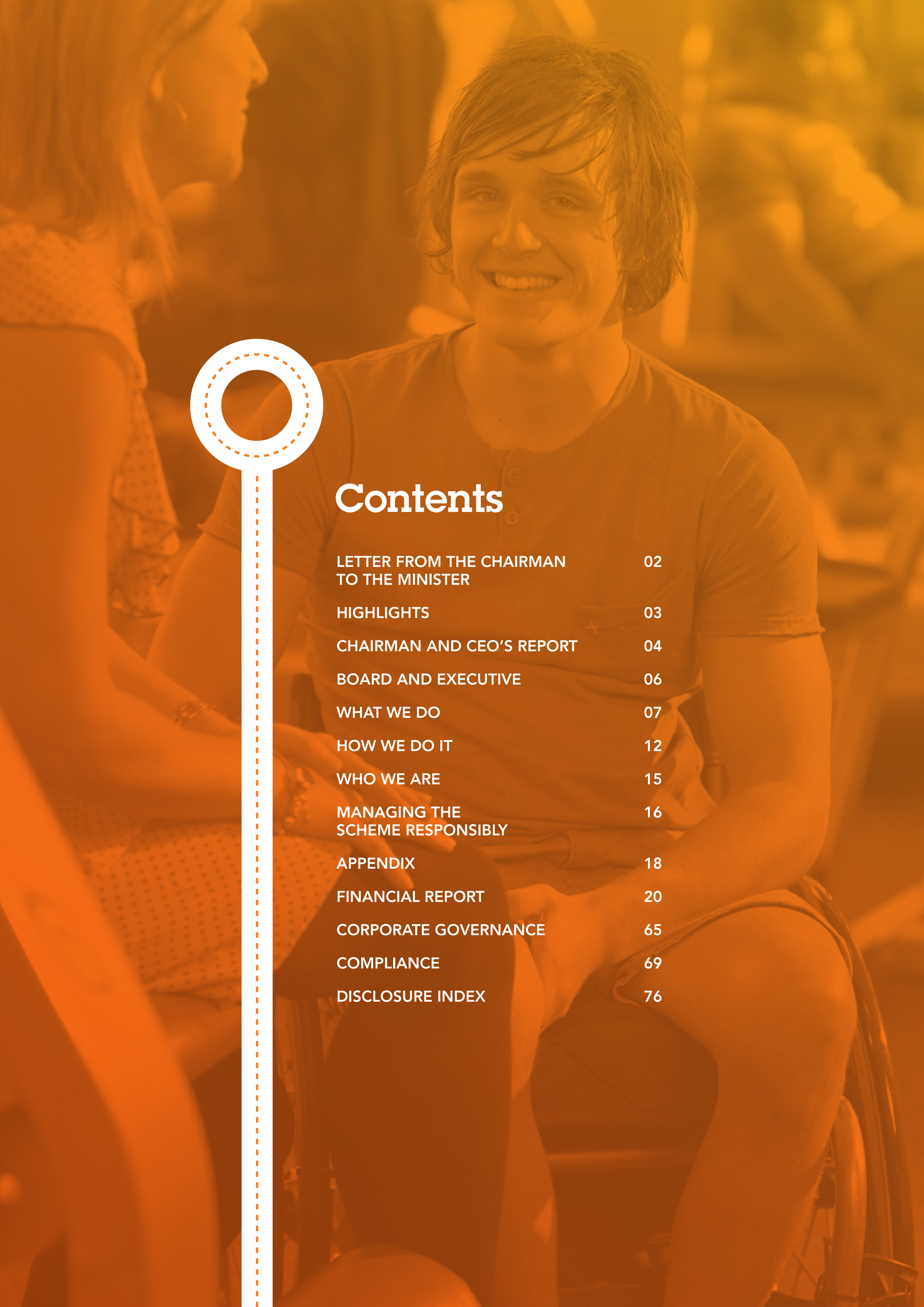
TRANSPORT ACCIDENT COMMISSION


# HELPING OUR CLIENTS FOR 25 YEARS

Annual Report **2012**

State Government Victoria



# Contents

# **OUR VISION** IS A FUTURE WHERE EVERY JOURNEY IS A SAFE ONE

**Our mission** is to work with the Victorian community to reduce road trauma and support those it affects.

Since January 1, 1987, the Transport Accident Commission (TAC) has provided more than 590,600 people with support services and benefits after a transport accident.

The TAC has supported these people and their families by funding treatment and benefits to help them on their way to recovery and independence.

Sadly, more than 10,000 people have died in transport accidents in Victorian-registered vehicles in the past 25 years.

In 1987, the road toll was 705. In 2011, it was 287. The TAC has led the way in public education, with hard-hitting, effective campaigns and strategic partnerships contributing to this significant drop in the road toll.

As the TAC reflects on the past **25 years** we ask the Victorian community to work with us to create a future where every journey is a safe one.

# Letter from the Chairman to the Minister

31 August 2012

The Honorable Gordon Rich-Phillips MLC
Assistant Treasurer
Level 5, 1 Macarthur Street
EAST MELBOURNE, VIC 3000

Dear Minister

I am pleased to submit the twenty-sixth Annual Report of the Transport Accident Commission (TAC) for presentation to Parliament pursuant to Part 7 of the *Financial Management Act 1994*.

**Paul Barker**
Chairman

# Highlights

## SERVICE DELIVERY

/ Performance from insurance operations of $351 million

/ 78% of clients satisfied with the service provided by the TAC

/ More than $1 billion in support services and benefits for our clients

## ROAD SAFETY

/ Lowest ever Victorian road toll at 287

/ Increased road safety awareness in regional communities through the Talk the Toll Down partnership

/ Invested $94 million in road safety improvements

## OUR PERFORMANCE

### Key performance indicators

| | 09/10 | 10/11 | 11/12 | Target 11/12 |
|---|---|---|---|---|
| **Scheme Viability** | | | | |
| Actuarial Release | $40 million | $42 million | **$130 million** | $70 million |
| **Client Outcomes** | | | | |
| Recovery: Mean Physical Health* | | | **43.4** | 45.0 |
| Recovery: Mean Mental Health* | | | **44.0** | 44.2 |
| Recovery: Vocational Outcomes* | | | **85%** | 87% |
| Independence: Life Area Objectives* | | | **1,057** | 855 |
| **Client Experience** | | | | |
| Client Feedback Survey | 7.35/10 | 7.31/10 | **7.33/10** | 7.45/10 |

*These are new indicators for 2011/12. Refer to Appendix 2, page 19 for definitions.

# Chairman and CEO's report

In 25 years of operation, the TAC has continuously developed and refined how we care for our clients, while ensuring the compensation scheme remains viable into the future.

We have come a long way since our first years of operation, in understanding what our clients need to recover after a transport accident and how we can help them regain independence in their daily lives. We have also learnt how to balance those needs with the importance of keeping the scheme viable so we can continue to support our long-term clients.

Working to the TAC 2015 strategy, the TAC remains focussed on three key pillars: client experience, client outcomes and scheme viability. In the past year, we have embedded the two new claims branches of Independence and Recovery and are now focussed on the Service stream of our strategy for clients and providers.

The improvements in our Service stream will remove unnecessary processes and make us an organisation that is more efficient and easier to deal with. We will simplify the claim lodgement and eligibility process and give our clients and providers the services and benefits they need more quickly. As a more efficient organisation, our employees will be able to focus on better outcomes for our clients.

## SERVICE DELIVERY

The TAC funded $1.01 billion in support services and benefits for our clients in 2011/12, compared to $937 million in the previous year. We also received 19,002 new claims, compared to 19,205 in 2010/11.

Overall 44,410 people received funded support from the TAC in 2011/12, up from 43,794 in 2010/11.

The client satisfaction score for 2011/12 was 7.33, below the year's target of 7.45 and slightly above last year's score of 7.31 out of 10.

## FINANCIAL RESULTS

Ensuring we support our clients in a socially and economically appropriate manner is one of our core objectives under the *Transport Accident Act 1986*.

In 2011/12, our Performance from Insurance Operations was $351 million compared to $187 million in 2010/11. This is a strong result that reflects our focus on efficiencies, accident prevention and strong claims management.

However, the total impact from external factors was an unfavourable $1,826 million compared to a favourable $204 million in 2010/11, predominantly due to a significant reduction in bond yields over the period and a lower investment return of 4.2% compared to 10.9% in previous year, notwithstanding the difficult conditions experienced in global sharemarkets in 2011/12.

The TAC's funding ratio as at June 30 2012 was 70.8%, compared to 85% last financial year.

"As we reflect on the past 25 years, we look towards the possibilities of the future, working with our clients to reach their recovery and independence goals and working with the Victorian community to reduce road trauma."

## ROAD SAFETY

Our vision of a future where every journey is a safe one remains strong – from a road toll of 705 in our first year of operation, to a record low of 287 last year. This means we are on track for our vision to become a reality.

However, we must continue to work with the Victorian community to achieve this vision. The TAC has developed a new Road Safety and Marketing Plan for the future. Based on the Safe System, the strategy has sought to get Safer Drivers in Safer Cars on Safer Roads. Now that strategy has taken on a fourth pillar: Safer Speeds. Excessive or inappropriate speed is a factor in more than a third of fatal crashes in Victoria. It is the TAC's goal, to make speeding as socially unacceptable as drink driving, and this is now a core part of our public education strategy.

It is our mission to reduce road trauma and support those it affects. As we reflect on the past 25 years, we look towards the possibilities of the future, working with our clients to reach their recovery and independence goals and working with the Victorian community to reduce road trauma.

**Paul Barker**
Chairman

**Janet Dore**
Chief Executive Officer

**Impacts on profit ($M)**

| | 07/08 | 08/09 | 09/10 | 10/11 | 11/12 |
|---|---|---|---|---|---|
| Performance from insurance operations | 398 | 103 | 200 | 187 | **351** |
| Impact on profit from external factors: | | | | | |
| / Difference between actual investment returns and long-term expected returns | (1,046) | (1,305) | 252 | 226 | **(245)** |
| / Change in inflation assumptions and discount rates | (106) | (193) | (572) | (22) | **(1,581)** |
| Tax | 237 | 424 | 39 | (112) | **451** |
| **NET PROFIT/(LOSS) AFTER TAX** | **(517)** | **(971)** | **(81)** | **279** | **(1,024)** |

# Board and Executive

## BOARD OF MANAGEMENT

**Paul Barker**
Appointed Chairman 2007
Director since 2002

**Julie Caldecott**
Appointed 2004

**Andrew Dyer**
Appointed 2009
Reappointed 2012

**Deborah Hallmark**
Appointed 2010

**Geoff Hilton**
Appointed 2007

**Christine McLoughlin**
Appointed 2009
Resigned June 2012

**Prof. Bob Officer**
Appointed 2006

**Sonia Petering**
Appointed 2007

**Elana Rubin**
Appointed 2003
Resigned March 2012

## EXECUTIVE MANAGEMENT

**Chief Executive Officer**
Janet Dore

**Finance & Corporate Services** – Tony Dudley
- Financial Operations
- Financial Management
- Legal Services & Assurance
- Corporate Services
- Forensics
- Enterprise Risk
- Capital Management

**Claims** – Tracey Slatter
- Recovery
- Independence
- Resolution
- Service Delivery
- Business Improvement

**Community Relations** – Joe Calafiore
- Corporate Affairs
- Road Safety & Marketing
- Policy Service & Review
- Government Relations

**Human Resources** – Linda Barlow
- HR Shared Services
- HR Business Partners
- Project Planning & Integration
- Change & Organisation
- Leadership & People
- Remuneration & Benefits

**Program Delivery** – Doug Main
- Project Delivery
- Project Assurance
- Business Initiatives
- Benefit Realisation

**Strategic Intelligence & Planning** – Andrew Fronsko (to July 2012), David Gifford (Acting)
- Business Intelligence
- Strategy & Planning

**IT Shared Solutions** – Andrew Saunders

**Health Services Group** – Clare Amies

# What we do

## MAKING EVERY JOURNEY A SAFE ONE

For 25 years the TAC has been working to reduce the number of transport accidents in Victoria.

In that time Victorian road deaths have reduced from 705 to last year's fourth consecutive record low, 287.

Despite this achievement, we remain challenged by the task to reduce the number of crashes resulting in serious injury on our roads. More than 130,000 people have been seriously injured in Victorian transport accidents over the past 25 years, with about 5,500 people seriously injured each year.

Together with our road safety partners, Victoria Police, VicRoads and the Department of Justice, the TAC is tackling this challenge through the Safe System approach, involving Safer Drivers in Safer Cars on Safer Roads at Safer Speeds.

## SAFER DRIVERS

The TAC encourages safer drivers on Victoria's roads through targetted public education campaigns. In order to meet the challenge of reaching different road user groups for each campaign, the TAC combines traditional and social media in its approach to public education. In this way, messages and communications channels are targetted to catch the attention of the intended audience and ultimately influence driver behaviour.

### Christmas 2011 / Enforcement and education partnership

In the lead up to Christmas 2011, the TAC coordinated its drink-drive campaign in conjunction with a state-wide 60 day enforcement operation run by Victoria Police. The joint effort was launched by the Premier Ted Baillieu on the steps of Parliament alongside Victoria Police and the TAC in mid-November. In early December, the Premier joined TAC staff at Southern Cross station to promote designated driver gift vouchers. The vouchers encouraged Victorians to help their mates avoid drink driving over the festive season by offering a free lift home as a gift. In addition, the TAC launched its latest drink drive advertisement with the support of road trauma survivor and TAC client, Sam Howe.

### Regional media partnership / Talk the Toll Down

To combat the regional road toll, the TAC together with the Premier launched the Talk the Toll Down campaign in October 2011. The campaign involves 60 regional newspapers, which, through their reporting on local road safety issues and TAC advertisements, encourage regional Victorians to talk to their friends and family about their driving habits and keep each other safe on the roads. The campaign has been successful in its reach to the regional audience and has been extended for another year.

### Protecting vulnerable road users / Motorcycle *Reconstruction* Campaign

A new TAC campaign highlighting the crash outcomes involving speed and motorcyclists was launched by our Minister, the Assistant Treasurer Gordon Rich-Phillips in April 2012. The campaign, titled *Reconstruction*, features a slow motion replay of a crash involving a motorcyclist and a car. The crash circumstances were based on police reports of motorcycle collisions and featured Victoria Police Major Collision Investigator, Detective Acting Senior Sergeant Peter Bellion. Last year, 49 motorcyclists were killed on our roads and in more than a third of these crashes, excessive or inappropriate speed was a contributing factor. This campaign is a reminder of the dangers of low level speeding in built up areas.

### Social media campaign / Blood Oath

The TAC used a combination of sport sponsorship, social media, public relations and advertising to create the Blood Oath campaign that began in July 2011. AFL coaches and twin brothers Brad and Chris Scott led the campaign, calling on young men to rethink their attitudes towards road safety, by making a pledge on Facebook to take personal responsibility for their mate's safety behind the wheel. It was promoted at two AFL games in front of 80,000 fans and 85% of local Victorian football clubs got involved.

The result was 68,000 participants on Facebook and a campaign that was recognised for its success at the recent Australian Promotional Marketing Association (APMA) Star Awards, winning Gold in the Best Social Marketing category.

The TAC has continued to build strong community partnerships to ensure road safety messages reach a diverse audience at a grass-roots level.

## COMMUNITY ROAD SAFETY GRANTS

The TAC's Community Road Safety Grants Program makes grants of up to $20,000 available for community-based projects run by not-for-profit groups, to address specific local road safety issues. In 2011/12, 46 new Community Road Safety Grants were approved, totalling $770,000. In four years and ten rounds of the grants program, the TAC has received 326 applications, approved 213 projects and committed funding totalling around $3.7 million in grants.

## SMALL GRANTS PROGRAM

The Small Grants Program encourages the development of projects that are innovative and facilitate client independence, promote quality of life and attainment of life goals and promote clients to become active members within their communities. In 2011/12, the TAC funded seven Small Grants projects at a total of $126,984.

## PARTNERSHIPS

The TAC has continued to build strong community partnerships to ensure road safety messages reach a diverse audience at a grass-roots level.

During 2011/12 we partnered with:

/ AFL Victoria

/ Melbourne Victory

/ Cricket Victoria

/ Falls Festival

/ MotoGP

/ Country Racing Victoria Limited

/ Geelong Football Club

/ Give Where You Live (formerly United Way)

/ Barwon Health Foundation

/ Amy Gillett Foundation

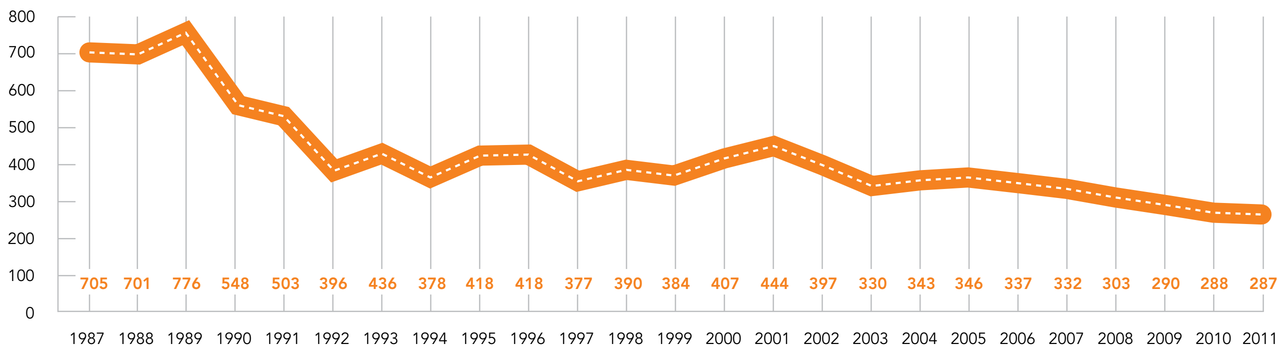
/ Run Geelong

/ Great Ocean Road Marathon

/ Independence Australia.

Community engagement activities included free breath-testing, educational competitions, supporting shuttle buses as alternative transport and distributing targetted road safety information. We also work closely with the Australian Drug Foundation, Road Trauma Support Services Victoria and VicHealth to support our public education and community engagement efforts.

**Reported fatalities 1987 - 2011**



## SAFER CARS

The TAC has continued its support of the Australasian New Car Assessment Program (ANCAP) including publicising the latest ANCAP results. Together with VicRoads, the RACV and the Monash University Accident Research Centre (MUARC) we have worked on the Used Car Safety Ratings list, the First Car List and the Stars on Cars program. Through the website www.howsafeisyourcar.com.au, the TAC encourages Victorians to buy the safest new or used car they can afford.

## SAFER ROADS

The TAC invests in safety-based infrastructure improvements to Victoria's road network. We have committed more than $650 million towards road improvement projects, from 2008-2017. These projects are managed by VicRoads and focus on Victoria's highest risk locations for run-off road crashes in regional areas and improvements to high risk intersections. In 2011/12 we invested $94.5 million to continue road safety improvements.

## Hilary Ash - TAC client for 25 years

### Rehabilitation used to be seen as getting someone back to what they were doing before – or as close as possible.

When someone has had a traumatic accident, to imagine getting back to what they were doing before is a pipedream. Rehabilitation brings the possibility of having a meaningful life in whatever way possible. It could be extremely different from before and it could take ongoing attention to maintain something that's been accomplished.

The TAC is gradually discovering that rehabilitation has a much wider meaning than just getting someone up and running again.

I'm very happy to have a life where I can enjoy my grandchild, I can enjoy my art and see that other people enjoy it as well and I can continue working and be of use to people who come to see me looking for counselling and help.

I would like to thank the TAC for enabling me to have the life that I have. I would like to remind people who forget, that each person that they deal with is an individual who has a history before an accident and a life after an accident. It can be a huge struggle to piece one's self back together. It takes patience and it takes kindness and it takes grace.

# What we do

## WORKING WITH THE VICTORIAN COMMUNITY

### About the TAC scheme

The TAC supports people injured in transport accidents that are directly caused by the driving of a car, motorcyle, bus, train or tram.

The TAC administers a "no-fault" scheme, which means that anyone injured in a transport accident within Victoria (or interstate if in a Victorian registered vehicle) is eligible to receive support services, irrespective of who caused the crash. Where a person suffers a serious injury in a transport accident and the accident was someone else's fault, they may receive a lump sum payment and make a common law claim.

### How we make decisions

The TAC is governed by the *Transport Accident Act 1986*. To support this, we have policies and guidelines that help with our decision-making. We also rely on information and recommendations obtained from health care professionals.

### What the TAC funds

The TAC funds medical treatment for transport accident-related injuries for as long as it is necessary. For people with severe injuries, funding and support may continue for the rest of their lives.

