WorkCover

QUEENSLAND

Consolidated financial statements

2020-2021

Contents

Consolidated statement of comprehensive income

For the year ended 30 June 2021

	Note	2021 $'000	2020 $'000
Net premium revenue	*B1*	1,625,723	1,627,379
Gross claims expense	*C1*	(2,257,761)	(2,205,002)
Claims recoveries revenue	*C1*	114,714	63,216
Net claims incurred	*C1*	(2,143,047)	(2,141,786)
Underwriting expenses	*E1*	(34,066)	(43,884)
Underwriting result		**(551,390)**	**(558,291)**
Investment income/(loss)	*D1*	737,932	(60,255)
Other income		1,089	1,508
Investment expenses	*D1*	(33,527)	(33,171)
Other expenses		(541)	(472)
Operating result for the year before income tax equivalent		**153,563**	**(650,681)**
Income tax equivalent (expense)/benefit	*F1(a)*	(42,735)	200,367
Operating result for the year		**110,828**	**(450,314)**
Other comprehensive income			
Items that will not be reclassified subsequently to operating result:			
Revaluation of land and building	*F4(b)*	(4,335)	6,298
Income tax effect on revaluation of land and building	*F1(a)*	1,301	(1,889)
Other comprehensive (loss)/income for the year, net of income tax equivalent		**(3,034)**	**4,409**
Total comprehensive income/(loss) for the year		**107,794**	**(445,905)**

This statement is to be read in conjunction with the accompanying notes.

Consolidated statement of financial position

For the year ended 30 June 2021

	Note	2021 $'000	2020 $'000
Current assets			
Cash and cash equivalents	*D2(a)*	94,387	135,521
Recoveries receivable on outstanding claims	*C2(b)*	60,369	51,467
Receivables	*D2*	32,536	34,391
Investment assets	*D2(d)*	1,466,846	1,706,210
Current tax asset		-	16,285
Other assets		2,366	3,338
Total current assets		**1,656,504**	**1,947,212**
Non-current assets			
Recoveries receivable on outstanding claims	*C2(b)*	135,160	110,062
Receivables	*D2*	2,400	2,432
Investment assets	*D2(d)*	4,267,682	3,850,081
Property, plant and equipment	*E4*	64,489	71,517
Deferred tax assets	*F1(a)*	42,677	84,111
Other assets		1,289	1,781
Total non-current assets		**4,513,697**	**4,119,984**
Total assets		**6,170,201**	**6,067,196**
Current liabilities			
Payables	*D2(c)*	18,063	21,329
Unearned premium liability	*B2*	12,361	11,688
Outstanding claims liability	*C2(a)*	1,505,885	1,394,484
Employee benefits liabilities	*E2(b)*	21,139	19,410
Investment related liabilities	*D2(d)*	21,330	363,193
Other liabilities		77	78
Total current liabilities		**1,578,855**	**1,810,182**
Non-current liabilities			
Unearned premium liability	*B2*	315	-
Outstanding claims liability	*C2(a)*	2,392,315	2,092,628
Employee benefits liabilities	*E2(b)*	2,922	2,385
Investment related liabilities	*D2(d)*	6,740	80,749
Other liabilities		24	16
Total non-current liabilities		**2,402,316**	**2,175,778**
Total liabilities		**3,981,171**	**3,985,960**
Net assets		**2,189,030**	**2,081,236**
Equity			
Contributed equity	*F4(a)*	2,500	2,500
Asset revaluation surplus	*F4(b)*	31,157	34,191
Investment fluctuation reserve	*F4(c)*	1,359,139	1,247,375
Accumulated surplus		796,234	797,170
Total equity		**2,189,030**	**2,081,236**

This statement is to be read in conjunction with the accompanying notes.

Consolidated statement of equity

For the year ended 30 June 2021

	Contributed equity	Asset revaluation surplus	Investment fluctuation reserve	Accumulated surplus	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2019	**2,500**	**29,782**	**1,784,184**	**710,675**	**2,527,141**
Operating result for the year	-	-	-	(450,314)	(450,314)
Other comprehensive income for the year	-	4,409	-	-	4,409
Total comprehensive income for the year	-	4,409	-	(450,314)	(445,905)
Transfer from investment fluctuation reserve to accumulated surplus	-	-	(536,809)	536,809	-
Total transactions with owners, recorded directly in equity	-	-	(536,809)	536,809	-
Balance at 30 June 2020	**2,500**	**34,191**	**1,247,375**	**797,170**	**2,081,236**
Balance at 1 July 2020	**2,500**	**34,191**	**1,247,375**	**797,170**	**2,081,236**
Operating result for the year	-	-	-	110,828	110,828
Other comprehensive income for the year	-	(3,034)	-	-	(3,034)
Total comprehensive income for the year	-	(3,034)	-	110,828	107,794
Transfer to investment fluctuation reserve from accumulated surplus	-	-	111,764	(111,764)	-
Total transactions with owners, recorded directly in equity	-	-	111,764	(111,764)	-
Balance at 30 June 2021	**2,500**	**31,157**	**1,359,139**	**796,234**	**2,189,030**

This statement is to be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the year ended 30 June 2021

	Note	2021 $'000	2020 $'000
Cash flows from operating activities			
Premiums received		1,624,241	1,615,060
Interest received		5,902	11,241
Managed unit trust distributions received		189,300	209,574
Investment management fees paid		(33,259)	(31,755)
GST collected on sales		163,085	161,896
Claims paid		(1,837,881)	(1,736,499)
Claims recoveries received		78,779	73,071
Other operating income received		1,184	1,398
Other operating expenses paid		(32,842)	(41,854)
GST paid on purchases		(28,335)	(27,677)
GST remitted to the ATO		(135,756)	(134,655)
Income tax equivalent paid		16,285	78,701
Net cash provided by operating activities	*F2*	**10,703**	**178,501**
Cash flows from investing activities			
Acquisition of investments		(192,035)	(212,860)
Proceeds from sale of investments		140,555	83,258
Acquisition of intangible assets		-	(403)
Acquisition of property, plant and equipment		(354)	(514)
Net cash used in investing activities		**(51,834)**	**(130,519)**
Cash flows from financing activities			
Principal elements of lease payments		(3)	-
Net cash used in financing activities		**(3)**	**-**
Net (decrease)/increase in cash and cash equivalents		(41,134)	47,982
Cash and cash equivalents at 1 July		135,521	87,539
Cash and cash equivalents at 30 June	*D2(a)*	**94,387**	**135,521**

This statement is to be read in conjunction with the accompanying notes.

Basis of preparation

A1 General information

WorkCover Queensland is a not-for-profit statutory body established by the *Workers' Compensation and Rehabilitation Act 2003* (WCRA). 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.

WorkCover Queensland's Chair, Ms Flavia Gobbo, authorised this report for issue on 24 August 2021.

A2 Compliance with prescribed requirements

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, the *Financial Accountability Act 2009*, the *Financial and Performance Management Standard 2019*, the WCRA and the *Workers' Compensation and Rehabilitation Regulation 2014*.

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

New accounting standards applied for the first time in these financial statements are outlined in note F8.

The preparation of financial statements also requires the use of accounting estimates and management to exercise its judgement in the process of applying accounting policies. 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 D3).

A3 Presentation and measurement

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.

A4 The reporting entity

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 transactions and balances internal to the consolidated entity have been eliminated in full.

WEO is a statutory body established under the WCRA. 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* based on relevant factors including:
- WEO's work performance arrangement with WorkCover Queensland, which requires WEO to provide employees to perform work for WorkCover Queensland. WEO has only this agreement and is unlikely to make another; and
- WorkCover Queensland has been deemed to act as WEO's principal under the delegation of powers, due to the fact that WorkCover Queensland exercises its own discretion and is not subject to specific direction by the Minister regarding WEO.

These financial statements do not separately disclose the financial statements of the parent entity, WorkCover Queensland, due to the immaterial differences between the consolidated and parent entity's financial statements. These differences are disclosed in note F6.

A summary of WEO's financial statements is provided in note F7.

A5 Coronavirus

The global coronavirus (COVID-19) pandemic developed in 2020 has continued to affect economic activity in 2021, which in turn has implications for many businesses for financial reporting purposes. Despite the disruption to Queensland businesses, there has been minimal financial impact on WorkCover.

WorkCover continues to work with policyholders to help alleviate the impact of COVID-19 by providing assistance with the completion of reassessments of premiums owed as well as providing extended payment terms.

Premium

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.

B1 Net premium revenue

	Note	2021 $'000	2020 $'000
Gross written premiums		1,679,417	1,678,551
Discount on premiums		(55,726)	(56,016)
Premium penalties		3,020	5,513
		1,626,711	1,628,048
Movement in unearned premium	*B2*	(988)	(669)
		1,625,723	**1,627,379**

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 written 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.

B2 Unearned premium liability

	Note	2021 $'000	2020 $'000
Balance at 1 July		11,688	11,019
Movement in unearned premium:			
Deferral of premiums on contracts written during the year		12,676	11,369
Earning of premiums written in previous years		(11,688)	(10,700)
	B1	988	669
Balance at 30 June	*B3*	**12,676**	**11,688**
Represented by:			
Current		12,361	11,688
Non-current		315	-
	B3	**12,676**	**11,688**

B3 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	2021 $'000	2020 $'000
Unearned premium liability	*B2*	12,676	11,688
Less present value of expected future cash flows for future claims:			
Discounted central estimate		9,446	8,984
Risk margin		1,185	1,268
		10,631	10,252
Surplus		**2,045**	**1,436**
Risk margin		12.5%	14.1%
Probability of adequacy		75%	75%

As the test has identified a surplus (2020: surplus), no further liability has been recognised.

