

Return to Work Corporation of South Australia

Financial report
for the year ended
30 June 2018



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To the Chair of the Board of Management Return to Work Corporation of South Australia

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 19 of the *Return to Work Corporation of South Australia Act 1994*, I have audited the financial report of the Return to Work Corporation of South Australia for the financial year ended 30 June 2018.

Opinion

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Return to Work Corporation of South Australia as at 30 June 2018, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2018
- a Statement of Financial Position as at 30 June 2018
- a Statement of Changes in Equity for the year ended 30 June 2018
- a Statement of Cash Flows for the year ended 30 June 2018
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chair, the Chief Executive Officer, and the Chief Financial Officer.

Inherent uncertainty – outstanding claims liability and funding ratio

Without qualification to the opinion expressed above, attention is drawn to notes 4, 9 and 10 of the financial report.

There is significant uncertainty surrounding the financial impact of legislative reforms which will only become clearer as outstanding claims experience emerges in future financial periods. If in future years the actual costs of claims described in notes 9 and 10 are greater than the balances recorded in the financial statements, this will adversely impact the funding ratio described in note 6.

Basis for opinion

I conducted the audit in accordance with the *Public Finance and Audit Act 1987* and 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 Return to Work Corporation of South Australia. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General. In conducting the audit, the relevant ethical requirements of APES 110 Code of Ethics for Professional Accountants have been met.

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

Responsibilities of the Chief Executive Officer and members of the Board for the financial report

The Chief Executive Officer is responsible for the preparation of the financial report that gives a true and fair view in accordance with the Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial report that gives a true and fair view and that is free from material misstatement, whether due to fraud or error.

The members of the Board are responsible for overseeing the entity's financial reporting process.

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 Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with 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
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive Officer
- 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.

My report refers only to the financial report described above and does not provide assurance over the integrity of electronic publication by the entity on any website nor does it provide an opinion on other information which may have been hyperlinked to/from the report.

I communicate with the Chief Executive Officer about, 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 the audit.



Andrew Richardson

Auditor-General

12 September 2018

ReturnToWorkSA

ABN 83 687 563 395

**Annual financial report
for the year ended 30 June 2018**

ReturnToWorkSA

Annual financial report - 30 June 2018

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**ReturnToWorkSA
Statement of Comprehensive Income
For the year ended 30 June 2018**

	Notes	2018 \$'000	2017 \$'000
Premium revenue	7(a)	521,030	517,140
Cost of claims	8	(607,371)	(356,749)
Claims management fees		(61,645)	(65,842)
Tribunal and ombudsman fees	11	(8,343)	(8,377)
Underwriting result		(156,329)	86,172
Net investment profit	7(b)	218,879	209,623
Self-insured employer fee	7(c)	12,925	12,099
Other income	7(d)	275	665
Net investment profit and other income		232,079	222,387
General operating expenses	12	(58,250)	(63,990)
Operating profit/(loss) before tax equivalents		17,500	244,569
Tax equivalents	13	-	(73,371)
Operating profit/(loss) after tax equivalents		17,500	171,198
Other comprehensive income - items that will not be reclassified to profit or loss			
Re-measurements of defined benefit liability	14(d)	9,208	4,238
Total comprehensive result		26,708	175,436

The total comprehensive result is attributable to the SA Government as owner.

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

ReturnToWorkSA
Statement of Financial Position
As at 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Assets			
Cash	16	2	3
Trade and other receivables	17	63,359	65,432
Investments	18	3,230,703	2,991,426
Property, plant and equipment	19	3,180	4,309
Intangible assets	20	8,694	13,322
Total assets		<u>3,305,938</u>	<u>3,074,492</u>
Liabilities			
Trade and other payables	22	23,137	19,356
Outstanding claims	9, 10	2,748,862	2,459,637
Employee benefits	14(c)	6,435	16,989
Provisions	23	-	4,343
Tax equivalents	13	-	73,371
Total liabilities		<u>2,778,434</u>	<u>2,573,696</u>
Net assets		<u>527,504</u>	<u>500,796</u>
Equity			
Retained earnings		<u>527,504</u>	<u>500,796</u>
Total equity		<u>527,504</u>	<u>500,796</u>
Commitments	27		
Employer financial guarantees	28		
Self-Insured Insolvency Contribution Aggregate	29		
Contingent liabilities	30		

The total equity is attributable to the SA Government as owner.

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

ReturnToWorkSA
Statement of Changes in Equity
For the year ended 30 June 2018

	2018 \$'000	2017 \$'000
Total equity at the start of the year	500,796	325,360
Total comprehensive result	<u>26,708</u>	<u>175,436</u>
Total equity at the end of the year	<u>527,504</u>	<u>500,796</u>

All changes in equity are attributable to the SA Government as owner.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**ReturnToWorkSA
Statement of Cash Flows
For the year ended 30 June 2018**

	Notes	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Premium receipts		584,432	579,330
Claim recoveries		16,960	11,232
Other receipts		303	332
Claim and other related payments		(345,496)	(390,952)
Interest received		35,344	36,605
Dividends received		71,189	49,733
Other payments to suppliers and employees		(122,596)	(127,984)
GST		(38,990)	(37,839)
Tax equivalents paid		(73,371)	-
Investment expenses		(6,371)	(5,133)
Net cash flows from/(used in) operating activities	24	<u>121,404</u>	<u>115,324</u>
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		-	6
Proceeds from the sale of investments		1,271,631	519,807
Acquisition of property, plant and equipment		(266)	(1,530)
Acquisition of investments		(1,394,082)	(588,000)
Net cash flows from/(used in) investing activities		<u>(122,717)</u>	<u>(69,717)</u>
Net increase/(decrease) in cash and cash equivalents		(1,313)	45,607
Cash and cash equivalents at the beginning of the period		127,622	82,015
Cash and cash equivalents at the end of the period	16	<u>126,309</u>	<u>127,622</u>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

ReturnToWorkSA
Notes to and forming part of the financial statements
30 June 2018

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ReturnToWorkSA
Notes to and forming part of the financial statements
30 June 2018

Note 1 Reporting entity and objectives

ReturnToWorkSA (RTWSA), the principal trading name of the Return to Work Corporation of South Australia is a statutory authority set up under the Return to Work Corporation of South Australia Act 1994. Domiciled in Australia RTWSA provides insurance protection for South Australian employers and their workers in the event of work-related injury. RTWSA administers the Return to Work Act 2014 (the Act).

For financial reporting purposes four separate funds are recognised as comprising RTWSA:

- Compensation Fund
- Statutory Reserve Fund
- Insurance Assistance Fund
- Mining and Quarrying Industries Fund

Compensation Fund

The Compensation Fund was established on 30 September 1987 under Section 64 of the repealed Workers Rehabilitation and Compensation Act 1986 and continues under the Return to Work Act 2014. Workers injured at work are supported and assisted in returning to work through the payment of income support, medical and other treatment costs.

Statutory Reserve Fund

The Statutory Reserve Fund was established under the repealed Workers Compensation Act 1971 and came into operation in 1980 against which claims relating to workers compensation could be made in the event of the insolvency of an insurance company or the insolvency of an uninsured employer.

The Compensation Fund is required to meet any liability arising from a shortfall of the Statutory Reserve Fund.

Insurance Assistance Fund

The Insurance Assistance Fund exists to support policies issued under Section 118(g) of the repealed Workers Compensation Act 1971. These policies provided assistance to employers who were unable to obtain satisfactory workers compensation insurance under the repealed act at a determined premium.

The Statutory Reserve Fund is required to meet any liability arising from a shortfall of the Insurance Assistance Fund.

Mining and Quarrying Industries Fund

Amendments to the repealed Workers Rehabilitation and Compensation Act 1986 provided for the establishment of the Mining and Quarrying Industries Fund to replace the Silicosis Fund. Funds standing to the credit of the Silicosis Fund were transferred to RTWSA and credited to a special account entitled 'Mining and Quarrying Industries Fund' which is divided into two parts:

Part A - to satisfy liabilities under the Silicosis Scheme established under the repealed act; and,

Part B - to be available to the Mining and Quarrying Occupational Health and Safety Committee for the purposes referred to in schedule 2 of the Work Health and Safety Act 2012.

Note 2 Statement of compliance

These financial statements have been prepared in compliance with section 23 of the Public Finance and Audit Act 1987.

The financial statements are general purpose financial statements. The accounts have been prepared in accordance with relevant Australian Accounting Standards (AASBs) and comply with Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the Public Finance and Audit Act 1987.

ReturnToWorkSA
Notes to and forming part of the financial statements
30 June 2018

Note 2 Statement of compliance (continued)

RTWSA has applied Australian Accounting Standards that are applicable for not-for-profit-entities, as RTWSA is a not-for-profit entity. Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective, have not been adopted by RTWSA for the period ending 30 June 2018.

Note 3 Basis of preparation

The financial statements have been prepared based on a twelve month period and are presented in Australian currency and have been rounded to the nearest thousand dollars (\$'000s).

RTWSA operates within the insurance industry predominantly providing for the recovery, return to work and compensation of workers with respect to injuries and diseases arising from their employment. The coverage provided is similar in nature to general insurance and accordingly the accounting standard AASB 1023 'General Insurance Contracts' is applied. RTWSA operates solely in the State of South Australia.

The assets backing insurance liabilities (outstanding claims) are those assets required to cover the insurance liabilities. Insurance liabilities are defined as outstanding claims and the liability for unearned premiums included in the Statement of Financial Position. As RTWSA operates solely in one industry and substantially all of its liabilities are insurance liabilities, RTWSA considers that substantially all of its assets, excluding property, plant and equipment, and intangible assets exist to back these insurance liabilities. As part of its investment strategy RTWSA seeks to manage its assets allocated to insurance activities having regard to the characteristics of the insurance liabilities.

The Statement of Financial Position is prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity. The assets and liabilities comprise both current amounts and non-current amounts. Information regarding the amount of an item that is expected to be outstanding longer than 12 months is included within the relevant note to the financial statements.

Note 4 Use of judgements and estimates

RTWSA makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on RTWSA and that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are those related to the valuation of the outstanding claims liability.

Outstanding claims liability

RTWSA takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The details of the valuation of the outstanding claims liability are set out in Notes 9 and 10.

The outstanding claims liability has been established on the basis of independent actuarial assessments of the estimated costs of settlement of claims, inflated for the anticipated effects of inflation and other factors and discounted to a present value at the reporting period. Risk-free rates are used when discounting liabilities to current values. RTWSA has adopted a risk margin of 15.0% for the Compensation Fund (2017: 15.0%) and 10.5% for the Statutory Reserve Fund (2017: 10.5%) and the Insurance Assistance Fund (2017: 10.5%) to value all the outstanding claims liabilities (apart from the liabilities relating to asbestos related diseases where the applicable percentage adopted is 45.0% (2017: 45.0%) at 75% (2017: 75%) probability of sufficiency as approved by the Board. The risk margins were determined based on advice from Finity Consulting Pty Limited.

The outstanding claims liability includes a liability in respect of the estimated cost of claims incurred but not settled at the reporting period, including the cost of claims incurred but not yet reported (IBNR) to RTWSA. The IBNR which relates principally to claims for asbestos related diseases affects mainly the Statutory Reserve Fund and the Insurance Assistance Fund. The outstanding liability for the Mining and Quarrying Industries Fund, which had its triennial valuation at 30 June 2016, is \$100,000.