The TAC funds the cost of reasonable treatment related to a person's accident injuries. This may include:

/ Ambulance services from the accident scene to hospital and, where required, from one hospital to another

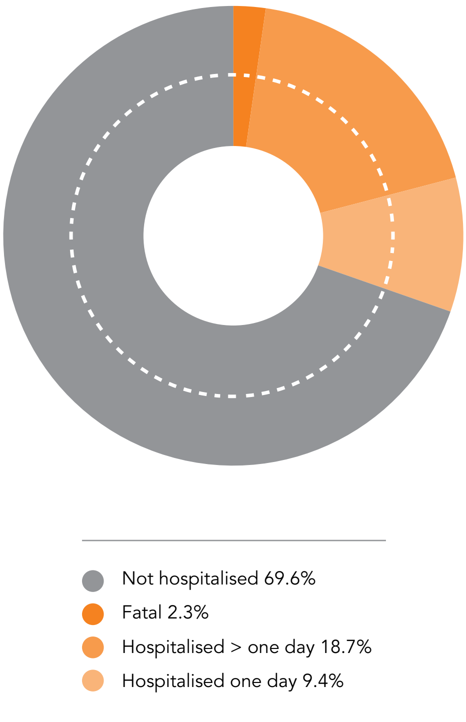
/ Hospital services and medical services, including surgery and visits to doctors or specialists

/ Pharmaceutical items for prescribed medicines to treat accident-related injuries

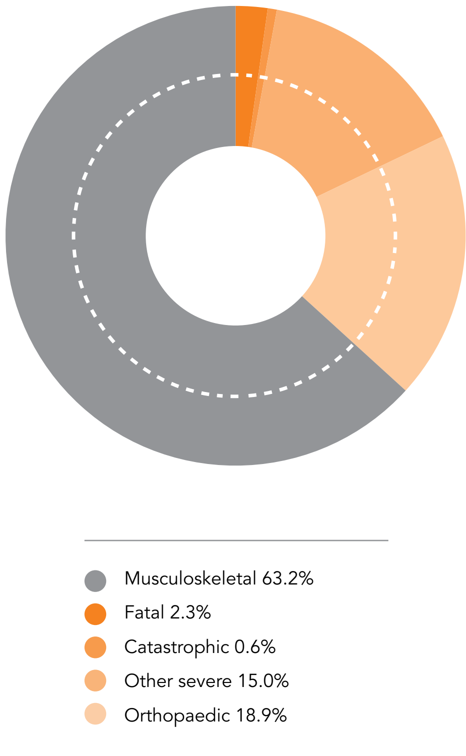
/ Therapy services, such as physiotherapy, chiropractic, podiatry and psychology

/ Nursing services, such as home visits after discharge from hospital.

**2011/12 Accepted claims according to injury type**




**2011/12 Accepted claims according to severity**



In 2011/12 the TAC funded a total of $1.01 billion in support services and benefits (compared to $937 million in 2010/11).

Other support services the TAC may fund include:

/ Income support for people whose injuries prevent them from doing normal job duties

/ Rehabilitation and disability services

/ Return to work programs

/ Attendant care

/ Travel costs for transport to and from medical appointments and treatment sessions

/ Allowances for parents to visit dependent children in hospital

/ Home services if clients cannot perform the household tasks they did before the accident because of their injuries

/ Childcare for those who need help looking after their children because of their injuries

/ Equipment or aids, such as wheelchairs, recommended by a health care professional

/ Lump sum and weekly payments for permanent impairment.

## SERVICE DELIVERY

In 2011/12 the TAC funded a total of $1.01 billion in support services and benefits (compared to $937 million in 2010/11).

The number of new claims received was 19,002 (compared to 19,205 in 2010/11). The TAC provided funded support to 44,410 people compared with 43,794 the previous year.

The TAC's customer service centre answered nearly 266,859 calls in 2011/12, with an average call time of 10.37 minutes. Approximately 54% of the calls were from TAC clients, 35% from providers and 11% from new clients. The TAC made payments for 1.61 million services, with 82% of these being made to service providers and 18% to clients.

## COMMON LAW DAMAGES

If a person suffers a "serious injury" as defined by the *Transport Accident Act 1986* and another person was to blame for the accident, the injured person may bring a claim for damages. Damages are payable for economic loss up to a maximum of $1,096,020 and for pain and suffering up to a maximum of $487,100. *Wrongs Act 1958* damages can be paid to the dependents of a person killed by a negligent driver in a transport accident up to a maximum of $797,820.

The TAC resolved 945 common law claims in 2011/12 and 51% were achieved within 12 months from the date of application.

# How we do it

The TAC is guided by the long term strategy, TAC 2015, and its three core pillars of client outcomes, client experience and scheme viability.

In 2011/12, the Claims division has made a number of significant changes to meet the goals of 2015.

## RECOVERY

The Recovery branch is focussed on supporting clients who have the aim of returning to health and potentially to work after their transport accident.

Improvements have been made to the Return to Work (RTW) teams, with rehabilitation coordinators given more tools to support clients. This includes the RTW Action Plan, which outlines individual challenges and interventions to overcome those challenges, as well as initiatives relating to communication skills training, pre-claim intervention, worksite visits, RTW principles and supporting clients with mental health and persistent pain issues. The six month income duration target was met for the first time in more than two years. This is due to the concentrated effort from our Early Support team, supporting clients to return to work and health within six months of their accident.

To help improve the client experience, the client assist team implemented a straight through processing model in February 2012. This means the immediate approval and payment of requested services in the absence of any pre-determined exceptions. This has seen a drop from 19 days to 5 days, for the time taken from receipt of request to making a decision. By delivering the majority of entitlements quickly and efficiently we are providing improved service for our clients.

## INDEPENDENCE

The Independence branch works with clients who are more seriously injured to help them live independent lives after a transport accident.

In 2011/12 we have embedded the Independence model for new TAC clients, helping them plan for the future while ensuring appropriate levels of support. The Independence model for existing clients was introduced from February 2012. This focusses on creating a plan that supports clients to identify their goals and then aligns funded and unfunded services to allow clients to achieve these goals.

## CLAIMS BUSINESS IMPROVEMENT

Over the past year, the TAC has increased its commitment to continuous improvement. It has focussed on four areas: claims system optimisation, claims process management and performance, claims process optimisation and continuous improvement culture.

Claims system optimisation achievements have included changes to the claims workflow processes to maximise efficiencies. Claims process management and performance achievements have included an increased risk management focus. Claims process optimisation has improved several claims management processes, including elimination of duplicate work, reducing cycle times for decisions and improvements to equipment hire, repair and maintenance processes.

## CLIENT FEEDBACK SURVEY

Each year, the TAC surveys approximately 2,500 clients to measure their satisfaction with the organisation on four key dimensions: resolving issues, keeping people up-to-date, treating them as individuals and empathy.

The TAC's client satisfaction score for 2011/12 was 7.33 out of 10, compared to a target of 7.45. Overall satisfaction with the TAC remains effectively unchanged, reflecting stable tracking compared to last year's score of 7.31.

The TAC is committed to lifting the quality of service by improving the way we interact with clients to enhance satisfaction levels. Focussing on the key client interactions, we will be refining processes and practices to reduce client effort and enable us to be faster and easier to deal with. New quality standards are being designed to help employees to refine the core skills required to deliver consistent service excellence.

For the sixth year, we have instigated a Client Zone to aid staff understanding of client needs. The Client Zone involves clients sharing their perspectives about the TAC's service delivery, providing insight into the role we play in their lives – and identifying where service improvements may be made.

The TAC is also preparing to undertake a longitudinal study, commencing in September 2012, that will track the experience and outcomes of Recovery clients on their journey to return to health and work. The longitudinal study will give the TAC a greater understanding of how to build better outcomes and experiences for our clients.

## STRATEGY AND PLANNING

Strategic Intelligence and Planning have had a productive year supporting the business towards its TAC 2015 goals, including the formation of the Service Program of work and developing key analytical systems for the claims division.

The division has:

/ Played a key role in providing advice to the Victorian Government regarding the proposed National Disability and Injury Insurance Schemes (NDIS/NIIS)

/ Led the development of the TAC 2012/15 Corporate Plan and the TAC 2012/13 Business Plan. A key achievement has been the cross-divisional approach

/ Acted as the key point of contact with the Institute for Safety, Compensation and Recovery Research (ISCRR). In May 2012, a $20 million funding agreement was signed with Monash University and as a result, ISCRR will be managing all new neurotrauma research projects with the aim of improving outcomes for TAC clients with traumatic brain or spinal cord injuries. During 2011/12, ISCRR identified six key program areas of neurotrauma research and has been progressively establishing Program Advisory Groups (PAG) for each area.

## HEALTH SERVICES GROUP

The Health Services Group (HSG), a collaboration between the TAC and WorkSafe, works with healthcare providers to achieve better rehabilitation and return to work outcomes for the Victorian community.

In 2011/12, HSG revised and consolidated the Clinical Framework utilised by the TAC Clinical Panel to help healthcare professionals achieve the best possible health and return to work outcomes. As part of the review, HSG consulted with and sought the endorsement of inter-jurisdictional clinical, academic and compensation scheme representatives. The outcome is a nationally-endorsed Clinical Framework catering for all injury types and delivering a consistent message regarding expectations and accountabilities.

Throughout the year, a Provider Strategy was developed to improve Independence client outcomes by more closely matching clients with the support services they need. The strategy will expand the range of services the TAC provides, embracing recently established and emerging industry practices. A greater range of flexible, unique supports and/or specialist services should benefit all clients by better matching their needs.

A new funding model has been implemented for in-patient rehabilitation services provided by private hospitals. The new model uses the Australian National Sub-Acute and Non-Acute Patient classification system and will allow us to better monitor client outcomes. The TAC and WorkSafe are the first Victorian health funding organisations to implement such a remuneration system.

## IT COLLABORATION

Information Technology Shared Solutions (ITSS) is a shared division of the TAC and WorkSafe. ITSS operates under an agreement which has been extended through to 30 June 2017.

In 2011/12, ITSS initiated an extensive program to refresh and replace much of the IT infrastructure. The program will run for three years followed by a five year replacement program to align with the expected IT asset life. ITSS has also updated the TAC and WorkSafe IT Enterprise Architectures, which are a framework to guide the enhancements and development for all systems.

During the year, 1,087 applications were resolved, up 22% from the previous year's 888 resolutions.

## RESOLVING DISPUTES AND COMPLAINTS

The TAC makes hundreds of decisions each week that affect our clients. Sometimes a decision may not be accepted or understood. In these cases, a client may choose to have the decision:

/ Informally reviewed by the TAC

/ Reviewed under the Dispute Resolution Protocols, or

/ Reviewed by the Victorian Civil and Administrative Tribunal (VCAT) – known as a merit review.

### Informal reviews

Disagreement with TAC decisions has reduced significantly this year with 361 requests for an informal review lodged, compared to 392 in 2010/11. Nearly 90% of informal reviews were resolved within four months, with around 60% of reviews maintaining TAC's original decision and 25% being resolved through compromise or overturned.

### Dispute Resolution Protocols

In 2005, protocols were implemented in collaboration with legal stakeholders to provide an alternative to the formal disputation process at VCAT and reduce the time and cost to resolve disputes. In 2011/12, 1,078 applications for a review of a TAC decision were lodged under the protocols, compared to 1,010 in 2010/11. During the year 1,087 applications were resolved, up 22% from the previous year's 888 resolutions. The increase in resolutions can be mainly attributed to the successful trial of directing No-Fault Protocol Disputes to the Informal Review Team, with the support of increased resources and improved processes. The consolidation of procedures across the Legal and Claims areas has also positively affected dispute resolutions.

### Merit reviews

A total of 822 merit review applications were lodged at VCAT in 2011/12 and more than half of these were issued concurrently with a dispute application under the protocols. In the previous year, 657 merit reviews were lodged. The number of merit reviews resolved during the year was 745, compared to 473 in 2010/11.

### Model litigant

The TAC is committed to the Victorian Government's Model Litigant Guidelines. The guidelines require the TAC to act fairly and consistently, to avoid litigation, pay legitimate claims promptly and to minimise legal costs. The guidelines require fairness and the utmost propriety. During 2011/12, 11 formal complaints were received, compared to 13 the previous year. All complaints were investigated and no breaches of the guidelines were found.

### Complaints

The TAC takes service complaints very seriously and has a formal complaints office to manage these issues, including matters of inquiry from the Chief Executive Officer and Ombudsman Victoria. In 2011/12, the TAC received 274 formal complaints, compared to 273 in 2010/11.

### Freedom of Information

The TAC has recorded a marked increase in Freedom of Information applications from the media and the general public in recent years. Applications have increased from 661 in the 2006/07 financial year to 1,236 applications in 2011/12.

The TAC welcomes feedback from clients and other stakeholders to help us improve our service.

# Who we are

## OUR WORKFORCE

The TAC's Human Resources division has gone through significant changes in 2011/12, introducing a new operating model and creating a fundamental shift in how the division adds strategic and operational value to the organisation.

The three key components of this new model are:

/ Dedicated HR Business Partners for each business area

/ Centres of expertise including Remuneration, Change and Organisation Design and Leadership and People, and

/ Shared services delivering high quality standardised services to staff.

Achievements have included the sign off and implementation of Enterprise Agreement 2011-14, implementation of a new learning management system, implementation of a functional training team within the Claims division and redesigned orientation and induction programs.

## EMPLOYEE OPINION SURVEY

The TAC conducts an annual employee survey to measure employee engagement and staff morale.

In 2012, 83% of employees participated in the survey which was managed by Towers Watson. The results are above those of Australian national norms. The overall staff engagement score was 87%, up from the 2011 score of 85%. The staff morale index was gauged at 76% in 2012, compared to 75% in 2011. This illustrates employee alignment to the organisation's values, beliefs and goals and highlights a sense of pride and belonging.

## OCCUPATIONAL HEALTH AND SAFETY

We actively promote a safe work environment for all employees and visitors. Through an integrated Workplace Occupational Health and Safety program and a dedicated OHS Committee, we empower employees to manage their health and safety. We ran a Health & Safety Week in 2011/12 which included an expo on health and wellbeing for staff.

**2011/12 incident report**

In the past financial year, there were three new WorkCover claims. A total of 483 days were lost due to injury and illness. Of these days lost, 62% of them were due to the exacerbation of one employee's pre-existing condition.

# Managing the scheme responsibly

## FINANCIAL AND CAPITAL MANAGEMENT

The TAC's objective is to maintain scheme viability through sound financial management, prudent investment and financial risk management.

### Operating results

The TAC recorded an after-tax operating loss of $1,024 million in 2011/12, compared with an after-tax operating profit of $279 million in 2010/11.

This outcome was brought about by two main factors both as a consequence of significant uncertainty in global financial markets. Firstly, the reduction in long term Commonwealth bond yields, used to discount the provision for outstanding claims to current day values, increased the TAC's claims liabilities by $1,581 million representing one of the largest movements in the history of the TAC. Secondly, as global investment markets struggled with the European debt crisis and the global slowdown, the TAC recorded a return of 4.2%, down from 10.9% in 2010/11.

### Performance from insurance operations

The TAC has developed a reporting framework where contributions to annual profit from internal and external factors (such as volatility in investment markets, claims discount rates and inflation) are identified and reported separately. This allows the Board and management to assess the underlying financial performance of the TAC.

In 2011/12, the TAC's performance from insurance operations was $351 million (compared to $187 million in 2010/11). This improvement is predominantly due to continued strong claims management which has delivered an actuarial release of $130 million.

The total impact from external factors was an unfavourable $1,826 million (compared to a favourable $204 million in 2010/11). This was predominantly due to the impact of falling bond yields during 2011/12 as noted above.

### Assets and liabilities

The TAC's total assets as at June 2012 were $9.5 billion while total liabilities were $10.9 billion. Notwithstanding this negative net asset position, the going concern assumption of the TAC remains appropriate based on cash flow projections being positive 12 months from the signing date of the financial statements.

The TAC's funding ratio at 30 June 2012 was 70.8% after allowing for dividend at the benchmark rate of 50% of 'performance from insurance operations'. While this funding ratio is outside the TAC's preferred operating range of 80% to 120%, this is not considered to be of significant concern.

### Dividend

Under the *Transport Accident Act 1986*, the TAC may pay an annual dividend to the Victorian Government. The dividend is determined each year by the Treasurer in consultation with the TAC and the Minister responsible for the TAC, having regard to funding levels and other factors. A dividend of $140 million, relating to 2010/11, was paid in 2011/12.

### Transport accident charge

Consistent with the *Transport Accident Act 1986*, transport accident charge levels for motorists increased in line with the CPI (3.06%) on 1 July 2011. The TAC also covers people injured in train and tram accidents with charges paid by the railway and tramway managers to fund these claims. Transport accident charge levels for both motor vehicles and railways/tramways are set following a review of claims experience by independent actuaries.

### Reinsurance

As part of the TAC's financial risk management strategies – to protect the scheme against the impact of a catastrophic accident – the TAC has reinsurance cover.

### Reducing fraud

During 2011/12, eight prosecutions were finalised through the Magistrates Court. In five cases, a conviction was recorded and a total of $288,578 in restitution was awarded to the TAC. Seven matters are currently before the courts at various stages where TAC is alleging fraud against the scheme totalling $429,403. Twelve letters of caution for minor breaches of the *Transport Accident Act 1986* relating to low level fraud and providing false information to the TAC were sent to clients and providers, incorporating demands for reimbursement of $12,070. In addition, 11 warning letters were sent to either clients or service providers advising them of their obligations under the Act. The TAC continued to focus on ensuring compliance with TAC vehicle registration levy obligations, instigating enforcement action to the amount of $558,000.

Also during 2011/12, four providers were referred to the Australian Health Practitioner Regulation Agency (AHPRA) for further investigation as a result of concerns over the services to TAC clients. One provider subsequently demonstrated sufficient remorse and a change in behaviour after the referral, resulting in AHPRA concluding that no further action was required. One provider, who was referred in 2010/11, has been referred for a formal professional standards hearing and three further providers currently remain under investigation.

The TAC continued to focus on ensuring payments made to health practitioners and service providers were accurate and appropriate, with reviews completed on 13,214 payments over 423 claims in allied health, medical practitioners and attendant care disciplines. Reimbursements received during the financial year totalled $87,217.

## Ros and Simon van Beest - TAC client for 25 years

When Simon came out of the coma he had a totally clean slate. You had an eight year old boy that couldn't do anything.

He had to be taught how to swallow, speak and re-orientate himself back into the world.

Through the long process of recovery the TAC provided medical, educational and social rehabilitation.

In the early days there were a few challenges. It was a learning curve. I think now the legislation is more defined and everybody is more knowledgeable – both coordinators and clients.

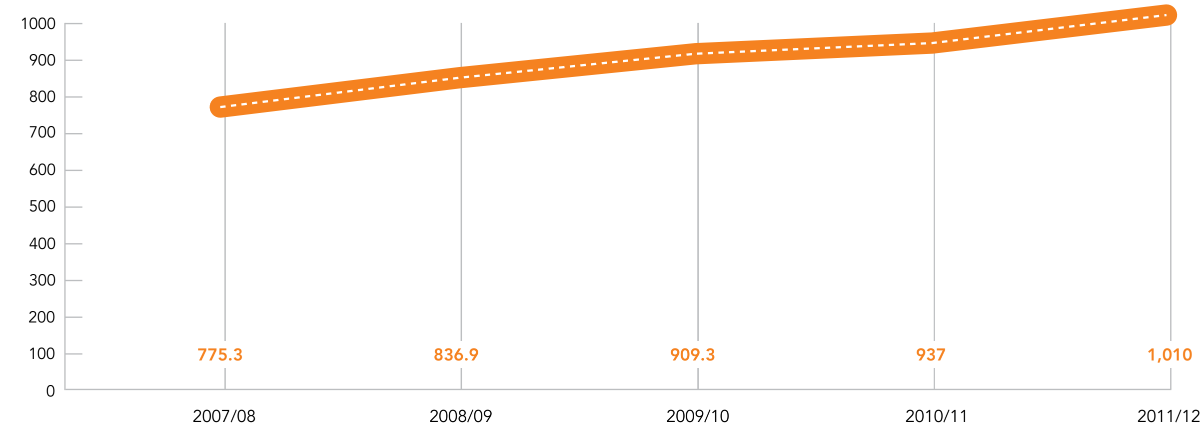
It's a very different TAC today than it was 25 years ago. However, saying that we were so lucky to have them. The service and rehabilitation that it has provided is excellent and changed Simon's prognosis. Never once did TAC refuse rehabilitation for Simon.

I think the TAC has listened and has changed to suit its clients' needs. The younger children in school nowadays get all the things that they need in order to make their quality of life better. The co-ordinators are very, very important people in the rehabilitation team and do a fantastic job. The quality of life that Simon has today is because of the excellent and intensive rehabilitation he received.

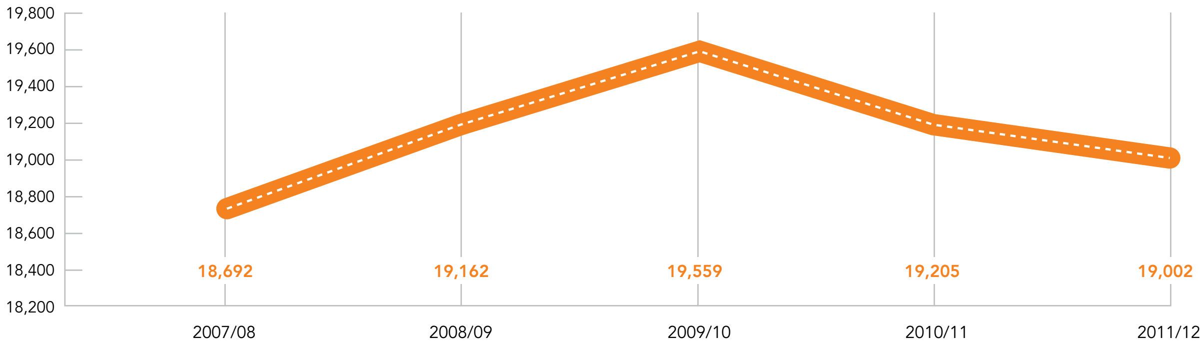
The TAC must always be there for Victorians.

