounting estimates are recognised in the period in which the estimate is revised and in future periods as relevant. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the consolidated financial statements are:

- outstanding claims liability and claims recoveries receivable (note C2(d)); and
- financial instruments (note F3).

What this section is about

Premium received from policyholders is the key source of revenue for WorkCover. This section provides detail on the measurement of premium, its adequacy, and insurance risk.

P1 Net premium revenue

	Note	2017 $'000	2016 $'000
Gross written premiums		1,436,527	1,384,732
Discount on premiums		(25,619)	(24,412)
Premium penalties		1,427	1,403
		1,412,335	1,361,723
Movement in unearned premium	P2	4,052	(4,347)
		1,416,387	**1,357,376**

Premium revenue is earned from contracts when a policyholder transfers significant insurance risk to WorkCover. Gross written premiums are the amounts charged to the policyholder excluding stamp duty and goods and services tax (GST). A discount is offered to policyholders for early payment subject to certain conditions.

Premium revenue, including that on unclosed business, is recognised in the consolidated statement of comprehensive income over the period of the contract from the date of attachment of risk. The pattern of recognition over the policy period is based on time, which is considered to closely approximate the pattern of risks underwritten.

The proportion of premium received but not earned in the consolidated statement of comprehensive income at the reporting date is recognised as an unearned premium liability in the consolidated statement of financial position. The carrying value reflects its fair value.

P2 Unearned premium liability

	Note	2017 $'000	2016 $'000
Balance at 1 July		9,895	5,548
Movement in unearned premium			
Deferral of premiums on contracts written during the year		5,843	9,568
Earning of premiums written in previous years		(9,895)	(5,221)
	P1	(4,052)	4,347
Balance at 30 June	P3	**5,843**	**9,895**
Represented by:			
Current		5,522	9,895
Non-current		321	-
	P3	**5,843**	**9,895**

P3 Liability adequacy test

At the end of each reporting period WorkCover assesses whether the unearned premium liability is adequate to cover all expected future cash flows relating to future claims against current insurance contracts. This test is performed at a portfolio of contracts level using contracts that are subject to broadly similar risks and managed together as a single portfolio.

If the present value of the expected future cash flows relating to future claims and the additional risk margin reflecting the inherent uncertainty in the central estimate exceeds the unearned premium liability, the unearned premium liability is deemed to be deficient. If there is a deficiency, the entire deficiency is expensed immediately in the consolidated statement of comprehensive income.

	Note	2017 $'000	2016 $'000
Unearned premium liability	P2	5,843	9,895
Less present value of expected future cash flows for future claims			
Discounted central estimate		3,713	7,331
Risk margin		520	1,022
		4,233	8,353
Surplus		**1,610**	**1,542**
Risk margin		14.0%	13.9%
Probability of adequacy		75%	75%

As the test has identified a surplus (2016: surplus), no further liability has been recognised.

P4 Insurance risk

(a) Terms and conditions of insurance contracts

WorkCover writes one class of business, workers' compensation. It provides two types of insurance:

- Accident insurance; and
- Contracts of insurance.

Accident insurance

All employers in Queensland are required to have accident insurance coverage for all employees that meet the definition of a 'worker' under the *Workers' Compensation and Rehabilitation Act 2003*.

Contracts of insurance

WorkCover provides optional insurance instruments that provide cover to individuals, employees, or members of associations who do not meet the definition of a 'worker' and are therefore not covered by the accident insurance policies.

The terms and conditions attaching to accident insurance contracts and contracts of insurance affect the level of insurance risk accepted by WorkCover. All insurance contracts entered into are in the same standard form and are subject to substantially the same terms and conditions under the *Workers' Compensation and Rehabilitation Act 2003*.

Section 382(2) of the *Workers' Compensation and Rehabilitation Act 2003* provides that all insurance policies issued by or on behalf of WorkCover are guaranteed by the Queensland State Government.

(b) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks

WorkCover has an objective to manage insurance risk, thus reducing the volatility of insurance premiums and operating results so that the required funding ratio can be maintained. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, operating results are affected by market factors. Short-term variability is, to some extent, a feature of the insurance business.

Key aspects of processes established to mitigate insurance risks include:

- the maintenance and use of management information systems, which provide up-to-date, reliable data on the risks to which WorkCover is exposed to at any point in time;
- the use of actuarial models, using information from the management information systems, to monitor claims patterns and calculate premiums. Past experience and statistical methods are used as part of the process; and
- the mix of assets in which WorkCover invests being driven by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match maturity dates of assets with the expected pattern of claim payments.

(c) Concentration of insurance risk

WorkCover's exposure to concentration of insurance risk relates to injuries caused through an event or disaster that may have occurred during the reporting period. This risk is mitigated as WorkCover supplies mandatory workers' compensation insurance to all Queensland businesses who employ workers other than a limited number who self-insure and as such WorkCover's customers are geographically and occupationally diverse.

(d) Liquidity risk

WorkCover's exposure to liquidity risk is managed by ensuring that investments held to meet policyholder liabilities are matched to the expected duration of those liabilities and sufficient cash deposits are available to meet day-to-day operations. The liquidity risk associated with WorkCover's investments is disclosed in note F5(b).

The following table sets out the liquidity risk of outstanding claims held by WorkCover. It represents the maturity of outstanding claims liabilities, calculated based on discounted cash flows relating to the liabilities at reporting date.

	Note	2017	2016
		$'000	$'000
1 year or less	C2(a)	1,053,659	1,050,265
1 - 3 years		1,180,464	1,177,024
3 - 5 years		295,828	308,981
More than 5 years		172,304	155,462
	C2(a)	**2,702,255**	**2,691,732**

What this section is about

WorkCover's claimants are individuals injured at work who are covered by WorkCover's accident insurance policies and contracts of insurance. This section provides information on net claims costs incurred and the net outstanding claims provision including the assumptions and estimates.

C1 Net claims incurred

	Note	2017 $'000 Current year	2017 $'000 Prior years	2017 $'000 Total	2016 $'000 Current year	2016 $'000 Prior years	2016 $'000 Total
Gross claims expense							
Undiscounted claims expense		1,795,682	(385,291)	1,410,391	1,673,160	(135,256)	1,537,904
Discount		(103,950)	30,315	(73,635)	(40,566)	64,101	23,535
	C2(a)	1,691,732	(354,976)	1,336,756	1,632,594	(71,155)	1,561,439
Claims recoveries revenue							
Undiscounted claims recoveries revenue		(59,006)	(14,910)	(73,916)	(53,237)	(28,116)	(81,353)
Discount		3,015	(1,436)	1,579	2,254	(3,018)	(764)
	C2(b)	(55,991)	(16,346)	(72,337)	(50,983)	(31,134)	(82,117)
Net claims incurred		**1,635,741**	**(371,322)**	**1,264,419**	**1,581,611**	**(102,289)**	**1,479,322**

Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the expense for risks borne in all previous financial years.

There was a reduction in net claims incurred for injury years prior to 2017 before the unwinding of one year discounting on future payments. This reduction is largely driven by:

- favourable common law claims experience mainly driven by lower than expected claim numbers and, to a lesser extent, lower than expected settlement sizes, and corresponding changes in valuation assumptions; and
- lower than expected claims experience from a number of statutory payment types (including weekly, medical and lump sum), and corresponding changes in valuation assumptions.

Reconciliation of net claims incurred

	Note	2017 $'000	2016 $'000
Gross claims incurred			
Statutory claims paid		800,324	769,924
Common law claims paid		370,039	420,077
Claims handling expenses	S1	156,106	151,897
Net self-insurance payments		(236)	3,305
	C2(a)	1,326,233	1,345,203
Claims recoveries			
Statutory claims recovered		(59,178)	(69,031)
Common law claims recovered		(2,636)	(1,953)
	C2(b)	(61,814)	(70,984)
Movement in net outstanding claims liability			
Gross claims liability		10,523	216,236
Recoveries receivable		(10,523)	(11,133)
		-	205,103
		1,264,419	**1,479,322**

Claims expenses are recognised in the consolidated statement of comprehensive income as the costs are incurred. Claims recoveries are recognised as revenue in the consolidated statement of comprehensive income once the amount to be recovered can be estimated and is likely to be recovered.

Self-insurance

Under the *Workers' Compensation and Rehabilitation Act 2003*, an employer may provide their own accident insurance for their workers instead of insuring with WorkCover if they meet certain requirements. Upon separation or return, WorkCover will make a payment to or receive a payment from the self-insurer for the estimated liability of outstanding claims payments which relate to the period of insurance covered by WorkCover or the self-insurer.

Bank guarantees and cash deposits of $489.145 million (2016: $498.867 million) are held by the Workers' Compensation Regulator on behalf of self-insurers. If a self-insurer fails its obligations under the *Workers' Compensation and Rehabilitation Act 2003*, WorkCover may recover from the guarantees for any debts owing from the self-insurer. As the likelihood of having to call on the guarantees has been assessed as low, no financial asset has been recognised in the consolidated statement of financial position.

C2 Outstanding claims liability and recoveries receivable

(a) Gross outstanding claims liability

	Note	2017 $'000	2016 $'000
Expected future claims payments		2,415,556	2,347,971
Claims handling expenses		196,294	187,231
		2,611,850	2,535,202
Less discount to present value		(150,779)	(83,716)
Discounted central estimate		2,461,071	2,451,486
Risk margin		241,184	240,246
	P4(d)	**2,702,255**	**2,691,732**
Represented by:			
Current	P4(d)	1,053,659	1,050,265
Non-current		1,648,596	1,641,467
	P4(d)	**2,702,255**	**2,691,732**
Reconciliation of movement during the year			
Balance at 1 July		2,691,732	2,475,496
Provisions made	C1	1,691,732	1,632,594
Payments made	C1	(1,326,233)	(1,345,203)
Effect of changes in assumptions to prior year provisions	C1	(354,976)	(71,155)
Balance at 30 June	P4(d)	**2,702,255**	**2,691,732**

This liability is calculated by an independent actuary in accordance with the *Workers' Compensation and Rehabilitation Act 2003* and AASB 1023 *General Insurance Contracts*.

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments for claims incurred at the end of the reporting period plus an additional risk margin to allow for the inherent uncertainty in the central estimate. The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not yet reported (IBNR), claims incurred but not enough reported (IBNER), and anticipated claims handling costs. The expected future payments are discounted to present value at the reporting date using a risk-free rate.

In respect of latent onset injuries, subdivision 3A of the *Workers' Compensation and Rehabilitation Act 2003* states that the definition of the date of injury for a latent onset injury, such as those caused by asbestos, is the date at which a medical practitioner diagnoses the injury. No liability is held for latent onset injuries where a medical practitioner has not yet diagnosed the injury.

(b) Recoveries receivable on outstanding claims

	Note	2017 $'000	2016 $'000
Expected future recoveries		162,374	151,352
Less discount to present value		(6,291)	(4,853)
Discounted central estimate		156,083	146,499
Risk margin		15,296	14,357
		171,379	**160,856**
Represented by:			
Current		55,180	51,060
Non-current		116,199	109,796
		171,379	**160,856**
Reconciliation of movement during the year			
Balance at 1 July		160,856	149,723
Recoveries recognised	C1	55,991	50,983
Recoveries received	C1	(61,814)	(70,984)
Effect of changes in assumptions to prior year provisions	C1	16,346	31,134
Balance at 30 June		**171,379**	**160,856**

Claims recoveries receivable is measured as the present value of the expected future receipts and is calculated by the actuary on the same basis as the liability for gross outstanding claims in accordance with the *Workers' Compensation and Rehabilitation Act 2003* and AASB 1023 *General Insurance Contracts*.