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Notes to and forming part of the financial statements
30 June 2018

Note 4 Use of judgements and estimates (continued)

The estimated cost of claims includes estimates of the direct expenses to be incurred in settling claims net of the expected recoveries.

Premiums receivable

The premiums receivable balance is the estimate of premiums due up to 30 June to be received after allowing for impairment and refunds.

Note 5 Reporting by fund

(a) Statement of Comprehensive Income for the year ended 30 June 2018

	Compensation Fund Notes	Statutory Reserve Fund \$'000	Insurance Assistance Fund \$'000	Mining & Quarrying Industries Fund		2018 Total Funds \$'000	2017 Total Funds \$'000
				Part A \$'000	Part B \$'000		
Premium revenue	521,030	-	-	-	-	521,030	517,140
Cost of claims	(608,937)	1,548	18	-	-	(607,371)	(356,749)
Claims management fees	(61,645)	-	-	-	-	(61,645)	(65,842)
Tribunal and ombudsman fees	(8,343)	-	-	-	-	(8,343)	(8,377)
Underwriting Result	(157,895)	1,548	18	-	-	(156,329)	86,172
Net investment profit	203,611	12,188	1,908	22	1,150	218,879	209,623
Self-insured employer fee	12,925	-	-	-	-	12,925	12,099
Other income	275	-	-	-	-	275	665
Net investment profit and other income	216,811	12,188	1,908	22	1,150	232,079	222,387
General operating expenses	(56,987)	(5)	-	-	(1,258)	(58,250)	(63,990)
Operating profit/(loss) before tax equivalents	1,929	13,731	1,926	22	(108)	17,500	244,569
Tax equivalents	-	-	-	-	-	-	(73,371)
Operating profit/(loss) after tax equivalents	1,929	13,731	1,926	22	(108)	17,500	171,198
Other comprehensive income - items that will not be reclassified to profit or loss							
Re-measurements of defined benefit liability	9,208	-	-	-	-	9,208	4,238
Total comprehensive result	11,137	13,731	1,926	22	(108)	26,708	175,436

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Notes to and forming part of the financial statements
30 June 2018

Note 5 Reporting by fund (continued)

(b) Statement of Financial Position as at 30 June 2018

	Notes	Compensation Fund \$'000	Statutory Reserve Fund \$'000	Insurance Assistance Fund \$'000	Mining & Quarrying Industries Fund		2018 Total Funds \$'000	2017 Total Funds \$'000
					Part A \$'000	Part B \$'000		
Assets								
Cash		2	-	-	-	-	2	3
Trade and other receivables		63,319	-	-	-	40	63,359	65,432
Investments		3,015,129	172,551	27,112	315	15,596	3,230,703	2,991,426
Property, plant and equipment		3,180	-	-	-	-	3,180	4,309
Intangible assets		8,694	-	-	-	-	8,694	13,322
Total assets		3,090,324	172,551	27,112	315	15,636	3,305,938	3,074,492
Liabilities								
Trade and other payables		22,972	-	-	-	165	23,137	19,356
Outstanding claims	9, 10	2,676,838	71,729	195	100	-	2,748,862	2,459,637
Employee benefits		6,435	-	-	-	-	6,435	16,989
Provisions		-	-	-	-	-	-	4,343
Tax equivalents		-	-	-	-	-	-	73,371
Total liabilities		2,706,245	71,729	195	100	165	2,778,434	2,573,696
Net assets		384,079	100,822	26,917	215	15,471	527,504	500,796
Equity								
Retained earnings		384,079	100,822	26,917	215	15,471	527,504	500,796
Total earnings		384,079	100,822	26,917	215	15,471	527,504	500,796

Note 6 Funding ratio

The funding ratio is a measure of financial sustainability showing the availability of assets to fund the Scheme's liabilities.

The Board approved policy sets a funding range of 90% to 120%. The percentage is calculated from dividing total assets by total liabilities.

	2018 \$'000	2017 \$'000
Funded position	<u>527,504</u>	<u>500,796</u>
Funding percentage	<u>119.0%</u>	<u>119.5%</u>

The mechanism for managing the funding position is the Average Premium Rate. Each year the Average Premium Rate is reviewed and future projections of Scheme liability and cost are analysed to determine the most appropriate Average Premium Rate to achieve RTWSA's desired long-term funding and pricing position.

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Notes to and forming part of the financial statements
30 June 2018

Note 7 Income

(a) Premium revenue

	2018 \$'000	2017 \$'000
Registered employer premium	519,646	516,023
Fines and penalties	1,384	1,117
Premium revenue	<u>521,030</u>	<u>517,140</u>

Premium revenue

Premiums are payable by all registered South Australian employers under the Act.

Premiums are calculated on the total remuneration paid by employers for the financial year, including consideration for claims experience and are recognised on an accruals basis in respect to the financial year for which the remuneration is paid. Estimates are included for premiums relating to the current financial year which are payable following the reporting period. Premiums attributable to future years and received in the current financial year have been classified as unearned premiums (refer Note 22).

(b) Net Investment profit

	2018 \$'000	2017 \$'000
Dividends	71,189	49,733
Interest received	35,344	36,605
Change in net market values:		
Investment held at end of financial year	117,885	106,792
Investment realised during the financial year	253	21,159
Investment profit	<u>224,671</u>	<u>214,289</u>
Investment expenses	<u>(5,792)</u>	<u>(4,666)</u>
Net investment profit	<u>218,879</u>	<u>209,623</u>

Investment income

Interest income is recognised in the Statement of Comprehensive Income as it accrues, using the effective interest method. Dividend income is recognised in the Statement of Comprehensive Income on the date RTWSA's right to receive payments is established which in the case of quoted securities is the ex-dividend date.

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Notes to and forming part of the financial statements
30 June 2018

Note 7 Income (continued)

(c) Self-insured employer fee

	2018 \$'000	2017 \$'000
Self-insured employer fee - SA Government	5,761	5,572
Self-insured employer fee - Non SA Government	7,164	6,527
Self-insured employer fee	<u>12,925</u>	<u>12,099</u>

(d) Other income

	2018 \$'000	2017 \$'000
Defined benefit fund	-	363
Sundry income	275	302
Other income	<u>275</u>	<u>665</u>

Note 8 Cost of claims

	Notes	2018 \$'000	2017 \$'000
Income support		116,313	138,558
Redemptions		1,132	23,327
Lump sum payments		48,419	52,576
Hospital treatment		14,393	14,617
Medical treatment		63,770	61,377
Vocational rehabilitation		13,387	14,683
Physiotherapy		8,892	8,477
Legal costs		31,596	28,847
Other		22,507	22,857
Claims paid		<u>320,409</u>	365,319
Less recoveries from other parties		<u>(15,418)</u>	(10,211)
Net claims paid		304,991	355,108
Increase/(decrease) in net outstanding claims liability	9, 10	293,957	(5,786)
Net self-insurer settlements		<u>8,423</u>	7,427
Cost of claims		<u>607,371</u>	<u>356,749</u>

Claim recoveries

Claims recoveries are made from a range of parties in accordance with the Act.

Recoveries received are offset against the cost of claims. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims in that they are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims. Movements in recoveries receivable are also shown as a cost of claims.

ReturnToWorkSA
Notes to and forming part of the financial statements
30 June 2018

Note 9 Outstanding claims liability - Compensation Fund

(a) Outstanding claims

	2018	2017
Notes	\$'000	\$'000
Expected future gross claims payments (undiscounted)	4,632,619	4,942,977
Discount to present value	<u>(2,304,934)</u>	<u>(2,868,370)</u>
Central estimate	2,327,685	2,074,607
Risk margin	<u>349,153</u>	<u>311,191</u>
Liability for outstanding claims	2,676,838	2,385,798
Recoveries	17 <u>(61,044)</u>	<u>(65,776)</u>
Net liability for outstanding claims	<u>2,615,794</u>	<u>2,320,022</u>
Current liability for outstanding claims	372,918	394,777
Non-current liability for outstanding claims	<u>2,303,920</u>	<u>1,991,021</u>
Total liability for outstanding claims	<u>2,676,838</u>	<u>2,385,798</u>
Change in liability for outstanding claims	291,040	(23,105)
Change in claim recoveries receivable	<u>4,732</u>	<u>15,105</u>
Movement in net outstanding claims liability	<u>295,772</u>	<u>(8,000)</u>
Weighted average expected term to settlement	<u>15.0 years</u>	<u>15.0 years</u>

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date by RTWSA, with an additional risk margin to allow for the inherent uncertainty in the central estimate. Under Actuarial Professional Standard 300, Valuations of General Insurance Claims, the central estimate is the best estimate of the expected liabilities for outstanding claims based on information currently available and exhibits no bias either towards a pessimistic or an optimistic outcome. A risk margin is applied to the outstanding claims liability to reflect the inherent uncertainty in the central estimate of the outstanding claims liability. The risk margin increases the probability that the net liability is adequately provided to approximately a 75% (2017: 75%) probability of sufficiency as approved by the Board.

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not yet reported, claims incurred but under reported and anticipated claims handling expenses including the run-off provision. The expected future payments are discounted to present value using an appropriate risk-free rate.

The claims expense or income in the Statement of Comprehensive Income comprise claims paid and the change in the liability for outstanding claims both reported and unreported, including the risk margin and claims handling expenses.

The value of the claims liability is determined by RTWSA following an independent actuarial valuation by Finity Consulting Pty Limited. The value of the outstanding claims liability is based on a central estimate and includes a risk margin of 15.0% (2017: 15.0%) to bring the estimated net liability to a 75% (2017: 75%) probability of sufficiency.

The split of the outstanding claims liability between current and non-current liabilities is based on actuarial advice from Finity Consulting Pty Limited. Should the timing of cash flows vary from that projected by Finity Consulting Pty Limited then the proportions of the overall claims liability that are shown as current and non-current may vary.

ReturnToWorkSA
Notes to and forming part of the financial statements
30 June 2018

Note 9 Outstanding claims liability - Compensation Fund (continued)

(a) Outstanding claims (continued)

The RTW Scheme is designed to provide services and up to two years of income support and up to three years of medical support for workers injured at work together with long-term financial support for those seriously injured at work. Assumptions adopted in relation to the projected future payments made to claims are detailed below in Note 9(e).

The estimate of the value of the claims liability is based on the Act including the transitional provisions. Any divergence of the experience from the current valuation assumptions, whether favourable or adverse, will be reflected over time in relation to valuation assumptions.

Developments which potentially affect the Scheme's operating environment and the uncertainty of the liability estimate include:

- employer premium changes introduced with the intention of increasing the engagement of employers in the prevention and management of workplace injuries
- future cost growth in medical and treatment related expenditure items, particularly for long term claims
- the outcomes for claims with pending disputes
- actual experience for two year income support claims and whole person impairment assessments
- actual experience for serious injury claims
- the culture of the scheme and the implications for return to work outcomes
- future changes in the overall economic environment.

The increase in the outstanding claims liability includes the net impact of the decrease in the average discount rate from 3.87% at 30 June 2017 to 3.33% at 30 June 2018.

Note 9(f) sets out the impact of changes in the key assumptions on which the valuation of the outstanding claims liability is based.

