



ANNUAL REPORT 2012/13

MAV  
INSURANCE

# MAV INSURANCE

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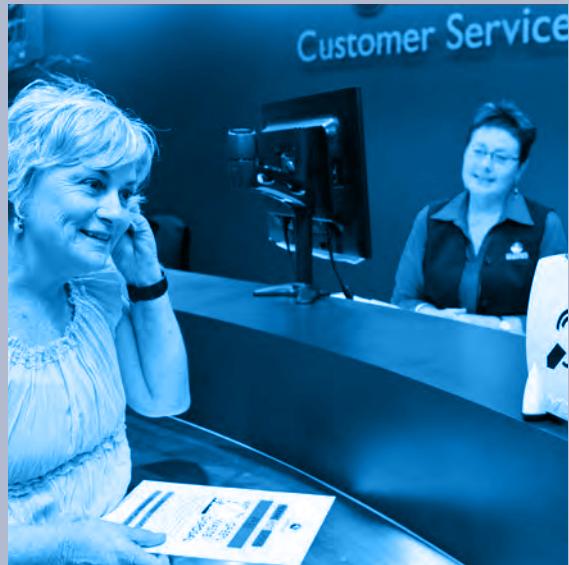
Other: Bendigo City Council, Brimbank City Council, Eliza Nolan, Kylie Gaffney



## CONTENTS

- 2 YEAR IN REVIEW
- 4 CHAIR'S REPORT
- 6 MAV INSURANCE COMMITTEE
- 8 MAV INSURANCE TEAM
- 10 OVERVIEW OF MAV INSURANCE
- 11 LIABILITY MUTUAL INSURANCE
- 11 Claims
- 12 Risk management
- 14 Operations
- 16 COMMERCIAL CRIME FUND
- 18 FINANCIAL OVERVIEW
- 19 GUIDE TO THE FINANCIALS
- 21 MAV INSURANCE FINANCIALS

# Year in review



## Time to save

An operational review identified \$1 million in annual savings, commencing in 2013/14. Reforms include the establishment of key performance indicators and performance standards for JLT under our new service agreement, a restructure of MAV Liability Mutual Insurance services, and savings identified through the bottom-up review of each service component.

## Enhanced communication

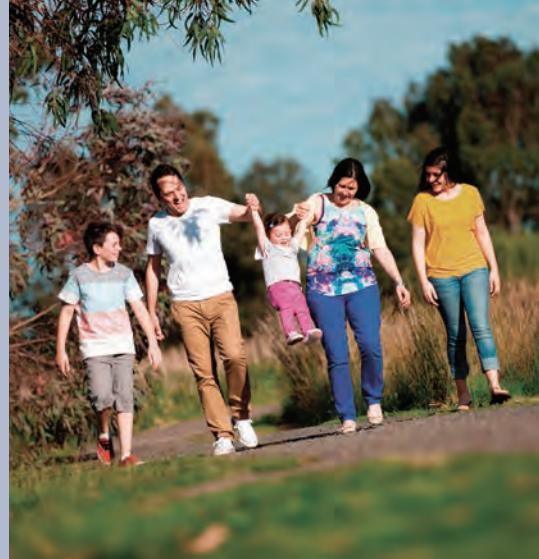
Communication with members was improved with the development of an MAV Insurance bulletin. It was opened by an average 62 per cent of our 285 recipients, well above the industry standard of 24 per cent, and averaged 493 clicks on articles per edition. The bulletin contains important insurance, risk management and legal advice for our members as well as communicating details of upcoming MAV Insurance events.

## Ready for reform

The Liability Mutual Insurance scheme undertook reforms in response to deteriorating claims performance. A risk management review identified a new model to better align resources and tailor services to reduce the incidence of claims and better meet the needs of individual members.

## Outstanding claims

A small number of very large value claims were resolved. While this resulted in claims payments for the year being approximately \$11 million above average, resolving these matters resulted in proportionate reductions in our outstanding claims liability reserves.



### Risky business

A comprehensive price review of member contributions was conducted for the LMI scheme so individual member contributions better reflect their claims record and risks. In a time of increasing claims, this model will reflect the inherent risk of members.

### Negotiating success

Effective negotiation with international insurers secured a \$500 000 increase in the sum that Corporate Crime Fund members are insured for per claim in 2013, without any additional cost to members. Our new three-year LMI reinsurance arrangement will also deliver stable reinsurance costs for members.

### Stronger service

We strengthened relationships with water corporations through a series of consultation meetings across Victoria and Tasmania. This engagement resulted in better service to our water corporation members, including more tailored risk management. The Scheme's legal counsel was also returned in-house to deliver more effective advice to members and the Scheme.

### Eventful insurance

Relevant information, support and development is provided for members through a number of events including, the annual Victorian and Tasmanian insurance seminars, which had over 110 registrations; Best Practice Forums; commercial crime workshop; and others as required.





Liability Mutual Insurance (LMI) has completed a particularly challenging year, recording a deficit of \$5 627 410 (2012 \$1 314 338 deficit) due to continued high growth in claims from Victorian councils, particularly claims involving property damage.

Facing this deteriorating claims experience, we have taken decisive action to ensure that the scheme continues to operate on a secure financial footing. We reviewed our risk management services to reduce claims, commenced implementation of a new contribution model which has greater focus on claims experience, identified efficiencies in our business to reduce costs, and entered into a new three-year reinsurance agreement with most of our reinsurers to provide more stable pricing. These reforms will set the course for the scheme for the coming two years to strengthen its financial position and improve services to our council and water corporation members across Victoria and Tasmania.

This year, we settled a number of large and complex claims which increased our payments for the year. This also reduced the value of our outstanding claims and continued our strategy of resolving appropriate claims as quickly and efficiently as possible to reduce legal and other costs.

The increase in property damage claims and the multitude of large claims across the scheme was the impetus to again review our risk management services. It identified opportunities to more directly address claim drivers, particularly for those members with the highest claim incidence. We will continue to offer each member a suite of services but will tailor our support to best meet the needs of individual organisations.

We finalised a revised reinsurance program, with a majority of our underwriters agreeing to a three-year arrangement. We incorporated new reinsurers in our program to reduce exposure to reinsurance failures and safeguard healthy competition among our underwriters. While our costs increased in proportion to the recent deterioration in claims, we have a settled reinsurance program to deliver stability in our reinsurance costs over the next three years.

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**These reforms will set the course for the scheme for the coming two years to strengthen its financial position and improve services to our council and water corporation members across Victoria and Tasmania...**

Following on from the Ernst & Young review of our pricing model in 2011-12, our actuaries developed a comprehensive pricing model. We endorsed the model and commenced its progressive implementation in late June. The model increases the link between each member's claims history and their contribution. In a time of increasing claims, this model will reflect the inherent risk of members.

# Chair's report

We examined all areas of our operation to ensure the scheme is running smoothly and efficiently. Approximately \$1 million was identified in cost savings that will be achieved annually from 2013-14. The scheme's legal counsel was returned in-house to more effectively deliver relevant legal advice to both members and the scheme. Tenders for our legal panel firms in both Tasmania and Victoria, and for legal cost consulting services, will ensure our legal costs remain reasonable.

MAV Insurance is addressing the challenges facing LMI and will continue working with members to provide public liability and professional indemnity insurance using our mutual model, which delivers a reliable stable product over the longer term at competitive prices.

It was a stable year for the commercial crime fund, despite three claims being notified during the 2013 financial year. Total claims outstanding at 30 June 2013 amounted to \$770 000. For the 2013 year MAV negotiated an increase in the sum insured to \$1.5 million per claim without additional cost to members.

The financial result for the year was a small deficit of \$3 808 (2012 \$33 780 surplus).

We expanded the Local Government Employee (LGE) Health Plan to include employees of water corporations, with a rise from 77 to 84 member organisations participating as at 30 June. Nearly 5 800 employees and family members are now covered by the fund, growing by 45 per cent from the previous year. A total of 471 claims resulted in employees benefitting from excess reimbursements of \$153 755.

This year saw the retirement of Graeme Lemmer, the Jardine Lloyd Thompson (JLT) LMI services manager since its

establishment in 1993. On behalf of MAV Insurance and the local government sector, I would like to thank Graeme for the enthusiasm, effort and considerable knowledge he brought to the scheme and wish him all the very best in his retirement. Glenn McBurney, who has been involved with LMI since its inception, was appointed as JLT services manager and we welcome him to the position.

In closing, I would like to thank the hard working staff at MAV Insurance for their efforts over the year, particularly Rob Spence, Chief Executive Officer; Alison Lyon, Deputy Chief Executive Officer; Allan Holmes, Contract Manager; and Owen Harvey-Beavis, Analyst. I would also like to thank my fellow committee members for their continued dedication and expertise.

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**John Warburton**  
Chair, MAV Insurance Committee



# MAV Insurance Committee



**John Warburton**

APPOINTED 1995

Chair, MAV Insurance Committee 2005  
- present

Director, Lend Lease Real Estate Investments Limited  
Director, Health Super Financial Services Pty Ltd  
Director, Emergency Services Foundation  
Member, Audit Committee, Oxygen 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 Regional Representative for Rural North Central  
Councillor, Greater Bendigo City Council Mayor 2004, 2005, 2011



**Allan Garcia**

APPOINTED 2003

CEO 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

## MAVIC – Governance

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

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

Independent committee members receive a sitting fee for each meeting attended.

In 2012/13 the sitting fee was:

> Chair: \$930

> Independent committee members:  
\$655

In addition, an allowance of \$1 270 was paid to the independent committee members for attendance at other insurance-related meetings.

### MAV INSURANCE COMMITTEE ATTENDANCE

	JULY	OCT	OCT	JAN	APRIL	JUNE
John Warburton	✓	✓	✓	✓	✓	✓
Ron Farrell	✓	✓	✓	✓	✓	✓
Rod Fyffe	✓	✓	✓	✓	✓	X
Allan Garcia	X	✓	X	✓	✓	✓
Michael Guilmartin	✓	✓	✓	✓	✓	✓
Michael Kennedy	X	✓	✓	✓	✓	✓
Bill McArthur	✓	✓	✓	✓	X	✓
Anne Murphy	✓	✓	X	✓	✓	✓
Rob Spence	✓	✓	✓	✓	✓	✓



**Dr Michael Kennedy OAM**

APPOINTED 1995

Chief Executive Officer, Mornington Peninsula Shire Council  
Chairman, Frankston Mornington Peninsula Local Learning and Employment Network  
Company Secretary, LifeSaving Victoria  
Director, Inner East Community Health



**Cr Bill McArthur**

APPOINTED 2009

MAV President  
Councillor, Golden Plains Shire Council  
Mayor 2004, 2005  
Member, Australian Local Government Association Board  
Member, MAV Audit Committee



**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

# MAV Insurance team



## **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. Rob has held a number of senior positions within state government departments. He is a qualified accountant with over 30 years of experience.

## **Alison Lyon 2**

Deputy Chief Executive Officer & General Counsel

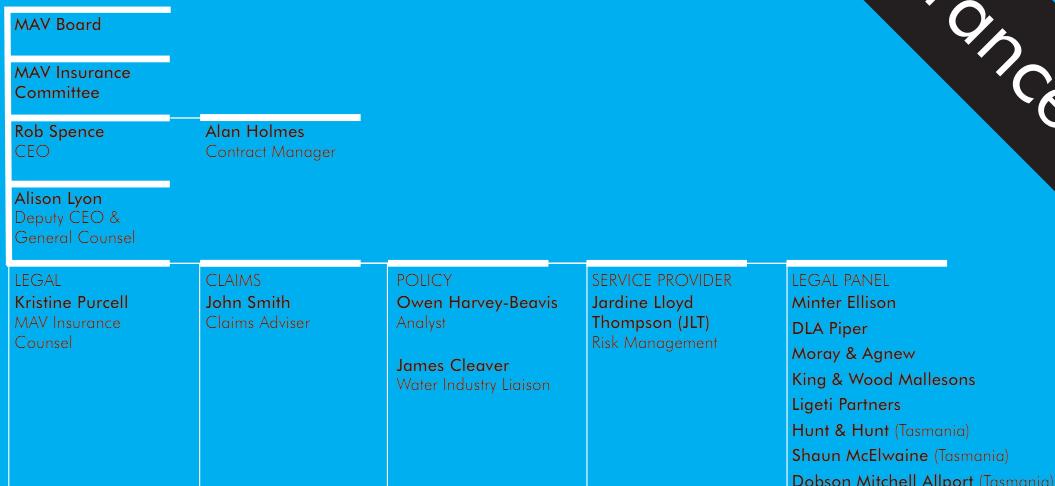
Alison joined MAV Insurance in 2006 and has significant experience in local government law, and a wealth of knowledge in relation to governance and insurance issues. Prior to joining the MAV she was with the City of Melbourne in a range of senior executive roles, which at various times included responsibility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

## **Allan Holmes 3**

Contract Manager

Allan has been providing finance and insurance consulting services to the MAV and its related entities since 2002. 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.

# MAV Insurance team



## John Smith 4

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's claims management processes, strategies and claims trends, as well as ensuring the quality of services provided JLT and our external legal panel.

## Kristine Purcell 5

Legal Counsel

Kristine joined MAV Insurance in May 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.

## Owen Harvey-Beavis 6

Analyst

Owen joined the MAV in 2003 as part of the policy team and has provided advice to MAV Insurance on its contribution-setting methodology. 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. 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.

## James Cleaver 7

Water Industry Liaison

James joined MAV Insurance in 2011 and is responsible for water corporation liaison. He has a background in public policy and natural resource management, and has previously worked at the Murray-Darling Basin Commission.

## Overview of MAV Insurance

MAV Insurance was established in 1993 to provide policies to councils that couldn't find appropriate coverage after the collapse of Municipal Mutual in 1992. Policies are tailored for local authorities. All profits are kept in the fund for the benefit of our 130 members, who also own and manage 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 of 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 directing 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.

To keep reinsurance costs and member contributions down, 50 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 Licensing 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 customers 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.

# Claims

# Liability Mutual Insurance

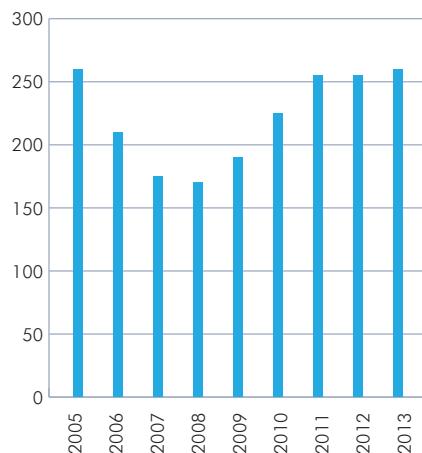
## Claim count increasing

Despite an initial reduction in claims lodged following tort reform in 2003, the LMI scheme has experienced increasing claim numbers since 2008, with a 44 per cent rise over the period based on financial year lodgements. The increase in claims has been due to a rise in personal injury claims since 2008, as people have become more familiar with the requirements under the Wrongs Act following tort reform. There has also been a significant increase in property damage claims. The rise in claims is entirely responsible for the deteriorating financial position of the scheme. We have provided members with updates on the claims performance of the scheme, as well as the implications for the actuary's projections of claims since 2008. In response to the increasing claims trends, we have reviewed our risk management services, our reinsurance structure and our pricing model.

## Legal panel tender

An open tender was conducted for our legal panel and legal cost consultants in the latter stages of 2012/13 for both Victoria and Tasmania. The scheme regularly tests the market to ensure members receive best value and high quality legal and cost consulting services. Our legal cost consulting services are provided by independent expert legal cost assessors that the MAV contracts to review, certify and approve every bill received from our Victorian legal panel firms. To ensure members that our defence costs are appropriate, we provide a greater level of transparency and oversight by paying our Victorian firms according to the appropriate court-approved scale, rather than by the hour. The different legal costing processes in Tasmania do not lend themselves to a similar model; however we negotiated competitive hourly rates with our lawyers in Tasmania.