B4 Insurance risk

(a) Terms and conditions of insurance contracts

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

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 determine 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 WCRA.

The WCRA 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 to reduce 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 compulsory workers' compensation insurance to most Queensland businesses who employ workers 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 investment related liabilities is disclosed in note D5(b).

The liquidity risk of outstanding claims held by WorkCover, representing the maturity of outstanding claims liabilities calculated based on discounted cash flows relating to the liabilities, at reporting date is as follows:

	Note	2021 $'000	2020 $'000
1 year or less	*C2(a)*	1,505,885	1,394,484
1 - 3 years		1,524,337	1,368,431
3 - 5 years		465,824	400,482
More than 5 years		402,154	323,715
	C2(a)	**3,898,200**	**3,487,112**

Claims

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	2021 $'000 Current year	2021 $'000 Prior years	2021 $'000 Total	2020 $'000 Current year	2020 $'000 Prior years	2020 $'000 Total
Gross claims expense:							
Undiscounted claims expense		2,276,154	98,723	2,374,877	2,054,836	151,832	2,206,668
Discount		(73,132)	(43,984)	(117,116)	(34,895)	33,229	(1,666)
	C2(a)	2,203,022	54,739	2,257,761	2,019,941	185,061	2,205,002
Claims recoveries revenue:							
Undiscounted claims recoveries revenue		(63,206)	(51,913)	(115,119)	(50,949)	(10,009)	(60,958)
Discount		811	(406)	405	527	(2,785)	(2,258)
	C2(b)	(62,395)	(52,319)	(114,714)	(50,422)	(12,794)	(63,216)
		2,140,627	**2,420**	**2,143,047**	**1,969,519**	**172,267**	**2,141,786**

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

There was an increase in net claims incurred for injury years prior to 2021 before the unwinding of one year discounting on future payments. This increase is largely driven by higher than expected common law entitled claims and corresponding changes in valuation assumptions as well as higher than expected settlement numbers for permanent impairment benefits. This was partially offset by higher than expected recoveries and corresponding changes in valuation assumptions.

Reconciliation of net claims incurred

	Note	2021 $'000	2020 $'000
Gross claims incurred:			
Statutory claims paid		1,156,444	1,110,217
Common law claims paid		486,573	432,463
Claims handling expenses	*E1*	202,212	193,850
Net self-insurance payments		1,444	4,837
	C2(a)	1,846,673	1,741,367
Claims recoveries:			
Statutory claims recovered		(77,371)	(64,483)
Common law claims recovered		(3,343)	(1,951)
	C2(b)	(80,714)	(66,434)
Movement in net outstanding claims liability:			
Gross claims liability		411,088	463,635
Recoveries receivable		(34,000)	3,218
		377,088	466,853
		2,143,047	**2,141,786**

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 WCRA, 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, financial guarantees given by an insurance company that is an approved security provider and cash deposits of $466.790 million (2020: $468.475 million) are held by the Workers' Compensation Regulator on behalf of self-insurers. If a self-insurer fails its obligations under the WCRA, 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	2021 $'000	2020 $'000
Expected future claims payments		3,513,682	3,046,194
Claims handling expenses		291,359	244,071
		3,805,041	3,290,265
Less discount to present value		(228,711)	(120,163)
Discounted central estimate		3,576,330	3,170,102
Risk margin		321,870	317,010
	B4(d)	**3,898,200**	**3,487,112**
Represented by:			
Current	*B4(d)*	1,505,885	1,394,484
Non-current		2,392,315	2,092,628
	B4(d)	**3,898,200**	**3,487,112**
Reconciliation of movement during the year:			
Balance at 1 July		3,487,112	3,023,477
Provisions made	*C1*	2,203,022	2,019,941
Payments made	*C1*	(1,846,673)	(1,741,367)
Effect of changes in assumptions to prior year provisions	*C1*	54,739	185,061
Balance at 30 June	*B4(d)*	**3,898,200**	**3,487,112**

This liability is calculated by an independent actuary, PricewaterhouseCoopers Consulting (Australia) Pty Ltd (the Actuary), in accordance with the WCRA 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, the WCRA states that the definition of the date of injury for a latent onset injury, 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	2021 $'000	2020 $'000
Expected future recoveries		180,910	147,989
Less discount to present value		(1,526)	(1,144)
Discounted central estimate		179,384	146,845
Risk margin		16,145	14,684
		195,529	**161,529**
Represented by:			
Current		60,369	51,467
Non-current		135,160	110,062
		195,529	**161,529**
Reconciliation of movement during the year:			
Balance at 1 July		161,529	164,747
Recoveries recognised	*C1*	62,395	50,422
Recoveries received	*C1*	(80,714)	(66,434)
Effect of changes in assumptions to prior year provisions	*C1*	52,319	12,794
Balance at 30 June		**195,529**	**161,529**

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 WCRA and AASB 1023.

(c) Claims development

The development of net undiscounted outstanding claims for each underwriting year relative to the ultimate expected claims is as follows:

	Injury year										
	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	2021 $'000	Total $'000
Estimate of ultimate claims cost:											
At end of injury year	1,270,052	1,217,658	1,081,408	1,046,117	1,339,208	1,407,682	1,445,470	1,435,652	1,590,785	1,777,829	
One year later	1,162,090	1,183,786	1,079,142	1,119,682	1,206,767	1,268,765	1,302,500	1,512,595	1,615,787		
Two years later	1,158,901	1,144,077	1,036,739	1,025,004	1,084,722	1,186,315	1,325,147	1,560,243			
Three years later	1,119,311	1,096,225	992,802	972,577	1,064,268	1,213,882	1,316,980				
Four years later	1,087,829	1,092,614	993,291	958,846	1,063,510	1,251,196					
Five years later	1,083,788	1,092,539	990,576	961,472	1,078,682						
Six years later	1,085,964	1,095,397	992,872	965,637							
Seven years later	1,088,932	1,090,962	996,883								
Eight years later	1,086,697	1,091,724									
Nine years later	1,086,953										
Current estimate of cumulative claims cost	1,086,953	1,091,724	996,883	965,637	1,078,682	1,251,196	1,316,980	1,560,243	1,615,787	1,777,829	12,741,914
Cumulative payments	1,077,267	1,078,948	980,071	941,156	1,031,067	1,106,156	1,096,181	1,101,999	860,096	463,397	9,736,338
Undiscounted outstanding claims	9,686	12,776	16,812	24,481	47,615	145,040	220,799	458,244	755,691	1,314,432	3,005,576
Undiscounted outstanding claims for prior injury years											327,196
Claims handling expenses											291,359
Central estimate of outstanding claims											3,624,131
Discount											(227,185)
Discounted central estimate											3,396,946
Risk margin											305,725
Net outstanding claims liability											**3,702,671**

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 the final outcome will be different from the original liability established.

Key assumptions

The key actuarial assumptions made in determining the net outstanding claims liability and the processes used to determine the assumptions are as follows:

Variable	2021	2020
Ultimate claim numbers per annum		
Statutory claims	70,615	65,448
NIIS	14	6
Common law	2,963	2,689
Silicosis	24	43
Ultimate claims size		
Statutory claims	$16,570	$16,231
NIIS	$2,430,403	$2,814,997
Common law	$175,148	$170,824
Silicosis	$1,252,331	$1,204,346
Average weighted term to settlement from claims reporting date		
Gross outstanding claims	2.8 years	2.6 years
Recoveries receivable on outstanding claims	2.1 years	2.1 years
Claims handling expense rate		
Statutory claims	20.0%	20.0%
Common law and latent	1.0%	1.0%

Variable	2021	2020
Inflation rates[1] (average weekly earnings)		
Gross outstanding claims:		
Not later than one year	2.3%	1.3%
Later than one year	2.5%	2.3%
Recoveries receivable on outstanding claims:		
Not later than one year	2.3%	1.3%
Later than one year	2.5%	2.3%
Discount rates		
Gross outstanding claims:		
Not later than one year	0.0%	0.2%
Later than one year	1.8%	1.3%
Recoveries receivable on outstanding claims:		
Not later than one year	0.0%	0.2%
Later than one year	0.5%	0.4%
Risk margin	9.0%	10.0%

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

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 latent onset 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 latent onset 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 latent onset related claims. Silicosis, a latent onset related claim, and claims related to the National Injury Insurance Scheme (NIIS) have been included into the key assumptions disclosure as these emerging classifications include assumptions that have a significant impact on the outstanding claims liability.

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 latent onset 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. For the purposes of this calculation, latent comprises of silicosis and asbestos related claims costs.

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 latent onset 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% (2020: 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 2021 $'000	2020 $'000
Ultimate claim numbers per annum - latest year	+10%	-111,037	-98,868
	-10%	+111,037	+98,868
Ultimate claims size - latest year	+10%	-111,037	-98,868
	-10%	+111,037	+98,868
Average weighted term to settlement - years	+0.5	-26,458	-18,825
	-0.5	+26,048	+18,549
Claims handling expense rate	+1%	-24,066	-21,425
	-1%	+24,066	+21,425

Variable	Movement	Impact on operating result and equity 2021 $'000	2020 $'000
Inflation rates - net claims cost:			
Not later than one year	+1%	-11,186	-14,041
	-1%	+11,198	+14,054
Later than one year	+1%	-43,095	-40,018
	-1%	+36,757	+35,176
Discount rates - net claims cost:			
Not later than one year	+1%	+12,660	+18,284
	-1%	-12,900	-18,629
Later than one year	+1%	+39,700	+41,578
	-1%	-47,261	-48,022
Risk margin	+1%	-23,898	-21,049
	-1%	+23,898	+21,049

Financial instruments

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.