(b) Net claims incurred

	Current year \$'000	Prior years \$'000	2018 Total \$'000	Current year \$'000	Prior years \$'000	2017 Total \$'000
Undiscounted						
Gross incurred	844,952	(842,149)	2,803	927,974	459,417	1,387,391
Recoveries	(11,983)	1,064	(10,919)	(12,972)	15,830	2,858
Net incurred	832,969	(841,085)	(8,116)	915,002	475,247	1,390,249
Discounted						
Gross incurred	548,633	102,122	650,755	538,765	(105,915)	432,850
Recoveries	(11,057)	171	(10,886)	(12,033)	15,352	3,319
Net incurred	537,576	102,293	639,869	526,732	(90,563)	436,169
Discount and discount movement						
Gross incurred	(296,319)	944,271	647,952	(389,209)	(565,332)	(954,541)
Recoveries	926	(893)	33	939	(478)	461
Net discount movement	(295,393)	943,378	647,985	(388,270)	(565,810)	(954,080)

The figures for current period claims relate to the risks borne in the current reporting period. The figures for prior period claims relate to the reassessment of the risks borne in all previous reporting periods.

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Note 9 Outstanding claims liability - Compensation Fund (continued)

(c) Claims development

	Prior years*	Year ended 30 June 2008 \$'000	Year ended 30 June 2009 \$'000	Year ended 30 June 2010 \$'000	Year ended 30 June 2011 \$'000	Year ended 30 June 2012 \$'000	Year ended 30 June 2013 \$'000	Year ended 30 June 2014 \$'000	Year ended 30 June 2015 \$'000	Year ended 30 June 2016 \$'000	Year ended 30 June 2017 \$'000	Year ended 30 June 2018 \$'000
Estimate of ultimate claims cost**												
At the end of the year	5,797,806	445,035	471,917	506,902	527,850	625,012	665,173	574,982	353,734	406,719	411,384	421,395
One year later	5,791,370	447,935	480,472	487,196	586,296	616,974	602,689	403,139	373,333	407,683	407,586	-
Two years later	5,731,192	461,964	489,652	521,046	562,035	581,152	435,366	400,500	339,167	409,268	-	-
Three years later	5,694,282	457,878	517,651	499,973	545,014	415,185	448,842	387,006	364,908	-	-	-
Four years later	5,681,237	492,947	525,857	515,277	448,017	416,116	433,620	401,390	-	-	-	-
Five years later	5,700,812	513,198	542,833	420,122	429,945	413,940	426,533	-	-	-	-	-
Six years later	5,707,813	510,115	415,349	432,573	405,541	415,322	-	-	-	-	-	-
Seven years later	5,693,994	400,071	406,873	416,154	415,383	-	-	-	-	-	-	-
Eight years later	5,598,275	407,104	397,925	418,988	-	-	-	-	-	-	-	-
Nine years later	5,638,163	397,154	403,565	-	-	-	-	-	-	-	-	-
Ten years later	5,602,102	397,998	-	-	-	-	-	-	-	-	-	-
Eleven years later	5,681,006	-	-	-	-	-	-	-	-	-	-	-
Current estimate of cumulative claims costs**	5,681,006	397,998	403,565	418,988	415,383	415,322	426,533	401,390	364,908	409,268	407,586	421,395
Cumulative payments**	5,472,055	351,497	360,335	339,060	341,153	340,883	327,951	284,433	226,507	210,656	152,103	61,262
Outstanding payments**	208,951	46,501	43,230	79,928	74,230	74,439	98,582	116,957	138,401	198,612	255,483	360,133
Discount adjustment***	224,767	20,496	15,078	22,979	17,954	13,884	13,519	11,998	10,440	10,060	7,780	5,402
Net outstanding claims	433,718	66,997	58,308	102,907	92,184	88,323	112,101	128,955	148,841	208,672	263,263	365,535

* Development of incurred cost estimate as at 30 June 2008 for accidents prior to 30 June 2007.

** Discounted to the beginning of the accident year using actual historical discount rates and the discount rates applied in the estimation.

*** Discount adjustment from beginning of accident year to current valuation date.

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Notes to and forming part of the financial statements
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Note 9 Outstanding claims liability - Compensation Fund (continued)

(c) Claims development (continued)

	2018 \$'000	2017 \$'000
Prior years	433,718	413,313
Year ended 30 June 2008	66,997	67,888
Year ended 30 June 2009	58,308	55,344
Year ended 30 June 2010	102,907	102,918
Year ended 30 June 2011	92,184	82,906
Year ended 30 June 2012	88,323	90,711
Year ended 30 June 2013	112,101	128,194
Year ended 30 June 2014	128,955	125,720
Year ended 30 June 2015	148,841	141,463
Year ended 30 June 2016	208,672	263,776
Year ended 30 June 2017	263,263	358,165
Year ended 30 June 2018	365,535	-
Net outstanding claims	<u>2,069,804</u>	1,830,398
Claims handling expenses	204,800	187,012
Risk margin	<u>341,190</u>	302,612
Net liability for outstanding claims	<u>2,615,794</u>	<u>2,320,022</u>

(d) Maturity profile

	Up to 1 yr \$'000	1 to 3 yrs \$'000	3 to 5 yrs \$'000	5 to 10 yrs \$'000	10 to 20 yrs \$'000	Over 20 yrs \$'000	Total \$'000
2018	<u>361,657</u>	<u>427,749</u>	<u>212,916</u>	<u>335,513</u>	<u>480,917</u>	<u>797,042</u>	<u>2,615,794</u>
2017	<u>380,020</u>	<u>366,403</u>	<u>140,096</u>	<u>290,975</u>	<u>435,468</u>	<u>707,060</u>	<u>2,320,022</u>

(e) Key assumptions

The key assumptions used by Finity Consulting Pty Limited in developing the valuation of the claims liability are the economic assumptions relating to inflation and discount rates and the assumptions relating to the duration and severity of claims. The key assumptions have been developed through the actuarial analysis of historic trends in conjunction with analysis of current and likely future economic factors. The following key assumptions were used in the measurement of the outstanding claims liability:

	2018	2017
Economic Assumptions		
Inflation rate - income support	0.00% to 3.40%	0.00% to 3.75%
Inflation - medical, legal and other costs	2.30% to 3.65%	2.20% to 4.00%
Superimposed inflation rate - medical payments	0.00% to 2.00%	0.00% to 4.00%
Superimposed inflation rate - other	0.00% to 2.00%	0.00% to 4.00%
Discount rate	3.33%	3.87%
Duration and severity of claims	Refer below	Refer below
Claims handling expenses	9.60%	9.90%
Risk margin	15.00%	15.00%

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Note 9 Outstanding claims liability - Compensation Fund (continued)

(e) Key assumptions (continued)

Finity Consulting Pty Limited has made a range of assumptions relating to the projected durations that claimants will remain in receipt of payments and the quantum of those payments having regard to the particular characteristics of groups of claims including:

- the distribution of claims between injured and seriously injured workers (assessed as having a whole person impairment (WPI) greater than 30%)
- the analysis of past claims experience including the cost of claims.

The valuation of the outstanding claims liability is strongly dependent on the assumptions adopted in relation to the duration of the long-term claims for seriously injured workers.

(f) Sensitivity to changes in key assumptions

The sensitivity of the discounted net outstanding claims estimate and profit/(loss) impact at the 75th percentile (i.e. after allowing for the risk margin) to changes in key assumptions is shown in the following table:

	Increase/ (decrease) in net liability \$'million	Percentage of net liability
Economic and modelling assumptions		
Strong economic scenario (3% gap between inflation and discount rate)	(580)	(22%)
Weak economic conditions (-1% gap)	152	6%
Duration and severity of claims		
Mitchell decision is maintained on appeal	>300	>12%
Superimposed inflation is 1% higher than assumed for medical care costs for serious injury claims	361	14%
Impact of a 6 year increase in the life expectancy of catastrophic injury claims	426	16%
WPI assessments increase by 2% as a result of the higher incentives under the RTW Act	188	7%

In conducting its valuation, Finity Consulting Pty Limited modelled a number of other scenarios under which the assumptions for future claims experience differed from those used in the valuation. Under those scenarios the total value of the liability differed from the central estimate by plus or minus amounts which were within the variation range of values shown above.

The selection of the probability of sufficiency has a material impact on the valuation of the outstanding claims liability.

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Note 10 Outstanding claims liability - Other Funds

(a) Outstanding claims - SRF and IAF

	SRF \$'000	IAF \$'000	2018 Combined \$'000	2017 Combined \$'000
Open claims	3,413	-	3,413	4,052
Total incurred but not yet reported (IBNR)	42,992	124	43,116	43,782
Claims handling expenses	3,944	11	3,955	4,066
Central estimate	50,349	135	50,484	51,900
Risk margin	21,380	60	21,440	21,839
Net liability for outstanding claims	71,729	195	71,924	73,739

The value of the claims liability is determined by RTWSA following an independent actuarial valuation by Finity Consulting Pty Limited. The claims liability estimate is based on a central estimate and includes a risk margin to bring the estimate of claims to a 75% (2017: 75%) probability of sufficiency.

The IBNR component is primarily made up of the estimated liability of the funds for asbestos related disease claims that will be made after 30 June 2018 due to exposure prior to 30 June 2018. Due to the latent nature of the disease there is a significant delay between the time of injury and reporting of the claim. Relatively few claims have been notified at the date of adopting these financial statements. The generally accepted opinion is that this delay is in the order of 40 years on average.

The asbestos related disease IBNR component was estimated by Finity Consulting Pty Limited based on:

- forecast total future claim numbers derived by fitting projection models to the SRF/IAF claims data by disease recognising the varying nature of the exposure for different claims
- forecasts of average claim costs derived from analysis of SRF/IAF claims data, external data and information obtained from discussion with key parties. This analysis was based on disease type, size of claim and legal costs, adjusted to allow for the timing of claim payments and for future claims inflation, discounted to their present value.

(b) Maturity profile - SRF and IAF

The expected maturity of the discounted net outstanding claims provision is analysed below.

	Up to 1 yr \$'000	1 to 3 yrs \$'000	3 to 5 yrs \$'000	5 to 10 yrs \$'000	10 to 20 yrs \$'000	Over 20 yrs \$'000	Total \$'000
2018	3,353	6,132	6,930	16,359	25,271	13,879	71,924
2017	4,522	5,553	6,578	16,081	25,748	15,257	73,739

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Notes to and forming part of the financial statements
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Note 10 Outstanding claims liability - Other Funds (continued)

(c) Movement in liability - SRF and IAF

	SRF 2018 \$'000	2017 \$'000	Change \$'000	IAF 2018 \$'000	2017 \$'000	Change \$'000
Asbestos related						
Reported	2,268	2,765	(497)	-	-	-
IBNR / re-opened claims	42,820	43,480	(660)	124	135	(11)
	45,088	46,245	(1,157)	124	135	(11)
Non-asbestos related						
Reported	1,145	1,287	(142)	-	-	-
IBNR / re-opened claims	172	167	5	-	-	-
	1,317	1,454	(137)	-	-	-
Central estimate	46,405	47,699	(1,294)	124	135	(11)
Claims handling expenses	3,944	4,054	(110)	11	12	(1)
Risk margin	21,380	21,773	(393)	60	66	(6)
Total outstanding claims liability	71,729	73,526	(1,797)	195	213	(18)

(d) Key assumptions

The key assumptions used in developing the estimate of the outstanding claims liability include economic assumptions relating to inflation and discount rates, the assumptions relating to severity of claims and the assumptions used to estimate the level of claims incurred but not reported. The key assumptions have been developed through the actuarial analysis of historic trends in conjunction with analysis of current and likely future economic factors.

