WorkCover QUEENSLAND

# Consolidated financial statements

2022-2023

# Contents

# Consolidated statement of comprehensive income

For the year ended 30 June 2023

| | Note | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| Net premium revenue | *B1* | 2,151,418 | 1,820,416 |
| | | | |
| Gross claims expense | *C1* | (2,537,815) | (2,288,827) |
| Claims recoveries revenue | *C1* | 117,398 | 151,761 |
| Net claims incurred | *C1* | (2,420,417) | (2,137,066) |
| | | | |
| Underwriting expenses | *E1* | (43,372) | (28,294) |
| **Underwriting result** | | **(312,371)** | **(344,944)** |
| | | | |
| Investment income/(loss) | *D1* | 380,412 | (99,376) |
| Other income | | 1,458 | 1,167 |
| Investment expenses | *D1* | (36,114) | (35,532) |
| Other expenses | | (523) | (543) |
| **Operating result for the year before income tax equivalent** | | **32,862** | **(479,228)** |
| | | | |
| Income tax equivalent (expense)/benefit | *F1(a)* | (6,032) | 153,053 |
| **Operating result for the year** | | **26,830** | **(326,175)** |
| | | | |
| **Other comprehensive (loss)/income** | | | |
| Items that will not be reclassified subsequently to operating result: | | | |
| Revaluation of land and building | *F4(b)* | (903) | 11,156 |
| Income tax effect on revaluation of land and building | *F1(a)* | 271 | (3,347) |
| **Other comprehensive (loss)/income for the year, net of income tax equivalent** | | **(632)** | **7,809** |
| | | | |
| **Total comprehensive income/(loss) for the year** | | **26,198** | **(318,366)** |

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

# Consolidated statement of financial position

As at 30 June 2023

| | Note | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | *D2(a)* | 417,991 | 130,162 |
| Recoveries receivable on outstanding claims | *C2(b)* | 82,103 | 78,187 |
| Receivables | *D2* | 49,519 | 39,680 |
| Investment assets | *D2(d)* | 1,753,572 | 1,583,951 |
| Other assets | | 3,083 | 2,410 |
| **Total current assets** | | **2,306,268** | **1,834,390** |
| | | | |
| **Non-current assets** | | | |
| Recoveries receivable on outstanding claims | *C2(b)* | 194,941 | 180,255 |
| Receivables | *D2* | 2,404 | 2,507 |
| Investment assets | *D2(d)* | 4,008,770 | 3,982,758 |
| Property, plant and equipment | *E4* | 71,402 | 74,157 |
| Deferred tax assets | *F1(a)* | 186,622 | 192,383 |
| Other assets | | 591 | 847 |
| **Total non-current assets** | | **4,464,730** | **4,432,907** |
| **Total assets** | | **6,770,998** | **6,267,297** |
| | | | |
| **Current liabilities** | | | |
| Payables | *D2(c)* | 36,310 | 19,446 |
| Unearned premium liability | *B2* | 22,233 | 19,737 |
| Outstanding claims liability | *C2(a)* | 1,806,223 | 1,590,266 |
| Employee benefits liabilities | *E2(b)* | 25,539 | 20,706 |
| Investment related liabilities | *D2(d)* | 29,452 | 71,872 |
| Other liabilities | | 51 | 86 |
| **Total current liabilities** | | **1,919,808** | **1,722,113** |
| | | | |
| **Non-current liabilities** | | | |
| Unearned premium liability | *B2* | 308 | - |
| Outstanding claims liability | *C2(a)* | 2,948,271 | 2,642,668 |
| Employee benefits liabilities | *E2(b)* | 2,507 | 2,594 |
| Investment related liabilities | *D2(d)* | 3,223 | 29,236 |
| Other liabilities | | 19 | 22 |
| **Total non-current liabilities** | | **2,954,328** | **2,674,520** |
| **Total liabilities** | | **4,874,136** | **4,396,633** |
| **Net assets** | | **1,896,862** | **1,870,664** |
| | | | |
| **Equity** | | | |
| Contributed equity | *F4(a)* | 2,500 | 2,500 |
| Asset revaluation surplus | *F4(b)* | 38,334 | 38,966 |
| Investment fluctuation reserve | *F4(c)* | 881,202 | 949,872 |
| Accumulated surplus | | 974,826 | 879,326 |
| **Total equity** | | **1,896,862** | **1,870,664** |

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

# Consolidated statement of equity

For the year ended 30 June 2023

| | Contributed equity | Asset revaluation surplus | Investment fluctuation reserve | Accumulated surplus | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Balance at 1 July 2021** | **2,500** | **31,157** | **1,359,139** | **796,234** | **2,189,030** |
| Operating result for the year | - | - | - | (326,175) | (326,175) |
| Other comprehensive income for the year | - | 7,809 | - | - | 7,809 |
| **Total comprehensive loss for the year** | - | 7,809 | - | (326,175) | (318,366) |
| Transfer from investment fluctuation reserve to accumulated surplus | - | - | (409,267) | 409,267 | - |
| **Total transactions with owners, recorded directly in equity** | - | - | (409,267) | 409,267 | - |
| **Balance at 30 June 2022** | **2,500** | **38,966** | **949,872** | **879,326** | **1,870,664** |
| **Balance at 1 July 2022** | **2,500** | **38,966** | **949,872** | **879,326** | **1,870,664** |
| Operating result for the year | - | - | - | 26,830 | 26,830 |
| Other comprehensive loss for the year | - | (632) | - | - | (632) |
| **Total comprehensive income for the year** | - | (632) | - | 26,830 | 26,198 |
| Transfer from investment fluctuation reserve to accumulated surplus | - | - | (68,670) | 68,670 | - |
| **Total transactions with owners, recorded directly in equity** | - | - | (68,670) | 68,670 | - |
| **Balance at 30 June 2023** | **2,500** | **38,334** | **881,202** | **974,826** | **1,896,862** |

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

# Consolidated statement of cash flows

For the year ended 30 June 2023

| | Note | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Premiums received | | 2,139,107 | 1,811,752 |
| Interest received | | 27,981 | 3,070 |
| Managed unit trust distributions received | | 446,671 | 268,762 |
| Investment management fees paid | | (36,104) | (35,455) |
| GST collected on sales | | 214,389 | 181,665 |
| Claims paid | | (1,985,331) | (1,943,176) |
| Claims recoveries received | | 91,536 | 88,407 |
| Other operating income received | | 1,578 | 1,195 |
| Other operating expenses paid | | (38,848) | (28,101) |
| GST paid on purchases | | (32,429) | (30,543) |
| GST remitted to the ATO | | (180,421) | (150,806) |
| **Net cash provided by operating activities** | *F2* | **648,129** | **166,770** |
| **Cash flows from investing activities** | | | |
| Acquisition of investments | | (446,610) | (268,553) |
| Proceeds from sale of investments | | 86,598 | 137,937 |
| Acquisition of property, plant and equipment | | (284) | (381) |
| Proceeds from sale of property, plant and equipment | | - | 4 |
| **Net cash used in investing activities** | | **(360,296)** | **(130,993)** |
| **Cash flows from financing activities** | | | |
| Principal elements of lease payments | | (4) | (2) |
| **Net cash used in financing activities** | | **(4)** | **(2)** |
| Net increase in cash and cash equivalents | | 287,829 | 35,775 |
| Cash and cash equivalents at 1 July | | 130,162 | 94,387 |
| **Cash and cash equivalents at 30 June** | *D2(a)* | **417,991** | **130,162** |

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* (the Act). 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, Dr Anthony Lynham, authorised this report at the date of signing the Management Certificate.

## A2 Compliance with prescribed requirements

These general purpose consolidated financial statements are prepared on an accrual basis and in accordance with Australian Accounting Standards (AASBs) issued 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 Act and the *Workers' Compensation and Rehabilitation Regulation 2014* (the Regulations).

The significant accounting policies adopted in the preparation of these consolidated 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 consolidated financial statements are outlined in note F8.

The preparation of consolidated 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 consolidated 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 Act. 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 consolidated 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.

