

# Financial Report 2005/2006

<b>Income Statement</b>		<b>2006</b>	<b>2005</b>
<b>For the year ended 30 June 2006</b>	<b>Note</b>	<b>\$000</b>	<b>\$000</b>
Premium revenue		1,022,937	975,822
Reinsurance premium expense		(2,017)	(2,157)
<b>Net premium revenue</b>		<b>1,020,920</b>	<b>973,665</b>
Gross claims incurred	7	(908,429)	(1,009,764)
Claims recoveries revenue	7	(6,111)	9,617
<b>Net claims incurred</b>		<b>(914,540)</b>	<b>(1,000,147)</b>
Administration costs	5	(98,141)	(88,547)
Accident prevention expenditure		(25,938)	(24,715)
Road safety infrastructure expenditure		(66,537)	(47,727)
Trauma projects expenditure		(4,309)	(4,925)
Premium collection fees	11	(23,090)	(20,016)
<b>Underwriting expenses</b>		<b>(218,015)</b>	<b>(185,930)</b>
<b>Underwriting loss</b>		<b>(111,635)</b>	<b>(212,412)</b>
Investment income	6	964,764	859,575
Investment expenses	6	(21,673)	(18,711)
Other income		–	5,525
<b>Profit before income tax</b>		<b>831,456</b>	<b>633,977</b>
Income tax expense	8(a)	(227,258)	(169,285)
<b>Net profit</b>		<b>604,198</b>	<b>464,692</b>

The above income statement should be read in conjunction with the accompanying notes.

<b>Balance Sheet</b>		<b>2006</b>	<b>2005</b>
<b>As at 30 June 2006</b>	<b>Note</b>	<b>\$000</b>	<b>\$000</b>
<b>Current assets</b>			
Cash and cash equivalents	23	24,641	22,343
Receivables	9	45,587	49,157
Investments	10	1,008,946	1,025,335
Deferred acquisition costs	11	12,671	10,216
Other assets	12	4,912	2,056
<b>Total current assets</b>		<b>1,096,757</b>	<b>1,109,107</b>
<b>Non-current assets</b>			
Receivables	9	196,550	176,270
Investments	10	6,076,311	5,947,376
Plant and equipment	13	6,012	4,381
Intangibles	14	7,198	2,150
Deferred tax assets	8(c)	16,323	14,590
<b>Total non-current assets</b>		<b>6,302,394</b>	<b>6,144,767</b>
<b>Total assets</b>		<b>7,399,151</b>	<b>7,253,874</b>
<b>Current liabilities</b>			
Outstanding claims	16	680,280	703,846
Unearned premiums	17	511,241	491,086
Payables	15	75,414	62,742
Tax liabilities		37,819	57,031
Provisions	18	9,683	9,040
Lease liabilities	19(c)	795	278
<b>Total current liabilities</b>		<b>1,315,232</b>	<b>1,324,023</b>
<b>Non-current liabilities</b>			
Outstanding claims	16	5,046,664	4,536,436
Provisions	18	2,989	1,561
Lease liabilities	19(c)	1,001	608
<b>Total non-current liabilities</b>		<b>5,050,654</b>	<b>4,538,605</b>
<b>Total liabilities</b>		<b>6,365,886</b>	<b>5,862,628</b>
<b>Net assets</b>		<b>1,033,265</b>	<b>1,391,246</b>
<b>Equity</b>			
Reserves		8,214	6,300
Accumulated surplus		1,025,051	1,384,946
<b>Total equity</b>		<b>1,033,265</b>	<b>1,391,246</b>

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

**Statement of Changes in Equity  
For the year ended 30 June 2006**

		<b>Motorcycle Road Safety Reserve \$000</b>	<b>Accumulated surplus \$000</b>	<b>Contributed capital \$000</b>	<b>Total \$000</b>
<b>At 1 July 2004</b>		<b>4,404</b>	<b>1,217,150</b>	<b>–</b>	<b>1,221,554</b>
Net profit for the year		–	464,692	–	464,692
Total recognised income and expense for the year		4,404	1,681,842	–	1,686,246
Transfer to Motorcycle Road Safety Reserve		–	(4,055)	–	(4,055)
Transfer from Motorcycle Road Safety Reserve		–	2,159	–	2,159
Transfer to accumulated surplus		(2,159)	–	–	(2,159)
Transfer from accumulated surplus		4,055	–	–	4,055
Dividend paid for 2003/04 year		–	(295,000)	–	(295,000)
<b>At 30 June 2005</b>		<b>6,300</b>	<b>1,384,946</b>	<b>–</b>	<b>1,391,246</b>
Adjustment on first time adoption of A-IFRS	1(v)	–	(130,179)	–	(130,179)
Restated total equity at the beginning of the year		6,300	1,254,767	–	1,261,067
Net profit for the year		–	604,198	–	604,198
Total recognised income and expense for the year		6,300	1,858,965	–	1,865,265
Transfer to Motorcycle Road Safety Reserve		–	(4,341)	–	(4,341)
Transfer from Motorcycle Road Safety Reserve		–	2,427	–	2,427
Transfer to accumulated surplus		(2,427)	–	–	(2,427)
Transfer from accumulated surplus		4,341	–	–	4,341
Conversion of accumulated surplus into contributed capital	26	–	(600,000)	600,000	–
Repayment of contributed capital	26	–	–	(600,000)	(600,000)
Dividend paid for 2004/05 year		–	(232,000)	–	(232,000)
<b>At 30 June 2006</b>		<b>8,214</b>	<b>1,025,051</b>	<b>–</b>	<b>1,033,265</b>