	2018	2017
Inflation rate		
asbestos claims	5.00%	5.25%
non-asbestos claims	3.00%	3.25%
Discount rate	2.94%	3.20%
Claim handling expenses	8.50%	8.50%
Risk margin		
reported claims	10.50%	10.50%
IBNR claims	45.00%	45.00%

The significant assumptions underpinning the asbestos related disease IBNR are that the propensity to claim and the basis for compensating claims remain similar to the current situation, specifically:

- the number of diagnosed incidents of asbestos related disease continues to develop in line with past trends
- the proportion of incidents compensated by the funds remains similar to current levels but with an allowance for an increase in the proportion of claims which revert to the SRF from uninsured and insolvent employers
- there are no additional failures of insurance companies.

(e) Sensitivity to changes in key assumptions

The key sensitivity for the SRF and the IAF is in relation to the ultimate value of the IBNR for asbestos related claims.

(f) Mining and Quarrying Industries Fund - Silicosis liability

The 30 June 2016 triennial valuation undertaken by Finity Consulting Pty Limited estimated the extent of the existing and prospective liabilities for the Silicosis Scheme under the repealed Act as being \$100,000.

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Notes to and forming part of the financial statements
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Note 10 Outstanding claims liability - Other Funds (continued)

(g) Summary of Other Funds

	2018 \$'000	2017 \$'000
Statutory reserve fund	71,729	73,526
Insurance assistance fund	195	213
Mining and quarrying industries fund	100	100
Net liability for outstanding claims	<u>72,024</u>	<u>73,839</u>
Current liability for outstanding claims	3,353	4,521
Non-current liability for outstanding claims	68,671	69,318
Total liability for outstanding claims	<u>72,024</u>	<u>73,839</u>
Change in liability for outstanding claims	<u>(1,815)</u>	2,214

Note 11 Tribunal and ombudsman fees

	2018 \$'000	2017 \$'000
South Australian Employment Tribunal	7,810	7,782
Ombudsman funding	533	595
Total tribunal and ombudsman fees	<u>8,343</u>	<u>8,377</u>

Note 12 General operating expenses

	Notes	2018 \$'000	2017 \$'000
Employee benefits	14	29,750	36,934
Depreciation		1,317	1,771
Amortisation		4,682	4,439
Expenses relating to operating leases		2,520	2,544
Loss on disposal of non-current assets		-	75
Other operating costs		19,981	18,227
Total general operating expenses		<u>58,250</u>	<u>63,990</u>

Audit fees paid/payable to the Auditor-General's Department relating to work performed under the PFAA were \$405,000 (2017: \$425,000). No other services were provided by the Auditor-General's Department.

Operating lease payments (less any lease incentives) are recognised on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of benefits derived from the use of leased assets.

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Note 12 General operating expenses (continued)

The number and dollar amount of consultancies paid/payable (included in general operating expenses) that fell within the following bands:

	No.	2018 \$'000	No.	2017 \$'000
Below \$10,000	-	-	1	9
Above \$10,000	5	1,952	10	1,654
Total paid/payable to the consultants engaged	5	1,952	11	1,663

Note 13 Taxation

In accordance with Treasurer's Instruction 22 Tax Equivalent Payments, effective 1 July 2015, RTWSA is required to pay to the SA Government an income tax equivalent. The Return to Work Corporation of South Australia Act 1994 restricts the application of tax equivalents to financial years in which RTWSA has achieved a funding level of at least 100% (with its outstanding claims liabilities at a 75% probability of sufficiency) and it has achieved a profit from insurance operations. The income tax liability is based on the State Taxation Equivalent Regime, which applies the accounting profit method. This requires the corporate income tax rate (30%) to be applied to the operating profit. The current income tax liability, if applicable, relates to the income tax expense outstanding for the current period.

RTWSA is liable for payroll tax, fringe benefits tax, goods and services tax (GST), emergency services levy, land tax equivalents and local government rate equivalents.

Income, expenses and assets are recognised net of GST, except when the amount of GST incurred on a purchase of goods or services is not recoverable from the Australian Taxation Office (ATO). The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the ATO is classified as part of operating cash flows.

Note 14 Employee benefits

	2018 \$'000	2017 \$'000
Salaries and wages	26,143	32,463
Long service leave	522	447
Annual leave	569	558
Skills and experience retention leave	30	70
Defined benefit plan service cost	-	180
Defined benefit plan interest cost	-	681
Contributions to defined contribution plans	2,486	2,535
Total employee benefits expenses	29,750	36,934

(a) Key management personnel

Key leadership personnel RTWSA include the Minister, Board members, the Chief Executive Officer and members of the Executive Team who have responsibility for the strategic direction and management of RTWSA. The compensation disclosed in this note excludes salaries and other benefits the Minister receives, the Minister's remuneration and allowances are set by the Parliamentary Remuneration Act 1990 and the Remuneration Tribunal of SA respectively and are payable from the Consolidated Account (via the Department of Treasury and Finance) under section 6 the Parliamentary Remuneration Act 1990.

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Notes to and forming part of the financial statements
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Note 14 Employee benefits (continued)

(a) Key management personnel (continued)

	2018 \$'000	2017 \$'000
Compensation		
Salaries and other short-term employee benefits	2,249	2,246
Post-employment benefits	210	212
Total	<u>2,459</u>	<u>2,458</u>

(b) Remuneration of Employees

	2018 No.	2017 No.
The number of employees whose remuneration received or receivable falls within the following bands:		
\$147,000 to \$149,000*	-	4
\$149,001 to \$159,000	9	7
\$159,001 to \$169,000	3	4
\$169,001 to \$179,000	3	2
\$179,001 to \$189,000	1	2
\$189,001 to \$199,000	-	1
\$199,001 to \$209,000	-	4
\$209,001 to \$219,000	3	2
\$219,001 to \$229,000	2	-
\$229,001 to \$239,000	1	1
\$239,001 to \$249,000	2	2
\$249,001 to \$259,000	1	-
\$259,001 to \$269,000	1	-
\$289,001 to \$299,000	-	1
\$299,001 to \$309,000	1	1
\$339,001 to \$349,000	-	1
\$349,001 to \$359,000	1	1
\$459,001 to \$469,000	-	1
\$529,001 to \$539,000	1	-
Total	<u>29</u>	<u>34</u>

The table includes all employees who received Normal Remuneration equal to or greater than the base executive remuneration level during the year.

Remuneration of employees reflects all costs of employment including salaries and wages, payments in lieu of leave, superannuation contributions, salary sacrifice benefits and fringe benefits, any fringe benefits tax paid, or payable in respect of those benefits, and payments of accumulated annual leave, long service leave, superannuation and eligible termination payments in respect of certain employees whose employment terminated in the financial year. The total remuneration received by these employees for the year was \$6.1 million (2017: \$7.0 million).

* This band has been included for the purposes of reporting comparative figures based on the executive base level remuneration rate for 2016-17.

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Notes to and forming part of the financial statements
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Note 14 Employee benefits (continued)

(c) Liability for employee benefits

	2018 \$'000	2017 \$'000
Current		
Annual leave	1,967	2,086
Recognised liability for defined benefit obligations	-	1,904
Skills and experience retention leave	70	84
Long service leave	2,499	2,878
	<u>4,536</u>	<u>6,952</u>
Non-current		
Recognised liability for defined benefit obligations	-	8,174
Long service leave	1,899	1,863
	<u>1,899</u>	<u>10,037</u>
Total employee benefits	<u>6,435</u>	<u>16,989</u>

Employee benefits - wages, salaries, skills and experience retention leave, annual leave and long service leave

Liabilities for employee benefits for wages, salaries, annual leave and skills and experience retention leave that are expected to be settled within 12 months of the reporting date and are measured at the undiscounted amount expected to be paid.

Where annual leave liability and skills and experience retention leave liability are expected to be payable later than twelve months, the liability is measured at present value.

Employee benefits - long service leave

The actuarial assessment performed by the Department of Treasury and Finance has provided a basis for the measurement of long service leave and is based on actuarial assumptions over expected future salary and wage levels, experience of employee departures and periods of service. These assumptions are based on employee data over SA Government entities. Expected future payments are discounted using market yields at the end of the reporting period on government bonds with durations that match, as closely as possible, the estimated future cash outflows.

The unconditional portion of the long service leave provision is classified as current as RTWSA does not have an unconditional right to defer the settlement of the liability for at least 12 months after reporting date. The unconditional portion of long service leave relates to an unconditional legal entitlement to payment arising after ten years of service.

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Notes to and forming part of the financial statements
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Note 14 Employee benefits (continued)

(d) Movement in net liability for defined benefit obligations

	2018 \$'000	2017 \$'000
Balance at 1 July	(10,078)	(14,394)
Included in result from operating activities		
Service cost	-	(180)
Net interest	-	(317)
	<u>-</u>	<u>(497)</u>
Included in other comprehensive income		
Re-measurement gain:		
- Actuarial gain/(loss)	9,208	2,613
- Actual return on assets less interest income	-	1,625
	<u>9,208</u>	<u>4,238</u>
Other		
Employer Contributions	870	575
Balance at 30 June	<u>-</u>	<u>(10,078)</u>

(e) Net liability for defined benefit obligations

	2018 \$'000	2017 \$'000
Fair value of scheme assets	-	17,320
Defined benefit obligation	-	(27,398)
Net liability	<u>-</u>	<u>(10,078)</u>

(f) Reconciliation of the fair value of the defined benefit plan assets

	2018 \$'000	2017 \$'000
Opening fair value of defined benefit plan assets	17,320	16,145
Interest income	-	363
Actual return on assets less interest income	-	1,625
Employer contributions	870	575
Benefits and expenses paid	-	(1,388)
De-recognition on payment of net liability to Super SA	(18,190)	-
Closing fair value of defined benefit plan assets	<u>-</u>	<u>17,320</u>

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Note 14 Employee benefits (continued)

(g) Reconciliation of the present value of the defined benefit obligation

	2018 \$'000	2017 \$'000
Opening present value of defined benefit obligations	27,398	30,539
Current service cost	-	180
Interest cost	-	680
Actuarial (gains)/losses:		
- Impact of changes in demographic assumptions	-	(451)
- Impact of changes in financial assumptions	(9,208)	(2,081)
- Experience Items	-	(81)
Benefits and expenses paid	-	(1,388)
De-recognition on payment of net liability to Super SA	(18,190)	-
Closing present value of defined benefit obligations	<u>-</u>	<u>27,398</u>

Employee benefits - defined benefits superannuation plan

In prior years RTWSA applied AASB 119 in reporting its contributions and commitments to defined benefit superannuation plans with the State Superannuation Scheme. This was due to RTWSA having outstanding commitments for past service liabilities.

During the year, after discussion with Super SA, an external actuarial valuation review was completed to determine RTWSA's superannuation past service liabilities deficit as of 30 June 2017. The deficit amount of \$870,000 was paid by RTWSA to extinguish its liability.

As a consequence of clearing the past service liability, in the current and future years the superannuation contributions paid by RTWSA to the State Superannuation Scheme and other superannuation schemes are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation scheme. The impact from the unwinding of AASB 119 reporting is accounted for within Other Comprehensive Income.