LMI CLAIMS RECEIVED PER YEAR



## Collaborative management of claims

Our collaborative approach to the management of claims ensures accountability in all areas. Our members are actively involved in the information gathering phase and are consulted and regularly updated during the claims handling process. MAV Insurance applies a communications standard for JLT and our legal panel to keep members informed of developments during the life of a claim. This standard represents the minimum requirement, and is over and above the quarterly claims analysis tracking system (CATS) report that members receive. MAV Insurance manages a case review process to oversee and ensure quality case preparation and action plans are developed in conjunction with our service provider JLT, and legal panel, with the aim to always achieve the right outcome at the earliest opportunity. We also aim to work closely with members as claims are managed from lodgement through to resolution. We invite members to all mediations and seek their involvement throughout the process.



## Large claims

Four large claims were paid out in 2012/13 totalling \$11 million. Both claims and costs were higher than normal for the scheme. These claims were from a range of past insurance years that were resolved in the 2012/13 financial year. They involved a variety of causes including significant personal injury and planning matters. The large payments relating to these claims do however remove these significant liabilities from future actuarial calculations.

# Risk management

## Risk management services program

Throughout the year a broad array of risk management services were delivered to MAV Insurance members to improve performance, capability, information sharing, advice and support. The risk register committee, which meets on a monthly basis, developed and maintained a **risk register** to monitor and focus member services on key and emerging risks. Targeted risk appraisals, workshops, best practice forums, bulletin topics, circulars, seminars and conferences focused on areas identified in the risk register.

Biannual **liability audits** were undertaken of members' risk management procedures and comprehensive reports prepared for each council and water corporation. **Targeted risk appraisals** were also offered to members that were not audited in the past year. A variety of topics of particular concern to each member were appraised and a report provided with recommendations.

Members that ranked in the lower third percentile in the previous year's audit were provided with **workshops** that trained staff on topics including organisational risk management, tree risk management, and event risk management.

Three rounds of **best practice forums** were provided to all regions, and the inaugural MAV Victorian Insurance and Risk Management Conference in October was attended by more than 80 council staff representing over 50 municipalities. The 2013 MAV Tasmanian Insurance Conference, held in Launceston in May, focused on fraud management, event management and emergency response management.

The **help desk** responded to over 200 queries throughout the year in relation to risk management, providing both verbal and written responses to queries. Expanding our efforts to provide timely information to members saw a new monthly **insurance bulletin** commence, and the MAV website including a Q&A section where queries received by the helpdesk were reproduced for the benefit of all members. **Guidance** was supplemented with circulars on a range of risk management topics, as well as individual support in relation to preparation of Road Management Plans.

## Review of risk management

With an overarching aim to reduce claims under the LMI scheme, a review of risk management services was undertaken and a new approach developed to replace audits with a risk review analysis. Under the new program, risk services will be tied to the claims experience of individual members.

A review of members' claims history identified the 25 per cent of members with the highest claim numbers. Using this data we tailored our risk management services to better address the key triggers for claims. In addition to the risk review analysis services being provided to members with high claims experience, the full suite of other support, training and performance services will continue to be provided to all members.

Additionally, targeted services will be offered to members who do not fall within the 25 per cent of members with the highest claims experience. Those other members will be able to select a service such as a workshop or targeted risk appraisal to best suit their needs.



## Water Act advocacy

The Victorian Government announced a review of the Water Act during 2012. One of the key areas of focus for MAV Insurance was to secure changes to Section 16 of the Act which imposes strict liability on councils for unreasonable flow of water from one person's land onto another person's land. This section has been inflexible for councils defending claims for property damage when a sudden downpour occurs and the stormwater infrastructure is overwhelmed, whereas water corporations have protections built into the Act covering similar circumstances. We also advocated for protections to water corporations when they pre-release water from dams in danger of overflowing. These issues are particularly significant following the 2011 Brisbane floods. The MAV held a workshop in December including members of the Water Act Review Panel, and is continuing to work with the Victorian Department of Environment and Primary Industries as the review progresses.

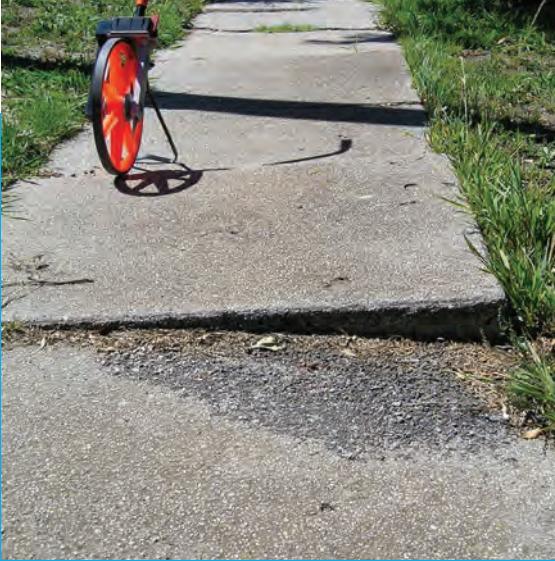
# Liability Mutual Insurance

## Water corporation engagement

MAV Insurance undertook a series of consultations with water corporations in Victoria and Tasmania. These meetings were a valuable opportunity to discuss the level of coverage and risk management services, and clarify aspects of the MAV Insurance mutual scheme and the reinsurance portfolio that sits behind the scheme. The improved understanding of our operating environment will enable us to better tailor services for water corporations and to be responsive to particular needs. Following the renewal period, we will seek member input in reviewing our risk management services to water corporations, including the Risk Management Audit and Best Practice Forums.

## Council dams

MAV Insurance has continued to work with the Victorian Department of Environment and Primary Industries (DEPI) to assist dam-owning councils. In early 2013 a number of councils attended a training session on dam safety, maintenance and surveillance with DEPI. A discussion on the council dam owner toolkit was also beneficial and we commenced surveying councils about their dam safety activities and use of the dam owner toolkit to ensure they are safe places for community enjoyment, whilst planning for floods and other emergencies.



# Operations

## Reinsurance

With our three-year reinsurance agreement concluding at the end of 2012/13, we negotiated a new agreement with international reinsurers to ensure continued protection of the scheme.

Faced with a difficult claims environment, together with residual concerns in the market about Australia's susceptibility to natural disasters, we succeeded in negotiating and implementing a new structure for 2013/14. We added new reinsurers to our program to reduce concentration risk and minimise costs, while meeting our minimum Standard & Poor's rating of 'A' for any reinsurer involved in the scheme. Our new reinsurance structure will continue to meet members' needs and provide pricing stability over the new three-year agreement.

## Contributions

In 2011/12, we commissioned Ernst & Young to examine our contribution setting model to ensure contributions were allocated fairly between members. The resulting model was endorsed by the MAV Insurance Committee (MAVIC) and this year the scheme's actuaries, Taylor Fry Analytics & Actuarial Consulting, assisted in translating the conceptual model to a detailed pricing framework. The new model creates a stronger link between the contribution of each member and their claims experience, in addition to addressing other relevant factors, and will be progressively implemented from 2013/14.



### 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 Shire 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  
Sorell Council  
Southern Midlands Council  
Tasman Council  
Waratah-Wynyard Council  
West Coast Council  
West Tamar Council

### WATER CORPORATIONS

City West Water Limited  
Gippsland and Southern Rural Water Corporation  
Western Region Water Corporation  
Goulburn Murray Rural Water Corporation  
Tasmanian Water and Sewerage Corporation  
(Common Services) Pty Limited - Onstream  
Tasmanian Water and Sewerage Corporation  
(Southern Region) Pty Limited - Southern Water  
Tasmanian Water and Sewerage Corporation  
(Northern Region) Pty Limited - Ben Lomond Water  
Tasmanian Water and Sewerage Corporation  
(North-Western Region) Pty Limited - Cradle Mountain Water

### OTHER

Eastern Regional Library Corporation  
Goulburn Valley Regional Library  
Municipal Association of Victoria  
North Central Goldfields Library Service  
Victorian Water Industry Association Inc  
West Gippsland Regional Library Service  
Whitehorse Manningham Regional Library Corporation  
Yarra Plenty Regional Library Service  
Local Government Association of Tasmania

# 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 82 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 small deficit this financial year. 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 three per cent for the financial year in line with inflation. Being not-for-profit and not subject to income tax, no dividends are paid to third parties.

## Risk management

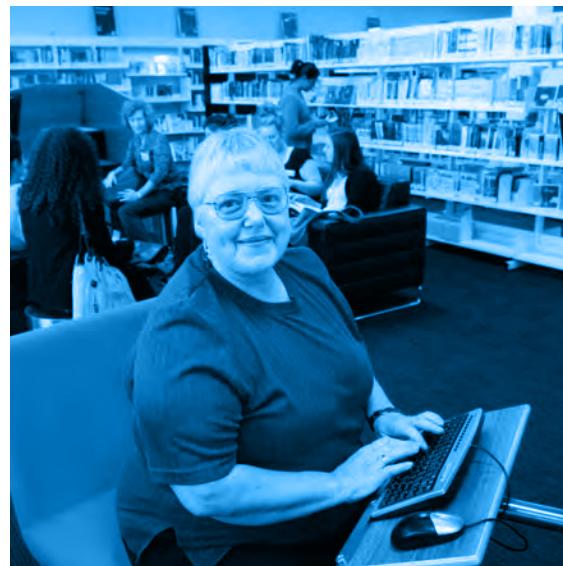
Members of the Commercial Crime Fund are expected to continually test the strengths and weaknesses of organisational systems through their audit committees and internal auditors. Constant review of the risks inherent in member systems, and testing of the areas of risk, is a core responsibility of members.

The basic concepts of separation of duties, delegation, risk appraisal and risk training need to be imbedded 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.



## Claims

Fraudulent acts committed by employees of members led to three claims through the fund this year. The claims resulted from a staff member who diverted purchases of council supplies to himself; a manager of council property who sold council goods for cash; and an employee who diverted council cash to a personal account. The claims totalled around \$650 000.



## Commercial Crime Fund Members

# Commercial Crime Fund

### 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  
Greater Bendigo 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  
Melbourne City Council  
Melton Shire 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  
Yarriambiack Shire Council

### OTHER MEMBERS

Citywide Service Solutions Pty Ltd  
Queen Victoria Market  
Municipal Association of Victoria  
Western Region Water Corporation  
Corangamite Regional Library Corporation  
West Gippsland Regional Library Corporation  
Eastern Regional Libraries Corporation  
Tanjil Bren Water Co-op Ltd & Committee of Management - Recreation Reserve  
Geelong Regional Library Corporation  
City West Water Corporation



## Financial Overview

### Report on financial results for the year ended 30 June 2013

In accordance with the requirements of the *Municipal Association Act 1907* and applicable accounting standards, the financial activity of MAV Insurance is reported to the members as a financial 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 2012/13.

Both insurance activities are nondiscretionary mutual funds and are subject to the oversight of the Association's Board, which acts through a committee of management established by the Board, the MAV Insurance Committee (MAVIC). MAVIC 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.

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 2013 was \$5.63 million (2012 \$1.28 million). The net asset position at the end of 2013 was \$743 384 (2012 \$6.37 million).

# Guide to the Financials

## 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 presents fairly in all material respects, the financial position of MAV Insurance as at 30 June 2013, and results of the various business operations and cash flows for the year ended 30 June 2013, 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, web site 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.



FINANCIAL REPORT 2012/13

## Statement of comprehensive income

FOR THE YEAR ENDED 30 JUNE, 2013

	NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
Premium revenue	3	24,210,450	21,945,978	24,210,450	21,945,978	-	-
Performance bonus	18	319,750	678,475	319,750	678,475	-	-
Reinsurance expense	2(s)	(13,509,021)	(13,326,687)	(13,509,021)	(13,326,687)	-	-
<b>NET PREMIUM INCOME</b>		<b>11,021,179</b>	9,297,766	<b>11,021,179</b>	9,297,766	-	-
Claims expense	4(a)	(26,749,499)	(14,405,769)	(26,749,499)	(14,405,769)	-	-
Reinsurance and other recoveries	3	15,940,791	8,834,440	15,937,068	8,829,540	3,723	4,900
<b>NET CLAIMS EXPENSE</b>	12	<b>(10,808,708)</b>	(5,571,329)	<b>(10,812,431)</b>	(5,576,229)	<b>3,723</b>	4,900
<b>NET UNDERWRITING RESULT</b>		<b>212,471</b>	3,726,437	<b>208,748</b>	3,721,537	<b>3,723</b>	4,900
Management fees	3,20	222,013	247,496	-	-	222,013	247,496
Investment income	3	1,858,850	2,689,461	1,839,653	2,664,826	19,197	24,635
Administration and general expenses	4(b)	(7,924,552)	(7,943,952)	(7,675,811)	(7,700,701)	(248,741)	(243,251)
<b>OPERATING PROFIT (LOSS)</b>		<b>(5,631,218)</b>	(1,280,558)	<b>(5,627,410)</b>	(1,314,338)	<b>(3,808)</b>	33,780
Other comprehensive income		-	-	-	-	-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>(5,631,218)</b>	(1,280,558)	<b>(5,627,410)</b>	(1,314,338)	<b>(3,808)</b>	33,780

## Statement of financial position

AS AT 30 JUNE, 2013

	NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
<b>CURRENT ASSETS</b>							
Cash and cash equivalents	8(a)	28,709,619	34,132,749	28,242,907	33,687,158	466,712	445,591
Trade and other receivables	9	52,704,947	42,040,464	52,703,147	42,039,339	1,800	1,125
<b>TOTAL CURRENT ASSETS</b>		<b>81,414,566</b>	76,173,213	<b>80,946,054</b>	75,726,497	<b>468,512</b>	446,716
<b>NON-CURRENT ASSETS</b>							
Property, plant and equipment	7(a)	157,837	189,404	157,837	189,404	-	-
Intangible assets	7(b)	85,258	118,247	85,258	118,247	-	-
Trade and other receivables	9	47,988,273	53,442,452	47,988,273	53,442,452	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>48,231,368</b>	53,750,103	<b>48,231,368</b>	53,750,103	-	-
<b>TOTAL ASSETS</b>		<b>129,645,934</b>	129,923,316	<b>129,177,422</b>	129,476,600	<b>468,512</b>	446,716
<b>CURRENT LIABILITIES</b>							
Trade and other payables		3,502,391	3,118,041	3,471,178	3,112,432	31,213	5,609
Premiums in advance	10	28,965,483	24,210,449	28,965,483	24,210,449	-	-
Provision for claims outstanding	11(a)	21,126,609	18,079,388	21,126,609	18,079,388	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>53,594,483</b>	45,407,878	<b>53,563,270</b>	45,402,269	<b>31,213</b>	5,609
<b>NON-CURRENT LIABILITIES</b>							
Provision for claims outstanding	11(a)	75,308,067	78,140,836	75,308,067	78,140,836	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>75,308,067</b>	78,140,836	<b>75,308,067</b>	78,140,836	-	-
<b>TOTAL LIABILITIES</b>		<b>128,902,550</b>	123,548,714	<b>128,871,337</b>	123,543,105	<b>31,213</b>	5,609
<b>NET ASSETS</b>		<b>743,384</b>	6,374,602	<b>306,085</b>	5,933,495	<b>437,299</b>	441,107
<b>EQUITY</b>		<b>743,384</b>	6,374,602	<b>306,085</b>	5,933,495	<b>437,299</b>	441,107

## Statement of changes in equity

FOR THE YEAR ENDED 30 JUNE, 2013

	NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
<b>RETAINED EARNINGS</b>							
Balance at beginning of year		6,374,602	7,655,160	5,933,495	7,247,833	441,107	407,327
Surplus (loss) from ordinary activities		(5,631,218)	(1,280,558)	(5,627,410)	(1,314,338)	(3,808)	33,780
<b>BALANCE AT END OF YEAR</b>		<b>743,384</b>	<b>6,374,602</b>	<b>306,085</b>	<b>5,933,495</b>	<b>437,299</b>	<b>441,107</b>

## Statement of cash flows

FOR THE YEAR ENDED 30 JUNE, 2013

	NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>							
RECEIPTS							
Premiums and fees		24,616,832	24,468,922	24,094,922	23,421,248	1,027,654	1,047,674
Performance bonus		-	1,663,647	-	1,663,647	-	-
Investment income		2,023,825	2,521,768	2,006,593	2,508,313	17,230	13,455
Reinsurance and other recoveries		19,071,501	9,821,342	19,067,779	9,816,442	3,722	4,900
PAYMENTS							
Suppliers		(24,907,384)	(25,281,016)	(24,385,643)	(24,252,135)	(1,027,485)	(1,028,881)
Claim payments		(26,227,902)	(11,382,655)	(26,227,902)	(11,382,655)	-	-
<b>NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES</b>	8(b)	<b>(5,423,130)</b>	1,812,008	<b>(5,444,251)</b>	1,774,860	<b>21,121</b>	37,148
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>							
Proceeds from sale of fixed assets		-	-	-	-	-	-
Payments for fixed assets and intangibles		-	(79,875)	-	(79,875)	-	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>-</b>	(79,875)	<b>-</b>	(79,875)	<b>-</b>	<b>-</b>
<b>NET INCREASE / (DECREASE) IN CASH HELD</b>		<b>(5,423,130)</b>	1,732,133	<b>(5,444,251)</b>	1,694,985	<b>21,121</b>	37,148
Cash at beginning of year		34,132,749	32,400,616	33,687,158	31,992,173	445,591	408,443
<b>CASH AT END OF YEAR</b>	8(a)	<b>28,709,619</b>	34,132,749	<b>28,242,907</b>	33,687,158	<b>466,712</b>	445,591

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 2013

## 1. CORPORATE INFORMATION

The combined financial report of MAV Insurance (the Group) for the year ended 30 June 2013 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 2013 are 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 2013	Nil	1 July 2013
AASB 119	Employee benefits	1 July 2013	Nil	1 July 2013
AASB 1053	Application of tiers of Australian accounting standards	1 July 2013	Nil	1 July 2013

#### (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 (AIFRS). Compliance with AIFRS 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), trading as Liability Mutual Insurance - LMI, 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 sections 50-10 and 50-25 of the *Income Tax Assessment Act 1997*.

