

# INSURING OUR MEMBERS SINCE 1907

MAV Insurance provides a range of benefits to members that aren't available with traditional insurance providers.

All profits are kept in the fund for the benefit of members.

## **Member benefits:**

- > Tailored insurance cover to meet the needs of local government and other authorities.
- > Affordable insurance cover backed by more than 15 international reinsurers.
- > Guaranteed availability regardless of insurance market changes or collapses.
- > Tailored risk management services.
- > Additional, no cost legal services and specialised claims management.
- > Member participation in claims investigations, analysis, mediation and settlement.
- > Ongoing advocacy on insurance matters with the Australian and Victorian governments, and regulators.



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OUR  
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# CHAIR'S REPORT

Following the Liability Mutual Insurance (LMI) scheme's recent increase in claims, 2013/14 was a year of decisive action to introduce major reforms aimed at stabilising the financial position of the scheme. We finished 2013/14 with a deficit of \$1.4m (\$5.6m in 2012/13), with the improvement from 2013 primarily a result of increased revenue, a reduction in our administration and service costs, and lower claim costs for the 2013/14 fund year. After this year's deficit, LMI is now in a negative capital position of \$1.1m.

The scheme has managed persistent increases in costs caused by rising claims over the past five years by smoothing contribution increases and accessing its capital. Under LMI's deed of establishment, the Board has a power to make a call on members for deficit fund years, which has given the Board a degree of comfort in phasing-in required contribution increases over several years. Despite operating since 1993 and surviving major market failure, we have never made a call on members and our long-term financial strategy is intended to maintain this record.

**"Despite operating since 1993 and surviving major market failure, we have never made a call on members and our long-term financial strategy is intended to maintain this record."**

Past experience has provided us with many lessons regarding the complexity of the liability insurance market for local authorities. Even after 21 years as an insurer of councils, water corporations and other local authorities, we are still seeing new challenging trends arise.

A significant spike in claims followed the drought as the environmental conditions gave rise to an increased risk of property damage. We have also seen one of the most catastrophic bushfires to hit the state, with the Black Saturday fires causing widespread damage and resulting in a major legal response from LMI to protect members' interests at the subsequent Royal Commission. The scheme also needs to be carefully tuned to new and novel risk factors, from changing patterns of transport to climate change, shifts in the responsibilities of members, and changes to or new interpretations of the law.

Ultimately, the past five years has seen the cost of claims rise at a faster rate than our contributions levels, and reflects mature fund years developing adversely and claims provisions increasing for new years.

Despite this, the scheme's contributions are still lower in real terms than they were a decade ago. We still believe that LMI sets the benchmark in the market with competitive premiums over the medium term and broad form policy coverage that protects members against unexpected events.

We expect to further enhance the financial position of the scheme over the next two years in line with our long-term strategy. This will lead to an improved environment for members and greater protection from the unpredictable private insurance markets.

Following a significant restructure to the reinsurance program, finalised in late 2012/13, which brought new capacity into the LMI program on long-term arrangements, our reinsurance negotiations focused on achieving the best deal possible for members for the first \$1m in claims. We successfully negotiated a larger self-insured



retention for the first \$1m in claims, which will deliver a financial benefit to members. The program was developed in accordance with our reinsurance management strategy, which ensures all our reinsurers have good credit ratings, while also managing concentration risks and ensuring long-term relationships with underwriters that understand the scheme's liability risks.

New claim lodgements fell in 2013/14 for the first time in several years and total claim payments also trended downwards. We also successfully defended several potentially large Water Act claims arising from the major floods of 2011.

Our risk management services were reviewed and revised substantially, with the implementation of the new risk analysis response reviews (RARR) supplemented with strengthened member identified services. In the medium to long-term, the LMI scheme's performance is strongly affected by the ability of our risk services to reduce claim frequency, and improve community outcomes by reducing injuries and property damage. We have been working closely with the first cohort of RARR members to tailor their risk services under this program and will continue to deliver this important service over the next 12 months.

We are also applying the lessons learned from the RARR program to other members when the services identify common exposures and risk management failures. These lessons will be delivered through our member-only events, such as Best Practice Forums, seminars, and conferences.

Our advocacy efforts for 2013/14 focused on the Victorian Competition and Efficiency Commission inquiry into the Wrongs Act, the review of the Water Act, and proposed

reforms to the planning system and flood management regime. We successfully advocated for improvement of councils' protections under the Water Act and removal of the responsibility for councils to designate fire refuges.

Under difficult claims and investment circumstances, we are progressively implementing our plan to improve the LMI scheme's financial base. We are cooperatively working with members to cut claim numbers and are seeing some positives from these efforts.

The Commercial Crime scheme had one major claim during the previous financial year that drew a large amount of publicity and discussion around risk management practices. Several meetings with members occurred during the year where risk management strategies and practices, together with recent claims experience, were analysed and discussed.

I would like to thank my fellow Board Members for their professionalism, expertise and dedication to MAV Insurance. On behalf of the MAV Insurance Board, I would like to thank Rob Spence, CEO of MAV and Alison Lyon, Deputy CEO and the insurance team, for their tireless work on behalf of the LMI and Commercial Crime schemes.

## JOHN WARBURTON

CHAIR, MAV INSURANCE BOARD

# YEAR IN REVIEW

## RISK MANAGEMENT SERVICES REVIEW

We revised our risk management services in 2013/14 to ensure they were individually tailored to the specific factors causing claims for members. The improved risk services should provide ongoing benefits to members of the scheme through more relevant and targeted risk services.

## REINSURANCE NEGOTIATIONS

LMI focused our reinsurance negotiations on claims costs below \$1 million and achieved significant savings for 2014/15 and beyond. The scheme took a larger self-insured retention while improving protection for any adverse claims trends.



## WATER ACT ADVOCACY

The MAV successfully advocated for better protections for councils through the review of the Water Act. The new Act, operational on 1 January 2016, will result in fewer water claims and better protection to defend claims arising from damage caused by water release from council assets.

## ENGAGING MEMBERS

MAV CEO Forums established a standing item for an insurance update to ensure the sector has a good understanding of the scheme's issues, challenges and performance.

We implemented our service plan for engagement with water corporations, including discussions with each member about their service delivery needs, pricing and coverage.

We also continued strong engagement with Tasmanian members through a risk management conference and Best Practice Forums.





## TREE ROOT RISK ASSESSMENT TOOL

LMI staff developed a tree root risk assessment tool in consultation with a working group consisting of council members. The draft tool and explanatory manual was provided to members to trial and provide feedback, and is expected to lead to greater standardisation of councils' response to tree root issues. Implementation of the tool is expected to occur in 2014/15.

## LGE HEALTH PLAN

The Local Government Employees (LGE) Health Plan now includes more than 6,000 members from 72 Victorian councils, 14 Tasmanian councils and 11 water authorities. Over 500 claims processed in 2013/14 provided reimbursements of \$163,000.

## CLAIM TRENDS

New LMI claim lodgements fell in 2013/14 for the first time in several years seemingly as a result of improvements in risk management and more benign weather conditions. This was offset by some evidence of claims liabilities increasing in more mature fund years and adverse changes in the actuary's underlying assumptions for the scheme. The Commercial Crime Fund did not incur any new claims in 2013/14.

## SUCCESSFUL COURT CASES

We successfully defended several large Water Act claims which arose from significant rainfall events in early 2011. With favourable court decisions and vigorous defences of similar claims, we successfully defended the interests of our members and ensured that we are well placed to defend claims arising from future rainfall events.

## WRONGS ACT REVIEW

We advocated against proposals that could have increased the cost of claims through the Victorian Competition and Efficiency Commission review of the Wrongs Act. Our advocacy was successful in limiting the potential unwinding of tort reform and protected the interests of members.

## WORKCOVER

The MAV's proposed new WorkCare scheme progressed towards a self insurance model for local government in 2016 to take control of employee workers' compensation insurance, improve health and safety outcomes and provide members with cost savings.

Key steps undertaken during the year included independent actuarial analysis of performance data from 78 councils over 10 years to determine cost benefits, and a registration process to gauge member interest in participating in the scheme. The MAV also issued a tender seeking a third party provider of workers compensation claims/injury management, workplace health and safety, return to work, training and education services.



# MAV INSURANCE

## JOHN WARBURTON

APPOINTED 1995

Chair, MAV Insurance Board 2005 - present  
Director, Lend Lease Real Estate Investments Limited  
Director, Health Super Financial Services Pty Ltd  
Director, Emergency Services Foundation  
Member, Audit Committee, Orygen Youth Health Research Centre

## RON FARRELL

APPOINTED 2001

Member, Professional Standards Councils (All States and Territories)  
Past Chair, Claims and Technical Committee  
Past Non-Executive Director, Victorian Managed Insurance Authority  
Past General Manager, Australian Eagle Insurance Co Ltd  
Past Chairman and Non-Executive Director, Utilities Insurance Co Pty Ltd  
Past Non-Executive Director, connect.com.au Pty Ltd  
Past Non-Executive Director, Metropolitan Fire and Emergency Services Board

## CR ROD FYFFE

APPOINTED 2004

MAV Board Member  
Councillor, Greater Bendigo City Council  
Mayor 2003/04, 2004/05, 2010/11

## ALLAN GARCIA

APPOINTED 2003

Chief Executive Officer, Local Government Association of Tasmania (LGAT)  
LGAT representative  
Trustee, Quadrant Superannuation

## MICHAEL GUILMARTIN

APPOINTED 2009

Company Director Lake Eildon Country Club Ltd  
Chief Executive Officer, Victorian Managed Insurance Authority 1997-2007  
President, Association of Risk Insurance Managers of Australia 1980  
Risk Manager, Alcoa of Australia Ltd 1971-97



### DR MICHAEL KENNEDY OAM

APPOINTED 1995

Chief Executive Officer, Mornington Peninsula Shire Council  
Chairman, Frankston Mornington Peninsula Local Learning and Employment Network  
Company Secretary, Life Saving Victoria  
Director, Inner East Community Health  
Chair, Institute of Transport Studies (Monash University)

### CR BILL MCARTHUR

APPOINTED 2009

MAV President  
Councillor, Golden Plains Shire Council  
Mayor 2004/05  
Member, Australian Local Government Association Board

### ANNE MURPHY OAM

APPOINTED 1993

Chair, MAV Insurance Committee 1993-2005  
Past President, MAV  
Principal, Anne Murphy Strategy and Facilitation  
Board member, KYM Employment Services Inc  
Board member, Calvary Health Care Bethlehem Advisory Board

### ROB SPENCE

APPOINTED 1997

Chief Executive Officer, MAV  
Trustee, Vision Super  
Member, Victorian Children's Council  
Member, Ministerial Freight Advisory Council  
Member, State Crisis and Resilience Council

## MAVIB – GOVERNANCE

The MAV Board has delegated authority and responsibility for MAV Insurance to the MAV Insurance Board (MAVIB). A deed of establishment requires the formation of a management board, formalises duties and powers of delegation by the Board and provides guidance as to the day-to-day operation of the insurance business.

Insurance Board Members are appointed by the MAV Board from the insurance industry and local government. MAVIB oversees the operation of the insurance schemes and monitors the MAV's compliance with its Australian Financial Services License (AFSL).

Independent Board Members receive a sitting fee for each meeting attended. In 2013/14 the sitting fee was:

> Chair: \$960

> Independent Board Members: \$675

In addition, an allowance of \$1 300 was paid to the independent board members for attendance at other insurance-related meetings.

## MAV INSURANCE BOARD ATTENDANCE

	AUG	SEPT	NOV	DEC	JAN	MAY	16 JUN	20 JUN
John Warburton	✓	✓	✓	✓	✓	✓	✓	✓
Ron Farrell	✓	✓	✓	✓	✓	✓	✓	✓
Rod Fyffe	✓	✓	✓	✓	✓	X	✓	✓
Allan Garcia	✓	X	✓	✓	✓	✓	✓	X
Michael Guilmartin	✓	✓	✓	✓	✓	✓	✓	✓
Michael Kennedy	X	X	X	✓	✓	✓	✓	X
Bill McArthur	✓	✓	✓	✓	X	X	X	✓
Anne Murphy	✓	X	✓	✓	✓	✓	X	✓
Rob Spence	✓	✓	✓	✓	✓	✓	✓	✓

# MAV INSURANCE TEAM



## MAV Board

## MAV Insurance Board

**Rob Spence** 1  
CEO

**Alison Lyon** 2  
Deputy CEO &  
General Counsel

**Owen Harvey-Beavis** 3  
Manager - Insurance,  
Research and Strategy

**LEGAL**  
**Kristine Purcell** 4  
MAV Insurance  
Counsel

**CLAIMS**  
**John Smith** 5  
Claims Adviser

**SERVICE PROVIDERS**  
**Jardine Lloyd  
Thompson (JLT)**  
Risk Management

**Allan Holmes** 6  
Finance Consultant

**Taylor Fry**  
Actuary  
**EY**  
Auditor

**LEGAL PANEL**  
**Minter Ellison**  
**DLA Piper**  
**Moray & Agnew**  
**Ligeti Partners**  
**Hunt & Hunt (Tasmania)**  
**Shaun McElwaine (Tasmania)**

## ROB SPENCE 1

### CHIEF EXECUTIVE OFFICER

Rob Spence joined the MAV as Chief Executive Officer (CEO) in 1997. From 1994 to 1997 he was CEO of Brimbank City Council and from 1992 to 1994 he was CEO at the City of Footscray. He is a qualified accountant with over 30 years of experience.