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

<b>Cash Flow Statement</b>		<b>2006</b>	<b>2005</b>
<b>For the year ended 30 June 2006</b>	<b>Note</b>	<b>\$000</b>	<b>\$000</b>
<b>Cash flows from operating activities</b>			
Premiums received		1,147,886	1,099,812
Dividends received		187,746	146,899
Interest received		130,643	120,245
Claims paid		(684,244)	(651,783)
Claims recoveries received		9,021	8,832
Payments to suppliers and employees		(149,839)	(136,948)
Payments for accident prevention and trauma projects		(100,013)	(67,139)
Goods and services tax paid		(46,405)	(48,110)
Income tax equivalent paid		(192,617)	(160,095)
<b>Net cash inflow from operating activities</b>	<b>23(b)</b>	<b>302,178</b>	<b>311,713</b>
<b>Cash flows from investing activities</b>			
Payments from controlled entity		–	541
Purchase of investments		(9,283,982)	(9,382,376)
Sale of investments		9,848,954	9,298,457
Purchase of plant and equipment		(3,031)	(411)
Expenditure on intangibles		(6,613)	–
<b>Net cash inflow/(outflow) from investing activities</b>		<b>555,328</b>	<b>(83,789)</b>
<b>Cash flows from financing activities</b>			
Dividend paid		(232,000)	(295,000)
Repayment of contributed capital		(600,000)	–
Farrow Group liquidation distribution received		849	24,860
<b>Net cash outflow from financing activities</b>		<b>(831,151)</b>	<b>(270,140)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>26,355</b>	<b>(42,216)</b>
Cash and cash equivalents at the beginning of the year		683,253	725,261
Effects of exchange rate changes on cash held in foreign currencies		(1,074)	208
<b>Cash and cash equivalents at end of the year</b>	<b>23(a)</b>	<b>708,534</b>	<b>683,253</b>

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

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 Urgent Issues Group Interpretations. Accounting Standards include Australian equivalents to International Financial Reporting Standards (A-IFRSs).

The financial report was authorised for issue by the directors on 30 August 2006.

### *Basis of preparation*

This is the first financial report of the TAC prepared in accordance with A-IFRSs. This financial report has been prepared on the basis of historical cost, except for outstanding claims liabilities, recovery receivables, employee leave liabilities which are included at present value and investments which are included at fair value. Cost is based on the fair values of the consideration given in exchange for assets.

The TAC has taken the exemption available under AASB 1 *First-time adoption of Australian Equivalents to International Financial Reporting Standards* to only apply AASB 132 *Financial instruments – disclosure and presentation*, AASB 139 *Financial instruments – recognition and measurement* and AASB 1023 *General insurance contracts* from 1 July 2005. Accordingly, the comparative information for transactions affected by these standards has been accounted for in accordance with the policies in place in the previous financial year. The adjustments made at 1 July 2005 to restate the opening financial position of the TAC to the position under A-IFRS are detailed in note 1(v).

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 the relevant notes in the financial report.

**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 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 GST.

#### **(b) Investment income**

Dividend income is recognised when the entity's right to receive 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 property 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. Realised gains or losses on the termination of derivative financial instruments and realised and unrealised gains 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.

Notes to, and forming part of, the financial reports for the year ended 30 June 2006

## 1. Summary of significant accounting policies (continued)

### (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 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.

### (e) Outstanding claims liability

The liability for outstanding claims is measured on the basis of actuarially estimated costs of future claims payments, which include GST 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 16) 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% (2005: 80%–85%) 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 liability for outstanding claims (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 amortised to correspond to the earning pattern of the premium revenue.

### (h) Assets backing insurance liabilities

As part of its investment strategy, the TAC actively manages its investment portfolio in accordance with the TAC's Risk Management Plan to ensure the TAC is able to meet the expected future cash flows arising from claims liabilities.

With the exception of plant and equipment and intangibles, the TAC has determined that all investments are held to back insurance liabilities and their accounting treatment is described below.

Under A-IFRS, fair value is measured at bid price and excludes transaction costs. In previous years, investments were measured at mid-market rates and included transaction costs.

#### *Investments*

Investments are designated at fair value through the income statement. 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 income statement.

Details of fair value for the different types of investment assets are as follows:

- ~ 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;
- ~ shares, fixed interest securities, options and units in trusts listed on stock exchanges are initially recognised at cost and the subsequent fair value is taken as the quoted bid price of the instruments at the balance sheet date; and
- ~ unlisted unit trusts are recorded at fund managers' valuation.

All purchases and sales of investments that require delivery of the asset within the timeframe established by regulation or market convention ('regular way' transactions) are recognised at trade date, being the date on which the TAC commits to buy or sell the asset. In cases where the period between trade and settlement exceeds this timeframe, 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 12 months of balance date are classified as current investments for the purposes of classification in the balance sheet. While this classification policy results in a reported working capital deficit, the TAC is cash flow positive with premium and investment income exceeding claims and administrative cost payments.

## **1. Summary of significant accounting policies (continued)**

### **(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 profit or loss in the period in which they arise.

### **(j) Derivative financial instruments**

The TAC uses derivative financial instruments such as foreign currency contracts and interest rate swaps to economic hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are stated at fair value.

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. Any gain or loss from remeasuring of foreign currency contracts and interest rate swaps at fair value is recognised in the income statement.

### **(k) Employee benefits**

Provision is made for benefits accruing to employees in respect of salaries, annual leave and long service leave. No provision is made for non-vesting sick leave because 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 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months, are measured as the present value of the estimated future cash outflows to be made by the TAC in respect of services provided by employees up to the reporting date.

#### *Defined contribution superannuation plans*

Contributions to defined contribution superannuation plans are expensed when incurred.

#### *Defined benefit superannuation plans*

The amount charged to the 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 vehicle**

Plant and equipment is stated at 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 the 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 are 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	10% – 15%
~ motor vehicles under lease	33%

### **(m) Intangible asset**

Intangible asset represents identifiable non-monetary asset 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, which is normally up to three years. The amortisation period for an intangible asset is reviewed annually. In addition, an assessment is made at each reporting date to determine whether there are indicators that the intangible asset concerned is impaired. If so, the asset concerned is tested by comparing its recoverable amount with its carrying amount.

### **(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 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 lease assets are amortised on a straight line basis over the term of the lease.

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

Notes to, and forming part of, the financial reports for the year ended 30 June 2006

## 1. Summary of significant accounting policies (continued)

### (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 Minister for WorkCover 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 represents the tax payable 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) 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 Authority (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 of cash flows 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.

### (s) Rounding

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

### (t) Comparative figures

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

### (u) 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.

### (v) Impact of adoption of A-IFRS

The TAC has taken the exemption available under AASB 1 to only apply AASB 132, AASB 139 and AASB 1023 from 1 July 2005. In addition, the TAC has not restated the comparative information for transactions within the scope of these standards as permitted on the first-time adoption of A-IFRS.