#### (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 2013

## (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 committee 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.

## (j) 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.

## (l) 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 2013

## (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.

## (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	
		2013	2012	2013	2012	2013	2012
<b>3. REVENUE FROM ORDINARY ACTIVITIES</b>							
REVENUES FROM OPERATING ACTIVITIES							
Premiums		<b>24,210,450</b>	21,945,978	<b>24,210,450</b>	21,945,978	-	-
Performance bonus	18	<b>319,750</b>	678,475	<b>319,750</b>	678,475	-	-
Reinsurance and other recoveries	2(p)	<b>15,940,791</b>	8,834,440	<b>15,937,068</b>	8,829,540	<b>3,723</b>	4,900
Management fees received		<b>222,013</b>	247,496	-	-	<b>222,013</b>	247,496
<b>TOTAL REVENUE FROM OPERATING ACTIVITIES</b>		<b>40,693,004</b>	31,706,389	<b>40,467,268</b>	31,453,993	<b>225,736</b>	252,396
REVENUES FROM NON-OPERATING ACTIVITIES							
Investment income		<b>1,858,850</b>	2,689,461	<b>1,839,653</b>	2,664,826	<b>19,197</b>	24,635
<b>TOTAL REVENUE FROM OUTSIDE THE OPERATING ACTIVITIES</b>		<b>1,858,850</b>	2,689,461	<b>1,839,653</b>	2,664,826	<b>19,197</b>	24,635
<b>TOTAL REVENUE FROM ORDINARY ACTIVITIES</b>		<b>42,551,854</b>	34,395,850	<b>42,306,921</b>	34,118,819	<b>244,933</b>	277,031

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
<b>4(a) CLAIMS EXPENSES</b>						
Paid	<b>26,535,047</b>	11,908,234	<b>26,535,047</b>	11,908,234	-	-
Outstanding claims at end of financial year	<b>96,434,676</b>	96,220,224	<b>96,434,676</b>	96,220,224	-	-
Outstanding claims at beginning of financial year	<b>(96,220,224)</b>	(93,722,689)	<b>(96,220,224)</b>	(93,722,689)	-	-
<b>TOTAL CLAIMS EXPENSES</b>	<b>26,749,499</b>	14,405,769	<b>26,749,499</b>	14,405,769	-	-
<b>4(b) Administration and general expenses</b>						
The following items have been recognised in the operating surplus (deficit):						
Administration	<b>2,200,841</b>	2,275,051	<b>2,189,128</b>	2,262,887	<b>11,713</b>	12,164
Actuary and legal fees	<b>361,921</b>	287,344	<b>361,355</b>	283,698	<b>566</b>	3,646
Audit fees	<b>116,157</b>	133,461	<b>107,005</b>	126,511	<b>9,152</b>	6,950
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>32,989</b>	19,205	<b>32,989</b>	19,205	-	-
Scheme management fee	<b>3,389,111</b>	3,279,543	<b>3,161,801</b>	3,158,273	<b>227,310</b>	121,270
Claims handling costs	-	99,221	-	-	-	99,221
Stamp duty	<b>1,791,966</b>	1,818,560	<b>1,791,966</b>	1,818,560	-	-
<b>TOTAL EXPENDITURE</b>	<b>7,924,552</b>	7,943,952	<b>7,675,811</b>	7,700,701	<b>248,741</b>	243,251
<b>5. AUDITORS REMUNERATION</b>						
Amounts payable or due and payable for audit services:						
Audit of the entity	<b>116,157</b>	133,461	<b>107,005</b>	126,511	<b>9,152</b>	6,950
Other services	-	30,900	-	30,900	-	-
	<b>116,157</b>	164,361	<b>107,005</b>	157,411	<b>9,152</b>	6,950
<b>6. SCHEME MANAGEMENT FEES</b>						
Included within administration and general expenses are management fees for:						
Reinsurance placement	<b>1,886,120</b>	1,886,120	<b>1,886,120</b>	1,886,120	-	-
Risk management and administrative services	<b>1,502,991</b>	1,393,423	<b>1,275,681</b>	1,272,153	<b>227,310</b>	121,270
	<b>3,389,111</b>	3,279,543	<b>3,161,801</b>	3,158,273	<b>227,310</b>	121,270
Claims handling cost	-	99,221	-	-	-	99,221
Total administration	<b>3,389,111</b>	3,378,764	<b>3,161,801</b>	3,158,273	<b>227,310</b>	220,491
Claims management	<b>1,053,934</b>	1,052,758	<b>1,053,934</b>	1,052,758	-	-
<b>TOTAL SCHEME MANAGEMENT FEES</b>	<b>4,443,045</b>	4,431,522	<b>4,215,735</b>	4,211,031	<b>227,310</b>	220,491

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
<b>7(a) PROPERTY, PLANT AND EQUIPMENT</b>						
Leasehold improvements - at cost	179,441	179,441	179,441	179,441	-	-
Less accumulated depreciation	(80,834)	(61,113)	(80,834)	(61,113)	-	-
	98,607	118,328	98,607	118,328	-	-
Furniture and equipment - at cost	98,020	98,020	98,020	98,020	-	-
Less accumulated depreciation	(38,790)	(26,944)	(38,790)	(26,944)	-	-
	59,230	71,076	59,230	71,076	-	-
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>157,837</b>	<b>189,404</b>	<b>157,837</b>	<b>189,404</b>	-	-
<b>Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the financial year.</b>						
LEASEHOLD IMPROVEMENTS						
Movements during the year						
Beginning of year	118,328	138,049	118,328	138,049	-	-
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Depreciation	(19,721)	(19,721)	(19,721)	(19,721)	-	-
End of year	98,607	118,328	98,607	118,328	-	-
PROPERTY, PLANT AND EQUIPMENT						
Movements during the year						
Beginning of year	71,076	82,922	71,076	82,922	-	-
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Depreciation	(11,846)	(11,846)	(11,846)	(11,846)	-	-
End of year	59,230	71,076	59,230	71,076	-	-
<b>7(b) INTANGIBLE ASSETS</b>						
Intangible assets - at cost	137,451	137,451	137,451	137,451	-	-
Less accumulated amortisation	(52,193)	(19,204)	(52,193)	(19,204)	-	-
	85,258	118,247	85,258	118,247	-	-
INTANGIBLE ASSETS						
Movements during the year						
Beginning of year	118,247	57,578	118,247	57,578	-	-
Additions	-	79,873	-	79,873	-	-
Disposals	-	-	-	-	-	-
Amortisation	(32,989)	(19,204)	(32,989)	(19,204)	-	-
End of year	85,258	118,247	85,258	118,247	-	-

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
<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	1,445,900	3,947,118	979,188	3,501,527	466,712	445,591
Other financial assets	27,263,719	30,185,631	27,263,719	30,185,631	-	-
<b>TOTAL CASH</b>	<b>28,709,619</b>	<b>34,132,749</b>	<b>28,242,907</b>	<b>33,687,158</b>	<b>466,712</b>	<b>445,591</b>
<b>8(b) Reconciliation of net cash used in operating activities to operating profit/(loss)</b>						
Profit (loss) for year	(5,631,218)	(1,280,558)	(5,627,410)	(1,314,338)	(3,808)	33,780
Depreciation	31,567	31,567	31,567	31,567	-	-
Amortisation	32,989	19,205	32,989	19,205	-	-
Changes in assets and liabilities						
(Increase)/decrease in trade and other receivables	2(f) (5,210,305)	(1,211,493)	(5,209,630)	(1,214,394)	(675)	2,901
Increase/(decrease) in trade and other payables	384,350	70,759	358,746	70,292	25,604	467
Increase/(decrease) in premiums in advance	4,755,035	2,264,473	4,755,035	2,264,473	-	-
(Increase)/decrease in provision for reinsurance recoveries	-	(389,376)	-	(389,376)	-	-
Increase/(decrease) in outstanding claims	2(m) 214,452	2,307,431	214,452	2,307,431	-	-
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<b>(5,423,130)</b>	<b>1,812,008</b>	<b>(5,444,251)</b>	<b>1,774,860</b>	<b>21,121</b>	<b>37,148</b>
<b>9. RECEIVABLES</b>						
Future reinsurance and other recoveries receivable	2(p) 73,772,856	78,128,664	73,772,856	78,128,664	-	-
Discount to present value	(6,341,639)	(7,964,231)	(6,341,639)	(7,964,231)	-	-
	67,431,217	70,164,433	67,431,217	70,164,433	-	-
Less provision for doubtful debts	-	-	-	-	-	-
Premiums receivable	2(l) 31,862,031	24,094,922	31,862,031	24,094,922	-	-
Other receivables	1,399,972	1,223,561	1,398,172	1,222,436	1,800	1,125
<b>TOTAL RECEIVABLES</b>	<b>100,693,220</b>	<b>95,482,916</b>	<b>100,691,420</b>	<b>95,481,791</b>	<b>1,800</b>	<b>1,125</b>
Represented by:						
<b>CURRENT</b>	<b>52,704,947</b>	<b>42,040,464</b>	<b>52,703,147</b>	<b>42,039,339</b>	<b>1,800</b>	<b>1,125</b>
<b>NON-CURRENT</b>	<b>47,988,273</b>	<b>53,442,452</b>	<b>47,988,273</b>	<b>53,442,452</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>	<b>100,693,220</b>	<b>95,482,916</b>	<b>100,691,420</b>	<b>95,481,791</b>	<b>1,800</b>	<b>1,125</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 2013

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

	Total	<30 days	31-60 days	61-90 days	>90 days
<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	-	-	-
<b>2012</b>					
Combined	25,318,483	25,318,483	-	-	-
Liability Mutual Insurance	25,317,358	25,317,358	-	-	-
Commercial Crime Fund	1,125	1,125	-	-	-

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

	NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2013	2012	2013	2012	2013	2012
<b>10. PREMIUMS IN ADVANCE</b>							
Contributions billed in advance	2(l)	<b>28,965,483</b>	24,210,449	<b>28,965,483</b>	24,210,449	-	-
<b>11(c) OUTSTANDING CLAIMS</b>							
Central estimate	2(m)	<b>106,181,443</b>	101,987,759	<b>106,181,443</b>	101,987,759	-	-
Discount to present value		(10,284,437)	(11,298,096)	(10,284,437)	(11,298,096)	-	-
		<b>95,897,006</b>	90,689,663	<b>95,897,006</b>	90,689,663	-	-
Claims handling costs		<b>537,670</b>	630,333	<b>537,670</b>	630,333	-	-
Risk margin	11(b)	-	4,900,228	-	4,900,228	-	-
<b>TOTAL OUTSTANDING CLAIMS</b>		<b>96,434,676</b>	96,220,224	<b>96,434,676</b>	96,220,224	-	-
Represented by:							
CURRENT		<b>21,126,609</b>	18,079,388	<b>21,126,609</b>	18,079,388	-	-
NON-CURRENT		<b>75,308,067</b>	78,140,836	<b>75,308,067</b>	78,140,836	-	-
<b>TOTAL CLAIMS PROVISION</b>		<b>96,434,676</b>	96,220,224	<b>96,434,676</b>	96,220,224	-	-

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

During the 2013 financial year the MAV revised their estimation 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 current financial year. This has 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>			
CURRENT LIABILITIES			
Provision for claims outstanding	22,347,404	1,220,795	21,126,609
NON-CURRENT LIABILITIES			
Provision for claims outstanding	79,659,720	4,351,653	75,308,067
<b>TOTAL LIABILITIES</b>	<b>134,474,998</b>	<b>5,572,448</b>	<b>128,902,550</b>
<b>NET ASSETS</b>	(4,829,064)	5,572,448	743,384
<b>EQUITY</b>	(4,829,064)	5,572,448	743,384
<b>STATEMENT OF COMPREHENSIVE INCOME</b>			
NET PREMIUM INCOME			
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 2013

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

	2013			2012		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
Outstanding claims brought forward	96,220,224	70,164,433	26,055,791	93,722,689	70,751,776	22,970,913
Changes in assumptions	20,580,880	20,247,149	333,731	11,099,705	7,397,698	3,702,007
Increase in claims incurred/recoveries anticipated	5,114,682	(4,341,117)	9,455,799	2,253,307	1,431,843	821,464
Incurred claims recognised in income statement	25,695,562	15,906,032	9,789,530	13,353,012	8,829,541	4,523,471
Claim payments/recoveries during the year	(25,481,110)	(18,639,248)	(6,841,862)	(10,855,477)	(9,416,884)	(1,438,593)
Outstanding claims carried forward	96,434,676	67,431,217	29,003,459	96,220,224	70,164,433	26,055,791

## 12. NET CLAIMS INCURRED

	2013			2012		
	Current year \$	Prior year \$	Total \$	Current year \$	Prior year \$	Total \$
<b>COMBINED</b>						
Gross claims and related expenses - undiscounted	24,117,403	1,618,435	25,735,838	22,110,561	(6,451,972)	15,658,589
Discount	(2,728,898)	3,742,559	1,013,661	(2,444,593)	1,191,773	(1,252,820)
Gross claims and related expenses - discounted	21,388,505	5,360,994	26,749,499	19,665,968	(5,260,199)	14,405,769
Reinsurance and other recoveries - undiscounted	(13,689,677)	(618,655)	(14,308,332)	(11,050,667)	963,983	(10,086,684)
Discount	394,733	(2,027,192)	(1,632,459)	104,080	1,148,164	1,252,244
Reinsurance and other recoveries - discounted	(13,294,944)	(2,645,847)	(15,940,791)	(10,946,587)	2,112,147	(8,834,440)
<b>NET CLAIMS INCURRED</b>	<b>8,093,561</b>	<b>2,715,147</b>	<b>10,808,708</b>	<b>8,719,381</b>	<b>(3,148,052)</b>	<b>5,571,329</b>
<b>LIABILITY MUTUAL INSURANCE</b>						
Gross claims and related expenses - undiscounted	24,117,403	1,618,435	25,735,838	22,110,561	(6,451,972)	15,658,589
Discount	(2,728,898)	3,742,559	1,013,661	(2,444,593)	1,191,773	(1,252,820)
Gross claims and related expenses - discounted	21,388,505	5,360,994	26,749,499	19,665,968	(5,260,199)	14,405,769
Reinsurance and other recoveries - undiscounted	(13,689,677)	(614,932)	(14,304,609)	(11,050,667)	968,883	(10,081,784)
Discount	394,733	(2,027,192)	(1,632,459)	104,080	1,148,164	1,252,244
Reinsurance and other recoveries - discounted	(13,294,944)	(2,642,124)	(15,937,068)	(10,946,587)	2,117,047	(8,829,540)
<b>NET CLAIMS INCURRED</b>	<b>8,093,561</b>	<b>2,718,870</b>	<b>10,812,431</b>	<b>8,719,381</b>	<b>(3,143,152)</b>	<b>5,576,229</b>
<b>COMMERCIAL CRIME FUND</b>						
Gross claims and related expenses - undiscounted	-	-	-	-	-	-
Discount	-	-	-	-	-	-
Gross claims and related expenses - discounted	-	-	-	-	-	-
Reinsurance and other recoveries - undiscounted	-	(3,723)	(3,723)	(4,900)	-	(4,900)
Discount	-	-	-	-	-	-
Reinsurance and other recoveries - discounted	-	(3,723)	(3,723)	(4,900)	-	(4,900)
<b>NET CLAIMS INCURRED</b>	<b>-</b>	<b>(3,723)</b>	<b>(3,723)</b>	<b>(4,900)</b>	<b>-</b>	<b>(4,900)</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## 13. CLAIMS DEVELOPMENT TABLE