In the prior year RTWSA's net obligation was calculated by estimating the amount of future benefits that employees earned in return for their service in the current and prior periods. That benefit was then discounted to determine its present value from which the fair value of any plan assets was deducted. The discount rate was the yield at the reporting period on government bonds that had maturity dates approximating to the terms of RTWSA's obligations. The calculation was performed by a qualified actuary using the projected unit credit method.

Under AASB 119, RTWSA determined the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of the contributions and benefit payments.

Employees who participate in the defined benefit superannuation fund are deemed to be members of the defined benefit categories of the State Superannuation Scheme. The defined benefit superannuation fund has been closed to new members since May 1994.

The State Superannuation Scheme's assets are under Funds SA's management and invested in its Growth Sector Fund. The Growth Sector Fund was created on 1 April 2005. The net market value of individual assets or portfolios that comprise the Growth Sector Fund may vary from time to time due to movements in financial markets and/or capital placements and redemptions made in accordance with investment strategy. Funds SA uses external fund managers to manage its growth portfolio. The investments are in wholesale pooled unit trusts or managed funds offered by each manager.

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Note 14 Employee benefits (continued)

(h) Each major asset category as a percentage of the fair value of the total plan assets

	2017	2017
	Active Market	Non-active
	%	Market
		%
Australian equities	26.0	0.0
International equities	26.3	0.0
Property	2.2	13.0
Diversified strategies growth	1.0	10.8
Diversified strategies income	15.2	0.0
Inflation linked securities	3.2	1.0
Cash	1.3	0.0
Total	75.2	24.8

(i) Major economic assumptions

	2017
Discount rate	2.9%
Long term salary rate increases	4.0%
Long term CPI increases	2.5%

(j) Maturity profile

The weighted average duration of the defined benefit obligation for 2017 was 14.7 years. The expected maturity analysis of undiscounted benefit obligations is as follows:

	Less than 1 year \$'000	Between 1-2 years \$'000	Between 2-5 years \$'000	Between 5-10 years \$'000	Between 10-15 years \$'000	Between 15-20 years \$'000	Between 20-25 years \$'000	Over 25 Years \$'000	Total \$'000
2017	1,904	1,542	4,694	7,806	7,028	5,896	5,094	7,162	41,126

Note 15 Remuneration of board and committee members

Members during the financial year ended 30 June 2018 were:

Member	Appointed / Resigned	Board	Investment and Finance Committee	Audit and Risk Committee	Human Resources Committee
Ms. J Denley		Chair	-	Member	Chair
Dr. W Griggs		Member	Member	-	Member
Mr. C Latham		Member	Chair	-	-
Mr. N McBride		Member	-	Member	-
Ms. Y Sneddon		Member	-	Chair	-
Mr. J Szakács		Member	Member	-	-
Ms. J Yuile		Member	-	-	Member

Ms. J Denley was appointed Chair and Ms. J Yuile ceased as Chair on 13 February 2018.

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Note 15 Remuneration of board and committee members (continued)

The number of members whose remuneration received and receivable falls within the following bands:

	2018	2017
\$60,000 - \$69,999	5	6
\$70,000 - \$79,999	1	-
\$100,000 - \$109,999	1	1

The total remuneration received and receivable by board members was \$490,000 (2017: \$472,000) which includes superannuation contributions.

The Minister's Advisory Committee is established under section 171 of the Return to Work Act 2014 (the Act). Its role includes advising the Minister for Industrial Relations on the operation of the Act. The members remuneration paid/payable was \$45,000 (2017: \$60,000). Members during the 2018 financial year were: M Atchison (Presiding Member), D Blairs, S Hall, A Moeller, S Myatt, E van der Linden and J Wilson, whose term expired on 30 November 2017. P Dean resigned on 8 August 2017. M Atchison (Presiding Member), L Birch, D. Blairs, E Dabars, P Jezukaitis, E van der Linden, A Moeller, S Myatt and R Paterson were appointed to the Committee on 23 January 2018. R Bonner acted as Deputy Member to E Dabars from 12 September 2017 until 30 November 2017 and 23 January 2018 until 30 June 2018.

Remuneration for this committee is not included in the board and committee remuneration table.

Note 16 Cash and cash equivalents

	2018	2017
Notes	\$'000	\$'000
Cash	2	3
Cash equivalents	126,307	127,619
Cash and cash equivalents in the Statement of Cash Flows	<u>126,309</u>	<u>127,622</u>

Cash and cash equivalents in the Statement of Cash Flows includes cash at bank and on hand in other short-term, highly liquid investments with maturities of three months or less that are readily converted to cash and which are subject to insignificant risk of changes in value.

Note 17 Trade and other receivables

	2018	2017
Notes	\$'000	\$'000
Current receivables		
Trade receivables	27,112	16,767
Less allowance for doubtful debts	<u>(10,555)</u>	<u>(7,676)</u>
	16,557	9,091
Refunds	(14,249)	(9,436)
Recoverable claim payments	9 11,261	14,757
Sundry debtors and prepayments	7	1
Total current receivables	<u>13,576</u>	<u>14,413</u>
Non-current receivables		
Recoverable claim payments	9 49,783	51,019
Total non-current receivables	<u>49,783</u>	<u>51,019</u>
Total trade and other receivables	<u>63,359</u>	<u>65,432</u>

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Note 17 Trade and other receivables (continued)

	Notes	2018 \$'000	2017 \$'000
Movement in the allowance for doubtful debts			
Opening balance		(7,676)	(8,500)
Amounts written off		6,911	6,537
Increase in allowance recognised		(9,790)	(5,713)
Total current receivables		<u>(10,555)</u>	<u>(7,676)</u>

The carrying amounts of receivables approximates net fair value due to being receivable on demand. Claim recoveries receivable are stated at the amounts estimated in the actuarial valuation.

Collectability of receivables is reviewed on an ongoing basis. An allowance for doubtful debts is raised when there is objective evidence that RTWSA will not be able to collect the debt. Bad debts are written off when identified.

Note 18 Investments

	2018 \$'000	2017 \$'000
Deposits with financial institutions	267,700	410,886
Government/semi-government securities	731,463	559,009
Non-government debt instruments	395,401	345,602
Securities listed on the Australian Stock Exchange	339,916	294,932
Securities listed on overseas stock exchanges	856,660	788,203
Unit Trust – unlisted property, infrastructure and private debt assets	649,209	582,184
Derivatives	(9,646)	10,610
Total investments	<u>3,230,703</u>	<u>2,991,426</u>
Current	370,880	511,781
Non-current	<u>2,859,823</u>	<u>2,479,645</u>
Total investments	<u>3,230,703</u>	<u>2,991,426</u>

Investments are measured at fair value. Changes in the fair values of investments at the reporting period from the end of the previous reporting period, or from cost of acquisition if acquired during the financial year, are recognised as gains or losses in the Statement of Comprehensive Income.

The fair value of investments represents their net fair value and is determined as follows:

- cash assets are carried at the face value of the amounts deposited or drawn which approximates their fair value
- listed securities and Government securities are valued by reference to market quotations
- underlying property assets and investments in unlisted unit trusts are valued by reference to independent third parties.

All investments are classified as backing insurance liabilities (outstanding claims liabilities).

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Note 19 Property, plant and equipment

	Leasehold improvements including office furniture and fittings \$'000	Computer, communications and general office equipment \$'000	Total \$'000
Fair value			
Balance at 1 July 2016	7,340	3,830	11,170
Additions	-	389	389
Disposals	(565)	(1,221)	(1,786)
Balance at 30 June 2017	<u>6,775</u>	<u>2,998</u>	<u>9,773</u>
Balance at 1 July 2017	6,775	2,998	9,773
Additions	-	158	158
Disposals	-	(1,590)	(1,590)
Balance at 30 June 2018	<u>6,775</u>	<u>1,566</u>	<u>8,341</u>
Depreciation			
Balance at 1 July 2016	(3,219)	(2,180)	(5,399)
Depreciation charge	(771)	(1,000)	(1,771)
Disposals	561	1,145	1,706
Balance at 30 June 2017	<u>(3,429)</u>	<u>(2,035)</u>	<u>(5,464)</u>
Balance at 1 July 2017	(3,429)	(2,035)	(5,464)
Depreciation charge	(677)	(610)	(1,287)
Disposals	-	1,590	1,590
Balance at 30 June 2018	<u>(4,106)</u>	<u>(1,055)</u>	<u>(5,161)</u>
Carrying Amounts			
At 30 June 2017	<u>3,346</u>	<u>963</u>	<u>4,309</u>
At 30 June 2018	<u>2,669</u>	<u>511</u>	<u>3,180</u>

All assets acquired, including leasehold improvements, computer and communications and general office equipment are stated at cost less accumulated depreciation and accumulated impairment losses, deemed to be fair value.

Refer to Note 21 for disclosure regarding fair value measurement techniques and inputs used to develop fair value measurements.

Depreciation is calculated on a straight line basis so as to write off the cost of each item over its expected useful life. The estimated useful life in years used for each class of asset is as follows:

	2018	2017
Leasehold improvements including office furniture and fittings	5-10	5-10
Computer and communications and general office equipment	3-5	3-5

The cost of improvements to leasehold properties is amortised over the shorter of the unexpired period of the lease and the estimated useful lives of the improvements.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

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Note 20 Intangible assets

	IT development and software \$'000
Cost	
Balance at 1 July 2016	43,880
Additions	1,002
Balance at 30 June 2017	<u>44,882</u>
Balance at 1 July 2017	44,882
Additions	84
Balance at 30 June 2018	<u>44,966</u>
Amortisation	
Balance at 1 July 2016	(27,121)
Amortisation Charge	(4,439)
Balance at 30 June 2017	<u>(31,560)</u>
Balance at 1 July 2017	(31,560)
Amortisation Charge	(4,712)
Balance at 30 June 2018	<u>(36,272)</u>
Carrying Amounts	
At 30 June 2017	<u>13,322</u>
At 30 June 2018	<u>8,694</u>

Costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised can include external direct costs of materials and services, direct payroll and payroll related costs of employees' time spent on the project.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where RTWSA has an intention and ability to use the asset.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the Statement of Comprehensive Income as incurred.

Amortisation is recognised in the Statement of Comprehensive Income on a straight-line basis over the estimated useful life of the intangible assets, from the date that they are available for use. The estimated useful life is three to ten years.

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Note 20 Intangible assets (continued)

Impairment

All non-current tangible and intangible assets are tested for indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated. The recoverable amount is determined as the higher of the asset's fair value less costs of disposal and depreciated replacement cost. An amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss.

Note 21 Fair value measurement (non-financial assets)

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, in the principal or most advantageous market, at the measurement date.

Fair value of non-financial assets, which must be estimated for recognition or for disclosure purposes, is measured using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: traded in active markets and is based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at measurement date.

Level 2: not traded in an active market and are derived from inputs (inputs other than quoted prices included within level 1) that are observable for the asset, either directly or indirectly.

Level 3: not traded in an active market and are derived from unobservable inputs.

RTWSA had no valuations categorised into levels 1 or 2.

In determining fair value the characteristic of the asset (e.g. condition and location of the asset and any restrictions on the sale or use of the asset) and the asset's highest and best use (that is physically possible, legally permissible, financially feasible) has been taken into account.