The policies applied to accounting for financial instruments and outstanding claims liability in the current financial period are detailed in notes 1(e) and 1(h). The following accounting policies were applied in the previous financial year:

- ~ investments were stated at net market value at reporting date after allowing for anticipated costs of disposal; and
- ~ the discount rate TAC used for discounting claims liabilities was based on the market risk-adjusted rates of return applicable to the TAC's investments.

**1. Summary of significant accounting policies (continued)**

The effect of changes in the accounting policies for financial instruments and insurance contracts on the balance sheet as at 1 July 2005 is shown below:

	Note	30 June 2005 \$000	Effect of adoption \$000	1 July 2005 \$000
<b>Current assets</b>				
Cash and cash equivalents		22,343	–	22,343
Receivables		49,157	–	49,157
Investments		1,025,335	–	1,025,335
Deferred acquisition costs		10,216	–	10,216
Other assets		2,056	–	2,056
<b>Total current assets</b>		<b>1,109,107</b>	<b>–</b>	<b>1,109,107</b>
<b>Non-current assets</b>				
Receivables		176,270	–	176,270
Investments	(a)	5,947,376	7,049	5,954,425
Plant and equipment		4,381	–	4,381
Intangibles		2,150	–	2,150
Deferred tax assets	(c)	185,858	6,728	192,586
<b>Total non-current assets</b>		<b>6,316,035</b>	<b>13,777</b>	<b>6,329,812</b>
<b>Total assets</b>		<b>7,425,142</b>	<b>13,777</b>	<b>7,438,919</b>
<b>Current liabilities</b>				
Outstanding claims		703,846	–	703,846
Unearned premiums		491,086	–	491,086
Payables		62,742	–	62,742
Tax liabilities		57,031	–	57,031
Provisions		4,216	–	4,216
Lease liabilities		278	–	278
<b>Total current liabilities</b>		<b>1,319,199</b>	<b>–</b>	<b>1,319,199</b>
<b>Non-current liabilities</b>				
Outstanding claims	(b)	4,536,436	192,814	4,729,250
Deferred tax liabilities	(c)	171,268	(48,858)	122,410
Provisions		6,385	–	6,385
Lease liabilities		608	–	608
<b>Total non-current liabilities</b>		<b>4,714,697</b>	<b>143,956</b>	<b>4,858,653</b>
<b>Total liabilities</b>		<b>6,033,896</b>	<b>143,956</b>	<b>6,177,852</b>
<b>Net assets</b>		<b>1,391,246</b>	<b>(130,179)</b>	<b>1,261,067</b>
<b>Equity</b>				
Reserves		6,300	–	6,300
Accumulated surplus	(d)	1,384,946	(130,179)	1,254,767
<b>Total equity</b>		<b>1,391,246</b>	<b>(130,179)</b>	<b>1,261,067</b>

The adjustments made at 1 July 2005 to restate the opening financial position of the TAC to the position under A-IFRS, were related to the following:

- the measurement of investments at the fair value, rather than at net market value. The impact of this change to fair value measurement was an increase in investments of \$7.05 million;
- the measurement of claims liabilities using risk-free discount rates (increased claims liabilities by \$493.23 million) plus a prudential margin to provide for a 75% probability of sufficiency (reduced claims liabilities by \$300.42 million). The impact of these changes was a net increase of \$192.81 million in claims liabilities at 1 July 2005;
- the tax effect of the above changes are reflected in the adjustments against deferred tax assets, tax liabilities and deferred tax liabilities; and
- the effects of the above adjustments were made to accumulated surplus.

Notes to, and forming part of, the financial reports for the year ended 30 June 2006

## 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)
- ~ Inflation Adjusted Chain Ladder Method (CLM)
- ~ Payment Per Historical Settlement (PPHS).

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 is 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. 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 2006	30 June 2005*
Average claim frequency (claims per 1000 registrations)	4.49	4.50
Average claim size	\$41,746	\$41,401
Expense rate	13.1%	13.1%
Discount rate	5.9%	6.2%
Short-term inflation (AWE)	4.0%	4.0%
Short-term inflation (CPI)	2.5%	3.0%
Superimposed inflation	1.2%	1.0%
Long-term gap (Discount – AWE)	2.5%	4.0%
Long-term gap (Discount – CPI)	3.5%	5.0%
Average weighted term to settlement from injury date	12.6 years	10.5 years
Risk margin	7.5%	15.0%

\* Note: the 2005 valuation was not performed on an A-IFRS basis.

## 2. Actuarial assumptions and methods (continued)

### 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 claim 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.

#### *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:

- ~ 17.8% of benefits managed by Recovery Support Division
- ~ 12.2% of benefits managed by Major Injury Division
- ~ 10.9% of benefits managed by Resolution Division

#### *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 bank and other economic forecasters. Long-term (beyond five years) 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 above the level of wage or CPI inflation, as well as the cost of certain health services increasing at a higher rate than wage 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.

#### *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 for to a 75% probability of sufficiency.

### Sensitivity analysis

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 insurance liabilities and show an analysis of the sensitivity of the profit and equity to changes in these assumptions.

<b>Variable</b>	<b>Impact of movement in variable</b>
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 for 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 a corresponding impact on 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 business.
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 a corresponding increase or decrease in claims expense respectively.

Notes to, and forming part of, the financial reports for the year ended 30 June 2006

## 2. Actuarial assumptions and methods (continued)

### Impact of changes in key variables

Variable	Movement	Net profit \$000	Equity \$000
Recognised amounts per the financial statements		604,198	1,033,265
Average claim frequency	+1%	599,036	1,028,102
	-1%	609,361	1,038,427
Expense rate	+1%	570,179	999,246
	-1%	638,217	1,067,284
Discount rate	+1%	737,445	1,166,512
	-1%	463,765	892,832
Inflation and superimposed inflation rates	+1%	464,349	893,415
	-1%	736,891	1,165,958
Average weighted term to settlement	+1 year	695,033	1,124,100
	-1 year	513,363	942,430

## 3. Risk management policies and procedures

The financial 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.

The TAC uses derivative financial instruments to manage financial risks inherent in its investment portfolio subject to guidelines established by the TAC pursuant to the Treasurer's Prudential Statement. Details of objectives and policies in respect of derivative financial instruments are included in note 24.

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, profits 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.