ACCIDENT YEAR	2009 \$	2010 \$	2011 \$	2012 \$	2013 \$	TOTAL \$
<b>GROSS ESTIMATE OF ULTIMATE CLAIMS COST- LIABILITY MUTUAL INSURANCE</b>						
At end year of accident	33,095,464	20,293,152	28,063,635	21,064,708	23,083,333	
One year later	41,692,816	22,682,968	24,589,379	20,109,939	-	
Two years later	32,781,490	18,260,706	29,661,644	-	-	
Three years later	32,282,253	16,605,208	-	-	-	
Four years later	33,874,556	-	-	-	-	
Current estimate of cumulative claims cost	33,874,556	16,605,208	29,661,644	20,109,939	23,083,333	123,334,680
Cumulative payments	(20,787,837)	(4,693,696)	(7,576,021)	(1,211,362)	(409,054)	(34,677,970)
Outstanding claims - undiscounted	13,086,719	11,911,512	22,085,623	18,898,577	22,674,279	88,656,710
<b>Discount</b>						(9,189,792)
Claims handling expense						549,672
2008 and prior						16,418,086
<b>LIABILITY MUTUAL INSURANCE - TOTAL GROSS OUTSTANDING CLAIMS 11(a)</b>						
<b>COMBINED TOTAL GROSS OUTSTANDING CLAIMS 11(c)</b>						<b>96,434,676</b>
<b>NET ESTIMATE OF ULTIMATE CLAIMS COST - LIABILITY MUTUAL INSURANCE</b>						
At end year of accident	28,615,874	8,883,685	11,576,465	8,710,223	8,122,534	
One year later	19,307,213	9,429,739	8,098,820	7,441,671	-	
Two years later	14,069,608	7,185,550	11,987,795	-	-	
Three years later	16,406,929	6,352,770	-	-	-	
Four years later	17,537,555	-	-	-	-	
Current estimate of cumulative claims cost	17,537,555	6,352,770	11,987,795	7,441,671	8,122,534	51,442,325
Cumulative payments	(9,961,005)	(2,421,081)	(4,342,723)	(672,045)	(233,429)	(17,630,283)
Outstanding claims - undiscounted	7,576,550	3,931,689	7,645,072	6,769,626	7,889,105	33,812,042
<b>Discount</b>						(4,132,380)
Claims handling expense						208,767
2008 and prior						(884,970)
<b>LIABILITY MUTUAL INSURANCE - TOTAL NET OUTSTANDING CLAIMS</b>						
<b>11(c)</b>						<b>29,003,459</b>
<b>COMBINED TOTAL NET OUTSTANDING CLAIMS 11(c)</b>						<b>29,003,459</b>

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 2013

## 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>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>-</b>	<b>128,871,337</b>	<b>-</b>	<b>31,213</b>	<b>-</b>
Weighted average interest rate		0%		0%		0%
<b>2012</b>						
<b>FINANCIAL ASSETS</b>						
Cash at bank	-	3,947,118	-	3,501,527	-	445,591
Other financial assets	-	30,185,631	-	30,185,631	-	-
Trade and other receivables	95,482,916	-	95,481,791	-	1,125	-
<b>TOTAL FINANCIAL ASSETS</b>	<b>95,482,916</b>	<b>34,132,749</b>	<b>95,481,791</b>	<b>33,687,158</b>	<b>1,125</b>	<b>445,591</b>
Weighted average interest rate		8.0%		8.0%		5.7%
<b>FINANCIAL LIABILITIES</b>						
Outstanding claims	96,220,224	-	96,220,224	-	-	-
Unearned premiums/ subscriptions	24,210,449	-	24,210,449	-	-	-
Trade and other payables	3,118,041	-	3,112,432	-	5,609	-
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>123,548,714</b>	<b>-</b>	<b>123,543,105</b>	<b>-</b>	<b>5,609</b>	<b>-</b>
Weighted average interest rate		0%		0%		0%

Cash at bank and other financial assets are considered level 1 financial assets in accordance with AASB7 financial instruments.

The carrying amounts of financial assets and financial liabilities represent their approximate net fair value. All maturity dates are within 12 months.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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

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 2013. Cash flows for financial assets and liabilities without fixed amounts or timing are based on conditions existing at 30 June 2013.

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

	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
3 months or less	16,047,371	13,612,838	16,016,158	13,607,229	31,213	5,609
3-12 months	37,989,835	32,057,507	37,989,835	32,057,507	-	-
1-5 years	61,109,414	55,623,760	61,109,414	55,623,760	-	-
Over 5 years	24,040,367	33,552,706	24,040,367	33,552,706	-	-
	139,186,987	134,846,811	139,155,774	134,841,202	31,213	5,609

### 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	28,709,619	-	-	-	28,709,619
Trade and other receivables	40,035,677	12,895,267	38,963,748	15,138,367	107,033,059
	68,745,296	12,895,267	38,963,748	15,138,367	135,742,678
<b>COMBINED FINANCIAL LIABILITIES</b>					
Outstanding claims	5,392,333	16,177,000	61,109,414	24,040,367	106,719,114
Unearned premiums/ subscriptions	7,241,371	21,724,112	-	-	28,965,483
Trade and other payables	3,413,667	88,724	-	-	3,502,391
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>16,047,371</b>	<b>37,989,836</b>	<b>61,109,414</b>	<b>24,040,367</b>	<b>139,186,988</b>
<b>NET MATURITY</b>	<b>52,697,925</b>	<b>(25,094,569)</b>	<b>(22,145,666)</b>	<b>(8,902,000)</b>	<b>(3,444,310)</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## 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 Committee 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.

The Scheme is a nondiscretionary 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 2013

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

	2013	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	2013	-	0.129	22.723	-	-	0.248	23.100
	2012	-	0.431	32.22	-	-	0.454	33.105
Reinsurance and other recoveries on paid claims	2013	-	0.173	2.862	-	-	0.759	3.794
	2012	-	0.022	1.378	-	-	0.757	2.157
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	2013	-	2.137	0.847	0.047		0.763	3.794
	2012	-	1.053	0.347	0.026		0.731	2.157

### 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 2013	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 2012				
Interest rate pa	3.25%		(5,627,410)	306,085
		3.75%	(5,087,410)	846,085
		2.75%	(6,167,410)	(233,915)

### 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 2013

## 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 2013
- (iii) An allowance of 0.6% for claim settlement expenses, as assumed by the Actuary
- (iv) Allowances for claim inflation of 3.4%, as assumed by the Actuary
- (v) Allowances for discount at 3.25%, 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.

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 2013, 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:

KEY ACTUARIAL ASSUMPTIONS	2013 %	2012 %
Wage inflation	3.4%	3.25%
Claim administration expense	0.6%	0.7%
Discount rate	3.25%	3%
Reinsurer default	1%	1%
Risk margin	0%	20%

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## 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 September 1993. The Actuary was supplied with details of all transactions (payments, recoveries, changes of estimates) from 30 September 1993 to 30 June 2013. 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 five 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 four 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 2013 forecasts for Victorian average weekly claims inflation was assumed to be 3.4%. The discount rate was assumed to be 3.25% 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, including the risk margins, 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 2012	Total accumulated funds after the impact of applying variable \$
<b>IMPACT OF CHANGES IN INTEREST RATES</b>				
<b>LIABILITY MUTUAL INSURANCE</b>				
Base value at 30 June 2013	3.4%		(5,627,410)	306,085
Interest rate pa			3.9% (5,999,410)	(65,915)
			2.9% (5,255,410)	678,085

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## 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.

LMI and the Commercial Crime Fund are non-discretionary mutual funds and under their Constitutions have the ability to obtain contributions from members to pay liabilities and expenses.

## 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 \$319,750 (2012 \$678,475) became due and receivable on 30 June 2013 and has been independently confirmed at the date of this report.

## 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 the MAV. Provisions are made for obligations that are probable and able to be quantified.

## 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.

## 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 Committee of Management (MAVIC) to be responsible for the administration of the Scheme.

Total expenses of \$924,291 (2012 \$916,652) 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 committee meetings. Other than this there were no material related party transactions during the year.

### Committee 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 2013

## 21. RELATED PARTIES (continued)

### Key management personnel remuneration

	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2013	2012	2013	2012	2013	2012
Independent committee members receive meeting fees. Chairperson receives \$930 per committee meeting and other independent committee members receive \$655 per committee meeting plus \$1,270 per annum for claims and technical committee and other meetings.						
Short term remuneration of key management personnel	256,260	249,001	256,260	249,001	-	-
Post employment benefits	21,102	19,818	21,102	19,818	-	-

### Loans to committee members

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

### Other transactions

There were no other material transactions with committee members.

### Insurance

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

## **Statement by committee of management**

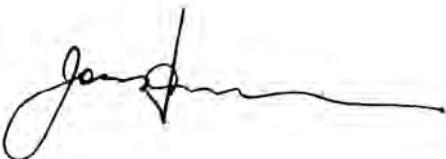
In accordance with a resolution of the MAV Insurance Committee, we state that:

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

- (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 2013;
- (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 Committee



**John Warburton**  
MAV Insurance Committee Chairman  
Melbourne 4 October 2013



**Robert Spence**  
MAV Chief Executive Officer

## **Statement by directors**

AS AT 30 JUNE, 2013

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 2013;
- (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



**Cr. David Clark**  
Director



**Robert Spence**  
Chief Executive Officer

Melbourne 4 October 2013

# Combined financial reports - independent audit report



Building a better  
working world

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## Independent auditor's report to the members of MAV Insurance

We have audited the accompanying financial report of MAV Insurance, which comprises the statement of financial position as at 30 June 2013, 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 the 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 statements comply with International Financial Reporting Standards 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 about 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 as of 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Municipal Association Act 1907.
- (b) the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

*Ernst & Young*  
Ernst & Young

TM Dring  
Partner  
Melbourne  
4 October 2013



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### Auditor's Independence Declaration to the Directors of the Municipal Association of Victoria

In relation to our audit of the financial report of MAV Insurance for the financial year ended 30 June 2013, 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*  
Ernst & Young

Tim Dring  
Partner  
4 October 2013

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## 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



FINANCIAL REPORT 2012/13

## Statement of comprehensive income

FOR THE YEAR ENDED 30 JUNE, 2013

	NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
Premium revenue	3	24,210,450	21,945,978	24,210,450	21,945,978	-	-
Performance bonus	18	319,750	678,475	319,750	678,475	-	-
Reinsurance expense	2(s)	(13,509,021)	(13,326,687)	(13,509,021)	(13,326,687)	-	-
<b>NET PREMIUM INCOME</b>		<b>11,021,179</b>	9,297,766	<b>11,021,179</b>	9,297,766	-	-
Claims expense	4(a)	(26,749,499)	(14,405,769)	(26,749,499)	(14,405,769)	-	-
Reinsurance and other recoveries	3	15,940,791	8,834,440	15,937,068	8,829,540	3,723	4,900
<b>NET CLAIMS EXPENSE</b>	12	<b>(10,808,708)</b>	(5,571,329)	<b>(10,812,431)</b>	(5,576,229)	<b>3,723</b>	4,900
<b>NET UNDERWRITING RESULT</b>		<b>212,471</b>	3,726,437	<b>208,748</b>	3,721,537	<b>3,723</b>	4,900
Management fees	3,20	222,013	247,496	-	-	222,013	247,496
Investment income	3	1,858,850	2,689,461	1,839,653	2,664,826	19,197	24,635
Administration and general expenses	4(b)	(7,924,552)	(7,943,952)	(7,675,811)	(7,700,701)	(248,741)	(243,251)
<b>OPERATING PROFIT (LOSS)</b>		<b>(5,631,218)</b>	(1,280,558)	<b>(5,627,410)</b>	(1,314,338)	<b>(3,808)</b>	33,780
Other comprehensive income		-	-	-	-	-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>(5,631,218)</b>	(1,280,558)	<b>(5,627,410)</b>	(1,314,338)	<b>(3,808)</b>	33,780

## Statement of financial position

AS AT 30 JUNE, 2013

	NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
<b>CURRENT ASSETS</b>							
Cash and cash equivalents	8(a)	28,709,619	34,132,749	28,242,907	33,687,158	466,712	445,591
Trade and other receivables	9	52,704,947	42,040,464	52,703,147	42,039,339	1,800	1,125
<b>TOTAL CURRENT ASSETS</b>		<b>81,414,566</b>	76,173,213	<b>80,946,054</b>	75,726,497	<b>468,512</b>	446,716
<b>NON-CURRENT ASSETS</b>							
Property, plant and equipment	7(a)	157,837	189,404	157,837	189,404	-	-
Intangible assets	7(b)	85,258	118,247	85,258	118,247	-	-
Trade and other receivables	9	47,988,273	53,442,452	47,988,273	53,442,452	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>48,231,368</b>	53,750,103	<b>48,231,368</b>	53,750,103	-	-
<b>TOTAL ASSETS</b>		<b>129,645,934</b>	129,923,316	<b>129,177,422</b>	129,476,600	<b>468,512</b>	446,716
<b>CURRENT LIABILITIES</b>							
Trade and other payables		3,502,391	3,118,041	3,471,178	3,112,432	31,213	5,609
Premiums in advance	10	28,965,483	24,210,449	28,965,483	24,210,449	-	-
Provision for claims outstanding	11(a)	21,126,609	18,079,388	21,126,609	18,079,388	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>53,594,483</b>	45,407,878	<b>53,563,270</b>	45,402,269	<b>31,213</b>	5,609
<b>NON-CURRENT LIABILITIES</b>							
Provision for claims outstanding	11(a)	75,308,067	78,140,836	75,308,067	78,140,836	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>75,308,067</b>	78,140,836	<b>75,308,067</b>	78,140,836	-	-
<b>TOTAL LIABILITIES</b>		<b>128,902,550</b>	123,548,714	<b>128,871,337</b>	123,543,105	<b>31,213</b>	5,609
<b>NET ASSETS</b>		<b>743,384</b>	6,374,602	<b>306,085</b>	5,933,495	<b>437,299</b>	441,107
<b>EQUITY</b>		<b>743,384</b>	6,374,602	<b>306,085</b>	5,933,495	<b>437,299</b>	441,107

## Statement of changes in equity

FOR THE YEAR ENDED 30 JUNE, 2013

	NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
<b>RETAINED EARNINGS</b>							
Balance at beginning of year		6,374,602	7,655,160	5,933,495	7,247,833	441,107	407,327
Surplus (loss) from ordinary activities		(5,631,218)	(1,280,558)	(5,627,410)	(1,314,338)	(3,808)	33,780
<b>BALANCE AT END OF YEAR</b>		<b>743,384</b>	<b>6,374,602</b>	<b>306,085</b>	<b>5,933,495</b>	<b>437,299</b>	<b>441,107</b>

## Statement of cash flows

FOR THE YEAR ENDED 30 JUNE, 2013

	NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>							
RECEIPTS							
Premiums and fees		24,616,832	24,468,922	24,094,922	23,421,248	1,027,654	1,047,674
Performance bonus		-	1,663,647	-	1,663,647	-	-
Investment income		2,023,825	2,521,768	2,006,593	2,508,313	17,230	13,455
Reinsurance and other recoveries		19,071,501	9,821,342	19,067,779	9,816,442	3,722	4,900
PAYMENTS							
Suppliers		(24,907,384)	(25,281,016)	(24,385,643)	(24,252,135)	(1,027,485)	(1,028,881)
Claim payments		(26,227,902)	(11,382,655)	(26,227,902)	(11,382,655)	-	-
<b>NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES</b>	8(b)	<b>(5,423,130)</b>	1,812,008	<b>(5,444,251)</b>	1,774,860	<b>21,121</b>	37,148
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>							
Proceeds from sale of fixed assets		-	-	-	-	-	-
Payments for fixed assets and intangibles		-	(79,875)	-	(79,875)	-	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>-</b>	(79,875)	<b>-</b>	(79,875)	<b>-</b>	<b>-</b>
<b>NET INCREASE / (DECREASE) IN CASH HELD</b>		<b>(5,423,130)</b>	1,732,133	<b>(5,444,251)</b>	1,694,985	<b>21,121</b>	37,148
Cash at beginning of year		34,132,749	32,400,616	33,687,158	31,992,173	445,591	408,443
<b>CASH AT END OF YEAR</b>	8(a)	<b>28,709,619</b>	34,132,749	<b>28,242,907</b>	33,687,158	<b>466,712</b>	445,591

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 2013

## 1. CORPORATE INFORMATION

The combined financial report of MAV Insurance (the Group) for the year ended 30 June 2013 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 2013 are 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 2013	Nil	1 July 2013
AASB 119	Employee benefits	1 July 2013	Nil	1 July 2013
AASB 1053	Application of tiers of Australian accounting standards	1 July 2013	Nil	1 July 2013

#### (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 (AIFRS). Compliance with AIFRS 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), trading as Liability Mutual Insurance - LMI, 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 sections 50-10 and 50-25 of the *Income Tax Assessment Act 1997*.