# 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 | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| Gross written premiums | | 2,188,969 | 1,884,073 |
| Discount on premiums | | (41,002) | (60,935) |
| Premium penalties | | 6,255 | 4,339 |
| | | 2,154,222 | 1,827,477 |
| Movement in unearned premium | *B2* | (2,804) | (7,061) |
| | | **2,151,418** | **1,820,416** |

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 | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| Balance at 1 July | | 19,737 | 12,676 |
| **Movement in unearned premium:** | | | |
| Deferral of premiums on contracts written during the year | | 22,541 | 19,422 |
| Earning of premiums written in previous years | | (19,737) | (12,361) |
| | *B1* | 2,804 | 7,061 |
| **Balance at 30 June** | *B3* | **22,541** | **19,737** |
| *Represented by:* | | | |
| Current | | 22,233 | 19,737 |
| Non-current | | 308 | - |
| | *B3* | **22,541** | **19,737** |

## 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 | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| Unearned premium liability | *B2* | 22,541 | 19,737 |
| | | | |
| Less present value of expected future cash flows for future claims: | | | |
| Discounted central estimate | | 19,876 | 16,972 |
| Risk margin | | 2,651 | 2,193 |
| | | 22,527 | 19,165 |
| **Surplus** | | **14** | **572** |
| | | | |
| Risk margin | | 13.3% | 12.9% |
| Probability of adequacy | | 75% | 75% |

As the test has identified a surplus (2022: 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 Act.

**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 Act.

The Act 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 | 2023<br>$'000 | 2022<br>$'000 |
|---|---|---|---|
| 1 year or less | *C2(a)* | 1,806,223 | 1,590,266 |
| 1 - 3 years | | 1,842,404 | 1,680,253 |
| 3 - 5 years | | 600,801 | 540,538 |
| More than 5 years | | 505,066 | 421,877 |
| | *C2(a)* | **4,754,494** | **4,232,934** |

# 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 | 2023 $'000 | | | 2022 $'000 | | |
|---|---|---|---|---|---|---|---|
| | | Current year | Prior years | Total | Current year | Prior years | Total |
| **Gross claims expense:** | | | | | | | |
| Undiscounted claims expense | | 2,865,228 | 53,744 | 2,918,972 | 2,449,399 | 227,694 | 2,677,093 |
| Discount | | (333,813) | (47,344) | (381,157) | (197,764) | (190,502) | (388,266) |
| | *C2(a)* | 2,531,415 | 6,400 | 2,537,815 | 2,251,635 | 37,192 | 2,288,827 |
| **Claims recoveries revenue:** | | | | | | | |
| Undiscounted claims recoveries revenue | | (104,836) | (20,425) | (125,261) | (92,020) | (74,669) | (166,689) |
| Discount | | 11,084 | (3,221) | 7,863 | 7,549 | 7,379 | 14,928 |
| | *C2(b)* | (93,752) | (23,646) | (117,398) | (84,471) | (67,290) | (151,761) |
| | | **2,437,663** | **(17,246)** | **2,420,417** | **2,167,164** | **(30,098)** | **2,137,066** |

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 a decrease in net claims incurred for injury years 2022 and prior over the past year. This was driven by an increase in the discount rates, resulting in lower net claims incurred, as well as higher than expected recoveries. This was partially offset by increases to future inflation assumptions as well as increases to the valuation assumptions for common law claims.

**Reconciliation of net claims incurred**

| | Note | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| **Gross claims incurred:** | | | |
| Statutory claims paid | | 1,253,710 | 1,268,341 |
| Common law claims paid | | 535,022 | 461,172 |
| Claims handling expenses | *E1* | 257,511 | 224,044 |
| Net self-insurance payments | | (29,988) | 536 |
| | *C2(a)* | 2,016,255 | 1,954,093 |
| **Claims recoveries:** | | | |
| Statutory claims recovered | | (94,255) | (84,212) |
| Common law claims recovered | | (4,541) | (4,636) |
| | *C2(b)* | (98,796) | (88,848) |
| **Movement in net outstanding claims liability:** | | | |
| Gross claims liability | | 521,560 | 334,734 |
| Recoveries receivable | | (18,602) | (62,913) |
| | | 502,958 | 271,821 |
| | | **2,420,417** | **2,137,066** |

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 Act, 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.

As at 30 June 2022, WorkCover was in the process of transitioning a significant self-insurer to the fund. This process was finalised in the 2023 financial year. This is governed in entirety by the return to fund provisions under the Act and the Regulations, and involves the engagement of actuaries, with co-ordination by the Office of Industrial Relations, to determine the appropriate valuation of any liability transfer, and subsequent entry pricing for premium. As with all transfers, the provisions of the Act and the Regulations outline a robust process to ensure an equitable transfer of liability, and associated premium, to ensure a neutral overall impact on WorkCover of any return/entry to or exit from the fund.

Bank guarantees, financial guarantees given by an insurance company that is an approved security provider and cash deposits of $471.312 million (2022: $493.673 million) are held by the Workers' Compensation Regulator on behalf of self-insurers. If a self-insurer fails its obligations under the Act, 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 | 2023<br>$'000 | 2022<br>$'000 |
|---|---|---|---|
| Expected future claims payments | | 4,832,305 | 4,120,660 |
| Claims handling expenses | | 464,219 | 347,683 |
| | | 5,296,524 | 4,468,343 |
| Less discount to present value | | (934,603) | (584,917) |
| Discounted central estimate | | 4,361,921 | 3,883,426 |
| Risk margin | | 392,573 | 349,508 |
| | *B4(d)* | **4,754,494** | **4,232,934** |
| *Represented by:* | | | |
| Current | *B4(d)* | 1,806,223 | 1,590,266 |
| Non-current | | 2,948,271 | 2,642,668 |
| | *B4(d)* | **4,754,494** | **4,232,934** |
| | | | |
| **Reconciliation of movement during the year:** | | | |
| Balance at 1 July | | 4,232,934 | 3,898,200 |
| Provisions made | *C1* | 2,531,415 | 2,251,635 |
| Payments made | *C1* | (2,016,255) | (1,954,093) |
| Effect of changes in assumptions to prior year provisions | *C1* | 6,400 | 37,192 |
| **Balance at 30 June** | *B4(d)* | **4,754,494** | **4,232,934** |

This liability is calculated by an independent actuary, PricewaterhouseCoopers Consulting (Australia) Pty Ltd (the Actuary), in accordance with the Act 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 Act 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 | 2023 | 2022 |
|---|---|---|---|
| | | $'000 | $'000 |
| Expected future recoveries | | 276,604 | 252,324 |
| Less discount to present value | | (22,435) | (15,221) |
| Discounted central estimate | | 254,169 | 237,103 |
| Risk margin | | 22,875 | 21,339 |
| | | **277,044** | **258,442** |
| *Represented by:* | | | |
| Current | | 82,103 | 78,187 |
| Non-current | | 194,941 | 180,255 |
| | | **277,044** | **258,442** |
| **Reconciliation of movement during the year:** | | | |
| Balance at 1 July | | 258,442 | 195,529 |
| Recoveries recognised | *C1* | 93,752 | 84,471 |
| Recoveries received | *C1* | (98,796) | (88,848) |
| Effect of changes in assumptions to prior year provisions | *C1* | 23,646 | 67,290 |
| **Balance at 30 June** | | **277,044** | **258,442** |

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 Act 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 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **2023** | **Total** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **Estimate of ultimate claims cost:** | | | | | | | | | | | |
| At end of injury year | 1,081,408 | 1,046,117 | 1,339,208 | 1,407,682 | 1,445,470 | 1,435,652 | 1,590,785 | 1,777,829 | 1,916,322 | 2,216,443 | |
| One year later | 1,079,142 | 1,119,682 | 1,206,767 | 1,268,765 | 1,302,500 | 1,512,595 | 1,615,787 | 1,812,027 | 1,942,779 | | |
| Two years later | 1,036,739 | 1,025,004 | 1,084,722 | 1,186,315 | 1,325,147 | 1,560,243 | 1,667,786 | 1,837,296 | | | |
| Three years later | 992,802 | 972,577 | 1,064,268 | 1,213,882 | 1,316,980 | 1,605,536 | 1,717,310 | | | | |
| Four years later | 993,291 | 958,846 | 1,063,510 | 1,251,196 | 1,329,801 | 1,639,267 | | | | | |
| Five years later | 990,576 | 961,472 | 1,078,682 | 1,264,390 | 1,335,893 | | | | | | |
| Six years later | 992,872 | 965,637 | 1,075,879 | 1,264,037 | | | | | | | |
| Seven years later | 996,883 | 961,381 | 1,077,799 | | | | | | | | |
| Eight years later | 994,250 | 961,436 | | | | | | | | | |
| Nine years later | 993,859 | | | | | | | | | | |
| **Current estimate of cumulative claims cost** | 993,859 | 961,436 | 1,077,799 | 1,264,037 | 1,335,893 | 1,639,267 | 1,717,310 | 1,837,296 | 1,942,779 | 2,216,443 | 14,986,119 |
| Cumulative payments | 983,593 | 947,318 | 1,055,205 | 1,166,570 | 1,246,405 | 1,403,269 | 1,324,200 | 1,168,932 | 898,206 | 519,098 | 10,712,796 |
| **Undiscounted outstanding claims** | 10,266 | 14,118 | 22,594 | 97,467 | 89,488 | 235,998 | 393,110 | 668,364 | 1,044,573 | 1,697,345 | 4,273,323 |
| Undiscounted outstanding claims for prior injury years | | | | | | | | | | | 282,378 |
| Claims handling expenses | | | | | | | | | | | 464,219 |
| **Central estimate of outstanding claims** | | | | | | | | | | | 5,019,920 |
| Discount | | | | | | | | | | | (912,168) |
| **Discounted central estimate** | | | | | | | | | | | 4,107,752 |
| Risk margin | | | | | | | | | | | 369,698 |
| **Net outstanding claims liability** | | | | | | | | | | | **4,477,450** |