# APPENDIX 1 / KEY PERFORMANCE MEASURES

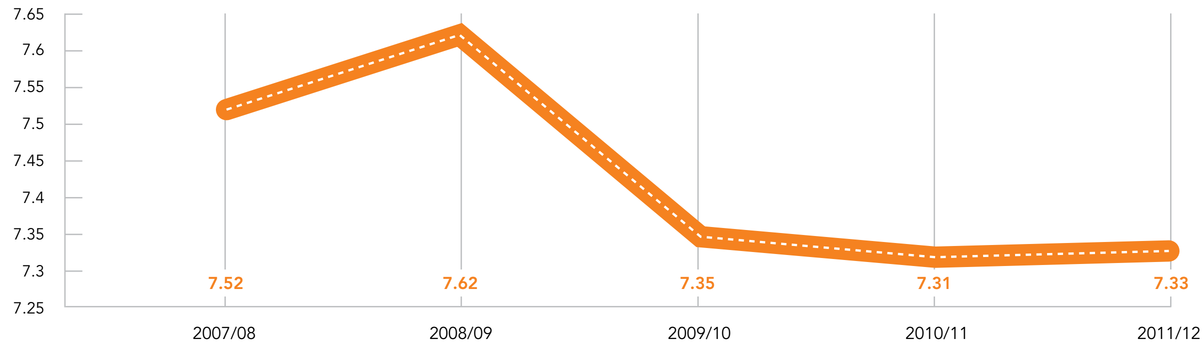
## TOTAL PAYMENTS ($ MILLION)



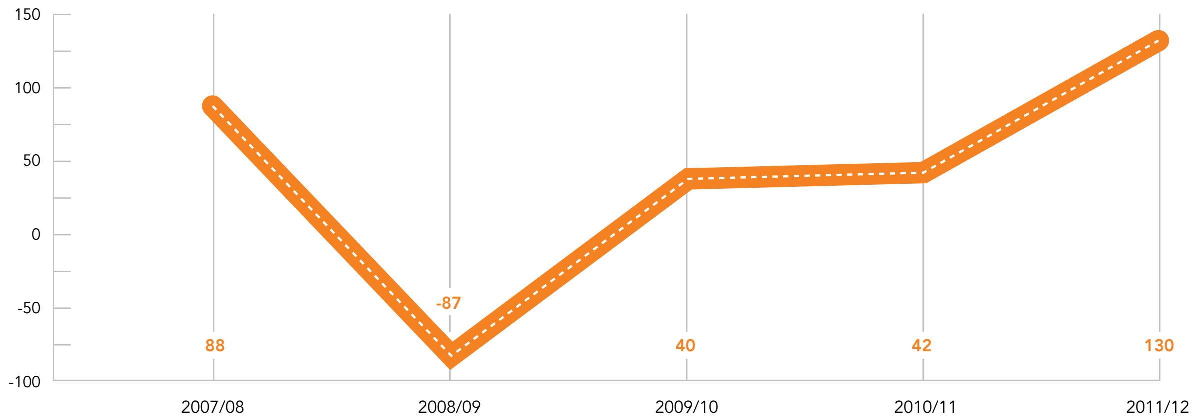

## CLAIM LODGEMENTS (NUMBER)



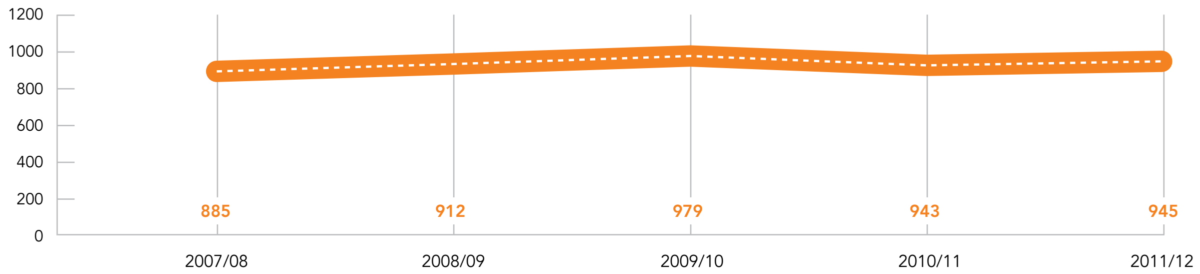

## CLIENT SATISFACTION SCORE



## ACTUARIAL RELEASE ($ MILLION)




## VICTORIAN COMMON LAW SETTLEMENTS (NUMBER)




## APPENDIX 2 / KEY PERFORMANCE INDICATORS: CLIENT OUTCOMES

**Recovery: Mean Physical Health**

The scores are derived from a standardised generic health-related quality of life measurement tool used in the TAC's annual Client Outcomes survey.

**Recovery: Mean Mental Health**

The scores are derived from a standardised generic health-related quality of life measurement tool used in the TAC's annual Client Outcomes survey.

**Recovery: Vocational Outcomes**

The vocational measure is a summary that tracks post-accident employment outcome for those working at the time of the accident and who took time off as a result, derived from the TAC's annual Client Outcomes survey.

**Independence: Life Area Objectives**

These measure a client's progress towards Independence across six life areas: home living, education, vocation, recreation/leisure, living independence and community independence. These are integral to client-centred assessment, goal setting and service coordination.

## APPENDIX 3 / KEY PARTNERSHIPS 2011/12

| | |
|---|---|
| AFL Victoria (2012 contract) | $435,000 |
| Melbourne Victory (2011 contract) | $235,234 |
| Geelong Football Club | $208,649 |
| MotoGP | $145,200 |
| Country Racing Victoria Limited | $132,000 |
| Cricket – Melbourne Renegades | $110,000 |
| Cricket – Melbourne Stars | $110,000 |
| Falls Festival | $77,000 |
| Give Where You Live (formerly United Way) | $50,000 |
| Barwon Health Foundation | $33,000 |
| Barwon Sports Academy | $33,000 |
| The Winemakers of Rutherglen | $27,500 |
| Yarra Valley Winegrowers | $24,310 |
| Independence Australia | $22,000 |
| Australian Deaf Games | $22,000 |
| Amy Gillett Foundation | $22,000 |
| Run Geelong | $15,000 |
| Great Ocean Road Marathon | $10,000 |

# Financial Report

## For the year ended 30 June 2012

### COMPREHENSIVE INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

| | Note | 2012 $000 | 2011 $000 |
|---|---|---|---|
| Premium revenue | | 1,384,633 | 1,326,064 |
| Reinsurance premium expense | | (1,971) | (2,006) |
| **Net premium revenue** | | **1,382,662** | **1,324,058** |
| Gross claims incurred | 7 | (2,851,932) | (1,338,959) |
| Claims recoveries revenue | 7 | 18,609 | 8,339 |
| **Net claims incurred** | | **(2,833,323)** | **(1,330,620)** |
| Administration costs | 5 | (146,254) | (140,578) |
| Marketing and road safety expenditure | | (48,931) | (49,020) |
| Safer road infrastructure expenditure | | (94,481) | (96,464) |
| Trauma projects expenditure | | (11,426) | (10,594) |
| Premium collection fees | 11 | (33,829) | (32,461) |
| **Underwriting expenses** | | **(334,921)** | **(329,117)** |
| **Underwriting profit / (loss)** | | **(1,785,582)** | **(335,679)** |
| Investment income / (loss) | 6 | 332,401 | 748,717 |
| Investment expenses | 6 | (21,605) | (22,062) |
| **Profit / (Loss) before income tax** | | **(1,474,786)** | **390,976** |
| Income tax benefit / (expense) | 8(a) | 450,339 | (111,520) |
| **Net result for the year** | | **(1,024,447)** | **279,456** |
| Other comprehensive income | | - | - |
| **Other comprehensive income for the year** | | **-** | **-** |
| **Total comprehensive result for the year** | | **(1,024,447)** | **279,456** |

The above comprehensive income statement should be read in conjunction with the accompanying notes to the financial statements.

## BALANCE SHEET AS AT 30 JUNE 2012

| | Note | 2012 $000 | 2011 $000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 24(a) | 37,860 | 54,776 |
| Receivables | 9 | 69,993 | 69,774 |
| Investments | 10 | 1,543,562 | 1,401,766 |
| Deferred acquisition costs | 11 | 17,044 | 16,240 |
| Other assets | 12 | 2,123 | 4,523 |
| **Total current assets** | | **1,670,582** | **1,547,079** |
| **Non-current assets** | | | |
| Receivables | 9 | 388,660 | 309,719 |
| Investments | 10 | 6,172,643 | 6,003,142 |
| Controlled entity | 13 | 4,000 | - |
| Plant and equipment | 14 | 17,695 | 16,990 |
| Intangibles | 15 | 48,740 | 47,008 |
| Deferred tax assets | 8(c) | 1,187,357 | 737,018 |
| **Total non-current assets** | | **7,819,095** | **7,113,877** |
| **Total assets** | | **9,489,677** | **8,660,956** |
| **Current liabilities** | | | |
| Outstanding claims | 17 | 1,001,213 | 963,113 |
| Unearned premiums | 18 | 692,936 | 660,961 |
| Payables | 16 | 82,520 | 82,811 |
| Provisions | 19 | 10,732 | 9,860 |
| Lease liabilities | 20(c) | 823 | 1,055 |
| **Total current liabilities** | | **1,788,224** | **1,717,800** |
| **Non-current liabilities** | | | |
| Outstanding claims | 17 | 9,101,450 | 7,179,449 |
| Provisions | 19 | 2,469 | 1,844 |
| Lease liabilities | 20(c) | 1,431 | 1,313 |
| **Total non-current liabilities** | | **9,105,350** | **7,182,606** |
| **Total liabilities** | | **10,893,574** | **8,900,406** |
| **Net assets / (liabilities)** | | **(1,403,897)** | **(239,450)** |
| **Equity** | | | |
| Reserves | 1(r) | 6,727 | 5,332 |
| Accumulated surplus / (deficit) | | (1,410,624) | (244,782) |
| **Total equity** | | **(1,403,897)** | **(239,450)** |

The above balance sheet should be read in conjunction with the accompanying notes to the financial statements.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012

| | Motorcycle Road Safety Reserve $000 | Accumulated surplus / (deficit) $000 | Total $000 |
|---|---|---|---|
| **At 1 July 2010** | **6,113** | **(425,019)** | **(418,906)** |
| Total comprehensive result for the year | - | 279,456 | 279,456 |
| Transfer to Motorcycle Road Safety Reserve | - | (5,687) | (5,687) |
| Transfer from Motorcycle Road Safety Reserve | - | 6,468 | 6,468 |
| Transfer to accumulated surplus | (6,468) | - | (6,468) |
| Transfer from accumulated surplus | 5,687 | - | 5,687 |
| Dividend paid for 2009/10 year | - | (100,000) | (100,000) |
| **At 30 June 2011** | **5,332** | **(244,782)** | **(239,450)** |
| Total comprehensive result for the year | - | (1,024,447) | (1,024,447) |
| Transfer to Motorcycle Road Safety Reserve | - | (5,976) | (5,976) |
| Transfer from Motorcycle Road Safety Reserve | - | 4,581 | 4,581 |
| Transfer to accumulated surplus | (4,581) | - | (4,581) |
| Transfer from accumulated surplus | 5,976 | - | 5,976 |
| Dividend paid for 2010/11 year | - | (140,000) | (140,000) |
| **At 30 June 2012** | **6,727** | **(1,410,624)** | **(1,403,897)** |

The above statement of changes in equity should be read in conjunction with the accompanying notes to the financial statements.

## CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

| | Note | 2012 $000 | 2011 $000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Premiums received | | 1,557,689 | 1,492,843 |
| Dividends received | | 201,485 | 161,814 |
| Interest received | | 157,817 | 175,691 |
| Claims paid | | (1,019,063) | (944,824) |
| Claims recoveries received | | 10,538 | 7,046 |
| Payments to suppliers and employees | | (204,817) | (220,611) |
| Payments for marketing and road safety projects | | (51,797) | (49,485) |
| Payments for trauma projects and safer road infrastructure expenditure | | (109,593) | (106,339) |
| Goods and services tax paid | | (58,265) | (54,818) |
| **Net cash inflow / (outflow) from operating activities** | **24(b)** | **483,994** | **461,317** |
| **Cash flows from investing activities** | | | |
| Purchase of investments | | (4,643,121) | (5,637,512) |
| Sale of investments | | 4,385,855 | 5,427,236 |
| Funds provided to controlled entity | | (4,000) | - |
| Purchase of plant and equipment | | (3,369) | (2,497) |
| Proceeds from sale of plant and equipment | | 880 | 839 |
| Funds received from VFMC | | 16,976 | - |
| Expenditure on intangibles | | (14,491) | (9,995) |
| **Net cash inflow / (outflow) from investing activities** | | **(261,270)** | **(221,929)** |
| **Cash flows from financing activities** | | | |
| Dividend paid | | (140,000) | (100,000) |
| **Net cash outflow from financing activities** | | **(140,000)** | **(100,000)** |
| **Net increase / (decrease) in cash and cash equivalents** | | 82,724 | 139,388 |
| Cash and cash equivalents at the beginning of the year | | 1,294,390 | 1,164,902 |
| Effects of exchange rate changes on cash held in foreign currencies | | 1,880 | (9,900) |
| **Cash and cash equivalents at end of the year** | **24(a)** | **1,378,994** | **1,294,390** |

The above cash flow statement should be read in conjunction with the accompanying notes to the financial statements.

The Transport Accident Commission (TAC) was established and is governed by the *Transport Accident Act 1986*. The TAC operates the transport accident compensation scheme for Victorians who are injured or die as a result of a transport accident. For the purposes of this financial report prepared under Australian Accounting Standards:

/ insurance refers to the transport accident compensation scheme;

/ premiums refer to transport accident charge for motor vehicles and charge for trains and trams; and

/ policy refers to the cover provided under the *Transport Accident Act 1986*.

## 1 / SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Statement of compliance**

The financial report is a general purpose financial report which has been prepared on an accrual basis in accordance with the *Financial Management Act 1994*, Australian Accounting Standards and Interpretations. Accounting Standards include Australian equivalents to International Financial Reporting Standards (A-IFRSs). For the purposes of A-IFRSs, the Minister for Finance has determined that the TAC is a "for-profit" entity.

The financial report was authorised for issue by the directors on 30 August 2012.

**Basis of preparation**

This financial report has been prepared on a historical cost basis, except for outstanding claims liabilities, recovery receivables, employee leave liabilities which are included at present value and investments, plant, equipment and motor vehicles which are included at fair value. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of A-IFRS that have significant effects on the financial report and estimates with a significant risk of material adjustments in the next year are disclosed in notes 1 (e), 2 and 25 in the financial report.

The financial statements do not consolidate the controlled entity of the TAC, the Residential Independence Pty Ltd (RIPL) as trustee for Residential Independence Trust (RIT) (note 13) as the financial impact of consolidation is considered not material.

Despite the operating loss for the period of $1,024 million, the negative net asset position of $1,404 million, and the negative working capital position of $118 million, the Directors have concluded that the going concern assumption of the TAC remains appropriate based on cash flow projections being positive 12 months from the signing date of the financial statements.

**Australian Accounting Standards issued but not yet effective**

The AASB has issued the following amendments to Australian Accounting Standards which are applicable to the TAC. These amendments are not effective for the annual reporting period ended 30 June 2012 and have not been applied in preparing the TAC's financial report.

The nature of the application of these standards could impact the classification and measurement of financial assets. The extent of any impact has not yet been determined. The TAC will apply these standards for the annual reporting periods beginning on or after the operative dates set out below.

| | Title | Operative Date |
|---|---|---|
| AASB 9 | Financial Instruments | 1 January 2013 |
| AASB 13 | Fair Value Measurement | 1 January 2013 |
| AASB 119 | Employee Benefits | 1 January 2013 |
| 2009-11 | Amendments to Australian Accounting Standards arising from AASB 9 | 1 January 2013 |
| 2010-7 | Amendments to Australian Accounting Standards arising from AASB 9 | 1 January 2013 |
| 2011-8 | Amendments to Australian Accounting Standards arising from AASB 13 | 1 January 2013 |
| 2011-11 | Amendments to Australian Accounting Standards arising from AASB 119 | 1 January 2013 |

**The following significant accounting policies have been adopted in the preparation and presentation of the financial report.**

**(a) Premium revenue**

Premium revenue is recognised in the comprehensive income statement when it has been earned and is calculated from the attachment date over the period of the policy. The pattern of recognition over the policy period is based on time, which is considered to approximate closely the pattern of risks underwritten.

Premium revenue is net of refunds and excludes stamp duty and goods and services tax.

**(b) Investment income**

Dividend income is recognised when the TAC's right to receive the dividend has been established. Interest income is recognised on an accrual basis. Trust distribution income is recognised when the market prices are quoted ex-distribution for listed trusts. Unlisted trust distribution income is recognised when the trustee declares a distribution.

Changes in fair values of investments at balance date, as compared with their fair values at the previous balance date or cost of acquisition if acquired during the financial year, are recognised as investment income or loss. Realised profits or losses on the termination of derivative financial instruments and realised and unrealised profits or losses on changes in fair values of financial instruments are included in investment income.

**(c) Unearned premiums**

Unearned premiums represent the proportion of premiums received or receivable not earned and relate to periods of insurance subsequent to balance date, computed on the basis that the risk attaches to all policies from the middle of the month in which they are written.

**(d) Unexpired risk liability**

At each reporting date the TAC performs a liability adequacy test to assess whether the unearned premium liability is sufficient to cover all expected future cash flows relating to future claims against current insurance contracts.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs, then the unearned premium liability is deemed to be deficient. The TAC applies a risk margin to achieve the same probability of sufficiency for future claims as is achieved by the estimate of the outstanding claims liability, see note 1(e).

The entire deficiency is recognised immediately in the comprehensive income statement. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the balance sheet as an unexpired risk liability. No deficiency resulted in the year ended 30 June 2012 (2011: No deficiency).

**(e) Outstanding claims liability**

The liability for outstanding claims is measured on the basis of actuarially estimated costs of future claims payments, which include goods and services tax and the anticipated effects of inflation and other factors and are discounted to a present value at balance date. The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not yet reported and the anticipated direct and indirect costs of settling those claims. The expected future payments are discounted to present value using a risk free rate.

A risk margin (refer note 17) is applied to the outstanding claims liability to reflect the inherent uncertainty in the central estimate of the outstanding claims liability. The risk margin increases the probability that the claims liability is adequately provided for to a 75% (2011: 75%) probability of sufficiency.

**(f) Claim recovery receivables**

Recoveries on claims paid and outstanding claims are recognised as revenue. Recoveries receivable are assessed in a manner similar to the measurement of outstanding claims liability. Receivables are measured as the present value of the expected future receipts, calculated on the same basis as the outstanding claims liability (note 1(e)). A provision for impairment is established when there is objective evidence that the TAC will not be able to collect all the claim recovery amounts.

**(g) Deferred acquisition costs**

Acquisition costs represent fees incurred for the collection of transport accident charges for motor vehicles. Acquisition costs are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to a future benefit. Deferred acquisition costs are measured at the lower of cost and recoverable amount and are expensed to correspond to the earning pattern of the premium revenue.

**(h) Assets backing insurance liabilities**

The TAC's investment portfolio is managed by the Victorian Funds Management Corporation (VFMC) through internal management and fund managers and a Master Custodian. The Master Custodian holds the investments and conducts settlements pursuant to instructions from internal management and fund managers.

The TAC has determined that all assets, except for plant and equipment and intangibles, are held to back insurance liabilities and are designated at fair value through profit and loss. Initial recognition is at cost in the balance sheet and subsequent measurement is at fair value with any resultant unrealised profits and losses recognised in the comprehensive income statement.

The following methods and assumptions are used to determine the fair value of investments:

/ financial instruments traded in an organised financial market (traded securities) – fair value based on current quoted market price for the instrument. Quoted market prices are used to value listed shares, options, debentures and other equity and debt securities.

/ financial instruments not readily traded in an organised financial market – fair value based on present value of contractual future cash flows. Cash flows are discounted using standard valuation techniques at the applicable market yield having regard to the timing of the cash flows.

Details of fair value for the different types of investment assets are listed below:

/ cash assets, deposits held at call with banks and investments in money market instruments are carried at face value which approximate to their fair value;

/ investments in discounted money market instruments are valued at their quoted mid price at the balance sheet date, as with fine trading spreads in this market, there is an ability to transact at mid price.

/ shares, fixed interest securities, options and units in trusts listed on stock exchanges are initially recognised at cost (which is equal to fair value) and the subsequent fair value is taken as the quoted bid price of the instruments at the balance sheet date;

/ futures contracts listed on recognised exchanges are valued using the quoted settlement price, and

/ units in unlisted trusts are recorded at fair value as determined by the fund manager or valuation by other skilled independent third parties. In determining fair value, the manager or third parties use observable market transactions of the units and underlying assets where available and applicable; some of the underlying assets of the trusts are valued using valuation models that include inputs which are not based on observable market data.

All purchases and sales of investments that require delivery of the asset within the time frame established by regulation or market convention ('regular way' transactions) are recognised at trade date, being the date on which the commitments are made to buy or sell the asset. In cases where the period between trade and settlement exceeds this time frame, the transaction is recognised at settlement date.

Investments are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and the TAC has transferred substantially all the risks and rewards of ownership.

Investments that are due to mature, expire or be realised within twelve months of balance date are classified as current investments for the purposes of classification in the balance sheet. While this classification policy may result in a reported working capital deficit, the TAC holds high quality liquid assets in its investment portfolio which are readily convertible to cash assets. In addition, the TAC is normally cash flow positive with premium and investment income exceeding claims and administrative cost payments.

**(i) Foreign currency translation**

Foreign currency transactions are translated into Australian dollars at the exchange rates ruling at the dates of the transactions. Investments held at balance date that are denominated in foreign currencies are retranslated to Australian dollars at rates of exchange ruling at the balance sheet date. Exchange differences are recognised in the comprehensive income statement in the period in which they arise.

**(j) Derivative financial instruments**

VFMC and fund managers use derivative financial instruments such as foreign exchange contracts, futures, swaps and options to more effectively manage the risks associated with investing in large institutional portfolios. Derivatives are originally recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date with any gain or loss recognised in the comprehensive income statement.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

**(k) Employee benefits**

Provision is made for benefits accruing to employees in respect of salaries, annual leave and long service leave. In determining the provisions, allowance is made for on-costs including payroll tax, workers compensation and superannuation. No provision is made for non-vesting sick leave as the TAC has no legal obligation to pay accumulated sick leave upon staff termination.