#### (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 2013

## (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 committee 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.

## (j) 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.

## (l) 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 2013

## (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.

## (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	
		2013	2012	2013	2012	2013	2012
<b>3. REVENUE FROM ORDINARY ACTIVITIES</b>							
REVENUES FROM OPERATING ACTIVITIES							
Premiums		<b>24,210,450</b>	21,945,978	<b>24,210,450</b>	21,945,978	-	-
Performance bonus	18	<b>319,750</b>	678,475	<b>319,750</b>	678,475	-	-
Reinsurance and other recoveries	2(p)	<b>15,940,791</b>	8,834,440	<b>15,937,068</b>	8,829,540	<b>3,723</b>	4,900
Management fees received		<b>222,013</b>	247,496	-	-	<b>222,013</b>	247,496
<b>TOTAL REVENUE FROM OPERATING ACTIVITIES</b>		<b>40,693,004</b>	31,706,389	<b>40,467,268</b>	31,453,993	<b>225,736</b>	252,396
REVENUES FROM NON-OPERATING ACTIVITIES							
Investment income		<b>1,858,850</b>	2,689,461	<b>1,839,653</b>	2,664,826	<b>19,197</b>	24,635
<b>TOTAL REVENUE FROM OUTSIDE THE OPERATING ACTIVITIES</b>		<b>1,858,850</b>	2,689,461	<b>1,839,653</b>	2,664,826	<b>19,197</b>	24,635
<b>TOTAL REVENUE FROM ORDINARY ACTIVITIES</b>		<b>42,551,854</b>	34,395,850	<b>42,306,921</b>	34,118,819	<b>244,933</b>	277,031

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
<b>4(a) CLAIMS EXPENSES</b>						
Paid	<b>26,535,047</b>	11,908,234	<b>26,535,047</b>	11,908,234	-	-
Outstanding claims at end of financial year	<b>96,434,676</b>	96,220,224	<b>96,434,676</b>	96,220,224	-	-
Outstanding claims at beginning of financial year	<b>(96,220,224)</b>	(93,722,689)	<b>(96,220,224)</b>	(93,722,689)	-	-
<b>TOTAL CLAIMS EXPENSES</b>	<b>26,749,499</b>	14,405,769	<b>26,749,499</b>	14,405,769	-	-
<b>4(b) Administration and general expenses</b>						
The following items have been recognised in the operating surplus (deficit):						
Administration	<b>2,200,841</b>	2,275,051	<b>2,189,128</b>	2,262,887	<b>11,713</b>	12,164
Actuary and legal fees	<b>361,921</b>	287,344	<b>361,355</b>	283,698	<b>566</b>	3,646
Audit fees	<b>116,157</b>	133,461	<b>107,005</b>	126,511	<b>9,152</b>	6,950
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>32,989</b>	19,205	<b>32,989</b>	19,205	-	-
Scheme management fee	<b>3,389,111</b>	3,279,543	<b>3,161,801</b>	3,158,273	<b>227,310</b>	121,270
Claims handling costs	-	99,221	-	-	-	99,221
Stamp duty	<b>1,791,966</b>	1,818,560	<b>1,791,966</b>	1,818,560	-	-
<b>TOTAL EXPENDITURE</b>	<b>7,924,552</b>	7,943,952	<b>7,675,811</b>	7,700,701	<b>248,741</b>	243,251
<b>5. AUDITORS REMUNERATION</b>						
Amounts payable or due and payable for audit services:						
Audit of the entity	<b>116,157</b>	133,461	<b>107,005</b>	126,511	<b>9,152</b>	6,950
Other services	-	30,900	-	30,900	-	-
	<b>116,157</b>	164,361	<b>107,005</b>	157,411	<b>9,152</b>	6,950
<b>6. SCHEME MANAGEMENT FEES</b>						
Included within administration and general expenses are management fees for:						
Reinsurance placement	<b>1,886,120</b>	1,886,120	<b>1,886,120</b>	1,886,120	-	-
Risk management and administrative services	<b>1,502,991</b>	1,393,423	<b>1,275,681</b>	1,272,153	<b>227,310</b>	121,270
	<b>3,389,111</b>	3,279,543	<b>3,161,801</b>	3,158,273	<b>227,310</b>	121,270
Claims handling cost	-	99,221	-	-	-	99,221
Total administration	<b>3,389,111</b>	3,378,764	<b>3,161,801</b>	3,158,273	<b>227,310</b>	220,491
Claims management	<b>1,053,934</b>	1,052,758	<b>1,053,934</b>	1,052,758	-	-
<b>TOTAL SCHEME MANAGEMENT FEES</b>	<b>4,443,045</b>	4,431,522	<b>4,215,735</b>	4,211,031	<b>227,310</b>	220,491

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
<b>7(a) PROPERTY, PLANT AND EQUIPMENT</b>						
Leasehold improvements - at cost	179,441	179,441	179,441	179,441	-	-
Less accumulated depreciation	(80,834)	(61,113)	(80,834)	(61,113)	-	-
	98,607	118,328	98,607	118,328	-	-
Furniture and equipment - at cost	98,020	98,020	98,020	98,020	-	-
Less accumulated depreciation	(38,790)	(26,944)	(38,790)	(26,944)	-	-
	59,230	71,076	59,230	71,076	-	-
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>157,837</b>	<b>189,404</b>	<b>157,837</b>	<b>189,404</b>	-	-
<b>Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the financial year.</b>						
<b>LEASEHOLD IMPROVEMENTS</b>						
Movements during the year						
Beginning of year	118,328	138,049	118,328	138,049	-	-
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Depreciation	(19,721)	(19,721)	(19,721)	(19,721)	-	-
End of year	98,607	118,328	98,607	118,328	-	-
<b>PROPERTY, PLANT AND EQUIPMENT</b>						
Movements during the year						
Beginning of year	71,076	82,922	71,076	82,922	-	-
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Depreciation	(11,846)	(11,846)	(11,846)	(11,846)	-	-
End of year	59,230	71,076	59,230	71,076	-	-
<b>7(b) INTANGIBLE ASSETS</b>						
Intangible assets - at cost	137,451	137,451	137,451	137,451	-	-
Less accumulated amortisation	(52,193)	(19,204)	(52,193)	(19,204)	-	-
	85,258	118,247	85,258	118,247	-	-
<b>INTANGIBLE ASSETS</b>						
Movements during the year						
Beginning of year	118,247	57,578	118,247	57,578	-	-
Additions	-	79,873	-	79,873	-	-
Disposals	-	-	-	-	-	-
Amortisation	(32,989)	(19,204)	(32,989)	(19,204)	-	-
End of year	85,258	118,247	85,258	118,247	-	-

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
<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	1,445,900	3,947,118	979,188	3,501,527	466,712	445,591
Other financial assets	27,263,719	30,185,631	27,263,719	30,185,631	-	-
<b>TOTAL CASH</b>	<b>28,709,619</b>	<b>34,132,749</b>	<b>28,242,907</b>	<b>33,687,158</b>	<b>466,712</b>	<b>445,591</b>
<b>8(b) Reconciliation of net cash used in operating activities to operating profit/(loss)</b>						
Profit (loss) for year	(5,631,218)	(1,280,558)	(5,627,410)	(1,314,338)	(3,808)	33,780
Depreciation	31,567	31,567	31,567	31,567	-	-
Amortisation	32,989	19,205	32,989	19,205	-	-
Changes in assets and liabilities						
(Increase)/decrease in trade and other receivables	2(f) (5,210,305)	(1,211,493)	(5,209,630)	(1,214,394)	(675)	2,901
Increase/(decrease) in trade and other payables	384,350	70,759	358,746	70,292	25,604	467
Increase/(decrease) in premiums in advance	4,755,035	2,264,473	4,755,035	2,264,473	-	-
(Increase)/decrease in provision for reinsurance recoveries	-	(389,376)	-	(389,376)	-	-
Increase/(decrease) in outstanding claims	2(m) 214,452	2,307,431	214,452	2,307,431	-	-
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<b>(5,423,130)</b>	<b>1,812,008</b>	<b>(5,444,251)</b>	<b>1,774,860</b>	<b>21,121</b>	<b>37,148</b>
<b>9. RECEIVABLES</b>						
Future reinsurance and other recoveries receivable	2(p) 73,772,856	78,128,664	73,772,856	78,128,664	-	-
Discount to present value	(6,341,639)	(7,964,231)	(6,341,639)	(7,964,231)	-	-
	67,431,217	70,164,433	67,431,217	70,164,433	-	-
Less provision for doubtful debts	-	-	-	-	-	-
Premiums receivable	2(l) 31,862,031	24,094,922	31,862,031	24,094,922	-	-
Other receivables	1,399,972	1,223,561	1,398,172	1,222,436	1,800	1,125
<b>TOTAL RECEIVABLES</b>	<b>100,693,220</b>	<b>95,482,916</b>	<b>100,691,420</b>	<b>95,481,791</b>	<b>1,800</b>	<b>1,125</b>
Represented by:						
<b>CURRENT</b>	<b>52,704,947</b>	<b>42,040,464</b>	<b>52,703,147</b>	<b>42,039,339</b>	<b>1,800</b>	<b>1,125</b>
<b>NON-CURRENT</b>	<b>47,988,273</b>	<b>53,442,452</b>	<b>47,988,273</b>	<b>53,442,452</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>	<b>100,693,220</b>	<b>95,482,916</b>	<b>100,691,420</b>	<b>95,481,791</b>	<b>1,800</b>	<b>1,125</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 2013

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

	Total	<30 days	31-60 days	61-90 days	>90 days
<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	-	-	-
<b>2012</b>					
Combined	25,318,483	25,318,483	-	-	-
Liability Mutual Insurance	25,317,358	25,317,358	-	-	-
Commercial Crime Fund	1,125	1,125	-	-	-

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

	NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2013	2012	2013	2012	2013	2012
<b>10. PREMIUMS IN ADVANCE</b>							
Contributions billed in advance	2(l)	28,965,483	24,210,449	28,965,483	24,210,449	-	-
<b>11(c) OUTSTANDING CLAIMS</b>							
Central estimate	2(m)	106,181,443	101,987,759	106,181,443	101,987,759	-	-
Discount to present value		(10,284,437)	(11,298,096)	(10,284,437)	(11,298,096)	-	-
		95,897,006	90,689,663	95,897,006	90,689,663	-	-
Claims handling costs		537,670	630,333	537,670	630,333	-	-
Risk margin	11(b)	-	4,900,228	-	4,900,228	-	-
<b>TOTAL OUTSTANDING CLAIMS</b>		<b>96,434,676</b>	96,220,224	<b>96,434,676</b>	96,220,224	-	-
Represented by:							
<b>CURRENT</b>		<b>21,126,609</b>	18,079,388	<b>21,126,609</b>	18,079,388	-	-
<b>NON-CURRENT</b>		<b>75,308,067</b>	78,140,836	<b>75,308,067</b>	78,140,836	-	-
<b>TOTAL CLAIMS PROVISION</b>		<b>96,434,676</b>	96,220,224	<b>96,434,676</b>	96,220,224	-	-

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

During the 2013 financial year the MAV revised their estimation 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 current financial year. This has 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>			
CURRENT LIABILITIES			
Provision for claims outstanding	22,347,404	1,220,795	21,126,609
NON-CURRENT LIABILITIES			
Provision for claims outstanding	79,659,720	4,351,653	75,308,067
<b>TOTAL LIABILITIES</b>	<b>134,474,998</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>			
NET PREMIUM INCOME			
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 2013

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

	2013			2012		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
Outstanding claims brought forward	96,220,224	70,164,433	26,055,791	93,722,689	70,751,776	22,970,913
Changes in assumptions	20,580,880	20,247,149	333,731	11,099,705	7,397,698	3,702,007
Increase in claims incurred/recoveries anticipated	5,114,682	(4,341,117)	9,455,799	2,253,307	1,431,843	821,464
Incurred claims recognised in income statement	25,695,562	15,906,032	9,789,530	13,353,012	8,829,541	4,523,471
Claim payments/recoveries during the year	(25,481,110)	(18,639,248)	(6,841,862)	(10,855,477)	(9,416,884)	(1,438,593)
Outstanding claims carried forward	96,434,676	67,431,217	29,003,459	96,220,224	70,164,433	26,055,791

## 12. NET CLAIMS INCURRED

	2013			2012		
	Current year \$	Prior year \$	Total \$	Current year \$	Prior year \$	Total \$
<b>COMBINED</b>						
Gross claims and related expenses - undiscounted	24,117,403	1,618,435	25,735,838	22,110,561	(6,451,972)	15,658,589
Discount	(2,728,898)	3,742,559	1,013,661	(2,444,593)	1,191,773	(1,252,820)
Gross claims and related expenses - discounted	21,388,505	5,360,994	26,749,499	19,665,968	(5,260,199)	14,405,769
Reinsurance and other recoveries - undiscounted	(13,689,677)	(618,655)	(14,308,332)	(11,050,667)	963,983	(10,086,684)
Discount	394,733	(2,027,192)	(1,632,459)	104,080	1,148,164	1,252,244
Reinsurance and other recoveries - discounted	(13,294,944)	(2,645,847)	(15,940,791)	(10,946,587)	2,112,147	(8,834,440)
<b>NET CLAIMS INCURRED</b>	<b>8,093,561</b>	<b>2,715,147</b>	<b>10,808,708</b>	<b>8,719,381</b>	<b>(3,148,052)</b>	<b>5,571,329</b>
<b>LIABILITY MUTUAL INSURANCE</b>						
Gross claims and related expenses - undiscounted	24,117,403	1,618,435	25,735,838	22,110,561	(6,451,972)	15,658,589
Discount	(2,728,898)	3,742,559	1,013,661	(2,444,593)	1,191,773	(1,252,820)
Gross claims and related expenses - discounted	21,388,505	5,360,994	26,749,499	19,665,968	(5,260,199)	14,405,769
Reinsurance and other recoveries - undiscounted	(13,689,677)	(614,932)	(14,304,609)	(11,050,667)	968,883	(10,081,784)
Discount	394,733	(2,027,192)	(1,632,459)	104,080	1,148,164	1,252,244
Reinsurance and other recoveries - discounted	(13,294,944)	(2,642,124)	(15,937,068)	(10,946,587)	2,117,047	(8,829,540)
<b>NET CLAIMS INCURRED</b>	<b>8,093,561</b>	<b>2,718,870</b>	<b>10,812,431</b>	<b>8,719,381</b>	<b>(3,143,152)</b>	<b>5,576,229</b>
<b>COMMERCIAL CRIME FUND</b>						
Gross claims and related expenses - undiscounted	-	-	-	-	-	-
Discount	-	-	-	-	-	-
Gross claims and related expenses - discounted	-	-	-	-	-	-
Reinsurance and other recoveries - undiscounted	-	(3,723)	(3,723)	(4,900)	-	(4,900)
Discount	-	-	-	-	-	-
Reinsurance and other recoveries - discounted	-	(3,723)	(3,723)	(4,900)	-	(4,900)
<b>NET CLAIMS INCURRED</b>	<b>-</b>	<b>(3,723)</b>	<b>(3,723)</b>	<b>(4,900)</b>	<b>-</b>	<b>(4,900)</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## 13. CLAIMS DEVELOPMENT TABLE