(c) Claims development

The following table shows the development of net undiscounted outstanding claims for each underwriting year relative to the ultimate expected claims.

	Injury year										
	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	Total $'000
Estimate of ultimate claims cost:											
At end of injury year	917,850	1,024,774	1,207,018	1,287,647	1,270,052	1,217,658	1,081,408	1,046,117	1,325,167	1,375,281	
One year later	955,230	1,139,274	1,191,502	1,160,950	1,162,090	1,183,786	1,079,142	1,118,999	1,182,964		
Two years later	1,030,179	1,146,233	1,075,612	1,042,773	1,158,901	1,144,077	1,036,477	1,024,321			
Three years later	1,047,310	1,075,537	1,017,274	1,033,321	1,119,311	1,096,163	992,540				
Four years later	1,008,737	1,050,100	1,006,458	1,032,219	1,087,761	1,092,552					
Five years later	1,012,822	1,046,995	1,000,282	1,027,669	1,083,720						
Six years later	1,008,549	1,040,571	995,180	1,023,901							
Seven years later	1,005,599	1,038,151	991,268								
Eight years later	1,004,027	1,036,967									
Nine years later	1,002,391										
Current estimate of cumulative claims cost	1,002,391	1,036,967	991,268	1,023,901	1,083,720	1,092,552	992,540	1,024,321	1,182,964	1,375,281	10,805,905
Cumulative payments	995,103	1,026,403	979,801	1,005,908	1,058,006	1,045,026	871,383	710,686	582,956	345,283	8,620,555
Undiscounted outstanding claims	7,288	10,564	11,467	17,993	25,714	47,526	121,157	313,635	600,008	1,029,998	2,185,350
Undiscounted outstanding claims for prior injury years											67,832
Claims handling expenses											196,294
Central estimate of outstanding claims											2,449,476
Discount											(144,488)
Discounted central estimate											2,304,988
Risk margin											225,888
Net outstanding claims liability											2,530,876

The claims development table has been presented on a net of recoveries basis to give the most meaningful insight into the impact on the operating result. The net outstanding claims liability can be reconciled by taking the gross outstanding claims liability per note C2(a) and offsetting the recoveries receivable on outstanding claims as per note C2(b).

(d) Claims actuarial assumptions and methods

In calculating the gross outstanding claims liability the actuary uses a variety of estimation techniques based upon statistical analyses of historical experience. The projections given by the estimation techniques assist in setting the range of possible outcomes. The most appropriate technique is selected taking into account the characteristics of the insurance class and the extent of the development of each injury year. These techniques assume that the development pattern of the current claims will be consistent with past relevant experience.

In estimating the cost of settling claims already notified to WorkCover, the actuary gives regard to the claim circumstances as reported and information on the cost of settling claims with similar characteristics in previous periods. These claims tend to display lower levels of estimation volatility as more information about the claims events is generally available.

The estimation of claims IBNR is generally subject to a greater degree of uncertainty as information is not yet available and these claims may often not be apparent until many years after the claim event.

Large claims are generally assessed separately, being projected or measured on a case by case basis in order to allow for the possible distortive effect of the development and incidence of these large claims.

Allowances are made for changes or uncertainties that may create distortions in the underlying statistics which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including:

- changes in WorkCover's processes, which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation and discount rates;
- movements in industry benchmarks; and
- medical and technological developments.

Payments experience is analysed to obtain averages paid per claim incurred and averages paid per claim settled, active or finalised. Estimated claims payments are adjusted to allow for general economic inflation and are discounted to allow for the time value of money, being the investment return expected based on risk-free rates in the period to settlement. The resulting average claims payments together with the ultimate numbers of claims and anticipated claims handling costs are analysed to determine a final central estimate of gross outstanding claims. A risk margin is also added to allow for the inherent uncertainty in the central estimate.

In addition to the calculation of the gross outstanding claims liability, estimates for potential claims recoveries are analysed separately and derived using the same methods, based on past recovery experience and adjustments to assumptions where appropriate. In addition, the recoverability of the assets are assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as credit risk. Impairment is recognised where there is objective evidence that WorkCover may not receive the amounts due and where these amounts can be reliably measured. Estimated outstanding recoveries are then subtracted from gross outstanding claims to arrive at the net outstanding claims estimate.

The actuary takes all reasonable steps to ensure that it has appropriate information regarding WorkCover's claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

Key actuarial assumption variables

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

Variable	2017	2016
Ultimate claim numbers per annum		
Statutory claims	71,524	68,428
Common law	3,613	3,649
Asbestos related	176	195
Ultimate claims size		
Statutory claims	$9,696	$9,618
Common law	$149,522	$156,538
Asbestos related	$347,874	$316,340
Average weighted term to settlement from claims reporting date		
Gross outstanding claims	2.1 years	2.0 years
Recoveries receivable on outstanding claims	2.0 years	2.0 years
Claims handling expense rate		
Statutory claims	27.0%	27.0%
Common law	1.0%	1.0%
Asbestos related	1.0%	1.0%
Inflation rates (average weekly earnings)		
Gross outstanding claims		
Not later than one year	2.5%	3.0%
Later than one year	2.9%	3.0%
Recoveries receivable on outstanding claims		
Not later than one year	2.5%	3.0%
Later than one year	2.9%	3.0%

The inflation rate for later than one year is based on a weighted average of the uninflated and undiscounted gross outstanding cash flow.

Variable	2017	2016
Discount rates		
Gross outstanding claims		
Not later than one year	1.6%	1.6%
Later than one year	2.5%	1.7%
Recoveries receivable on outstanding claims		
Not later than one year	1.6%	1.6%
Later than one year	2.0%	1.6%
Risk margin	9.8%	9.8%

A description of the processes used to determine the above assumptions is provided below.

Ultimate claim numbers per annum
Numbers of claims incurred are used in determining the estimates in respect of claims IBNR for statutory and common law claims and in respect of claims diagnosed but not reported (DBNR) for asbestos related claims. The incurred claims total for the current underwriting year has been estimated based on past reporting patterns for statutory and common law claims separately, taking into account trends or changes in reporting patterns. The ratio of numbers of common law to statutory claims is also examined for reasonableness. The incurred claims total for asbestos related claims for the current underwriting year is an estimate of all claims diagnosed in the current year. This is estimated using past reporting patterns and delays from diagnosis to report for asbestos related claims.

Ultimate claims size
The average ultimate claims size for the current underwriting year has been estimated based on past payment patterns for statutory, common law, and asbestos related claims separately, taking into account trends or changes in payment patterns.

Average weighted term to settlement from claims reporting date
The average weighted term to settlement is calculated separately based on historic settlement patterns. A decrease in the average term to settlement rates would lead to more claims being paid sooner than anticipated.

Claims handling expense rate
Claims handling expenses are calculated by reference to past experience of claims handling costs as a percentage of past payments.

Inflation rates (average weekly earnings)
Expected future payments are inflated to take into account inflationary increases. Economic inflation assumptions are set by reference to current economic indicators.

Discount rates
The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. Discount rates derived from market yields on Commonwealth Government securities at reporting date have been adopted.

Risk margin
The risk margin is determined having regard to the inherent uncertainties in the actuarial models and economic assumptions, the quality of the underlying data used in the models, and industry and market conditions. The analysis of these inherent uncertainties is performed considering the statutory, common law, and asbestos related gross outstanding claims estimates separately. The assumptions regarding uncertainty are applied to the net central estimates in order to arrive at an overall provision which is intended to have a 75% (2016: 75%) probability of adequacy.

Sensitivity analysis
WorkCover conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables as disclosed above. The movement in any key variable will impact the operating result and equity of WorkCover as follows:

Variable	Movement	Impact on operating result and equity 2017 $'000	2016 $'000
Ultimate claim numbers per annum - latest year	+10%	-83,712	-83,899
	-10%	+83,712	+83,899
Ultimate claims size - latest year	+10%	-83,712	-83,899
	-10%	+83,712	+83,899
Average weighted term to settlement - years	+0.5	-10,915	-15,732
	-0.5	+10,767	+15,492
Claims handling expense rate	+1%	-16,188	-16,324
	-1%	+16,188	+16,324
Inflation rates - net claims cost			
Not later than one year	+1%	-12,087	-12,175
	-1%	+12,100	+12,188
Later than one year	+1%	-17,601	-18,448
	-1%	+16,981	+17,775
Discount rates - net claims cost			
Not later than one year	+1%	+13,683	+13,864
	-1%	-13,938	-14,122
Later than one year	+1%	+18,352	+19,466
	-1%	-19,410	-20,629
Risk margin	+1%	-15,956	-16,136
	-1%	+15,956	+16,136

What this section is about

Financial instruments are held by WorkCover to fund future claims payments. Financial instruments include cash, contractual rights to deliver or receive cash or another type of financial instrument, or an equity instrument of another entity. This section provides information about the financial instruments held, the associated risks arising from holding these financial instruments, income derived, and fair value measurement methodology.

F1 Investment income

	2017 $'000	2016 $'000
Designated at fair value upon initial recognition		
Interest income	12,817	10,133
Managed unit trust distributions	331,369	319,286
Gain/(loss) on managed unit trusts	31,195	(230,418)
Gain/(loss) on fair value hedge	40,750	(5,049)
	416,131	93,952
Held for trading		
Interest income	6,499	7,953
Gain/(loss) on derivatives	1,088	(3,248)
	7,587	4,705
	423,718	**98,657**

Interest income from investments and cash and cash equivalents and distributions from managed unit trusts are recognised in the consolidated statement of comprehensive income when received or receivable. Changes in the fair value of investments are recognised as gains or losses in the consolidated statement of comprehensive income as they occur.

The rate of return net of fees for the QIC Limited (QIC) portfolio (comprising investments in managed unit trusts and derivative financial instruments) is 9.96% (2016: 2.02%). Refer to note F5(c) for the cash and cash equivalents interest rates.

Investment expenses are recognised in other expenses in the consolidated statement of comprehensive income when incurred.

F2 Categories of financial instruments

	2017 $'000			2016 $'000		
	Current	Non-current	**Total**	**Current**	Non-current	**Total**
Financial assets						
Cash and cash equivalents	353,315	-	353,315	187,454	-	187,454
Receivables	13,981	800	14,781	26,104	917	27,021
Other financial assets - Managed unit trusts	875,153	3,192,390	4,067,543	940,858	2,724,802	3,665,660
Other financial assets - Derivatives						
Designated as a fair value hedge	29,607	2,516	32,123	26,481	-	26,481
Held for trading	155,612	224,733	380,345	47,730	296,159	343,889
	1,060,372	3,419,639	4,480,011	1,015,069	3,020,961	4,036,030
	1,427,668	**3,420,439**	**4,848,107**	**1,228,627**	**3,021,878**	**4,250,505**
Financial liabilities						
Payables	22,590	-	22,590	25,236	-	25,236
Other financial liabilites - Derivatives						
Designated as a fair value hedge	10,878	-	10,878	11,473	-	11,473
Held for trading	51,015	9,238	60,253	4,391	10,322	14,713
	61,893	9,238	71,131	15,864	10,322	26,186
	84,483	**9,238**	**93,721**	**41,100**	**10,322**	**51,422**

(a) Cash and cash equivalents

	Note	2017 $'000	2016 $'000
Cash at bank		113,506	186,448
QTC Capital Guaranteed Cash Fund		239,809	1,006
	F2	**353,315**	**187,454**

Cash and cash equivalents include cash deposits held with a financial institution, and a capital guaranteed investment held with Queensland Treasury Corporation (QTC) that is subject to a low risk of change in value and is readily convertible to cash on hand at WorkCover's option.