D1 Investment income/(loss)

	2021 $'000	2020 $'000
Financial assets at amortised cost:		
Interest income	2,996	7,625
	2,996	7,625
Financial assets or liabilities at fair value through profit or loss (FVPL):		
Designated upon initial recognition:		
Interest income	2,846	3,504
Managed unit trust distributions	255,804	195,873
Gain/(loss) on financial instruments	357,541	(259,247)
Other income	-	59
	616,191	(59,811)
Mandatorily measured:		
Gain/(loss) on financial instruments	118,745	(8,069)
	118,745	(8,069)
Total investment income/(loss)	**737,932**	**(60,255)**
Investment expenses	(33,527)	(33,171)
Net investment income/(loss)	**704,405**	**(93,426)**

Interest income and managed unit trust distributions are recognised in the consolidated statement of comprehensive income when earned. Changes in the fair value of investments are recognised as gains or losses in the consolidated statement of comprehensive income as they occur.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. Refer to note D5(a) for credit risk disclosure.

WorkCover holds a diverse portfolio of investments with QIC Limited (QIC) and has experienced a recovery in returns this financial year after significant shifts in the market value of the financial instruments throughout the prior financial year as a result of COVID-19. The final rate of return net of fees for the QIC portfolio for this financial year is 13.76% (2020: -1.94%). Refer to note D5(c) for the cash and cash equivalents interest rates.

Investment management fees are recognised in the consolidated statement of comprehensive income when incurred.

Direct investment management expenses are calculated as a percentage of the balance under management which were 0.6% for QIC and 0.15% for Queensland Treasury Corporation (QTC) for 2021 (2020: 0.6% and 0.15% respectively). Other investment fees paid to QIC include custody fees and brokerage fees.

D2 Categories of financial instruments

	Note	2021 $'000 Current	2021 $'000 Non-current	2021 $'000 Total	2020 $'000 Current	2020 $'000 Non-current	2020 $'000 Total
Financial assets							
Financial assets at amortised cost:							
Cash and cash equivalents	*D2(a)*	94,387	-	94,387	135,521	-	135,521
Receivables	*D2(b)*	32,536	2,400	34,936	34,391	2,432	36,823
Financial assets at FVPL:							
Investment assets	*D2(d)*	1,466,846	4,267,682	5,734,528	1,706,210	3,850,081	5,556,291
		1,593,769	**4,270,082**	**5,863,851**	**1,876,122**	**3,852,513**	**5,728,635**
Financial liabilities							
Financial liabilities at amortised cost:							
Payables	*D2(c)*	18,063	-	18,063	21,329	-	21,329
Financial liabilities at FVPL:							
Investment related liabilities	*D2(d)*	21,330	6,740	28,070	363,193	80,749	443,942
		39,393	**6,740**	**46,133**	**384,522**	**80,749**	**465,271**

(a) Cash and cash equivalents

	2021 $'000	2020 $'000
Cash at bank	93,437	97,165
QTC Capital Guaranteed Cash Fund	950	38,356
	94,387	**135,521**

Cash and cash equivalents are measured at amortised cost and include cash deposits held with a financial institution, and a capital guaranteed investment held with QTC that is subject to a low risk of change in value and is readily convertible to cash on hand at WorkCover's option. Cash and cash equivalents exclude those classified and held as investments within the QIC investment portfolio. Further, the cashflow statement reflects actual cashflow movements by WorkCover for operational cashflow management and not the balance or short-term movements within the underlying investment portfolio with QIC. Refer to note D2(d) and note D3 for more information about cash and cash equivalents amounts held for the purpose of investment strategy.

(b) Receivables

	Note	2021 $'000	2020 $'000
Premiums and related penalties		20,504	25,623
Claims and related penalties		17,783	18,297
Unclosed business		5,230	5,745
Other debtors		1,419	1,558
		44,936	51,223
Less allowance for impairment	*D5(a)*	(10,000)	(14,400)
		34,936	**36,823**

Receivables are recognised initially at fair value and subsequently measured at amortised cost. Receivables are not discounted as the effect of discounting is immaterial. Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value. For the non-current receivables, the fair values are also not significantly different to their carrying amounts. Receivables exclude those classified and held as investments within the QIC investment portfolio. Refer to note D2(d) and note D3 for more information.

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. Refer to note D5(a) for further information.

(c) Payables

	2021 $'000	2020 $'000
Trade creditors	9,173	10,708
Premiums in credit	1,487	1,466
Claims creditors	3,590	4,149
	14,250	16,323
GST receivable	(2,683)	(1,704)
GST payable	6,496	6,710
Net GST payable	3,813	5,006
	18,063	**21,329**

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 upon adjustment for 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. Payables exclude those classified and held as investments within the QIC investment portfolio. Refer to note D2(d) and note D3 for more information.

The carrying amounts of payables are considered to be the same as their fair values due to their short-term nature.

(d) Investments

	2021 $'000			2020 $'000		
	Current	Non-current	Total	Current	Non-current	Total
Financial assets at FVPL						
Designated upon initial recognition:						
Cash and cash equivalents	43,342	-	43,342	51,033	-	51,033
Cash collateral and margin accounts	1,669	9,693	11,362	11,403	12,030	23,433
Receivables	129,814	-	129,814	54,292	-	54,292
Managed unit trusts	1,283,443	4,242,164	5,525,607	1,517,881	3,468,442	4,986,323
Debt securities	-	-	-	-	334,115	334,115
Mandatorily measured:						
Derivatives held for trading	8,578	15,825	24,403	71,601	35,494	107,095
	1,466,846	**4,267,682**	**5,734,528**	**1,706,210**	**3,850,081**	**5,556,291**
Financial liabilities at FVPL						
Designated upon initial recognition:						
Cash and cash equivalents	2,149	-	2,149	3,464	-	3,464
Cash collateral and margin accounts	-	1,248	1,248	-	80,555	80,555
Payables	1	-	1	301	-	301
Repurchase agreements	-	-	-	331,093	-	331,093
Mandatorily measured:						
Derivatives held for trading	19,180	5,492	24,672	28,335	194	28,529
	21,330	**6,740**	**28,070**	**363,193**	**80,749**	**443,942**

WorkCover classifies and designates all investments at FVPL on the basis that the investments are managed as a portfolio based on their fair values, and have their performance evaluated in accordance with documented risk management and investment strategies. Initial recognition is at cost in the consolidated statement of financial position, with attributable transaction costs expensed as incurred. Subsequent measurement is at fair value with any resultant realised and unrealised gains or losses recognised in the consolidated statement of comprehensive income. Purchases and sales of financial assets are recognised on the settlement date.

As part of its investment strategy, WorkCover engages QIC to actively manage its investment portfolio and to ensure that sufficient cash and liquid assets are on hand to meet the expected future cash flows arising from insurance contract liabilities. Investments that are required to meet current insurance contract liabilities and current investment related liabilities are classified as current investments in the consolidated statement of financial position. While this classification policy may result in a reported working capital deficit, included in non-current investments are liquid investments which QIC uses to ensure it is able to meet WorkCover's operating requirements.

There were no significant changes to the overall investment strategy and processes during the current financial year (2020: no significant changes). However, notwithstanding that some of WorkCover's investment instruments are complex and interrelated, for greater transparency, WorkCover has restated the investment disclosures to provide a breakdown of the instruments held by WorkCover's custodian. These instruments consist of cash and cash equivalents, cash collateral and margin accounts, receivables, payables, derivatives, debt securities and repurchase agreements. Under the direction of QIC, WorkCover's custodian actively trades and holds investment assets and liabilities on behalf of WorkCover. Further details of financial instruments and the methods and assumptions used to estimate fair value are included in note D3.

D3 Fair value measurements

There are three levels of fair value:

- level 1: represents fair value measurements that reflect unadjusted quoted market prices in active markets for identical assets and liabilities;
- level 2: represents fair value measurements that are substantially derived from inputs (other than quoted prices included within level 1) that are observable, either directly or indirectly; or
- level 3: represents fair value measurements that are substantially derived from unobservable inputs.

The fair value levels of WorkCover's financial assets and liabilities are as follows:

	Note	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2021					
Financial assets					
QTC Capital Guaranteed Cash Fund	*D2(a)*	-	950	-	950
Investment assets:					
Cash and cash equivalents	*D2(d)*	43,342	-	-	43,342
Cash collateral and margin accounts	*D2(d)*	11,362	-	-	11,362
Receivables	*D2(d)*	5,916	119,150	4,748	129,814
Managed unit trusts	*D2(d)*	-	3,907,316	1,618,291	5,525,607
Debt securities	*D2(d)*	-	-	-	-
Derivatives	*D2(d)*	15,825	8,578	-	24,403
		76,445	**4,035,994**	**1,623,039**	**5,735,478**
Financial liabilities					
Investment related liabilities:					
Cash and cash equivalents	*D2(d)*	2,149	-	-	2,149
Cash collateral and margin accounts	*D2(d)*	1,248	-	-	1,248
Payables	*D2(d)*	1	-	-	1
Repurchase agreements	*D2(d)*	-	-	-	-
Derivatives	*D2(d)*	7,032	17,640	-	24,672
	D2(d)	**10,430**	**17,640**	**-**	**28,070**
2020					
Financial assets					
QTC Capital Guaranteed Cash Fund	*D2(a)*	-	38,356	-	38,356
Investment assets:					
Cash and cash equivalents	*D2(d)*	51,033	-	-	51,033
Cash collateral and margin accounts	*D2(d)*	23,433	-	-	23,433
Receivables	*D2(d)*	5	27,635	26,652	54,292
Managed unit trusts	*D2(d)*	-	3,575,271	1,411,052	4,986,323
Debt securities	*D2(d)*	-	334,115	-	334,115
Derivatives	*D2(d)*	7,328	99,767	-	107,095
		81,799	**4,075,144**	**1,437,704**	**5,594,647**
Financial liabilities					
Investment related liabilities:					
Cash and cash equivalents	*D2(d)*	3,464	-	-	3,464
Cash collateral and margin accounts	*D2(d)*	80,555	-	-	80,555
Payables	*D2(d)*	17	284	-	301
Repurchase agreements	*D2(d)*	-	331,093	-	331,093
Derivatives	*D2(d)*	2,994	25,535	-	28,529
	D2(d)	**87,030**	**356,912**	**-**	**443,942**

There have been no significant transfers in either direction between level 1, level 2 and level 3 during this financial year (2020: no significant transfers in either direction between level 1, level 2 and level 3).