ACCIDENT YEAR	2009 \$	2010 \$	2011 \$	2012 \$	2013 \$	TOTAL \$
<b>GROSS ESTIMATE OF ULTIMATE CLAIMS COST- LIABILITY MUTUAL INSURANCE</b>						
At end year of accident	33,095,464	20,293,152	28,063,635	21,064,708	23,083,333	
One year later	41,692,816	22,682,968	24,589,379	20,109,939	-	
Two years later	32,781,490	18,260,706	29,661,644	-	-	
Three years later	32,282,253	16,605,208	-	-	-	
Four years later	33,874,556	-	-	-	-	
Current estimate of cumulative claims cost	33,874,556	16,605,208	29,661,644	20,109,939	23,083,333	123,334,680
Cumulative payments	(20,787,837)	(4,693,696)	(7,576,021)	(1,211,362)	(409,054)	(34,677,970)
Outstanding claims - undiscounted	13,086,719	11,911,512	22,085,623	18,898,577	22,674,279	88,656,710
<b>Discount</b>						(9,189,792)
Claims handling expense						549,672
2008 and prior						16,418,086
<b>LIABILITY MUTUAL INSURANCE - TOTAL GROSS OUTSTANDING CLAIMS 11(a)</b>						
<b>COMBINED TOTAL GROSS OUTSTANDING CLAIMS 11(c)</b>						<b>96,434,676</b>
<b>NET ESTIMATE OF ULTIMATE CLAIMS COST - LIABILITY MUTUAL INSURANCE</b>						
At end year of accident	28,615,874	8,883,685	11,576,465	8,710,223	8,122,534	
One year later	19,307,213	9,429,739	8,098,820	7,441,671	-	
Two years later	14,069,608	7,185,550	11,987,795	-	-	
Three years later	16,406,929	6,352,770	-	-	-	
Four years later	17,537,555	-	-	-	-	
Current estimate of cumulative claims cost	17,537,555	6,352,770	11,987,795	7,441,671	8,122,534	51,442,325
Cumulative payments	(9,961,005)	(2,421,081)	(4,342,723)	(672,045)	(233,429)	(17,630,283)
Outstanding claims - undiscounted	7,576,550	3,931,689	7,645,072	6,769,626	7,889,105	33,812,042
<b>Discount</b>						(4,132,380)
Claims handling expense						208,767
2008 and prior						(884,970)
<b>LIABILITY MUTUAL INSURANCE - TOTAL NET OUTSTANDING CLAIMS</b>						
<b>11(c)</b>						<b>29,003,459</b>
<b>COMBINED TOTAL NET OUTSTANDING CLAIMS 11(c)</b>						<b>29,003,459</b>

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 2013

## 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>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>-</b>	<b>128,871,337</b>	<b>-</b>	<b>31,213</b>	<b>-</b>
Weighted average interest rate		0%		0%		0%
<b>2012</b>						
<b>FINANCIAL ASSETS</b>						
Cash at bank	-	3,947,118	-	3,501,527	-	445,591
Other financial assets	-	30,185,631	-	30,185,631	-	-
Trade and other receivables	95,482,916	-	95,481,791	-	1,125	-
<b>TOTAL FINANCIAL ASSETS</b>	<b>95,482,916</b>	<b>34,132,749</b>	<b>95,481,791</b>	<b>33,687,158</b>	<b>1,125</b>	<b>445,591</b>
Weighted average interest rate		8.0%		8.0%		5.7%
<b>FINANCIAL LIABILITIES</b>						
Outstanding claims	96,220,224	-	96,220,224	-	-	-
Unearned premiums/ subscriptions	24,210,449	-	24,210,449	-	-	-
Trade and other payables	3,118,041	-	3,112,432	-	5,609	-
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>123,548,714</b>	<b>-</b>	<b>123,543,105</b>	<b>-</b>	<b>5,609</b>	<b>-</b>
Weighted average interest rate		0%		0%		0%

Cash at bank and other financial assets are considered level 1 financial assets in accordance with AASB7 financial instruments.

The carrying amounts of financial assets and financial liabilities represent their approximate net fair value. All maturity dates are within 12 months.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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

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 2013. Cash flows for financial assets and liabilities without fixed amounts or timing are based on conditions existing at 30 June 2013.

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

	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
3 months or less	16,047,371	13,612,838	16,016,158	13,607,229	31,213	5,609
3-12 months	37,989,835	32,057,507	37,989,835	32,057,507	-	-
1-5 years	61,109,414	55,623,760	61,109,414	55,623,760	-	-
Over 5 years	24,040,367	33,552,706	24,040,367	33,552,706	-	-
	139,186,987	134,846,811	139,155,774	134,841,202	31,213	5,609

### 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	28,709,619	-	-	-	28,709,619
Trade and other receivables	40,035,677	12,895,267	38,963,748	15,138,367	107,033,059
	68,745,296	12,895,267	38,963,748	15,138,367	135,742,678
<b>COMBINED FINANCIAL LIABILITIES</b>					
Outstanding claims	5,392,333	16,177,000	61,109,414	24,040,367	106,719,114
Unearned premiums/ subscriptions	7,241,371	21,724,112	-	-	28,965,483
Trade and other payables	3,413,667	88,724	-	-	3,502,391
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>16,047,371</b>	<b>37,989,836</b>	<b>61,109,414</b>	<b>24,040,367</b>	<b>139,186,988</b>
<b>NET MATURITY</b>	<b>52,697,925</b>	<b>(25,094,569)</b>	<b>(22,145,666)</b>	<b>(8,902,000)</b>	<b>(3,444,310)</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## 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 Committee 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.

The Scheme is a nondiscretionary 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 2013

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

	2013	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	2013	-	0.129	22.723	-	-	0.248	23.100
	2012	-	0.431	32.22	-	-	0.454	33.105
Reinsurance and other recoveries on paid claims	2013	-	0.173	2.862	-	-	0.759	3.794
	2012	-	0.022	1.378	-	-	0.757	2.157
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	2013	-	2.137	0.847	0.047		0.763	3.794
	2012	-	1.053	0.347	0.026		0.731	2.157

### 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 2013	Total accumulated funds after the impact of applying variable
	%	%	\$	\$
<b>IMPACT OF CHANGES IN INTEREST RATES</b>				
<b>LIABILITY MUTUAL INSURANCE</b>				
Base value at 30 June 2012	3.25%		(5,627,410)	306,085
Interest rate pa		3.75%	(5,087,410)	846,085
		2.75%	(6,167,410)	(233,915)

### 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 2013

## 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 2013
- (iii) An allowance of 0.6% for claim settlement expenses, as assumed by the Actuary
- (iv) Allowances for claim inflation of 3.4%, as assumed by the Actuary
- (v) Allowances for discount at 3.25%, 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.

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 2013, 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:

KEY ACTUARIAL ASSUMPTIONS	2013 %	2012 %
Wage inflation	3.4%	3.25%
Claim administration expense	0.6%	0.7%
Discount rate	3.25%	3%
Reinsurer default	1%	1%
Risk margin	0%	20%

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## 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 September 1993. The Actuary was supplied with details of all transactions (payments, recoveries, changes of estimates) from 30 September 1993 to 30 June 2013. 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 five 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 four 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 2013 forecasts for Victorian average weekly claims inflation was assumed to be 3.4%. The discount rate was assumed to be 3.25% pa., derived from the yields on Commonwealth government bonds.

The actuary has assumed that a risk margin of 0% of the net liabilities to give a probability of about 50% that the provisions, including the risk margins, 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 2012	Total accumulated funds after the impact of applying variable \$
<b>IMPACT OF CHANGES IN INTEREST RATES</b>				
<b>LIABILITY MUTUAL INSURANCE</b>				
Base value at 30 June 2013	3.4%		(5,627,410)	306,085
Interest rate pa			3.9% (5,999,410)	(65,915)
			2.9% (5,255,410)	678,085

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## 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.

LMI and the Commercial Crime Fund are non-discretionary mutual funds and under their Constitutions have the ability to obtain contributions from members to pay liabilities and expenses.

## 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 \$319,750 (2012 \$678,475) became due and receivable on 30 June 2013 and has been independently confirmed at the date of this report.

## 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 the MAV. Provisions are made for obligations that are probable and able to be quantified.

## 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.

## 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 Committee of Management (MAVIC) to be responsible for the administration of the Scheme.

Total expenses of \$924,291 (2012 \$916,652) 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 committee meetings. Other than this there were no material related party transactions during the year.

### Committee 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 2013

## 21. RELATED PARTIES (continued)

### Key management personnel remuneration

	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2013	2012	2013	2012	2013	2012
		\$	\$	\$	\$	\$
Independent committee members receive meeting fees. Chairperson receives \$930 per committee meeting and other independent committee members receive \$655 per committee meeting plus \$1,270 per annum for claims and technical committee and other meetings.						
Short term remuneration of key management personnel	256,260	249,001	256,260	249,001	-	-
Post employment benefits	21,102	19,818	21,102	19,818	-	-

### Loans to committee members

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

### Other transactions

There were no other material transactions with committee members.

### Insurance

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

## **Statement by committee of management**

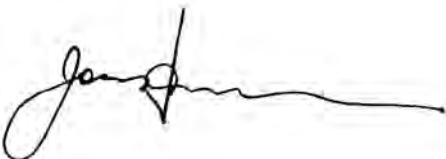
In accordance with a resolution of the MAV Insurance Committee, we state that:

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

- (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 2013;
- (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 Committee



**John Warburton**  
MAV Insurance Committee Chairman  
Melbourne 5 October 2013



**Robert Spence**  
MAV Chief Executive Officer

## **Statement by directors**

AS AT 30 JUNE, 2013

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 2013;
- (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



**Cr. David Clark**  
Director



**Robert Spence**  
Chief Executive Officer

Melbourne 4 October 2013

# Combined financial reports - independent audit report



Building a better  
working world

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## Independent auditor's report to the members of MAV Insurance

We have audited the accompanying financial report of MAV Insurance, which comprises the statement of financial position as at 30 June 2013, 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 the 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 statements comply with International Financial Reporting Standards 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 about 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 as of 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Municipal Association Act 1907.
- (b) the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

*Ernst & Young*  
Ernst & Young

TM Dring  
Partner  
Melbourne  
4 October 2013



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### Auditor's Independence Declaration to the Directors of the Municipal Association of Victoria

In relation to our audit of the financial report of MAV Insurance for the financial year ended 30 June 2013, 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*  
Ernst & Young

Tim Dring  
Partner  
4 October 2013

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## 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:**

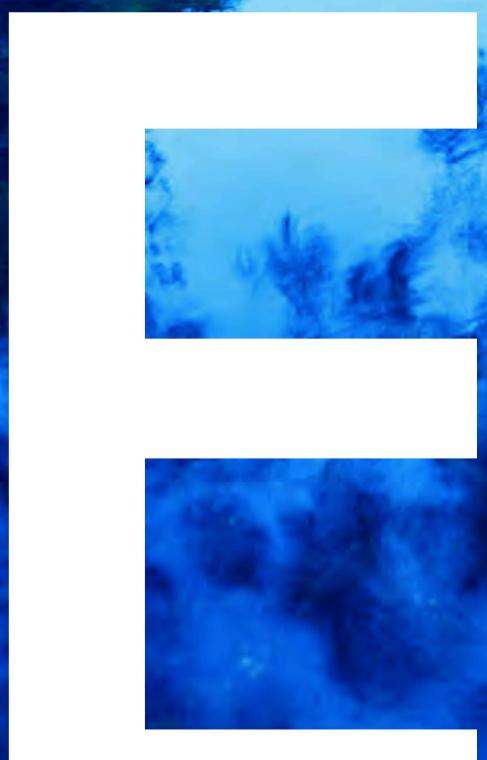
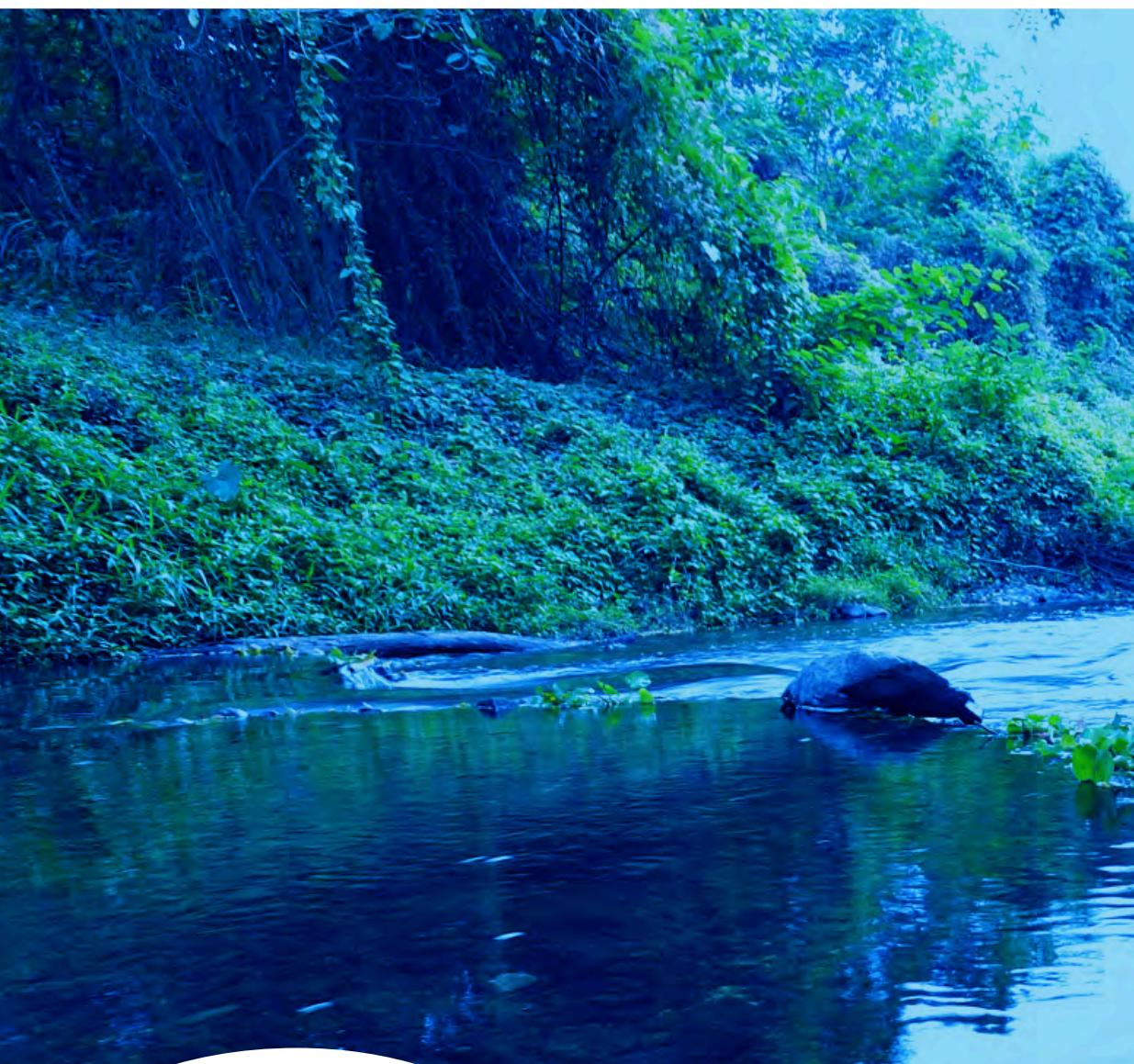
Level 11, 60 Collins Street, Melbourne, 3000, Australia