Provisions made in respect of employee benefits expected to be settled within twelve months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Those liabilities that are not expected to be settled within twelve months are recognised in the provision for employee benefits as current liabilities, where the TAC does not have the right to defer settlement. This is measured at present value of the amounts expected to be paid when the liabilities are settled using the remuneration rate expected to apply at the time of settlement.

Employee entitlements for which the TAC has an unconditional right to defer settlement of the liability beyond 12 months after the reporting date are shown as a non-current liability. This is measured at present value of the amounts expected to be paid when the liabilities are settled using the remuneration rate expected to apply at the time of settlement.

*Defined contribution superannuation plans*

Contributions to defined contribution superannuation plans are expensed when incurred.

*Defined benefit superannuation plans*

The amount charged to the comprehensive income statement in respect of defined benefit superannuation plans represents the contributions made to the superannuation plans in respect of the current services of employees. Superannuation contributions are made to the plans based on the relevant rules of each plan.

**(l) Plant, equipment and motor vehicles**

Plant and equipment is stated at fair value defined as cost less accumulated depreciation and any impairment in value. Motor vehicles under finance leases are capitalised at the present value of the minimum lease payments.

Depreciation of plant and equipment is calculated on a straight line basis at rates which allocate their costs over the estimated useful lives of the assets to its estimated residual value. The costs of improvements to leasehold premises is amortised over the remaining period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

Depreciation on motor vehicles is calculated on a straight line basis over the term of the lease.

The depreciation rates applied to each of the asset classes are as follows:

/ Leasehold improvements, plant and equipment - 5% - 15% (2011: 5% - 15%)

/ Computer equipment - 20% - 33% (2011: n/a)

/ Motor vehicles under lease - 33% (2011: 33%)

**(m) Intangible assets**

Intangible assets represent identifiable non-monetary assets without physical substance.

Costs associated with the acquisition or development of computer software are capitalised and amortised on a straight line basis over the expected useful life of the computer software. The useful lives range from 3 to 10 years (2011: 3 to 10 years). The amortisation period for an intangible asset is reviewed annually.

**(n) Impairment of assets**

Assets are assessed annually for indications of impairment except for financial instrument assets and deferred tax assets. If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written-off by a charge to the comprehensive income statement.

The recoverable amount for assets is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell, where applicable.

**(o) Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance leases are capitalised at fair value, or if lower, at the present value of the minimum lease payments. A lease liability of equal value is also recognised. Lease payments are allocated between the principal component of the lease liability and the interest expense. Finance leases assets are amortised on a straight line basis over the term of the lease.

Operating lease payments are charged as an expense in the comprehensive income statement on a straight-line basis over the lease term.

**(p) Dividends**

In accordance with section 29B of the *Transport Accident Act 1986*, the TAC is required to pay to the Victorian State Government, a dividend as determined by the Treasurer.

An obligation to pay a dividend only arises after a formal determination is made by the Treasurer following consultation between the TAC, the Assistant Treasurer and the Treasurer.

**(q) Income tax**

In accordance with section 88 (3D) of the *State Owned Enterprises Act 1992*, the TAC is required to pay income tax equivalent under the National Tax Equivalent Regime (NTER).

The income tax expense or benefit represents the tax payable or receivable on the current year's taxable income based on the prevailing income tax rate adjusted for changes in deferred tax assets and liabilities.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. Deferred tax assets and liabilities are recognised for temporary differences at the tax rates that are expected to apply when the assets and liabilities are realised or settled, based on tax rates that have been enacted or substantially enacted by reporting date.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities which affect neither taxable income nor accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are offset as the TAC settles its current tax assets and liabilities on a net basis.

**(r) Motorcycle Road Safety Reserve**

The TAC premiums for certain motorcycle classes include an additional levy collected annually to fund special projects to improve motorcycle road safety in Victoria. These monies are set aside in the Motorcycle Road Safety Reserve specifically set up for this program. The program expenditure is developed by the Victorian Motorcycle Advisory Council (made up of representatives from the State's main road safety agencies, the RACV and motorcyclist interest groups) and administered by VicRoads which seeks reimbursement for expenditure from the TAC.

**(s) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of GST.

The net amount of GST recoverable from, or payable to the ATO, is included as part of receivables or payables in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to the ATO, are classified as operating cash flows.

**(t) Commitments**

Commitments include operating and capital expenditure commitments arising from non-cancellable contractual sources and are disclosed at their nominal value inclusive of GST.

**(u) Contingent assets and contingent liabilities**

Contingent assets and contingent liabilities are not recognised in the balance sheet, but are disclosed by way of a note and, if quantifiable, are measured at nominal value inclusive of GST.

**(v) Rounding**

Amounts have been rounded to the nearest thousand dollars unless otherwise stated.

**(w) Functional and presentation currency**

The functional currency of the TAC is the Australian dollar, which has also been identified as the presentation currency of the TAC.

## 2 / ACTUARIAL ASSUMPTIONS AND METHODS

The TAC operates the Victorian transport accident compensation scheme which is long tail in nature, meaning that claims are typically settled more than one year after being reported.

Significant estimates and judgements are made by the TAC valuation actuary in respect of certain key asset and liability amounts disclosed in the financial statements. These estimates and judgements are continually being evaluated and are based on historical experience, as well as enhancements to actuarial modelling techniques. The key areas of significant estimates and judgements and the methodologies used to determine key assumptions are set out below.

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 reported to the TAC.

The estimation of outstanding claims liabilities is based largely on the assumption that past developments are an appropriate predictor of the future and involves a variety of actuarial techniques that analyse experience, trends and other relevant factors. The process commences with the actuarial projection of the future claims payments and claims handling costs incurred to reporting date. Each benefit type is usually examined separately.

Actuarial techniques used to analyse and project the various benefit types, include:

/ Payments per claim incurred (PPCI)

/ Payments per active claim (PPAC)

/ Payments per claim settled (PPCS)

/ Annuity based individual claim models (ICM)

Projected future claims payments and associated claims handling costs are discounted to a present value as required using appropriate risk free discount rates (i.e. rates set with reference to Commonwealth Government Securities). A projection of future claims payments are undertaken separately of both gross claims payments and recoveries.

This projection is made without bias toward over or under estimation. As such, the resulting estimate is considered to be a net central estimate of outstanding claims liabilities that has an approximately equal chance of proving adequate or inadequate. Where possible and appropriate, multiple actuarial methods will be applied to project future claims payments. This assists in providing a greater understanding of the trends inherent in the past data. The projections obtained from various methods also assist in setting the range of possible outcomes. The most appropriate method, or even a combination of methods, is selected taking into account the characteristics of each benefit type and the extent of the development of each past accident period.

Large claims impacting each relevant benefit type are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

The final provision is then obtained by examining the results from the above methods and using judgement to combine them in varying proportions according to injury period.

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

| | 30 June 2012 | 30 June 2011 |
|---|---|---|
| Average claim frequency (claims per 1000 registrations) | 3.77 | 3.73 |
| Average claim size | $57,357 | $60,244 |
| Expense rate | 10.03% | 10.39% |
| Discount rate (5-year average) | 2.59% | 4.94% |
| Short-term inflation (AWE) (5-year average) | 3.75% | 3.85% |
| Short-term inflation (CPI) (5-year average) | 2.60% | 2.70% |
| Superimposed inflation | 0.25% | 1.00% |
| Long-term gap (Discount – AWE) | 1.75% | 2.00% |
| Long-term gap (Discount – CPI) | 3.00% | 3.25% |
| Average weighted term to settlement from injury date | 14.6 years | 13.1 years |
| Risk margin | 10.5% | 10.5% |

**Process used to determine assumptions**

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

*Average claim frequency*

Claim frequency for the current accident year is estimated by projecting the number of claims incurred based on claims already reported and past patterns of claims reporting, and dividing this by the number of vehicle registrations. The claim frequency is not used explicitly in the valuation models but provides a high level indicator of claim experience.

*Average claims size*

The average claim size takes into account the expected payments for each payment type (e.g. long term care, income, common law), as well as the proportion of total claims which receive each benefit. The figures shown in the above table take into account both inflation to the time of payment and discounting the resultant payments back to the valuation date.

*Expense rate*

Claims handling expenses were estimated by reference to past levels of claims handling costs relative to past payments. Separate assumptions were determined for each division as follows:

/ 27.1% of benefits managed by Recovery (2011: 26.3%)

/ 7.9% of benefits managed by Independence (2011: 8.3%)

/ 8.3% of benefits managed by Lump Sum Compensation (2011: 8.1%)

*Discount rate*

Discount rates adopted are "risk-free" rates, set by reference to traded Commonwealth Government Securities.

*Inflation*

Short-term economic inflation assumptions are set by reference to current forecasts by bank and other economists. Long-term economic inflation assumptions are set by assuming a fixed real return.

*Superimposed inflation*

Superimposed inflation relates to inflation in excess of ordinary economic inflation. It occurs due to non-economic effects such as increases in court settlements and the cost of certain health services increasing at a higher rate than AWE or CPI inflation. An allowance for superimposed inflation was made for various benefits, after considering both the superimposed inflation observed in the portfolio and industry superimposed inflation trends. For Attendant Care, many potential sources of superimposed inflation are now being explicitly allowed for in the valuation models; accordingly, the assumption for general superimposed inflation not explicitly allowed for by other factors has been reduced from 1.00% to 0.25%. The allowances for other benefits remain unchanged.

*Average weighted term to settlement*

The average weighted term to settlement is calculated separately by benefit type based on historic settlement patterns. It is an outworking of the models rather than an explicit assumption.

*Risk margin*

A risk margin is applied to the outstanding claims liability to reflect the inherent uncertainty in the central estimate of the outstanding claims liability. The risk margin increases the probability that the claims liability is adequately provided up to a 75% probability of sufficiency.

**Sensitivity analysis – insurance contracts**

The TAC's valuation actuary conducts sensitivity analyses to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of the TAC. The tables below describe how a change in each assumption will affect the scheme liabilities and show how changes in these assumptions impact on profit and equity.

| Variable | Impact of movement in variable |
|---|---|
| Average claim frequency | Claims frequencies are used in determining the level of claims incurred but not reported (IBNR). An increase or decrease in the assumed average frequency levels would have a corresponding impact on claims expense. |
| Expense rate | An estimate of the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on claims expense. |
| Discount rate | 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. |
| Inflation and superimposed inflation rates | Expected future payments are inflated to take account of inflationary increases. In addition to the general economic inflation rate an amount is superimposed to take account of non-economic inflationary factors, such as increases in court awards. An increase or decrease in the assumed levels of either economic or superimposed inflation would have a corresponding impact on claims expense, with particular reference to longer tail benefits. |
| Average weighted term to settlement | A decrease in the average term to settlement would lead to more claims being paid sooner than anticipated. Expected payment patterns are used in determining the outstanding claims liability. An increase or decrease in the average weighted term would have an opposing impact on claims expense. |

*Impact of changes in key variables*

| | | 2012 | 2011 | 2012 | 2011 |
|---|---|---|---|---|---|
| Variable | Movement | Net result $000 | Net result $000 | Equity $000 | Equity $000 |
| **Recognised amounts per the financial statements** | | **(1,024,447)** | **279,456** | **(1,403,897)** | **(239,450)** |
| Average claim frequency | +1% | (1,032,214) | 272,619 | (1,411,664) | (245,935) |
| | -1% | (1,016,680) | 286,293 | (1,396,130) | (232,965) |
| Expense rate | +1% | (1,086,900) | 230,126 | (1,466,350) | (288,527) |
| | -1% | (961,994) | 328,786 | (1,341,444) | (190,373) |
| Short-term discount rate | + 0.5% | (894,707) | 377,156 | (1,274,157) | (148,109) |
| | - 0.5% | (1,157,803) | 179,130 | (1,537,253) | (333,246) |
| Short-term inflation rates | + 0.5% | (1,158,667) | 176,873 | (1,538,117) | (335,865) |
| | - 0.5% | (892,578) | 380,300 | (1,272,028) | (144,677) |
| Average weighted term to settlement | + 1 year | (891,891) | 399,285 | (1,271,341) | (123,965) |
| | - 1 year | (1,159,654) | 156,931 | (1,539,104) | (354,935) |

## 3 / INSURANCE CONTRACTS - RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operation of the TAC is affected by a number of key risks including insurance risk, interest rate risk, credit risk, market risk, liquidity risk, financial risk and operational risk.

In regard to insurance risks, the TAC's policies and procedures in respect of managing these risks are set out in this note.

**(a) Risks arising from insurance operation and policies for mitigating those risks**

The TAC has an objective to manage insurance risk thus reducing the volatility of operating profits. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, performance from insurance operations are significantly affected by market factors external to the TAC as explained in note 4.

The TAC has developed, implemented and maintained a sound and prudent risk management strategy that encompasses all aspects of the TAC's operations including the reinsurance risk retention limits.

The strategy sets out the TAC's policies and procedures, processes and controls in respect of the management of both financial and non-financial risks likely to be faced by the organisation.

Key aspects of the processes established to mitigate risks include:

/ the maintenance and use of sophisticated management information systems, which provide reliable and up to date data on the risks to which the business is exposed at any point in time;

/ actuarial models, using information derived from the management information systems are used to monitor claims patterns. Past experience and statistical methods are used as part of the process;

/ catastrophic accidents are modelled and the TAC's exposures are protected by arranging reinsurance to limit the losses arising from an individual event. The retention and limits are approved by the TAC's Board;

/ only reinsurers with credit ratings equal to, or in excess of, a minimum level determined by management are accepted as participants in the TAC's reinsurance treaties; and

/ the investment allocation strategy, established by VFMC in consultation with the TAC, is derived by the matching of assets to the underlying claims liabilities to optimise the returns within the risk management parameters.

**(b) Terms and conditions**

The terms and conditions of the transport accident compensation scheme administered by the TAC are established under the *Transport Accident Act 1986*. The period of indemnity is generally 12 months.

Reinsurance contracts are negotiated and entered into annually to protect the TAC against large losses.

**(c) Concentration of insurance risk**

The TAC operates the Victorian transport accident compensation scheme. The TAC's exposure to concentration of insurance risks is motor vehicles, trains and trams in metropolitan Melbourne.

**(d) Interest rate risk**

None of the financial assets or liabilities arising from insurance or reinsurance contracts entered into by the TAC is directly exposed to interest rate risk.

**(e) Credit risk**

The TAC has no significant concentrations of credit risk. Reinsurers with credit ratings equal to, or in excess of, a minimum level determined by management are accepted as participants in the TAC's reinsurance contracts.

## 4 / EXPLANATION OF VOLATILITY OF FINANCIAL RESULTS

This note provides additional analysis of the loss before income tax of $1,475 million (2011: profit $391 million).

Given the long-term nature of the TAC scheme, the annual operating result for the TAC is significantly affected by market factors external to the organisation. External factors contribute to the difference between actual annual investment returns and the long-term average expected investment returns advised by VFMC and also include changes in claims economic assumptions and changes in legislation impacting the TAC. External factors can cause significant variations in reported results from year to year as illustrated below.

Accordingly for internal management reporting purposes, the TAC monitors and measures its financial performance based on performance from insurance operations excluding the impact of external factors. This approach is considered a more appropriate indicator for measuring financial performance of the TAC scheme and is adopted for reporting to the Victorian State Government.

The impact of external factors on the financial results is explained below.

| | 2012 ($M) | 2011 ($M) |
|---|---|---|
| Performance from insurance operations | 351 | 187 |
| Impact on profit from external factors: | | |
| - Difference between actual investment returns and long term expected returns[1] | (245) | 226 |
| - Changes in inflation assumptions and discount rates (refer note 7) | (1,581) | (22) |
| **Profit / (loss) before income tax** | **(1,475)** | **391** |

[1] The TAC investment portfolio recorded a positive return of 4.2% (2011: positive 10.9%) compared to the long term expected return of 7.5%.

## 5 / ADMINISTRATION COSTS

| | 2012 $000 | 2011 $000 |
|---|---|---|
| Staff and related | 89,853 | 82,835 |
| Information technology | 16,101 | 20,735 |
| Occupancy and utilities | 7,909 | 8,376 |
| Other operating costs | 19,046 | 16,823 |
| Depreciation and amortisation | 13,345 | 11,809 |
| **Total[1]** | **146,254** | **140,578** |
| Total administration costs include the following: | | |
| Write down of intangibles | 1,263 | - |
| Operating lease rentals | 6,692 | 6,815 |
| Auditor-General's fees[2] | 257 | 247 |
| Interest on finance lease | 115 | 96 |
| Finance costs[3] | 179 | 69 |

[1] No costs were incurred in association with the Geelong relocation program in 2012 (2011: $2.1 million) as it is now completed.

[2] Fees are for audit of the financial report.

[3] Finance costs relate to the impact of changes in the discount rate on provision for employee benefits.

## 6 / INVESTMENT INCOME

| | 2012 $000 | 2011 $000 |
|---|---|---|
| Dividends | 193,127 | 173,497 |
| Interest[1] | 156,288 | 177,277 |
| Changes in fair values of investments[2] | | |
| - realised profit / (loss) | 4,247 | 378,991 |
| - unrealised profit / (loss) | (21,261) | 18,952 |
| Gross investment profit / (loss) | 332,401 | 748,717 |
| Investment expenses[3] | (21,605) | (22,062) |
| **Net investment profit / (loss)** | **310,796** | **726,655** |

[1] Interest represents coupon interest earned and net settlements on swap contracts.

[2] This is the difference between the fair value of the investments as at 1 July or the cost of acquisition (for investments purchased during the period), and net sales proceeds (realised) or their fair value as at 30 June (unrealised).

[3] Fees paid to Victorian Funds Management Corporation under the Client Funds Management Service Agreement and other professional fees incurred by the TAC in relation to the management of the investment portfolio.

The TAC investment portfolio recorded a positive return of 4.2% for 2011/12, compared to positive 10.9% in the previous year, notwithstanding the difficult conditions experienced in global sharemarkets in 2011/12.

## 7 / CLAIMS INCURRED

Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the claims assumptions (e.g. changes in economic assumptions and claims experience) made in all previous financial years and include the effects of discounting caused by the natural reduction in discount, as the claims move one year closer to settlement.

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Current year $000 | Prior years $000 | Total $000 | Current year $000 | Prior years $000 | Total $000 |
| Gross claims incurred | | | | | | |
| Undiscounted | 2,449,645 | (492,163) | 1,957,482 | 2,372,370 | (188,576) | 2,183,794 |
| Discount movement | (1,113,854) | 2,008,304 | 894,450 | (1,203,919) | 359,084 | (844,835) |
| | 1,335,791 | 1,516,141 | 2,851,932 | 1,168,451 | 170,508 | 1,338,959 |
| Claims recoveries | | | | | | |
| Undiscounted | (13,569) | 2,150 | (11,419) | (12,253) | 6,174 | (6,079) |
| Discount movement | 3,256 | (10,446) | (7,190) | 4,036 | (6,296) | (2,260) |
| | (10,313) | (8,296) | (18,609) | (8,217) | (122) | (8,339) |
| **Net claims incurred** | **1,325,478** | **1,507,845** | **2,833,323** | **1,160,234** | **170,386** | **1,330,620** |

The net claims incurred of $2,833 million (2011: $1,331 million) is impacted by both internal and external factors as noted below:

| | 2012 $M | 2011 $M |
|---|---|---|
| Claims incurred – internal[1] | 1,252 | 1,309 |
| Claims incurred – external[2] | 1,581 | 22 |
| **Total claims incurred** | **2,833** | **1,331** |

[1] Claims incurred – internal for 2011/12 is $1,252 million, which is slightly lower than the claims incurred for the previous year. This is largely due to the favourable claims experience over the period, combined with the revision and application of certain other assumptions such as assumed levels of future mortality.

[2] Claims incurred – external reflects the financial impact on changes in inflation assumptions and discount rates. In 2011/12, these economic factors have had an unfavourable impact of $1,581 million on claims liabilities, arising primarily from significant reductions to bond yields over the period.

## 8 / INCOME TAX

| | 2012 $000 | 2011 $000 |
|---|---|---|
| **(a) Income tax recognised in comprehensive income statement** | | |
| **Income tax expense / (benefit) comprises:** | | |
| Current tax expense / (benefit) | (406,141) | 19,585 |
| Deferred tax adjustment | (42,327) | 92,033 |
| Adjustment in respect of prior years | (1,871) | (98) |
| **Total tax expense / (benefit)** | **(450,339)** | **111,520** |
| Deferred tax adjustment comprises: | | |
| Decrease in deferred tax assets | (44,328) | 90,576 |
| Increase in deferred tax liabilities | 2,001 | 1,457 |
| | **(42,327)** | **92,033** |
| **(b) Reconciliation between net result before tax and income tax expense / (benefit)** | | |
| Net profit / (loss) before tax | (1,474,786) | 390,976 |
| Tax at the statutory rate of 30% (2011 - 30%) | (442,436) | 117,293 |
| Imputation gross-up on dividends received | 3,130 | 2,575 |
| Franking credits and withholding tax on dividends received | (9,181) | (8,233) |
| Sundry items | (1,852) | (115) |
| **Income tax expense / (benefit)** | **(450,339)** | **111,520** |

| | | |
|---|---|---|
| **(c) Deferred tax balances** | | |
| **Deferred tax assets comprise:** | | |
| Carry forward tax losses | 825,082 | 441,131 |
| Claims handling expense included in outstanding claims | 264,009 | 219,687 |
| Unrealised loss on investments | 99,448 | 75,501 |
| Provisions and accrued employee entitlements not currently deductible | 5,409 | 5,277 |
| Accruals not currently deductible | 25 | 38 |
| | **1,193,973** | **741,634** |
| **Deferred tax liabilities comprise:** | | |
| Difference in depreciation/amortisation of plant and equipment and intangible assets for accounting and income tax purposes | 6,616 | 4,616 |
| | 6,616 | 4,616 |
| **Net deferred tax assets** | **1,187,357** | **737,018** |

## 9 / RECEIVABLES

| | 2012 $000 | 2011 $000 |
|---|---|---|
| **Current** | | |
| Premiums receivable[1] | 11,551 | 13,363 |
| Claims GST receivable[2] | 46,711 | 44,948 |
| Claims recoveries and other debtors[3] | 14,054 | 14,784 |
| Less: Provision for impairment | (2,323) | (3,321) |
| | 11,731 | 11,463 |
| **Total current** | **69,993** | **69,774** |
| **Non-current** | | |
| Claims GST receivable[2] | 335,460 | 264,321 |
| Claims recoveries and other debtors[3] | 53,453 | 45,596 |
| Less: Provision for impairment | (253) | (198) |
| | 53,200 | 45,398 |
| **Total non-current** | **388,660** | **309,719** |

[1] Premium receivables are computed based on the proportion of premium collections attributable to periods of insurance prior to the period when the premiums were collected.