(b) Receivables

	Note	2017 $'000	2016 $'000
Premiums and related penalties		7,959	14,962
Claims and related penalties		13,928	14,494
Unclosed business		-	54
Sundry debtors		2,194	1,811
		24,081	31,321
Less allowance for impairment	F5(a)	(9,300)	(4,300)
	F2	**14,781**	**27,021**

Receivables are recognised initially at fair value and subsequently measured at amortised cost. Short-term receivables are not discounted if the effect of discounting is immaterial. If material, the discount is calculated using a risk-free rate.

The allowance for impairment is the difference between the carrying amount of the receivables and the present value of estimated future cash flows. The amount of the allowance raised, used or derecognised is recognised in the consolidated statement of comprehensive income. For further information refer to note F5(a).

(c) Payables

	Note	2017 $'000	2016 $'000
Trade creditors		15,550	14,452
Premiums in credit		1,953	2,213
Claims creditors		1,203	4,368
		18,706	21,033
GST receivable		(2,037)	(2,179)
GST payable		5,921	6,382
Net GST payable		3,884	4,203
	F2	**22,590**	**25,236**

Payables are carried at amortised cost and due to their short-term nature are not discounted. Trade creditors are recognised for unpaid goods or services for which WorkCover has a present obligation to make payment. Premiums in credit are recognised upon receipt for premiums received in advance and policies in credit. Claims creditors are recognised for amounts related to claims payments or claims made. All amounts are unsecured and are paid as they fall due.

(d) Investments

As part of its investment strategy, WorkCover engages QIC to actively manage its investment portfolio to ensure that sufficient cash and liquid assets are on hand to meet the expected future cash flows arising from insurance contract liabilities. This is achieved through the use of financial assets and financial liabilities in the form of managed unit trusts and derivative financial instruments.

Managed unit trusts

WorkCover classifies all managed unit trusts at fair value through profit or loss based on its strategy to manage investments acquired to meet insurance contract liabilities.

A financial asset or liability is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Fair value for managed unit trusts is based on the quoted bid price of the investment at reporting date. Attributable transaction costs are recognised in the consolidated statement of comprehensive income when incurred. Purchases and sales of financial assets are recognised on the settlement date.

Investments that are required to meet current insurance contract liabilities and current other financial liabilities are classified as current other financial assets in the consolidated statement of financial position. While this classification policy may result in a reported working capital deficit, included in non-current other financial assets are liquid investments which QIC uses to ensure it is able to meet WorkCover's operating requirements.

Derivative financial instruments and hedge accounting

QIC utilises derivative financial instruments as part of WorkCover's approved investment strategy. Derivative instrument types used include equities, bond futures, forward currency contracts and swaps. Derivatives are categorised as held for trading unless they are designated as hedges.

Derivative financial instruments held for trading

These instruments are initially recorded at fair value. Subsequent to initial recognition, these instruments are remeasured to fair value. Fair value for these instruments is based on settlement price. Gains and losses on fair value are recognised in the consolidated statement of comprehensive income.

The purpose of these derivatives is to ensure liquidity as well as offset movements in the managed unit trusts in identified risk areas and to help achieve particular exposures by taking advantage of, and protecting against, market conditions. Such derivatives are entered into with the intention to settle in the near future.

Derivative financial instruments designated as hedging instruments

WorkCover's derivatives that meet the definition of a hedge have been classified as fair value hedges on the basis that they hedge exposure to changes in the fair value of a recognised asset or liability or an identified portion of an asset or liability that is attributable to a particular risk.

WorkCover has a fair value hedge through the foreign currency overlay. The purpose of the foreign currency overlay is to hedge the foreign exchange risks on the market value of foreign currency exposed asset sectors held by WorkCover in its investments in managed unit trusts. This activity is facilitated by holding a portfolio of mainly forward exchange contracts within the overlay. The fair value is based on various independent price sources.

With respect to hedge contracting, the relationship between hedging instruments and hedged items, as well as the risk management objective, strategy, and purpose for undertaking the hedge, is formally documented in the Investment Management Agreement between QIC and WorkCover. Such hedges are expected to be highly effective in offsetting changes in fair value and are assessed on an ongoing basis to determine that they have been highly effective throughout the financial reporting period for which they are designated.

Hedges are initially recognised at fair value on the date at which the derivative contract is entered into. The carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged. The derivative is remeasured at fair value and gains and losses are recognised in the consolidated statement of comprehensive income.

F3 Fair value measurements

The following table classifies financial assets and liabilities carried at fair value. The different levels are defined as follows:

- level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; or
- level 3: inputs are unobservable inputs for the asset or liability.

There have been no significant transfers in either direction between level 1, level 2 and level 3 during the year ended 30 June 2017 (2016: no significant transfers in either direction between level 1, level 2 and level 3).

Non-derivative financial assets are held through unlisted managed unit trusts with QIC. While the units in the trusts have quoted prices and are able to be traded, the market would not be considered active for level 1 and therefore they are considered to be level 2. The units are carried at redemption value as reasonably determined by QIC.

Under the direction of QIC, WorkCover's custodian actively trades and holds derivative financial assets and liabilities on behalf of WorkCover. For those instruments that fall into level 2, the valuation technique used is a market comparison technique primarily based on exchange data for similar derivative instruments.

The QTC Capital Guaranteed Cash Fund is assessed as level 2 as it is valued at the current redemption value of the fund.

Fair value hierarchy	Note	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2017					
Financial assets					
Cash and cash equivalents	F2	113,506	239,809	-	353,315
Other financial assets - Managed unit trusts	F2	-	4,067,543	-	4,067,543
Other financial assets - Derivatives					
Designated as a fair value hedge	F2	4,942	27,181	-	32,123
Held for trading	F2	65,511	314,834	-	380,345
		183,959	**4,649,367**	**-**	**4,833,326**
Financial liabilities					
Other financial liabilities - Derivatives					
Designated as a fair value hedge	F2	-	10,878	-	10,878
Held for trading	F2	44,555	15,698	-	60,253
	F2	**44,555**	**26,576**	**-**	**71,131**
2016					
Financial assets					
Cash and cash equivalents	F2	186,448	1,006	-	187,454
Other financial assets - Managed unit trusts	F2	-	3,665,660	-	3,665,660
Other financial assets - Derivatives					
Designated as a fair value hedge	F2	100	26,381	-	26,481
Held for trading	F2	27,954	315,935	-	343,889
		214,502	**4,008,982**	**-**	**4,223,484**
Financial liabilities					
Other financial liabilities - Derivatives					
Designated as a fair value hedge	F2	-	11,473	-	11,473
Held for trading	F2	-	14,713	-	14,713
	F2	**-**	**26,186**	**-**	**26,186**

Estimation uncertainty

The investments in the unlisted managed unit trusts are considered to be level 2 investments. The valuations of these unlisted managed unit trusts are inherently subject to estimation uncertainty as the units are not traded in an active market and their fair value at reporting date is based on the price advised by external fund managers or valuations determined by appropriately skilled independent third parties. The valuation techniques include comparison with similar transactions and other techniques considered appropriate in the circumstances. The underlying inputs and assumptions are reviewed on an on-going basis to ensure the valuations reflect the best estimates of the economic conditions at financial year end.

F4 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

The gross and net positions of financial assets and financial liabilities that have been offset in the consolidated statement of financial position are disclosed in the table below.

Master netting arrangement – not currently enforceable
Agreements with derivative counterparties are based on the ISDA Master Agreement. Under the terms of these arrangements, where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as outstanding and all the relevant arrangements terminated.

As WorkCover does not presently have a legally enforceable right of set-off, these amounts have not been offset in the consolidated statement of financial position and have been presented separately in the below table.

	Note	Effects of offsetting on the consolidated statement of financial position			Related amounts not offset	
		Gross amounts	Gross amounts set off	Net amounts of financial instruments	Amounts subject to master netting arrangements	Net amounts
		$'000	$'000	$'000	$'000	$'000
2017						
Financial assets						
Other financial assets - Derivatives						
Designated as a fair value hedge	F2	2,330,518	(2,298,395)	32,123	(7,781)	24,342
Held for trading	F2	2,393,848	(2,013,503)	380,345	(11,015)	369,330
		4,724,366	**(4,311,898)**	**412,468**	**(18,796)**	**393,672**
Financial liabilities						
Other financial liabilities - Derivatives						
Designated as a fair value hedge	F2	2,309,273	(2,298,395)	10,878	(7,781)	3,097
Held for trading	F2	2,073,756	(2,013,503)	60,253	(11,015)	49,238
	F2	**4,383,029**	**(4,311,898)**	**71,131**	**(18,796)**	**52,335**
2016						
Financial assets						
Other financial assets - Derivatives						
Designated as a fair value hedge	F2	1,482,981	(1,456,500)	26,481	(6,247)	20,234
Held for trading	F2	941,899	(598,010)	343,889	(732)	343,157
		2,424,880	**(2,054,510)**	**370,370**	**(6,979)**	**363,391**
Financial liabilities						
Other financial liabilities - Derivatives						
Designated as a fair value hedge	F2	1,467,973	(1,456,500)	11,473	(6,247)	5,226
Held for trading	F2	612,723	(598,010)	14,713	(732)	13,981
	F2	**2,080,696**	**(2,054,510)**	**26,186**	**(6,979)**	**19,207**

F5 Financial risk management

(a) Credit risk

Credit risk represents the extent of credit related losses that WorkCover may be subject to on amounts to be exchanged under financial instrument contracts or on amounts receivable from trade and other debtors.

The maximum exposure to credit risk at reporting date for each financial asset is measured as the carrying amount less any allowance for impairment. Credit risk exposure, including the identification of any significant concentrations of risk, is monitored on a regular basis.

Investments

While the managed unit trusts are unrated funds, the exposure to credit risk is minimal and is mitigated by holding a diverse portfolio of investment funds of which the composition is monitored regularly by the Board.

The utilisation of derivative financial instruments creates counterparty credit risk for WorkCover due to the risk that fulfilment of the contract may not occur in the future. QIC closely monitors and manages counterparty risk by ensuring that:

- the credit ratings of all counterparties are monitored very closely;
- the transactions are undertaken with a large number of counterparties; and
- the majority of transactions are undertaken on recognised derivative trading exchanges where practical.

WorkCover holds cash collateral to mitigate the credit risk of derivative financial instruments. The carrying amount of financial instruments subject to collateral represents the maximum exposure of credit risk.