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 analysis 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 is 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 | 2023 | 2022 |
|---|---|---|
| **Ultimate claim numbers per annum** | | |
| Statutory claims | 73,075 | 66,412 |
| NIIS | 14 | 8 |
| Common law | 3,282 | 3,064 |
| Silicosis | 5 | 5 |
| **Ultimate claims size** | | |
| Statutory claims | $18,596 | $18,152 |
| NIIS | $4,158,410 | $3,896,591 |
| Common law | $194,507 | $185,266 |
| Silicosis | $1,371,278 | $1,293,485 |
| **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 | 2.0 years |
| **Claims handling expense rate** | | |
| Statutory claims | 22.0% | 20.0% |
| Common law and latent | 1.0% | 1.0% |

| Variable | 2023 | 2022 |
|---|---|---|
| **Inflation rates[1] (average weekly earnings)** | | |
| Gross outstanding claims: | | |
| Not later than one year | 4.0% | 3.5% |
| Later than one year | 3.5% | 3.5% |
| Recoveries receivable on outstanding claims: | | |
| Not later than one year | 4.0% | 3.5% |
| Later than one year | 3.5% | 3.5% |
| **Discount rates** | | |
| Gross outstanding claims: | | |
| Not later than one year | 4.4% | 2.4% |
| Later than one year | 4.5% | 3.9% |
| Recoveries receivable on outstanding claims: | | |
| Not later than one year | 4.4% | 2.4% |
| Later than one year | 4.0% | 3.2% |
| **Risk margin** | 9.0% | 9.0% |

[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% (2022: 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 2023 $'000 | Impact on operating result and equity 2022 $'000 |
|---|---|---|---|
| **Ultimate claim numbers per annum - latest year** | +10% | -126,068 | -112,531 |
| | -10% | +126,068 | +112,531 |
| **Ultimate claims size - latest year** | +10% | -126,068 | -112,531 |
| | -10% | +126,068 | +112,531 |
| **Average weighted term to settlement - years** | +0.5 | +16,044 | +4,081 |
| | -0.5 | -16,275 | -4,206 |
| **Claims handling expense rate** | +1% | -28,682 | -25,767 |
| | -1% | +28,682 | +25,767 |

| Variable | Movement | Impact on operating result and equity 2023 $'000 | Impact on operating result and equity 2022 $'000 |
|---|---|---|---|
| **Inflation rates - net claims cost:** | | | |
| Not later than one year | +1% | -21,090 | -18,580 |
| | -1% | +21,110 | +18,597 |
| Later than one year | +1% | -65,931 | -54,153 |
| | -1% | +57,753 | +47,967 |
| **Discount rates - net claims cost:** | | | |
| Not later than one year | +1% | +23,939 | +21,880 |
| | -1% | -24,374 | -22,287 |
| Later than one year | +1% | +59,337 | +50,996 |
| | -1% | -68,710 | -58,471 |
| **Risk margin** | +1% | -28,668 | -25,587 |
| | -1% | +28,668 | +25,587 |

# 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)

| | 2023<br>$'000 | 2022<br>$'000 |
|---|---|---|
| **Financial assets at amortised cost:** | | |
| Interest income | 27,734 | 3,397 |
| | 27,734 | 3,397 |
| **Financial assets or liabilities at fair value through profit or loss (FVPL):** | | |
| Designated upon initial recognition: | | |
| Interest income/(expense) | 1,943 | (212) |
| Managed unit trust distributions | 355,827 | 312,400 |
| Gain/(loss) on financial instruments | 87,621 | (256,920) |
| Other income | - | 111 |
| | 445,391 | 55,379 |
| Mandatorily measured: | | |
| Loss on financial instruments | (92,713) | (158,152) |
| | (92,713) | (158,152) |
| **Total investment income/(loss)** | **380,412** | **(99,376)** |
| Investment expenses | (36,114) | (35,532) |
| **Net investment income/(loss)** | **344,298** | **(134,908)** |

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 becomes 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 global and economic factors. The final rate of return net of fees for the QIC portfolio for this financial year is 5.77% (2022: -2.48%). 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 2023 (2022: 0.6% and 0.15% respectively). Other investment fees paid to QIC include custody fees and brokerage fees.

## D2 Categories of financial instruments

| | Note | 2023 $'000 Current | 2023 $'000 Non-current | 2023 $'000 Total | 2022 $'000 Current | 2022 $'000 Non-current | 2022 $'000 Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Financial assets at amortised cost: | | | | | | | |
| Cash and cash equivalents | *D2(a)* | 417,991 | - | 417,991 | 130,162 | - | 130,162 |
| Receivables | *D2(b)* | 49,519 | 2,404 | 51,923 | 39,680 | 2,507 | 42,187 |
| Financial assets at FVPL: | | | | | | | |
| Investment assets | *D2(d)* | 1,753,572 | 4,008,770 | 5,762,342 | 1,583,951 | 3,982,758 | 5,566,709 |
| | | **2,221,082** | **4,011,174** | **6,232,256** | **1,753,793** | **3,985,265** | **5,739,058** |
| **Financial liabilities** | | | | | | | |
| Financial liabilities at amortised cost: | | | | | | | |
| Payables | *D2(c)* | 36,310 | - | 36,310 | 19,446 | - | 19,446 |
| Financial liabilities at FVPL: | | | | | | | |
| Investment related liabilities | *D2(d)* | 29,452 | 3,223 | 32,675 | 71,872 | 29,236 | 101,108 |
| | | **65,762** | **3,223** | **68,985** | **91,318** | **29,236** | **120,554** |

### (a) Cash and cash equivalents

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Cash at bank | 417,009 | 129,208 |
| QTC Capital Guaranteed Cash Fund | 982 | 954 |
| | **417,991** | **130,162** |

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 consolidated 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 | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| Premiums and related penalties | | 23,518 | 20,390 |
| Claims and related penalties | | 23,559 | 17,569 |
| Unclosed business | | 13,561 | 12,101 |
| Other debtors | | 3,185 | 1,627 |
| | | 63,823 | 51,687 |
| Less allowance for impairment | *D5(a)* | (11,900) | (9,500) |
| | | **51,923** | **42,187** |

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**

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Trade creditors | 24,811 | 10,233 |
| Premiums in credit | 2,437 | 1,394 |
| Claims creditors | 4,226 | 3,644 |
| | 31,474 | 15,271 |
| GST receivable | (3,566) | (2,891) |
| GST payable | 8,402 | 7,066 |
| Net GST payable | 4,836 | 4,175 |
| | **36,310** | **19,446** |

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**

| | 2023 $'000 | | | 2022 $'000 | | |
|---|---|---|---|---|---|---|
| | **Current** | **Non-current** | **Total** | **Current** | **Non-current** | **Total** |
| **Financial assets at FVPL** | | | | | | |
| Designated upon initial recognition: | | | | | | |
| Cash and cash equivalents | 68,601 | - | 68,601 | 80,973 | - | 80,973 |
| Cash collateral and margin accounts | 20,050 | 3,269 | 23,319 | 27,905 | 20,140 | 48,045 |
| Receivables | 85,705 | - | 85,705 | 172,218 | - | 172,218 |
| Managed unit trusts | 1,567,550 | 3,987,444 | 5,554,994 | 1,283,036 | 3,962,618 | 5,245,654 |
| Debt securities | - | 1,120 | 1,120 | - | - | - |
| Mandatorily measured: | | | | | | |
| Derivatives held for trading | 11,666 | 16,937 | 28,603 | 19,819 | - | 19,819 |
| | **1,753,572** | **4,008,770** | **5,762,342** | **1,583,951** | **3,982,758** | **5,566,709** |
| **Financial liabilities at FVPL** | | | | | | |
| Designated upon initial recognition: | | | | | | |
| Cash and cash equivalents | 4,945 | - | 4,945 | 2,645 | - | 2,645 |
| Cash collateral and margin accounts | - | 1,050 | 1,050 | - | 250 | 250 |
| Payables | 791 | - | 791 | 215 | - | 215 |
| Mandatorily measured: | | | | | | |
| Derivatives held for trading | 23,716 | 2,173 | 25,889 | 69,012 | 28,986 | 97,998 |
| | **29,452** | **3,223** | **32,675** | **71,872** | **29,236** | **101,108** |

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. For all investments excluding derivatives, 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. Refer to note D3 for the policy relating to derivatives.