[2] Amounts represent the GST credits which the TAC is entitled to claim on future claims payments. These amounts are actuarially estimated and discounted to present value at balance date.

[3] Included within the claims recoveries and other debtors balance is $62.851 million (2011: $53.922 million) of actuarially determined recoveries with the remaining $4.656 million (2011: $6.458 million) relating to actual receivables from known counterparties which are past due as at the reporting date. The TAC has provided for impairment of these on the basis of past experience. The average age of those receivables that are past due but not impaired is above 90 days. The TAC does not hold any collateral over these balances.

### (a) Movement in provision for impairment

| | 2012 $000 | 2011 $000 |
|---|---|---|
| Balance at 1 July | (3,519) | (3,551) |
| Increase in allowance recognised in the net result | (58) | - |
| Decrease in allowance recognised in the net result | - | 32 |
| Reversal of unused provision recognised in the net result | 1,001 | - |
| **Balance at 30 June 2012** | **(2,576)** | **(3,519)** |

## 10 / INVESTMENTS

The TAC's investment activity is undertaken pursuant to the *Transport Accident Act 1986*, the *Borrowing and Investment Powers Act 1987* and the Treasurer's Prudential Statement. It is the Victorian Government's policy that all the investment assets of the TAC be managed by the Victorian Funds Management Corporation (VFMC).

Under the Centralised Model implemented by the Victorian Government in July 2006, the TAC is responsible for setting its investment objectives whilst the VFMC has responsibility to develop appropriate investment strategies that target the TAC's investment objectives. The investment strategy that is determined by the VFMC for the TAC is documented in a detailed Investment Risk Management Plan (IRMP) which is approved by the Treasurer. The IRMP is prepared by the VFMC and addresses issues concerning strategy, portfolio construction, benchmarks and risk management.

The TAC Board is not responsible for the management or prudential supervision of the investments – the management responsibility rests with the VFMC and the prudential supervision responsibility rests with the Department of Treasury and Finance. The VFMC Board is required to certify to the DTF on a quarterly basis and on an annual basis to the TAC, that the TAC's investment portfolio has been managed in accordance with the accepted IRMP and with the TAC's investment objectives. The TAC is responsible for the review of the contractual and service level agreements and for periodically reviewing and discussing with VFMC its investment performance against its investment objectives.

Investment performance, including comparisons to market benchmarks, is reported to the TAC Board monthly. The Board's standing Financial and Investment Strategies Committee also convenes periodically to review the VFMC's investment performance, discuss the investment strategy and review the implications for achieving the TAC's investment objectives.

The investment portfolio consists of a range of assets that broadly resemble: cash and nominal bonds to cover short term risk and liquidity needs; inflation linked assets that more closely match TAC's liability characteristics; and equities to provide for long term growth.

| | 2012 $000 | 2011 $000 |
|---|---|---|
| **Asset category** | | |
| Cash and deposits | 1,324,980 | 1,231,935 |
| Debt securities | 2,126,754 | 2,045,750 |
| Australian listed equities | 377,498 | 432,484 |
| International listed equities | 828,598 | 789,075 |
| Unlisted equities | 265,832 | 220,634 |
| Listed trusts | 55,961 | 60,230 |
| Unlisted trusts | 2,632,513 | 2,551,320 |
| Financial derivatives[1] - receivables | 46,414 | 39,271 |
| Investment settlements outstanding | 57,655 | 34,209 |
| **Total** | **7,716,205** | **7,404,908** |
| Current | 1,543,562 | 1,401,766 |
| Non-current | 6,172,643 | 6,003,142 |
| **Total** | **7,716,205** | **7,404,908** |

[1] Financial derivative instruments principally consist of foreign exchange contracts, futures, swaps and options. Derivatives are used to enable the TAC to protect the value of its assets against the financial risks inherent in the TAC's investment portfolio.

TAC has uncalled capital commitments within its investments totalling $271.9 million as at 30 June 2012 (2011: $180.3 million), which have not been recognised on the balance sheet.

## 11 / DEFERRED ACQUISITION COSTS

| | 2012<br>$000 | 2011<br>$000 |
|---|---|---|
| **Balance at 1 July** | 16,240 | 15,576 |
| Acquisition costs incurred in the year | 34,633 | 33,125 |
| Amount expensed to comprehensive operating statement | (33,829) | (32,461) |
| **Balance at 30 June** | **17,044** | **16,240** |

## 12 / OTHER ASSETS

| | 2012<br>$000 | 2011<br>$000 |
|---|---|---|
| **Current** | | |
| Prepayments and others | 2,123 | 4,523 |
| **Balance at 30 June** | **2,123** | **4,523** |

## 13 / CONTROLLED ENTITY

| | 2012<br>$000 | 2011<br>$000 |
|---|---|---|
| **Non-current** | | |
| Controlled entity | 4,000 | - |
| **Balance at 30 June** | **4,000** | **-** |

Residential Independence Pty Ltd (RIPL) as trustee for the Residential Independence Trust (RIT) is a controlled entity of the TAC which is wholly owned by the TAC. The RIT was established on 1 February 2011. The RIPL was incorporated in Victoria, Australia on 21 December 2010 and its principal activity is to establish a portfolio of residential property configured so that the accommodation is suitable for selected TAC clients. The financial statements of RIPL have not been consolidated in the preparation of the financial report of the TAC as the financial impact of consolidation is considered not material. The valuation included in the financial statements is the cost of the units held as at 30 June 2012 by the TAC.

The Victorian Neurotrauma Initiative Pty Ltd (VNI) was a controlled entity of the TAC which was wholly owned by the TAC. The VNI was incorporated in Victoria, Australia and its principal activity was to support and fund research into neurotrauma and its effects. The VNI ceased operation and its research activities transferred to the TAC with effect from the 30 May 2011. The financial statements of VNI were not consolidated in the preparation of the financial report of the TAC as the financial impact of consolidation was considered not material.

## 14 / PLANT AND EQUIPMENT

| | 2012 $000 | 2011 $000 |
|---|---|---|
| Leasehold improvements | 10,997 | 10,997 |
| Accumulated depreciation | (1,847) | (1,298) |
| | 9,150 | 9,699 |
| Plant and equipment | 8,564 | 6,568 |
| Accumulated depreciation | (2,252) | (1,672) |
| | 6,312 | 4,896 |
| Motor vehicles under lease | 3,013 | 3,303 |
| Accumulated depreciation | (780) | (908) |
| | 2,233 | 2,395 |
| **Balance at fair value at 30 June** | **17,695** | **16,990** |

| Movements in carrying amounts | Leasehold improvements $000 | Plant & equipment $000 | Motor vehicles $000 | Total $000 |
|---|---|---|---|---|
| **Balance at 1 July 2010** | **9,609** | **5,282** | **2,217** | **17,108** |
| Additions | 637 | 174 | 1,687 | 2,498 |
| Disposals | - | - | (863) | (863) |
| Depreciation expense | (547) | (560) | (646) | (1,753) |
| **Balance at 30 June 2011** | **9,699** | **4,896** | **2,395** | **16,990** |
| Additions | - | 2,047 | 1,322 | 3,369 |
| Disposals | - | - | (815) | (815) |
| Depreciation expense | (549) | (631) | (669) | (1,849) |
| **Balance at 30 June 2012** | **9,150** | **6,312** | **2,233** | **17,695** |

## 15 / INTANGIBLES

| | 2012 $000 | 2011 $000 |
|---|---|---|
| **Computer software** | | |
| At cost | 93,218 | 80,243 |
| Less: Accumulated amortisation | (44,478) | (33,235) |
| **Balance at 30 June** | **48,740** | **47,008** |
| **Movements in carrying amounts** | | |
| Balance at 1 July | 47,008 | 47,069 |
| Additions | 14,491 | 9,995 |
| Write down of intangibles | (1,263) | - |
| Current year amortisation | (11,496) | (10,056) |
| **Balance at 30 June 2012** | **48,740** | **47,008** |

## 16 / PAYABLES

| | 2012<br>$000 | 2011<br>$000 |
|---|---|---|
| **Current** | | |
| Advance premiums[1] | 26,555 | 27,080 |
| GST Payable | 5 | 46 |
| Other creditors and accruals[2] | 55,960 | 55,685 |
| **Balance at 30 June** | **82,520** | **82,811** |

[1] Advance premiums represent premiums received for policies commencing after balance date.

[2] Accruals and creditors represent liabilities for goods and services provided to the TAC, prior to the end of the financial year, which are unpaid. Amounts are normally settled within 30 days and are carried at nominal value which approximates fair value. The TAC has processes in place to ensure that all payables are paid within the credit timeframe.

## 17 / OUTSTANDING CLAIMS

### (a) Outstanding claims liability

Outstanding claims liability as at 30 June 2012 has been determined by the Directors after appropriate consideration of the actuarial advice provided by an independent actuarial firm, PricewaterhouseCoopers Actuarial Pty Ltd.

| | 2012<br>$000 | 2011<br>$000 |
|---|---|---|
| Expected future claims payments (undiscounted) | 22,078,869 | 19,932,592 |
| Discount to present value | (13,690,306) | (13,191,952) |
| | 8,388,563 | 6,740,640 |
| Claims handling expenses | 796,406 | 662,706 |
| | 9,184,969 | 7,403,346 |
| Risk margin | 917,694 | 739,216 |
| **Outstanding claims liability** | **10,102,663** | **8,142,562** |
| Current | 1,001,213 | 963,113 |
| Non-current | 9,101,450 | 7,179,449 |
| **Outstanding claims liability** | **10,102,663** | **8,142,562** |

### (b) Risk margin

The TAC has added a risk margin to the central (best) estimate of the discounted future claims payments to provide for a higher degree of certainty that the liability for outstanding claims, at balance date, will be adequate to cover possible adverse developments.

The overall risk margin was determined allowing for the relative uncertainty of the outstanding claims estimate. Uncertainty was analysed for each benefit type taking into account potential uncertainties relating to the actuarial models and assumptions, the quality of the underlying data used in the models, the insurance environment, and the impact of legislative reform.

The assumptions regarding uncertainty were applied to the central estimates in order to arrive at an overall provision that allows for a 75% probability of sufficiency in meeting the actual amount of liability to which it relates. The risk margin applied at balance date was 10.5% (2011:10.5%).

### (c) Reconciliation of movement in discounted outstanding claims liability

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Gross $000 | Recoveries $000 | Net $000 | Gross $000 | Recoveries $000 | Net $000 |
| **Outstanding claims brought forward** | **8,142,562** | **(363,191)** | **7,779,371** | **7,671,138** | **(338,805)** | **7,332,333** |
| Effect of changes in economic assumptions | 1,463,732 | (6,231) | 1,457,501 | (7,021) | 77 | (6,944) |
| Effect of past inflation rate different to assumptions | (4,857) | 774 | (4,083) | 25,134 | (328) | 24,806 |
| Effect of changes in other assumptions | (156,276) | (233) | (156,509) | (31,390) | 2,092 | (29,298) |
| Increase in claims incurred/ recoveries in current accident year | 1,335,791 | (10,313) | 1,325,478 | 1,167,892 | (7,658) | 1,160,234 |
| Release of risk margin and claims handling expenses | (184,147) | - | (184,147) | (183,873) | - | (183,873) |
| Cost of prior year claims moving one year closer to payment | 397,689 | (2,606) | 395,083 | 368,217 | (2,522) | 365,695 |
| Incurred claims recognised in the comprehensive income statement | 2,851,932 | (18,609) | 2,833,323 | 1,338,959 | (8,339) | 1,330,620 |
| Claims payments and recoveries during the year | (964,732) | 9,679 | (955,053) | (891,788) | 8,206 | (883,582) |
| Increase in provision for GST credits | 72,901 | (72,901) | - | 24,253 | (24,253) | - |
| **Outstanding claims carried forward** | **10,102,663** | **(445,022)** | **9,657,641** | **8,142,562** | **(363,191)** | **7,779,371** |

**(d) Claims development table**

The table shows the development of undiscounted outstanding claims relative to the ultimate expected claims for the ten most recent accident years.

| Accident year | 2003 $000 | 2004 $000 | 2005 $000 | 2006 $000 | 2007 $000 | 2008 $000 | 2009 $000 | 2010 $000 | 2011 $000 | 2012 $000 | Total $000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Estimate of ultimate claims costs:** | | | | | | | | | | | |
| At end of accident year | 1,249,826 | 1,443,864 | 1,330,042 | 1,715,906 | 1,924,878 | 2,103,279 | 1,902,683 | 1,868,977 | 2,095,677 | 2,190,740 | |
| One year later | 1,310,766 | 1,198,363 | 1,605,442 | 1,674,284 | 1,896,843 | 1,818,182 | 1,870,243 | 1,822,545 | 2,122,859 | | |
| Two years later | 1,277,465 | 1,572,798 | 1,558,131 | 1,436,193 | 1,964,435 | 1,787,095 | 1,980,985 | 2,048,727 | | | |
| Three years later | 1,351,246 | 1,777,775 | 1,499,894 | 1,417,902 | 1,925,678 | 1,789,816 | 2,091,361 | | | | |
| Four years later | 1,546,250 | 1,787,082 | 1,419,173 | 1,335,871 | 1,925,684 | 1,761,781 | | | | | |
| Five years later | 1,613,970 | 1,779,114 | 1,359,116 | 1,361,137 | 1,820,379 | | | | | | |
| Six years later | 1,621,192 | 1,745,532 | 1,406,340 | 1,419,764 | | | | | | | |
| Seven years later | 1,458,581 | 1,757,192 | 1,411,894 | | | | | | | | |
| Eight years later | 1,456,056 | 1,779,114 | | | | | | | | | |
| Nine years later | 1,347,628 | | | | | | | | | | |
| Current estimate of cumulative claims costs | 1,347,628 | 1,779,114 | 1,411,894 | 1,419,764 | 1,820,379 | 1,761,781 | 2,091,361 | 2,048,727 | 2,122,859 | 2,190,740 | 17,994,247 |
| Cumulative payments | (528,202) | (527,235) | (533,959) | (578,990) | (623,497) | (556,101) | (515,300) | (366,813) | (271,752) | (160,171) | (4,662,020) |
| **Outstanding claims - undiscounted** | **819,426** | **1,251,879** | **877,935** | **840,774** | **1,196,882** | **1,205,680** | **1,576,061** | **1,681,914** | **1,851,107** | **2,030,569** | **13,332,227** |
| Discount | | | | | | | | | | | (8,039,086) |
| 2002 and prior claims | | | | | | | | | | | 3,568,094 |
| Claims handling expenses | | | | | | | | | | | 796,406 |
| Recoveries and GST credits | | | | | | | | | | | 445,022 |
| **Outstanding claims per balance sheet** | | | | | | | | | | | **10,102,663** |

## 18 / UNEARNED PREMIUMS

| | 2012 $000 | 2011 $000 |
|---|---|---|
| Balance at 1 July | 660,961 | 633,343 |
| Deferral of premium written in the year | 692,936 | 660,961 |
| Earning of premium written in previous year | (660,961) | (633,343) |
| **Balance at 30 June** | **692,936** | **660,961** |

## 19 / PROVISIONS

| | 2012 $000 | 2011 $000 |
|---|---|---|
| **Current** | | |
| Employee benefits[1] | 10,732 | 9,860 |
| **Total current** | **10,732** | **9,860** |
| **Non-current** | | |
| Employee benefits | 2,469 | 1,844 |
| **Total non-current** | **2,469** | **1,844** |
| [1] Annual leave and long service leave entitlements expected to be settled: | | |
| - within 12 months of reporting date | 6,106 | 5,398 |
| - beyond 12 months of reporting date | 4,626 | 4,462 |
| **Total** | **10,732** | **9,860** |

### (a) Movement in provisions

| | Employee benefits[1] $000 | Total $000 |
|---|---|---|
| **Balance at the beginning of the year** | **11,704** | **11,704** |
| Additional provision recognised | 8,230 | 8,230 |
| Reduction arising from payments | (6,912) | (6,912) |
| Unwind of discount and effect of changes in the discount rate | 179 | 179 |
| **Balance at 30 June 2012** | **13,201** | **13,201** |

[1] The provisions for employee benefits consist of annual leave and long service leave entitlements, including on costs.

## 20 / COMMITMENTS

| | 2012 $000 | 2011 $000 |
|---|---|---|
| **(a) Administrative expenditure[1]** | | |
| Estimated administrative expenditure contracted at balance date, but not provided for: | | |
| - not later than one year | 113,689 | 125,965 |
| - later than one year but not later than five years | 288,866 | 369,451 |
| - later than five years | - | - |
| | **402,555** | **495,416** |
| **(b) Operating leases[2]** | | |
| Minimum lease payments: | | |
| - not later than one year | 7,265 | 7,066 |
| - later than one year but not later than five years | 30,298 | 29,651 |
| - later than five years | 112,420 | 120,257 |
| | **149,983** | **156,974** |
| **(c) Finance leases** | | |
| - not later than one year | 944 | 1,168 |
| - later than one year but not later than five years | 1,492 | 1,398 |
| Total minimum lease payments | 2,436 | 2,566 |
| - future finance charges | (182) | (198) |
| Lease liability[3] | 2,254 | 2,368 |
| - current liability | 823 | 1,055 |
| - non-current liability | 1,431 | 1,313 |
| | **2,254** | **2,368** |

[1] Included in the administrative expenditure is a total amount of approximately $312 million (nominal) of commitments by the TAC to provide funding for major road safety infrastructure programs in Victoria. The programs are aimed at reducing the incidence of serious casualty crashes and road trauma and are expected to result in lower TAC claims costs.

[2] Operating leases relate to various offices and storage premises expiring within one to twenty years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. The TAC does not have an option to purchase the leased asset at the expiry of the lease period.

[3] Finance leases relate to motor vehicles with lease terms of up to three years. The TAC does not have an option to purchase the motor vehicles at the expiry of the lease period. These are recognised in the balance sheet.

## 21 / EMPLOYEE SUPERANNUATION

Superannuation is provided for employees via the following superannuation funds:

| | 2012 $000 | 2011 $000 |
|---|---|---|
| Emergency Services Superannuation Scheme | | |
| - Revised and New Scheme[1] | 576 | 534 |
| Victorian Superannuation Fund - VicSuper Scheme | 4,654 | 4,329 |
| Private sector complying funds | 2,915 | 2,166 |
| **Total** | **8,145** | **7,029** |

[1] These schemes are defined benefit superannuation plans.

The TAC does not recognise any defined benefit liability in respect of the Revised and New Scheme under the Emergency Services Superannuation Scheme, as the TAC has no legal or constructive obligation to pay future benefits relating to its employees. The TAC's only obligation is to pay superannuation contributions as they fall due. The Department of Treasury and Finance administers and discloses the State's defined benefit liabilities in its financial report.

The basis of superannuation contributions is based on the relevant rules of each plan. At 30 June 2012, contributions outstanding were $nil (2011: $nil).

Employees have the option of contributing exclusively to private sector complying funds or contributing to the Victorian Superannuation Fund or both.

## 22 / RESPONSIBLE PERSON-RELATED DISCLOSURES

In accordance with the Ministerial Directions issued by the Minister for Finance under the *Financial Management Act 1994*, the responsible persons who held office during the financial year was The Honourable Gordon Rich-Phillips MLC, Assistant Treasurer from 2 December 2010 and the following responsible persons:

**Directors /**

Mr Paul Barker (Chairman)

Dr Julie Caldecott

Mr Andrew Dyer

Mr Geoff Hilton

Ms Christine McLoughlin (resigned 23 June 2012)

Professor Robert Officer

Ms Sonia Petering

Ms Elana Rubin (resigned 26 March 2012)

Ms Deborah Hallmark

**Chief Executive Officer /**

Ms Janet Dore

### (a) Remuneration of responsible persons

| | 2012 $000 | 2011 $000 |
|---|---|---|
| Total remuneration received or receivable by responsible persons[1] | 910 | 938 |

The number of responsible persons of the TAC whose remuneration falls within the following bands were:

| Income Band | 2012 No. | 2011 No. |
|---|---|---|
| $40,000 - $49,999 | 3 | 1 |
| $50,000 - $59,999 | 5 | 7 |
| $110,000 - $119,999 | 1 | 1 |
| $400,000 - $409,999 | 1 | - |
| $420,000 - $429,999 | - | 1 |

[1]Amounts relating to ministers are reported in the financial statements of the Department of Premier and Cabinet.

### (b) Related party transactions

Mr Paul Barker and Mr Geoff Hilton are, and Ms Elana Rubin was (resigned), directors of the Victorian WorkCover Authority (WorkSafe), which is entitled to recover from the TAC under the *Accident Compensation Act 1985*, all compensation payable under the WorkCover scheme for injury in a transport accident during the course of work. The TAC also makes payments for the annual Workplace Injury Insurance premium to WorkSafe.