WorkCover is also exposed to credit risk through its use of the QTC Capital Guaranteed Cash Fund which invests with a wide variety of high credit rated counterparties. Deposits in the QTC Capital Guaranteed Cash Fund are capital guaranteed.

Receivables

Receivables are closely monitored upon falling overdue for collectability and various actions including subsequent legal recovery may occur as debts begin to age. Policyholder accounts that fall overdue render an employer uninsured and liable for any claims costs should they incur a claim against their policy.

As WorkCover provides insurance to the majority of Queensland businesses who employ workers, there are no significant concentrations of credit risk, with the credit quality of policyholders considered to be the average credit quality of Queensland businesses.

Renegotiated debt

When appropriate, WorkCover renegotiates debt terms on outstanding debts. Receivables that have been renegotiated are accounted for based on the renegotiated terms.

Allowance for impairment

Receivables are considered impaired where there is objective evidence that WorkCover will not be able to collect all amounts due according to the original terms of the receivables. When assessing impairment, receivables are assessed either on an individual or collective basis. Estimated future cash flows are determined based on risk weightings applied at each stage of the debt cycle based on the likelihood of recovery for each category of debt. Factors considered during these reviews include historical loss experience, current economic conditions, performance trends within specific portfolio segments, and any other pertinent information. Impairment of receivables is a continuous process that is regularly updated based on WorkCover's internal framework.

Amounts outstanding at the beginning of the current year are written off against the allowance after reasonable action to collect the outstanding amount has been undertaken and it is deemed unlikely that the amount will be recovered.

Receivables that have been categorised as neither past due or impaired are done so on the historical experience of WorkCover recovering debts of their characteristics in full.

	Note	2017	2016
		$'000	$'000
Allowance for impairment of receivables during the year			
Balance at 1 July		4,300	4,500
Net debts written off		(2,879)	(3,910)
Unused allowance reversed		(1,421)	(590)
Allowance made		9,300	4,300
Balance at 30 June	F2(b)	**9,300**	**4,300**
Individual impairment assessment		6,773	3,486
Collective impairment assessment		2,527	814
	F2(b)	**9,300**	**4,300**
Ageing of past due but not impaired receivables			
0 - 30 days overdue		1,920	1,602
31 - 90 days overdue		310	20
More than 90 days overdue		1	2,249
		2,231	**3,871**

(b) Liquidity risk

Liquidity risk is the risk that WorkCover will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. WorkCover manages liquidity risk through its diversified investment portfolio that provides for the sale of investments to meet both short-term and long-term cash flow requirements. WorkCover regularly reviews its investment strategy having regard to the expected future obligations.

The following table shows WorkCover's liquidity risk grouped by the contractual maturity of the financial liabilities. Liabilities with maturity dates exceeding 12 months are calculated based on discounted cash flows. Commitments that are payable on demand are included in the 0 to 3 months category.

	Note	0 - 3 months $'000	3 - 12 months $'000	1 - 3 years $'000	More than 3 years $'000	Total $'000
2017						
Financial liabilities						
Payables	F2	22,590	-	-	-	22,590
Other financial liabilities	F2	60,706	1,187	-	9,238	71,131
	F2	**83,296**	**1,187**	**-**	**9,238**	**93,721**
2016						
Financial liabilities						
Payables	F2	25,236	-	-	-	25,236
Other financial liabilities	F2	15,815	48	-	10,323	26,186
	F2	**41,051**	**48**	**-**	**10,323**	**51,422**

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk, being currency risk, interest rate risk and other price risk.

Due to the diverse nature of WorkCover's investments, the portfolio is subject to all of the risks and sensitivities outlined below. The investments are managed on a total portfolio basis.

Market risk is minimised by:

- regular review of investment strategy;
- set investment asset allocation ranges; and
- strict control over the use of derivatives and hedging instruments, which are only used to facilitate portfolio management or to reduce investment risk.

The methodology adopted for the purposes of sensitivity analysis involves forecasting a reasonably possible change in each of the risk variables and, where applicable, applying this change to the reporting date value of each investment to determine the impact caused by this change on the operating result after tax and equity for the financial year. This approach assumes that all variables remain constant and was performed on the same basis for 2016.

Currency risk

Currency 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. The currency hedging policy is updated as required. The current target risk exposure to foreign currency is 10 percent. The table below summarises WorkCover's exposure to foreign currency risk.

Currency risk	Currency (AUD $'000)					
2017	**US dollars**	Euro	**British pound**	**Japanese yen**	Other	**Total**
International equities	540,675	109,424	59,414	78,549	209,975	998,037
Infrastructure	32,967	-	5,485	-	5,991	44,443
Alternatives	258,613	2,450	6,430	-	847	268,340
Private equity	126,237	52,785	-	-	22,901	201,923
Fixed interest	1,673	2,776	-	-	-	4,449
Cash	11,066	(3,228)	(1,788)	677	(2,121)	4,606
Foreign currency derivatives	(745,177)	(126,432)	(53,181)	(48,546)	(131,590)	(1,104,926)
Total exposure	**226,054**	**37,775**	**16,360**	**30,680**	**106,003**	**416,872**

2016	US dollars	Euro	Currency (AUD $'000) British pound	Japanese yen	Other	Total
International equities	473,153	85,139	57,629	68,636	191,171	875,728
Infrastructure	16,807	-	-	-	-	16,807
Alternatives	255,880	1,254	7,953	-	923	266,010
Private equity	104,162	44,775	-	-	12,987	161,924
Fixed interest	21,354	2,030	-	-	-	23,384
Cash	11,696	7,003	6,819	2,734	4,856	33,108
Foreign currency derivatives	(673,493)	(105,637)	(44,478)	(39,908)	(103,749)	(967,265)
Total exposure	**209,559**	**34,564**	**27,923**	**31,462**	**106,188**	**409,696**

Sensitivity analysis

This sensitivity analysis has been determined based on the exposure to foreign exchange rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the financial year. All other variables remaining constant, a 10 percent strengthening or weakening of the Australian dollar against these currencies would have increased or decreased the operating result after tax and equity for the year as follows:

Variable	Movement in variable	Impact on operating result after tax and equity 2017 $'000	2016 $'000
Foreign currency (fx) derivatives	+10%	+70,313	+61,553
	-10%	-77,345	-67,708
Investments (excluding fx derivatives)	+10%	-96,841	-87,625
	-10%	+106,526	+96,387
Total	+10%	-26,528	-26,072
	-10%	+29,181	+28,679

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates.

The exposure to interest rate risk and the effective weighted average interest rates on financial instruments are set out in the table below.

	Note	Interest rate %	Floating interest rate $'000	Fixed interest maturing in: 1 year or less $'000	Fixed interest maturing in: 1 - 5 years $'000	Fixed interest maturing in: More than 5 years $'000	Non-interest bearing $'000	Total $'000
2017								
Financial assets								
Cash and cash equivalents	F2	Note [1]	353,315	-	-	-	-	353,315
Receivables	F2	11.25 [2]	-	-	-	-	14,781	14,781
Other financial assets	F2	Note [3]	65,791	3,155	-	219,442	4,191,623	4,480,011
			419,106	**3,155**	**-**	**219,442**	**4,206,404**	**4,848,107**
Financial liabilities								
Payables	F2		-	-	-	-	22,590	22,590
Other financial liabilities	F2	Note [3]	34,673	6,982	-	-	29,476	71,131
	F2		**34,673**	**6,982**	**-**	**-**	**52,066**	**93,721**
2016								
Financial assets								
Cash and cash equivalents	F2	Note [1]	187,454	-	-	-	-	187,454
Receivables	F2	11.25 [2]	-	-	-	-	27,021	27,021
Other financial assets	F2	Note [3]	310,629	8,479	-	22,686	3,694,236	4,036,030
			498,083	**8,479**	**-**	**22,686**	**3,721,257**	**4,250,505**
Financial liabilities								
Payables	F2		-	-	-	-	25,236	25,236
Other financial liabilities	F2	Note [3]	8,371	1,155	-	-	16,660	26,186
	F2		**8,371**	**1,155**	**-**	**-**	**41,896**	**51,422**

[1] WorkCover has three transaction banking accounts and one capital guaranteed cash fund account. The weighted average interest rate of the transaction banking accounts and cash fund account are 2.21% (2016: 2.47%) and 2.48% (2016: 3.11%) respectively.

[2] WorkCover is entitled to charge interest on instalment plans at the rate published in the Queensland Government Gazette.

[3] The majority of securities in the derivative instruments are futures and although they are subject to interest rate risk they do not earn interest, except for a number of Australian cash accounts that earn minimal interest. Due to the number of buy and sell transactions it is impractical to obtain a weighted average interest rate for these investments.

Sensitivity analysis

All other variables remaining constant, a change of 100 basis points in interest rates at the reporting date would have increased or decreased the operating result after tax and equity for the year as follows:

Variable	Movement in variable	Impact on operating result after tax and equity: 2017 $'000	Impact on operating result after tax and equity: 2016 $'000
Basis points	+100	+8,088	+9,071
	-100	-8,088	-9,071

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rates or currencies), 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.

As a portfolio, WorkCover holds investments in managed unit trusts and derivative financial instruments. The managed unit trusts in turn hold investments in various instruments including equity, cash, property, infrastructure, private equity and alternative funds. The fair values of such financial instruments are affected by changes in the market price of the underlying instruments.

The market value exposure to other price risks for WorkCover is as follows:

Sector allocation	2017 $'000	2016 $'000
Australian equities	619,889	574,379
International equities	969,954	895,258
Direct property	357,119	323,394
Direct infrastructure	120,362	95,805
Global listed infrastructure	78,919	73,863
Private capital	269,823	235,239
Insurance	209,863	196,387
Liquid alternatives	432,070	394,663
Global fixed interest	763,177	523,034
Cash	587,704	697,822
	4,408,880	**4,009,844**

Sensitivity analysis

All other variables remaining constant, based on gross return received from the portfolio, a one percent strengthening or weakening of the equities prices would have increased or decreased the operating result after tax and equity for the year as follows:

Variable	Movement in variable	Impact on operating result after tax and equity 2017 $'000	2016 $'000
Equities prices	+1%	+20,710	+17,755
	-1%	-20,110	-17,259

What this section is about

Being the main provider of workers' compensation in Queensland requires the support of our people and infrastructure. This section provides information about the operating expenses and assets of WorkCover.

S1 Underwriting expenses

	Note	2017 $'000	2016 $'000
Employee benefits		66,102	65,307
Employee related expenses		4,410	4,009
Contractors		4,341	5,173
Consultancy fees		-	262
Other administration expenses		12,061	12,295
Depreciation and amortisation		3,714	4,811
Net loss on disposal of property, plant and equipment	O2	5	5
Transfer to allowance for impairment of receivables		7,879	3,710
Bad debts expense		5,395	5,848
Workers' Compensation Regulator levy		33,656	28,245
WHSQ grant		50,443	49,194
		188,006	**178,859**
Claims handling expenses allocated to gross claims expense	C1	(156,106)	(151,897)
		31,900	**26,962**

Employee benefits include $6.285 million (2016: $6.173 million) of superannuation contributions.