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 can be called upon by WorkCover 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 (2022: no significant changes). However, notwithstanding that some of WorkCover's investment instruments are complex and interrelated, for greater transparency, WorkCover has provided a breakdown of the investment instruments held by WorkCover's custodian. These instruments consist of cash and cash equivalents, cash collateral and margin accounts, receivables, payables and derivatives. 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 |
|---|---|---|---|---|---|
| **2023** | | | | | |
| **Financial assets** | | | | | |
| QTC Capital Guaranteed Cash Fund | *D2(a)* | - | 982 | - | 982 |
| Investment assets: | | | | | |
| Cash and cash equivalents | *D2(d)* | 68,601 | - | - | 68,601 |
| Cash collateral and margin accounts | *D2(d)* | 23,319 | - | - | 23,319 |
| Receivables | *D2(d)* | 438 | 83,636 | 1,631 | 85,705 |
| Managed unit trusts | *D2(d)* | - | 3,405,137 | 2,149,857 | 5,554,994 |
| Debt securities | *D2(d)* | - | 1,120 | - | 1,120 |
| Derivatives | *D2(d)* | 17,127 | 11,476 | - | 28,603 |
| | | **109,485** | **3,502,351** | **2,151,488** | **5,763,324** |
| **Financial liabilities** | | | | | |
| Investment related liabilities: | | | | | |
| Cash and cash equivalents | *D2(d)* | 4,945 | - | - | 4,945 |
| Cash collateral and margin accounts | *D2(d)* | 1,050 | - | - | 1,050 |
| Payables | *D2(d)* | 791 | - | - | 791 |
| Derivatives | *D2(d)* | 2,173 | 23,716 | - | 25,889 |
| | *D2(d)* | **8,959** | **23,716** | **-** | **32,675** |
| **2022** | | | | | |
| **Financial assets** | | | | | |
| QTC Capital Guaranteed Cash Fund | *D2(a)* | - | 954 | - | 954 |
| Investment assets: | | | | | |
| Cash and cash equivalents | *D2(d)* | 80,973 | - | - | 80,973 |
| Cash collateral and margin accounts | *D2(d)* | 48,045 | - | - | 48,045 |
| Receivables | *D2(d)* | 335 | 55,490 | 116,393 | 172,218 |
| Managed unit trusts | *D2(d)* | - | 3,325,122 | 1,920,532 | 5,245,654 |
| Derivatives | *D2(d)* | - | 19,819 | - | 19,819 |
| | | **129,353** | **3,401,385** | **2,036,925** | **5,567,663** |
| **Financial liabilities** | | | | | |
| Investment related liabilities: | | | | | |
| Cash and cash equivalents | *D2(d)* | 2,645 | - | - | 2,645 |
| Cash collateral and margin accounts | *D2(d)* | 250 | - | - | 250 |
| Payables | *D2(d)* | 215 | - | - | 215 |
| Derivatives | *D2(d)* | 28,986 | 69,012 | - | 97,998 |
| | *D2(d)* | **32,096** | **69,012** | **-** | **101,108** |

There have been no significant transfers in either direction between level 1, level 2 and level 3 during this financial year (2022: 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 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.

**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:

| | 2023<br>$'000 | 2022<br>$'000 |
|---|---|---|
| Balance at 1 July | 2,036,925 | 1,623,039 |
| Acquisitions | 263,408 | 237,253 |
| Disposals | - | (17,999) |
| (Losses)/gains recognised in operating result[1] | (148,845) | 194,632 |
| **Balance at 30 June** | **2,151,488** | **2,036,925** |
| | | |
| [1]Includes unrealised (losses)/gains recognised in operating result attributable to balances held at the end of the reporting period | (34,083) | 80,519 |

**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 $'000 | Valuation approach | Key unobservable inputs | Impact of alternative amounts for significant level 3 inputs |
|---|---|---|---|---|---|
| Managed unit trusts (including receivables) | 2023:<br>2022: | 2,151,488<br>2,036,925 | Independent valuation | 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 | Gross amounts set-off | Net amounts of financial instruments | Amounts subject to master netting agreements | Financial Instrument collateral | Net amounts |
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **2023** | | | | | | | |
| Derivative assets | *D2(d)* | 3,738,088 | (3,709,485) | 28,603 | (5,139) | (1,051) | 22,413 |
| Derivative liabilities | *D2(d)* | (3,735,374) | 3,709,485 | (25,889) | 5,139 | 3,218 | (17,532) |
| | | **2,714** | **-** | **2,714** | **-** | **2,167** | **4,881** |
| **2022** | | | | | | | |
| Derivative assets | *D2(d)* | 3,133,335 | (3,113,516) | 19,819 | (8,301) | (250) | 11,268 |
| Derivative liabilities | *D2(d)* | (3,211,514) | 3,113,516 | (97,998) | 8,301 | 20,148 | (69,549) |
| | | **(78,179)** | **-** | **(78,179)** | **-** | **19,898** | **(58,281)** |

## 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 2023 (2022: 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; and
- 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 2023 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:

| | | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|---|
| | Note | Gross receivables[1] | Loss rate | Expected credit losses | Gross receivables[1] | Loss rate | Expected credit losses |
| **Ageing** | | **$'000** | **%** | **$'000** | **$'000** | **%** | **$'000** |
| Current | | 42,555 | 9.90% | 4,213 | 34,461 | 2.62% | 903 |
| 1-30 days overdue | | 5,917 | 14.49% | 857 | 6,090 | 21.75% | 1,324 |
| 31-60 days overdue | | 1,755 | 29.29% | 514 | 1,043 | 48.85% | 509 |
| 61-90 days overdue | | 1,559 | 38.09% | 593 | 698 | 57.41% | 401 |
| 90+ days overdue | | 12,037 | 47.55% | 5,723 | 9,395 | 67.73% | 6,363 |
| **Total** | *D2(b)* | **63,823** | | **11,900** | **51,687** | | **9,500** |

[1]Includes receivables of $31.514 million (2022: $23.288 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 | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| **Allowance for impairment of receivables during the year:** | | | |
| Balance at 1 July | | 9,500 | 10,000 |
| Net debts written off | | (5,550) | (3,837) |
| Allowance made | | 7,950 | 3,337 |
| **Balance at 30 June** | *D2(b)* | **11,900** | **9,500** |
| | | | |
| Individual impairment assessment | | 2,711 | 7,269 |
| Collective impairment assessment | | 9,189 | 2,231 |
| | *D2(b)* | **11,900** | **9,500** |

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 |
|---|---|---|---|---|---|---|
| **2023** | | | | | | |
| **Financial liabilities** | | | | | | |
| Payables | *D2(c)* | 36,310 | - | - | - | 36,310 |
| Investment related liabilities: | | | | | | |
| Cash and cash equivalents | *D2(d)* | 4,945 | - | - | - | 4,945 |
| Cash collateral and margin accounts | *D2(d)* | - | - | - | 1,050 | 1,050 |
| Payables | *D2(d)* | 791 | - | - | - | 791 |
| Derivatives | *D2(d)* | 23,362 | 354 | - | 2,173 | 25,889 |
| | | **65,408** | **354** | **-** | **3,223** | **68,985** |
| **2022** | | | | | | |
| **Financial liabilities** | | | | | | |
| Payables | *D2(c)* | 19,446 | - | - | - | 19,446 |
| Investment related liabilities: | | | | | | |
| Cash and cash equivalents | *D2(d)* | 2,645 | - | - | - | 2,645 |
| Cash collateral and margin accounts | *D2(d)* | - | - | - | 250 | 250 |
| Payables | *D2(d)* | 215 | - | - | - | 215 |
| Derivatives | *D2(d)* | 69,012 | - | 5,854 | 23,132 | 97,998 |
| | | **91,318** | **-** | **5,854** | **23,382** | **120,554** |