The TAC and WorkSafe reimbursed each other for the cost of external services acquired jointly, and internal services provided to each other, in relation to collaborative initiatives between WorkSafe and the TAC. In addition, the TAC received payments from WorkSafe for the management of WorkSafe claims of injured workers with catastrophic injuries.

The aggregate amounts in respect of the above transactions with responsible person-related entity were:

| | 2012 $000 | 2011 $000 |
|---|---|---|
| Claim compensation paid | (68,600) | (61,530) |
| Annual Workplace Injury Insurance premium paid | (447) | (425) |
| Cost reimbursement receivable | 5,768 | 5,756 |
| Cost reimbursement payable | (10,345) | (11,987) |
| Management of catastrophic claims received | 1,154 | 1,106 |

Dr Julie Caldecott is a Board member of the Institute for Safety, Compensation, and Recovery Research (ISCRR). The TAC is committed to contributing towards funding the research activities of ISCRR. During 2011/12, the total funding contributed to ISCRR amounted to $2,552,327.

Transactions with responsible person-related entities are made on normal commercial terms and conditions. Conflicts of interest are overcome where warranted, by Directors declaring their interests and abstaining from voting at TAC's Board meetings.

### (c) Other transactions

Other related transactions requiring disclosure under the Directions of the Minister for Finance have been considered and there are no matters to report.

## 23 / REMUNERATION OF EXECUTIVE OFFICERS

The remuneration of executive officers, being operational key management personnel of the TAC, is set out below.

| | 2012 $000 | 2011 $000 |
|---|---|---|
| Short-term employee benefits | 1,661 | 1,707 |
| Post-employment benefits | 116 | 103 |
| Other long-term employee benefits | 28 | 17 |
| Termination benefits | 144 | - |
| **Total** | **1,949** | **1,827** |

The number of executive officers of the TAC, excluding the Chief Executive Officer is shown in the table below. Base remuneration is exclusive of bonus, long service leave and redundancy payments.

The executive numbers vary from year to year due to the timing of appointments, resignations, and the composition of the executive officers.

| | Base remuneration | | Total remuneration | |
|---|---|---|---|---|
| Income band | 2012 No. | 2011 No. | 2012 No. | 2011 No. |
| Less than $100,000 | 3 | 2 | 1 | 1 |
| $120,000 - $129,999 | - | - | 1 | - |
| $130,000 - $139,999 | - | - | 1 | - |
| $140,000 - $149,999 | - | - | - | 1 |
| $210,000 - $219,999 | - | 1 | - | - |
| $220,000 - $229,999 | 1 | 1 | 1 | - |
| $230,000 - $239,999 | 1 | 1 | - | 1 |
| $240,000 - $249,999 | 1 | 1 | 1 | 2 |
| $250,000 - $259,999 | 1 | - | 2 | - |
| $260,000 - $269,999 | - | - | - | 1 |
| $270,000 - $279,999 | - | 1 | - | - |
| $280,000 - $289,999 | 1 | 1 | - | - |
| $290,000 - $299,000 | 1 | - | 1 | - |
| $310,000 - $319,999 | - | - | 1 | 1 |
| $320,000 - $329,999 | - | - | - | 1 |
| **Total number** | **9** | **8** | **9** | **8** |
| **Total annualised employee equivalent[1]** | **7** | **7** | **7** | **7** |
| **Total amount ($000)** | **1,716** | **1,631** | **1,949** | **1,827** |

[1]Annualised employee equivelant is based on working 38 ordinary hours per week over the reporting period.

## 24 / NOTES TO THE CASH FLOW STATEMENT

### (a) Reconciliation of cash and cash equivalents

For the purpose of the cash flow statement, cash includes cash on hand and at banks and cash equivalent assets. Cash equivalent assets are highly liquid investments with short periods to maturity, which are readily convertible to cash at the option of the TAC. Cash at the end of the financial year, as shown in the cash flow statement, is reconciled to the related items in the balance sheet as follows:

| | 2012 $000 | 2011 $000 |
|---|---|---|
| Cash and cash equivalents (bank) | 37,860 | 54,776 |
| Cash equivalents (investments) | 1,341,134 | 1,239,614 |
| **Total** | **1,378,994** | **1,294,390** |

### (b) Reconciliation of net cash flows from operating activities to net results

| | 2012 $000 | 2011 $000 |
|---|---|---|
| Net result for the year | (1,024,447) | 279,456 |
| Depreciation and amortisation | 13,345 | 11,809 |
| Writedown of intangibles | 1,263 | - |
| Finance costs | 179 | 69 |
| Realised profit on sale of investments | (4,247) | (378,991) |
| Unrealised loss / (profit) on investments | 21,261 | (18,952) |
| Loss / (profit) on sale of plant and equipment | (64) | 23 |
| **Changes in assets and liabilities** | | |
| Increase / (decrease) in outstanding claims | 1,960,101 | 471,424 |
| Increase / (decrease) in unearned premium | 31,975 | 27,618 |
| Decrease / (increase) in receivables and other assets | (65,946) | (38,155) |
| Increase / (decrease) in creditors and provisions | 913 | (4,504) |
| Decrease / (increase) in net deferred tax balances | (450,339) | 111,520 |
| **Net cash inflow / (outflow) from operating activities** | **483,994** | **461,317** |

## 25 / FINANCIAL INSTRUMENTS

The TAC's financial assets and liabilities are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. VFMC uses different methods to measure different types of risk to which the TAC's investment portfolio is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, and credit rating for credit risk.

**Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: market interest rates (interest rate risk), foreign exchange (currency risk), and market prices (price risk).

VFMC manages market risk by seeking input from the TAC's actuaries to ensure the investment mix is appropriate to service future liabilities and that projected outcomes are in line with the TAC's overall investment objectives and remain within the risk parameters approved by the Treasurer.

For the sensitivity analysis of each type of market risk, the percentage change used for each of the variables has been determined by the TAC as at 30 June 2012 and 30 June 2011, in consultation with VFMC.

*(a) Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The significant accounting policies (Note 1) describe the policies used to measure and report the assets and liabilities of the TAC. Where the applicable fair value is determined by discounting future cash flows, movements in interest rates will result in a reported unrealised gain or loss in the operating statement.

VFMC manages interest rate risk through an asset allocation strategy for the TAC's investment portfolio, which acts as an economic hedge against the insurance liabilities of the TAC. To the extent that these assets and liabilities can be matched, unrealised gains and losses on re-measurement of liabilities resulting from interest rate movements will be offset by unrealised losses or gains on re-measurement of investment assets.

VFMC uses derivatives to manage the interest rate risk on interest rate sensitive assets. Interest rate swap contracts and forward rate agreements are used to either change the interest rate risk between fixed and floating rates of interest or between different floating rates of interest.

*Interest rate swaps*

Interest rate swaps allow VFMC to swap floating rate investments into fixed rates and vice versa. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

Contracts normally involve quarterly payment or receipt of the net amount of interest. The unrealised gain on the swaps in the portfolio at 30 June 2012 was $1.6 million (2011: unrealised gain $6.0 million).

*Interest rate options*

VFMC may enter into interest rate options to hedge interest rate exposures. The option contracts have repricing terms up to 3 months. As at 30 June 2012, the outstanding option contracts were $nil (2011: $nil).

*Forward rate agreements*

VFMC may enter into forward interest rate agreements with expiry terms out to 12 months to maximise anticipated investment returns. As at 30 June 2012, the outstanding agreements were $nil (2011: $nil).

A summary of the TAC's exposure to interest rate risk and maturity analysis is as follows:

| 2012 | Variable interest rate $000 | Fixed maturity dates: 3 months or less $000 | Fixed maturity dates: 4 to 12 months $000 | Fixed maturity dates: 1 to 5 years $000 | Fixed maturity dates: Over 5 years $000 | Non interest bearing $000 | Total value $000 |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 37,860 | - | - | - | - | - | 37,860 |
| Investments: | | | | | | | |
| - interest rate swaps | 1,640 | - | - | - | - | - | 1,640 |
| - other investments | 1,437,993 | 1,154,625 | 28,071 | 388,631 | 441,793 | 4,263,452 | 7,714,565 |
| Other assets | - | - | - | - | - | 4,656 | 4,656 |
| | **1,477,493** | **1,154,625** | **28,071** | **388,631** | **441,793** | **4,268,108** | **7,758,721** |
| **Financial liabilities** | | | | | | | |
| Payables | - | - | - | - | - | 55,960 | 55,960 |
| Other liabilities | - | 206 | 617 | 1,431 | - | - | 2,254 |
| | **-** | **206** | **617** | **1,431** | **-** | **55,960** | **58,214** |
| **Net financial assets** | **1,477,493** | **1,154,419** | **27,454** | **387,200** | **441,793** | **4,212,148** | **7,700,507** |

| 2011 | Variable interest rate $000 | Fixed maturity dates: 3 months or less $000 | Fixed maturity dates: 4 to 12 months $000 | Fixed maturity dates: 1 to 5 years $000 | Fixed maturity dates: Over 5 years $000 | Non interest bearing $000 | Total value $000 |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 54,776 | - | - | - | - | - | 54,776 |
| Investments: | | | | | | | |
| - interest rate swaps | 5,973 | - | - | - | - | - | 5,973 |
| - other investments | 1,667,207 | 941,118 | 31,881 | 345,394 | 292,249 | 4,121,086 | 7,398,935 |
| Other assets | - | - | - | - | - | 6,458 | 6,458 |
| | **1,727,956** | **941,118** | **31,881** | **345,394** | **292,249** | **4,127,544** | **7,466,142** |
| **Financial liabilities** | | | | | | | |
| Payables | - | - | - | - | - | 55,685 | 55,685 |
| Other liabilities | - | 264 | 791 | 1,313 | - | - | 2,368 |
| | **-** | **264** | **791** | **1,313** | **-** | **55,685** | **58,053** |
| **Net financial assets** | **1,727,956** | **940,854** | **31,090** | **344,081** | **292,249** | **4,071,859** | **7,408,089** |

**Reconciliation of net financial assets to net assets**

| | 2012<br>$000 | 2011<br>$000 |
|---|---|---|
| Net financial assets as above | 7,700,507 | 7,408,089 |
| Non-financial assets and liabilities: | | |
| - Provisions | (13,201) | (11,704) |
| - Net insurance liabilities | (10,795,599) | (8,803,523) |
| - Net non-financial assets | 1,704,396 | 1,167,688 |
| **Net assets per balance sheet** | **(1,403,897)** | **(239,450)** |

*Interest rate sensitivity*

A sensitivity analysis has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 0.5% increase or decrease in interest rates (or discount rates) is used by the TAC's actuaries to present the sensitivities of the actuarial claims liabilities to management to allow them to monitor interest rate risk on liabilities.

At reporting date, if interest rates had moved 0.5% up or down with all other variables held constant, the TAC's net profit and equity would move as follows (all other reserves would remain constant):

| | 2012<br>$000 | 2011<br>$000 |
|---|---|---|
| Impact on profit and equity of a 0.5% increase in interest rates: | | |
| - Before impact of interest rate derivatives | (42,014) | (42,857) |
| - Impact of interest rate derivatives | (3,853) | 2,049 |
| **- After impact of interest rate derivatives** | **(45,867)** | **(40,808)** |
| Impact on profit and equity of a 0.5% decrease in interest rates: | | |
| - Before impact of interest rate derivatives | 42,038 | 42,883 |
| - Impact of interest rate derivatives | 3,854 | (2,049) |
| **- After impact of interest rate derivatives** | **45,892** | **40,834** |

*(b) Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The TAC is exposed to foreign exchange risk through its investments which are denominated in foreign currency, and anticipated future transactions.

VFMC limits foreign exchange risk through the use of forward currency contracts where it agrees to sell specified amounts of foreign currencies in the future at a predetermined exchange rate. VFMC's policy, approved under the Investment Risk Management Plan, is to hedge 50% of international equities exposure and 100% of other international asset exposure.

| | Investment in foreign currency | | Forward contract cover | | Net exposure | |
|---|---|---|---|---|---|---|
| | 2012 $000 | 2011 $000 | 2012 $000 | 2011 $000 | 2012 $000 | 2011 $000 |
| - Australian Dollar | 6,013,578 | 5,851,621 | 1,346,011 | 1,419,331 | 7,359,589 | 7,270,952 |
| - United States Dollar | 1,220,133 | 1,078,494 | (544,241) | (755,882) | 675,892 | 322,612 |
| - British Pound | 190,667 | 75,707 | (228,351) | (243,439) | (37,684) | (167,732) |
| - Euro Dollar | 49,756 | 179,591 | (110,580) | (201,165) | (60,824) | (21,574) |
| - Japanese Yen | 83,128 | 53,572 | (257,583) | (102,225) | (174,455) | (48,653) |
| - Other currencies | 122,908 | 145,050 | (169,221) | (95,747) | (46,313) | 49,303 |
| **Total investments (note 10)** | | | | | **7,716,205** | **7,404,908** |

*Foreign currency sensitivity*

The sensitivity analysis below has been determined based on the exposure to foreign exchange rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

The following table details the TAC's sensitivity to a 10% increase and decrease in the Australian Dollar against the relevant foreign currencies with all other variables held constant.

The sensitivity analysis includes foreign currency denominated investments items and adjusts their translation at the period end for a 10% change in foreign currency rates.

| | 2012 $000 | 2011 $000 |
|---|---|---|
| Impact on profit and equity of a 10% increase in foreign exchange rates: | | |
| - Before impact of foreign exchange derivatives | (106,056) | (97,517) |
| - Impact of foreign exchange derivatives | 83,362 | 88,993 |
| **- After impact of foreign exchange derivatives** | **(22,694)** | **(8,524)** |
| Impact on profit or equity of a 10% decrease in foreign exchange rates: | | |
| - Before impact of foreign exchange derivatives | 129,624 | 119,188 |
| - Impact of foreign exchange derivatives | (101,887) | (108,769) |
| **- After impact of foreign exchange derivatives** | **27,737** | **10,419** |

*(c) Other price risk*

The TAC is exposed to equity price risk arising from equity investments (both within Australian markets and overseas, refer to note 10). Equity investments are held for strategic rather than trading purposes.

VFMC limits price risk through diversification of the equity investment portfolio.

*Equity price sensitivity*

The sensitivity analysis below has been determined based on the exposure to equity prices both within Australia and overseas markets at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

The following table details the TAC's sensitivity to a 10% increase and decrease in listed equities market and a 10% increase and decrease in unlisted equities markets in Australia and overseas.

At reporting date, if listed and unlisted equity prices had been 10% higher or lower and all other variables were held constant, the TAC's net profit and equity would move as follows:

| | 2012<br>$000 | 2011<br>$000 |
|---|---|---|
| Impact on profit and equity of a 10% increase in equity prices: | | |
| - listed equities | 106,794 | 115,935 |
| - unlisted equities - Australian | 158,925 | 162,714 |
| - unlisted equities - overseas | 42,811 | 31,323 |
| | **308,530** | **309,972** |
| Impact on profit and equity of a 10% decrease in equity prices: | | |
| - listed equities | (106,794) | (115,935) |
| - unlisted equities - Australian | (158,925) | (162,714) |
| - unlisted equities - overseas | (42,811) | (31,323) |
| | **(308,530)** | **(309,972)** |

**Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the TAC.

VFMC manages credit risk by conducting due diligence on counterparties and will only deal with counterparties of high quality with substantial balance sheets. Agreements also contain provisions for the agreement to be reviewed or rescinded upon the occurrence of specified events relating to counterparty credit and liquidity.

Assessment processes also ensure that well-defined documentation underpins each transaction; that clear rules exist for completing single transactions with a particular counterparty; and that appropriate credit limits exist to accommodate the transaction. Exposure is measured on a multi-tiered basis according to the individual transaction, counterparty total, credit rating total, etc. and is monitored by personnel separated from the dealing function. When conducting over-the-counter derivative transactions, bilateral legal contracts must be signed with the counterparty prior to execution of the transaction.

The establishment of appropriate policies and multi-tiered limits ensures that TAC maintains a diversified portfolio without any significant concentration of credit risk on an industry, regional or country basis.

The TAC's maximum exposure to credit risk at balance date in relation to each class of financial asset is the carrying amount of those assets as indicated in the balance sheet.

*Concentrations of credit risk*

The TAC manages credit risk by diversifying the exposure amount counterparties and operating in liquid markets. The TAC does not have any significant concentration of credit risk on an industry, regional or country basis. The investment strategy for the TAC is to ensure a diversified portfolio.

The table below provides information regarding credit risk exposure of the TAC by classifying assets according to VFMC's credit ratings of counterparties:

| 2012 | Investment grade[1] $000 | Non-Investment grade[2] $000 | Total $000 |
|---|---|---|---|
| **Financial assets at fair value through comprehensive income statement** | | | |
| Cash and cash equivalents | 37,860 | - | 37,860 |
| Cash and deposits | 1,324,980 | - | 1,324,980 |
| Debt securities | 2,049,761 | 76,993 | 2,126,754 |
| Financial derivatives | - | 46,414 | 46,414 |
| Other assets | - | 4,656 | 4,656 |
| **Total** | **3,412,601** | **128,063** | **3,540,664** |

| 2011 | Investment grade[1] $000 | Non-Investment grade[2] $000 | Total $000 |
|---|---|---|---|
| **Financial assets at fair value through comprehensive income statement** | | | |
| Cash and cash equivalents | 54,776 | - | 54,776 |
| Cash and deposits | 1,231,935 | - | 1,231,935 |
| Debt securities | 2,004,211 | 41,539 | 2,045,750 |
| Financial derivatives | - | 39,271 | 39,271 |
| Other assets | - | 6,458 | 6,458 |
| **Total** | **3,290,922** | **87,268** | **3,378,190** |

[1] VFMC classifies all assets with Standard and Poor's credit ratings of AAA to BBB- as investment grade.

[2] These non-investment grade assets include assets that fall outside the range of AAA to BBB- Standard and Poor's credit ratings as well as non-rated assets that are within the risk parameters outlined in the Investment Risk Management Plan.

### Liquidity risk

Liquidity risk arises from the TAC being unable to meet financial obligations as they fall due.

VFMC manages liquidity risks through holding high quality liquid assets in its total investment portfolio, which are readily convertible to cash assets. The TAC is cash flow positive with premium and investment income exceeding claims and administrative cost payments.

The following table summarises the maturity profile of the TAC's financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities and on the earliest date on which the TAC can be required to pay.

| 2012 | Less than 3 months $000 | 4-12 months $000 | 1 - 5 years $000 | 5 + years $000 | Total $000 |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Other creditors and accruals | 55,960 | - | - | - | 55,960 |
| Finance lease liabilities | 206 | 617 | 1,431 | - | 2,254 |
| Financial derivatives (net settled) | - | - | - | - | - |
| **Total** | **56,166** | **617** | **1,431** | **-** | **58,214** |

| 2011 | Less than 3 months $000 | 4-12 months $000 | 1 - 5 years $000 | 5 + years $000 | Total $000 |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Other creditors and accruals | 55,685 | - | - | - | 55,685 |
| Finance lease liabilities | 264 | 791 | 1,313 | - | 2,368 |
| Financial derivatives (net settled) | - | - | - | - | - |
| **Total** | **55,949** | **791** | **1,313** | **-** | **58,053** |

The table above includes only the liquidity analysis in relation to contractual (as opposed to statutory) financial liabilities. While the liability for outstanding claims is the most significant liability for which payments will need to be made in the future, these do not meet the definition of a financial liability. The average term to settlement from injury date for claims liabilities is 14.6 years (2011: 13.1 years).

### Fair Value

The TAC uses various methods in estimating the fair value of a financial instrument. The following tables illustrate the level in the fair value hierarchy in which fair value measurements are categorised for financial assets.

/ Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

/ Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observables for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

/ Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| 30 June 2012 | Fair value measurement at end of the reporting period using Level 1 $000 | Level 2 $000 | Level 3 $000 | Total $000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | 37,860 | - | - | 37,860 |
| Investments | 2,658,282 | 4,949,921 | 108,002 | 7,716,205 |
| Other assets | 4,656 | - | - | 4,656 |
| | **2,700,798** | **4,949,921** | **108,002** | **7,758,721** |
| **Financial liabilities** | | | | |
| Payables | 55,960 | - | - | 55,960 |
| Other liabilities | 2,254 | - | - | 2,254 |
| | **58,214** | **-** | **-** | **58,214** |
| **Net financial assets** | **2,642,584** | **4,949,921** | **108,002** | **7,700,507** |

| 30 June 2011 | Fair value measurement at end of the reporting period using Level 1 $000 | Level 2 $000 | Level 3 $000 | Total $000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | 54,776 | - | - | 54,776 |
| Investments | 2,560,252 | 4,690,397 | 154,259 | 7,404,908 |
| Other assets | 6,458 | - | - | 6,458 |
| | **2,621,486** | **4,690,397** | **154,259** | **7,466,142** |
| **Financial liabilities** | | | | |
| Payables | 55,685 | - | - | 55,685 |
| Other liabilities | 2,368 | - | - | 2,368 |
| | **58,053** | **-** | **-** | **58,053** |
| **Net financial assets** | **2,563,433** | **4,690,397** | **154,259** | **7,408,089** |

**Transfers between categories**

An amount of $0.2 million was transferred from Level 1 to Level 2 during the year ended 30 June 2012 (2011: $35.6 million) based on a reassessment on the classification of the fair value hierarchies.

An amount of $nil was transferred from Level 2 to Level 1 during the year ended 30 June 2012 (2011: $0.5 million).

An amount of $nil (2011: $310.9 million) was transferred from Level 2 to Level 3 during the year based on a reassessment on the classification of the fair value hierarchies, as independent valuations of these assets use non-observable market data.

An amount of $34.5 million was transferred from Level 3 to Level 2 during the year ended 30 June 2012 (2011: $nil).