Total external audit fees quoted in relation to the 2017 financial statements are $216,000 (2016: $229,500). The Auditor-General of Queensland is the auditor for both WorkCover and WEO. No non-audit services were provided during 2017 (2016: no non-audit services).

The Workers' Compensation Regulator levy and the Workplace Health and Safety Queensland (WHSQ) grant are payments made in accordance with the Minister's instruction as approved by the Governor-in-Council by gazette notice for the prevention, recognition and alleviation of injury to workers, making employers and workers aware of their rights and obligations, and scheme-wide rehabilitation and return to work programs for workers.

Special payments are payments that WorkCover is not contractually or legally obligated to make to other parties. There were no special payments made during the year (2016: no special payments made).

S2 Employee benefits liabilities

(a) Aggregate liability for employee benefits

	2017 $'000	2016 $'000
Current		
Accrued wages and other benefits	1,338	1,002
Provision for annual leave	4,760	4,621
Provision for long service leave	9,953	9,855
Provision for termination benefits	30	300
	16,081	**15,778**
Non-current		
Provision for long service leave	2,012	1,964
	18,093	**17,742**

	2017 $'000	2016 $'000
Reconciliation of provision for employee benefits during the year		
Balance at 1 July	17,742	15,487
Amounts allocated to provision	7,617	8,267
Reductions in provision as a result of payments	(7,000)	(6,272)
Unused provision reversed	(140)	(156)
Discount rate adjustments	(126)	416
Balance at 30 June	**18,093**	**17,742**

(b) Expected settlement of employee benefits

Based on past experience WorkCover does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. Settlement expectations for annual leave and long service leave are below.

	2017 $'000	2016 $'000
No more than 12 months from reporting date		
Annual leave	4,193	4,067
Long service leave	1,604	1,709
	5,797	**5,776**
More than 12 months from reporting date		
Annual leave	567	554
Long service leave	10,361	10,110
	10,928	**10,664**

When WorkCover does not have an unconditional right to defer settlement of the obligation beyond 12 months, the entire amount is presented as current.

(c) Actuarial assumptions

The following assumptions have been adopted to measure the present value of annual leave and long service leave:

	2017	2016
Rate of increase for contract salaries	3.0%	3.0%
Rate of increase for non-contract salaries	4.0%	4.0%
Discount rate	2.4%	2.2%
Settlement term for long service leave	6.4 years	6.5 years
Assumed annual leave days taken per year	20 days	20 days

The number of employees including both full-time employees and part-time employees measured on a full-time equivalent basis is 726 (2016: 714).

(d) Employee benefits

Short-term employee benefits

Wages and salaries

Wages and salaries due but unpaid at reporting date are recognised in the consolidated statement of financial position at current salary rates. As WorkCover expects such liabilities to be wholly settled within 12 months of reporting date, the liabilities are recognised at undiscounted amounts. Related on-costs such as superannuation and payroll tax have been included in the liability.

Sick leave

Sick leave entitlements are non-vesting and are only paid upon valid claims for sick leave by employees. Sick leave expense is brought to account in the reporting period in which it occurs. No liability for unused sick leave has been recognised as experience indicates on average, sick leave taken each financial year is less than the entitlement accruing in that year. Accordingly, it is unlikely that existing accumulated entitlements will be used by employees.

Post-employment benefits

Superannuation

Post-employment benefits for superannuation are provided through defined contribution (accumulation) plans or the Queensland Government's QSuper defined benefit plan as determined by the employee's conditions of employment.

Defined contribution plans

Contributions are made to eligible complying superannuation funds (including QSuper). Contributions are expensed when they are paid or become payable following completion of the employee's service each pay period.

Defined benefit plan

The liability for defined benefits is held on a whole-of-government basis and reported in the *Queensland General Government and Whole of Government Consolidated Financial Statements* in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. The required contributions for defined benefit plan obligations is based upon the rates determined by the Treasurer on the advice of the State Actuary. Contributions are paid by WorkCover at the specified rate following completion of the employee's service each pay period. WorkCover's obligation is limited to its contribution to QSuper.

Other long-term employee benefits

Long service leave and annual leave

The liabilities for long service leave and annual leave which are not expected to be settled wholly within 12 months after the end of the reporting period in which the employees render the related service are recognised and measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future salary rates, experience of employee departures, and periods of service. Expected future payments are discounted using interest rates on Commonwealth Government securities with terms to maturity that match, as closely as possible, the estimated future cash outflows. Related on-costs such as workers' compensation premiums, superannuation and payroll tax have been included in the liability.

Termination benefits

Termination benefits are recognised as an expense at the earlier of when WorkCover can no longer withdraw the offer of those benefits or when WorkCover recognises costs for a restructuring that is within the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and involves the payment of termination benefits. Benefits not expected to be settled wholly within 12 months after the end of the reporting period are discounted to present value.

S3 Related parties

(a) Details of key management personnel and remuneration

From 2017, WorkCover's responsible Minister is identified as part of WorkCover's key management personnel, consistent with additional guidance included in the revised version of AASB 124 *Related Party Disclosures*. WorkCover's Minister is the *Minister for Employment and Industrial Relations*.

Ministerial remuneration entitlements are outlined in the *Legislative Assembly of Queensland's Members' Remuneration Handbook*. WorkCover does not bear any cost of remuneration of the Minister. The majority of Ministerial entitlements are paid by the Legislative Assembly, with the remaining entitlements being provided by the Ministerial Services Branch within the Department of the Premier and Cabinet. As all Ministers are reported as key management personnel of the Queensland Government, aggregate remuneration expenses for all Ministers is disclosed in the *Queensland General Government and Whole of Government Consolidated Financial Statements*, which are published as part of Queensland Treasury's *Report on State Finances*.

Details of the remuneration of the non-Ministerial key management personnel, being the Directors, the Chief Executive Officer (CEO), and the Senior Executives of WorkCover are set out in the following tables:

Directors[1] (Non-executive)	Appointment Date	Cessation Date		Short-term		Post employment	Other long-term benefits	Termination benefits	Total
				Fees	Other	Superannuation			
				$'000	$'000	$'000	$'000	$'000	$'000
G W Ferguson AM	01/07/2012	30/06/2017	2017	75	-	7	-	-	82
Chair			2016	75	-	7	-	-	82
J R O'Connor	01/07/2012	30/06/2017	2017	51	-	5	-	-	56
Deputy Chair			2016	51	-	5	-	-	56
M J Bailey	01/07/2009	30/06/2017	2017	44	-	4	-	-	48
Director			2016	44	-	4	-	-	48
J M Crittall	01/07/2012		2017	40	-	4	-	-	44
Director			2016	40	-	4	-	-	44
P Dowling AM	01/07/2014	30/06/2017	2017	32	-	15	-	-	47
Director			2016	38	-	9	-	-	47
F Gobbo[2]	01/07/2014		2017	40	-	4	-	-	44
Director			2016	40	-	4	-	-	44
I J Leavers	01/07/2012		2017	40	-	4	-	-	44
Director			2016	40	-	4	-	-	44
R McLennan[3]	07/07/2016		2017	39	-	4	-	-	43
Director									
I R Winterburn	01/07/2012	30/06/2017	2017	43	-	4	-	-	47
Director			2016	43	-	4	-	-	47
Total remuneration:			**2017**	**404**	**-**	**51**	**-**	**-**	**455**
Directors			**2016**	**371**	**-**	**41**	**-**	**-**	**412**

[1] The Board contracts expired on 30 June 2017. The Governor-in-Council appointed a new Board effective from 1 July 2017. The new Board members are F Gobbo, R McLennan, J Crittall, K Dear, I Leavers, A Quinn (resigned 12 July 2017), M Roche, L Rowland and B Swan. All are non-executive Directors.
[2] Appointed Chair effective 1 July 2017.
[3] Appointed Deputy Chair effective 1 July 2017.

Responsibilities of Directors (Non-executive)

Chair

The Chair's principal responsibility is to lead and direct the activities of the Board and ensure the Board fulfils all its legal and statutory obligations in accordance with the Board charter.

Deputy Chair

The Deputy Chair, in addition to Director's responsibilities, assists the Chair in meeting their obligations as required. In the absence of the Chair at a meeting, the Deputy Chair will preside.

Director

The Directors are responsible for the strategic guidance, the monitoring of management, ensuring good governance and the successful operation of WorkCover Queensland.

CEO and Senior Executives	Appointment Date	Cessation Date		Short-term			Post employment	Other long-term benefits		Termination benefits	Total
				Salary [1]	Non-monetary [2]	Other	Superannuation	Annual leave accruals	Long service leave accruals		
				$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
A J Hawkins *CEO*	19/01/1998	31/12/2016	2017	212	7	-	17	19	26	-	281
			2016	370	10	-	35	41	15	-	471
B Watson *CEO*	01/01/2017		2017	175	41	-	36	11	1	-	264
P D Abernethy *Lead Customer Experience*	01/07/2015	27/01/2017	2017	93	15	-	13	8	13	-	142
			2016	110	21	-	17	11	7	-	166
T A Barrenger *Chief Information Officer*	19/06/2006		2017	200	2	-	35	20	10	-	267
			2016	205	2	-	35	18	8	-	268
C Carras *Chief Customer Officer*	01/02/2014		2017	168	9	-	17	15	13	-	222
			2016	159	9	-	16	14	9	-	207
L F Cazier[3] *Lead Customer Experience*	30/01/2017	30/06/2017	2017	62	3	-	6	4	10	-	85
J H Cumming *Manager Customer Services*	01/02/2014	27/05/2016	2016	121	8	-	28	14	8	-	179
D E Heley *Chief People and Finance Officer*	01/10/2002		2017	211	15	-	35	6	16	-	283
			2016	190	18	-	35	19	12	-	274
B J Martin[3] *Lead Customer Experience*	01/02/2014	30/06/2017	2017	152	1	-	31	11	10	-	205
			2016	154	2	-	20	16	10	-	202
J C Reid *Chief Legal Counsel*	01/02/2014		2017	157	4	-	21	13	11	-	206
			2016	157	6	-	20	14	9	-	206
Total remuneration:			2017	1,430	97	-	211	107	110	-	1,955
CEO and Senior Executives			2016	1,466	76	-	206	147	78	-	1,973

[1] Salary represents amounts paid in cash during the financial year and associated accrual adjustments.
[2] Short-term non-monetary benefits relate to packaged amounts and fringe benefits provided to the CEO and Senior Executives.
[3] Ceased being KMP as a result of an internal restructure.

Responsibilities of the CEO and Senior Executives

CEO

The CEO is responsible to the Board for the overall performance and strategic management of WorkCover Queensland. The CEO is also the Executive Officer (EO) of WEO and is responsible for the management and direction of WEO. No remuneration is paid for the role of EO of WEO.

Lead Customer Experience/Manager Customer Services

The Lead Customer Experience/Manager Customer Services contributes to the strategic leadership of the Customer Experience Division by leading an industry aligned area to deliver outcomes, focusing on customer/stakeholder engagement and relationships as well as effective claims management. The Manager Customer Services title was changed to Lead Customer Experience effective 15 August 2016.

Chief Customer Officer

The Chief Customer Officer is responsible for the strategic leadership of the Customer Group, ensuring that all statutory and common law claims are outcome managed balancing the interests of both injured workers and employers. They also ensure implementation of all key strategies to provide an exceptional customer experience and manage stakeholder relationships business wide.