### (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 as in 2022.

**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 18.0% (2022: 16.0%). WorkCover's exposure to foreign currency risk at financial year end was 18.4% (2022: 15.6%) and a breakdown is as follows:

| | US dollar | Euro | British pound | Japanese yen | Other | Total |
|---|---|---|---|---|---|---|
| **2023** | | | Currency (AUD $'000) | | | |
| International equities | 774,352 | 120,718 | 50,393 | 78,972 | 267,417 | 1,291,852 |
| Property | 64,478 | - | - | - | - | 64,478 |
| Infrastructure | 54,142 | - | 8,699 | - | 16,749 | 79,590 |
| Alternatives | 397,644 | 70,534 | 1,122 | - | - | 469,300 |
| Private equity | 376,831 | 118,573 | 50,619 | - | 5,989 | 552,012 |
| Fixed interest | 28,469 | 23,339 | - | - | - | 51,808 |
| Cash | 3,116 | 854 | 6,276 | 3,319 | 4,237 | 17,802 |
| Foreign currency derivatives | (1,042,369) | (254,570) | (77,540) | (22,184) | (78,472) | (1,475,135) |
| | **656,663** | **79,448** | **39,569** | **60,107** | **215,920** | **1,051,707** |

| | US dollar | Euro | British pound | Japanese yen | Other | Total |
|---|---|---|---|---|---|---|
| **2022** | | | Currency (AUD $'000) | | | |
| International equities | 685,151 | 79,726 | 38,769 | 56,898 | 216,372 | 1,076,916 |
| Property | 38,384 | - | - | - | - | 38,384 |
| Infrastructure | 57,252 | - | 13,000 | - | 15,135 | 85,387 |
| Alternatives | 385,838 | 48,580 | 1,960 | - | - | 436,378 |
| Private equity | 347,986 | 89,363 | 32,513 | - | 7,275 | 477,137 |
| Fixed interest | 11,901 | 7,844 | - | - | (949) | 18,796 |
| Cash | 8,987 | 3,057 | 3,292 | (621) | 7,408 | 22,123 |
| Foreign currency derivatives | (1,000,638) | (174,620) | (54,715) | (8,739) | (67,475) | (1,306,187) |
| | **534,861** | **53,950** | **34,819** | **47,538** | **177,766** | **848,934** |

**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% 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 | |
|---|---|---|---|
| | | 2023 $'000 | 2022 $'000 |
| Foreign currency derivatives | +10% | +93,872 | +83,121 |
| | -10% | -103,259 | -91,433 |
| Investments (excluding foreign currency derivatives) | +10% | -160,799 | -137,144 |
| | -10% | +176,879 | +150,859 |
| Total | +10% | -66,927 | -54,023 |
| | -10% | +73,620 | +59,426 |

### 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 |
| **2023** | | | | | | | | |
| **Financial assets** | | | | | | | | |
| Cash and cash equivalents | *D2(a)* | Note [1] | 417,991 | - | - | - | - | 417,991 |
| Receivables | *D2(b)* | 11.25 [2] | - | - | - | - | 51,923 | 51,923 |
| Investments: | | Note [3] | | | | | | |
| Cash and cash equivalents | | | 68,601 | - | - | - | - | 68,601 |
| Cash collateral and margin accounts | | | 20,101 | - | - | 3,218 | - | 23,319 |
| Receivables | | | - | - | - | - | 85,705 | 85,705 |
| Managed unit trusts | | | - | - | - | - | 5,554,994 | 5,554,994 |
| Debt securities | | | - | - | - | - | 1,120 | 1,120 |
| Derivatives | | | - | 1,035 | - | - | 27,568 | 28,603 |
| Total investments | *D2(d)* | Note [3] | 88,702 | 1,035 | - | 3,218 | 5,669,387 | 5,762,342 |
| | *D2* | | **506,693** | **1,035** | **-** | **3,218** | **5,721,310** | **6,232,256** |
| **Financial liabilities** | | | | | | | | |
| Payables | *D2(c)* | | - | - | - | - | 36,310 | 36,310 |
| Investment related liabilities | | | | | | | | |
| Cash and cash equivalents | | | 4,945 | - | - | - | - | 4,945 |
| Cash collateral and margin accounts | | | - | - | - | 1,050 | - | 1,050 |
| Payables | | | - | - | - | - | 791 | 791 |
| Derivatives | | | - | 7,428 | - | - | 18,461 | 25,889 |
| Total investments | *D2(d)* | Note [3] | 4,945 | 7,428 | - | 1,050 | 19,252 | 32,675 |
| | *D2* | | **4,945** | **7,428** | **-** | **1,050** | **55,562** | **68,985** |
| **2022** | | | | | | | | |
| **Financial assets** | | | | | | | | |
| Cash and cash equivalents | *D2(a)* | Note [1] | 130,162 | - | - | - | - | 130,162 |
| Receivables | *D2(b)* | 11.25 [2] | - | - | - | - | 42,187 | 42,187 |
| Investments: | | Note [3] | | | | | | |
| Cash and cash equivalents | | | 80,973 | - | - | - | - | 80,973 |
| Cash collateral and margin accounts | | | 27,897 | - | - | 20,148 | - | 48,045 |
| Receivables | | | - | - | - | - | 172,218 | 172,218 |
| Managed unit trusts | | | - | - | - | - | 5,245,654 | 5,245,654 |
| Derivatives | | | - | 303 | - | - | 19,516 | 19,819 |
| Total investments | *D2(d)* | Note [3] | 108,870 | 303 | - | 20,148 | 5,437,388 | 5,566,709 |
| | *D2* | | **239,032** | **303** | **-** | **20,148** | **5,479,575** | **5,739,058** |
| **Financial liabilities** | | | | | | | | |
| Payables | *D2(c)* | | - | - | - | - | 19,446 | 19,446 |
| Investment related liabilities | | | | | | | | |
| Cash and cash equivalents | | | 2,645 | - | - | - | - | 2,645 |
| Cash collateral and margin accounts | | | - | - | - | 250 | - | 250 |
| Payables | | | - | - | - | - | 215 | 215 |
| Derivatives | | | - | 10,522 | - | - | 87,476 | 97,998 |
| Total investments | *D2(d)* | Note [3] | 2,645 | 10,522 | - | 250 | 87,691 | 101,108 |
| | *D2* | | **2,645** | **10,522** | **-** | **250** | **107,137** | **120,554** |

[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 3.30% (2022: 0.60%) and 3.39% (2022: 0.62%) 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 | |
|---|---|---|---|
| | | 2023 $'000 | 2022 $'000 |
| QTC Capital Guaranteed Cash Fund | +100 | +7 | +7 |
| | -100 | -7 | -7 |
| Investments | +100 | +11,275 | +11,132 |
| | -100 | -11,271 | -11,132 |

**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 | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Australian equities | 510,097 | 474,430 |
| International equities | 1,418,492 | 1,015,430 |
| Private capital | 600,997 | 559,980 |
| Direct property | 313,098 | 338,750 |
| Direct infrastructure | 476,597 | 457,700 |
| Insurance | - | 283,770 |
| Alternatives | 482,397 | 382,470 |
| Global fixed interest | 1,129,893 | 1,204,571 |
| Cash | 555,997 | 628,320 |
| Private debt | 242,099 | 120,180 |
| | **5,729,667** | **5,465,601** |

**Sensitivity analysis**

All other variables remaining constant, based on gross return received from the portfolio, a 1% 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 | |
|---|---|---|---|
| | | 2023 $'000 | 2022 $'000 |
| Equities prices | +1% | +27,729 | +27,239 |
| | -1% | -25,978 | -24,506 |

# 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 | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| Employee expenses | *E2(a)* | 119,541 | 100,298 |
| Contractors | | 21,331 | 9,723 |
| Other administration expenses | | 21,076 | 15,317 |
| Depreciation and amortisation | *F2* | 2,343 | 2,356 |
| Net gain on disposal of property, plant and equipment and intangible assets | *F2* | - | (4) |
| Transfer to allowance for impairment of receivables | | 7,950 | 3,337 |
| Bad debts expense | | 9,986 | 7,130 |
| Workers' Compensation Regulator expenses | | 44,253 | 41,769 |
| Workplace Health and Safety Queensland grant | | 74,403 | 72,412 |
| | | **300,883** | **252,338** |
| Claims handling expenses allocated to gross claims expense | *C1* | (257,511) | (224,044) |
| | | **43,372** | **28,294** |

Total external audit fees quoted in relation to the 2023 consolidated financial statements are $277,500 (2022: $224,000). The Auditor-General of Queensland is the auditor for both WorkCover and WEO. No non-audit services were provided during this financial year (2022: 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 (2022: no special payments made).

## E2 Employee benefits

### (a) Employee expenses

| | Note | 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| Salaries | | 99,743 | 85,020 |
| Employer superannuation contributions | | 10,846 | 9,160 |
| Other employee benefits | | 1,716 | (391) |
| Payroll tax expense | | 5,476 | 4,669 |
| Workers' compensation premium | | 572 | 770 |
| Other employee related expenses | | 1,188 | 1,070 |
| | *E1* | **119,541** | **100,298** |

**Post-employment benefits**

Superannuation

Post-employment benefits for superannuation are provided through defined contribution (accumulation) plans or the Government's 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 (part of Australian Retirement Trust). 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 (part of Australian Retirement Trust).