Investments are managed in accordance with the TAC's Risk Management Plan approved by the TAC's Board and Treasurer for Victoria.

As part of its investment strategy, the TAC actively manages its investment portfolio to ensure the TAC is able to meet the expected future cash flows arising from claims liabilities.

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 TAC's reinsurance treaties; and
- ~ the investment allocation strategy, established by independent asset consultants 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 compulsory third party scheme administered by the TAC are established under the *Transport Accident Act 1986*. The period of indemnity is generally for periods of 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, including trains, trams and buses in metropolitan Melbourne.

**3. Risk management policies and procedures (continued)****(d) Interest rate risk**

None of the financial assets or liabilities arising from insurance or reinsurance contracts entered into by the TAC are 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 treaties.

**4. Explanation of volatility of financial results**

This note provides additional analysis of the net profit of \$604 million (2005: \$465 million).

Given the long-term nature of the TAC scheme both from an investment and outstanding claims perspective, 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 the TAC's asset consultant 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. The Board considers that this additional disclosure in the financial report is therefore warranted to explain the impact of external factors on the financial performance.

The net profit for the 2005/06 financial year was favourably impacted by the strong investment returns for the year, which were \$428 million above the long-term average expected returns. The previous financial year's result was \$373 million above the long-term average expected returns.

The claims economic factors result in an unfavourable impact of \$34 million (2005: \$108 million) on claims liabilities. This is principally due to the adjustment to the real long-term discount rate beyond five years, partially offset by a favourable impact from higher bond yields. The previous year was unfavourably impacted by a fall in bond yields.

The table below highlights the impact from short-term fluctuations and economic assumptions on the financial result.

	<b>2006</b>	<b>2005</b>
	<b>\$M</b>	<b>\$M</b>
Short-term investment fluctuations <sup>1</sup>	428	373
Changes in inflation assumptions and discount rates	(34)	(108)

<sup>1</sup> The TAC investment portfolio recorded a return of 14.1%, compared to 13.7% in the previous year, from continuing strong equity markets.

<b>5. Administration costs</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>
Staff and related	59,180	52,681
Information technology	16,612	17,242
Occupancy and utilities	6,219	6,021
Other operating costs	16,130	12,603
<b>Total</b>	<b>98,141</b>	<b>88,547</b>
Total administration costs include the following:		
Amounts set aside for provisions		
~ doubtful debts	(490)	315
~ employee entitlements	798	1,648
Depreciation and amortisation	3,172	2,837
Operating lease rentals	4,693	5,023
Auditor General's fees <sup>1</sup>	153	171
Interest on finance lease	89	40

<sup>1</sup> Fees are for audit of the financial report.

Notes to, and forming part of, the financial reports for the year ended 30 June 2006

6. Investment income	2006 \$000	2005 <sup>1</sup> \$000
Dividend income	192,313	157,344
Interest income	127,136	121,322
Changes in fair values of investments <sup>2</sup>		
~ Unrealised gains	373,756	352,684
~ Realised gains	271,559	228,225
Gross investment income	964,764	859,575
Investment expenses	(21,673)	(18,711)
<b>Net investment income</b>	<b>943,091</b>	<b>840,864</b>

<sup>1</sup> The 2005 comparatives are stated under A-GAAP and are based on net market values (see note 1(v)).

<sup>2</sup> This is the difference between the fair value of the investments as at 1 July 2005 or the cost of acquisition (for investments purchased during the period), and net sales proceeds (realised) or their fair value as at 30 June 2006 (unrealised).

The TAC investment portfolio recorded a return of 14.1% for 2005/06, an increase over the return of 13.7% in the previous year due principally to continuing strong equity markets. Investment expenses increased in 2005/06 mainly due to the average larger investment portfolio size.

## 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, prudential margin 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.

	Current year \$000	Prior years \$000	2006 Total \$000	Current year \$000	Prior years \$000	2005 Total \$000
Gross claims incurred						
~ Undiscounted	1,945,430	3,297,643	5,243,073	1,496,561	(577,952)	918,609
~ Discount movement	(1,084,789)	(3,249,855)	(4,334,644)	(660,920)	752,075	91,155
	860,641	47,788	908,429	835,641	174,123	1,009,764
Claims recoveries						
~ Undiscounted	(8,548)	28,632	20,084	(13,080)	21,537	8,457
~ Discount movement	1,956	(15,929)	(13,973)	4,860	(22,934)	(18,074)
	(6,592)	12,703	6,111	(8,220)	(1,397)	(9,617)
<b>Net claims incurred</b>	<b>854,049</b>	<b>60,491</b>	<b>914,540</b>	<b>827,421</b>	<b>172,726</b>	<b>1,000,147</b>

The net claims incurred of \$915 million (2005: \$1,000 million) is impacted by both internal and external factors as noted below:

	2006 \$M	2005 \$M
Claims incurred – internal <sup>1</sup>	881	892
Claims incurred – external <sup>2</sup>	34	108
<b>Total claims incurred</b>	<b>915</b>	<b>1,000</b>

<sup>1</sup> 'Claims incurred – internal' for 2005/06 is \$881 million, which is marginally lower than the claims incurred for the previous year. In a maturing scheme like the TAC scheme, claims incurred – internal would normally be expected to increase by 6% to 7% annually. The lower than expected claims incurred results in 2005/06 is due to better claims experience across current and prior accident periods as determined by the external actuaries.

<sup>2</sup> 'Claims incurred – external' reflects the financial impact on changes in inflation assumptions and discount rates. In 2005/06, the claims economic impact results in an unfavourable impact of \$34 million on claims liabilities. This is principally due to the adjustment to the real long-term discount rate beyond five years, partially offset by a favourable impact from rising bond yields. The previous year was unfavourably impacted by a fall in bond yields (\$108 million).