Chief Information Officer

The Chief Information Officer is responsible for the delivery of technology solutions to maximise the efficiency and effectiveness of the business operations to meet WorkCover's business needs.

Chief People and Finance Officer

The Chief People and Finance Officer, acts as Company Secretary, and is responsible for strategically leading the People and Finance Group to ensure all necessary people, corporate, and financial management processes, systems and disciplines are in place to support the achievement of the organisation's commercially-focused financial and people objectives.

Chief Legal Counsel

The Chief Legal Counsel oversees common law claims management, provides legal advice and strategy, and ensures effective management of legal and contractual risks.

Remuneration and appointment authority of key management personnel

Remuneration policy

Remuneration levels for key management personnel are competitively set to attract and retain appropriately qualified and experienced Directors, Senior Executives and the CEO. Remuneration is reviewed annually. No remuneration packages for key management personnel provide for any performance or bonus payments.

Payments to the CEO and the Directors are made by WorkCover Queensland. All other key management personnel are remunerated by WEO.

Directors

The remuneration of Directors is approved by the Governor-in-Council as part of the terms of appointment. The Director contracts are entered into in accordance with Section 424 of the *Workers' Compensation and Rehabilitation Act 2003*.

Each Director of WorkCover Queensland is entitled to receive a fee with the exception of appointed public service employees whose fees are subject to government approval.

CEO and Senior Executives

The CEO's contract is entered into in accordance with Section 442 of the *Workers' Compensation and Rehabilitation Act 2003*, with the conditions of the contract decided by the Board and signed by the Chair. The remuneration arrangements for the Senior Executives are determined by the CEO in consultation with the Chair of the Board. The Senior Executive contracts are entered into in accordance with Section 475F of the *Workers' Compensation and Rehabilitation Act 2003*.

Remuneration and other terms of employment for the CEO and each Senior Executive are formalised in executive employment contracts. The notice period is between 4 and 6 months for the CEO and Senior Executives.

The CEO and Senior Executives are given the opportunity to receive their fixed remuneration in a variety of forms, including cash and fringe benefits.

(b) Transactions with key management personnel

No transactions, other than remuneration payments or the reimbursement of approved expenses, were entered into by WorkCover with key management personnel or related parties of such key management personnel during this financial year.

(c) Transactions with other related parties

WorkCover is required to pay a grant and levy to WHSQ and the Workers' Compensation Regulator. See note S1 for details.

WorkCover received a non-reciprocal cash transfer of $2.500 million from the Workers' Compensation Regulator. See note O3(a).

Queensland Health public hospitals are utilised by WorkCover in the treatment of injured workers. The total payments in this financial year are $42.595 million.

As the provider of compulsory workers' compensation insurance in Queensland, WorkCover provides insurance to all Queensland State Government controlled entities other than those who self-insure. Policies are issued on the same terms and conditions as to other policyholders. The total premium income received from Queensland State Government controlled entities in this financial year is $213.667 million.

WorkCover utilises the services of QIC and QTC to invest excess cash not immediately required to cover expenses. The use of QIC and QTC is allowed by Queensland Treasury and the relationships/transactions are conducted under normal terms and conditions. The total management fees paid or payable in this financial year to QIC and QTC are $10.899 million and $0.591 million respectively.

A related party to a Minister is a partner in the Brisbane office of a law firm that provides legal services to WorkCover as part of the legal panel. The firm was one of 8 appointed to the panel through an open tender process in 2013. An amount of $6.848 million was paid or payable in this financial year. Terms and conditions are consistent across all panel members.

S4 Property, plant and equipment

	2017 $'000	2016 $'000
Land at fair value	19,000	18,200
Building at fair value	29,000	21,760
Total property	48,000	39,960
Plant and equipment at cost	6,768	6,735
Less accumulated depreciation	(2,398)	(1,343)
Total plant and equipment	4,370	5,392
Building work in progress	21	911
	52,391	**46,263**

(a) Recognition and measurement

All items of property, plant and equipment are recognised at their cost of acquisition, being the fair value of the consideration provided and any incidental costs directly attributable to the acquisition.

With respect to plant and equipment, an asset recognition threshold of $5,000 exists. With respect to property, an asset recognition threshold of $10,000 exists for buildings and $1 for land. Property, plant and equipment with a lesser cost are expensed.

Plant and equipment is measured at cost less accumulated depreciation and any accumulated impairment losses.

Plant and equipment with an original cost of $0.426 million (2016: $0.216 million) and a written down value of zero is still being used in the provision of services. There are currently 9 assets (2016: no assets) with a written down value equal to their residual value above zero still being used in the provision of services.

Reconciliation of property, plant and equipment

	Note	Land $'000	Building $'000	Plant and equipment $'000	Work in progress $'000	Total $'000
Balance at 1 July 2015		15,400	25,800	1,898	770	43,868
Acquisitions		-	1,239	4,733	893	6,865
Disposals		-	(6)	(88)	(13)	(107)
Transfers		-	739	-	(739)	-
Depreciation		-	(1,635)	(1,151)	-	(2,786)
Revaluation increments/(decrements)	O3(b)	2,800	(4,377)	-	-	(1,577)
Balance at 30 June 2016		**18,200**	**21,760**	**5,392**	**911**	**46,263**
Balance at 1 July 2016		18,200	21,760	5,392	911	46,263
Acquisitions		-	808	45	21	874
Disposals		-	-	(5)	-	(5)
Transfers		-	911	-	(911)	-
Depreciation		-	(1,351)	(1,062)	-	(2,413)
Revaluation increments	O3(b)	800	6,872	-	-	7,672
Balance at 30 June 2017		**19,000**	**29,000**	**4,370**	**21**	**52,391**

(b) Subsequent additional costs

Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefits, in excess of the originally assessed performance of the asset, will flow to the entity in future years. Costs that do not meet the criteria for capitalisation are expensed as incurred.

(c) Valuation

Land and buildings are shown at fair value, based on annual valuations by an external independent valuer less subsequent depreciation for buildings. On revaluation, accumulated depreciation of revalued assets in the class is eliminated against the gross carrying amount of those assets and the net amount restated to the revalued amount of the asset.

Any revaluation increase is credited, net of tax equivalents, to the asset revaluation surplus of the appropriate class, except to the extent that it reverses a revaluation decrease for the same asset class previously recognised as an expense, in which case the increase is recognised as income.

Any revaluation decrease is recognised as an expense, except to the extent that it offsets a previous revaluation increase for the same asset class, in which case the decrease is debited, net of tax equivalents, directly to the asset revaluation surplus to the extent of the credit balance existing in the asset revaluation surplus for that asset class.

The land and building is valued having regard to the highest and best use of the asset. An independent valuation of land and building was performed as at 30 June 2017 and fair value was determined by reference to market based evidence, being active market prices adjusted for any differences in the nature, location or condition of the specific property. The independent valuer used the discounted cash flow, capitalisation and direct comparison approaches to determine the fair value. The land and building has been categorised as level 3 based on sensitivity of fair value to change in the unobservable inputs.

(d) Depreciation

Land is not depreciated.

Property, plant and equipment is depreciated on a straight-line basis so as to allocate the cost or revalued amount of each asset, less its estimated residual value, over the estimated useful life of the assets as follows:

- Building — 5 to 60 years
- Plant and equipment:
  - Computer equipment — 2 to 10 years
  - Office equipment and furniture — 5 to 23 years
  - Fixtures and fittings — 10 to 11 years
  - Motor vehicles — 5 years

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate on an annual basis.

(e) Impairment

All non-current assets are assessed for indicators of impairment on an annual basis. If an indicator of possible impairment exists, WorkCover determines the asset's recoverable amount. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised as an expense, unless the asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

The asset's recoverable amount is determined as the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(f) Derecognition

Property, plant and equipment assets are derecognised upon disposal or when no future economic benefits are expected from their use or disposal. Derecognition of property, plant and equipment assets includes writing back accumulated depreciation and any accumulated impairment losses against the cost of acquisition. Any resulting gain or loss is represented by the difference between the proceeds, if any, and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income.

S5 Intangible assets

Reconciliation of intangible assets

	Purchased computer software $'000	Internally generated computer software $'000	Work in progress $'000	Total $'000
Balance at 1 July 2015	31	4,860	-	4,891
Acquisitions	23	1,421	12	1,456
Amortisation	(21)	(2,004)	-	(2,025)
Balance at 30 June 2016	**33**	**4,277**	**12**	**4,322**
At 30 June 2016				
Cost	1,247	32,260	12	33,519
Accumulated amortisation	(1,214)	(27,983)	-	(29,197)
Net carrying amount	**33**	**4,277**	**12**	**4,322**
Balance at 1 July 2016	33	4,277	12	4,322
Acquisitions	-	75	14	89
Transfers	-	12	(12)	-
Amortisation	(7)	(1,294)	-	(1,301)
Balance at 30 June 2017	**26**	**3,070**	**14**	**3,110**
At 30 June 2017				
Cost	1,109	32,347	14	33,470
Accumulated amortisation	(1,083)	(29,277)	-	(30,360)
Net carrying amount	**26**	**3,070**	**14**	**3,110**

(a) Recognition and measurement

WorkCover has two classes of intangible assets, being purchased computer software and internally generated computer software.

Both software types have an asset recognition threshold of $100,000. Software with a lesser cost is expensed.

Intangible assets are measured at their cost of acquisition less accumulated amortisation and any accumulated impairment losses.

Software with an original cost of $0.922 million (2016: $1.060 million) and a written down value of zero is still being used in the provision of services.

(b) Subsequent additional costs

Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefits, in excess of the originally assessed performance of the asset, will flow to the entity in future years. Costs that do not meet the criteria for capitalisation are expensed as incurred.

(c) Amortisation

Software is amortised on a straight-line basis over the period in which the related benefits are expected to be realised. Current amortisation periods range between 3 and 14 years.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate on an annual basis.

(d) Impairment

Refer to disclosure in note S4(e).

(e) Derecognition

Intangible assets are derecognised upon disposal or when no future economic benefits are expected from their use or disposal. Derecognition of intangible assets includes writing back accumulated amortisation and any accumulated impairment losses against the cost of acquisition. Any resulting gain or loss is represented by the difference between the proceeds, if any, and the carrying amount of the intangible asset and is recognised in the consolidated statement of comprehensive income.

S6 Commitments

(a) Property, plant and equipment

WorkCover is committed to the acquisition of property, plant and equipment assets as follows:

	2017 $'000	2016 $'000
Building		
Not later than one year	12	429
1 - 5 years	-	143
	12	**572**
Plant and equipment		
Not later than one year	**31**	**-**

(b) Support and maintenance expenditure

WorkCover is committed to the expenditure on support and maintenance agreements for intangible assets and property, plant, and equipment assets as follows:

	2017 $'000	2016 $'000
Not later than one year	3,039	2,945
1 - 5 years	3,992	2,220
	7,031	**5,165**

(c) Other expenditure

WorkCover is committed to other expenditure as follows:

	2017 $'000	2016 $'000
Not later than one year	**102**	**-**

(d) Operating lease receivables

WorkCover has 9 lease agreements (2016: 8) for the 280 Adelaide Street building. These non-cancellable leases have remaining terms of between 1 and 6 years. All leases include clauses to enable upward revision of the rental charge on an annual basis by either a fixed percentage or consumer price index (CPI).