**(b) Employee benefits liabilities**

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| **Current** | | |
| Accrued salaries and other benefits | 3,858 | 390 |
| Provision for annual leave | 8,090 | 7,727 |
| Provision for long service leave | 13,448 | 12,518 |
| Provision for termination benefits | 143 | 71 |
| | 25,539 | 20,706 |
| **Non-current** | | |
| Provision for long service leave | 2,507 | 2,594 |
| | **28,046** | **23,300** |

| **Reconciliation of provision for employee benefits during the year:** | | |
|---|---|---|
| Balance at 1 July | 23,300 | 24,061 |
| Amounts allocated to provision | 14,200 | 10,113 |
| Reductions in provision as a result of payments | (9,626) | (8,026) |
| Unused provision reversed | - | (187) |
| Discount rate adjustments | 172 | (2,661) |
| **Balance at 30 June** | **28,046** | **23,300** |

**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.

### (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:

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| **No more than 12 months from reporting date:** | | |
| Annual leave | 6,806 | 6,269 |
| Long service leave | 2,525 | 2,440 |
| | **9,331** | **8,709** |
| **More than 12 months from reporting date:** | | |
| Annual leave | 1,284 | 1,458 |
| Long service leave | 13,430 | 12,672 |
| | **14,714** | **14,130** |

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:

| | 2023 | 2022 |
|---|---|---|
| Discount rate | 3.9% | 4.1% |
| Settlement term for long service leave | 5.9 years | 6.0 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 | 7.0% | 3.5% |
| Assumed rate of increase for non-contract salaries - long service leave | 10.0% | 4.7% |
| Assumed rate of increase for contract salaries - annual leave | 7.0% | 3.5% |
| Assumed rate of increase for non-contract salaries - annual leave | 10.0% | 4.7% |
| **Rate increase thereafter** | | |
| Assumed rate of increase for contract salaries - long service leave | 3.0% | 3.5% |
| Assumed rate of increase for non-contract salaries - long service leave | 3.1% | 3.7% |
| Assumed rate of increase for contract salaries - annual leave | 3.0% | 3.5% |
| Assumed rate of increase for non-contract salaries - annual leave | 3.1% | 3.7% |

The number of employees including both full-time employees and part-time employees measured on a full-time equivalent basis is 1,038 (2022: 924).

## 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** Fees[1] **$'000** | **Post employment** Superannuation **$'000** | **Total** **$'000** |
|---|---|---|---|---|
| F Gobbo[2] | 2023 | 78 | 8 | 86 |
| *Chair* | 2022 | 78 | 8 | 86 |
| M Clifford[2] | 2023 | 51 | 5 | 56 |
| *Deputy Chair* | 2022 | 51 | 5 | 56 |
| J Bertram | 2023 | 40 | 4 | 44 |
| *Director* | 2022 | 40 | 4 | 44 |
| J Crittall[2] | 2023 | 43 | 5 | 48 |
| *Director* | 2022 | 43 | 4 | 47 |
| K Dear | 2023 | 40 | 4 | 44 |
| *Director* | 2022 | 40 | 4 | 44 |
| I Leavers | 2023 | 40 | 4 | 44 |
| *Director* | 2022 | 40 | 4 | 44 |
| S McCullagh[3] | 2023 | 33 | 4 | 37 |
| *Director* | 2022 | - | - | - |
| S Morris | 2023 | 44 | 5 | 49 |
| *Director* | 2022 | 44 | 4 | 48 |
| S Schinnerl | 2023 | 40 | 4 | 44 |
| *Director* | 2022 | 40 | 4 | 44 |
| L Rowland[4] | 2023 | - | - | - |
| *Director* | 2022 | 20 | 2 | 22 |
| **Total remuneration:** | **2023** | **409** | **43** | **452** |
| **Directors** | **2022** | **396** | **39** | **435** |

[1] Fees represent amounts paid in cash during the financial year.
[2] The Board contracts for F Gobbo, M Clifford and J Crittall expired on 30 June 2023. The Governor-in-Council appointed new Board members effective from 1 July 2023. The new Board members are A Lynham (appointed Chair), J King (appointed Deputy Chair) and S Havas. All are non-executive Directors.
[3] Commenced on 1 September 2022.
[4] Ceased on 31 December 2021.

**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 | | Termination benefits | Total |
|---|---|---|---|---|---|---|---|---|
| | | Salary[1] | Non-monetary[2] | Superannuation | Annual leave accruals | Long service leave accruals | | |
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| B Watson | 2023 | 467 | 10 | 28 | 38 | 23 | - | 566 |
| *CEO* | 2022 | 406 | 38 | 28 | 39 | 10 | - | 521 |
| B Martin[3] | 2023 | 215 | 2 | 47 | 21 | 10 | - | 295 |
| *Chief New Claims Officer* | 2022 | 96 | 3 | 16 | 8 | 2 | - | 125 |
| C Carras[4] | 2023 | 50 | 1 | 20 | 6 | 19 | 137 | 233 |
| *Chief Claims Management Officer* | 2022 | 267 | 9 | 27 | 26 | (2) | - | 327 |
| C Lajeunesse[5] | 2023 | 223 | 1 | 66 | 22 | 4 | - | 316 |
| *Chief Digital and Information Officer* | 2022 | 167 | 3 | 47 | 17 | 3 | - | 237 |
| D Heley | 2023 | 288 | 17 | 28 | 29 | 20 | - | 382 |
| *Deputy CEO* | 2022 | 276 | 19 | 28 | 28 | 9 | - | 360 |
| E Wright[3] | 2023 | 232 | 2 | 30 | 21 | 8 | - | 293 |
| *Chief People Officer* | 2022 | 99 | 2 | 12 | 8 | 2 | - | 123 |
| J Reid | 2023 | 241 | 5 | 29 | 22 | 12 | - | 309 |
| *Chief Legal Officer* | 2022 | 212 | 4 | 25 | 20 | 5 | - | 266 |
| L Plimmer[6] | 2023 | 137 | 3 | 12 | 12 | 1 | - | 165 |
| *Chief Claims Management Officer* | 2022 | - | - | - | - | - | - | - |
| M Dennett[3] | 2023 | 233 | 9 | 25 | 20 | 5 | - | 292 |
| *Chief Partnerships and Relationships Officer* | 2022 | 103 | 3 | 10 | 8 | 2 | - | 126 |
| N Wenck[7] | 2023 | - | - | - | - | - | - | - |
| *Chief Strategic Development Officer* | 2022 | 112 | 2 | 13 | 12 | 7 | 173 | 319 |
| **Total remuneration:** | **2023** | **2,086** | **50** | **285** | **191** | **102** | **137** | **2,851** |
| **CEO and Senior Executives** | **2022** | **1,738** | **83** | **206** | **166** | **38** | **173** | **2,404** |

[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 31 January 2022.
[4] Ceased on 9 September 2022.
[5] Commenced on 5 October 2021 and ceased on 3 July 2023.
[6] Commenced on 9 January 2023.
[7] Ceased on 31 December 2021.

### 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.

Deputy CEO

The Deputy CEO is responsible for the strategic leadership of the Strategy and Finance Group, ensuring all necessary corporate, and financial management processes and systems are in place to support the achievement of the organisation's commercially focused financial objectives. The Deputy CEO is also responsible for facilitating a collaborative process on the design, development and implementation of strategic initiatives to continue to deliver an outstanding customer experience. The Deputy CEO ceased to act as Company Secretary in December 2021.

Chief Claims Management Officer

The Chief Claims Management Officer is responsible for the strategic leadership of the Claims Management 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.

### 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 Legal Officer

The Chief Legal Officer commenced acting as Company Secretary in December 2021 and oversees common law claims management, provides legal advice and strategy, and ensures effective management of legal and contractual risks.

### Chief New Claims Officer

The Chief New Claims Officer is responsible for the strategic leadership of the registrations and claims determination functions to ensure the effective operation and performance of workers compensation liability decisions.

### Chief Partnerships and Relationships Officer

The Chief Partnerships and Relationships Officer is responsible for the strategic leadership of the Partnerships and Relationships Group in creating trusted community and stakeholder engagement through interactions and relationships that are beneficial to WorkCover's business needs. The Chief Partnerships and Relationships Officer is also responsible for the management of stakeholder relationships business wide.