## ALISON LYON 2

### DEPUTY CHIEF EXECUTIVE OFFICER & GENERAL COUNSEL

Alison joined MAV Insurance in 2006 and has significant experience in local government law, and a wealth of knowledge in relation to governance and insurance issues. Prior to joining the MAV she was with the City of Melbourne in a range of senior executive roles, which at various times included responsibility for risk and insurance, corporate, legal, governance, human resources and corporate communication.

## OWEN HARVEY-BEAVIS 3

### MANAGER - INSURANCE, RESEARCH & STRATEGY

Owen joined the MAV in 2003 as part of the policy team working across a wide range of policy issues including finance and economics, human services and infrastructure. After a year at the Productivity Commission in 2010, Owen returned to the MAV taking on responsibility for reinsurance placement, working closely with the scheme's actuaries on its claims performance, and contributions. In 2013, he took on responsibility to manage the contract of the scheme's service provider and ensuring Australian Financial Services Licence compliance. He has qualifications in politics, public policy (honours) and economics, and brings widespread knowledge of local government's functions and responsibilities through his decade of policy advocacy in the sector.

## KRISTINE PURCELL 4

### INSURANCE COUNSEL

Kristine joined MAV Insurance in May 2013 as Legal Counsel. She previously worked in private practice for 12 years, during which she obtained extensive insurance litigation experience in professional indemnity, public liability and product liability claims. Kristine has undertaken work as a panel lawyer for the MAV LMI scheme for 11 years and has sound knowledge of the members and the scheme. Kristine provides legal advice to members in relation to liability issues affecting the LMI scheme, as well as working with the claims and risk management team to provide a global approach to the services provided.

## JOHN SMITH 5

### CLAIMS ADVISER

John joined MAV Insurance in November 2008 as LMI's claims management adviser, bringing with him over 30 years' experience with the State Insurance Office, Transport Accident Commission and Victorian Managed Insurance Authority. John plays a key role in overseeing MAV Insurance claims management processes, strategies and claims trends, as well as ensuring the quality of services provided to JLT and our external legal panel.

## ALLAN HOLMES 6

### FINANCE CONSULTANT

Allan has been providing finance and insurance consulting services to the MAV and its related entities since 2002. He reviews the financial statements of MAV Insurance, and prepares the Annual Financial Statements. Allan brings a wealth of knowledge from previous experience as partner in an international accounting firm, Managing Director of a merchant banking firm and acting as a Director of both publicly listed companies and private companies. He is a Chartered Accountant and a Fellow of the Australian Institute of Company Directors.

# OVERVIEW OF MAV INSURANCE

## LIABILITY MUTUAL INSURANCE

In 1993, few insurers were prepared to underwrite local government business due to the uncertain and volatile insurance climate in which they were operating. Premiums would rise or fall dramatically from year to year and insurers could not offer adequate coverage for the increasing litigation in the community, and growing responsibilities being passed onto local government.

The *Local Government Act 1989* was amended to allow councils who participated in an approved self-insurance scheme to automatically comply with the minimum insurance requirements under section 76A(1) of the Act. Amendments were made to the *Municipal Association Act 1907* requiring the MAV to establish a self-insurance liability scheme to provide public liability and professional indemnity insurance for the benefit of:

- > the MAV;
- > any council under the *Local Government Act*; and
- > any other approved body.

The MAV established the Civic Mutual Plus mutual insurance scheme in 1993, which was rebranded in 2011 as the Liability Mutual Insurance (LMI) Scheme, a self-insurance fund for local authorities and water corporations.

Today under the banner of MAV Insurance, the scheme provides cover in public and products liability, and professional indemnity insurance. It offers substantial limits of coverage, well in excess of the minimum insurance requirements in the *Local Government Act*, and commensurate with the exposures faced by our members today.

Councils and other authorities are covered for public and products liability insurance up to \$400 million for each and every claim. Water corporations are covered for up to \$600 million. All members are covered for professional indemnity insurance up to \$300 million.

In 2013/14, 25 per cent of all claims under \$1 million are covered by capital held in the scheme, and all claims attract an excess.

Large claims are covered by reinsurance sought from third-party insurers. Reinsurance also covers the scheme when the cumulative value of small claims in one year exceeds an agreed amount.

Membership of the LMI Scheme is available to all Victorian councils, water corporations and other local government bodies on a voluntary basis. Membership was extended to also include equivalent Tasmanian bodies in 1996.

The LMI Scheme was formed under a deed of establishment, which is the official agreement between the MAV and members who agree to be bound by the terms of this deed. The deed confirms the terms, conditions, obligations and benefits of the membership of each individual member. MAV Insurance complies with the *Commonwealth Insurance Act 1973* and with the Australian Financial Services Licence requirements imposed on it as a licensed insurer.

The MAV manages the scheme with the assistance of a service provider, Jardine Lloyd Thompson.

## COMMERCIAL CRIME INSURANCE

The MAV offers commercial crime insurance to councils, water authorities and other eligible public authorities in accordance with the *Municipal Association Act 1907*.

All members have a minimum sum insured of \$1.5 million, with members able to opt for a higher limit. The fund indemnifies members against fraudulent or dishonest acts committed by an employee or third party acting alone or in collusion with others.

From July 2010 insurance has been facilitated for members via a policy issued by Zurich Insurance Australia. MAV Insurance manages the fund with assistance from Jardine Lloyd Thompson (JLT).

# LIABILITY MUTUAL INSURANCE

## CLAIMS

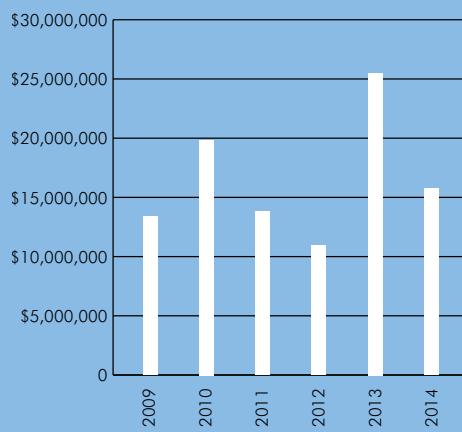
### CLAIMS LODGEMENT TRENDS

After a trend of increasing claim lodgements in Victoria over recent years, 2013/14 saw a slight reduction in new claims received by comparison. In Tasmania, claim lodgements remain relatively low and stable.

CLAIMS LODGEMENTS



TOTAL CLAIMS PAYMENTS



## WRONGS ACT REVIEW

During 2013/2014 the Victorian Competition and Efficiency Commission (VCEC), at the request of the Treasurer and Attorney-General, conducted a review of the Wrongs Act 1958 in so far as it related to personal injury claims. The purpose was to review the effects of tort reform in the early 2000s which was designed to regulate legal actions for compensation for injuries allegedly due to negligence. The majority of MAV Insurance's personal injury claims are governed by the provisions of the Wrongs Act.

The Ministers noted that the objective of tort reform at the time was to reduce claims on public liability and professional indemnity insurance to ensure the long-term affordability and availability of such insurance. Whilst it was confirmed that these principles would not be revisited as part of the review, VCEC was asked to look at ways to ensure the Act was operating efficiently and effectively, and make recommendations to address any anomalies, inequities or inconsistencies.

On behalf of our members, MAV Insurance consulted with VCEC and submitted a public response for VCEC's consideration in September 2013. We provided a further submission in January 2014 in response to VCEC's subsequent draft report.

While MAV Insurance accepts many of the recommendations in VCEC's draft report, we have pointed out in our submissions that some have the potential to significantly and adversely impact claim lodgements. We believe this would not be in keeping with parliament's original intention.

VCEC provided their final draft report to the Minister in February 2014. The Minister has six months to consider the report and respond.

## COURT CASES

During the year MAV Insurance successfully defended a number of potentially large Water Act claims. These claims were predominantly brought against water corporation members following significant rainfall events in early 2011. In two cases the court handed down decisions in favour of our respective members and in another two proceedings the claimants ultimately withdrew as a result of our vigorous defence. We are hopeful that amendments to the Water Act will further assist the scheme in defending similar claims against councils. The changes will mean the flow of water will need to be found to be intentional or negligent rather than simply unreasonable.

Also during 2013/14, MAV Insurance successfully defended two significant proceedings with a County Court judge finding that a contractor breached their obligation under the contract to take out insurance in the name of the council.



## RISK MANAGEMENT

### RISK MANAGEMENT SERVICES PROGRAM

We began implementing the new suite of risk services that focus on members with high claim numbers. The risk analysis response reviews (RARRs) provide targeted services to the quartile of members with significant claims history, and involve a detailed plan to target the key claims drivers.

Through targeted action and effective collaboration with members, we have established plans containing short, medium and long-term solutions which directly address the underlying causes of claims.

For those members for whom the RARR service was not applicable, tailored risk services have been provided or scheduled based on the individual needs, or in accordance with suggested improvement opportunities by MAV Insurance as part of a nominated risk service.

Member nominated services available and delivered include targeted risk appraisals on topics such as playground risk management,

tree risk management, event management, and road management plan compliance.

The help desk responded to over 150 requests for support and guidance throughout the year from members, ranging from general advice on commonplace risks through to more specialised, individual and unusual risks members are presented with.

We continued our monthly MAV Insurance Bulletins to provide members with regular updates on applicable areas of interest such as legislative and regulatory changes/updates, details of upcoming events, guidance and best practice.

We also delivered three rounds of Best Practice Forums this financial year. These forums have incorporated consultation on the operation of the scheme, as well as emerging and current risk matters.

The 2014 MAV Tasmanian Insurance Conference was held in St. Helens in May and the 2014 MAV Victoria Insurance and Risk Management Conference will be held in Melbourne on 16-17 October.

### ROAD MANAGEMENT PLAN SURVEY

We undertook an online survey of Victorian councils on the practical content of their Road Management Plans (RMPs). Forty-two councils completed the survey, which asked questions on topics such as:

- > Inspection frequencies
- > Defect intervention levels
- > Maintenance response timeframes
- > Temporary / make-safe repairs
- > Contractual management
- > Compliance

The results of the survey were shared with all members, as they provide a valuable insight into the design and contents of RMPs. The survey results have also been used to assist individual enquiries from councils, and for further improving LMI's educational material and risk services.



## OPERATIONS

### TREE MANAGEMENT INCLUDING TREE ROOTS

Over 150 delegates attended the scheme's tree root seminar in October 2013. Council and industry speakers presented on their tree management processes and approaches, and lessons learned through legal and claims history was also covered.

The scheme coordinated the development of a Tree Root Risk Assessment tool in conjunction with qualified arborists from a number of councils across Melbourne. This tool is designed to assist councils to make consistent, documented decisions about their management of trees. The tool is currently being trialled by members of the working group, and will be distributed to all members of the scheme in the second half of 2014.

### REINSURANCE ARRANGEMENTS

Following a substantial restructure of our reinsurance arrangements ahead of the 2013/14 year which involved bringing new reinsurers into the program, we negotiated a new structure for the first \$1 million of claims for 2014/15 and beyond. The new structure involves the scheme taking a larger self-insured retention to reduce the total claims and reinsurance costs, and will result in ongoing savings to members. In 2013/14 we entered into three-year agreements with almost all reinsurers on excess layers (i.e. greater than \$1m claims). In addition to the new structure, we entered medium term deals with all remaining reinsurers on the program. This will create certainty for members in the cost of our reinsurance and claims.

### POLICY ADVOCACY

We have been negotiating with the State Government about liability risks to Victorian councils from recent water events through the new Water Bill 2014. The Bill included provisions to shift councils from a strict liability to a negligence-based regime, commencing in 2016.

Additional advocacy wins within the insurance team included the achievement of protections for councils that have fire refuges within their municipalities. We were firstly able to negotiate a Treasurer's indemnity for 2013/14, and the State has passed legislation for it to assume designation responsibilities for the state's three fire refuges.

The *Planning and Environment Act* was amended to make Catchment Management Authorities a recommending referral authority. Accordingly, their recommendations on permit applications are no longer binding on councils to include in permits issued. MAV Insurance has been assessing the liability implications of these changes and will provide definitive advice to the sector in 2014/15.



## LIABILITY MUTUAL INSURANCE OPERATIONS

The Department of Transport, Planning and Local Infrastructure made amendment C109 to the Victorian Planning Provisions. It has released practice notes with this amendment. MAV Insurance has worked with MAV policy staff to consider this material and liability implications for MAV Insurance members.