QTC Capital Guaranteed Cash Fund

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

Investment assets

Cash and cash equivalents

Investment related cash and cash equivalents held by WorkCover's custodian consist primarily of deposits with banks and highly liquid financial assets with maturity dates less than three months, however, exclude units held in cash fund unit trusts. Cash equivalents are assets that are subject to an insignificant risk in the change in fair value and are used to manage short term commitments. Amounts classified as cash and cash equivalents are recorded at face value and are categorised as Level 1.

Cash collateral and margin accounts

Cash collateral and margin accounts are held by the custodian on WorkCover's behalf, and under the direction of QIC.

Cash collateral refers to amounts held as security against future counterparty performance and in the event of a default or termination of derivative contracts. A collateral amount is usually made up of the net economic exposure of the parties to each other by calculating the market-to-market value of all derivatives transactions. More collateral may be required to be transferred as the value of the obligations and/or the value of the collateral fluctuates. Collateral may also be returned to the provider or released from the collateral arrangement in instances where the provider performs its obligations, excess collateral has been transferred, the value of the collateralised obligations changes or the collateral provider substitutes alternative eligible collateral. These instruments are recorded at face value and categorised as Level 1.

Margin accounts represent cash held with a broker or central counterparties against open derivative contracts.

Receivables/payables

Investment related receivables/payables include distributions receivable from unit trusts, interest income/expense, GST obligations, investment expenses, etc. Due to the separation of investments receivable/payable from the underlying financial instruments, there has been an immaterial change in the prior year asset and liability amounts. Due to the short-term nature of receivables, their carrying value is taken to be their fair value. Where unable to be confirmed as level 1, the fair value level is categorised based on the underlying financial instrument.

Managed unit trusts

Managed unit trusts are unlisted managed unit trusts held with QIC. Fair value for managed unit trusts is based on the unit price of the relevant trust at the reporting date. 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. Some of the unlisted managed unit trusts are considered to be level 3 where the underlying assets held by the unit trusts are measured at fair value using significant unobservable inputs and the units held by WorkCover are not actively traded.

Derivatives

QIC utilises derivative financial instruments as part of WorkCover's approved investment strategy. Derivative instrument types used include equity futures, bond futures, forward currency contracts and swaps. The purpose of these derivatives is to ensure liquidity, as well as offset (hedge) movements in the managed unit trusts in identified risk areas (such as foreign exchange risks) 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. WorkCover has hedging relationships between most derivatives and other financial instruments, but none that are subject to hedge accounting.

WorkCover's derivative financial instruments held for trading 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. For derivative instruments that fall into level 2, the valuation technique used is a market comparison technique primarily based on exchange data for similar derivative instruments.

Repurchase agreements

QIC utilises repurchase agreements as a way to achieve particular exposures in debt securities. A repurchase agreement is a short-term loan where both parties agree to the sale and future repurchase of assets within a specified contract period and at a price that includes an interest payment. WorkCover categorises these investments as Level 2.

Debt securities

The fair value of debt securities is established by using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves. Adjustments are made to the valuations when necessary to recognise differences in a particular instrument's terms or credit worthiness. To the extent that the significant inputs are observable, WorkCover categorises these investments as Level 2.

Reconciliation of level 3 fair value measurement

A reconciliation of the movement in the fair value of financial instruments categorised in level 3 between the beginning and end of this financial year is as follows:

	2021 $'000	2020 $'000
Balance at 1 July	1,437,704	1,455,983
Acquisitions	107,364	183,728
Disposals	-	(93,854)
Gains/(losses) recognised in operating result[1]	77,971	(108,153)
Balance at 30 June	**1,623,039**	**1,437,704**
[1]Includes unrealised gains/(losses) recognised in operating result attributable to balances held at the end of the reporting period	99,876	(122,744)

Significant inputs and assumptions and estimation uncertainty

The valuation of WorkCover's investments, including derivatives, is in accordance with QIC's Investment Valuations Policy. The significant unobservable valuation inputs and their potential impact on the valuation outcome for assets other than property, plant and equipment measured at fair value and classified as level 3 under the fair value hierarchy are as follows:

Description	Fair value at 30 June 2021 $'000	Valuation approach	Key unobservable inputs	Impact of alternative amounts for significant level 3 inputs
Managed unit trusts	1,623,039	Independent valuation by investment manager	Valuation of underlying investments of the unit trusts	An increase in the value of the underlying investments of the unit trusts would result in higher fair values. Reductions would result in lower fair values.

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 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.

D4 Offsetting financial assets and financial liabilities

WorkCover's agreements with derivative counterparties are consistent with the International Swaps and Derivatives Association (ISDA) Master Agreements. As such, 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.

As well as this, under the terms of ISDA Master Agreements, when certain credit events occur the net position owing or 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 of these amounts, they have not been offset in the consolidated statement of financial position.

The gross and net positions of financial assets and financial liabilities that have been offset in the consolidated statement of financial position and the amounts subject to master netting arrangements are as follows:

	Note	Effects of offsetting on the consolidated statement of financial position			Related amounts not offset		
		Gross amounts $'000	Gross amounts set-off $'000	Net amounts of financial instruments $'000	Amounts subject to master netting agreements $'000	Financial Instrument collateral $'000	Net amounts $'000
2021							
Derivative assets	*D2(d)*	2,600,162	(2,575,759)	24,403	(5,685)	(1,248)	17,470
Derivative liabilities	*D2(d)*	(2,600,431)	2,575,759	(24,672)	5,685	9,691	(9,296)
		(269)	**-**	**(269)**	**-**	**8,443**	**8,174**
2020							
Derivative assets	*D2(d)*	3,522,619	(3,415,524)	107,095	(10,840)	(80,555)	15,700
Derivative liabilities	*D2(d)*	(3,444,053)	3,415,524	(28,529)	10,840	12,073	(5,616)
		78,566	**-**	**78,566**	**-**	**(68,482)**	**10,084**

D5 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;
- the majority of transactions are undertaken on recognised derivative trading exchanges where practical; and
- collateral arrangements are implemented, where possible, to reduce WorkCover's exposure in derivative financial instruments.

Cash and cash equivalents

Cash and cash equivalents are held with bank and financial institution counterparties. Impairment on cash and cash equivalents is measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The QTC Capital Guaranteed Cash Fund invests with a wide variety of high credit rated counterparties and all deposits made by WorkCover are capital guaranteed. WorkCover considers the credit risk in both the QTC Capital Guaranteed Cash Fund and cash at bank are low based on the credit ratings of the counterparties.

No impairment allowances were recognised for cash and cash equivalents as at 30 June 2021 (2020: no impairment allowance recognised).

Receivables

A large proportion of receivables at the end of the reporting period relates to compliance/enforcement activity which provides the most significant concentration of credit risk.

Receivables are closely monitored for collectability. WorkCover considers the probability of default upon initial recognition and on an ongoing basis throughout each reporting period. A debt is considered to be in default when the debtor fails to make contractual payments when they fall due. Policyholder accounts that fall overdue render an employer uninsured and liable for any claims costs should they incur a claim against their policy. Various actions including subsequent legal recovery may occur as debts begin to age.

WorkCover does not require collateral in respect of trade and other debtors. If collateral is held as part of a legal recovery, it is infrequent and the amounts immaterial. When appropriate, WorkCover renegotiates debt terms on outstanding debts. Receivables that have been renegotiated are accounted for based on the renegotiated terms and the credit risk is reassessed as required.

To assess whether there is a significant increase in credit risk, WorkCover compares the risk of a default occurring on the receivable as at the reporting date with the risk of default as at the date of initial recognition. A significant increase in credit risk occurs when a debtor is more than 30 days past due in making a contractual payment.

Receivables are considered for write-off throughout the reporting period based on their 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. Evidence that a debt should be written-off includes the following observable data:

- significant financial difficulty of the debtor;
- it is probable that the debtor will enter bankruptcy, insolvency or other financial reorganisation;
- all other reasonable action, including legal action and renegotiated debt terms where appropriate, to collect the outstanding amount has been undertaken and it is deemed unlikely that the amount will be recovered.

Amounts written off during this financial year that were outstanding at the beginning of this financial year are written off against the allowance. However if the amount exceeds the loss allowance, the excess is recognised as an impairment loss in the consolidated statement of comprehensive income, along with amounts written off that were raised during the reporting period. For the total impairment loss, refer to bad debts expense in note E1.

Allowance for impairment

Impairment and provisioning for impairment of receivables is a continuous process that is regularly updated based on WorkCover's internal framework. WorkCover measures the expected credit losses using the lifetime expected loss model for all receivables except other debtors, which is determined as 12 months expected credit losses. Throughout and at the end of the reporting period, WorkCover assessed whether there was objective evidence that a receivable (individual) or group of receivables (collective basis depending on shared credit risk characteristics) was impaired or likely to be impaired. Factors considered during these reviews include historical loss experience, current economic conditions, performance trends within specific portfolio segments, and any other pertinent information.