**8. Income tax**

<b>(a) Income tax recognised in income statement</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>
<b>Income tax expense comprises:</b>		
Current tax expense	172,225	123,980
Deferred tax expense	53,852	46,457
Adjustments in respect of prior years	1,181	(1,152)
<b>Total tax expense charged to income statement</b>	<b>227,258</b>	<b>169,285</b>
Deferred tax expense comprises:		
Decrease/(increase) in deferred tax assets	(4,765)	60,538
Increase/(decrease) in deferred tax liabilities	58,617	(14,081)
<b>Income tax expense</b>	<b>53,852</b>	<b>46,457</b>

<b>(b) Reconciliation between net profit before tax and tax expense</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>
Net profit before tax	831,456	633,977
Tax at the statutory rate of 30% (2005–30%)	249,437	190,193
Imputation gross-up on dividends received	7,572	7,333
Franking credits on dividends received	(25,228)	(25,493)
Farrow Group revenue	(10)	(1,656)
Sundry items	(4,513)	(1,092)
	<b>227,258</b>	<b>169,285</b>

<b>(c) Deferred tax balances</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>
<b>Deferred tax assets comprise:</b>		
Claims handling expense included in outstanding claims	190,425	175,161
Provisions and accrued employee entitlements not currently deductible	5,159	9,409
Accruals not currently deductible	1,767	1,288
	<b>197,351</b>	<b>185,858</b>
<b>Deferred tax liabilities comprise:</b>		
Unrealised gain on investments	180,727	170,897
Difference in depreciation of plant and equipment for accounting and income tax purposes	301	371
	<b>181,028</b>	<b>171,268</b>
<b>Net deferred tax assets</b>	<b>16,323</b>	<b>14,590</b>

Notes to, and forming part of, the financial reports for the year ended 30 June 2006

<b>9. Receivables</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>
<b>Current</b>		
Premiums receivable	8,769	8,492
Claims GST receivable <sup>1</sup>	28,399	28,638
Claims recoveries and other debtors	12,879	16,833
Less: Provision for impairment	(4,460)	(4,806)
	8,419	12,027
<b>Total current</b>	<b>45,587</b>	<b>49,157</b>
<b>Non-current</b>		
Claims GST receivable <sup>1</sup>	164,922	136,409
Claims recoveries receivable	31,934	40,311
Less: Provision for impairment	(306)	(450)
	31,628	39,861
<b>Total non-current</b>	<b>196,550</b>	<b>176,270</b>

<sup>1</sup> 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.

## 10. Investments

The TAC has determined that all investments are held to back insurance liabilities and are designated at fair value through profit or loss.

<b>At fair value (2005: net market value)</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>
<b>Current</b>		
Bank and cash equivalents	855,885	954,670
Debt securities	210,603	139,424
Investment income receivables	58,927	57,866
Investment settlements outstanding	(112,554)	(137,583)
Financial derivatives	(3,915)	10,958
<b>Total current</b>	<b>1,008,946</b>	<b>1,025,335</b>
<b>Non-current</b>		
Debt securities	1,799,766	1,469,727
Equities – listed domestic equities	1,313,402	1,628,832
Equities – listed international equities <sup>1</sup>	1,386,629	2,096,668
Unlisted trust units	766,247	–
Property – listed property trusts	556,432	508,259
Property – unlisted property trusts	259,688	243,890
Financial derivatives	(5,853)	–
<b>Total non-current</b>	<b>6,076,311</b>	<b>5,947,376</b>
<b>Total</b>	<b>7,085,257</b>	<b>6,972,711</b>

<sup>1</sup> The TAC utilises forward exchange contracts to partially hedge the currency exposure of international equities.

In July 2005, the Treasurer of Victoria announced an intention for Victorian Funds Management Corporation Limited (VFMC) to assume responsibility for the TAC's strategic investment asset allocation decisions in respect of the TAC's Fund. The change is intended to allow government agencies to focus on their core business, while investment strategy decisions are made by one specialist entity. This reform has been implemented effective from 1 July 2006. In the previous years, VFMC was responsible for implementing the TAC's investment strategy decisions.

**11. Deferred acquisition costs**

<b>Movements in deferred acquisition costs</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>
Balance at 1 July	10,216	9,748
Acquisition costs incurred in the year	25,545	20,484
Amortisation charged to income	(23,090)	(20,016)
<b>Balance at 30 June</b>	<b>12,671</b>	<b>10,216</b>

**12. Other assets**

	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>
<b>Current</b>		
Farrow distribution	–	813
Prepayments and others	4,815	896
GST receivable	97	347
<b>Total current</b>	<b>4,912</b>	<b>2,056</b>

**13. Plant and equipment**

	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>
<b>Plant and equipment</b>		
At cost	13,658	11,715
Less: Accumulated depreciation	(9,435)	(8,216)
	<b>4,223</b>	<b>3,499</b>
<b>Motor vehicles under lease</b>		
At cost	2,088	1,000
Less: Accumulated depreciation	(299)	(118)
	<b>1,789</b>	<b>882</b>
<b>Balance at 30 June</b>	<b>6,012</b>	<b>4,381</b>

**Movements in carrying amounts**

	<b>Plant and equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Balance at 1 July 2004</b>	<b>4,622</b>	<b>625</b>	<b>5,247</b>
Additions	49	377	426
Disposals	–	(22)	(22)
Depreciation expense	(1,172)	(98)	(1,270)
<b>Balance at 1 July 2005</b>	<b>3,499</b>	<b>882</b>	<b>4,381</b>
Additions	2,113	1,308	3,421
Disposals	(20)	(163)	(183)
Depreciation expense	(1,369)	(238)	(1,607)
<b>Balance at 30 June 2006</b>	<b>4,223</b>	<b>1,789</b>	<b>6,012</b>

Notes to, and forming part of, the financial reports for the year ended 30 June 2006

<b>14. Intangibles</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>
<b>Computer software</b>		
At cost	17,423	10,810
Less: Accumulated amortisation	(10,225)	(8,660)
	<b>7,198</b>	<b>2,150</b>
<b>Movements in carrying amounts</b>		
Balance at 1 July	2,150	3,710
Additions	6,613	–
Current year amortisation	(1,565)	(1,560)
<b>Balance at 30 June</b>	<b>7,198</b>	<b>2,150</b>

<b>15. Payables</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>
<b>Current</b>		
Advance premiums <sup>1</sup>	24,314	21,823
Other creditors and accruals	51,100	40,919
<b>Total current</b>	<b>75,414</b>	<b>62,742</b>

<sup>1</sup> Advance premiums represent premiums received for policies commencing after balance date.

## 16. Outstanding claims

### (a) Outstanding claims liability

Outstanding claims liability as at 30 June 2006 has been determined by the directors after appropriate consideration of the actuarial advice provided by an independent actuarial firm, PricewaterhouseCoopers Actuarial Pty Ltd.