Future minimum rental income under non-cancellable operating leases is as follows:

	2017 $'000	2016 $'000
Not later than one year	1,168	1,151
1 - 5 years	2,757	3,075
Later than five years	60	708
	3,985	**4,934**

WorkCover QUEENSLAND

What this section is about

This section includes other information that must be disclosed to comply with the AASBs and other requirements.

O1 Taxation

WorkCover Queensland and its controlled entity are State/Territory bodies as defined under the *Income Tax Assessment Act 1936* and are exempt from Commonwealth Government taxation with the exception of fringe benefits tax (FBT) and GST. As such, FBT and GST receivable from and payable to the Australian Taxation Office (ATO) are recognised and accrued.

WorkCover Queensland is the only entity in the consolidated group subject to the National Tax Equivalents Regime (NTER). Under the NTER, payments are made to the State Treasurer equivalent to the amount of Commonwealth Government income tax. The Taxation of Financial Arrangements (TOFA) legislation is applicable to WorkCover Queensland and the default realisation and accrual methods are used.

WorkCover Queensland and its controlled entity are also required to comply with pay as you go (PAYG) withholding requirements and Queensland State Government taxes including payroll tax, stamp duty and land tax.

(a) Income tax equivalent

Income tax equivalent expense/(benefit)

	2017 $'000	2016 $'000
Current tax expense		
Current income tax expense	112,892	-
Total current tax expense	112,892	-
Deferred tax expense		
Origination and reversal of temporary differences	39,363	(20,953)
Total deferred tax expense/(benefit)	39,363	(20,953)
Income tax equivalent expense/(benefit)	**152,255**	**(20,953)**
Reconciliation of income tax equivalent expense/(benefit)		
Operating result for the year before income tax equivalent	533,107	(59,160)
Income tax equivalent expense/(benefit) at the standard tax rate of 30% (2016: 30%)	159,932	(17,748)
Tax effect of adjustments to income tax equivalent expense/(benefit):		
Gross up of foreign income tax offset received	1,088	1,177
Gross up of franking tax offset received	2,172	2,260
Non-deductible expenses	2	1
Conversion of franking credit to tax loss	-	(7,533)
Tax offset for franked dividends	(7,241)	-
Tax offset for foreign income	(3,627)	-
Other deductible expenses	(79)	(78)
Adjustments for income tax equivalent of prior years	8	968
Income tax equivalent expense/(benefit) attributable to operating result	**152,255**	**(20,953)**

Income tax equivalent expense comprises current and deferred tax. Current and deferred tax is recognised as an expense in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax assets and liabilities are measured at the amount expected to be receivable or payable on the taxable income or loss for the current year. The amount is calculated using tax rates and tax laws that are enacted or substantively enacted at the reporting date.

Income tax equivalent expense/(benefit) recognised in other comprehensive income

	2017 $'000	2016 $'000
Revaluation of land and building	**2,302**	**(473)**

Recognised deferred tax assets and liabilities

WorkCover is able to offset its deferred tax assets and liabilities and has disclosed the net balance in the consolidated statement of financial position. Deferred tax assets and liabilities are attributable to the following:

Recognised deferred tax assets and liabilities	Assets		Liabilities		Net	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Income tax equivalent loss	-	21,229	-	-	-	21,229
Unrealised investment (gain)	-	-	(113,842)	(93,650)	(113,842)	(93,650)
Indirect claims handling expense	58,864	59,720	-	-	58,864	59,720
Employee expenses	4	45	-	-	4	45
Other provisions	2,790	1,290	-	-	2,790	1,290
Other items	760	1,059	(1,855)	(3,223)	(1,095)	(2,164)
Property, plant and equipment	-	521	(1,557)	-	(1,557)	521
Intangibles	-	-	(420)	(582)	(420)	(582)
Tax assets/(liabilities)	**62,418**	**83,864**	**(117,674)**	**(97,455)**	**(55,256)**	**(13,591)**

Movement in deferred tax balances during the year	Balance 1 July 2015 $'000	Recognised in operating result $'000	Recognised in other comprehensive income $'000	Balance 30 June 2016 $'000	Recognised in operating result $'000	Recognised in other comprehensive income $'000	Balance 30 June 2017 $'000
Income tax equivalent loss	7,691	13,538	-	21,229	(21,229)	-	-
Unrealised investment loss/(gain)	(98,355)	4,705	-	(93,650)	(20,192)	-	(113,842)
Indirect claims handling expense	56,210	3,510	-	59,720	(856)	-	58,864
Employee expenses	52	(7)	-	45	(41)	-	4
Other provisions	1,350	(60)	-	1,290	1,500	-	2,790
Other items	(644)	(1,520)	-	(2,164)	1,069	-	(1,095)
Property, plant and equipment	(334)	382	473	521	224	(2,302)	(1,557)
Intangibles	(987)	405	-	(582)	162	-	(420)
	(35,017)	**20,953**	**473**	**(13,591)**	**(39,363)**	**(2,302)**	**(55,256)**

Deferred tax is accounted for using the comprehensive balance sheet liability method and is provided on all temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base of those items at the reporting date.

Deferred tax liabilities are recognised for taxable temporary differences. Deferred tax assets are recognised for deductible temporary differences. However, deferred tax liabilities and assets are not recognised if the temporary differences arise from the initial recognition of assets or liabilities which affects neither the accounting profit nor taxable profit or loss. Unused tax credits and unused tax losses are carried forward to the extent it is probable that future taxable profit will be available against which they can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply for the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be utilised and such reductions are reversed when it becomes probable that sufficient taxable profit will be available.

Unrecognised deferred tax assets

	2017 $'000	2016 $'000
Capital losses	**7,110**	**7,110**
Potential tax effect at 30%	**2,133**	**2,133**

WorkCover has capital losses which are available indefinitely for offset against future capital gains subject to continuing to meet relevant statutory tests. Deferred tax assets have not been recognised in respect of these capital losses because it is not probable that future capital gains will be available against which WorkCover can utilise these losses.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

(b) Goods and services tax

Income, expenses, assets, and liabilities are recognised net of the amount of associated GST, unless the GST is not recoverable from or remittable to the ATO. In this case, the GST is recognised as part of the cost of acquisition of the asset or in the amount of the expense.

Receivables and payables are stated with the amount of GST included, where applicable. The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables, respectively, in the consolidated statement of financial position.

Cash flows are included in the consolidated statement of cash flows net of the amount of GST. The GST component of cash flows arising from investing activities which is recoverable from or payable to the ATO is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST, unless the GST incurred is not recoverable from the ATO.

O2 Reconciliation of operating result to net cash from operating activities

	Note	2017 $'000	2016 $'000
Operating result for the year		380,852	(38,207)
Non-cash items included in operating result			
Investment (income)/loss - change in fair value of financial assets		(137,588)	253,416
Net loss on disposal of property, plant and equipment	S1	5	5
Reclassification of WIP		-	13
Depreciation and amortisation expense		3,714	4,811
Income tax effect on revaluation of land and building		(2,302)	473
Change in operating assets and liabilities			
Decrease/(increase) in receivables		1,717	(17,482)
Decrease/(increase) in current tax		140,330	(24,351)
(Increase) in other assets		(6,800)	(3,504)
Decrease/(increase) in net deferred tax		41,665	(21,426)
Increase in other liabilities		3	30
(Decrease)/increase in payables and unearned premium liability		(6,561)	15,458
Increase in outstanding claims liability and employee benefits		10,874	218,491
Net cash from operating activities		**425,909**	**387,727**

O3 Equity

(a) Contributed equity

Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* specifies the principles for recognising contributed equity. WorkCover has recognised a non-reciprocal cash transfer of $2.500 million from the Workers' Compensation Regulator arising from the funding arrangement for the Workers' Compensation Regulator.

(b) Asset revaluation surplus by class

	Note	Land $'000	Building $'000	Total $'000
Balance at 1 July 2015		7,700	6,331	14,031
Revaluation increments/ (decrements)	S4	2,800	(4,377)	(1,577)
Income tax effect on revaluation		(840)	1,313	473
Balance at 30 June 2016		9,660	3,267	12,927
Balance at 1 July 2016		9,660	3,267	12,927
Revaluation increments	S4	800	6,872	7,672
Income tax effect on revaluation		(240)	(2,062)	(2,302)
Balance at 30 June 2017		10,220	8,077	18,297

The asset revaluation surplus represents the net effect of upwards and downwards revaluations of assets to fair value.

(c) Investment fluctuation reserve

The investment fluctuation reserve is held to mitigate the effects of financial volatility in the investment markets. It represents the excess capital held by WorkCover over the required funding ratio.

O4 Contingent liabilities

In the normal course of business, WorkCover is exposed to legal issues, including litigation arising out of insurance policies. There are no known potential material litigation exposures at reporting date that may give rise to a contingent liability.

O5 Differences between WorkCover consolidated financial statements and WorkCover Queensland financial statements

(a) Reconciliation of differences between consolidated and parent entity statements of comprehensive income

There are no material differences between the figures disclosed on the face of the WorkCover consolidated statement of comprehensive income and WorkCover Queensland's statement of comprehensive income.

(b) Reconciliation of differences between consolidated and parent entity statements of financial position

	Note	2017 $'000			2016 $'000		
		WorkCover	WorkCover Queensland	WorkCover Employing Office	WorkCover	WorkCover Queensland	WorkCover Employing Office
Current assets							
Cash and cash equivalents		353,315	334,930	18,385	187,454	169,607	17,847
Receivables	i	13,981	13,973	8	26,104	26,089	15
Current liabilities							
Payables	ii	22,590	22,267	323	25,236	24,959	277
Employee benefits	iii	16,081	21	16,060	15,778	157	15,621
Non-current liabilities							
Employee benefits	iii	2,012	2	2,010	1,964	-	1,964

i. The difference represents the WEO sundry debtors balance.
ii. The difference represents the WEO salary related payables of $0.303 million (2016: $0.271 million) and other WEO payables of $0.020 million (2016: $0.006 million).
iii. The liabilities for employee benefits in WorkCover Queensland is the CEO's employee benefits. All other employee benefit liabilities are part of WEO.

(c) Reconciliation of differences between consolidated and parent entity statements of changes in equity

There are no differences between the figures disclosed on the face of the WorkCover consolidated statement of changes in equity and WorkCover Queensland's statement of changes in equity.

(d) Reconciliation of differences between consolidated and parent entity statements of cash flows

	Note	2017 $'000			2016 $'000		
		WorkCover	WorkCover Queensland	WorkCover Employing Office	WorkCover	WorkCover Queensland	WorkCover Employing Office
Cash flows from operating activities							
Interest received		18,964	18,840	124	17,811	17,772	39
GST received		141,996	141,966	30	136,290	136,232	58
GST paid		(141,551)	(141,433)	(118)	(135,725)	(135,617)	(108)
Employee benefits expense paid	i	-	-	(68,782)	-	-	(67,180)
Employment services revenue received	i	-	-	69,306	-	-	69,529
Other operating income received	ii	1,977	1,977	1	1,737	1,737	1
Other operating expenses paid	iii	(42,794)	(43,296)	(23)	(36,103)	(38,425)	(28)

i. The employee benefits expense paid by WEO and the employment services revenue received by WEO are categorised within other operating expenses paid for WorkCover. The employment services revenue is the amount paid by WorkCover Queensland to WEO for employment services provided and payments by external organisations for employee services.
ii. Other operating income received by WEO is amounts received from salary packaging providers. These are categorised within other operating expenses paid for WorkCover.
iii. The difference between the consolidated financial statements and WorkCover Queensland represents the net of WEO's employee benefits expenses paid, employment services revenue received, other operating income received and other operating expenses paid. The other operating expenses paid in WEO are sundry administration payments.