WorkCover then uses provision matrices to evaluate and measure the expected credit losses on receivables. Loss rates are calculated separately for groupings of debt (debt types, stage of debt cycle and debt aging) and reflect historical observed default rates experienced during the last 6 years preceding 30 June 2021 for each group. The historical default rates are then adjusted by reasonable and supportable forward-looking information for expected changes in macroeconomic indicators that affect the future recovery of those receivables.

For WorkCover, a change in the economic growth, Queensland employment landscape and compliance/enforcement activity are determined to be the most relevant forward-looking indicators for receivables. No other significant changes to estimate assumptions or techniques were made during this financial year.

WorkCover's exposure to credit risk and expected credit losses of receivables are as follows:

		2021			2020		
	Note	Gross receivables[1]	Loss rate	Expected credit losses	Gross receivables[1]	Loss rate	Expected credit losses
Ageing		**$'000**	**%**	**$'000**	**$'000**	**%**	**$'000**
Current		29,090	3.32%	966	31,874	7.90%	2,518
1-30 days overdue		4,019	15.00%	603	3,466	15.74%	545
31-60 days overdue		1,084	29.38%	318	736	39.20%	288
61-90 days overdue		1,575	56.29%	887	809	63.50%	514
90+ days overdue		9,168	78.82%	7,226	14,338	73.48%	10,535
Total	*D2(b)*	**44,936**		**10,000**	**51,223**		**14,400**

[1]Includes receivables of $17.256 million (2020: $16.889 million) with no loss allowance recorded (eg. claims recoveries, premiums and other receivables deemed to have immaterial credit risk).

The movement in the allowance for impairment in respect of receivables during the financial year is as follows:

	Note	2021 $'000	2020 $'000
Allowance for impairment of receivables during the year:			
Balance at 1 July		14,400	8,500
Net debts written off		(7,246)	(2,910)
Allowance made		2,846	8,810
Balance at 30 June	*D2(b)*	**10,000**	**14,400**
Individual impairment assessment		7,819	9,596
Collective impairment assessment		2,181	4,804
	D2(b)	**10,000**	**14,400**

Other debtors are subject to the impairment requirements and the identified impairment loss was immaterial.

(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.

WorkCover's liquidity risk is 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. WorkCover's liquidity risk is as follows:

	Note	0 - 3 months $'000	3 - 12 months $'000	1 - 3 years $'000	More than 3 years $'000	Total $'000
2021						
Financial liabilities						
Payables	*D2(c)*	18,063	-	-	-	18,063
Investment related liabilities:						
Cash and cash equivalents	*D2(d)*	2,149	-	-	-	2,149
Cash collateral and margin accounts	*D2(d)*	-	-	-	1,248	1,248
Payables	*D2(d)*	1	-	-	-	1
Repurchase agreements	*D2(d)*	-	-	-	-	-
Derivatives	*D2(d)*	19,180	-	2,273	3,219	24,672
		39,393	**-**	**2,273**	**4,467**	**46,133**
2020						
Financial liabilities						
Payables	*D2(c)*	21,329	-	-	-	21,329
Investment related liabilities:						
Cash and cash equivalents	*D2(d)*	3,464	-	-	-	3,464
Cash collateral and margin accounts	*D2(d)*	-	-	-	80,555	80,555
Payables	*D2(d)*	301	-	-	-	301
Repurchase agreements	*D2(d)*	331,093	-	-	-	331,093
Derivatives	*D2(d)*	28,335	-	194	-	28,529
		384,522	**-**	**194**	**80,555**	**465,271**

(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 2020.

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. WorkCover holds a portfolio of mainly forward exchange contracts within the foreign currency overlay to help achieve particular exposures, as well as hedge the foreign exchange risks of the investments in managed unit trusts and other non-hedge derivatives held by WorkCover. The currency hedging policy is updated as required. The current target risk exposure to foreign currency is 16.0 percent (2020: 12.5 percent). WorkCover's exposure to foreign currency risk at financial year end was 16.0 percent (2020: 15.4 percent) and a breakdown is as follows:

	US dollar	Euro	British pound	Japanese yen	Other	Total
2021			**Currency (AUD $'000)**			
International equities	632,562	107,296	44,434	74,186	267,697	1,126,175
Infrastructure	66,673	-	12,466	-	14,601	93,740
Alternatives	314,280	11,993	3,452	-	101	329,826
Private equity	230,826	74,267	25,243	-	2,613	332,949
Fixed interest	17,076	16,645	-	-	-	33,721
Cash	606	(7,906)	3,478	811	2,878	(133)
Foreign currency derivatives	(715,238)	(130,926)	(54,928)	(21,336)	(83,064)	(1,005,492)
	546,785	**71,369**	**34,145**	**53,661**	**204,826**	**910,786**
2020			**Currency (AUD $'000)**			
International equities	558,076	85,767	37,586	67,774	202,333	951,536
Infrastructure	66,805	-	11,172	-	13,483	91,460
Alternatives	368,418	3,212	5,028	-	511	377,169
Private equity	137,218	54,982	5,648	-	-	197,848
Fixed interest	11,409	12,031	-	-	-	23,440
Cash	8,352	9,410	7,522	1,927	3,295	30,506
Foreign currency derivatives	(694,034)	(94,796)	(35,427)	(15,132)	(59,904)	(899,293)
	456,244	**70,606**	**31,529**	**54,569**	**159,718**	**772,666**

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	
		2021 $'000	2020 $'000
Foreign currency derivatives	+10%	+63,986	+57,228
	-10%	-70,384	-62,950
Investments (excluding foreign currency derivatives)	+10%	-121,945	-106,397
	-10%	+134,139	+117,037
Total	+10%	-57,959	-49,169
	-10%	+63,755	+54,087

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.

WorkCover's exposure to interest rate risk and the effective weighted average interest rates on financial instruments are as follows:

	Note	Interest rate	Floating interest rate	Fixed interest maturing in			Non-interest bearing	Total
				1 year or less	1 - 5 years	More than 5 years		
		%	$'000	$'000	$'000	$'000	$'000	$'000
2021								
Financial assets								
Cash and cash equivalents	*D2(a)*	Note [1]	94,387	-	-	-	-	94,387
Receivables	*D2(b)*	11.25 [2]	-	-	-	-	34,936	34,936
Investments:		Note [3]						
Cash and cash equivalents			43,342	-	-	-	-	43,342
Cash collateral and margin accounts			1,671	-	-	9,691	-	11,362
Receivables			-	-	-	-	129,814	129,814
Managed unit trusts			-	-	-	-	5,525,607	5,525,607
Debt securities			-	-	-	-	-	-
Derivatives			-	2,435	-	-	21,968	24,403
Total investments	*D2(d)*	Note [3]	45,013	2,435	-	9,691	5,677,389	5,734,528
	D2		**139,400**	**2,435**	**-**	**9,691**	**5,712,325**	**5,863,851**
Financial liabilities								
Payables	*D2(c)*		-	-	-	-	18,063	18,063
Investment related liabilities								
Cash and cash equivalents			2,149	-	-	-	-	2,149
Cash collateral and margin accounts			-	-	-	1,248	-	1,248
Payables			-	-	-	-	1	1
Repurchase agreements			-	-	-	-	-	-
Derivatives			-	905	-	-	23,767	24,672
Total investments	*D2(d)*	Note [3]	2,149	905	-	1,248	23,768	28,070
	D2		**2,149**	**905**	**-**	**1,248**	**41,831**	**46,133**
2020								
Financial assets								
Cash and cash equivalents	*D2(a)*	Note [1]	135,521	-	-	-	-	135,521
Receivables	*D2(b)*	11.25 [2]	-	-	-	-	36,823	36,823
Investments:								
Cash and cash equivalents			51,033	-	-	-	-	51,033
Cash collateral and margin accounts			23,433	-	-	-	-	23,433
Receivables			-	-	-	-	54,292	54,292
Managed unit trusts			-	-	-	-	4,986,323	4,986,323
Debt securities			-	-	-	334,115	-	334,115
Derivatives			-	3,393	-	-	103,702	107,095
Total investments	*D2(d)*	Note [3]	74,466	3,393	-	334,115	5,144,317	5,556,291
	D2		**209,987**	**3,393**	**-**	**334,115**	**5,181,140**	**5,728,635**
Financial liabilities								
Payables	*D2(c)*		-	-	-	-	21,329	21,329
Investment related liabilities								
Cash and cash equivalents			3,464	-	-	-	-	3,464
Cash collateral and margin accounts			80,555	-	-	-	-	80,555
Payables			-	-	-	-	301	301
Repurchase agreements			-	-	-	-	331,093	331,093
Derivatives			-	1,074	-	-	27,455	28,529
Total investments	*D2(d)*	Note [3]	84,019	1,074	-	-	358,849	443,942
	D2		**84,019**	**1,074**	**-**	**-**	**380,178**	**465,271**

[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 0.65% (2020: 1.26%) and 0.76% (2020: 1.60%) 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	
		2021 $'000	2020 $'000
QTC Capital Guaranteed Cash Fund	+100	+7	+268
	-100	-7	-268
Investments	+100	+13,064	+12,059
	-100	-13,064	-12,059

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	2021 $'000	2020 $'000
Australian equities	679,620	633,161
International equities	1,236,560	1,166,472
Private capital	374,250	278,960
Direct property	306,810	299,420
Direct infrastructure	424,360	341,561
Insurance	251,850	301,701
Alternatives	382,750	378,351
Global fixed interest	1,250,049	1,206,862
Cash	780,030	505,861
Private debt	20,180	-
	5,706,459	**5,112,349**

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	
		2021 $'000	2020 $'000
Equities prices	+1%	+24,540	+24,212
	-1%	-22,098	-21,786

Supporting our business

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.