	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>
Expected future claims payments (undiscounted)	15,049,188	11,120,820
Discount to present value	(10,296,051)	(7,043,621)
	4,753,137	4,077,199
Claims handling expenses	590,464	507,715
	5,343,601	4,584,914
Risk margin	383,343	655,368
<b>Outstanding claims liability</b>	<b>5,726,944</b>	<b>5,240,282</b>
Current	680,280	703,846
Non-current	5,046,664	4,536,436
<b>Outstanding claims liability</b>	<b>5,726,944</b>	<b>5,240,282</b>

	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>
TAC scheme – No-fault	4,099,399	3,597,800
TAC scheme – Common law	1,364,625	1,393,882
Run-off scheme	262,920	248,600
	<b>5,726,944</b>	<b>5,240,282</b>

**16. Outstanding claims (continued)****(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 7.50% (2005: 15.00% for a 80% to 85% probability of sufficiency).

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

	2006		2005			
	Gross	Recoveries	Net	Gross	Recoveries	Net
	\$000	\$000	\$000	\$000	\$000	\$000
Outstanding claims brought forward	5,240,282	(215,793)	5,024,489	4,826,450	(195,940)	4,630,510
IFRS adjustment 1 July 2005	196,104	(3,290)	192,814	–	–	–
	5,436,386	(219,083)	5,217,303	4,826,450	(195,940)	4,630,510
Effect of changes in economic assumptions	33,566	732	34,298	96,000	(1,058)	94,942
Effect of claims experience and modelling	(108,256)	15,615	(92,641)	(72,312)	1,356	(70,956)
Cost of prior year claims moving one year closer to payment (unwind of discount)	122,478	(3,644)	118,834	150,435	(1,695)	148,740
Increase in claims incurred/recoveries anticipated over the year	860,641	(6,592)	854,049	835,641	(8,220)	827,421
Incurring claims recognised in the income statement	908,429	6,111	914,540	1,009,764	(9,617)	1,000,147
Claims payments and recoveries during the year	(646,146)	8,872	(637,274)	(614,662)	8,494	(606,168)
Increase in provision for GST credits	28,275	(28,275)	–	18,730	(18,730)	–
<b>Outstanding claims carried forward</b>	<b>5,726,944</b>	<b>(232,375)</b>	<b>5,494,569</b>	<b>5,240,282</b>	<b>(215,793)</b>	<b>5,024,489</b>

**(d) Claims development table**

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

Accident year	2002	2003	2004	2005	2006	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Estimate of ultimate claims costs:</b>						
At end of accident year	1,314,412	1,249,826	1,443,864	1,330,042	1,715,906	
One year later	1,178,482	1,310,766	1,198,363	1,605,442	–	
Two years later	1,230,610	1,277,465	1,572,798	–	–	
Three years later	1,131,304	1,351,246	–	–	–	
Four years later	1,154,756	–	–	–	–	
Current estimate of cumulative claims costs	1,154,756	1,351,246	1,572,798	1,605,442	1,715,906	7,400,148
Cumulative payments	(408,998)	(326,259)	(260,033)	(217,505)	(132,445)	(1,345,240)
<b>Outstanding claims – undiscounted</b>	<b>745,758</b>	<b>1,024,987</b>	<b>1,312,765</b>	<b>1,387,937</b>	<b>1,583,461</b>	<b>6,054,908</b>
Discount						(3,713,916)
Claims handling expenses						590,464
Recoveries and GST credits						232,375
2001 and prior claims						2,563,113
<b>Outstanding claims per balance sheet</b>						<b>5,726,944</b>

Notes to, and forming part of, the financial reports for the year ended 30 June 2006

<b>17. Unearned premiums</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>
Balance at 1 July	491,086	468,235
Deferral of premium written in the year	511,241	491,086
Earning of premium written in previous year	(491,086)	(468,235)
<b>Balance at 30 June</b>	<b>511,241</b>	<b>491,086</b>

<b>18. Provisions</b>	<b>2006</b>	<b>2005</b>
	<b>\$000</b>	<b>\$000</b>
<b>Current</b>		
Employee benefits <sup>1</sup>	9,434	8,827
Farrow costs	249	213
<b>Total current</b>	<b>9,683</b>	<b>9,040</b>
<b>Non-current</b>		
Employee benefits	1,189	1,561
Leasehold restoration <sup>2</sup>	1,800	–
<b>Total non-current</b>	<b>2,989</b>	<b>1,561</b>
<sup>1</sup> Annual leave and long service leave entitlements expected to be settled:		
~ within 12 months of reporting date	3,955	4,003
~ beyond 12 months of reporting date	5,479	4,824
<b>Total</b>	<b>9,434</b>	<b>8,827</b>

<sup>2</sup> The provision for restoration costs represents the fair value of the dismantling, removal and restoration costs estimated to be paid upon vacation of leased premises. The obligation under the lease contract for the fitout to be returned to its original state existed at the time of acquisition.

**(b) Movement in provisions**

	<b>Employee benefits</b>	<b>Leasehold restoration</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Balance at 1 July 2005	10,388	–	10,388
Additional provision recognised	680	1,800	2,480
Reduction arising from payments	(563)	–	(563)
Unwind of discount and effect of changes in the discount rate	118	–	118
<b>Balance at 30 June 2006</b>	<b>10,623</b>	<b>1,800</b>	<b>12,423</b>

<b>19. Commitments (discounted)</b>	<b>2006 \$000</b>	<b>2005 \$000</b>
<b>(a) Administrative expenditure<sup>1</sup></b>		
Estimated administrative expenditure contracted for at balance date, but not provided for:		
~ no later than one year	149,882	108,487
~ later than one year but not later than five years	259,903	140,048
~ later than five years	257,971	–
	<b>667,756</b>	<b>248,535</b>
<b>(b) Operating leases</b>		
Minimum lease payments:		
~ no later than one year	4,475	5,282
~ later than one year but not later than five years	13,081	18,645
~ later than five years	–	1,084
	<b>17,556</b>	<b>25,011</b>
<b>(c) Finance leases</b>		
~ no later than one year	889	325
~ later than one year but not later than five years	1,060	639
Total minimum lease payments	1,949	964
~ future finance charges	(153)	(78)
Lease liability	1,796	886
~ current liability	795	278
~ non-current liability	1,001	608
	<b>1,796</b>	<b>886</b>

<sup>1</sup> Included in the administrative expenditure commitments is a total amount of \$800 million (nominal) for commitments by the TAC to provide funding for major road safety infrastructure programs in Victoria over 2006/07 to 2016/17. 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.