**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





FINANCIAL REPORT 2012/13

## Statement of comprehensive income

FOR THE YEAR ENDED 30 JUNE, 2013

	NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
Premium revenue	3	24,210,450	21,945,978	24,210,450	21,945,978	-	-
Performance bonus	18	319,750	678,475	319,750	678,475	-	-
Reinsurance expense	2(s)	(13,509,021)	(13,326,687)	(13,509,021)	(13,326,687)	-	-
<b>NET PREMIUM INCOME</b>		<b>11,021,179</b>	9,297,766	<b>11,021,179</b>	9,297,766	-	-
Claims expense	4(a)	(26,749,499)	(14,405,769)	(26,749,499)	(14,405,769)	-	-
Reinsurance and other recoveries	3	15,940,791	8,834,440	15,937,068	8,829,540	3,723	4,900
<b>NET CLAIMS EXPENSE</b>	12	<b>(10,808,708)</b>	(5,571,329)	<b>(10,812,431)</b>	(5,576,229)	<b>3,723</b>	4,900
<b>NET UNDERWRITING RESULT</b>		<b>212,471</b>	3,726,437	<b>208,748</b>	3,721,537	<b>3,723</b>	4,900
Management fees	3,20	222,013	247,496	-	-	222,013	247,496
Investment income	3	1,858,850	2,689,461	1,839,653	2,664,826	19,197	24,635
Administration and general expenses	4(b)	(7,924,552)	(7,943,952)	(7,675,811)	(7,700,701)	(248,741)	(243,251)
<b>OPERATING PROFIT (LOSS)</b>		<b>(5,631,218)</b>	(1,280,558)	<b>(5,627,410)</b>	(1,314,338)	<b>(3,808)</b>	33,780
Other comprehensive income		-	-	-	-	-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>(5,631,218)</b>	(1,280,558)	<b>(5,627,410)</b>	(1,314,338)	<b>(3,808)</b>	33,780

## Statement of financial position

AS AT 30 JUNE, 2013

	NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
<b>CURRENT ASSETS</b>							
Cash and cash equivalents	8(a)	28,709,619	34,132,749	28,242,907	33,687,158	466,712	445,591
Trade and other receivables	9	52,704,947	42,040,464	52,703,147	42,039,339	1,800	1,125
<b>TOTAL CURRENT ASSETS</b>		<b>81,414,566</b>	76,173,213	<b>80,946,054</b>	75,726,497	<b>468,512</b>	446,716
<b>NON-CURRENT ASSETS</b>							
Property, plant and equipment	7(a)	157,837	189,404	157,837	189,404	-	-
Intangible assets	7(b)	85,258	118,247	85,258	118,247	-	-
Trade and other receivables	9	47,988,273	53,442,452	47,988,273	53,442,452	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>48,231,368</b>	53,750,103	<b>48,231,368</b>	53,750,103	-	-
<b>TOTAL ASSETS</b>		<b>129,645,934</b>	129,923,316	<b>129,177,422</b>	129,476,600	<b>468,512</b>	446,716
<b>CURRENT LIABILITIES</b>							
Trade and other payables		3,502,391	3,118,041	3,471,178	3,112,432	31,213	5,609
Premiums in advance	10	28,965,483	24,210,449	28,965,483	24,210,449	-	-
Provision for claims outstanding	11(a)	21,126,609	18,079,388	21,126,609	18,079,388	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>53,594,483</b>	45,407,878	<b>53,563,270</b>	45,402,269	<b>31,213</b>	5,609
<b>NON-CURRENT LIABILITIES</b>							
Provision for claims outstanding	11(a)	75,308,067	78,140,836	75,308,067	78,140,836	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>75,308,067</b>	78,140,836	<b>75,308,067</b>	78,140,836	-	-
<b>TOTAL LIABILITIES</b>		<b>128,902,550</b>	123,548,714	<b>128,871,337</b>	123,543,105	<b>31,213</b>	5,609
<b>NET ASSETS</b>		<b>743,384</b>	6,374,602	<b>306,085</b>	5,933,495	<b>437,299</b>	441,107
<b>EQUITY</b>		<b>743,384</b>	6,374,602	<b>306,085</b>	5,933,495	<b>437,299</b>	441,107

## Statement of changes in equity

FOR THE YEAR ENDED 30 JUNE, 2013

	NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
<b>RETAINED EARNINGS</b>							
Balance at beginning of year		6,374,602	7,655,160	5,933,495	7,247,833	441,107	407,327
Surplus (loss) from ordinary activities		(5,631,218)	(1,280,558)	(5,627,410)	(1,314,338)	(3,808)	33,780
<b>BALANCE AT END OF YEAR</b>		<b>743,384</b>	<b>6,374,602</b>	<b>306,085</b>	<b>5,933,495</b>	<b>437,299</b>	<b>441,107</b>

## Statement of cash flows

FOR THE YEAR ENDED 30 JUNE, 2013

	NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>							
RECEIPTS							
Premiums and fees		24,616,832	24,468,922	24,094,922	23,421,248	1,027,654	1,047,674
Performance bonus		-	1,663,647	-	1,663,647	-	-
Investment income		2,023,825	2,521,768	2,006,593	2,508,313	17,230	13,455
Reinsurance and other recoveries		19,071,501	9,821,342	19,067,779	9,816,442	3,722	4,900
PAYMENTS							
Suppliers		(24,907,384)	(25,281,016)	(24,385,643)	(24,252,135)	(1,027,485)	(1,028,881)
Claim payments		(26,227,902)	(11,382,655)	(26,227,902)	(11,382,655)	-	-
<b>NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES</b>	8(b)	<b>(5,423,130)</b>	1,812,008	<b>(5,444,251)</b>	1,774,860	<b>21,121</b>	37,148
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>							
Proceeds from sale of fixed assets		-	-	-	-	-	-
Payments for fixed assets and intangibles		-	(79,875)	-	(79,875)	-	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>-</b>	(79,875)	<b>-</b>	(79,875)	<b>-</b>	<b>-</b>
<b>NET INCREASE / (DECREASE) IN CASH HELD</b>		<b>(5,423,130)</b>	1,732,133	<b>(5,444,251)</b>	1,694,985	<b>21,121</b>	37,148
Cash at beginning of year		34,132,749	32,400,616	33,687,158	31,992,173	445,591	408,443
<b>CASH AT END OF YEAR</b>	8(a)	<b>28,709,619</b>	34,132,749	<b>28,242,907</b>	33,687,158	<b>466,712</b>	445,591

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 2013

## 1. CORPORATE INFORMATION

The combined financial report of MAV Insurance (the Group) for the year ended 30 June 2013 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 2013 are 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 2013	Nil	1 July 2013
AASB 119	Employee benefits	1 July 2013	Nil	1 July 2013
AASB 1053	Application of tiers of Australian accounting standards	1 July 2013	Nil	1 July 2013

#### (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 (AIFRS). Compliance with AIFRS 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), trading as Liability Mutual Insurance - LMI, 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 sections 50-10 and 50-25 of the *Income Tax Assessment Act 1997*.

#### (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 2013

## (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 committee 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.

## (j) 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.

## (l) 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 2013

## (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.

## (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	
		2013	2012	2013	2012	2013	2012
<b>3. REVENUE FROM ORDINARY ACTIVITIES</b>							
REVENUES FROM OPERATING ACTIVITIES							
Premiums		<b>24,210,450</b>	21,945,978	<b>24,210,450</b>	21,945,978	-	-
Performance bonus	18	<b>319,750</b>	678,475	<b>319,750</b>	678,475	-	-
Reinsurance and other recoveries	2(p)	<b>15,940,791</b>	8,834,440	<b>15,937,068</b>	8,829,540	<b>3,723</b>	4,900
Management fees received		<b>222,013</b>	247,496	-	-	<b>222,013</b>	247,496
<b>TOTAL REVENUE FROM OPERATING ACTIVITIES</b>		<b>40,693,004</b>	31,706,389	<b>40,467,268</b>	31,453,993	<b>225,736</b>	252,396
REVENUES FROM NON-OPERATING ACTIVITIES							
Investment income		<b>1,858,850</b>	2,689,461	<b>1,839,653</b>	2,664,826	<b>19,197</b>	24,635
<b>TOTAL REVENUE FROM OUTSIDE THE OPERATING ACTIVITIES</b>		<b>1,858,850</b>	2,689,461	<b>1,839,653</b>	2,664,826	<b>19,197</b>	24,635
<b>TOTAL REVENUE FROM ORDINARY ACTIVITIES</b>		<b>42,551,854</b>	34,395,850	<b>42,306,921</b>	34,118,819	<b>244,933</b>	277,031

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
<b>4(a) CLAIMS EXPENSES</b>						
Paid	<b>26,535,047</b>	11,908,234	<b>26,535,047</b>	11,908,234	-	-
Outstanding claims at end of financial year	<b>96,434,676</b>	96,220,224	<b>96,434,676</b>	96,220,224	-	-
Outstanding claims at beginning of financial year	<b>(96,220,224)</b>	(93,722,689)	<b>(96,220,224)</b>	(93,722,689)	-	-
<b>TOTAL CLAIMS EXPENSES</b>	<b>26,749,499</b>	14,405,769	<b>26,749,499</b>	14,405,769	-	-
<b>4(b) Administration and general expenses</b>						
The following items have been recognised in the operating surplus (deficit):						
Administration	<b>2,200,841</b>	2,275,051	<b>2,189,128</b>	2,262,887	<b>11,713</b>	12,164
Actuary and legal fees	<b>361,921</b>	287,344	<b>361,355</b>	283,698	<b>566</b>	3,646
Audit fees	<b>116,157</b>	133,461	<b>107,005</b>	126,511	<b>9,152</b>	6,950
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>32,989</b>	19,205	<b>32,989</b>	19,205	-	-
Scheme management fee	<b>3,389,111</b>	3,279,543	<b>3,161,801</b>	3,158,273	<b>227,310</b>	121,270
Claims handling costs	-	99,221	-	-	-	99,221
Stamp duty	<b>1,791,966</b>	1,818,560	<b>1,791,966</b>	1,818,560	-	-
<b>TOTAL EXPENDITURE</b>	<b>7,924,552</b>	7,943,952	<b>7,675,811</b>	7,700,701	<b>248,741</b>	243,251
<b>5. AUDITORS REMUNERATION</b>						
Amounts payable or due and payable for audit services:						
Audit of the entity	<b>116,157</b>	133,461	<b>107,005</b>	126,511	<b>9,152</b>	6,950
Other services	-	30,900	-	30,900	-	-
	<b>116,157</b>	164,361	<b>107,005</b>	157,411	<b>9,152</b>	6,950
<b>6. SCHEME MANAGEMENT FEES</b>						
Included within administration and general expenses are management fees for:						
Reinsurance placement	<b>1,886,120</b>	1,886,120	<b>1,886,120</b>	1,886,120	-	-
Risk management and administrative services	<b>1,502,991</b>	1,393,423	<b>1,275,681</b>	1,272,153	<b>227,310</b>	121,270
	<b>3,389,111</b>	3,279,543	<b>3,161,801</b>	3,158,273	<b>227,310</b>	121,270
Claims handling cost	-	99,221	-	-	-	99,221
Total administration	<b>3,389,111</b>	3,378,764	<b>3,161,801</b>	3,158,273	<b>227,310</b>	220,491
Claims management	<b>1,053,934</b>	1,052,758	<b>1,053,934</b>	1,052,758	-	-
<b>TOTAL SCHEME MANAGEMENT FEES</b>	<b>4,443,045</b>	4,431,522	<b>4,215,735</b>	4,211,031	<b>227,310</b>	220,491

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
<b>7(a) PROPERTY, PLANT AND EQUIPMENT</b>						
Leasehold improvements - at cost	179,441	179,441	179,441	179,441	-	-
Less accumulated depreciation	(80,834)	(61,113)	(80,834)	(61,113)	-	-
	98,607	118,328	98,607	118,328	-	-
Furniture and equipment - at cost	98,020	98,020	98,020	98,020	-	-
Less accumulated depreciation	(38,790)	(26,944)	(38,790)	(26,944)	-	-
	59,230	71,076	59,230	71,076	-	-
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>157,837</b>	<b>189,404</b>	<b>157,837</b>	<b>189,404</b>	-	-
<b>Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the financial year.</b>						
<b>LEASEHOLD IMPROVEMENTS</b>						
Movements during the year						
Beginning of year	118,328	138,049	118,328	138,049	-	-
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Depreciation	(19,721)	(19,721)	(19,721)	(19,721)	-	-
End of year	98,607	118,328	98,607	118,328	-	-
<b>PROPERTY, PLANT AND EQUIPMENT</b>						
Movements during the year						
Beginning of year	71,076	82,922	71,076	82,922	-	-
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Depreciation	(11,846)	(11,846)	(11,846)	(11,846)	-	-
End of year	59,230	71,076	59,230	71,076	-	-
<b>7(b) INTANGIBLE ASSETS</b>						
Intangible assets - at cost	137,451	137,451	137,451	137,451	-	-
Less accumulated amortisation	(52,193)	(19,204)	(52,193)	(19,204)	-	-
	85,258	118,247	85,258	118,247	-	-
<b>INTANGIBLE ASSETS</b>						
Movements during the year						
Beginning of year	118,247	57,578	118,247	57,578	-	-
Additions	-	79,873	-	79,873	-	-
Disposals	-	-	-	-	-	-
Amortisation	(32,989)	(19,204)	(32,989)	(19,204)	-	-
End of year	85,258	118,247	85,258	118,247	-	-

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
<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	1,445,900	3,947,118	979,188	3,501,527	466,712	445,591
Other financial assets	27,263,719	30,185,631	27,263,719	30,185,631	-	-
<b>TOTAL CASH</b>	<b>28,709,619</b>	<b>34,132,749</b>	<b>28,242,907</b>	<b>33,687,158</b>	<b>466,712</b>	<b>445,591</b>
<b>8(b) Reconciliation of net cash used in operating activities to operating profit/(loss)</b>						
Profit (loss) for year	(5,631,218)	(1,280,558)	(5,627,410)	(1,314,338)	(3,808)	33,780
Depreciation	31,567	31,567	31,567	31,567	-	-
Amortisation	32,989	19,205	32,989	19,205	-	-
Changes in assets and liabilities						
(Increase)/decrease in trade and other receivables	2(f) (5,210,305)	(1,211,493)	(5,209,630)	(1,214,394)	(675)	2,901
Increase/(decrease) in trade and other payables	384,350	70,759	358,746	70,292	25,604	467
Increase/(decrease) in premiums in advance	4,755,035	2,264,473	4,755,035	2,264,473	-	-
(Increase)/decrease in provision for reinsurance recoveries	-	(389,376)	-	(389,376)	-	-
Increase/(decrease) in outstanding claims	2(m) 214,452	2,307,431	214,452	2,307,431	-	-
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<b>(5,423,130)</b>	<b>1,812,008</b>	<b>(5,444,251)</b>	<b>1,774,860</b>	<b>21,121</b>	<b>37,148</b>
<b>9. RECEIVABLES</b>						
Future reinsurance and other recoveries receivable	2(p) 73,772,856	78,128,664	73,772,856	78,128,664	-	-
Discount to present value	(6,341,639)	(7,964,231)	(6,341,639)	(7,964,231)	-	-
	67,431,217	70,164,433	67,431,217	70,164,433	-	-
Less provision for doubtful debts	-	-	-	-	-	-
Premiums receivable	2(l) 31,862,031	24,094,922	31,862,031	24,094,922	-	-
Other receivables	1,399,972	1,223,561	1,398,172	1,222,436	1,800	1,125
<b>TOTAL RECEIVABLES</b>	<b>100,693,220</b>	<b>95,482,916</b>	<b>100,691,420</b>	<b>95,481,791</b>	<b>1,800</b>	<b>1,125</b>
Represented by:						
<b>CURRENT</b>	<b>52,704,947</b>	<b>42,040,464</b>	<b>52,703,147</b>	<b>42,039,339</b>	<b>1,800</b>	<b>1,125</b>
<b>NON-CURRENT</b>	<b>47,988,273</b>	<b>53,442,452</b>	<b>47,988,273</b>	<b>53,442,452</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>	<b>100,693,220</b>	<b>95,482,916</b>	<b>100,691,420</b>	<b>95,481,791</b>	<b>1,800</b>	<b>1,125</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 2013

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

	Total	<30 days	31-60 days	61-90 days	>90 days
<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	-	-	-
<b>2012</b>					
Combined	25,318,483	25,318,483	-	-	-
Liability Mutual Insurance	25,317,358	25,317,358	-	-	-
Commercial Crime Fund	1,125	1,125	-	-	-