E1 Underwriting expenses

	Note	2021 $'000	2020 $'000
Employee expenses	*E2(a)*	96,828	95,428
Contractors		5,147	6,762
Consultancy fees		396	124
Other administration expenses		12,675	14,638
Depreciation and amortisation	*F2*	3,500	3,612
Net (gain)/loss on disposal of property, plant and equipment and intangible assets	*F2*	-	25
Transfer to allowance for impairment of receivables		2,846	8,810
Bad debts expense		4,846	5,408
Workers' Compensation Regulator expenses		40,534	38,646
Workplace Health and Safety Queensland grant		69,506	64,281
		236,278	**237,734**
Claims handling expenses allocated to gross claims expense	*C1*	(202,212)	(193,850)
		34,066	**43,884**

Total external audit fees quoted in relation to the 2021 financial statements are $232,850 (2020: $252,850). The Auditor-General of Queensland is the auditor for both WorkCover and WEO. No non-audit services were provided during this financial year (2020: 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. No special payments were made during this financial year (2020: $19,783 was made to a university for the purpose of supporting experts in occupational lung diseases to present at the 'Cut the Dust' conference held in Queensland).

E2 Employee benefits

(a) Employee expenses

	Note	2021 $'000	2020 $'000
Salaries		80,202	80,478
Employer superannuation contributions		8,569	8,575
Other employee benefits		2,504	1,810
Payroll tax expense		4,398	4,320
Workers' compensation premium		831	628
Other employee related expenses		355	574
Grant income [1]		(31)	(957)
	E1	**96,828**	**95,428**

[1] The Queensland Government approved an additional one-off component to the Public Sector Wages Policy to be made to all eligible employees covered by the Award and the WorkCover Employing Office Certified Agreement 2018. As a result, in 2020 WorkCover received a cash transfer of $0.866 million from the Office of Industrial Relations that was passed through to eligible employees. An amount of $0.091 million was also recognised as a receivable in 2020 (received in 2021) for contribution towards a joint project.

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 are 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.

(b) Employee benefits liabilities

	2021 $'000	2020 $'000
Current		
Accrued salaries and other benefits	304	288
Provision for annual leave	7,206	6,848
Provision for long service leave	13,309	12,274
Provision for termination benefits	320	-
	21,139	19,410
Non-current		
Provision for long service leave	2,922	2,385
	24,061	**21,795**

Reconciliation of provision for employee benefits during the year:

	2021 $'000	2020 $'000
Balance at 1 July	21,795	21,939
Amounts allocated to provision	9,604	8,021
Reductions in provision as a result of payments	(7,062)	(8,732)
Discount rate adjustments	(276)	567
Balance at 30 June	**24,061**	**21,795**

Short-term employee benefits

Accrued salaries and other benefits

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 of 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.

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 of workers' compensation premiums, superannuation and payroll tax have been included in the liabilities.

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.

(c) Expected settlement of employee benefits liabilities

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 as follows:

	2021 $'000	2020 $'000
No more than 12 months from reporting date:		
Annual leave	6,026	5,959
Long service leave	2,277	1,921
	8,303	**7,880**
More than 12 months from reporting date:		
Annual leave	1,180	889
Long service leave	13,954	12,738
	15,134	**13,627**

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

Key assumptions

The assumptions adopted to measure the present value of annual leave and long service leave are as follows:

	2021	2020
Discount rate	1.1%	0.8%
Settlement term for long service leave	6.3 years	6.6 years
Assumed annual leave days taken per year	20 days	20 days
Rate increase first year		
Assumed rate of increase for contract salaries - long service leave	5.0%	2.2%
Assumed rate of increase for non-contract salaries - long service leave	6.7%	2.7%
Assumed rate of increase for contract salaries - annual leave	5.0%	0.0%
Assumed rate of increase for non-contract salaries - annual leave	6.7%	1.8%
Rate increase thereafter		
Assumed rate of increase for contract salaries - long service leave	2.5%	2.2%
Assumed rate of increase for non-contract salaries - long service leave	2.7%	2.7%
Assumed rate of increase for contract salaries - annual leave	2.5%	0.0%
Assumed rate of increase for non-contract salaries - annual leave	2.7%	1.8%

The State Government passed legislative amendments to the *Industrial Relations Act 2016* in June 2020 to defer the wage increases in the 2021 financial year. As a result, the assumed rate of increase for salaries has changed significantly for both financial years.

The number of employees including both full-time employees and part-time employees measured on a full-time equivalent basis is 836 (2020: 855).

E3 Related parties

(a) Details of key management personnel and remuneration

WorkCover's responsible Minister is identified as part of WorkCover's key management personnel, consistent with Australian implementation guidance included in AASB 124 *Related Party Disclosures*. WorkCover's Minister is the *Minister for Education, Minister for Industrial Relations and Minister for Racing*.

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 as follows:

Directors (Non-executive)		**Short-term**	**Post employment**	**Total**
		Fees[1]	Superannuation	
		$'000	**$'000**	**$'000**
F Gobbo	2021	78	7	85
Chair	2020	78	7	85
M Clifford[2]	2021	49	5	54
Deputy Chair				
J Bertram[2]	2021	40	4	44
Director				
J Crittall	2021	43	4	47
Director	2020	43	4	47
K Dear	2021	40	4	44
Director	2020	40	4	44
I Leavers	2021	40	4	44
Director	2020	40	4	44
S Morris	2021	44	4	48
Director	2020	43	4	47
L Rowland	2021	40	4	44
Director	2020	40	4	44
S Schinnerl[3]	2021	30	3	33
Director				
R McLennan[4]	2020	2	-	2
Deputy Chair				
M Roche[5]	2020	5	-	5
Director				
B Swan[6]	2020	40	4	44
Director				
Total remuneration:	**2021**	**404**	**39**	**443**
Directors	**2020**	**331**	**31**	**362**

[1] Fees represent amounts paid in cash during the financial year.
[2] Commenced on 1 July 2020.
[3] Commenced on 2 October 2020.
[4] Ceased on 8 July 2019.
[5] Ceased on 30 July 2019.
[6] Ceased on 30 June 2020.

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		Short-term		Post employment	Other long-term benefits		Total
		Salary[1]	Non-monetary[2]	Superannuation	Annual leave accruals	Long service leave accruals	
		$'000	$'000	$'000	$'000	$'000	$'000
B Watson	2021	395	20	25	35	10	485
CEO	2020	422	18	24	36	9	509
C Carras	2021	258	9	25	20	9	321
Chief Customer Officer	2020	280	7	24	29	12	352
E Hall-Walsh[3]	2021	346	2	29	18	(2)	393
Chief Digital and Information Officer	2020	120	-	10	10	2	142
D Heley	2021	264	19	25	24	9	341
Chief People and Finance Officer	2020	261	16	24	25	16	342
J Reid	2021	197	5	25	16	5	248
Legal Counsel	2020	177	4	24	16	10	231
N Wenck	2021	248	2	22	18	7	297
Chief Strategic Development Officer	2020	232	6	21	22	7	288
T Barrenger[4]	2020	132	-	12	4	2	150
Chief Information Officer							
Total remuneration:	**2021**	**1,708**	**57**	**151**	**131**	**38**	**2,085**
CEO and Senior Executives	**2020**	**1,624**	**51**	**139**	**142**	**58**	**2,014**

[1] Salary represents amounts paid in cash during the financial year and associated adjustments.
[2] Short-term non-monetary benefits relate to packaged amounts and fringe benefits provided to the CEO and Senior Executives.
[3] Commenced on 6 January 2020 and ceased on 26 March 2021.
[4] Ceased on 29 August 2019.

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.

Chief Digital and Information Officer

The Chief Digital and 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 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 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.

Legal Counsel

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

Chief Strategic Development Officer

The Chief Strategic Development Officer is responsible for facilitating a collaborative process on the design, development and implementation of strategic initiatives to continue to deliver an outstanding customer experience.

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

Director contracts are entered into in accordance with the WCRA. The remuneration of Directors is determined by the Governor-in-Council as part of terms of their appointment and is paid by way of annual fee in accordance with the Queensland Government Remuneration procedures for part-time Chairs and members of Queensland Government bodies.

CEO and Senior Executives

The CEO's executive employment contract is entered into in accordance with the WCRA, with the conditions of the contract decided by the Board and signed by the Chair. The CEO is appointed by the Governor in Council on the Board's recommendation. The CEO remuneration arrangements are made in alignment with the Queensland Government CEO remuneration framework.

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 the WCRA.

Remuneration and other terms of employment for each Senior Executive are formalised in executive employment contracts.

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 (2020: no transactions with key management personnel).

(c) Transactions with other related parties

WorkCover is required to pay contributions to WHSQ and the Workers' Compensation Regulator. See note E1 for details.

In 2020, WorkCover received a cash transfer, and had an additional amount recognised as a receivable which was received in this financial year from the Office of Industrial Relations. Refer to note E2(a) for details.

Queensland Health public hospitals are utilised by WorkCover in the treatment of injured workers. The total payments in this financial year are $44.234 million (2020: $44.755 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 $284.599 million (2020: $269.432 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 approved by Queensland Treasury. The total management fees paid or payable in this financial year to QIC and QTC are $33.410 million and $0.006 million respectively (2020: $32.399 million and $0.554 million respectively). Refer to note D1 for further details.

From 1 July 2016, the *Workers' Compensation and Rehabilitation Amendment Act 2016* implemented the NIIS for workplace accidents connected with Queensland. The scheme provides eligible seriously injured workers with a lifetime statutory entitlement to treatment, care and support payments such as rehabilitation, medical services and hospital expenses. In accordance with the scheme, payments are made by WorkCover to reimburse NIIS Queensland (the external case managers for the seriously injured workers) for costs in relation to these claims. The total NIIS Queensland amounts paid or payable for this financial year are $3.140 million (2020: $1.855 million).