The Building Legislation Amendment Bill potentially expands the role of municipal building surveyors. We have undertaken an initial review of the amendments and how they may affect council liability. Further discussions are to take place with the Victorian Municipal Building Surveyors Group, the Victorian Building Authority (VBA) and the Department to consider options to clearly delineate the roles of municipal building surveyors and the VBA in the administration, enforcement and monitoring roles under the new amendments.

### COST REVIEW

As a means of ensuring member value, we conducted a full review of the reasonableness of our service provider's fees. The analysis concluded that the fees were reasonable based on the resources that were directed to member services. We will continue to monitor the costs incurred by the scheme and ensure value for money for members.

### MEMBER CONTRIBUTIONS

Adjusted for inflation, member contributions are lower in 2013/14 than they were a decade ago.



## LIABILITY MUTUAL INSURANCE MEMBERS

### VICTORIAN COUNCILS

Alpine Shire Council  
Ararat Rural City Council  
Ballarat City Council  
Banyule City Council  
Bass Coast Shire Council  
Baw Baw Shire Council  
Bayside City Council  
Benalla Rural City Council  
Boroondara City Council  
Brimbank City Council  
Buloke Shire Council  
Campaspe Shire Council  
Cardinia Shire Council  
Casey City Council  
Central Goldfields Shire Council  
Colac Otway Shire Council  
Corangamite Shire Council  
Darebin City Council  
East Gippsland Shire Council  
Frankston City Council  
Gannawarra Shire Council  
Glen Eira City Council  
Glenelg Shire Council  
Golden Plains Shire Council  
Greater Bendigo City Council  
Greater Dandenong City Council  
Greater Geelong City Council  
Greater Shepparton City Council  
Hepburn Shire Council  
Hindmarsh Shire Council  
Hobsons Bay City Council  
Horsham Rural City Council  
Hume City Council  
Indigo Shire Council  
Kingston City Council  
Knox City Council  
Latrobe City Council  
Loddon Shire Council  
Macedon Ranges Shire Council  
Manningham City Council  
Mansfield Shire Council  
Maribyrnong City Council  
Maroondah City Council  
Melbourne City Council  
Melton City Council  
Mildura Rural City Council  
Mitchell Shire Council  
Moira Shire Council  
Monash City Council  
Moonee Valley City Council  
Moorabool Shire Council  
Moreland City Council  
Mornington Peninsula Shire Council

Mount Alexander Shire Council  
Moyston Shire Council  
Murrindindi Shire Council  
Nillumbik Shire Council  
Northern Grampians Shire Council  
Port Phillip City Council  
Pyrenees Shire Council  
Queenscliffe Borough Council  
South Gippsland Shire Council  
Southern Grampians Shire Council  
Stonnington City Council  
Strathbogie Shire Council  
Surf Coast Shire Council  
Swan Hill Rural City Council  
Towong Shire Council  
Wangaratta Rural City Council  
Warrnambool City Council  
Wellington Shire Council  
West Wimmera Shire Council  
Whitehorse City Council  
Whittlesea City Council  
Wodonga City Council  
Wyndham City Council  
Yarra City Council  
Yarra Ranges Shire Council  
Yarriambiack Shire Council

### TASMANIAN COUNCILS

Break O'Day Council  
Brighton Council  
Burnie City Council  
Central Coast Council  
Central Highlands Council  
Circular Head Council  
Clarence City Council  
Derwent Valley Council  
Devonport City Council  
Dorset Council  
Flinders Council  
George Town Council  
Glamorgan/Spring Bay Council  
Glenorchy City Council  
Hobart City Council  
Huon Valley Council  
Kentish Council  
King Island Council  
Kingborough Council  
Latrobe Council  
Launceston City Council  
Meander Valley Council  
Northern Midlands Council  
Sorrell Council  
Southern Midlands Council  
Tasman Council  
Waratah-Wynyard Council  
West Coast Council  
West Tamar Council

### OTHERS

City West Water Limited  
Eastern Regional Library Corporation  
Goulburn Murray Rural Water Corporation  
Goulburn Valley Regional Library  
Local Government Association of Tasmania  
Municipal Association of Victorian North Central Goldfields Library Service  
Southern Rural Water Corporation  
Tasmanian Irrigation Pty Ltd  
TasWater  
Victorian Water Industry Association Inc  
Western Region Water Corporation  
West Gippsland Regional Library Service  
Whitehorse Manningham Regional Library Corporation  
Yarra Plenty Regional Library Service

# COMMERCIAL CRIME FUND

## INTRODUCTION

The Commercial Crime Fund covers local authorities against losses from fraudulent or dishonest acts committed by an employee or third party. Like MAV Insurance's LMI scheme, the Commercial Crime Fund is a non-discretionary mutual insurance scheme that exists solely for the benefit of its members. As there is no profit built into the contribution setting model, the scheme will inevitably be more cost effective in the long-term.

The Commercial Crime Fund utilises the market power of its 80 members to obtain the broadest insurance cover, with significant sums insured at very competitive rates. While some years may incur a shortfall, in other years a surplus can be generated, with the aim to balance the pool over the long-term.

## PERFORMANCE

The Commercial Crime Fund recorded a loss of \$159,415 this financial year primarily as a consequence of higher than expected management fees due to the correction of a historical under collection of these fees. Members continue to save, however, through the financial benefits of collective purchasing. The fund achieved its aim to provide high levels of insurance cover at a reasonable cost, which is particularly competitive over the long-term. Contributions from members rose by 3.5 per cent for the year. Being a not-for-profit the Fund is not subject to income tax and no dividends are paid to third parties.

## CLAIMS

The scheme did not incur a new claim this financial year, following three claims in 2012/13. Major claims arising in the previous year developed, as the full cost of the fraudulent activity became apparent.

## RISK MANAGEMENT

Members of the Commercial Crime Fund are expected to continually test the strengths and weakness of organisational systems through their audit committees and internal auditors. Constant review of the risks inherent in member systems, and testing of the areas of risk is a core responsibility of members. The basic concepts of separation of duties, delegation, risk appraisal and risk training need to be embedded in members' operations if they are to be protected from the risk of fraud. Incidents of fraud not only have a major impact on the organisation's financial position, but can also result in significant damage to the organisation's reputation with resulting staff morale issues. MAV Insurance supports councils' risk management capabilities and encourages embedding of the core concepts through training opportunities and information sessions. A number of fraud awareness seminars were conducted around the state during the year. These seminars help to ensure members are up-to-date in fraud prevention and detection processes.



## COMMERCIAL CRIME FUND MEMBERS

### VICTORIAN COUNCILS

Alpine Shire Council  
Ararat Rural City Council  
Ballarat City Council  
Bass Coast Shire Council  
Baw Baw Shire Council  
Bayside City Council  
Benalla Rural City Council  
Boroondara City Council  
Brimbank City Council  
Buloke Shire Council  
Cardinia Shire Council  
Casey City Council  
Central Goldfields Shire Council  
Colac Otway Shire Council  
Corangamite Shire Council  
Darebin City Council  
East Gippsland Shire Council  
Gannawarra Shire Council  
Glenelg Shire Council  
Golden Plains Shire Council  
Greater Bendigo City Council  
Greater Geelong City Council  
Greater Shepparton City Council  
Hindmarsh Shire Council  
Hobsons Bay City Council  
Horsham Rural City Council  
Hume City Council  
Indigo Shire Council  
Kingston City Council  
Knox City Council  
Latrobe City Council  
Loddon Shire Council  
Macedon Ranges Shire Council  
Manningham City Council  
Mansfield Shire Council  
Maribyrnong City Council  
Melbourne City Council  
Melton City Council  
Mildura Rural City Council  
Mitchell Shire Council  
Moira Shire Council  
Monash City Council  
Moonee Valley City Council  
Moorabool Shire Council  
Moreland City Council

Mornington Peninsula Shire Council  
Mount Alexander Shire Council  
Moyne Shire Council  
Murrindindi Shire Council  
Nillumbik Shire Council  
Northern Grampians Shire Council  
Port Phillip City Council  
Pyrenees Shire Council  
Queenscliff Borough Council  
South Gippsland Shire Council  
Southern Grampians Shire Council  
Stonnington City Council  
Strathbogie Shire Council  
Surf Coast Shire Council  
Swan Hill Rural City Council  
Towong Shire Council  
Wangaratta Rural City Council  
Warrnambool City Council  
Wellington Shire Council  
West Wimmera Shire Council  
Whitehorse City Council  
Whittlesea City Council  
Wodonga City Council  
Wyndham City Council  
Yarra City Council  
Yarriambiack Shire Council

### OTHER MEMBERS

Citywide Service Solutions Pty Ltd  
Corangamite Regional Library Corporation  
Eastern Regional Libraries Corporation  
Geelong Regional Library Corporation  
Municipal Association of Victoria  
Queen Victoria Market  
Tanjil Bren Water Cooperative Ltd  
West Gippsland Regional Library Corporation  
Western Region Water Corporation

# LGE HEALTH PLAN

The LGE Health Plan is a unique health insurance offer designed to provide local government and water industry employees with great cover and value, and ongoing after-tax savings.

The MAV, alongside Health Link Consultants and GMHBA, offer employees the opportunity to join a private health cover with a hospital excess and save with significantly lower premiums. If the employee or an eligible family member is hospitalised and pays the excess, the LGE Health Plan will reimburse the excess to them, tax free.

Since its commencement in 2008, the plan has steadily grown and now includes 71 Victorian councils, 14 Tasmanian councils and 11 water authorities.

As of 30 June 2014 there were more than 6,000 individual memberships with the plan and 2013/14 over 500 claims were processed totalling \$163,000 in member reimbursements.

## VICTORIAN COUNCILS

Alpine Shire Council  
Ararat Shire Council  
Banyule City Council  
Bass Coast Shire Council  
Baw Baw Shire Council  
Bayside City Council  
Benalla Rural City Council  
Boroondara City Council  
Brimbank City Council  
Buloke Shire Council  
Cardinia Shire Council  
Casey City Council  
Central Goldfields Shire Council  
Colac Otway Shire Council  
Corangamite Shire Council  
Darebin City Council  
East Gippsland Shire Council  
Frankston City Council  
Gannawarra Shire Council  
Glen Eira City Council  
Glenelg Shire Council  
Golden Plains Shire Council  
Greater Bendigo City Council  
Greater Dandenong City Council  
Greater Geelong City Council  
Greater Shepparton City Council  
Hepburn Shire Council  
Hindmarsh Shire Council  
Hobsons Bay City Council  
Horsham Rural City Council  
Indigo Shire Council  
Kingston City Council

Latrobe City Council  
Loddon Shire council  
Macedon Ranges Shire Council  
Manningham City Council  
Maribyrnong City Council  
Maroondah City Council  
Melton City Council  
Mildura Rural City Council  
Mitchell Shire Council  
Moira Shire Council  
Monash City Council  
Moonee Valley City Council  
Moorabool Shire Council  
Moreland City Council  
Mount Alexander Shire Council  
Moyste Shire Council  
Murrindindi Shire Council  
Nillumbik Shire Council  
Northern Grampians Shire Council  
Port Phillip City Council  
Pyrenees Shire Council  
Queenscliffe Borough Council  
Southern Grampians Shire Council  
Stonnington City Council  
Strathbogie Shire Council  
Surf Coast Shire Council  
Swan Hill Rural City Council  
Towong Shire Council  
Wangaratta Rural City Council  
Warrnambool City Council  
Wellington Shire Council  
West Wimmera Shire Council  
Whitehorse City Council

Whittlesea City Council  
Wodonga City Council  
Wyndham City Council  
Yarra City Council  
Yarra Ranges Shire Council  
Yarriambiack Shire Council

## OTHER MEMBERS

Central Highlands Water  
Clarence City Council  
Coliban Water  
Devonport City Council  
Dorset Council  
George Town Council  
Gippsland Water  
Glamorgan Council  
Goulburn Valley Water  
GWMWater  
Hobart City Council  
Huon Valley Council  
Kentish Council  
Kingborough Council  
Launceston City Council  
Local Government Association of Tasmania  
Meander Valley Council  
Municipal Association of Victoria  
North East Water  
Northern Midlands Council  
South East Water  
South Gippsland Water  
Wannon Water  
West Tamar Council  
Western Water  
Westernport Water

# FINANCIAL OVERVIEW

## REPORT ON FINANCIAL RESULTS FOR THE YEAR ENDED 30 JUNE 2014

In accordance with the requirements of the *Municipal Association Act 1907*, and applicable accounting standards, the economic activity of MAV Insurance is reported to members as an economic entity within the annual accounts. This report covers the financials of MAV Insurance, which operates the Liability Mutual Insurance Scheme (LMI) and the Commercial Crime Fund. All other MAV financial activities are reported separately in the MAV Annual Report 2013/14.

Both insurance activities are nondiscretionary mutual funds and are subject to the oversight of the Association's Board, which acts through a board of management established by the Board, the MAV Insurance Board (MAVIB). MAVIB carries out oversight and management of the operational activities of MAV Insurance. Jardine Lloyd Thompson Pty. Ltd provides claims and risk management services to the MAV.