**Reconciliation of Level 3 fair value movements**

The following table presents the changes in Level 3 instruments (financial assets) for the year ended 30 June 2012.

| | Total Level 3 $000 |
|---|---|
| Balance at beginnning of the year | 154,259 |
| Loss recognised in the comprehensive income statement | (33,476) |
| Sales | (156,233) |
| Purchases | 177,902 |
| Transfer in to Level 3 | - |
| Transfer out of Level 3 | (34,450) |
| **Closing Balance** | **108,002** |

The investments managed by VFMC on behalf of the TAC include unlisted investments. These unlisted investments are not traded in an active market, and hence their fair value at reporting date is based on the price advised by fund managers or valuations determined by appropriately skilled independent third parties.

Where valuation techniques including discounted cash flows, multiples based analysis, comparison with similar transactions and other techniques considered appropriate in the circumstances have been employed in pricing or valuing investments, the valuations are inherently subject to estimation uncertainty. Given this inherent subjectivity, the underlying inputs and assumptions are reviewed on an ongoing basis to ensure the valuations reflect the best estimates of the economic conditions at reporting date. The value of such investments at 30 June 2012 was $1.3 billion (2011: $1.3 billion), comprising Level 3 and some Level 2 investments.

It is reasonably possible that outcomes within the next financial year would be different from the assumptions used in the current valuation models and a material adjustment to the carrying amounts of the related investments could be required.

The disclosures below provide details of the inputs and assumptions used in the current valuation models. Further detailed information has been provided where available. A significant majority of these investments are held via third party pooled investment vehicles, and as such the TAC is not privy to the detailed assumptions used to value the underlying investment assets.

*Infrastructure Investments*

Infrastructure investments comprise both domestic and international exposures to transport, social, energy and other infrastructure assets through unlisted pooled vehicles and unlisted trusts.

The valuations of unlisted infrastructure investments are primarily based on a discounted cash flow methodology. Key inputs which are subject to estimation uncertainty include the choice of risk free rate, risk premium, asset utilisation rates, capital expenditure forecasts, operating costs and other estimated future cash flows dependent on the longer term general economic forecasts.

The TAC's carrying balance of its infrastructure investments with estimation uncertainty as at reporting date is $317 million (2011: $309 million).

Among the investments are unit holdings in VFMC Trusts or equity holdings in VFMC Companies which have:

/ A unit holding in an unlisted infrastructure pooled vehicle together with an equity holding in an unlisted UK airport. The airport has an independent valuation completed utilising the discounted cash flows methodology by discounting forecast cash flows by an estimated cost of equity. Forecast cash flows have been derived from a model provided by the airport's management in line with the approved business plan.

Assumptions and interdependencies in the valuation model include discount rate 10.25% (2011: 10.35%) applied by the valuer to discount forecast cash flows, passenger volumes, mix of passengers, operating costs, capital expenditure forecasts, gearing level forecast and UK tax rate.

The TAC's carrying balance of these investments with estimation uncertainty as at reporting date is $91 million (2011: $83 million).

/ An equity holding in an unlisted UK based Public Private Partnership which has an independent valuation completed utilising the discounted cash flows methodology by discounting forecast cash flows by an estimated cost of equity.

Assumptions and interdependencies in the valuation model include discount rate of 9.0% (2011: 9.0%) applied by the valuer to discount forecast cash flows, long term performance of the underlying projects, operating costs, long term Retail Price Index (RPI), management of specific project events, counter party risks and group tax relief, and longer term general economic forecasts.

The TAC's carrying balance of these investments with estimation uncertainty as at reporting date is $57 million (2011: $53 million).

/ Exposure to an Australian gas pipeline which has an independent valuation completed utilising the discounted cash flows methodology by discounting forecast cash flows by an estimated cost of equity. Forecast cash flows have been derived from a model reflecting the latest economic and operating assumptions, including updated capital expenditure and operating budgets.

Assumptions and interdependencies in the valuation model include discount rate of 9.2% (2011: 9.6%) applied by the valuer to discount forecast cash flows, renewal of existing contracts upon expiry at the level of volume and pricing assumed in the forecasts, operating costs, capital expenditure forecasts and maintenance of the current capital structure.

The TAC's carrying balance of these investments with estimation uncertainty as at reporting date is $44 million (2011: $43 million).

*Private Equity Investments*

Private Equity Investments comprise both domestic and international exposures to venture capital, buyout, special situations and expansion capital sectors. The investments include externally managed unlisted pooled vehicles and trusts.

The valuations of unlisted private equity investments are primarily based on multiples of earnings, discounted cash flow, market equivalents and other market accepted methodologies.

Assumptions which may be subject to estimation uncertainty would include the identification of appropriate comparables, estimated future profits, the choice of risk free rate, risk premium, estimated future cash flows and future economic and regulatory conditions.

The TAC's carrying balance of these investments with estimation uncertainty as at reporting date is $254 million (2011: $237 million).

*Property Investments*

Property investments comprise externally managed unlisted property trusts with exposure to domestic and international commercial, industrial, retail and development property market.

The valuations of unlisted property investments are primarily based on discounted cash flow, capitalisation and direct comparison methodologies. Assumptions which may be subject to estimation uncertainty would include the identification of appropriate comparables, estimated future profits, choice of risk free rate, risk premium, estimated future cash flows and future economic and regulatory conditions.

The TAC's carrying balance of these investments with estimation uncertainty as at reporting date is $552 million (2011: $507 million).

*Insurance Investments*

The valuation of insurance investments is primarily based on a discounted cash flow methodology. Assumptions which may be subject to estimation uncertainty would include estimates on life expectancy, forecast cash flows, expected future premiums to be paid, investment specific discount rate and future economic conditions.

The TAC's carrying balance of these investments with estimation uncertainty as at reporting date is $83 million (2011: $111 million).

Among the investments are unit holdings in a VFMC Trust which has:

/ An exposure to US life insurance policies which are valued by an independent valuer. The portfolio of policies is valued using the actuarial asset share. The actuarial asset share method is based on the assumptions of probabilities of insured's mortality and premium payments on the valuation date. Other assumptions and interdependencies in the valuation model include weighted average discount rate applied to the portfolio of 18.9% (2011: not available as VFMC trust created in 2011/12), life expectancy estimates obtained from qualified providers and expected premium payments based on "back solving" premiums' optimisation method.

  The TAC's carrying balance of these investments with estimation uncertainty as at reporting date is $83 million (2011: n/a).

*Diversified Fixed Income Investments*

Diversified fixed income investments comprise of investments in government, governmentrelated, corporate and securitised bonds, loans and other debt instruments, primarily from Australian issuers but with some limited exposure to international issuers, and fixed interest and currency instruments through externally managed unlisted pooled vehicles and segregated portfolios.

The valuation of diversified fixed income investments are primarily based on third party pricing servicers, brokers, market makers and valuation methodologies determined to be appropriate by the manager or their independent valuation agent. Such methodologies applied may include discounted cash flow, amortised cost, direct comparison and others.

Assumptions which may be subject to estimation uncertainty would include appropriate credit spread and other risk premium, future risk free rate, future cash flows, identification of appropriate comparables, future economic and regulatory conditions.

The TAC's carrying balance of these investments with estimation uncertainty as at reporting date is $21 million (2011: $9 million).

*Non Traditional Strategies Investments*

The non traditional strategies investments comprise investments in hedge funds and other non traditional investments that do not fit within the definition of other asset classes but which provide diversification benefits to the total portfolio. Investments are made through externally managed unlisted pool vehicles.

The valuation of non traditional strategies investments are primarily based on prices quoted on an exchange or traded in a dealer market. For less liquid securities, valuation methodologies are set out by each manager. Depending on the investment, the methodologies applied include discounted cash flow, amortised cost, direct comparison and other market accepted methodologies. The investment manager may choose to appoint independent valuation agents to seek independent price verification.

Assumptions which may be subject to estimation uncertainty would include appropriate credit spread and other risk premium, future risk free rate, future cash flows, identification of appropriate comparables, future economic and regulatory conditions.

The TAC's carrying balance of these investments with estimation uncertainty as at reporting date is $124 million (2011: $92 million).

### Capital management strategy

Capital maintained by the TAC is an integral part of managing the uncertainties impacting on the value of outstanding claims liabilities and returns from its investment portfolio. Consistent with the outcome of the State Government review, the TAC has adopted a target funding level of 100%, being the midpoint of a target funding level range of 80-120%. It is expected that from time to time the TAC's actual funding ratio will be outside that target funding range. In such circumstances, corrective action may be recommended to transition the actual funding range to the target funding level over time.

The TAC will seek to continually aim towards the target funding ratio of 100% over rolling five year periods. Where funding ratio exceeded 120%, 'special' dividends may be payable in addition to the ordinary dividend, or other options such as increasing benefits or reducing premiums may be considered.

The TAC's funding ratio is calculated as "net assets less deferred tax asset and intangible assets divided by net outstanding claims liability". The funding ratio is also adjusted for an allowance for dividend at the benchmark rate to ensure the reported funding ratio is not misleading.

## 26 / SEGMENT INFORMATION

The TAC operates the transport accident compensation scheme in Victoria.

## STATEMENT BY CHAIRMAN, CHIEF EXECUTIVE OFFICER AND CHIEF FINANCE AND ACCOUNTING OFFICER

We certify that the financial report of the Transport Accident Commission has been prepared in accordance with Standing Direction 4.2 of the Financial Management Act 1994, applicable Financial Reporting Directions, Australian Accounting Standards and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the comprehensive income statement, balance sheet, statement of changes in equity, cash flow statement and notes to and forming part of the financial statements, present fairly the financial transactions for the year ended 30 June 2012 and the financial position of the Transport Accident Commission as at that date.

We are not aware of any circumstances which would render any particulars included in the financial report misleading or inaccurate.

Dated at Geelong this 30th day of August 2012.

**Paul Barker**
Chairman

**Janet Dore**
Chief Executive Officer

**Tony Dudley**
Chief Finance and Accounting Officer

VAGO
Victorian Auditor-General's Office

Level 24, 35 Collins Street
Melbourne VIC 3000
Telephone 61 3 8601 7000
Facsimile 61 3 8601 7010
Email comments@audit.vic.gov.au
Website www.audit.vic.gov.au

# INDEPENDENT AUDITOR'S REPORT

**To the Members of the Transport Accident Commission**

### *The Financial Report*

The accompanying financial report for the year ended 30 June 2012 of the Transport Accident Commission which comprises the comprehensive income statement, balance sheet, statement of changes in equity, cash flow statement, notes comprising a summary of significant accounting policies and other explanatory information, and the statement by chairman, chief executive officer and chief finance and accounting officer has been audited.

### *The Board Members' Responsibility for the Financial Report*

The Board Members of the Transport Accident Commission are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*, and for such internal control as the Board Members determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed 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 audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control 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 control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Board Members, as well as evaluating the overall presentation of the financial report.

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

## Independent Auditor's Report (continued)

*Independence*

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, the Auditor-General, his staff and delegates complied with all applicable independence requirements of the Australian accounting profession.

*Opinion*

In my opinion, the financial report presents fairly, in all material respects, the financial position of the Transport Accident Commission as at 30 June 2012 and of its financial performance and its cash flows for the year then ended in accordance with applicable Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*.

*Matters Relating to the Electronic Publication of the Audited Financial Report*

This auditor's report relates to the financial report of the Transport Accident Commission for the year ended 30 June 2012 included both in the Transport Accident Commission's annual report and on the website. The Board Members of the Transport Accident Commission are responsible for the integrity of the Transport Accident Commission's website. I have not been engaged to report on the integrity of the Transport Accident Commission's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in the website version of the financial report.

MELBOURNE
31 August 2012

D D R Pearson
*Auditor-General*

## SECTION 1 - CORPORATE GOVERNANCE

This statement covers the main corporate governance practices that ensure the TAC is managed to achieve its mission, meet commitments to stakeholders and operate commercially.

### Board of Management

The Chairman and the Board are nominated by the Minister and appointed by the Governor in Council. There are presently seven non-executive directors, including the Chairman, with two vacancies to be filled.

The Board has established clearly defined accountabilities and delegations for the Chief Executive Officer. Policies and procedures cover all aspects of the TAC's activities and are reviewed regularly to ensure the TAC achieves its objectives regarding:

/ Compliance with applicable laws and regulations

/ Reliability of financial reporting

/ Safeguarding of assets

/ Effectiveness and efficiency of operations.

### Directors' access to independent professional advice

Directors are entitled to seek independent professional advice in connection with their duties at the TAC's expense, unless determined otherwise by the Board.

### Conflict of interest

If a Director has a direct or indirect pecuniary interest in a matter being considered by the Board, the Director must disclose the nature of the interest. Unless otherwise determined by the Minister or the Board, the Director must not be present during any deliberation of the Board in relation to the matter and must not take part in any decision of the Board.

### Board Committees

*Remuneration Committee*

Members at 30 June 2012: Elana Rubin (Chair until March 2012), Paul Barker (Acting Chair from March 2012) and Christine McLoughlin (to June 2012).

Role:

/ Remuneration Policy – establish and maintain a remuneration policy that meets the strategic goals of the TAC. The Committee will periodically review all policies covering fixed remuneration, incentive remuneration, benefits, terms and conditions

/ Oversee the application of the remuneration policy for senior executives, ensuring the policy is consistent with the Government Sector Executive Remuneration Panel (GSERP) guidelines and policies as established from time to time

/ Annual Remuneration Review – to approve remuneration increases budget and the incentive remuneration budget for the TAC

/ Remuneration Compliance – to ensure that all remuneration policies and practices comply with the law and with TAC and government policy

/ Disclosure – to ensure that appropriate and required disclosure is made of Director and Executive remuneration, in accordance with regulatory requirements and good governance practices

/ Recruitment – to recruit the TAC's Chief Executive Officer.

*Audit and Risk Management Committee*

Members at 30 June 2012: Geoff Hilton, Paul Barker, Julie Caldecott (Chair), Sonia Petering and Christine McLoughlin (to June 2012).

Role:

/ Oversee an appropriate risk management framework and consider the effectiveness of the TAC's risk management and internal controls

/ Provide oversight for the issues that potentially impact the TAC's financial reporting process of proposed regulatory, accounting or reporting initiatives

/ Consider the reliability, integrity and completeness of financial information and the financial reporting practices of the TAC presented by management

- Monitor compliance with relevant laws, regulations and government directives and that accounting policies are in line with the *Financial Management Act 1994*, government guidelines and current Australian Accounting Standards
- Monitor compliance with the TAC's internal investment policies and procedures, the contractual arrangements with the VFMC and requirements of the Prudential Statement
- Advise the Finance and Investment Strategies Committee of any matter or internal control weakness that impacts the committee's area of responsibility
- Review and recommend to the Board approval of the annual plan submitted by internal audit
- Monitor that the objectivity and independence of internal and external audit is preserved by monitoring employment relationships, financial relationships and the provision of non-audit services and other assessments as deemed necessary
- Review management responses to internal and external audit reports, actions to correct any noted deficiencies and monitor progress to correct deficiencies
- Evaluate the overall effectiveness of internal and external audit and recommend appointment and fees for the internal auditors to the Board
- Implement the TAC's annual internal audit plan and deal with issues raised by the TAC's auditors (internal and external)
- Initiate and supervise, where appropriate, special reviews
- Review and monitor the policies (including whistleblowers) for preventing and detecting fraud
- Annually recommend to the Board an attestation to government that the TAC complies with the Victorian Government Risk Management Framework.

*Financial and Investment Strategies Committee*

Members at June 30 2012: Elana Rubin (Chair until March 2012), Paul Barker (Acting Chair from March 2012) and Bob Officer.

Role:

- Make recommendations (at least annually) to the Board on investment objectives in the context of overall balance sheet risk management and consistent with the Risk Preference Statement issued by the Minister
- Monitor compliance and make recommendations to the Board regarding balance sheet management, pricing and other policies required under the Prudential Insurance Standard
- Review the VFMC stock voting and ESG policies and receive reports on activities conducted by VFMC pursuant to those policies
- Review the performance of the VFMC and other service providers against service level agreements and other appropriate measures
- Monitor the success of the VFMC investment strategy by reviewing fund performance compared to objectives, long-term targets and peer group.

The FISCO will also advise the Board in relation to other matters relevant to the management and performance reporting of the TAC's investment fund and other financial strategies as appropriate.

*Marketing and Road Safety Committee*

Members as at June 30 2012: Bob Officer (Chair), Andrew Dyer, Sonia Petering and Deborah Hallmark.

Role:

- Monitor strategic road safety issues that influence actuarial release
- Provide insight and feedback on the strategic approach adopted on road safety issues and the development of annual business plans
- Advocate to the Board initiatives undertaken by road safety, marketing and partnerships, in response to road safety issues
- Monitor partnerships and their road safety initiatives
- Make recommendations to the Board on proposals which are beyond the delegated authority of the Chief Executive Officer.

*Health Issues Committee*

Members at June 30 2012: Julie Caldecott (Chair) and Geoff Hilton.

Role:

/ HISCo will add significant value to the agencies through the provision of strategic oversight. The Committee will review, challenge and make recommendation upon health services strategies and related business plans, health service related research priorities and health service key performance indicators.

/ HISCo will provide input with consideration to:

- a focus on achieving improved health, employment and social outcomes for clients and stakeholders
- ensuring consistency with sector-wide trends (eg purchasing practices)
- a focus on ensuring cost-effectiveness
- ensuring the agencies build strong relationships with external health care services and that the agencies establish appropriate formal agreements where required
- any other health related issue or priority referred to it by the Boards.

*Business Information Systems Committee*

Members at June 30 2012: Andrew Dyer (Chair), Geoff Hilton.

Role:

/ Request, oversee, receive and review recommendations that relate to any material deployment or change to the business systems application portfolios of TAC and WorkSafe, including recommendations to decommission existing applications. Endorse such recommendations as appropriate for presentation to the Boards of the Participants

/ Ensure the Participants continue to work together to achieve the ITSS Agreement Objectives and application of the Principles

/ Oversee ITSS's delivery of its ITSS plan in meeting the requirements of TAC and WorkSafe

/ Receive reports and presentations on major advances in information technology that may benefit the TAC and WorkSafe

/ Review the TAC and WorkSafe business systems/ information technology Enterprise Architecture and Roadmap presented by management on a regular basis and ensure it is consistent with the ITSS Agreement Objectives and Core Principles and progresses the retirement of legacy systems, and make relevant recommendations to the Boards of the Participants

/ Make recommendations to the Boards of the Participants as required on the alignment of business systems and IT infrastructure projects to the TAC and WorkSafe Enterprise Architecture and roadmap, including appropriate level of customisation and configuration

/ Request to, or when requested by the Boards of the Participants, review the progress of any technology focussed project, including achievement of scope, use of Fineos, level of customisation and configuration; and make recommendations to the Boards

/ Provide an escalation and review forum for IT business support services issues, audit action items involving ITSS, ITSS workforce management issues, significant variations to IT Enterprise Architecture and significant non-delivery of the ITSS plan

/ Review critical commercial and performance risks that may cause a significant deviation to the ITSS plan and when necessary make recommendations to the Boards of the Participants

/ Endorse the ITSS annual plan, including a review of projects to ensure that the works program is capturing technology synergies between both TAC and WorkSafe and leveraging existing platforms including Fineos

/ Request to, or when requested by the Boards of the Participants, receive the post implementation review of any technology focussed project and make recommendations to the Boards

/ Undertake other roles allocated to it under the Agreement or as requested by the Boards of the Participants.

## RISK MANAGEMENT

The TAC has in place a risk management framework to ensure effective identification, assessment and management of risks. That framework details the roles of the Board and its committees, management and the internal auditor. The Board is responsible for setting the risk priorities on which the framework is focused. The Audit and Risk Management Committee oversees the framework and is responsible for ensuring the effectiveness of the design and implementation of control strategies and operational practices.

### Compliance with the Victorian Government Risk Management Framework

Standing Direction 4.5.5 given by the Minister for Finance pursuant to section 8 of the *Financial Management Act 1994* requires public sector agencies to provide an annual attestation of compliance with the risk management process requirements set out in the Victorian Government Risk Management Framework.

The Audit and Risk Management Committee of the Transport Accident Commission has considered the statement by the Chief Executive Officer on compliance with the Victorian Government Risk Management Framework, the internal attestation process undertaken by executive management and independent assessments from the internal auditor.

On that basis, I certify that the Transport Accident Commission has risk management processes in place consistent with the *Australian/New Zealand Risk Management Standard (AS/NZS ISO 31000:2009)* and an internal control system is in place that enables the executive to understand, manage and satisfactorily control risk exposures. The Board of the Transport Accident Commission verifies this assurance and that the risk profile of the Transport Accident Commission has been critically reviewed within the last 12 months

Paul Barker / Chairman
Transport Accident Commission
30 August 2012

## SECTION 2 – COMPLIANCE

This section includes the disclosures required by the *Financial Management Act 1994* and the *Transport Accident Act 1986*.

### Incorporation and ministerial responsibility

The TAC is a body corporate established under Section 10 of the *Transport Accident Act 1986* (the Act) (No. 111 of 1986, reprint No. 11 dated 17 April 2008). The Act sets out the objectives, functions and powers of the TAC.

The Assistant Treasurer is the Minister administering the *Transport Accident Act 1986*.

### Ministerial directions

There were no Ministerial Directions given by the Assistant Treasurer in the period 1 July 2011 to 30 June 2012.

### The TAC's objectives, functions, powers and accountability

Sections 11, 12, 13 and 14 of the *Transport Accident Act 1986* set out the objectives, functions, powers and accountability of the TAC.

### Objectives of the Commission (section 11)

/ To manage the transport accident compensation scheme as effectively, efficiently and economically as possible

/ To ensure that appropriate compensation is delivered in the most socially and economically appropriate manner and as expeditiously as possible

/ To ensure that the transport accident scheme emphasises accident prevention and effective rehabilitation

/ To develop internal management structures and procedures that will enable it to perform its functions and exercise its powers effectively, efficiently and economically

/ To manage claims under the *Accident Compensation Act 1985* as an authorised agent of the Victorian WorkCover Authority as effectively, efficiently and economically as possible

/ If appointed as an agent of a self-insurer under S.147A of the *Accident Compensation Act 1985*, to carry out the functions and powers of a self-insurer as effectively, efficiently and economically as possible.