### Chief People Officer

The Chief People Officer is responsible for the strategic leadership of the people experience function and to provide best practice contemporary workplace management, learning, change management and human resource related solutions to critical people issues.

### 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 Act. 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 Act, 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 Act.

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 (2022: 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.

Queensland Health public hospitals are utilised by WorkCover in the treatment of injured workers. The total payments in this financial year are $49.170 million (2022: $45.863 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 or receivable from Queensland State Government controlled entities in this financial year is $358.957 million (2022: $317.795 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 $34.108 million and $0.001 million respectively (2022: $35.423 million and $0.001 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 $4.830 million (2022: $5.509 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 2021 | | 22,000 | 41,500 | 977 | 12 | 64,489 |
| Acquisitions | | - | 89 | 79 | 254 | 422 |
| Disposals | | - | - | - | (5) | (5) |
| Transfers between asset classes | | - | 1 | 6 | (7) | - |
| Depreciation | | - | (1,746) | (159) | - | (1,905) |
| Revaluation increments | *F4(b)* | 6,000 | 5,156 | - | - | 11,156 |
| **Balance at 30 June 2022** | | **28,000** | **45,000** | **903** | **254** | **74,157** |
| **At 30 June 2022:** | | | | | | |
| Cost or fair value | | 28,000 | 53,265 | 7,423 | 254 | 88,942 |
| Accumulated depreciation | | - | (8,265) | (6,520) | - | (14,785) |
| **Net carrying amount** | | **28,000** | **45,000** | **903** | **254** | **74,157** |
| Balance at 1 July 2022 | | 28,000 | 45,000 | 903 | 254 | 74,157 |
| Acquisitions | | - | 81 | 150 | 9 | 240 |
| Disposals | | - | - | - | (136) | (136) |
| Transfers between asset classes | | - | 118 | - | (118) | - |
| Depreciation | | - | (1,796) | (160) | - | (1,956) |
| Revaluation decrements | *F4(b)* | - | (903) | - | - | (903) |
| **Balance at 30 June 2023** | | **28,000** | **42,500** | **893** | **9** | **71,402** |
| **At 30 June 2023:** | | | | | | |
| Cost or fair value | | 28,000 | 51,215 | 7,573 | 9 | 86,797 |
| Accumulated depreciation | | - | (8,715) | (6,680) | - | (15,395) |
| **Net carrying amount** | | **28,000** | **42,500** | **893** | **9** | **71,402** |

**(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 $3.352 million (2022: $3.245 million) and a written down value of zero is still being used in the provision of services. There is currently no asset (2022: 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 an external independent valuer. 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 2023 and fair value was determined by reference to market based evidence, being active market prices adjusted for any differences in the nature, location or condition of the specific property. The independent valuer used the discounted cash flow, capitalisation and direct comparison approaches to determine the fair value. The land and building has been categorised as level 3 based on sensitivity of fair value to change in the unobservable inputs.

**(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 | 3 to 56 years |
| Plant and equipment | |
| Computer equipment | 5 to 14 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 | Support and maintenance expenditure | Other expenditure | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **2023** | | | | |
| Not later than 1 year | - | 6,230 | 3,426 | 9,656 |
| 1 - 5 years | 19 | 2,477 | 1,186 | 3,682 |
| | **19** | **8,707** | **4,612** | **13,338** |
| **2022** | | | | |
| Not later than 1 year | - | 3,568 | 4,032 | 7,600 |
| 1 - 5 years | - | 1,539 | 276 | 1,815 |
| | **-** | **5,107** | **4,308** | **9,415** |

# 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)**

| | 2023 | 2022 |
|---|---|---|
| | $'000 | $'000 |
| **Deferred tax expense/(benefit)** | **6,032** | **(153,053)** |

| | | |
|---|---|---|
| **Reconciliation of Income tax equivalent expense/(benefit):** | | |
| Operating result for the year before income tax equivalent | 32,862 | (479,228) |
| Income tax equivalent expense/(benefit) at the standard tax rate of 30% (2022: 30%) | 9,859 | (143,768) |
| **Tax effect of adjustments to income tax equivalent expense/(benefit):** | | |
| Gross up of foreign income tax offset received | 2,177 | 1,533 |
| Gross up of franking tax offset received | 2,539 | 4,603 |
| Conversion of franking credit to tax loss | (8,464) | (15,342) |
| Other deductible expenses | (78) | (79) |
| Adjustments for income tax equivalent of prior years | (1) | - |
| **Income tax equivalent expense/(benefit) attributable to operating result** | **6,032** | **(153,053)** |

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

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

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

| | 2023 | 2022 |
|---|---|---|
| | $'000 | $'000 |
| Revaluation of land and building | **(271)** | **3,347** |

**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 | |
|---|---|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Income tax equivalent loss | 316,891 | 247,893 | - | - | 316,891 | 247,893 |
| Investment tax adjustments including unrealised (gain)/loss | - | - | (236,933) | (140,818) | (236,933) | (140,818) |
| Indirect claims handling expense | 110,691 | 90,415 | - | - | 110,691 | 90,415 |
| Employee expenses | 43 | 28 | - | - | 43 | 28 |
| Other provisions | 3,570 | 2,850 | - | - | 3,570 | 2,850 |
| Other items | 1,012 | 1,135 | (85) | (117) | 927 | 1,018 |
| Property, plant and equipment | - | - | (8,486) | (8,948) | (8,486) | (8,948) |
| Intangibles | - | - | (81) | (55) | (81) | (55) |
| Tax assets/(liabilities) | **432,207** | **342,321** | **(245,585)** | **(149,938)** | **186,622** | **192,383** |

| **Movement in deferred tax balances during the year** | **Balance 1 July 2021** | **Recognised in operating result** | **Recognised in other comprehensive income** | **Balance 30 June 2022** | **Recognised in operating result** | **Recognised in other comprehensive income** | **Balance 30 June 2023** |
|---|---|---|---|---|---|---|---|
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Income tax equivalent loss | 181,191 | 66,702 | - | 247,893 | 68,998 | - | 316,891 |
| Investment tax adjustments including unrealised (gain)/loss | (220,906) | 80,088 | - | (140,818) | (96,115) | - | (236,933) |
| Indirect claims handling expense | 84,038 | 6,377 | - | 90,415 | 20,276 | - | 110,691 |
| Employee expenses | 21 | 7 | - | 28 | 15 | - | 43 |
| Other provisions | 3,000 | (150) | - | 2,850 | 720 | - | 3,570 |
| Other items | 1,161 | (143) | - | 1,018 | (91) | - | 927 |
| Property, plant and equipment | (5,893) | 292 | (3,347) | (8,948) | 191 | 271 | (8,486) |
| Intangibles | 65 | (120) | - | (55) | (26) | - | (81) |
| | **42,677** | **153,053** | **(3,347)** | **192,383** | **(6,032)** | **271** | **186,622** |

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 flow.

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 | 2023<br>$'000 | 2022<br>$'000 |
|---|---|---|---|
| Operating result for the year | | 26,830 | (326,175) |
| | | | |
| **Non-cash items included in operating result** | | | |
| Net loss on change in fair value of financial instruments | | 95,947 | 371,474 |
| Net gain on disposal of property, plant and equipment and intangible assets | *E1* | - | (4) |
| Reclassification of work in progress | | 136 | 5 |
| Depreciation and amortisation expense | *E1* | 2,343 | 2,356 |
| Income tax effect on revaluation of land and building | *F4(b)* | 271 | (3,347) |
| | | | |
| **Change in operating assets and liabilities** | | | |
| Increase in receivables | | (28,338) | (70,164) |
| Increase in other assets | | (805) | (53) |
| Decrease/(increase) in net deferred tax | | 5,761 | (149,706) |
| (Decrease)/increase in other liabilities | | (34) | 8 |
| Increase in payables and unearned premium liability | | 19,712 | 8,403 |
| Increase in outstanding claims liability and employee benefits liabilities | | 526,306 | 333,973 |
| **Net cash provided by operating activities** | | **648,129** | **166,770** |

## F3 Leases

**Leases as lessor**

WorkCover has 6 lease agreements (2022: 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 4 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. Minimum lease payments receivable on operating leases are as follows:

| | 2023<br>$'000 | 2022<br>$'000 |
|---|---|---|
| Within 1 year | 568 | 604 |
| Between 1 and 2 years | 422 | 512 |
| Between 2 and 3 years | 437 | 344 |
| Between 3 and 4 years | 368 | 356 |
| Between 4 and 5 years | - | 368 |
| | **1,795** | **2,184** |

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

| | 2023<br>$'000 | 2022<br>$'000 |
|---|---|---|
| Lease income | **1,345** | **1,100** |

## 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 2021 | | 12,320 | 18,837 | 31,157 |
| Revaluation increments | *E4* | 6,000 | 5,156 | 11,156 |
| Income tax effect on revaluation | | (1,800) | (1,547) | (3,347) |
| **Balance at 30 June 2022** | | **16,520** | **22,446** | **38,966** |
| Balance at 1 July 2022 | | 16,520 | 22,446 | 38,966 |
| Revaluation decrements | *E4* | - | (903) | (903) |
| Income tax effect on revaluation | | - | 271 | 271 |
| **Balance at 30 June 2023** | | **16,520** | **21,814** | **38,334** |

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 (2022: no contingent liabilities).