## MAV INSURANCE

MAV Insurance consists of the Liability Mutual Insurance Scheme (LMI) and the Commercial Crime Fund (the Fund). The Association is required under the *Municipal Association Act 1907* to provide public liability and professional indemnity to local government and other statutory authorities. MAV Insurance is not subject to Australian Prudential Regulatory Authority (APRA) regulations.

The MAV holds an Australian Financial Services Licence (AFSL No 27143). The MAV and MAV Insurance have AFSL compliant processes and activities in place to maintain the highest standards of governance, provide operational efficiency and enhance the future viability of MAV Insurance. The combined deficit for 2014 was \$1.59 million (2013 deficit \$5.63 million). The net asset position at the end of 2014 was a deficit of \$846,336 (2013 surplus \$743,384).

The cause of the deficit is increasing claims, particularly relating to public liability – property damage. During the 2012/13 financial year MAVIB developed and implemented a strategy to reverse the trend in financial performance. This strategy has been successful in achieving this objective. It is expected that MAV Insurance will achieve a small surplus for the 2014/15 financial year.

## LIABILITY MUTUAL INSURANCE AND CORPORATE CRIME MANAGEMENT FEES

The MAV receives management fees in relation to its direct costs (i.e. staff, accommodation, IT overheads) incurred through the operation of these schemes. The management fees reflect the costs to the MAV in providing LMI and Commercial Crime. These fees total \$827,966 for the LMI Scheme and \$301,577 for the Commercial Crime Insurance Fund in 2013/14.

# GUIDE TO THE FINANCIAL STATEMENTS

## COMPONENTS OF THE FINANCIAL REPORT

The financial report contains three main sections:

- > financial statements
- > notes to the financial statements
- > statements by the directors and auditor.

The financial statements consist of three main statements – income statement, balance sheet and statement of cash flows.

The notes to the financial statements detail MAV Insurance's accounting policies and set out the detailed values that are carried into the financial statements.

The statements by directors and auditor provide the views of the directors of MAV Insurance and the independent auditor on the financial report.

The statement by directors confirms the view of the directors that the financial report presents fairly in all material respects, the financial performance and financial position of MAV Insurance, and also confirms that MAV Insurance can pay its debts as and when they fall due.

The audit report by the independent auditor expresses the auditor's opinion on whether the financial statements present fairly in all material respects, the financial position of MAV Insurance as at 30 June 2014, and results of the various business operations and cash flows for the year ended 30 June 2014, in accordance with accounting standards and other mandatory professional reporting requirements.

## FINANCIAL STATEMENTS

### 1. INCOME STATEMENT

The income statement shows:

- > MAV Insurance's revenue from its various activities
- > expenses incurred in running MAV Insurance and its business activities.

These expenses relate only to the business operations and do not include costs associated with the purchase of assets. The expense item 'depreciation' spreads the cost of the assets over the estimated life of the assets. The most important figure is the surplus for the year. Where it is positive, this means that revenues were greater than expenses.

### 2. BALANCE SHEET

The balance sheet shows the assets that MAV Insurance owns and the liabilities it owes at 30 June. The balance sheet separates the assets and liabilities into current and non-current. Current means those assets or liabilities that will be either collected or that fall due within the next 12 months. The components of the balance sheet are:

#### 2.1 CURRENT AND NON-CURRENT ASSETS

Cash assets include cash held in the bank, petty cash, cash deposits and cash investments. Receivables are monies owed to MAV Insurance.

Prepayments are payments made in the current financial year which relate to the next financial year; for example, annual subscriptions etc.

Property, plant and equipment represents the value of the equipment, furniture and fittings, computers, website and intranet, and motor vehicles owned by MAV Insurance.

Intangible assets are trademarks, educational programs and other intellectual property owned by MAV Insurance.

#### 2.2 CURRENT AND NON-CURRENT LIABILITIES

Bank overdraft indicates the amount MAV Insurance owes its bankers on its daily operating account.

Payables are monies owed by MAV Insurance to its suppliers as at 30 June.

Premiums in advance are insurance premiums relating to the next financial year billed to members of the insurance fund before 30 June.

Provision for employee entitlements is the accounting term for annual leave, long service leave and retirement gratuities owed to staff.

Provision for claims outstanding represents insurance claims reported by members, together with an estimate of claims incurred but not yet reported including an estimate of the costs of settlement for these claims.

#### 2.3 NET ASSETS

This term describes the difference between total assets and total liabilities. It represents the net worth of MAV Insurance as at 30 June.

## GUIDE TO THE FINANCIALS (CONTINUED...)

### 3. STATEMENT OF CASH FLOWS

The statement of cash flows summarises cash payments and cash receipts for the year. The values may differ from those shown in the income statement because the income statement is prepared on an accrual basis. Cash is derived from, and is used in, two main areas:

#### 3.1 CASH FLOWS FROM OPERATING ACTIVITIES

Receipts relate to all cash received into MAV Insurance's bank account from members and others who owed money to MAV Insurance in the form of fees or premiums. Receipts also include interest earned from MAV Insurance's cash investments. It does not include receipts from the sale of assets.

Payments relate to all cash paid out of MAV Insurance's bank account to staff, creditors and others. It does not include cash paid for the purchase of assets.

#### 3.2 CASH FLOWS FROM INVESTING ACTIVITIES

This relates to cash receipts and cash payments resulting from either the sale or purchase of property, plant and equipment. The statement of cash flows concludes with cash at end of year which indicates the cash MAV Insurance has at 30 June to meet its debts and liabilities.

## NOTES TO THE FINANCIAL STATEMENTS

To enable the reader to understand the basis on which the values shown in the statements are established it is necessary to provide details of MAV Insurance's accounting policies. These are described in note 2. Apart from the accounting policies, the notes also give details behind many of the summary figures contained in the statements. The note numbers are shown beside the relevant items in the income statement, balance sheet and the statement of cash flows.

Where MAV Insurance wishes to disclose information which cannot be incorporated into the statements, this is shown in the notes. The notes should be read at the same time as the financial statements in order to get a full and clear picture of the financial statements.

## STATEMENTS BY DIRECTORS

The statement by directors is made by two directors on behalf of the Board of the Municipal Association of Victoria. The statement states that, in the opinion of the Board, the financial statements present a true and fair view of the operations of MAV Insurance and that MAV Insurance can pay its debts as and when they fall due.

## INDEPENDENT AUDIT REPORT

This report is the independent auditor's opinion on the financial statements. It provides the reader of the financial statements a completely independent opinion of the financial statements of MAV Insurance. The opinion covers all statutory and accounting standards compliance requirements, as well as providing a view on the truth and fairness of the financial statements.



MAV INSURANCE FINANCIAL REPORT  
2013/14

MAV INSURANCE



# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

	NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$
Premium revenue	3	<b>28,965,483</b>	24,210,450	<b>28,965,483</b>	24,210,450	-	-
Performance bonus	18	<b>195,412</b>	319,750	<b>195,412</b>	319,750	-	-
Reinsurance expense	2(s)	(20,706,667)	(13,509,021)	(20,706,667)	(13,509,021)	-	-
<b>NET PREMIUM INCOME</b>		<b>8,454,228</b>	11,021,179	<b>8,454,228</b>	11,021,179	-	-
Claims expense	4(a)	(27,899,823)	(26,749,499)	(27,899,823)	(26,749,499)	-	-
Reinsurance and other recoveries	3	<b>24,253,836</b>	15,940,791	<b>24,249,636</b>	15,937,068	4,200	3,723
<b>NET CLAIMS EXPENSE</b>	12	(3,645,987)	(10,808,708)	(3,650,187)	(10,812,431)	4,200	3,723
<b>NET UNDERWRITING RESULT</b>		<b>4,808,241</b>	212,471	<b>4,804,041</b>	208,748	4,200	3,723
Management fees	3,20	<b>441,029</b>	222,013	<b>200,000</b>	-	241,029	222,013
Investment income	3	<b>1,309,940</b>	1,858,850	<b>1,294,365</b>	1,839,653	15,575	19,197
Administration and general expenses	4(b)	(8,148,930)	(7,924,552)	(7,728,711)	(7,675,811)	(420,219)	(248,741)
<b>OPERATING PROFIT (LOSS)</b>		(1,589,720)	(5,631,218)	(1,430,305)	(5,627,410)	(159,415)	(3,808)
Other comprehensive income		-	-	-	-	-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		(1,589,720)	(5,631,218)	(1,430,305)	(5,627,410)	(159,415)	(3,808)

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

	NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$
<b>CURRENT ASSETS</b>							
Cash and cash equivalents	8(a)	<b>29,681,261</b>	28,709,619	<b>29,172,700</b>	28,242,907	<b>508,561</b>	466,712
Trade and other receivables	9	<b>56,156,676</b>	52,704,947	<b>55,468,251</b>	52,703,147	<b>688,425</b>	1,800
<b>TOTAL CURRENT ASSETS</b>		<b>85,837,937</b>	81,414,566	<b>84,640,951</b>	80,946,054	<b>1,196,986</b>	468,512
<b>NON-CURRENT ASSETS</b>							
Property, plant and equipment	7(a)	<b>126,270</b>	157,837	<b>126,270</b>	157,837	-	-
Intangible assets	7(b)	<b>52,270</b>	85,258	<b>52,270</b>	85,258	-	-
Trade and other receivables	9	<b>60,378,046</b>	47,988,273	<b>60,378,046</b>	47,988,273	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>60,556,586</b>	48,231,368	<b>60,556,586</b>	48,231,368	-	-
<b>TOTAL ASSETS</b>		<b>146,394,523</b>	129,645,934	<b>145,197,537</b>	129,177,422	<b>1,196,986</b>	468,512
<b>CURRENT LIABILITIES</b>							
Trade and other payables		<b>9,041,414</b>	3,502,391	<b>8,122,312</b>	3,471,178	<b>919,102</b>	31,213
Premiums in advance	10	<b>29,976,070</b>	28,965,483	<b>29,976,070</b>	28,965,483	-	-
Provision for claims outstanding	11(a)	<b>20,508,786</b>	21,126,609	<b>20,508,786</b>	21,126,609	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>59,526,270</b>	53,594,483	<b>58,607,168</b>	53,563,270	<b>919,102</b>	31,213
<b>NON-CURRENT LIABILITIES</b>							
Provision for claims outstanding	11(a)	<b>87,714,589</b>	75,308,067	<b>87,714,589</b>	75,308,067	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>87,714,589</b>	75,308,067	<b>87,714,589</b>	75,308,067	-	-
<b>TOTAL LIABILITIES</b>		<b>147,240,859</b>	128,902,550	<b>146,321,757</b>	128,871,337	<b>919,102</b>	31,213
<b>NET ASSETS</b>		(846,336)	743,384	(1,124,220)	306,085	277,884	437,299
<b>EQUITY</b>		(846,336)	743,384	(1,124,220)	306,085	277,884	437,299

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

NOTE	COMBINED	LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2013 \$	2013 \$	2013 \$	2013 \$
<b>RETAINED EARNINGS</b>					
Balance at beginning of year		6,374,602		5,933,495	441,107
Surplus (loss) from ordinary activities		(5,631,218)		(5,627,410)	(3,808)
<b>BALANCE AT END OF YEAR</b>		<b>743,384</b>		<b>306,085</b>	<b>437,299</b>

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

NOTE	COMBINED 2014 \$	LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2013 \$	2014 \$	2013 \$	2014 \$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
RECEIPTS					
Premiums and fees	<b>32,893,188</b>	24,616,832	<b>33,661,184</b>	24,094,922	<b>891,129</b>
Performance bonus	<b>1,193,637</b>	-	<b>1,193,637</b>	-	-
Investment income	<b>1,309,295</b>	2,023,823	<b>1,294,365</b>	2,006,593	<b>14,930</b>
Reinsurance and other recoveries	<b>14,219,614</b>	19,071,501	<b>14,215,414</b>	19,067,779	<b>4,200</b>
PAYMENTS					
Suppliers	(32,333,004)	(24,907,384)	(33,123,719)	(24,385,643)	(868,410)
Claim payments	(16,311,088)	(26,227,902)	(16,311,088)	(26,227,902)	-
<b>NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES</b>	<b>8(b)</b>	<b>971,642</b>	<b>(5,423,130)</b>	<b>929,793</b>	<b>(5,444,251)</b>
					<b>41,849</b>
					<b>21,121</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Proceeds from sale of fixed assets	-	-	-	-	-
Payments for fixed assets and intangibles	-	-	-	-	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE / (DECREASE) IN CASH HELD</b>	<b>971,642</b>	<b>(5,423,130)</b>	<b>929,793</b>	<b>(5,444,251)</b>	<b>41,849</b>
Cash at beginning of year	<b>28,709,619</b>	34,132,749	<b>28,242,907</b>	33,687,158	<b>466,712</b>
<b>CASH AT END OF YEAR</b>	<b>8(a)</b>	<b>29,681,261</b>	<b>28,709,619</b>	<b>29,172,700</b>	<b>466,712</b>

The accompanying notes form an integral part of these statements.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 1. CORPORATE INFORMATION

The combined financial report of MAV Insurance (the Group) for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the directors of the Municipal Association of Victoria on the date shown on the attached Statement by Directors.