### Functions of the Commission (section 12)

/ To administer the Transport Accident Fund

/ To receive and assess, and accept or reject, claims for compensation

/ To defend proceedings relating to claims for compensation

/ To pay compensation to persons entitled to compensation

/ To determine transport accident charges

/ To collect and recover transport accident charges

/ To provide advice in relation to the transport accident scheme

/ To provide funds for the program designed to secure the early and effective medical and vocational rehabilitation of persons injured as a result of transport accidents and for other rehabilitation programs for persons injured in transport accidents

/ To collect and assess data and statistics in relation to transport accidents

/ To provide advice to the Minister in relation to matters specifically referred to the Commission by the Minister and generally in relation to the administration of this Act and the compensation scheme under this Act

/ To commercially exploit knowledge and expertise in compensation schemes and scheme administration

/ To act as an authorised agent under section 23 of the *Accident Compensation Act 1985*

/ If appointed, to act as an agent of a self-insurer under section 147A of the Accident Compensation Act 1985

/ To carry out such other functions conferred on the Commission by this or any other Act

/ To promote the prevention of transport accidents and safety in use of transport

/ To promote, so far as possible, a program designed to secure the early and effective medical and vocational rehabilitation of people injured as a result of transport accidents to whom or on behalf of whom the Commission is or may become liable to make any payment under the Act.

**Powers of the Commission (section 13)**

/ To do all things that are necessary or convenient to be done for, or in connection with, the performance of its functions and to enable it to achieve its objectives

/ To enter into agreements or arrangements and settle or compromise differences or disputes with other persons

/ To do all things necessary to be done in connection with the management of its interest in the assigned debt within the meaning of Part 2A of the Act, which deals with the assigned debts of the Pyramid Building Society, Countrywide Building Society and the Geelong Building Society

/ To exercise other powers in relation to the assigned debt of the building societies on behalf of the Treasurer

/ To apply for, obtain and hold intellectual property rights (including patents, copyrights, trade marks and registered designs)

/ To enter into agreements or arrangements for the commercial exploitation within or outside Victoria of intellectual property rights and ancillary services on any terms or conditions as to royalties, lump sum payments or otherwise as the Commission may see fit

/ To enter into agreements or arrangements within or outside Victoria for the provision by the Commission of administration, management or information systems or services

/ To do all things necessary or convenient to be done in connection with acting as an authorised agent of the Victorian WorkCover Authority under section 23 of the *Accident Compensation Act 1985* and as an agent of a self-insurer under section 147A of that Act.

**Accountability of the Commission (section 14)**

The Commission must perform its functions and exercise its powers subject to the general direction and control of the Minister and in accordance with any specific written directions given by the Minister in relation to a matter or class of matters specified in the directions.

**Legislation**

The following legislative changes have occurred in the period from 1 July 2011 to 30 June 2012:

On 28 June 2012 the *Statute Law Revision Act 2012* No 43/2012 inserted the word "section" after the word "under" in section 40(2)(b).

On 1 July 2012:

/ the *Disability Amendment Act 2012*, No. 22/2012 amended the definition of "supported accommodation" in section 3(1)(c) by substituting the words "group home" to "community residential unit".

/ The *Health Professions Registration (Repeal) Act 2012*, No 27/2012 amended the definition of "medical service" in section 3(1)(ba) to describe those practitioners registered to provide acupuncture under the Health Practitioner regulation National Law.

## SUBORDINATE LEGISLATION

**Regulations**

There were no Regulations made during 2011/12.

**Orders in Council**

One Order in Council was made during 2011/12:

/ The Transport Accident Charges Order (No.1) 2012 was made on 22 May 2012 (Gazette 24 May 2011 pp1072). This order fixed the transport accident charges to apply during the 2012/13 financial year. The order increased the transport accident charges for vehicles in all classes by the CPI.

## NATIONAL COMPETITION POLICY

**Review of Legislative Restrictions**

In accordance with its National Competition Policy commitments, the Government commissioned a review of Victoria's transport accident compensation legislation in September 2000. The review identified three main restrictions on competition: the compulsory nature of scheme, the TAC as a legislated monopoly and centralised premium setting. To address centralised premium setting, the Assistant Treasurer now has discretion to request the Essential Services Commission to provide an independent review of the TAC's proposed premium each year.

### Competitive Neutrality

Under Competitive Neutrality policy, the TAC is listed as a significant business enterprise. In accordance with this policy, the TAC pays the full suite of Commonwealth and State taxes or tax equivalents. The TAC is not a net borrower in its own right and therefore is not subject to the Financial Accommodation Levy.

### Victorian Industry Participation Policy (VIPP)

During 2011/12, the TAC awarded three contracts to which the *Victorian Industry Participation Policy Act 2003* applied.

### Building Act 1993

The TAC's policy with respect to new building works, and alterations to existing buildings, is to comply with the *Building Act 1993* as though the TAC were not exempt from compliance as a public authority (this is provided for in section 217 (3) of the *Building Act 1993*).

Some premises occupied by the TAC may have been constructed or altered under exemptions for public bodies which applied at the time.

The TAC is unaware of any material non-compliance with the current building standards for buildings of their nature and age.

### Consultants

During 2011/12, there were two consultants engaged where the cost of each individual engagement was in excess of $10,000.

In addition, one other consultancy service occurred where the total fee payable was less than $10,000 during the financial year at a total cost of $1,000.

Total approved project fees and expenditure for 2011/12 exclude GST.

### Whistleblowers Protection Act 2001

The TAC encourages the reporting of known or suspected incidences of improper conduct or detrimental actions. Procedures have been established to facilitate disclosures of improper conduct by the TAC and its employees and to ensure that any matters disclosed are properly investigated and dealt with. The procedures provide for the protection from reprisals of persons making disclosures. Included in the procedures are the disclosure mechanisms, confidentiality provisions and the roles and responsibilities of the designated protected disclosure coordinator, the protected disclosure officers, investigators and welfare managers.

During 2011/12 there were no disclosures or investigations of improper conduct or detrimental actions made to the TAC by staff or any referred to the TAC by the Ombudsman or other persons.

### Environmental Performance

The TAC has a Green Office policy focussed on protecting the environment and supporting sustainable outcomes.

During 2011/12, the TAC continued a number of environmentally sustainable initiatives, supported by an environmental committee, to reduce waste and improve resource efficiency.

### Miscellaneous Disclosure

To the extent applicable, the information required under Financial Reporting Direction 22 issued by the Minister for Finance under Section 8 of the *Financial Management Act 1994* has been prepared and is available on request.

| Consultancies (>$10,000) | Description of work | Total approved project fee $ | 2011/12 expenditure $ | Future expenditure $ |
|---|---|---:|---:|---:|
| KPMG | IT Spend Review | 79,909 | 79,909 | - |
| PricewaterhouseCoopers | Development of Information & Analytics strategy | 196,164 | 196,164 | - |

## SCHEME NOTES

### Service of documents

Section 130 of the *Transport Accident Act 1986* sets out the method of service of documents on the TAC: by personally serving an authorised officer at the TAC's Melbourne office. People wishing to effect service should attend the TAC's Customer Service Centre, 60 Brougham Street, Geelong, and ask for an authorised officer to accept service.

Alternatively, an authorised officer of the TAC will give a written acknowledgment of service of process directed as follows:

Head of Claims
PO Box 742
GEELONG 3220
Ausdoc: DX 216079 Geelong

Please note that this is a voluntary process and that proof of posting is not proof of service. If an acknowledgment letter is not received within 10 days after sending process by mail, personal service should be attempted under section 130.

## ACCESS TO INFORMATION

### Freedom of Information

The TAC officers responsible for monitoring receipt of requests and decision making under the *Freedom of Information Act 1982* are Amy Lu, Justine Adams, Ellen Jennings, Emily Holland and Debbie Finch.

Documents created and maintained for claims administration, general administrative, financial and investment functions are primarily electronic with a minority of documents stored using paper and aged documents on microfiche.

During 2011/12:

/ The TAC received 1236 Freedom of Information (FOI) requests for access to documents, compared with 1258 during 2010/2011

/ Most requests related to personal documentation

/ There were no requests for amendment to personal records.

Routine documentation may be released without making a formal FOI request. Potential applicants should therefore first request release of such documentation from the relevant staff member.

Should a formal FOI request be required, a request must be submitted in writing detailing the documents sought, as well as enclosing the statutory $25.10 application fee, preferably in the form of a cheque payable to "Transport Accident Commission".

The statutory application fee of $25.10 is applicable for the period 1 July 2012 to 30 June 2013 in accordance with the ***Monetary Units Act 2004***.

The fee will be waived for applicants seeking personal information who provide a copy of their current valid health care card or pensioner concession card.

There is no application fee for a request for amendment to personal records.

The TAC is an agency subject to the *Freedom of Information Act 1982* and is therefore not subject to the direct access provisions of the *Information Privacy Act 2000* and the *Health Records Act 2001*.

Further information about FOI is available from the TAC's website: www.foi.tac.vic.gov.au and the Victorian Government's FOI Online website www.foi.vic.gov.au.

Contact details for the TAC's FOI section are as follows:

Freedom of Information Officer
Transport Accident Commission
PO Box 742
GEELONG VIC 3001
Phone: 1300 654 329
Fax: (03) 9656 9360
Email: foi@tac.vic.gov.au

### Medical reports for common law purposes

To facilitate clients in receiving legal advice, the TAC will, on request or as part of its agreed protocols, provide copies of medical reports commissioned by the TAC, independently of its normal FOI access arrangements.

Requests for access to medical reports should be directed to the relevant TAC claims officer or, where the reports relate to impairment assessments, to the relevant impairment officer. There is no fee for access to documents under this policy.

### Subpoenas

All subpoenas should be addressed to 'The Authorised Person' and must be personally served on an authorised officer at the TAC's offices at 60 Brougham Street, Geelong. The TAC prefers to have a minimum of 14 days notice prior to the return date of the subpoena.

## PUBLICATIONS

The TAC produces and makes available the following publications:

| Description | Mode of access |
|---|---|
| *About the TAC* | Copy/Internet |
| *A career at the TAC* | Copy |
| *After Your Transport Accident* | DVD |
| *Annual Transport Accident charges including GST and duty* | Internet |
| *At home with the family* | Copy/Internet |
| *Checklist of services available as part of vocational programs* | Copy |
| *Choosing an Attendant Care Agency (information sheet)* | Copy/Internet |
| *Choosing a residential care service* | Copy |
| *Community Group Programs (information sheet)* | Copy |
| *Community Road Safety Grants newsletter* | Copy/Internet |
| *Community services for families (information sheet)* | Copy |
| *Community services (information sheet)* | Copy/Internet |
| *Connecting the Dots secondary school resource* | Copy/Internet |
| *Course of employment transport accident notes* | Copy |
| *Daily support (information sheet)* | Copy/Internet |
| *Drive Smart 2 CD-ROM (available to learner drivers)* | CD |
| *ESC (information sheet)* | Copy |
| *Empower* | Copy/Internet |
| *GST compliance* | Copy/Internet |
| *If you need further treatment (information sheet)* | Copy/Internet |
| *Independence – an overview for providers* | Copy/Internet |
| *Information for people with major injuries (Booklets 1 – 4)* | Copy/Internet |
| *Information on TAC medical examinations (information sheet)* | Copy/Internet |
| *Integration support billing information* | Copy |
| *Kids on the Move primary school resource* | Copy |
| *Loss of earnings capacity (information sheet)* | Copy/Internet |
| *Muck Up Day DVD* | Copy |
| *Occupational physicians - helping you get back to work* | Copy/Internet |
| *Occupational physiotherapists - helping you recover and get back to work* | Copy/Internet |
| *Occupational physiotherapists list - metro* | Copy/Internet |
| *Occupational physiotherapists list - regional* | Copy/Internet |
| *Pharmacy expenses* | Copy/Internet |
| *Post-hospital support (information sheet)* | Copy/Internet |
| *Preparing to go home - hospital discharge checklist* | Copy/Internet |
| *Public key infrastructure hospital staff* | Copy |
| *RAW DVD secondary school resource* | Copy/Internet |
| *Returning to work - information for employers* | Copy |
| *Returning to work –information for new employers* | Copy |
| *Returning to work (information sheet)* | Copy |

| Description | Mode of access |
|---|---|
| *Residential care (information sheet)* | Copy |
| *Ride Smart* | Internet |
| *Road Safety Statistical Summary* | Internet |
| *Safe driving policy* | Copy |
| *Get Your Gear On* | Copy |
| *TAC Annual Reports* | Copy/Internet |
| *TAC allied health billing standards* | Copy/Internet |
| *TAC loss of earnings benefits for self-employed people* | Copy/Internet |
| *TAC billing requirements* | Copy/Internet |
| *TAC billing requirements for home, domestic and housekeeping services* | Copy |
| *TAC client service charter* | Copy/Internet |
| *TAC dependency benefits – a guide for funeral directors* | Copy/Internet |
| *TAC domestic services* | Copy |
| *TAC equipment suppliers billing standards* | Copy/Internet |
| *TAC Enterprise Agreement 2011-2014* | Copy |
| *TAC fee schedules* | Internet |
| *TAC home modifications information pack* | Copy |
| *TAC home services* | Copy/Internet |
| *TAC hospital charter* | Copy/Internet |
| *TAC hospital services billing standards* | Copy/Internet |
| *TAC income support* | Copy/Internet |
| *TAC information for people with soft tissue injuries* | Copy/Internet |
| *TAC impairment benefits* | Copy/Internet |
| *TAC impairment examination (information sheet)* | Copy/Internet |
| *TAC medical billing standards* | Copy |
| *TAC post-acute support services* | Copy/Internet |
| *TAC prosthetics and orthotics billing standards* | Copy |
| *TAC research charter* | Copy/Internet |
| *TAC support when a person dies* | Copy/Internet |
| *TAC vehicle modifications* | Copy/Internet |
| *The Good Gear Guide* | Copy |
| *The TAC and the Victorian Freedom of Information Act 1982* | Copy/Internet |
| *The TAC's complaints process* | Copy/Internet |
| *The Transport Accident Commission – the benefits of the TAC model for proposed injury insurance* | Copy |
| *Therapy Support (information sheet)* | Copy/Internet |
| *Traffic Safety Essentials* | Copy/Internet |
| *Using modified vehicles – cost exemptions* | Copy/Internet |
| *Victorian Trauma Foundation (information kit)* | Copy/Internet |
| *Your Feedback* | Copy |
| *Your Mental Health* | Copy/Internet |
| *Your Privacy and the TAC* | Copy/Internet |
| *Your TAC case manager (information sheet)* | Copy |
| *Your Voice newsletter* | Copy/Internet |
| *4th Edition Impairment Examinations Information Manual* | Copy |

### Research information

Requests for information for research purposes should be directed in the first instance to the Senior Manager, Claims Research – Mr David Attwood (david_attwood@tac.vic.gov.au)

The request must be in writing, setting out:

/ the research purposes for which the information will be used

/ a definition of the data requested.

### Access to information on the internet

The TAC's corporate website (www.tac.vic.gov.au) includes information about the TAC, its claim policies, fees and benefit entitlement information for the public, clients, providers and key stakeholder groups. Information about road safety initiatives, statistics, promotions, and advice for drivers is available on the TAC's road safety website (www.tacsafety.com.au). The TAC also offers drivers information about vehicle crash test results on the How Safe Is Your Car website (www.howsafeisyourcar.com.au).

Access to information for specific campaigns and target audiences can be found at:

www.spokes.com.au (motorcyclists)
www.mafmad.com.au (young filmmakers competition)
www.everybodyhurts.com.au (speed campaign)
www.youtube.com.au/tac
www.twitter.com/tacvictoria
www.facebook.com/mybloodoath
www.facebook.com/ilikevanessa
www.facebook.com/speedkills
www.facebook.com/slowballchallenge
www.facebook.com/howsafeisyourcar
www.facebook.com/transportaccidentcommission.

### Application of Merit and Workplace Equity Principles

The TAC strongly believes that all people have the right to work in an environment free of discrimination and harassment. It is the objective of the TAC's Workplace Equity program to ensure that there shall be no discrimination or harassment relating to race, colour, sex, sexual preference, age, physical or mental disability, marital status, family responsibilities, pregnancy or potential pregnancy, religion, political opinion, national extraction, social origin, trade union association or non-association. The TAC regularly undertakes Equal Employment Opportunity training as part of its obligation and commitment to a workplace free of harassment and discrimination. The TAC's objective is to have a workplace free of these issues. To do this, managers must continually show leadership in order to develop and maintain a culture where these sorts of behaviours are unacceptable.

| Workforce data | 2012 | 2011 |
|---|---|---|
| TAC (FTE) | 824 | 808 |
| Average age | 38 | 37 |

## TAC ORGANISATIONAL STRUCTURE (AS AT PUBLICATION DATE)

Assistant Treasurer
Gordon Rich-Phillips MLC

TAC Board
Paul Barker (Chairman)
Julie Caldecott
Andrew Dyer
Deborah Hallmark
Bob Officer
Sonia Petering
Geoff Hilton

Chief Executive Officer
Janet Dore

Head of Claims
Tracey Slatter

Head of Strategic Intelligence & Planning
Andrew Fronsko (to July 2012), David Gifford (Acting)

Program Delivery
Doug Main

Head of Community Relations
Joe Calafiore

Head of Human Resources
Linda Barlow

Head of Health Services Group
Clare Amies

Chief Executive, IT Shared Solutions
Andrew Saunders

Head of Finance & Corporate Services
Tony Dudley

## Disclosure Index

The Annual Report of the TAC is prepared in accordance with all relevant Victorian legislations. This index has been prepared to facilitate identification of the TAC's compliance with statutory disclosure requirements.

| Ministerial Directions Legislation | Requirement | Page reference |
|---|---|---|
| **REPORT OF OPERATIONS** | | |
| **Charter and purpose** | | |
| FRD 22C | Manner of establishment and the relevant Minister | 69 |
| FRD 22C | Objectives, functions, powers and duties | 69-70 |
| FRD 22C | Nature and range of services provided | 7-11 |
| **Management and structure** | | |
| FRD 22C | Organisational structure | 75 |
| **Financial and other information** | | |
| FRD 22C | Statement of workforce data and merit and equity | 75 |
| FRD 22C | Summary of the financial results for the year | 4-5 |
| FRD 22C | Significant changes in financial position during the year | 21 |
| FRD 22C | Operational and budgetary objectives and performance against objectives | * |
| FRD 22C | Major changes or factors affecting performance | * |
| FRD 22C | Subsequent events | N/A |
| FRD 22C | Details of consultancy expenditure | 71 |
| FRD 22C | Application and operation of Freedom of Information Act 1982 | 72 |
| FRD 22C | Compliance with building and maintenance provisions of Building Act 1993 | 71 |
| FRD 22C | Application and operation of the Whistleblowers Protection Act 2001 | 71 |
| FRD 22C | Statement on National Competition Policy | 70 |
| FRD 22C | Statement of availability of other information | 73-74 |
| FRD 22C | Occupational health and safety | 15 |
| FRD 22C | Employment and conduct principles | 75 |
| FRD 10 | Disclosure index | 76-77 |
| FRD 25 | Victorian Industry Participation Policy disclosures | 71 |
| SD 4.5.5 | Risk management compliance attestation | 68 |
| SD 4.2(g) | General information requirements | * |
| SD 4.2(j) | Sign-off requirements | 2 |

| Ministerial Directions Legislation | Requirement | Page reference |
|---|---|---|
| **Financial Statements** | | |
| **Financial statements required under Part 7 of the FMA** | | |
| SD 4.2(a) | Statement of changes in Equity | 22 |
| SD 4.2(b) | Income Statement | 20 |
| SD 4.2(b) | Balance Sheet | 21 |
| SD 4.2(b) | Cash flow statement | 23 |
| SD 4.2(b) | Notes to the financial statements | 24-62 |
| SD 4.2(c) | Compliance with Australian accounting standards and other authoritative pronouncements | 24 |
| SD 4.2(c) | Compliance with Ministerial Directions | 69 |
| SD 4.2(c) | Accountable officer's declaration | 62 |
| SD 4.2(d) | Rounding of amounts | 29 |
| **Other disclosures in notes to the financial statements** | | |
| FRD 3A | Accounting for dividends | 28 |
| FRD 11 | Disclosure of ex-gratia payments | N/A |
| FRD 17A | Long service leave wage inflation and discount rates | 27 |
| FRD 21B | Responsible person and executive officer disclosures | 46-48 |
| FRD 103D | Non-current physical assets | 27 |
| FRD 104 | Foreign currency | 26 |
| FRD 106 | Impairment of assets | 28 |
| FRD 109 | Intangible assets | 27 |
| FRD 110 | Cash flow statement | 23 |
| FRD 112C | Defined Benefit Superannuation obligations | 46 |
| FRD 116 | Financial instruments - Public Finance Corporations | 50-61 |
| FRD 120F | Accounting and reporting pronouncements applicable to the 2011/12 reporting | 24 |
| **Legislation** | | |
| *Freedom of Information Act 1982* | | 72 |
| *Building Act 1983* | | 71 |
| *Whistleblowers Protection Act 2001* | | 71 |
| *Victorian Industry Participation Policy Act 2003* | | 71 |
| *Financial Management Act 1994* | | 24 |
| *Audit Act 1994* | | 63-64 |

* Throughout

Transport Accident Commission
60 Brougham Street, Geelong VIC 3220
PO Box 742, Geelong VIC 3220
T 1300 654 329

www.tac.vic.gov.au