O6 Controlled entity

WEO financial statements summary

	2017 $'000	2016 $'000
Statement of comprehensive income		
Revenue	69,390	69,485
Expenses	69,390	69,485
Operating result for the year	-	-
Statement of financial position		
Total assets	18,393	17,862
Total liabilities	18,393	17,862
Net assets	-	-

O7 Summary of additional significant accounting policies

(a) Changes in accounting policies and disclosures

One amendment to a standard has been applied for the first time in the presentation of these consolidated financial statements and has not had a material impact.

AASB 2015-6 *Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities* amends AASB 124 to extend the scope of the standard to include not-for-profit public sector entities and applies for reporting periods starting on or after 1 July 2016.

This standard requires note disclosures about relationships between a parent entity and its controlled entities, key management personnel remuneration expenses and other related party transactions, and does not impact on financial statement line items.

As Queensland Treasury already required disclosure of key management personnel remuneration expenses, AASB 124 itself had minimal impact on WorkCover's key management personnel disclosures compared to 2016. However, the standard has resulted in WorkCover's responsible Minister being identified as part of its key management personnel as from 2017. Material related party transactions for 2017 are disclosed in note S3. No comparative information about related party transactions is required in respect of 2016. The relationship between WorkCover and its controlled entity is outlined in the Basis of preparation.

(b) New and revised Australian Accounting Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2017 and have not been early adopted in preparing these consolidated financial statements. None of the upcoming standards relevant to WorkCover are expected to have a material impact on the consolidated financial statements and WorkCover does not plan to adopt any standard early.

The nature and effects of the standards applicable to WorkCover that are not yet effective are explained below.

Financial instruments

AASB 9 *Financial Instruments* applies from reporting periods beginning on or after 1 January 2018. AASB 9 introduces new requirements for:

- the classification, measurement and derecognition of financial assets and financial liabilities;
- impairment methodology; and
- hedge accounting.

The initial application of AASB 9 will depend on the facts and circumstances existing at that date. At this stage, and assuming no change in the types of transactions WorkCover enters into, the application of AASB 9 is not expected to result in significant changes to the current treatment of financial assets and financial liabilities.

Revenue

AASB 15 *Revenue from Contracts with Customers* applies from reporting periods beginning on or after 1 January 2018 unless AASB 1058 *Income of Not-for-Profit Entities* is also applied in which case both standards are applicable from reporting periods beginning on or after 1 January 2019.

AASB 15 establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. AASB 1058 clarifies and simplifies the income recognition requirements that apply to not-for-profit entities in conjunction with AASB 15, in particular in regards to volunteer services or transactions where the consideration to acquire an asset is significantly less than the fair value of the asset principally to enable the entity to further its objectives.

WorkCover does not currently have any revenue contracts for which AASB 15 will have a material impact for the period after 1 July 2018, and will monitor the impact of any such contracts subsequently entered into before the new standards take effect.

Leases

AASB 16 *Leases* applies from reporting periods beginning on or after 1 January 2019.

This standard introduces new requirements for lessees by requiring an asset and liability to be recognised for the majority of lease contracts. Lessor accounting under AASB 16 remains largely unchanged from AASB 117 *Leases*, with lease receipts from operating leases continuing to be recognised as income either on a straight-line basis or another systematic basis where appropriate. As such, AASB 16 is not expected to have a significant impact unless WorkCover's current circumstances change.

O8 Events after reporting date

On 23 August 2017 the *Workers' Compensation and Rehabilitation (Coal Workers' Pneumoconiosis) and Other Legislation Amendment Bill 2017* (the Bill) was passed by the Queensland Parliament to amend the *Workers' Compensation and Rehabilitation Act 2003*. The amendments will commence on assent of the Bill and alter the workers' compensation scheme for workers who have been diagnosed with, or suspect they may have, coal workers' pneumoconiosis, also known as CWP or 'black lung'.

Key changes include:

- establishing a medical examination process for retired or former coal workers with suspected coal workers' pneumoconiosis or a Coal Mine Dust Lung Disease;
- introducing an additional lump sum compensation for workers with pneumoconiosis; and
- clarifying a worker with pneumoconiosis can access further workers' compensation entitlements if they experience disease progression.

The on-going financial impact of these changes is currently being reviewed by WorkCover's management, however none of the above changes alter the financial position of WorkCover as at 30 June 2017.

Management Certificate of WorkCover Queensland

These general purpose financial statements have been prepared pursuant to the provisions of the *Workers' Compensation and Rehabilitation Act 2003*, section 62(1) of the *Financial Accountability Act 2009*, relevant sections of the *Financial and Performance Management Standard 2009* and other prescribed requirements. We certify that in our opinion:

- the prescribed requirements for establishing and keeping of accounts have been complied with in all material respects; and
- the statements have been drawn up so as to present a true and fair view, in accordance with prescribed accounting standards, of the transactions of WorkCover Queensland for the financial year ended 30 June 2017 and of the financial position at the end of that year; and
- these assertions are based on an appropriate system of internal controls and risk management processes being effective, in all material respects, with respect to financial reporting throughout the reporting period.

29 August 2017

F Gobbo
BA/LLB, GAICD
CHAIR

B Watson
MOL, Dip Financial Services, FAICD, FASFA
CHIEF EXECUTIVE OFFICER

INDEPENDENT AUDITOR'S REPORT

To the Board of WorkCover Queensland

Report on the audit of the financial report

Opinion

I have audited the accompanying financial report of WorkCover Queensland and its controlled entity (the group). The financial report comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements including summaries of significant accounting policies and other explanatory information, and the certificate given by the Chair and the Chief Executive Officer.

In my opinion, the financial report:

a) gives a true and fair view of the group's financial position as at 30 June 2017, and its financial performance for the year then ended; and

b) complies with the *Financial Accountability Act 2009*, the *Financial and Performance Management Standard 2009* and Australian Accounting Standards.

Basis for opinion

I conducted my audit in accordance with the *Auditor-General of Queensland Auditing Standards*, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.

I am independent of the group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General of Queensland Auditing Standards.*

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

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our respective audits of the Financial Reports of the current period. These matters were addressed in the context of our audits of each of the Financial Reports as a whole, and in forming our opinions thereon, and we do not provide a separate opinion on these matters.

Valuation of net outstanding claims liability ($2,531m) Refer to Note C2(a) to the financial report.	
Key audit matter	**How our audit addressed the key audit matter**
The estimation of outstanding claims liabilities is a key audit matter due to the high degree of uncertainty that is inherent in estimating the expected future payments for claims incurred. It may take many years to finalise the cost of a claim and the ultimate cost may be influenced by factors unknown at 30 June 2017 or outside the control of WorkCover. In particular, judgement arises over the estimation of the costs as a result of the Workers' Compensation and Rehabilitation and Other Legislation Amendment Act that was passed in September 2015, with retrospective application back to 31 January 2015. The effects of the changes in the legislation, including the removal of the 5% threshold for access to Common Law, the utilisation of the Statutory Adjustment Scheme and the introduction of presumptive provisions for firefighters, is highly uncertain.	We performed the following audit procedures, which included: • Challenging the appropriateness of management's actuarial methods and assumptions for statutory, common law and asbestos claims. Our challenge of actuarial methods and assumptions was based on an assessment of: - accuracy of previous estimates; - consistency with those used in valuing workers compensation liabilities across Australia; and - prior period methodologies and assumptions applied. We sought sufficient justification for any significant differences. • Assessing the impacts of the legislative changes on the outstanding claims liabilities, comparing them to expectations based on the Company's historical experience, current trends and our own industry knowledge and experience. We evaluated whether appropriate prudence had been applied, given the high level of uncertainty. • Benchmarked key economic assumptions, such as inflation rates, superimposed inflation and discount rates to observable market data.

Other information

The board are responsible for other information. The other information comprises the information in the board's annual report for the year ended 30 June 2017, but does not include the financial report and my auditor's report thereon.

My opinion on the financial report does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial report, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the Board for the financial report

The board is responsible for the preparation of the financial report that gives a true and fair view in accordance with the *Financial Accountability Act 2009*, the *Financial and Performance Management Standard 2009* and Australian Accounting Standards, and for such internal control as the board determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

The board is also responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless it is intended to abolish the group or to otherwise cease operations.

Auditor's responsibilities for the audit of the financial report

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

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

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

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

Report on other legal and regulatory requirements

In accordance with s.40 of the Auditor-General Act 2009, for the year ended 30 June 2017:

a) I received all the information and explanations I required.

b) In my opinion, the prescribed requirements in relation to the establishment and keeping of accounts were complied with in all material respects.

QUEENSLAND
29 AUG 2017
AUDIT OFFICE

P CHRISTENSEN FCPA
as delegate of the Auditor-General

Queensland Audit Office
Brisbane

ACTUARIAL CERTIFICATE FOR OUTSTANDING CLAIMS LIABILITIES AS AT 30 JUNE 2017

PricewaterhouseCoopers Consulting (Australia) Pty Ltd was requested by WorkCover Queensland to advise on its provisions for outstanding claims liabilities at 30 June 2017.

VALUATION REPORT

Full details of data, methodology and assumptions are set out in our report dated 31 July 2017. This report was prepared, to the best of our knowledge, in compliance with the requirements of Professional Standard 300 of the Institute of Actuaries of Australia.

BASIS OF ESTIMATES

The adopted provision as at 30 June 2017 is **$2,530.9 million**, comprising our central estimate of the liability for outstanding claims and a risk margin. The adopted provision is net of recoveries. In principle, all of the valuation assumptions have been selected so as to yield a central estimate which is not knowingly above or below the ultimate cost of claims.

The central estimate:

- is discounted - i.e. allows for the time value of money;
- allows for future claims inflation;
- includes a loading for claims handling expenses; and
- complies with the requirements of Australian Accounting Standard AASB1023.

A risk margin has been included to allow for the risk and uncertainties inherent in the estimation of outstanding claims liabilities. The margin is expressed as a percentage of the central estimate. In recognition of the overall uncertainty in the claims experience, the WorkCover Board have adopted a risk margin at 30 June 2017 of 9.8%. The adopted margin is intended to increase the probability of sufficiency of the provision to 75%.

QUALIFICATIONS

It is not possible to estimate the outstanding claims liabilities with certainty. Deviations from our estimates are normal and are to be expected. The outcome is dependent on events which are yet to occur and which are impossible to predict, including legislative, social and economic forces. The provisions we have recommended are based on assumptions which we consider to be reasonable in current circumstances.

Lisa Simpson

Lisa Simpson
Fellow of the Institute of
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31 July 2017