MAV Insurance is the insurance division of the Municipal Association of Victoria. The Municipal Association of Victoria is an association incorporated by an Act of the Parliament of Victoria known as the *Municipal Association Act 1907*.

The nature of the operations and principal activities of MAV Insurance are the provision of public liability, professional indemnity and arranging fidelity insurance for its members located in Victoria and Tasmania, and community groups within its council member boundaries.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Accounting standards and interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2014 outlined in the table below:

Reference	Title summary	Application date of standard	Impact on group financial report	Application date for group
AASB 9	Financial instruments	1 January 2018	Nil	1 July 2018
IFRS 15	Revenue from Contracts with Customers	1 July 2017	Nil	1 July 2017

### (a) Basis of preparation

The financial report is a general purpose financial report which has been drawn up in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The principal accounting policies adopted in preparing the financial report are stated to assist in a general understanding of the financial report. Accounting policies have been consistently applied unless otherwise indicated. The financial report is presented in Australian dollars.

The accounts have been prepared on the accruals basis using historical costs and, except where stated, do not take into account current valuations of assets.

### (b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to the International Financial Reporting Standard (IFRS). Compliance with IFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

### (c) The basis of the combined report

The combined financial report relates to the insurance activities of the Municipal Association of Victoria (the Association) being its controlled entities the Local Government Mutual Liability Insurance Scheme (the Scheme), and the Commercial Crime Fund. The presentation of the combined balances is for management purposes only. The two entities are separate independent legal entities. The effects of all transactions between entities in the combined entity have been eliminated. The financial statements of the entities are prepared for the same reporting period as the Municipal Association of Victoria, using consistent accounting policies.

### (d) Income tax

The entities are exempt from income tax, in accordance with section 50-25 of the *Income Tax Assessment Act 1997* as a public authority constituted under Australian law.

### (e) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand, and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the Statement of Financial Position.

### (f) Trade and other receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised where there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

## **NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2014

**(g) Trade and other payables**

Trade and other payables are carried at amortised cost due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(h) Property, plant, equipment, trademarks and intellectual property

Plant and equipment, trademarks and intellectual property are carried at cost, less where applicable accumulated depreciation, amortisation and impairment.

On disposal of an item of property, plant, equipment, trademarks and intellectual property the difference between the sales proceeds and the carrying amount of the asset is recognised as a gain or loss.

The depreciable amount of all fixed assets including buildings and capitalised leased assets are depreciated/amortised on a straight line basis over their estimated useful lives to the entity, commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The following depreciation rates are in use:	Annual rate
Leasehold improvements at cost	10%
Property, plant and equipment at cost	20%
Website at cost	20%

## INTANGIBLE ASSETS

Intangible assets (computer software, trademarks and intellectual property) acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised as gains or losses in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite life are reviewed at least at each financial year-end. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or method, as appropriate, which is a change in the accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Comprehensive Income in the expense category 'Amortisation'.

The Association does not have any intangible assets with indefinite useful lives.

#### **IMPAIRMENT**

The carrying amount of property, plant, equipment, trademarks and intellectual property is reviewed annually by Board members to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' employment and subsequent disposal. The expected net cash flows have not been discounted to present values in determining the recoverable amounts.

(i) Management fees

Management fees comprise amounts received from members to manage and pay expenses for and on behalf of the Commercial Crime Fund.

(i) Investment income

Investment income consists of interest which is recognised on a time-proportionate basis that takes into account the effective yield on the financial asset and movements in unit values in cash and fixed interest funds which are carried at fair value through the Statement of Comprehensive Income.

**(k) Premiums**

Premiums comprise amounts charged to members of the Schemes for policy cover, net of amounts returned to members as bonuses. The earned portion of premiums received is recognised as revenue. Premiums are treated as earned from date of attachment of risk. The pattern of recognition over the policy is based on time, which is considered to closely approximate the pattern of risks undertaken.

(I) Premiums receivable

During the month of June each year, the Schemes issue premium notices to Scheme members. The risk attaches to the premiums in the next accounting period and accordingly the revenue is recognised each following year commencing 1 July. Prior to each balance date members have committed to participate in both the scheme and the fund for the ensuing year and accordingly the premiums are disclosed in the Statement of Financial Position as 'premiums receivable' with an offsetting liability described as 'premiums billed in advance'.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## (m) Claims

Claims-incurred expense and liability for outstanding claims are recognised in respect of direct business. The liability covers claims incurred but not yet paid, incurred but not yet reported claims, and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by reviewing individual claim files and estimating claims not notified and settlement costs using statistical and actuarial techniques. The liability for outstanding claims is measured as the present value of the expected future payments, reflecting the fact that all the claims do not have to be paid out in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and superimposed inflation. Advice from the MAV's actuary has estimated superimposed inflation to be 3% per annum (2013, 0%) for personal injury non large claims and the discount rate at 3% (2013, 3.25%).

## (n) Other financial assets

Investments are valued at net market value at balance date. Investment income includes interest received and receivable on investments and changes in net market values of investments in cash and fixed interest funds net of outstanding bank overdrafts.

## (o) Cash flows

For the purposes of the Statement of Cash Flows, cash includes cash on hand and deposits held at call with banks and investments in cash and fixed interest funds net of outstanding bank overdrafts.

## (p) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not paid, claims incurred but not reported and unexpired risk liabilities are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

## (q) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

- (i) Premiums – recognised in the period the fund is at risk.
- (ii) Future reinsurance and other recoveries – on an accruals basis.
- (iii) Investment income – on an accruals basis including adjustments to bring values of cash-backed unit trusts to account as investment income.
- (iv) Performance bonus – on an accruals basis when firm evidence is available confirming the amount and indicating payment.

## (r) Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

## (s) Reinsurance expense

Reinsurance expense relates to insurance premiums paid to reinsurers in accordance with the established reinsurance strategy of the entity and in order to protect the insurance businesses from catastrophic and unforeseen claims.

NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$
<b>3. REVENUE FROM ORDINARY ACTIVITIES</b>						
REVENUES FROM OPERATING ACTIVITIES						
Premiums	<b>28,965,483</b>	24,210,450	<b>28,965,483</b>	24,210,450	-	-
Performance bonus	18 <b>195,412</b>	319,750	195,412	319,750	-	-
Reinsurance and other recoveries	2(p) <b>24,253,836</b>	15,940,791	<b>24,249,636</b>	15,937,068	4,200	3,723
Management fees received	441,029	222,013	200,000	-	241,029	222,013
<b>TOTAL REVENUE FROM OPERATING ACTIVITIES</b>	<b>53,855,760</b>	40,693,004	<b>53,610,531</b>	40,467,268	<b>245,229</b>	225,736
REVENUES FROM NON-OPERATING ACTIVITIES						
Investment income	<b>1,309,940</b>	1,858,850	<b>1,294,365</b>	1,839,653	15,575	19,197
<b>TOTAL REVENUE FROM OUTSIDE THE OPERATING ACTIVITIES</b>	<b>1,309,940</b>	1,858,850	<b>1,294,365</b>	1,839,653	<b>15,575</b>	19,197
<b>TOTAL REVENUE FROM ORDINARY ACTIVITIES</b>	<b>55,165,700</b>	42,551,854	<b>54,904,896</b>	42,306,921	<b>260,804</b>	244,933

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

	NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$
<b>4(a) CLAIMS EXPENSES</b>							
Paid		<b>16,111,124</b>	26,535,047	<b>16,111,124</b>	26,535,047	-	-
Outstanding claims at end of financial year	11(a) & 2(m)	<b>108,223,375</b>	96,434,676	<b>108,223,375</b>	96,434,676	-	-
Outstanding claims at beginning of financial year		(96,434,676)	(96,220,224)	(96,434,676)	(96,220,224)	-	-
<b>TOTAL CLAIMS EXPENSES</b>		<b>27,899,823</b>	26,749,499	<b>27,899,823</b>	26,749,499	-	-
<b>4(b) Administration and general expenses</b>							
The following items have been recognised in the operating profit (loss):							
Administration		<b>1,808,720</b>	2,200,841	<b>1,796,978</b>	2,189,128	<b>11,742</b>	11,713
Actuary and legal fees		<b>346,322</b>	361,921	<b>346,322</b>	361,355	-	566
Audit fees		<b>120,950</b>	116,157	<b>113,550</b>	107,005	<b>7,400</b>	9,152
Depreciation furniture and equipment		<b>11,846</b>	11,846	<b>11,846</b>	11,846	-	-
Depreciation leasehold improvements		<b>19,721</b>	19,721	<b>19,721</b>	19,721	-	-
Amortisation intangible assets		<b>32,988</b>	32,989	<b>32,988</b>	32,989	-	-
Scheme management fee		<b>3,456,269</b>	3,389,111	<b>3,055,192</b>	3,161,801	<b>401,077</b>	227,310
Claims handling costs		-	-	-	-	-	-
Stamp duty		<b>2,352,114</b>	1,791,966	<b>2,352,114</b>	1,791,966	-	-
<b>TOTAL EXPENDITURE</b>		<b>8,148,930</b>	7,924,552	<b>7,728,711</b>	7,675,811	<b>420,219</b>	248,741
<b>5. AUDITORS REMUNERATION</b>							
Amounts payable or due and payable for audit services:							
Audit of the entity		<b>120,950</b>	116,157	<b>113,550</b>	107,005	<b>7,400</b>	9,152
Other services		-	-	-	-	-	-
		<b>120,950</b>	116,157	<b>113,550</b>	107,005	<b>7,400</b>	9,152
<b>6. SCHEME MANAGEMENT FEES</b>							
Included within administration and general expenses are management fees for:							
Reinsurance placement		<b>2,047,720</b>	1,886,120	<b>2,047,720</b>	1,886,120	-	-
Risk management and administrative services		<b>1,408,549</b>	1,502,991	<b>1,007,472</b>	1,275,681	<b>401,077</b>	227,310
		<b>3,456,269</b>	3,389,111	<b>3,055,192</b>	3,161,801	<b>401,077</b>	227,310
Claims handling cost		-	-	-	-	-	-
Total administration		<b>3,456,269</b>	3,389,111	<b>3,055,192</b>	3,161,801	<b>401,077</b>	227,310
Claims management		<b>452,236</b>	1,053,934	<b>452,236</b>	1,053,934	-	-
<b>TOTAL SCHEME MANAGEMENT FEES</b>		<b>3,908,505</b>	4,443,045	<b>3,507,428</b>	4,215,735	<b>401,077</b>	227,310

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$
<b>7(a) PROPERTY, PLANT AND EQUIPMENT</b>						
Leasehold improvements - at cost	179,441	179,441	179,441	179,441	-	-
Less accumulated depreciation	(100,555)	(80,834)	(100,555)	(80,834)	-	-
	78,886	98,607	78,886	98,607	-	-
Furniture and equipment - at cost	98,020	98,020	98,020	98,020	-	-
Less accumulated depreciation	(50,636)	(38,790)	(50,636)	(38,790)	-	-
	47,384	59,230	47,384	59,230	-	-
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>126,270</b>	<b>157,837</b>	<b>126,270</b>	<b>157,837</b>	-	-
Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the financial year.						
LEASEHOLD IMPROVEMENTS						
Movements during the year						
Beginning of year	98,607	118,328	98,607	118,328	-	-
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Depreciation	(19,721)	(19,721)	(19,721)	(19,721)	-	-
End of year	78,886	98,607	78,886	98,607	-	-
PROPERTY, PLANT AND EQUIPMENT						
Movements during the year						
Beginning of year	59,230	71,076	59,230	71,076	-	-
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Depreciation	(11,846)	(11,846)	(11,846)	(11,846)	-	-
End of year	47,384	59,230	47,384	59,230	-	-
<b>7(b) INTANGIBLE ASSETS</b>						
Intangible assets - at cost	137,451	137,451	137,451	137,451	-	-
Less accumulated amortisation	(85,181)	(52,193)	(85,181)	(52,193)	-	-
	52,270	85,258	52,270	85,258	-	-
INTANGIBLE ASSETS						
Movements during the year						
Beginning of year	85,258	118,247	85,258	118,247	-	-
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Amortisation	(32,988)	(32,989)	(32,988)	(32,989)	-	-
End of year	52,270	85,258	52,270	85,258	-	-