Current use is the highest and best use of the asset unless other factors suggest an alternative use is feasible. As no factors were identified to suggest an alternative use, fair value measurement was based on current use.

	Leasehold improvements including office furniture and fittings \$'000	Computer, communications and general office equipment \$'000	Total \$'000
Balance at 1 July 2016	4,121	1,650	5,771
Additions	-	389	389
Depreciation	(771)	(1,000)	(1,771)
Disposals	(4)	(76)	(80)
Balance at 30 June 2017	3,346	963	4,309
Balance at 1 July 2017	3,346	963	4,309
Additions	-	158	158
Depreciation	(677)	(610)	(1,287)
Disposals	-	-	-
Balance at 30 June 2018	2,669	511	3,180

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Notes to and forming part of the financial statements
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Note 21 Fair value measurement (non-financial assets) (continued)

Total losses for level 3 non-financial assets in the period included in general operating expenses:

	\$'000
2017	<u>(1,846)</u>
2018	<u>(1,287)</u>

Note 22 Trade and other payables

	2018 \$'000	2017 \$'000
Current		
Trade payables	22,215	17,876
Unearned premiums	38	38
Employment on-costs	688	711
Non-current		
Trade payables	-	543
Employment on-costs	196	188
Total trade and other payables	<u>23,137</u>	<u>19,356</u>

Payables are measured at nominal amounts, and are normally settled within 30 days from the date the invoice is first received. Employment on-costs are settled when the respective employee benefits that they relate to are discharged. All payables are non-interest bearing. The carrying amount of payables represents fair value due to the amounts being payable on demand.

Note 23 Provisions

	2018 \$'000	2017 \$'000
Balance at the start of the year	4,343	636
Provisions made/(written back) during the year	(33)	3,720
Provisions used during the year	<u>(4,310)</u>	<u>(13)</u>
Balance at the end of the year	<u>-</u>	<u>4,343</u>

The prior year provision relates to redundancies arising from internal restructuring activities decided upon prior to 30 June 2017. The redundancy provision was calculated in accordance with the RTWSA Award 2015 and RTWSA Enterprise Agreement 2015.

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Notes to and forming part of the financial statements
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Note 24 Reconciliation of comprehensive result to net cash flows from operating activities

	2018 \$'000	2017 \$'000
Total comprehensive result	26,708	175,436
Depreciation	1,317	1,771
Amortisation	4,682	4,439
Net loss on sale of non-current assets	-	75
Investment (profit)	(224,671)	(214,289)
Dividends received	71,189	49,733
Interest received	35,344	36,605
Increase/(decrease) in payables	3,805	(3,178)
(Increase)/decrease in receivables	2,073	12,768
Increase/(decrease) in outstanding claims liability	289,225	(20,891)
Increase/(decrease) in employee benefits	(10,554)	(4,223)
Increase/(decrease) in tax equivalents provision	(73,371)	73,371
Increase/(decrease) in provisions	(4,343)	3,707
Net cash flows from operating activities	<u>121,404</u>	<u>115,324</u>

Note 25 Risk management

(a) Overview

RTWSA's risk management framework is the principal means by which identified risks are managed. RTWSA has developed a corporate governance framework that supports risk management. Each identified risk is analysed according to an established risk management process and appropriate treatment strategies are adopted in order to manage RTWSA's exposure to risk. The key aspects of the process established in the risk management framework to mitigate risk include:

- the establishment of a Board Audit and Risk Committee, which is responsible for developing and monitoring risk management policies
- the establishment of the Risk Appetite Statement which is reviewed annually
- the establishment and regular review by the Board and management of a corporate risk register
- the establishment of a system of internal controls to manage risk
- the maintenance and use of management information systems which provide up to date, reliable data relevant to the risks to which the business is exposed
- the identification of operational risks and the establishment and implementation of processes to address and mitigate those risks.

The Board Audit and Risk Committee reports regularly to the Board on its activities. The Committee oversees how management monitors compliance with RTWSA's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by RTWSA. A risk management policy is in place to ensure risks are identified, analysed and managed appropriately by RTWSA. RTWSA's risk management framework is part of its governance risk and compliance system which is reviewed regularly to reflect changes in market conditions and in RTWSA's activities. RTWSA, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations. The Committee is assisted in its oversight by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit and Risk Committee.

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Notes to and forming part of the financial statements
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Note 25 Risk management (continued)

(a) Overview (continued)

The broad categories of risk faced by RTWSA are:

- insurance risk
- operational risk
- financial risk.

(b) Insurance risk

As set out in Note 1, RTWSA provides insurance protection in the event of work-related injury, in accordance with the Act, to workers employed in South Australia through the following funds:

- Compensation Fund
- Statutory Reserve Fund
- Insurance Assistance Fund
- Mining and Quarrying Industries Fund.

In accordance with the Act the Compensation Fund is funded by charging premiums to all employers covered by the Act which are calculated as a percentage of the remuneration paid or expected to be paid by each employer. The percentage or premium rate applicable to each employer is determined annually based on the industry in which the employer operates and the Average Premium Rate. Small employers, with annual remuneration less than \$12,809 (subject to indexation), are not required to register or pay a premium.

The Average Premium Rate is set annually by the Board in accordance with its funding and premium setting policy based on an actuarial assessment of the expected claims and expenses of the Compensation Fund and an estimate of the likely overall remuneration for all the employers that are required to pay premiums under the Act. The Average Premium Rate is then used as a basis for determining an individual premium rate for individual industry groups.

The risk of setting incorrect premium rates is controlled by taking external actuarial advice concerning the funding requirements of the Scheme and through the use of robust and historical models. The number of registered (non self-insured) employers insured under the Act for the financial year was approximately 50,000. The entitlements payable to injured workers are determined by the Act.

RTWSA's approach to determining the outstanding claims provisions and related sensitivities is set out in Notes 9 and 10. RTWSA relies on the following key controls in seeking to ensure the adequacy of the claims provision:

- Compensation Fund - every six months
- Statutory Reserve Fund (excluding IBNR arising from asbestos related matters) - every twelve months
- Insurance Assistance Fund (excluding IBNR arising from asbestos related matters) - every twelve months
- IBNR arising from asbestos related matters - every twelve months with a more detailed review every two years
- Mining and Quarrying Industries Fund - every three years.

(c) Operational risk

Operational risk relates to the risk of loss arising from systems failure, human error or from other circumstances not related to insurance or financial risks. These risks are managed through the risk framework outlined above which includes a system of delegated authorities, effective segregation of duties, access controls and review processes.

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Note 25 Risk management (continued)

(d) Financial risk

RTWSA has exposure to the following financial risks:

- credit risk
- liquidity risk
- market risk.

RTWSA's exposure to these risks arises primarily in relation to its investment portfolio but also in relation to its other financial assets. This note presents information about RTWSA's exposure to each of the above risks, objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

Investments – risk management framework

RTWSA's Investment Policy and Strategy document describes the framework within which the RTWSA investment program functions, including the Board's governance arrangements for the investment program.

The mission of the investment program is to contribute to an improved funding position for the Scheme. The investment program will achieve this by delivering, over the long term, a rate of return that exceeds the average actuarial discount rate.

The current long term return objective for the investment program is a return of CPI + 2.5%. This will be achieved through adopting a moderate risk, balanced investment portfolio.

The formal investment policy is reviewed annually by the Board to ensure it remains appropriate to the organisation's current circumstances.

The investment portfolio is managed internally by experienced professionals supported by an internationally recognised investment firm that provides advice on asset allocation, selection of external fund managers, and undertakes specialised investment research and performance measurement.

The Board Investment and Finance Committee monitors the investment program on a regular basis.

RTWSA has a master custody arrangement with National Australia Bank (NAB). All assets are held by NAB under safe custody, except for the internally managed cash.

At any particular time the composition of the portfolio will vary from the Board approved investment strategy targets depending on the decisions of individual fund managers and market movements. However any variance to the target is required to be within Board approved limits.

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Note 25 Risk management (continued)

(d) Financial risk (continued)

The composition of each asset group at 30 June 2018 was:

	Deposits With Financial Institutions \$'000	Government / semi - Government Securities \$'000	Non- Government Debt Instruments \$'000	Securities listed on the Australian stock exchange \$'000	Securities listed on overseas stock exchanges \$'000	Unit Trust - Unlisted Property, Infrastructure and Private Debt Assets \$'000	Derivatives \$'000	Total \$'000
Cash	126,307	-	-	-	-	-	-	126,307
Fixed interest	11,630	205,457	119,761	-	-	-	753	337,601
Inflation Linked Securities	48,163	524,507	79,125	-	-	-	(218)	651,577
Australian Equities	3,590	-	-	322,576	-	-	19	326,185
Overseas Equities - hedged	-	-	-	-	235,648	-	(4,929)	230,719
Overseas Equities - unhedged	-	-	-	-	378,028	-	-	378,028
Property & Infrastructure	11,880	-	-	17,340	242,984	481,453	(5,338)	748,319
Alternative income	66,130	1,499	196,515	-	-	167,756	67	431,967
	<u>267,700</u>	<u>731,463</u>	<u>395,401</u>	<u>339,916</u>	<u>856,660</u>	<u>649,209</u>	<u>(9,646)</u>	<u>3,230,703</u>

The composition of each asset group at 30 June 2017 was:

	Deposits With Financial Institutions \$'000	Government / semi - Government Securities \$'000	Non- Government Debt Instruments \$'000	Securities listed on the Australian stock exchange \$'000	Securities listed on overseas stock exchanges \$'000	Unit Trust - Unlisted Property, Infrastructure and Private Debt Assets \$'000	Derivatives \$'000	Total \$'000
Cash	127,619	-	-	-	-	-	-	127,619
Fixed interest	3,897	225,136	98,527	-	-	-	(353)	327,207
Inflation Linked Securities	199,855	327,644	70,309	-	-	-	-	597,808
Australian Equities	7,042	-	-	279,523	466	-	1,043	288,074
Overseas Equities - hedged	-	-	-	-	224,212	-	5,481	229,693
Overseas Equities - unhedged	-	-	-	-	346,164	-	-	346,164
Property & Infrastructure	8,968	-	-	15,409	217,361	445,330	2,852	689,920
Alternative income	63,505	6,229	176,766	-	-	136,854	1,587	384,941
	<u>410,886</u>	<u>559,009</u>	<u>345,602</u>	<u>294,932</u>	<u>788,203</u>	<u>582,184</u>	<u>10,610</u>	<u>2,991,426</u>

Use of derivatives

In the normal course of its investment activities RTWSA is party to arrangements involving derivatives. Derivatives held within portfolios through RTWSA's custodian have three main objectives:

- risk management - minimisation or reduction of specific risks within a given portfolio. For example forward exchange contracts are used to hedge currency movements to remove their impact on international investment portfolio returns
- transactional efficiency - derivatives provide effective exposure to markets or individual securities while incurring transaction costs lower than the cost of purchasing the underlying security or basket of securities. In many instances the derivative markets provide much more liquidity than the underlying physical market

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Note 25 Risk management (continued)

(d) Financial risk (continued)

- value added strategies - given their low cost and high liquidity, derivatives can be an efficient way of taking active portfolio positions. As there can also be pricing anomalies between derivatives and underlying physical securities there can be opportunities to take advantage of different pricing.