In addition, it also includes a total commitment by the TAC to provide \$60 million (nominal) over five years to fund the new Victorian Neurotrauma Initiative.

Operating leases relate to various offices and storage premises expiring within one to ten 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.

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.

Following the Victorian Government's formal decision of December 2005 to relocate the TAC to Geelong, the TAC has undertaken detailed planning work to implement the Government's decision. At balance date, there are no material commitments made by the TAC.

Notes to, and forming part of, the financial reports for the year ended 30 June 2006

## 20. Employee superannuation

Superannuation is provided for employees via the following superannuation funds:

	2006 \$000	2005 \$000
Emergency Services Superannuation Scheme ~ Revised and New Schemes <sup>1</sup>	902	1,235
Victorian Superannuation Fund – VicSuper Scheme	2,662	2,251
Private sector complying funds	1,424	1,065
<b>Total</b>	<b>4,988</b>	<b>4,551</b>

<sup>1</sup> These schemes are defined benefit schemes.

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 2006, no contributions were outstanding (2005: nil).

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

## 21. Key management personnel remuneration

The remuneration of the directors and executive officers, being the key management personnel of the TAC is set out below:

	2006 \$000	2005 \$000
Short-term employee benefits	2,563	2,504
Post-employment benefits	148	152
Other long-term employee benefits	82	–
Termination benefits	517	–
<b>Total</b>	<b>3,310</b>	<b>2,656</b>

### (a) Remuneration of responsible persons

	2006 \$000	2005 \$000
Total remuneration received or receivable by responsible persons	874	642
The number of responsible persons of the TAC whose remuneration falls within the following bands:	<b>No.</b>	<b>No.</b>
\$1 – \$9,999	–	1
\$20,000 – \$29,999	–	2
\$30,000 – \$39,999	1	3
\$40,000 – \$49,999	3	–
\$80,000 – \$89,999	1	–
\$90,000 – \$99,999	2	1
\$380,000 – \$389,999	–	1
\$440,000 – \$449,999	1	–

## 21. Key management personnel remuneration (continued)

### (b) Remuneration of executive officers

	2006 \$000	2005 \$000
Total remuneration received or receivable by all executive officers	2,436	2,014

The number of executive officers of the TAC, excluding the Chief Executive Officer, whose remuneration exceeded \$100,000 is shown in the table below. Base remuneration is exclusive of bonus, long-service leave and redundancy payments. Executive numbers vary from year to year due to the timing of appointments, resignations, and the composition of the executive officers.

Income band	Base remuneration		Total remuneration	
	2006 No.	2005 No.	2006 No.	2005 No.
Less than \$100,000	1	–	–	–
\$150,000 – \$159,999	1	1	–	–
\$160,000 – \$169,999	–	1	–	–
\$170,000 – \$179,999	2	2	–	–
\$180,000 – \$189,999	–	2	2	1
\$190,000 – \$199,999	2	–	–	1
\$200,000 – \$209,999	–	1	–	2
\$210,000 – \$219,999	–	–	1	2
\$220,000 – \$229,999	1	–	–	1
\$230,000 – \$239,999	–	1	1	–
\$240,000 – \$249,999	1	–	–	–
\$250,000 – \$259,999	1	1	–	–
\$260,000 – \$269,999	–	–	1	–
\$270,000 – \$279,999	–	–	–	1
\$280,000 – \$289,999	–	–	1	–
\$290,000 – \$299,999	–	–	–	1
\$300,000 – \$309,999	–	–	1	–
\$360,000 – \$369,999	–	–	1	–
\$390,000 – \$399,999	–	–	1	–

## 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 were The Honourable John Lenders MP, Minister for WorkCover and the following responsible persons:

Mr Paul Barker

Dr Julie Caldecott

Mr Stephen Grant (Managing Director and Chief Executive Officer, resigned 24 February 2006)

Mr James MacKenzie (Chairman)

Mr Paul O'Connor (Chief Executive Officer, appointed 22 May 2006)

Ms Elana Rubin

Ms Maria Wilton

Mr Michael Wright

### Related party transactions

There are no transactions with responsible persons and responsible person-related parties requiring disclosure under the Directions of the Minister for Finance.

Notes to, and forming part of, the financial reports for the year ended 30 June 2006

## 22. Responsible person-related disclosures (continued)

### Other payments

The following payments are also noted, although they are not considered to be responsible person-related party transactions for the purpose of Ministerial Directions under the *Financial Management Act 1994*.

Mr James MacKenzie is a consultant to Deloitte; entities of the Deloitte Group have provided services to the TAC during the year on normal commercial terms and conditions.

Dr Julie Caldecott is a partner of Boston Consulting Group which has provided services to the TAC during the year on normal commercial terms and conditions.

Mr Paul O'Connor is a director of the Personal Injury Education Foundation (PIEF). The TAC is committed to contributing towards the operating costs of PIEF.

Mr Paul Barker, Mr James MacKenzie, Ms Elana Rubin and Mr Michael Wright were engaged by the Department of Treasury and Finance (DTF) to provide services to the DTF's Steering Committee to conduct a feasibility study for the relocation of the TAC to Geelong. Fees for their services were paid by the DTF and reimbursed by the TAC.

Mr Paul Barker, Mr James MacKenzie and Ms Elana Rubin are directors of the Victorian WorkCover Authority (VWA), 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. In addition, the TAC pays an annual WorkCover premium to the VWA through one of its authorised agents.

Mr Stephen Grant, a director during the 2005/06 year, was a director of Monash University Accident Research Centre which has provided road safety research services to the TAC. Mr Stephen Grant was also a director of PIEF.