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$
<b>8(a) NOTES TO THE STATEMENT OF CASH FLOWS</b>						
Cash and cash equivalents at balance date as shown in the Statement of Cash Flows are held in Standard & Poor's rated AA and AAf rated cash deposits and are reconciled to the related items in the balance sheet as follows:						
Cash at bank	2,236,727	1,445,900	1,728,166	979,188	508,561	466,712
Other financial assets	27,444,534	27,263,719	27,444,534	27,263,719	-	-
<b>TOTAL CASH</b>	<b>29,681,261</b>	<b>28,709,619</b>	<b>29,172,700</b>	<b>28,242,907</b>	<b>508,561</b>	<b>466,712</b>
<b>8(b) Reconciliation of net cash used in operating activities to operating profit/(loss)</b>						
Profit (loss) for year	(1,589,720)	(5,631,218)	(1,430,305)	(5,627,410)	(159,415)	(3,808)
Depreciation	31,567	31,567	31,567	31,567	-	-
Amortisation	32,988	32,989	32,988	32,989	-	-
Changes in assets and liabilities						
(Increase)/decrease in trade and other receivables	2(f) (15,841,503)	(5,210,305)	(15,154,877)	(5,209,630)	(686,626)	(675)
Increase/(decrease) in trade and other payables	5,539,023	384,350	4,651,133	358,746	887,890	25,604
Increase/(decrease) in premiums in advance	1,010,588	4,755,035	1,010,588	4,755,035	-	-
(Increase)/decrease in provision for reinsurance recoveries	-	-	-	-	-	-
Increase/(decrease) in outstanding claims	2(m) 11,788,699	214,452	11,788,699	214,452	-	-
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<b>971,642</b>	<b>(5,423,130)</b>	<b>929,793</b>	<b>(5,444,251)</b>	<b>41,849</b>	<b>21,121</b>
<b>9. RECEIVABLES</b>						
Future reinsurance and other recoveries receivable	2(p) 87,266,334	73,772,856	87,266,334	73,772,856	-	-
Discount to present value	(7,934,341)	(6,341,639)	(7,934,341)	(6,341,639)	-	-
	<b>79,331,993</b>	<b>67,431,217</b>	<b>79,331,993</b>	<b>67,431,217</b>	-	-
Less provision for doubtful debts	-	-	-	-	-	-
Premiums receivable	2(l) 31,628,928	31,862,031	31,628,928	31,862,031	-	-
Other receivables	5,573,801	1,399,972	4,885,376	1,398,172	688,425	1,800
<b>TOTAL RECEIVABLES</b>	<b>116,534,722</b>	<b>100,693,220</b>	<b>115,846,297</b>	<b>100,691,420</b>	<b>688,425</b>	<b>1,800</b>
Represented by:						
<b>CURRENT</b>	<b>56,156,676</b>	<b>52,704,947</b>	<b>55,468,251</b>	<b>52,703,147</b>	<b>688,425</b>	<b>1,800</b>
<b>NON-CURRENT</b>	<b>60,378,046</b>	<b>47,988,273</b>	<b>60,378,046</b>	<b>47,988,273</b>	-	-
<b>TOTAL</b>	<b>116,534,722</b>	<b>100,693,220</b>	<b>115,846,297</b>	<b>100,691,420</b>	<b>688,425</b>	<b>1,800</b>

Reinsurance recoveries are due from reinsurers with Standard & Poor's ratings of AA+, AA-, A+ and A. Other recoveries are due from unrated local authorities based in Victoria and Tasmania.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

The ageing analysis of premiums receivable and other receivables are as follows:

	Total	<30 days	31-60 days	61-90 days	>90 days
<b>2014</b>					
Combined	37,202,729	37,202,729	-	-	-
Liability Mutual Insurance	36,514,304	36,514,304	-	-	-
Commercial Crime Fund	688,425	688,425	-	-	-
<b>2013</b>					
Combined	33,262,003	32,962,003	-	-	300,000
Liability Mutual Insurance	33,260,203	32,960,203	-	-	300,000
Commercial Crime Fund	1,800	1,800	-	-	-

All premiums receivable and other receivables are due from local authorities based in Victoria and Tasmania.

NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2014	2013	2014	2013	2014	2013
<b>10. PREMIUMS IN ADVANCE</b>						
Contributions billed in advance	2(l)	<b>29,976,070</b>	28,965,483	<b>29,976,070</b>	28,965,483	-
<b>11(a) OUTSTANDING CLAIMS</b>						
Central estimate	2(m)	<b>119,458,509</b>	106,181,443	<b>119,458,509</b>	106,181,443	-
Discount to present value		(11,791,206)	(10,284,437)	(11,791,206)	(10,284,437)	-
		<b>107,667,303</b>	95,897,006	<b>107,667,303</b>	95,897,006	-
Claims handling costs		<b>556,072</b>	537,670	<b>556,072</b>	537,670	-
Risk margin	11(b)	-	-	-	-	-
<b>TOTAL OUTSTANDING CLAIMS</b>		<b>108,223,375</b>	96,434,676	<b>108,223,375</b>	96,434,676	-
Represented by:						
<b>CURRENT</b>		<b>20,508,786</b>	21,126,609	<b>20,508,786</b>	21,126,609	-
<b>NON-CURRENT</b>		<b>87,714,589</b>	75,308,067	<b>87,714,589</b>	75,308,067	-
<b>TOTAL CLAIMS PROVISION</b>		<b>108,223,375</b>	96,434,676	<b>108,223,375</b>	96,434,676	-

## 11(b) Risk margin - Process for determining risk margin

During the 2013 financial year the MAV revised their process for valuing outstanding claims. In prior years, the MAV adopted a probability of sufficiency of 75% which was subsequently revised to 50% during the 2013 financial year. This resulted in a reduction to the risk margin of 20% and the outstanding claims provision reflecting the central estimate. The effect of the change in the accounting treatment on the statement of financial position and statement of comprehensive income is outlined in the table below.

	2013 (before)	Effect of change in accounting estimate	2013 (after)
<b>STATEMENT OF FINANCIAL POSITION</b>			
<b>TOTAL ASSETS</b>	<b>129,645,934</b>	-	<b>129,645,934</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Provision for claims outstanding	22,347,404	1,220,795	21,126,609
<b>NON-CURRENT LIABILITIES</b>			
Provision for claims outstanding	79,659,720	4,351,653	75,308,067
<b>TOTAL LIABILITIES</b>	<b>134,654,998</b>	<b>5,572,448</b>	<b>128,902,550</b>
<b>NET ASSETS</b>	<b>(4,829,064)</b>	<b>5,572,448</b>	<b>743,384</b>
<b>EQUITY</b>	<b>(4,829,064)</b>	<b>5,572,448</b>	<b>743,384</b>
<b>STATEMENT OF COMPREHENSIVE INCOME</b>			
<b>NET PREMIUM INCOME</b>			
Claims expense	(21,177,051)	5,572,448	(26,749,499)
<b>TOTAL COMPREHENSIVE INCOME/(LOSS)</b>	<b>(11,203,666)</b>	<b>5,572,448</b>	<b>(5,631,218)</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 11(c) Combined reconciliation of movement in discounted outstanding claims liability

	2014			2013		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
Outstanding claims brought forward	96,434,676	67,431,217	29,003,459	96,220,224	70,164,433	26,055,791
Changes in assumptions	15,658,890	12,141,593	3,517,297	20,580,880	20,247,149	333,731
Increase in claims incurred/recoveries anticipated	11,788,698	12,108,044	(319,346)	5,114,682	(4,341,117)	9,455,799
Incurred claims recognised in income statement	27,447,588	24,249,637	3,197,951	25,695,562	15,906,032	9,789,530
Claim payments/recoveries during the year	(15,658,889)	(12,348,860)	(3,310,029)	(25,481,110)	(18,639,248)	(6,841,862)
Outstanding claims carried forward	108,223,375	79,331,994	28,891,381	96,434,676	67,431,217	29,003,459

## 12. NET CLAIMS INCURRED

	2014			2013		
	Current year \$	Prior year \$	Total \$	Current year \$	Prior year \$	Total \$
<b>COMBINED</b>						
Gross claims and related expenses - undiscounted	22,636,251	6,770,341	29,406,592	24,117,403	1,618,435	25,735,838
Discount	(2,659,384)	1,152,616	(1,506,768)	(2,728,898)	3,742,559	1,013,661
Gross claims and related expenses - discounted	19,976,867	7,922,957	27,899,824	21,388,505	5,360,994	26,749,499
Reinsurance and other recoveries - undiscounted	(15,627,297)	(9,502,867)	(25,130,164)	(13,689,677)	(618,655)	(14,308,332)
Discount	96,398	779,929	876,327	394,733	(2,027,192)	(1,632,459)
Reinsurance and other recoveries - discounted	(15,530,899)	(8,722,938)	(24,253,837)	(13,294,944)	(2,645,847)	(15,940,791)
<b>NET CLAIMS INCURRED</b>	<b>4,445,968</b>	<b>(799,981)</b>	<b>3,645,987</b>	<b>8,093,561</b>	<b>2,715,147</b>	<b>10,808,708</b>
<b>LIABILITY MUTUAL INSURANCE</b>						
Gross claims and related expenses - undiscounted	22,636,251	6,770,341	29,406,592	24,117,403	1,618,435	25,735,838
Discount	(2,659,384)	1,152,616	(1,506,768)	(2,728,898)	3,742,559	1,013,661
Gross claims and related expenses - discounted	19,976,867	7,922,957	27,899,824	21,388,505	5,360,994	26,749,499
Reinsurance and other recoveries - undiscounted	(15,627,297)	(9,498,667)	(25,125,964)	(13,689,677)	(614,932)	(14,304,609)
Discount	96,398	779,929	876,327	394,733	(2,027,192)	(1,632,459)
Reinsurance and other recoveries - discounted	(15,530,899)	(8,718,738)	(24,249,637)	(13,294,944)	(2,642,124)	(15,937,068)
<b>NET CLAIMS INCURRED</b>	<b>4,445,968</b>	<b>(795,781)</b>	<b>3,650,187</b>	<b>8,093,561</b>	<b>2,718,870</b>	<b>10,812,431</b>
<b>COMMERCIAL CRIME FUND</b>						
Gross claims and related expenses - undiscounted	-	-	-	-	-	-
Discount	-	-	-	-	-	-
Gross claims and related expenses - discounted	-	-	-	-	-	-
Reinsurance and other recoveries - undiscounted	-	(4,200)	(4,200)	(3,723)	-	(3,723)
Discount	-	-	-	-	-	-
Reinsurance and other recoveries - discounted	-	(4,200)	(4,200)	(3,723)	-	(3,723)
<b>NET CLAIMS INCURRED</b>	<b>-</b>	<b>(4,200)</b>	<b>(4,200)</b>	<b>(3,723)</b>	<b>-</b>	<b>(3,723)</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 13. CLAIMS DEVELOPMENT TABLE

ACCIDENT YEAR	2010 \$	2011 \$	2012 \$	2013 \$	2014 \$	TOTAL \$
<b>GROSS ESTIMATE OF ULTIMATE CLAIMS COST- LIABILITY MUTUAL INSURANCE</b>						
At end year of accident	20,293,152	28,063,635	21,064,708	23,083,334	22,191,872	
One year later	22,682,968	24,589,379	20,109,939	22,302,009	-	
Two years later	18,260,706	29,661,644	27,742,511	-	-	
Three years later	16,605,208	35,007,478	-	-	-	
Four years later	16,855,877	-	-	-	-	
Current estimate of cumulative claims cost	16,855,877	35,007,478	27,742,511	22,302,009	22,191,872	124,099,747
Cumulative payments	(7,058,375)	(12,446,998)	(2,876,168)	(963,743)	(123,099)	(23,468,383)
Outstanding claims - undiscounted	9,797,502	22,560,480	24,866,343	21,338,266	22,068,773	100,631,364
<b>Discount</b>						(10,740,230)
Claims handling expense						623,914
2008 and prior						17,708,327
<b>LIABILITY MUTUAL INSURANCE - TOTAL GROSS OUTSTANDING CLAIMS 11(a)</b>						
						108,223,375
<b>COMBINED TOTAL GROSS OUTSTANDING CLAIMS 11(c)</b>						
						108,223,375
<b>NET ESTIMATE OF ULTIMATE CLAIMS COST - LIABILITY MUTUAL INSURANCE</b>						
At end year of accident	8,883,685	11,576,465	8,710,223	8,122,535	4,602,870	
One year later	9,429,739	8,098,820	7,441,671	8,218,920	-	
Two years later	7,185,550	11,987,795	7,975,258	-	-	
Three years later	6,352,770	12,038,142	-	-	-	
Four years later	6,343,004	-	-	-	-	
Current estimate of cumulative claims cost	6,343,004	12,038,142	7,975,258	8,218,920	4,602,870	39,178,194
Cumulative payments	(3,369,345)	(6,592,925)	(1,572,037)	(476,542)	(104,341)	(12,115,190)
Outstanding claims - undiscounted	2,973,659	5,445,217	6,403,221	7,742,378	4,498,529	27,063,004
<b>Discount</b>						(3,325,723)
Claims handling expense						167,791
2008 and prior						4,986,309
<b>LIABILITY MUTUAL INSURANCE - TOTAL NET OUTSTANDING CLAIMS</b>						
						28,891,381
<b>COMBINED TOTAL NET OUTSTANDING CLAIMS 11(c)</b>						
						28,891,381