Derivative exposures are subject to the same restrictions as physical assets within each portfolio's investment guidelines. Derivatives also need to comply with the fund managers risk management policies and RTWSA's Derivatives Policy and Fund Manager Guidelines. Where there is inconsistency, RTWSA's Fund Manager Guidelines will take precedence. Additionally no gearing or leverage is allowed from derivative positions with all net long derivative exposures covered by cash or cash equivalent securities.

The use of derivatives is restricted to appropriately credentialed counterparties. Unit trusts in which RTWSA invests may use derivative instruments appropriate to the investment markets in which they invest. The use of derivatives within the Unit Trusts in which RTWSA invests is approved and monitored by the responsible entity or trustee for the respective Unit Trust.

No single instrument is individually material to the future cash flows of RTWSA. RTWSA does not consider that the nature and extent of the use of derivatives warrants separate disclosure of individual contracts. RTWSA, through its separate account investment portfolios, uses derivative instruments as follows:

Forward exchange contracts

- RTWSA invests in global markets to access the risk reduction benefits of diversification. In order to protect against exchange rate movements for a portion of overseas exposures, RTWSA has entered into forward exchange contracts, which require settlement of the net gain or loss at maturity. For diversification purposes RTWSA intentionally maintains some un-hedged currency exposures
- the gain or loss on open contracts as at the reporting period has been taken up in the financial statements as an unrealised gain or loss based on the exchange rate current as at the end of the reporting period
- the use of forward exchange contracts for speculative purposes is prohibited.

Futures contracts

- RTWSA invests across a range of markets. Futures contracts give investors the ability to increase or decrease exposure to these markets with very low transaction costs
- the gain or loss on outstanding futures contracts as at the reporting period are taken up in the financial statements as an unrealised gain or loss based on the fair value as at the end of the reporting period
- futures contracts are predominantly used for transactional efficiency and value added strategies.

Credit risk - investments

Credit risk is the risk of financial loss to RTWSA if a premium payer, other debtor or counterparty to a financial instrument fails to meet their contractual obligations.

RTWSA manages its exposure to credit risk related to fixed interest and cash investments through its Investment Strategy and Investment Guidelines and Investment Credit Limits documents. Credit exposures are monitored against approved limits with breaches corrected and notified to the Board Investment and Finance Committee.

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30 June 2018

Note 25 Risk management (continued)

(d) Financial risk (continued)

The following tables outline RTWSA's credit risk exposure within the major debt securities asset classes as at balance date.

As at 30 June 2018:

	Short-term issue ratings*			Long-term issue ratings**				Not Rated***	Total
	A1+	A1	A2	AAA	AA	A	BBB		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash	126,307	-	-	-	-	-	-	-	126,307
Fixed interest	10,156	1,474	-	224,102	67,710	22,061	11,345	-	337,601
Inflation linked securities	48,163	-	-	512,829	32,341	43,246	15,216	-	651,577
Alternative income	51,370	8,265	6,495	66,132	21,992	89,172	146,682	17,885	431,967
	<u>235,996</u>	<u>9,739</u>	<u>6,495</u>	<u>803,063</u>	<u>122,043</u>	<u>154,479</u>	<u>173,243</u>	<u>17,885</u>	<u>1,547,452</u>

As at 30 June 2017:

	Short-term issue ratings*			Long-term issue ratings**				Not rated***	Total
	A1+	A1	A2	AAA	AA	A	BBB		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash	117,590	10,029	-	-	-	-	-	-	127,619
Fixed interest	3,897	-	-	225,911	71,436	20,146	6,170	-	327,207
Inflation linked securities	175,822	24,033	-	333,222	20,956	32,631	11,144	-	597,808
Alternative income	45,885	17,598	22	27,928	48,916	97,284	132,309	7,801	384,941
	<u>343,194</u>	<u>51,660</u>	<u>22</u>	<u>587,061</u>	<u>141,308</u>	<u>150,061</u>	<u>149,623</u>	<u>7,801</u>	<u>1,437,575</u>

* Standard & Poor's short-term financial strength ratings apply for cash portfolio and short-term investments. A1+ is the highest short-term strength rating.

** Standard & Poor's long-term credit ratings. AAA is the highest possible long-term credit rating.

*** Not rated assets for this table are non-defensive assets and consist of cash or investments in a pooled fund which is benchmarked against the UBS Composite Index.

Credit risk - other financial assets

The only significant exposure to credit risk in relation to assets, other than investments, relates to trade receivables which include premiums due and payable from registered and self-insured employers and overpayment recoveries from employers, workers and providers. RTWSA is able to enforce the collection of debts due, under the Act or via restitution principles through a court of competent jurisdiction. RTWSA has processes in place to monitor all material credit exposures and has an established policy to manage debt recovery.

4.7% of RTWSA's trade receivables were past due greater than 30 days (2017: 3.0%). The ageing of RTWSA's trade receivables at the reporting date was:

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Notes to and forming part of the financial statements
30 June 2018

Note 25 Risk management (continued)

(d) Financial risk (continued)

	2018 \$'000	2017 \$'000
Not past due	15,564	8,022
Past due 1-30 days	218	796
Past due 31-60 days	587	240
Past due 61 days to one year	188	33
Impaired	-	-
	<u>16,557</u>	<u>9,091</u>

There were no significant concentrations of credit risk.

Liquidity risk

Liquidity risk arises from the possibility that RTWSA will not be able to meet its financial obligations as they fall due. RTWSA's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to RTWSA's reputation. At least 20% of RTWSA's investments could be liquidated within seven business days if required.

Both the asset and liability liquidity risks are managed through management risk strategies. 85.5% (2017: 80.5%) of RTWSA's liabilities are non-current and consist predominately of estimates of payments of entitlements to workers compensation made over the long-term to individual claimants. RTWSA's asset allocation is such that if required it could be realisable as cash within a few months. Accordingly RTWSA considers that its short-term liquidity risks are minimal.

The table below outlines the maturity profile of certain financial liabilities, excluding outstanding claims, based on the remaining undiscounted obligations. The maturity profiles of outstanding claims are outlined in notes 9 & 10.

As at 30 June 2018:

	1 year or less \$'000	1 to 3 years \$'000	3 to 5 years \$'000	Over 5 Years \$'000	No Term \$'000	Total \$'000
Trade and other payables	22,941	196	-	-	-	23,137

As at 30 June 2017:

	1 year or less \$'000	1 to 3 years \$'000	3 to 5 years \$'000	Over 5 years \$'000	No Term \$'000	Total \$'000
Trade and other payables	18,625	731	-	-	-	19,356

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect RTWSA's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

RTWSA is exposed to market risk primarily through:

- currency risk
- interest rate risk
- market price risk.

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Notes to and forming part of the financial statements
30 June 2018

Note 25 Risk management (continued)

(d) Financial risk (continued)

Currency risk

RTWSA is directly exposed to currency risk on purchases and financial instruments that are denominated in a currency other than Australian dollars. RTWSA uses forward exchange contracts for a portion of its international investments to hedge its exposure to foreign currency fluctuations. All overseas bond securities, overseas listed property and overseas infrastructure are covered by forward exchange contracts. Approximately 40% of the international equity securities are covered by forward exchange contracts, whilst remaining equities are left intentionally exposed to exchange rate movements. The changes in the valuations of these open contracts are disclosed in the financial statements as unrealised gains or losses as at the reporting period.

The analysis below demonstrates the impact on profit and equity of a movement in foreign exchange rates against the Australian dollar on our material un-hedged major currency exposures. This analysis is based on foreign currency exchange rate variances that RTWSA considered to be reasonably possible at the reporting date and assumes that all other variables, in particular interest rates, remain constant.

	Profit or loss		Equity	
	Strengthening \$'000	Weakening \$'000	Strengthening \$'000	Weakening \$'000
30 June 2018				
US Dollar (10% movement)	(17,332)	17,332	(17,332)	17,332
Euro (10% movement)	(3,404)	3,404	(3,404)	3,404
Sterling (10% movement)	(1,825)	1,825	(1,825)	1,825
JPY (10% movement)	(2,362)	2,362	(2,362)	2,362
Other (10% movement)	(12,658)	12,658	(12,658)	12,658
30 June 2017				
US Dollar (10% movement)	(15,943)	15,943	(15,943)	15,943
Euro (10% movement)	(3,234)	3,234	(3,234)	3,234
Sterling (10% movement)	(1,760)	1,760	(1,760)	1,760
JPY (10% movement)	(2,293)	2,293	(2,293)	2,293
Other (10% movement)	(11,633)	11,633	(11,633)	11,633

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 market interest rates. Fixed interest securities are exposed to changes in fair value due to fluctuating interest rates whilst floating rate securities are exposed to future cash flow variations as a result of changes to interest rates. The risk management approach adopted by RTWSA to manage such risks is through its asset allocation whereby a mixture of high credit rated and readily liquidated fixed interest securities are held in conjunction with short-term deposits and cash to achieve the desired level of interest rate risk exposure.

RTWSA's fixed interest investments are held predominately in domestic markets. Such holdings form part of RTWSA's defensive or low risk exposure to provide capital stability and secure income. RTWSA's investments in interest bearing securities consist largely of marketable securities.

RTWSA's sensitivity to movements in interest rates in relation to the value of interest bearing investments is shown in the table below. This analysis is based on interest rate variances that RTWSA considered to be reasonably possible at the reporting date. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

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Notes to and forming part of the financial statements
30 June 2018

Note 25 Risk management (continued)

(d) Financial risk (continued)

	Profit or loss		Equity	
	Strengthening \$'000	Weakening \$'000	Strengthening \$'000	Weakening \$'000
1% interest rate movement - interest bearing investments				
2018	(71,189)	71,189	(71,189)	71,189
2017	(54,965)	54,965	(54,965)	54,965

Market price risk

Market price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market pricing (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual instrument or its issuer (idiosyncratic risk), or factors affecting all similar financial instruments traded in the market (systematic risk).

RTWSA is exposed to market price risk in all asset groups with the highest systematic risk in listed securities. These investments consist of investments listed on the Australian Stock Exchange and other major international exchanges (excluding listed debt). The market price risk in all other asset groups is considered less significant.

RTWSA manages its exposure to market price risk through the adoption of a longer-term investment strategy based on extensive modelling of the expected return, volatility and correlation of each asset category included in the investment program to maximise returns for a given level of risk. By diversifying investments across a number of lowly correlated markets the volatility of the aggregate investment return is moderated over time.

The potential impact of movements in the market value of Australian and overseas listed equities asset groups on RTWSA's Statement of Comprehensive Income and Statement of Financial Position is shown in the sensitivity analysis below. The calculation excludes the impact from currency risk. Industry standard categorisations have been adopted for RTWSA's equity exposures.

	Profit or loss		Equity	
	Strengthening \$'000	Weakening \$'000	Strengthening \$'000	Weakening \$'000
Listed Securities				
30 June 2018				
Domestic equities - (20% movement)	64,515	(64,515)	64,515	(64,515)
International equities - (20% movement)	121,749	(121,749)	121,749	(121,749)
Listed property - (20% movement)	18,146	(18,146)	18,146	(18,146)
Listed infrastructure - (20% movement)	33,926	(33,926)	33,926	(33,926)
30 June 2017				
Domestic equities - (20% movement)	55,904	(55,904)	55,904	(55,904)
International equities - (20% movement)	115,171	(115,171)	115,171	(115,171)
Listed property - (20% movement)	17,199	(17,199)	17,199	(17,199)
Listed infrastructure - (20% movement)	30,784	(30,784)	30,784	(30,784)

Fair value measurements

The fair value of financial assets must be estimated for recognition and measurement or for disclosure purposes.