## 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 | 2023 $'000 | | | 2022 $'000 | | |
|---|---|---|---|---|---|---|---|
| | | WorkCover | WorkCover Queensland | WorkCover Employing Office | WorkCover | WorkCover Queensland | WorkCover Employing Office |
| Underwriting expenses | i | (43,372) | (42,844) | (118,343) | (28,294) | (28,177) | (99,232) |
| Investment income/(loss) | ii | 380,412 | 379,886 | 526 | (99,376) | (99,493) | 117 |
| Other income | i | 1,458 | 1,456 | 117,817 | 1,167 | 1,167 | 99,115 |

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 | 2023 $'000 | | | 2022 $'000 | | |
|---|---|---|---|---|---|---|---|
| | | WorkCover | WorkCover Queensland | WorkCover Employing Office | WorkCover | WorkCover Queensland | WorkCover Employing Office |
| **Current assets** | | | | | | | |
| Cash and cash equivalents | | 417,991 | 389,670 | 28,321 | 130,162 | 106,860 | 23,302 |
| Receivables | i | 49,519 | 49,437 | 82 | 39,680 | 39,674 | 6 |
| Other assets | ii | 3,083 | 3,083 | - | 2,410 | 2,023 | 387 |
| **Current liabilities** | | | | | | | |
| Payables | iii | 36,310 | 35,810 | 500 | 19,446 | 18,959 | 487 |
| Employee benefits | iv | 25,539 | 143 | 25,396 | 20,706 | 45 | 20,661 |
| **Non-current liabilities** | | | | | | | |
| Employee benefits | iv | 2,507 | - | 2,507 | 2,594 | 47 | 2,547 |

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 $0.491 million (2022: $0.420 million) and other WEO payables of $0.009 million (2022: $0.067 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 | 2023 $'000 | | | 2022 $'000 | | |
|---|---|---|---|---|---|---|---|
| | | WorkCover | WorkCover Queensland | WorkCover Employing Office | WorkCover | WorkCover Queensland | WorkCover Employing Office |
| **Cash flows from operating activities** | | | | | | | |
| Interest received | | 27,981 | 27,518 | 463 | 3,070 | 2,956 | 114 |
| GST collected on sales | | 214,389 | 214,337 | 52 | 181,665 | 181,612 | 53 |
| GST paid on purchases | | (32,429) | (32,201) | (228) | (30,543) | (30,314) | (229) |
| Employee benefits expense paid | i | - | - | (113,125) | - | - | (99,580) |
| Employment services revenue received | i | - | - | 117,893 | - | - | 99,185 |
| Other operating income received | ii | 1,578 | 1,578 | 2 | 1,195 | 1,195 | 1 |
| Other operating expenses paid | iii | (38,848) | (43,580) | (38) | (28,101) | (27,662) | (45) |

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 payments.

## F7 Controlled entity

**Summary of WEO financial statements**

| | 2023<br>$'000 | 2022<br>$'000 |
|---|---|---|
| **Statement of comprehensive income** | | |
| Revenue | 118,343 | 99,232 |
| Expenses | 118,343 | 99,232 |
| **Operating result for the year** | - | - |
| | | |
| **Statement of financial position** | | |
| Total assets | 28,403 | 23,695 |
| Total liabilities | 28,403 | 23,695 |
| **Net assets** | - | - |

## F8 Summary of additional significant accounting policies

**(a) Changes in accounting policies and disclosures**

There have been no changes in accounting policies, standards and amendments to standards relevant to WorkCover that have been applied for the first time in the presentation of these consolidated financial statements from 1 July 2022.

**(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 2022 and have not been early adopted in preparing these consolidated financial statements.

The nature and effects of the standard applicable to WorkCover that is not yet effective is as follows:

**Insurance Contracts**

AASB 17 *Insurance Contracts* 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 mandatory application date of AASB 17 for public sector entities has been deferred to annual periods beginning on or after 1 July 2026 as a result of the following amendment standards issued by the AASB:

- AASB 2022-8 *Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments* which permits public sector entities to continue to apply AASB 4 and AASB 1023 up until 30 June 2026; and
- AASB 2022-9 *Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector* which amends AASB 17 to include modifications that apply to public sector entities from 1 July 2026.

The modifications under AASB 2022-9 relate to providing public sector entities with:

- pre-requisites, indicators and other considerations that need to be judged to identify arrangements that fall within the scope of AASB 17 in a public sector context;
- an exemption from sub-grouping onerous versus non-onerous contracts at initial recognition;
- an exemption from sub-grouping contracts issued no more than a year apart;
- an amendment to the initial recognition requirements so that they do not depend on when contracts become onerous;
- guidance on coverage periods in a public sector context, which has consequences for determining the cash flows used to measure insurance liabilities and the pattern of revenue recognition;
- an accounting policy choice to measure liabilities for remaining coverage applying the premium allocation approach; and
- a transition requirement grandfathering the existing classification of arrangements constituting a liability for settlement of claims incurred before the liability was acquired in a transfer as either a liability for incurred claims within the scope of AASB 17 or a provision within the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

WorkCover is in the process of reviewing AASB 17 and AASB 2022-09 to determine the impact on the daily operations, record keeping and disclosure requirements in the consolidated financial statements.

**Fair Value Measurement**

AASB 2022-10 *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities* applies from reporting periods beginning on or after 1 January 2024. AASB 2022-10 amends AASB 13 *Fair Value Measurement* to include authoritative implementation guidance and providing related illustrative examples for fair value measurements of non-financial assets of not-for-profit public sector entities not held primarily for their ability to generate net cash inflows.

WorkCover does not expect any significant impact as a result of applying this amendment 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 consolidated 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 2023 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.

22 August 2023

A Lynham
BDSC BMed (HONS), FRACDS (OMS) FRCS Ed
CHAIR

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

Queensland Audit Office
Better public services

# 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 (WorkCover) and its controlled entity (the Group).

In my opinion, the financial report:

a) gives a true and fair view of the Group's financial position as at 30 June 2023, and its 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 2023, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements including significant accounting policies, 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 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 gross outstanding claims liability ($4,754m)**
**Refer to Note C2 to the financial report.**

| Key audit matter | How my audit addressed the key audit matter |
|---|---|
| **Valuation of outstanding claims liabilities**<br><br>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 2023 or outside the control of WorkCover (refer Note C2(d) for key assumptions and judgements). | I engaged an auditor's actuarial expert to assist me in:<br><br>• evaluating the actuarial models for changes made to the prior year's models.<br>• considering of the appropriateness of the assumptions adopted and methodologies applied for the individual benefit types.<br>• considering the reasonableness of movements in key claim experience and their impact on the calculation of the outstanding claims liability<br>• benchmarking key economic assumptions to observable market data.<br><br>In engaging an auditor's actuarial expert to assist me in addressing this key audit matter I have assessed:<br><br>• their qualifications, competence, capabilities, objectivity and the nature, scope and objectives of the work completed for appropriateness.<br>• their findings and conclusions for relevance, reasonableness and consistency with the evidence obtained. |

## Other information

Other information comprises the information included in the Group's annual report for the year ended 30 June 2023 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.

## 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 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 theGroup 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 forming an opinion on the effectiveness of the entity's internal controls, but allows me to form an opinion on compliance with prescribed requirements.
- Evaluate the appropriateness of material accounting policy information used and the reasonableness of accounting estimates and related disclosures made by the Group.
- Conclude on the appropriateness of the 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 Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to form 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 2023:

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.

mluwinga

22 August 2023

Martin Luwinga
as delegate of the Auditor-General

Queensland Audit Office
Brisbane

**ACTUARIAL CERTIFICATE FOR OUTSTANDING CLAIMS LIABILITIES AS AT 30 JUNE 2023**

PricewaterhouseCoopers Consulting (Australia) Pty Ltd was requested by WorkCover Queensland to advise on its provisions for outstanding claims liabilities at 30 June 2023.

**VALUATION REPORT**

Full details of data, methodology and assumptions are set out in our report dated 1 August 2023. 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 2023 is **$4,477.4 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 2023 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

1 August 2023