E4 Property, plant and equipment

	Note	Land	Building	Plant and equipment	Work in progress	Total
		$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2019		22,000	42,500	3,013	6	67,519
Acquisitions		-	553	212	10	775
Disposals		-	(14)	-	-	(14)
Depreciation		-	(1,837)	(1,224)	-	(3,061)
Revaluation increments	*F4(b)*	-	6,298	-	-	6,298
Balance at 30 June 2020		**22,000**	**47,500**	**2,001**	**16**	**71,517**
At 30 June 2020:						
Cost or fair value		22,000	54,581	7,559	16	84,156
Accumulated depreciation		-	(7,081)	(5,558)	-	(12,639)
Net carrying amount		**22,000**	**47,500**	**2,001**	**16**	**71,517**
Balance at 1 July 2020		22,000	47,500	2,001	16	71,517
Acquisitions		-	325	15	12	352
Disposals		-	-	-	(4)	(4)
Transfers between asset classes		-	12	-	(12)	-
Depreciation		-	(2,002)	(1,039)	-	(3,041)
Revaluation decrements	*F4(b)*	-	(4,335)	-	-	(4,335)
Balance at 30 June 2021		**22,000**	**41,500**	**977**	**12**	**64,489**
At 30 June 2021:						
Cost or fair value		22,000	49,222	7,538	12	78,772
Accumulated depreciation		-	(7,722)	(6,561)	-	(14,283)
Net carrying amount		**22,000**	**41,500**	**977**	**12**	**64,489**

(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.

Costs incurred subsequent to initial acquisition are added to an asset's carrying amount if they increase the service potential or useful life of that asset. Subsequent costs that do not meet these criteria are expensed as incurred.

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

Plant and equipment with an original cost of $3.434 million (2020: $0.655 million) and a written down value of zero is still being used in the provision of services. There is currently no asset (2020: no asset) written down to an above zero residual value which is still being used in the provision of services.

(b) Valuation

Land and buildings are shown at fair value, based on annual valuations by State Valuation Service. 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. A decrease in the carrying amount on the revaluation is charged as an expense, to the extent it exceeds the balance, if any, in the revaluation surplus relating to 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 2021 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. State Valuation Service 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.

(c) 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:

ITEM	USEFUL LIFE
Building	1 to 56 years
Plant and equipment	
Computer equipment	3 to 13 years
Office equipment and furniture	5 to 23 years
Fixtures and fittings	12 to 25 years
Motor vehicles	5 years

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

(d) 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.

(e) 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.

E5 Commitments

WorkCover has contractual commitments for expenditure as follows:

	Acquisition of property, plant and equipment $'000	Support and maintenance expenditure $'000	Other expenditure $'000	Total $'000
2021				
Not later than 1 year	23	4,495	1,612	6,130
1 - 5 years	-	1,297	587	1,884
	23	**5,792**	**2,199**	**8,014**
2020				
Not later than 1 year	-	2,819	784	3,603
1 - 5 years	-	1,186	59	1,245
	-	**4,005**	**843**	**4,848**

Other

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

F1 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. In addition, QIC adopt the attribution managed investment trust (AMIT) regime in respect of eligible QIC managed investment trusts in which WorkCover invests in.

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.

Tax Risk Management

The Tax Risk Management Policy sets out WorkCover's approach to satisfying its obligations under the Risk Management Policy with respect to tax. WorkCover's tax strategy is focused on integrity in compliance and reporting. The strategy is implemented through WorkCover's Tax Risk Management Framework. This Framework is supported by governance processes which ensure it is implemented with continued effectiveness. WorkCover has effective policies and processes in place to manage tax risk.

(a) Income tax equivalent

Income tax equivalent expense/(benefit)

	2021 $'000	2020 $'000
Deferred tax expense/(benefit)	**42,735**	**(200,367)**
Reconciliation of income tax equivalent expense/(benefit):		
Operating result for the year before income tax equivalent	153,563	(650,681)
Income tax equivalent expense/(benefit) at the standard tax rate of 30% (2020: 30%)	46,069	(195,204)
Tax effect of adjustments to income tax equivalent expense/(benefit):		
Gross up of foreign income tax offset received	940	1,091
Gross up of franking tax offset received	1,799	2,648
Non-deductible expenses	1	2
Conversion of franking credit to tax loss	(5,996)	(8,826)
Other deductible expenses	(78)	(78)
Income tax equivalent expense/(benefit) attributable to operating result	**42,735**	**(200,367)**

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 recognised in other comprehensive income

	2021 $'000	2020 $'000
Revaluation of land and building	**(1,301)**	**1,889**

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 as follows:

	Assets		Liabilities		Net	
	2021	2020	2021	2020	2021	2020
	$'000	$'000	$'000	$'000	$'000	$'000
Income tax equivalent loss	181,191	142,777	-	-	181,191	142,777
Investment tax adjustments including unrealised (gain)/loss	-	-	(220,906)	(131,954)	(220,906)	(131,954)
Indirect claims handling expense	84,038	74,910	-	-	84,038	74,910
Employee expenses	21	20	-	-	21	20
Other provisions	3,000	4,320	-	-	3,000	4,320
Other items	1,267	1,736	(106)	(318)	1,161	1,418
Property, plant and equipment	-	-	(5,893)	(7,661)	(5,893)	(7,661)
Intangibles	65	281	-	-	65	281
Tax assets/(liabilities)	**269,582**	**224,044**	**(226,905)**	**(139,933)**	**42,677**	**84,111**

Movement in deferred tax balances during the year	**Balance 1 July 2019**	**Recognised in operating result**	**Recognised in other comprehensive income**	**Balance 30 June 2020**	**Recognised in operating result**	**Recognised in other comprehensive income**	**Balance 30 June 2021**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Income tax equivalent loss	12,903	129,874	-	142,777	38,414	-	181,191
Investment tax adjustments including unrealised (gain)/loss	(189,032)	57,078	-	(131,954)	(88,952)	-	(220,906)
Indirect claims handling expense	64,746	10,164	-	74,910	9,128	-	84,038
Employee expenses	9	11	-	20	1	-	21
Other provisions	2,550	1,770	-	4,320	(1,320)	-	3,000
Other items	237	1,181	-	1,418	(257)	-	1,161
Property, plant and equipment	(6,144)	372	(1,889)	(7,661)	467	1,301	(5,893)
Intangibles	364	(83)	-	281	(216)	-	65
	(114,367)	**200,367**	**(1,889)**	**84,111**	**(42,735)**	**1,301**	**42,677**

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.

(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.

F2 Reconciliation of operating result to net cash provided by operating activities

	Note	2021 $'000	2020 $'000
Operating result for the year		110,828	(450,314)
Non-cash items included in operating result			
Net (gain)/loss on change in fair value of financial instruments		(542,630)	281,219
Net loss on disposal of property, plant and equipment and intangible assets	*E1*	-	25
Reclassification of work in progress		4	-
Depreciation and amortisation expense	*E1*	3,500	3,612
Income tax effect on revaluation of land and building	*F4(b)*	1,301	(1,889)
Assets received below fair value		-	(304)
Change in operating assets and liabilities			
Increase in receivables		(32,113)	(3,582)
Decrease in current tax		16,285	78,701
Decrease in other assets		1,005	951
Decrease/(increase) in net deferred tax		41,434	(198,478)
Decrease in other liabilities		(3)	(105)
(Decrease)/increase in payables and unearned premium liability		(2,262)	5,174
Increase in outstanding claims liability and employee benefits liabilities		413,354	463,491
Net cash provided by operating activities		**10,703**	**178,501**

F3 Leases

Leases as lessor

WorkCover has 7 lease agreements (2020: 7) with respect of the 280 Adelaide Street building. The building is leased to tenants under operating leases with rentals payable on a monthly basis. These non-cancellable leases have remaining terms of between 1 and 3 years and include clauses to enable upward revision of the rental charge on an annual basis according to a fixed percentage where applicable. There are no other variable lease payments that depend on an index or rate. Where considered necessary to reduce credit risk, WorkCover may obtain bank guarantees for the term of the lease. As a result of COVID-19, WorkCover has offered rent relief in the form of reduced rent for tenants impacted. The expected impact of these reductions are reflected in the amounts disclosed under this note. Minimum lease payments receivable on operating leases are as follows:

	2021 $'000	2020 $'000
Within 1 year	927	845
Between 1 and 2 years	283	660
Between 2 and 3 years	180	263
Between 3 and 4 years	-	133
	1,390	**1,901**

The total lease income included in other income presented in the consolidated statement of comprehensive income is as follows:

	2021 $'000	2020 $'000
Lease income	**1,005**	**1,419**

F4 Equity and reserves

(a) Contributed equity

In 2017, arising from the funding arrangement for the Workers' Compensation Regulator, WorkCover recognised a non-reciprocal cash transfer of $2.500 million from the Workers' Compensation Regulator as contributed equity.

(b) Asset revaluation surplus by asset class

	Note	Land $'000	Building $'000	Total $'000
Balance at 1 July 2019		12,320	17,462	29,782
Revaluation increments	*E4*	-	6,298	6,298
Income tax effect on revaluation		-	(1,889)	(1,889)
Balance at 30 June 2020		**12,320**	**21,871**	**34,191**
Balance at 1 July 2020		12,320	21,871	34,191
Revaluation decrements	*E4*	-	(4,335)	(4,335)
Income tax effect on revaluation		-	1,301	1,301
Balance at 30 June 2021		**12,320**	**18,837**	**31,157**

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, allowing WorkCover to maintain a stable premium rate and minimise the impact on businesses during a downturn. It represents the excess capital held by WorkCover over the minimum funding ratio of 120% as set within WorkCover's Statement of Corporate Intent.

F5 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.