These tables show the trend in the balance of outstanding claims.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 14. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group's exposure to interest rate risk and the effective average interest rate for the classes of financial assets is set out below:

	COMBINED Non- interest earning \$	Floating interest rate \$	LIABILITY Non- interest earning \$	MUTUAL INSURANCE Floating interest rate \$	COMMERCIAL Non – interest earning \$	CRIME Floating interest rate \$
<b>2014</b>						
<b>FINANCIAL ASSETS</b>						
Cash at bank	-	2,236,727	-	1,728,166		508,561
Other financial assets	-	27,444,534	-	27,444,534		-
Trade and other receivables	116,534,722		- 115,846,297	-	688,425	-
<b>TOTAL FINANCIAL ASSETS</b>	<b>116,534,722</b>	<b>29,681,261</b>	<b>115,846,297</b>	<b>29,172,700</b>	<b>688,425</b>	<b>508,561</b>
Weighted average interest rate		4.5%		4.5%		3.2%
<b>FINANCIAL LIABILITIES</b>						
Outstanding claims	108,223,375		- 108,223,375	-		-
Unearned premiums/ subscriptions	29,976,070		- 29,976,070	-		-
Trade and other payables	9,041,414		- 8,122,312	-	919,102	-
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>147,240,859</b>		<b>- 146,321,757</b>	<b>-</b>	<b>919,102</b>	<b>-</b>
Weighted average interest rate		0.0%		0.0%		0.0%
<b>2013</b>						
<b>FINANCIAL ASSETS</b>						
Cash at bank	-	1,445,900	-	979,188		466,712
Other financial assets	-	27,263,719	-	27,263,719		-
Trade and other receivables	100,693,220		- 100,691,420	-	1,800	-
<b>TOTAL FINANCIAL ASSETS</b>	<b>100,693,220</b>	<b>28,709,619</b>	<b>100,691,420</b>	<b>28,242,907</b>	<b>1,800</b>	<b>466,712</b>
Weighted average interest rate		5.9%		5.9%		4.2%
<b>FINANCIAL LIABILITIES</b>						
Outstanding claims	96,434,676		- 96,434,676	-		-
Unearned premiums/ subscriptions	28,965,483		- 28,965,483	-		-
Trade and other payables	3,502,391		- 3,471,178	-	31,213	-
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>128,902,550</b>		<b>- 128,871,337</b>	<b>-</b>	<b>31,213</b>	<b>-</b>
Weighted average interest rate		0%		0%		0%

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 14. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

Cash at Bank and Other Financial Assets are considered level 1 financial assets in accordance with AASB 7 (Financial Instruments). The carrying amounts of financial assets and financial liabilities represent their approximate net fair value. All maturity dates are within twelve months.

The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as at 30 June 2014. Cash flows for financial assets and liabilities without fixed amounts or timing are based on conditions existing at 30 June 2014.

**The remaining contractual maturities of the financial liabilities are:**

	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2014 \$	2013 \$	2014 \$	2013 \$	2014 \$	2013 \$
3 months or less	21,655,183	16,047,371	20,736,081	16,016,158	919,102	31,213
3-12 months	38,175,379	37,989,835	38,175,379	37,989,835	-	-
1-5 years	69,020,213	61,109,414	69,020,213	61,109,414	-	-
Over 5 years	30,181,289	24,040,367	30,181,289	24,040,367	-	-
	159,032,064	139,186,987	158,112,962	139,155,774	919,102	31,213

### LIQUIDITY RISK

#### Maturity analysis of financial assets and liabilities based on management's expectation.

The risk implied from the values in the table below, reflects a balanced view of cash inflows and outflows. These liabilities originate from insurance contracts and other financial assets used in the ongoing operations of the business. These assets are considered in the Association's overall liquidity risk. To monitor existing financial assets and liabilities as well as to enable effective controlling of future risks, the Association has established comprehensive risk reporting covering its insurance business that reflects the expectations of the management of expected settlement of financial assets and liabilities.

Year ended 30 June 2013	<3 months \$	3-12 months \$	1-5 years \$	>5years \$	TOTAL \$
<b>COMBINED FINANCIAL ASSETS</b>					
<b>Cash and cash equivalents</b>					
Cash and cash equivalents	29,681,261	-	-	-	29,681,261
Trade and other receivables	43,930,236	12,439,648	47,412,536	20,686,643	124,469,063
	73,611,497	12,439,648	47,412,536	20,686,643	154,150,324
<b>COMBINED FINANCIAL LIABILITIES</b>					
Outstanding claims	5,203,270	15,609,809	69,020,213	30,181,289	120,014,581
Unearned premiums/ subscriptions	7,494,018	22,482,053	-	-	29,976,071
Trade and other payables	8,957,896	83,518	-	-	9,041,414
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>21,655,184</b>	<b>38,175,380</b>	<b>69,020,213</b>	<b>30,181,289</b>	<b>159,032,066</b>
<b>NET MATURITY</b>	<b>51,956,313</b>	<b>(25,735,732)</b>	<b>(21,607,677)</b>	<b>(9,494,646)</b>	<b>(4,881,742)</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 14. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

### Risk management objectives and policies for mitigating insurance risk

The Association's local government mutual liability scheme (trading as Liability Mutual Insurance) is established by legislation contained in the *Municipal Association Act 1907*. Membership is available to local government councils and prescribed bodies. The Scheme operates in Victoria and Tasmania to provide services to members in respect of their potential and actual liabilities. A member may seek indemnity from the Scheme in respect of a claim.

Actuarial models, using information from the Scheme's management information systems, are used to confirm contributions and monitor claim patterns. Past experience and statistical methods are used as part of the process.

The principal risk is that the frequency and severity of claims is greater than expected. Civil liability risk events are, by their nature, random, and the actual number and size of events during any one-year may vary from those estimated using established statistical techniques.

### Objectives in managing risk arising from insurance and policies for mitigating those risks

The Scheme has an objective to control insurance risk thereby reducing the volatility of its operating surplus. In addition to the inherent uncertainty of civil liability risks, which can lead to variability in the loss experience, operating surpluses can also be affected by external factors, such as competition and movements in asset values.

The Scheme relies on a strong relationship with its members and actively encourages them to adopt practices of risk management that reduce the incidence of claims to the Scheme.

### Reinsurance strategy

The Scheme adopts a conservative approach towards management of risk and does this by using various risk transfer options. The MAV Insurance Board determines the level of risk, which is appropriate for the Scheme having regards to ordinary concepts of prudence and regulatory constraints. The risk transfer arrangements adopted by the Scheme include the use of commercial reinsurance/excess arrangements. These arrangements include constant review of both reinsurers' financial strength, and ensuring spread of risk among reinsurers who meet the requirements of the Association's corporate policies. These risk transfer arrangements assist the Scheme to limit exposures to large single claims and catastrophic events. These programs are regularly reviewed each year to ensure that they continue to meet the risk needs of the Scheme.

### Terms and conditions of membership

Membership to the Scheme is offered to eligible bodies and renewed annually on 30 June. Payment of the annual contribution confirms continuation of membership. Termination of membership is subject to at least 90 days written notice of intention as laid out by the Scheme Rules.

### Product features

The Scheme operates in Victoria and Tasmania. Should a claim be accepted, the Scheme provides indemnity to the member in respect of their civil liabilities for \$400 million public/products liability (\$600 million for water authorities) and \$300 million for professional indemnity insurance, subject to any excess, for any claim incurred anywhere throughout the world.

Operating surpluses and deficits arise from the total contributions charged to members, less the amounts paid to cover claims and the expenses incurred by the Scheme.

### Management of risks

The key insurance risks that affect the Scheme are contribution risk, and claims experience risk.

Contribution risk is the risk that the Scheme does not charge contributions appropriate for the indemnity cover it provides. The Scheme partially manages contribution risk through its proactive approach to risk management that addresses all material risks both financial and non-financial. There are no specific terms and conditions that are expected to have a material impact on the financial statements.

Claims experience risk is managed through the non-financial risk assessment, and risk management and reinsurance management process. Claims experience is monitored on an ongoing basis to ensure that any adverse trending is addressed. The Scheme is able to reduce the claims experience risk of severe losses through the reinsurance program, and by managing the concentration of insurance risks. LMI is a non-discretionary mutual fund which, under the Constitution, has the ability to obtain contributions from members to pay liabilities and expenses.

### Concentration of insurance risks

Insurance risk is managed by taking a long-term approach to setting the annual contribution rates that eliminates price fluctuations, appropriate investment strategy, reinsurance and by maintaining an active statewide risk management profile. It is vital that the Scheme spreads its risk of reinsurance failure by ensuring reinsurers are of high financial quality and can meet their commitments to the Association. The Association maintains policies and strategies, and receives advice from an independent actuary, on at least an annual basis in order to determine the concentration and amount of risk exposure. The Association keeps abreast of changes in the general economic, legal and commercial environment in which it operates.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 14. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (continued)

	CREDIT RATING							TOTAL \$m
	AAA +/- \$m	AA +/- \$m	A +/- \$m	BBB \$m	Speculative grade \$m	Not rated \$m		
Reinsurance and other recoveries on outstanding claims								
2014	-	0.493	30.949	-	-	0.373	31.815	
2013	-	0.129	22.723			0.248	23.100	
Reinsurance and other recoveries on paid claims								
2014	-	0.130	2.126	-	-	2.098	4.354	
2013	-	0.173	2.862			0.759	3.794	
PAST DUE BUT NOT IMPAIRED								
	Neither past due nor impaired \$m	Less than 3 months \$m	3 to 6 months \$m	6 months to 1 year \$m	Greater than 1 year \$m	Impaired \$m	Total \$m	
Reinsurance and other recoveries on paid claims								
2014	-	2.796	-	-	-	-	1.558	4.354
2013	-	2.137	0.847	0.047			0.763	3.794

### Interest rate risk

The reinsurance indemnity contracts contain no clauses that expose the Scheme directly to interest rate risk. The reinsurance contracts are long term arrangements, reviewed and payable annually.

Variable	Current rate	Change variable to	Operating surplus (deficit) at 30 June 2014	Total accumulated funds after the impact of applying variable
IMPACT OF CHANGES IN INTEREST RATES	%	%	\$	\$
<b>LIABILITY MUTUAL INSURANCE</b>				
Base value at 30 June 2014				
Interest rate pa	3.10%		(1,430,305)	(1,124,220)
	3.60%		(874,305)	(568,220)
	2.60%		(1,986,305)	(1,680,220)

### Credit risk

The Scheme is exposed to credit risk on insurance contracts as a result of exposure to reinsurers. The credit risk to reinsurers is managed through the Scheme's reinsurance management strategy and policies that include regularly monitoring both the financial rating of the reinsurers and the flow of payments coming from the reinsurers prior to and during the reinsurance program. Investments in cash and cash equivalents at balance date as shown in the Statement of Cash Flows are held in Standard & Poor's rated AA and AAf rated cash deposits.

### Price risk

Investments held are not subject to price risk. Investments are cash at bank and fixed interest funds.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 15. ACCOUNTING ESTIMATES AND JUDGEMENTS

The Scheme makes estimates and judgements in respect of certain key assets and liabilities. Estimates and judgements are continually reviewed and are based on past experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates and judgements are applied are described below.

### 15(a) Estimation of outstanding claims liability

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported (IBNR) to the Scheme. The Scheme takes all reasonable steps to ensure that it has appropriate information regarding its claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome may be different from the original liability established.

Provisions are calculated gross of all recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers and any third party.

The determination of an appropriate outstanding claims provision involves:

- (i) Establishing a case estimate for each reported claim at year-end taking into account legal advice where appropriate on larger claims
- (ii) Allowance for incurred but not reported claims as confirmed by the actuarial review on 30 June 2014
- (iii) An allowance of 0.5% for claim settlement expenses, as assumed by the Actuary;
- (iv) Allowances for claim inflation of 3.1%, as assumed by the Actuary;
- (v) Allowances for discount at 3.1%, as assumed by the Actuary;
- (vi) A risk margin of 0% of net outstanding claims after the effect of reinsurance has been applied, as assumed by the actuary.  
Refer to Note 11 b) for details.

Details of specific actuarial assumptions used in deriving the outstanding claims liability at year-end are detailed in note 16.

### 15(b) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts were estimated for each fund year, from the payments to date and estimated outstanding claims history at 30 June 2014, taking into account the reinsurance terms applying to that fund year. In accordance with the Actuarial recommendations an allowance was made for non-recoveries from relevant insurers.