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

	NOTE	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
		2013	2012	2013	2012	2013	2012
<b>10. PREMIUMS IN ADVANCE</b>							
Contributions billed in advance	2(l)	28,965,483	24,210,449	28,965,483	24,210,449	-	-
<b>11(c) OUTSTANDING CLAIMS</b>							
Central estimate	2(m)	106,181,443	101,987,759	106,181,443	101,987,759	-	-
Discount to present value		(10,284,437)	(11,298,096)	(10,284,437)	(11,298,096)	-	-
		95,897,006	90,689,663	95,897,006	90,689,663	-	-
Claims handling costs		537,670	630,333	537,670	630,333	-	-
Risk margin	11(b)	-	4,900,228	-	4,900,228	-	-
<b>TOTAL OUTSTANDING CLAIMS</b>		<b>96,434,676</b>	96,220,224	<b>96,434,676</b>	96,220,224	-	-
Represented by:							
<b>CURRENT</b>		<b>21,126,609</b>	18,079,388	<b>21,126,609</b>	18,079,388	-	-
<b>NON-CURRENT</b>		<b>75,308,067</b>	78,140,836	<b>75,308,067</b>	78,140,836	-	-
<b>TOTAL CLAIMS PROVISION</b>		<b>96,434,676</b>	96,220,224	<b>96,434,676</b>	96,220,224	-	-

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

During the 2013 financial year the MAV revised their estimation 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 current financial year. This has 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>			
CURRENT LIABILITIES			
Provision for claims outstanding	22,347,404	1,220,795	21,126,609
NON-CURRENT LIABILITIES			
Provision for claims outstanding	79,659,720	4,351,653	75,308,067
<b>TOTAL LIABILITIES</b>	<b>134,474,998</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>			
NET PREMIUM INCOME			
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 2013

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

	2013			2012		
	Gross \$	Reinsurance \$	Net \$	Gross \$	Reinsurance \$	Net \$
Outstanding claims brought forward	96,220,224	70,164,433	26,055,791	93,722,689	70,751,776	22,970,913
Changes in assumptions	20,580,880	20,247,149	333,731	11,099,705	7,397,698	3,702,007
Increase in claims incurred/recoveries anticipated	5,114,682	(4,341,117)	9,455,799	2,253,307	1,431,843	821,464
Incurred claims recognised in income statement	25,695,562	15,906,032	9,789,530	13,353,012	8,829,541	4,523,471
Claim payments/recoveries during the year	(25,481,110)	(18,639,248)	(6,841,862)	(10,855,477)	(9,416,884)	(1,438,593)
Outstanding claims carried forward	96,434,676	67,431,217	29,003,459	96,220,224	70,164,433	26,055,791

## 12. NET CLAIMS INCURRED

	2013			2012		
	Current year \$	Prior year \$	Total \$	Current year \$	Prior year \$	Total \$
<b>COMBINED</b>						
Gross claims and related expenses - undiscounted	24,117,403	1,618,435	25,735,838	22,110,561	(6,451,972)	15,658,589
Discount	(2,728,898)	3,742,559	1,013,661	(2,444,593)	1,191,773	(1,252,820)
Gross claims and related expenses - discounted	21,388,505	5,360,994	26,749,499	19,665,968	(5,260,199)	14,405,769
Reinsurance and other recoveries - undiscounted	(13,689,677)	(618,655)	(14,308,332)	(11,050,667)	963,983	(10,086,684)
Discount	394,733	(2,027,192)	(1,632,459)	104,080	1,148,164	1,252,244
Reinsurance and other recoveries - discounted	(13,294,944)	(2,645,847)	(15,940,791)	(10,946,587)	2,112,147	(8,834,440)
<b>NET CLAIMS INCURRED</b>	<b>8,093,561</b>	<b>2,715,147</b>	<b>10,808,708</b>	<b>8,719,381</b>	<b>(3,148,052)</b>	<b>5,571,329</b>
<b>LIABILITY MUTUAL INSURANCE</b>						
Gross claims and related expenses - undiscounted	24,117,403	1,618,435	25,735,838	22,110,561	(6,451,972)	15,658,589
Discount	(2,728,898)	3,742,559	1,013,661	(2,444,593)	1,191,773	(1,252,820)
Gross claims and related expenses - discounted	21,388,505	5,360,994	26,749,499	19,665,968	(5,260,199)	14,405,769
Reinsurance and other recoveries - undiscounted	(13,689,677)	(614,932)	(14,304,609)	(11,050,667)	968,883	(10,081,784)
Discount	394,733	(2,027,192)	(1,632,459)	104,080	1,148,164	1,252,244
Reinsurance and other recoveries - discounted	(13,294,944)	(2,642,124)	(15,937,068)	(10,946,587)	2,117,047	(8,829,540)
<b>NET CLAIMS INCURRED</b>	<b>8,093,561</b>	<b>2,718,870</b>	<b>10,812,431</b>	<b>8,719,381</b>	<b>(3,143,152)</b>	<b>5,576,229</b>
<b>COMMERCIAL CRIME FUND</b>						
Gross claims and related expenses - undiscounted	-	-	-	-	-	-
Discount	-	-	-	-	-	-
Gross claims and related expenses - discounted	-	-	-	-	-	-
Reinsurance and other recoveries - undiscounted	-	(3,723)	(3,723)	(4,900)	-	(4,900)
Discount	-	-	-	-	-	-
Reinsurance and other recoveries - discounted	-	(3,723)	(3,723)	(4,900)	-	(4,900)
<b>NET CLAIMS INCURRED</b>	<b>-</b>	<b>(3,723)</b>	<b>(3,723)</b>	<b>(4,900)</b>	<b>-</b>	<b>(4,900)</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## 13. CLAIMS DEVELOPMENT TABLE

ACCIDENT YEAR	2009 \$	2010 \$	2011 \$	2012 \$	2013 \$	TOTAL \$
<b>GROSS ESTIMATE OF ULTIMATE CLAIMS COST- LIABILITY MUTUAL INSURANCE</b>						
At end year of accident	33,095,464	20,293,152	28,063,635	21,064,708	23,083,333	
One year later	41,692,816	22,682,968	24,589,379	20,109,939	-	
Two years later	32,781,490	18,260,706	29,661,644	-	-	
Three years later	32,282,253	16,605,208	-	-	-	
Four years later	33,874,556	-	-	-	-	
Current estimate of cumulative claims cost	33,874,556	16,605,208	29,661,644	20,109,939	23,083,333	123,334,680
Cumulative payments	(20,787,837)	(4,693,696)	(7,576,021)	(1,211,362)	(409,054)	(34,677,970)
Outstanding claims - undiscounted	13,086,719	11,911,512	22,085,623	18,898,577	22,674,279	88,656,710
<b>Discount</b>						(9,189,792)
Claims handling expense						549,672
2008 and prior						16,418,086
<b>LIABILITY MUTUAL INSURANCE - TOTAL GROSS OUTSTANDING CLAIMS 11(a)</b>						
<b>COMBINED TOTAL GROSS OUTSTANDING CLAIMS 11(c)</b>						<b>96,434,676</b>
<b>NET ESTIMATE OF ULTIMATE CLAIMS COST - LIABILITY MUTUAL INSURANCE</b>						
At end year of accident	28,615,874	8,883,685	11,576,465	8,710,223	8,122,534	
One year later	19,307,213	9,429,739	8,098,820	7,441,671	-	
Two years later	14,069,608	7,185,550	11,987,795	-	-	
Three years later	16,406,929	6,352,770	-	-	-	
Four years later	17,537,555	-	-	-	-	
Current estimate of cumulative claims cost	17,537,555	6,352,770	11,987,795	7,441,671	8,122,534	51,442,325
Cumulative payments	(9,961,005)	(2,421,081)	(4,342,723)	(672,045)	(233,429)	(17,630,283)
Outstanding claims - undiscounted	7,576,550	3,931,689	7,645,072	6,769,626	7,889,105	33,812,042
<b>Discount</b>						(4,132,380)
Claims handling expense						208,767
2008 and prior						(884,970)
<b>LIABILITY MUTUAL INSURANCE - TOTAL NET OUTSTANDING CLAIMS</b>						
<b>11(c)</b>						<b>29,003,459</b>
<b>COMBINED TOTAL NET OUTSTANDING CLAIMS 11(c)</b>						<b>29,003,459</b>

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 2013

## 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>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>-</b>	<b>128,871,337</b>	<b>-</b>	<b>31,213</b>	<b>-</b>
Weighted average interest rate		0%		0%		0%
<b>2012</b>						
<b>FINANCIAL ASSETS</b>						
Cash at bank	-	3,947,118	-	3,501,527	-	445,591
Other financial assets	-	30,185,631	-	30,185,631	-	-
Trade and other receivables	95,482,916	-	95,481,791	-	1,125	-
<b>TOTAL FINANCIAL ASSETS</b>	<b>95,482,916</b>	<b>34,132,749</b>	<b>95,481,791</b>	<b>33,687,158</b>	<b>1,125</b>	<b>445,591</b>
Weighted average interest rate		8.0%		8.0%		5.7%
<b>FINANCIAL LIABILITIES</b>						
Outstanding claims	96,220,224	-	96,220,224	-	-	-
Unearned premiums/ subscriptions	24,210,449	-	24,210,449	-	-	-
Trade and other payables	3,118,041	-	3,112,432	-	5,609	-
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>123,548,714</b>	<b>-</b>	<b>123,543,105</b>	<b>-</b>	<b>5,609</b>	<b>-</b>
Weighted average interest rate		0%		0%		0%

Cash at bank and other financial assets are considered level 1 financial assets in accordance with AASB7 financial instruments.

The carrying amounts of financial assets and financial liabilities represent their approximate net fair value. All maturity dates are within 12 months.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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

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 2013. Cash flows for financial assets and liabilities without fixed amounts or timing are based on conditions existing at 30 June 2013.

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

	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$
3 months or less	16,047,371	13,612,838	16,016,158	13,607,229	31,213	5,609
3-12 months	37,989,835	32,057,507	37,989,835	32,057,507	-	-
1-5 years	61,109,414	55,623,760	61,109,414	55,623,760	-	-
Over 5 years	24,040,367	33,552,706	24,040,367	33,552,706	-	-
	139,186,987	134,846,811	139,155,774	134,841,202	31,213	5,609

### 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	28,709,619	-	-	-	28,709,619
Trade and other receivables	40,035,677	12,895,267	38,963,748	15,138,367	107,033,059
	68,745,296	12,895,267	38,963,748	15,138,367	135,742,678
<b>COMBINED FINANCIAL LIABILITIES</b>					
Outstanding claims	5,392,333	16,177,000	61,109,414	24,040,367	106,719,114
Unearned premiums/ subscriptions	7,241,371	21,724,112	-	-	28,965,483
Trade and other payables	3,413,667	88,724	-	-	3,502,391
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>16,047,371</b>	<b>37,989,836</b>	<b>61,109,414</b>	<b>24,040,367</b>	<b>139,186,988</b>
<b>NET MATURITY</b>	<b>52,697,925</b>	<b>(25,094,569)</b>	<b>(22,145,666)</b>	<b>(8,902,000)</b>	<b>(3,444,310)</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## 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 Committee 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.

The Scheme is a nondiscretionary 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 2013

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

		CREDIT RATING						
		AAA +/- \$m	AA +/- \$m	A +/- \$m	BBB \$m	Speculative grade \$m	Not rated \$m	TOTAL \$m
Reinsurance and other recoveries on outstanding claims	2013	-	0.129	22.723	-	-	0.248	23.100
	2012	-	0.431	32.22	-	-	0.454	33.105
Reinsurance and other recoveries on paid claims	2013	-	0.173	2.862	-	-	0.759	3.794
	2012	-	0.022	1.378	-	-	0.757	2.157
		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	2013	-	2.137	0.847	0.047		0.763	3.794
	2012	-	1.053	0.347	0.026		0.731	2.157

### 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 2013	Total accumulated funds after the impact of applying variable
	%	%	\$	\$
<b>IMPACT OF CHANGES IN INTEREST RATES</b>				
<b>LIABILITY MUTUAL INSURANCE</b>				
Base value at 30 June 2012	3.25%		(5,627,410)	306,085
Interest rate pa		3.75%	(5,087,410)	846,085
		2.75%	(6,167,410)	(233,915)

### 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 2013

## 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 2013
- (iii) An allowance of 0.6% for claim settlement expenses, as assumed by the Actuary
- (iv) Allowances for claim inflation of 3.4%, as assumed by the Actuary
- (v) Allowances for discount at 3.25%, 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.

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 2013, 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:

KEY ACTUARIAL ASSUMPTIONS	2013 %	2012 %
Wage inflation	3.4%	3.25%
Claim administration expense	0.6%	0.7%
Discount rate	3.25%	3%
Reinsurer default	1%	1%
Risk margin	0%	20%

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## 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 September 1993. The Actuary was supplied with details of all transactions (payments, recoveries, changes of estimates) from 30 September 1993 to 30 June 2013. 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 five 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 four 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 2013 forecasts for Victorian average weekly claims inflation was assumed to be 3.4%. The discount rate was assumed to be 3.25% 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, including the risk margins, 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 2012	Total accumulated funds after the impact of applying variable \$
<b>IMPACT OF CHANGES IN INTEREST RATES</b>				
<b>LIABILITY MUTUAL INSURANCE</b>				
Base value at 30 June 2013	3.4%		(5,627,410)	306,085
Interest rate pa			3.9% (5,999,410)	(65,915)
			2.9% (5,255,410)	678,085

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

## 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.

LMI and the Commercial Crime Fund are non-discretionary mutual funds and under their Constitutions have the ability to obtain contributions from members to pay liabilities and expenses.

## 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 \$319,750 (2012 \$678,475) became due and receivable on 30 June 2013 and has been independently confirmed at the date of this report.

## 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 the MAV. Provisions are made for obligations that are probable and able to be quantified.

## 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.

## 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 Committee of Management (MAVIC) to be responsible for the administration of the Scheme.

Total expenses of \$924,291 (2012 \$916,652) 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 committee meetings. Other than this there were no material related party transactions during the year.

### Committee 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 2013

## 21. RELATED PARTIES (continued)

### Key management personnel remuneration

	COMBINED		LIABILITY MUTUAL INSURANCE		COMMERCIAL CRIME	
	2013	2012	2013	2012	2013	2012
		\$	\$	\$	\$	\$
Independent committee members receive meeting fees. Chairperson receives \$930 per committee meeting and other independent committee members receive \$655 per committee meeting plus \$1,270 per annum for claims and technical committee and other meetings.						
Short term remuneration of key management personnel	256,260	249,001	256,260	249,001	-	-
Post employment benefits	21,102	19,818	21,102	19,818	-	-

### Loans to committee members

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

### Other transactions

There were no other material transactions with committee members.

### Insurance

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

## Statement by committee of management

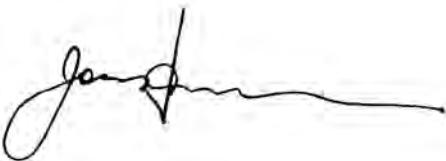
In accordance with a resolution of the MAV Insurance Committee, we state that:

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

- (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 2013;
- (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 Committee



**John Warburton**  
MAV Insurance Committee Chairman  
Melbourne 4 October 2013



**Robert Spence**  
MAV Chief Executive Officer

## Statement by directors

AS AT 30 JUNE, 2013

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 2013;
- (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



**Cr. David Clark**  
Director



**Robert Spence**  
Chief Executive Officer

Melbourne 4 October 2013

# Combined financial reports - independent audit report



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## Independent auditor's report to the members of MAV Insurance

We have audited the accompanying financial report of MAV Insurance, which comprises the statement of financial position as at 30 June 2013, 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 the 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 statements comply with International Financial Reporting Standards 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 about 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 as of 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Municipal Association Act 1907.
- (b) the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

*Ernst & Young*  
Ernst & Young

TM Dring  
Partner  
Melbourne  
4 October 2013



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### Auditor's Independence Declaration to the Directors of the Municipal Association of Victoria

In relation to our audit of the financial report of MAV Insurance for the financial year ended 30 June 2013, 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*  
Ernst & Young

Tim Dring  
Partner  
4 October 2013

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## 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