F6 Differences between WorkCover consolidated financial statements and WorkCover Queensland financial statements

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

	Note	2021 $'000			2020 $'000		
		WorkCover	**WorkCover Queensland**	**WorkCover Employing Office**	**WorkCover**	**WorkCover Queensland**	**WorkCover Employing Office**
Underwriting expenses	i	(34,066)	(33,870)	(95,816)	(43,884)	(43,829)	(94,948)
Investment income/(loss)	ii	737,932	737,737	195	(60,255)	(60,309)	54
Other income	i	1,089	1,088	95,621	1,508	1,507	94,894

i. The difference in underwriting expenses represents expenses incurred by WEO excluding GST. The difference in other income represents the service fees raised by WEO for services provided to WorkCover Queensland. The service fee income in WEO and the service fee expense in WorkCover Queensland are eliminated on consolidation.
ii. The difference represents the bank interest income of WEO.

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

	Note	2021 $'000 WorkCover	2021 $'000 WorkCover Queensland	2021 $'000 WorkCover Employing Office	2020 $'000 WorkCover	2020 $'000 WorkCover Queensland	2020 $'000 WorkCover Employing Office
Current assets							
Cash and cash equivalents		94,387	70,584	23,803	135,521	114,367	21,154
Receivables	i	32,536	32,490	46	34,391	34,311	80
Other assets	ii	2,366	1,692	674	3,338	2,277	1,061
Current liabilities							
Payables	iii	18,063	17,531	532	21,329	20,760	569
Employee benefits	iv	21,139	33	21,106	19,410	43	19,367
Non-current liabilities							
Employee benefits	iv	2,922	37	2,885	2,385	26	2,359

i. The difference represents the WEO other debtors balance.
ii. The difference represents the WEO prepayments balance.
iii. The difference represents the WEO salary related payables of $0.529 million (2020: $0.567 million) and other WEO payables of $0.003 million (2020: $0.002 million).
iv. 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	2021 $'000 WorkCover	2021 $'000 WorkCover Queensland	2021 $'000 WorkCover Employing Office	2020 $'000 WorkCover	2020 $'000 WorkCover Queensland	2020 $'000 WorkCover Employing Office
Cash flows from operating activities							
Interest received		5,902	5,707	195	11,241	11,186	55
GST collected on sales		163,085	163,050	35	161,896	161,863	33
GST paid on purchases		(28,335)	(28,170)	(165)	(27,677)	(27,677)	(162)
Employee benefits expense paid	i	-	-	(93,019)	-	-	(96,022)
Employment services revenue received	i	-	-	95,642	-	-	94,943
Other operating income received	ii	1,184	1,184	1	1,398	1,398	1
Other operating expenses paid	iii	(32,842)	(35,426)	(40)	(41,854)	(40,726)	(50)

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.
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 payment.

F7 Controlled entity

Summary of WEO financial statements

	2021 $'000	2020 $'000
Statement of comprehensive income		
Revenue	95,816	94,948
Expenses	95,816	94,948
Operating result for the year	-	-
Statement of financial position		
Total assets	24,523	22,295
Total liabilities	24,523	22,295
Net assets	-	-

F8 Summary of additional significant accounting policies

(a) Changes in accounting policies and disclosures

The standards and amendments to standards relevant to WorkCover have been applied for the first time in the presentation of these consolidated financial statements from 1 July 2020 are as follows:

Definition of material

AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material* has been applied for the first time in the presentation of these consolidated financial statements from 1 July 2020. AASB 2018-7 principally amends AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to refine the definition of material in AASB 101.

This revision states that information is material if omitting, misstating, or obscuring it could be reasonably expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Impact of adoption

The adoption of AASB 2018-7 from 1 July 2020 has not resulted in any significant impact on the preparation of the consolidated financial statements of WorkCover.

An accounting policy change was made to the presentation of these consolidated financial statements from 1 July 2020 as follows:

Investments disclosures

There were no significant changes to the overall investment strategy and processes during the current financial year, however WorkCover has made disclosure changes in relation to the financial instruments, in particular, those held for investment purposes.

The intention of these changes is to provide greater clarity on the financial instruments WorkCover holds, whilst keeping WorkCover's reporting comparable to other similar entities and easy to understand for general users of the financial statements. As a result of these changes, WorkCover has restated the statements and investment related note disclosures to provide a breakdown of the instruments held by WorkCover's custodian. In particular, due to the separation of investments receivable/payable from the underlying financial instruments, there has been an immaterial change in the prior year asset and liability amounts.

(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 after 1 July 2020 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 standard applicable to WorkCover that is not yet effective is as follows:

Insurance Contracts

AASB 17 *Insurance Contracts* applies from reporting periods beginning on or after 1 January 2023.

This standard is intended to combine all existing insurance standards (i.e. AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*) into one standard.

The standard will apply to for-profit-entities and not-for-profit private sector entities. Not-for-profit public sector entities, such as WorkCover, are specifically excluded from applying the standard, with further outreach being undertaken by the AASB to determine the applicability of the standard to these entities.

In November 2017, the AASB released a discussion paper named “Australian-specific Insurance Issues – Regulator Disclosures and Public Sector Entities”. This discussion paper included draft changes to be made to AASB 17 to incorporate issues specific to the public sector. From that discussion, it appears that the AASB intends for the public sector to apply AASB 17. Much like AASB 1023, the definition of an insurance contract and insurance risk remains the same in AASB 17.

WorkCover will continue to monitor the progress of the standard.

F9 Events after reporting date

There has not arisen in the interval between the end of the financial year and the date of this report, any other item, transactions or event of a material nature likely to affect significantly the operations of WorkCover, the results on those operations, or the state of affairs of WorkCover in future financial years.

Management certificate

These general purpose consolidated 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*, section 39 of the *Financial and Performance Management Standard 2019* and other prescribed requirements. In accordance with section 62(1)(b) of the *Financial Accountability Act 2009* 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 financial statements have been drawn up to present a true and fair view, in accordance with the prescribed accounting standards, of the transactions of WorkCover for the financial year ended 30 June 2021 and of the financial position at the end of that year; and

We acknowledge responsibility under section 7 and section 11 of the *Financial and Performance Management Standard 2019* for the establishment and maintenance, in all material respects, of an appropriate and effective system of internal controls and risk management processes with respect to financial reporting throughout the reporting period.

24 August 2021

F Gobbo
BA/LLB, GAICD
CHAIR

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

Queensland Audit Office
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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 (the parent) and its controlled entitiy (the group).

In my opinion, the financial report:

a) gives a true and fair view of the parent's and group's financial position as at 30 June 2021, and their financial performance and cash flows for the year then ended

b) complies with the *Financial Accountability Act 2009*, the Financial and Performance Management Standard 2019 and Australian Accounting Standards.

The financial report comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of comprehensive income, consoldiated 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 management certificate.

Basis for opinion

I conducted my audit in accordance with the *Auditor-General 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 parent and 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 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 my professional judgement, were of most significance in my audit of the financial report of the current period. I addressed these matters in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Valuation of net outstanding claims liability ($3,898 m)
Refer to Note C2 to the financial report.

Key audit matter	How my 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 2021 or outside the control of WorkCover (refer Note C2 (d) for key assumptions and judgements).	With the assistance of an in-house specialist, my procedures included, but were not limited to: • reviewing the actuarial models for changes made to the prior year's models • considering of the appropriateness of the assumptions adopted and methodologies applied for the individual benefit types • considering the reasonableness of movements in key claim experience and their impact on the calculation of the outstanding claims liability • benchmarking key economic assumptions to observable market data • reviewing management's experts' qualifications, competence, capabilities, objectivity and the nature, scope and objectives of the work completed for appropriateness • reviewing management's experts' findings and conclusions for relevance, reasonableness and consistency with the evidence obtained from my testing.

Other information

Other information comprises the information included in the group's annual report for the year ended 30 June 2021 but does not include the financial report and my auditor's report thereon.

Those charged with governance are responsible for the other information.

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 and 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 information,

I am required to report this fact. I have nothing to report in this regard.

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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 2019 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 parent's and 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 parent or 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. This is not done for the purpose of expressing an opinion on the effectiveness of the entity's internal controls, but allows me to express an opinion on compliance with prescribed requirements.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the group.
- Conclude on the appropriateness of the parent's and group'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 parent's or 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 parent or 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.

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- 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.

From the matters communicated with the Board, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Statement

In accordance with s.40 of the *Auditor-General Act 2009*, for the year ended 30 June 2021:

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

b) I consider that, the prescribed requirements in relation to the establishment and keeping of accounts were complied with in all material respects.

Prescribed requirements scope

The prescribed requirements for the establishment and keeping of accounts are contained in the *Financial Accountability Act 2009*, any other Act and the Financial and Performance Management Standard 2019. The applicable requirements include those for keeping financial records that correctly record and explain the entity's transactions and account balances to enable the preparation of a true and fair financial report.

26 August 2021

Sri Narasimhan
as delegate of the Auditor-General

Queensland Audit Office
Brisbane

pwc

ACTUARIAL CERTIFICATE FOR OUTSTANDING CLAIMS LIABILITIES AS AT 30 JUNE 2021

PricewaterhouseCoopers Consulting (Australia) Pty Ltd was requested by WorkCover Queensland to advise on its provisions for outstanding claims liabilities at 30 June 2021.

VALUATION REPORT

Full details of data, methodology and assumptions are set out in our report dated 9 August 2021. This report was prepared, to the best of our knowledge, in compliance with the requirements of Professional Standard 302 of the Institute of Actuaries of Australia.

BASIS OF ESTIMATES

The adopted provision as at 30 June 2021 is **$3,702.7 million**, comprising our central estimate of the liability for outstanding claims, an allowance of claims handling expenses 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 2021 of 9.0%. 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
FIAA

Gavin Moore
FIAA

9 August 2021