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Notes to and forming part of the financial statements
30 June 2018

Note 25 Risk management (continued)

(d) Financial risk (continued)

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The following tables present RTWSA's investments measured and recognised at fair value. There have been no transfers between levels during the period.

At 30 June 2018:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Deposits with financial institutions	267,700	-	-	267,700
Government / semi-government securities	731,463	-	-	731,463
Non-government debt instruments	395,401	-	-	395,401
Securities listed on the Australian Stock Exchange	339,916	-	-	339,916
Securities listed on overseas stock exchanges	856,660	-	-	856,660
Unit Trusts - unlisted property and debt security assets	167,756	297,614	-	465,370
Unit Trusts - unlisted infrastructure	-	-	183,839	183,839
Derivatives	-	(9,646)	-	(9,646)
Total investments at fair value through profit and loss	<u>2,758,896</u>	<u>287,968</u>	<u>183,839</u>	<u>3,230,703</u>

At 30 June 2017:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Deposits with financial institutions	410,886	-	-	410,886
Government / semi-government securities	559,009	-	-	559,009
Non-government debt instruments	345,602	-	-	345,602
Securities listed on the Australian Stock Exchange	294,932	-	-	294,932
Securities listed on overseas stock exchanges	788,203	-	-	788,203
Unit Trusts - unlisted property and debt security assets	136,854	275,539	-	412,393
Unit Trusts - unlisted infrastructure	-	-	169,791	169,791
Derivatives	-	10,610	-	10,610
Total investments at fair value through profit and loss	<u>2,535,486</u>	<u>286,149</u>	<u>169,791</u>	<u>2,991,426</u>

The fair value of financial instruments that are not traded in an active market (for example over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

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Notes to and forming part of the financial statements
30 June 2018

Note 25 Risk management (continued)

(d) Financial risk (continued)

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date with the resulting value discounted back to present value
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

All of the resulting fair value estimates are included in level 2 except for unlisted infrastructure assets.

The following table presents the changes in level 3 instruments for the years ended 30 June 2018 and 2017:

	Financial year ended 30 June 2018 \$'000	Financial year ended 30 June 2017 \$'000
Unit Trusts - unlisted infrastructure		
Opening balance	169,791	51,549
Contributions	1,796	116,315
Withdrawals	-	(12,670)
Gains recognised in investment profit	12,252	14,597
Closing balance	<u>183,839</u>	<u>169,791</u>

Note 26 Related party transactions

RTWSA is a statutory authority and is wholly owned and controlled by the South Australian Government.

Related parties of RTWSA include all key management personnel and their close family members; all Cabinet Ministers and their close family members; and all public authorities that are controlled and consolidated into the whole of government financial statements and other interests of the Government.

Note 27 Commitments

RTWSA has entered into agreements to lease office accommodation and motor vehicles for terms in excess of one year. The aggregate non-cancellable lease commitments not provided for in the financial statements, were as follows:

	Office Leases \$'000	Motor Vehicles \$'000	2018 Total \$'000	Office Leases \$'000	Motor Vehicles \$'000	2017 Total \$'000
Within one year	2,387	189	2,576	2,317	159	2,476
Later than one year but not longer than five years	7,748	121	7,869	10,106	173	10,279
	<u>10,135</u>	<u>310</u>	<u>10,445</u>	<u>12,423</u>	<u>332</u>	<u>12,755</u>

A Memorandum of Understanding is in place between RTWSA and the Department of Planning, Transport and Infrastructure on behalf of the Minister for Transport and Infrastructure, regarding the lease of office space at 400 King William Street Adelaide.

RTWSA leases motor vehicles under non-cancellable operating leases expiring from between one to three years.

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Notes to and forming part of the financial statements
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Note 28 Employer financial guarantees

Under section 129 of the Act, RTWSA administers financial guarantees lodged by self-insured employers. As at 30 June 2018, RTWSA held security to the value of \$289.4 million in financial guarantees or other approved substituted financial securities, for self-insured employers. These guarantees are held in the event of a self-insured employer no longer being able to meet its claim liabilities.

Under the terms of the retro paid loss contracts, RTWSA administers financial guarantees lodged by retro paid loss employers. As at 30 June 2018, RTWSA held security to the value of \$43.5 million in financial guarantees for retro paid loss employers. These guarantees are held in the event of a retro paid loss employer no longer being able to meet its premium liability.

Note 29 Self-Insured Insolvency Contribution Aggregate

The Act requires fees paid by self-insured employers to include a fair contribution towards the actual and prospective liabilities of RTWSA arising from the insolvency of self-insured employers and other liabilities of the RTWSA as an insurer of last resort. The Self-Insured Insolvency Contribution Aggregate ("SIICA") is a pooled fund representing contribution fees received over time less any amounts paid by RTWSA as a result of the insolvency of a self-insured employer in excess of a financial guarantee held by RTWSA plus notional attributed interest (calculated by applying the Reserve Bank of Australia cash rate to the balance as at 30 June each year). The SIICA balance as at 30 June 2018 is \$53.4 million (2017: \$52.3 million).

Note 30 Contingent liabilities

The normal course of business may generate exposure to contingent liabilities in relation to claims litigation for the four RTWSA funds. The result of such litigation may result in a liability to RTWSA different to that recognised in the financial statements.

Provisions are made in outstanding claims for obligations that are probable and quantifiable.

There are no individually significant amounts not provided for or that are considered likely to have a material impact on net liabilities.

Note 31 Impact of standards and statements not yet implemented

RTWSA has assessed the impact of new and changed Australian Accounting Standards Board Standards and Interpretations not yet implemented and changes to Accounting Policy Statements issued by the Treasurer.

The material impacts on RTWSA are outlined below:

ReturnToWorkSA
Notes to and forming part of the financial statements
30 June 2018

Note 31 Impact of standards and statements not yet implemented (continued)

Standard Number and Name	Nature	Application date for RTWSA	Anticipated / Potential Impact
AASB 9 Financial Instruments	Replaces AASB 139 and addresses the classification, measurement (including impairment provisioning) and de-recognition of financial assets and financial liabilities and introduces new rules for hedge accounting.	1 July 2018	The main change impacting RTWSA is the requirement for the bad debt provision to be made using an expected credit loss model rather than an incurred loss model. This results in an earlier recognition of losses. Based on current data and assumptions an estimated increase to the bad debt provision of up to \$0.5m will be required.
AASB 16 Leases	Most leases will now be shown in the balance sheet as a right of use asset and a lease liability. The rent expense to be replaced by depreciation and interest.	1 July 2019	DTF have advised that RTWSA's MOU with DPTI for 400 KWS is to be accounted for as a right of use asset. Depreciation will be applied on a straight line basis while the interest expense will reduce over the life of the lease as lease repayments are made. This creates a different expense profile to the current straight line operating lease expense. RTWSA has approximately 20 motor vehicle leases which are also captured due to their contract value and term.
AASB 15 Revenue from Contracts with Customers	A new standard based on the principle that revenue is recognised when control of a good or service transfers to a customer; replacing the existing notion of risks and rewards. (AASB 2016-7 Amendments to Australian Accounting Standards deferred start of standard for NFP entities)	1 July 2019 (For NFP entities)	No impact expected on RTWSA's revenue recognition as all material revenue earning is currently subject to AASB 1023 and from 2021-22, AASB 17.
AASB 1058 Income of Not-For-Profit Entities	Designed to capture income transactions not reported under AASB 15. The timing of income recognition will depend on whether there is any performance obligation.	1 July 2019	No impact expected on RTWSA's revenue recognition as all material revenue earning is currently subject to AASB 1023 and from 2021-22, AASB 17.
AASB 17 Insurance Contracts	A comprehensive standard for all insurance contracts (Life, General and Health) replacing AASB 4, AASB 1023 and AASB 1038.	1 July 2021	There will be significant changes in terminology, presentation and disclosure, including making a choice on whether changes in discount rates and other market variables are accounted for in the P&L or in Other Comprehensive Income.

ReturnToWorkSA
Notes to and forming part of the financial statements
30 June 2018

Note 32 Transactions with SA Government

The following table discloses revenues, expenses, financial assets and liabilities where the counterparty/transaction is with an entity within the SA Government, excluding tax equivalents, as at the reporting date. Transactions with SA Government entities below the threshold of \$100,000 are excluded.

	2018 Revenue \$'000	2018 Expenses \$'000	2018 Assets \$'000	2018 Liabilities \$'000
SA Government	5,762	18,966	-	2,772
	2017 Revenue \$'000	2017 Expenses \$'000	2017 Assets \$'000	2017 Liabilities \$'000
SA Government	5,573	19,588	-	3,166

Administered items

The Work Health and Safety Act 2012 requires employers to register with Safework SA and make payments in the form of fees. The registration and collection of these fees is administered by RTWSA for SafeWork SA in conjunction with the registration of employers under the Act. RTWSA pays these funds to SafeWork SA whilst retaining a portion of the funds to cover administration costs.

RTWSA only recognises transactions from activities that it controls. It is considered that except for the portion of funds retained by RTWSA to cover administration costs, RTWSA does not control the funds that it collects on behalf of SafeWork SA. Therefore, RTWSA does not recognise the fees collected and subsequent payments made in relation to SafeWork SA in its Statement of Comprehensive Income or Statement of Financial Position.

Administered Items for the financial year ending 30 June 2018:

	2018 Revenue \$'000	2018 Expenses \$'000	2018 Assets \$'000	2018 Liabilities \$'000
Administered items	20,584	20,034	-	2,647
	2017 Revenue \$'000	2017 Expenses \$'000	2017 Assets \$'000	2017 Liabilities \$'000
Administered items	20,105	19,546	-	2,096

The financial statements and accompanying notes include all the controlled activities of RTWSA. Transactions and balances relating to administered resources are not recognised as corporation income, expense, assets and liabilities. Except as otherwise disclosed, administered items are accounted for on the same basis and using the same accounting policies as RTWSA items.

Note 33 Events after the reporting period

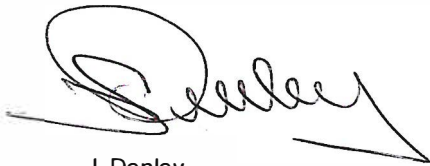
There have been no events after the reporting period which would have a material effect on RTWSA's financial statements at 30 June 2018.

ReturnToWorkSA
Certificate under section 23(2) of the Public Finance and Audit Act 1987
30 June 2018

In our opinion the attached general purpose financial statements for the Return to Work Corporation of South Australia:

- comply with relevant Treasurer's instructions issued under section 41 of the Public Finance and Audit Act 1987, and comply with relevant accounting standards;
- are in accordance with the accounts and records of the Return to Work Corporation of South Australia; and
- present a true and fair view of the financial position of the Return to Work Corporation of South Australia as at 30 June 2018 and the results of its operation and cash flows for the financial year.

In our opinion the internal controls employed by the Return to Work Corporation of South Australia for the financial year over its financial reporting and the preparation of these general purpose financial statements have been sufficiently effective to enable the presentation of financial statements that are free from material misstatement.



J. Denley
Chair



R. Cordiner
Chief Executive Officer



D. Quirk
Chief Financial Officer

io September 2018