## 16. ACTUARIAL ASSUMPTIONS AND METHODS

### Actuarial assumptions

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

	2014 %	2013 %
<b>KEY ACTUARIAL ASSUMPTIONS</b>		
Wage inflation	3.1%	3.4%
Claim administration expense	0.5%	0.6%
Discount rate	3.10%	3.25%
Reinsurer default	1%	1%
Risk margin	0%	0%
Superimposed inflation	3%	0%

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 16. ACTUARIAL ASSUMPTIONS AND METHODS (continued)

### Process used to determine actuarial assumptions

A description of the processes used to determine the key actuarial assumptions is provided below:

Liability Mutual Insurance has provided public and professional indemnity insurance to local government bodies in Victoria and Tasmania and other bodies constituted under any Act for any public or local governing purpose since 30/9/1993. The Actuary was supplied with details of all transactions (payments, recoveries, changes of estimates) from 30 September 1993 to 30 June 2014. The individual claim payments and case estimates reconciled closely with totals in Liability Mutual Insurance financial statements for each year of cover. The actuary subdivided the claims data into three claim types (Public Liability, Professional Indemnity and the 2009 Bushfire claims) and made separate estimates of the gross outstanding claims liabilities for each of these claim types. The actuary estimated the gross outstanding claims liabilities for each claim type using 5 different actuarial methods. Large claims (claims above \$250,000) were estimated based on a numbers times average size method and non-large claims were estimated using 4 different actuarial methods- payments per claim incurred, payments per claim finalised, incurred cost development and projection of case estimates. The actuary selected a combination of these methods for estimating the outstanding claims. Payments were projected with a payment pattern, based on past experience. Estimates of outstanding excesses were based on a numbers times average size method and estimates of non reinsurance recoveries were made by a recoveries per claim method.

Estimates of reinsurance recoveries were made from projected gross payments, excesses and non reinsurance recoveries, allowing for the different insurance treaties applying to each year. Based on Access Economics June 2014 forecasts for Victorian average weekly claims inflation was assumed to be 3.1%. The discount rate was assumed to be 3.1% pa., derived from the yields on Commonwealth government bonds.

The Actuary has assumed a risk margin of 0% of the net liabilities to give a probability of about 50% that the provisions will prove adequate to meet the relevant liabilities.

VARIABLE	IMPACT OF MOVEMENT IN VARIABLE
<b>Wage inflation</b>	Expected future payments are inflated to take account of inflationary increases. An increase or decrease in the assumed levels of economic inflation would have a corresponding impact on claims expense, with particular reference to longer tail claims.
<b>Discount rate</b>	The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposing impact on total claims expense.
<b>Case estimate development</b>	Case estimates are initially established in accordance with established guidelines and by reference to the known facts. Where new information becomes available the initial case estimate will change. This development movement is applied to open claims and will have a corresponding impact on claims expense.

Variable	Current rate	Change variable to	Operating surplus (deficit) at 30 June 2014	accumulated funds after the impact of applying variable	Total
	%	%	\$	\$	
<b>IMPACT OF CHANGES IN INTEREST RATES</b>					
LIABILITY MUTUAL INSURANCE					
Base value at 30 June 2014	3.1%		(1,430,305)	(1,124,220)	
Interest rate pa		3.6%	(1,801,305)	(1,495,220)	
		2.6%	(1,059,305)	(753,220)	

## 17. CAPITAL MANAGEMENT AND ECONOMIC DEPENDENCY

The Association is specifically excluded from the provisions of the Insurance Act and from APRA regulation. There is no externally imposed capital requirement on the Association. The Association's capital management philosophy is focused on capital efficiency and effective risk management to support a progressive business model for the benefit of members of both LMI and the Commercial Crime Fund.

The Board of directors and management have in place a strategic plan that is aligned to achieving the Association's capital management philosophy. Key elements of this plan include premium setting, risk management, claims management and reinsurance management. The Association operates LMI which is a non-discretionary mutual fund, and under Sections 6.4 and 6.5 of the Constitution, the Association has the ability to obtain contributions from members to meet any shortfall in the provisions set aside in respect of that insurance year.

Section 6.4 of the Constitution states that each Participant (member) will remain liable to make further contributions to the scheme in respect of any insurance year in which it was a participant to the extent of its participant's share of any shortfall in the provision set aside in respect of that insurance year, and such liability will continue whether or not the Participant remains a Participant in future insurance years.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 18. REINSURANCE PERFORMANCE BONUS

The Liability Insurance Mutual Scheme, in conjunction with similar local government self insured mutual liability schemes around Australia has entered into a profit sharing arrangement with its primary reinsurers, based on the national local government claims experience. The arrangement enables any surplus per each year over the five-year period of the reinsurance arrangement to be shared between the various Schemes and the reinsurers on a proportional basis.

Performance bonus totalling \$195,412 (2013 \$319,750) was received during the year.

## 19. CONTINGENT LIABILITY

During the normal course of business, the Scheme may be exposed to contingent liabilities from litigation arising from its insurance and reinsurance activities, which if they should crystallise may adversely affect the financial position and performance of MAV. Provisions are made for obligations that are probable and able to be quantified.

In June 2014, MAV Insurance committed to purchasing retrospective stop-loss reinsurance for the 2009 and 2011 financial years.

The policies provide coverage for the first \$1 million in claim costs for \$5 million in the aggregate in each of the years. The Liability Mutual Insurance Scheme benefits from the 2009 policy when aggregate claim costs below \$1 million reach \$22 million and the 2011 policy provides coverage when aggregate claim costs reach \$20 million. The effect of the policies is to provide additional protection from adverse development for claim costs below \$1 million. The reinsurance policies commenced at the close of business on 30 June 2014.

## 20. COMMERCIAL CRIME FUND

On 1 July 2010 the Commercial Crime Fund ceased to write insurance business on its own account. From this date the Fund facilitated insurance for its members via a policy issued by Zurich Insurance Australia. The Fund undertook this change in business due to the inability of the Fund to offer the broad terms and conditions currently available in the market. This is due to the restrictions placed on the Fund by the provisions of the *Municipal Association Act 1907*.

The Fund was liable for any claims made against it up to 31 December 2010 for events occurring prior to 1st July 2010. From 1 January 2011 the Fund is not on risk for any insurance claim that might be made against it.

The Association's fee for managing and operating the Fund has for many years not been indexed to inflation. For the period 1997 to 2012 the management fee was fixed at \$127,000 per annum. From the 2013 financial year the management fee has been increased by 3% per annum. During the 2014 financial year the Board of the Association resolved to recoup the loss of a portion of these fees in two tranches:

2014	\$166,843
2015	\$100,000

## 21. RELATED PARTIES

The Municipal Association of Victoria is a body corporate established under the Municipal Association Act of 1907 to provide services for and represent Local Government authorities in Victoria. The Association and its wholly owned controlled entities trade with its members in the normal course of business and on an arm's length basis. The Deed of Establishment provides for the MAV to appoint a Board of Management (MAVIB) to be responsible for the administration of the Scheme. There were no material related party transactions during the year. Total expenses of \$827,966 (2013 \$924,291) were payable to the Municipal Association of Victoria being payment for Administrative support, and overseeing the management of the insurance activities, including the conduct of bi-monthly Board Meetings. Other than this there were no material related party transactions during the year.

### Board members during the year

- J. Warburton (Independent Chairperson)
- A. Murphy (OAM) (Independent)
- Cr. W McArthur (MAV President)
- A. Garcia (LGAT Representative)
- R. Farrell (Independent)
- M. Guilmartin (Independent)
- Dr. M. Kennedy (OAM) (CEO, Mornington Peninsula Shire Council)
- R. Spence (MAV Chief Executive Officer)
- Cr. R. Fyffe (MAV Representative)

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 21. RELATED PARTIES (continued)

### Key management personnel remuneration

	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2014	2013	2014	2013	2014	2013
Independent Board members receive meeting fees. Chairperson receives \$960 per Board meeting and other independent Board members receive \$675 per Board meeting plus \$1,300 per annum for claims and technical Committee and other meetings.						
Short term remuneration of key management personnel	<b>266,657</b>	256,260	<b>266,657</b>	256,260	-	-
Post employment benefits	<b>22,666</b>	21,102	<b>22,666</b>	21,102	-	-

### Loans to Board members

No loans were made to, or are payable by, Board members.

### Other transactions

There were no other material transactions with Board members.

### Insurance

The activities of the MAV Insurance Board members are covered by the MAV directors' and officers' indemnity insurance policy effected by the Municipal Association of Victoria.

# STATEMENT BY BOARD OF MANAGEMENT

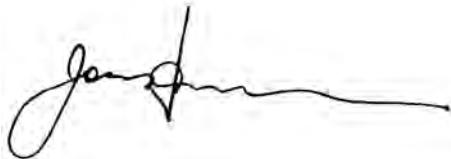
In accordance with a resolution of the MAV Insurance Board, we state that:

In the opinion of the members of the MAV Insurance Board:

- (a) the financial statements and notes of the combined entity are drawn up so as to present fairly in all material respects the results of Liability Mutual Insurance and the Commercial Crime Fund for the year ended 30 June 2014;
- (b) the accompanying Statement of Financial Position is drawn up so as to present fairly in all material respects the state of affairs of Liability Mutual Insurance and the Commercial Crime Fund as at that date;
- (c) at the date of this statement there are reasonable grounds to believe that Liability Mutual Insurance and the Commercial Crime Fund will be able to pay its debts as and when they fall due;
- (d) the financial statements and notes also comply with the International Financial Reporting Standards as disclosed in note 2 (b); and

The financial statements have been made out in accordance with applicable accounting standards and other mandatory professional reporting requirements.

On behalf of the MAV Insurance Board



**John Warburton**  
MAV Insurance Board Chairman  
Melbourne 3 October 2014



**Robert Spence**  
MAV Chief Executive Officer

# STATEMENT BY DIRECTORS

AS AT 30 JUNE 2014

In accordance with a resolution of the directors of the Municipal Association of Victoria, we state that:

In the opinion of the Directors:

- (a) the accompanying Statement of Comprehensive Income drawn up so as to present fairly in all material respects the result of the association for the year ended 30 June 2014;
- (b) the accompanying Statement of Financial Position is drawn up so as to present fairly in all material respects the state of affairs of the association as at that date;
- (c) at the date of this statement there are reasonable grounds to believe that the association will be able to pay its debts as and when they fall due; and
- (d) the accompanying Combined Financial Statements present fairly in all material respects the state of affairs of the association as at that date;
- (e) the financial statements and notes also comply with the international financial reporting standards as disclosed in note 2(b).

The financial statements and combined financial statements have been made out in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.

Signed in accordance with the resolution of Directors.



**Cr. William McArthur**  
President

Melbourne 3 October 2014



**Cr. David Clark**  
Director



**Robert Spence**  
Chief Executive Officer

# COMBINED FINANCIAL REPORTS - INDEPENDENT AUDIT REPORT



Ernst & Young  
8 Exhibition Street  
Melbourne VIC 3000 Australia  
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000  
Fax: +61 3 8650 7777  
ey.com

## Independent auditor's report to the members of Municipal Association of Victoria

We have audited the accompanying financial report of MAV Insurance, which comprises the statement of financial position as at 30 June 2014 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and directors' declaration.

### Directors' Responsibility for the Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and with the Municipal Association Act 1907 and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2b, the directors also state that the financial report, comprising the financial statements and notes, complies with AASB 101 *Presentation of Financial Statements* as issued by the International Accounting Standards Board.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

In conducting our audit we have complied with the independence requirements of the Australian professional accounting bodies.

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# COMBINED FINANCIAL REPORTS - INDEPENDENT AUDIT REPORT



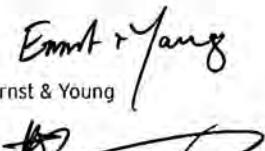
## Opinion

In our opinion:

- (a) the financial report presents fairly, in all material respects the financial position of MAV Insurance at 30 June 2014 and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the Municipal Association of Victoria Act 1907; and
- (b) the financial report also complies with *International Financial Reporting Standards* as issued by the International Accounting Standards Board as disclosed in Note 2b.

## Capital Management and Economic Dependency

We draw your attention to note 17 of the financial statements which describes the capital management plans of MAV Insurance. Our opinion is not qualified in respect of this matter.

  
Ernst & Young  


TM Dring  
Partner  
Melbourne  
3 October 2014

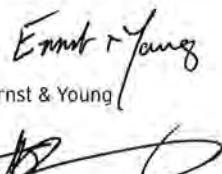


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## Auditor's Independence Declaration to the Directors of MAV Insurance

In relation to our audit of the financial report of MAV Insurance for the financial year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

  
Ernst & Young  


TM Dring  
Partner  
3 October 2014

# OTHER INFORMATION

**Legal form:**

MAV Insurance is the insurance division of the Municipal Association of Victoria. The Municipal Association of Victoria is an association incorporated by the *Municipal Association of Victoria Act 1907*

**Domicile:**

Melbourne, Australia

**Address of registered office:**

Level 12, 60 Collins Street, Melbourne, 3000, Victoria, Australia

**Principal place of business:**

Level 11, 60 Collins Street, Melbourne, 3000, Australia

**Nature of the operation and principal activities:**

The Municipal Association of Victoria has the power provided to it by the *Municipal Association of Victoria Act 1907* to establish Liability Mutual Insurance and the Commercial Crime Fund in order to provide public liability, professional indemnity and fidelity insurance to local government and water authorities.

**Employees:**

Nil