### 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. 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:

	2006 \$000	2005 \$000
Cash at bank	24,641	22,343
Investments (current):		
~ Cash and deposits at call	108,189	202,639
~ Debt securities (90 days or less to maturity)	575,704	458,271
<b>Total</b>	<b>708,534</b>	<b>683,253</b>

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

	2006 \$000	2005 \$000
Net profit after tax	604,198	464,692
Depreciation and amortisation	3,172	2,837
Unrealised gain on investments	(373,756)	(352,684)
Realised gain on sale of investments	(271,559)	(228,225)
Farrow Group revenue	–	(5,525)
<b>Changes in assets and liabilities</b>		
Increase in outstanding claims	293,848	413,832
Increase in unearned premium reserve	20,154	22,851
Decrease in receivables and other assets	(24,144)	(31,777)
Increase in creditors and provisions	15,624	16,522
Decrease in net deferred tax balances	53,853	46,163
Decrease in income tax payable	(19,212)	(36,973)
<b>Net cash flows from operating activities</b>	<b>302,178</b>	<b>311,713</b>

## 24. Financial instruments

### Purpose of holding derivative products

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices. Derivative financial instruments principally consist of forward rate agreements, interest rate swaps, interest rate options, forward foreign exchange contracts and futures contracts. Derivatives are utilised to gain access to, and allow flexibility within, the financial markets in order to manage and structure the investment portfolio in line with the TAC's investment strategy.

The TAC's appointed fund managers are authorised to invest in derivative financial instruments, subject to such investments complying at all times with the investment guidelines established by the TAC pursuant to the Treasurer's Prudential Statement. Under the prudential statement, derivatives cannot be used for speculative purposes or to gear the investment portfolio.

Derivatives are used to manage financial risks inherent in the TAC's investment portfolio. Derivative financial instruments are used by the TAC to better manage its portfolio of direct investments in equity and fixed interest instruments.

In the case of cash and fixed interest investments, the TAC's investment managers may utilise bank bill and bond futures contracts and interest rate swaps to provide a liquid and cost-effective method of achieving the desired interest rate exposure.

Hedging of equity positions may be undertaken by the TAC's investment managers via futures and options contracts, by selling such contracts against an underlying investment asset physical position, or by buying such contracts when backed by an underlying cash position.

### Interest rate risk

The TAC uses derivatives to manage the interest rate risk on its interest rate sensitive assets. Interest rate swaps 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 the TAC 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 loss on the swaps in the portfolio at 30 June 2006 was \$5.86 million (2005: unrealised gain \$0.99 million).

#### Interest rate options

The TAC may enter into interest rate options to hedge interest rate exposures. The option contracts have repricing terms up to three months. As at 30 June 2006, the outstanding option contracts were \$nil (2005: \$nil).

#### Forward rate agreements

The TAC may enter into forward interest rate agreements with expiry terms out to 12 months to maximise anticipated investment returns. As at 30 June 2006, outstanding agreements were \$nil (2005: \$nil).

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

#### Interest Rate Risk

2006	Variable interest rate \$000	Fixed maturity dates						Non- interest bearing \$000	Total value \$000
		1 year or less \$000	1-2 years \$000	2-3 years \$000	3-4 years \$000	4-5 years \$000	5+ years \$000		
<b>Financial assets</b>									
Cash and deposits	24,641	–	–	–	–	–	–	–	24,641
Investments	108,189	940,757	162,466	251,097	205,297	319,083	892,547	4,205,821	7,085,256
	<b>132,830</b>	<b>940,757</b>	<b>162,466</b>	<b>251,097</b>	<b>205,297</b>	<b>319,083</b>	<b>892,547</b>	<b>4,205,821</b>	<b>7,109,897</b>
Weighted average interest rate	3.62%	5.60%	6.17%	6.40%	6.33%	5.26%	4.61%	–	
<b>Financial liabilities</b>									
Accruals and creditors	–	–	–	–	–	–	–	51,100	51,100
Other liabilities	–	795	597	404	–	–	–	249	2,045
	–	<b>795</b>	<b>597</b>	<b>404</b>	–	–	–	<b>51,349</b>	<b>53,145</b>
Weighted average interest rate	–	6.40%	6.40%	6.40%	–	–	–	–	–
<b>Net financial assets</b>	<b>132,830</b>	<b>939,962</b>	<b>161,869</b>	<b>250,693</b>	<b>205,297</b>	<b>319,083</b>	<b>892,547</b>	<b>4,154,472</b>	<b>7,056,752</b>

Notes to, and forming part of, the financial reports for the year ended 30 June 2006

## 24. Financial instruments (continued)

2005	Variable interest rate \$000	Fixed maturity dates						Non- interest bearing \$000	Total value \$000
		1 year or less \$000	1-2 years \$000	2-3 years \$000	3-4 years \$000	4-5 years \$000	5+ years \$000		
<b>Financial assets</b>									
Cash and deposits	22,343	-	-	-	-	-	-	-	22,343
Other assets	-	-	-	-	-	-	-	813	813
Investments	204,120	895,963	144,760	246,205	233,840	159,330	991,664	4,096,830	6,972,711
	<b>226,463</b>	<b>895,963</b>	<b>144,760</b>	<b>246,205</b>	<b>233,840</b>	<b>159,330</b>	<b>991,664</b>	<b>4,097,643</b>	<b>6,995,867</b>
Weighted average interest rate	4.75%	5.67%	5.73%	5.52%	5.81%	5.83%	4.95%	-	-
<b>Financial liabilities</b>									
Accruals and creditors	-	-	-	-	-	-	-	40,919	40,919
Other liabilities	-	278	365	243	-	-	-	213	1,099
	-	<b>278</b>	<b>365</b>	<b>243</b>	-	-	-	<b>41,132</b>	<b>42,018</b>
Weighted average interest rate	-	6.36%	6.36%	6.36%	-	-	-	-	-
<b>Net financial assets</b>	<b>226,463</b>	<b>895,685</b>	<b>144,395</b>	<b>245,962</b>	<b>233,840</b>	<b>159,330</b>	<b>991,664</b>	<b>4,056,511</b>	<b>6,953,849</b>

Accruals and creditors represent liabilities for goods and services provided to the economic entity, prior to the end of the financial year, which are unpaid. Amounts are normally settled within 30 days and are carried at nominal value.

### Reconciliation of net financial assets to net assets

	2006 \$000	2005 \$000
Net financial assets as above	7,056,752	6,953,849
Non-financial assets and liabilities:		
~ Provisions	(50,242)	(238,687)
~ Net insurance liabilities	(6,238,185)	(5,731,368)
~ Net non-financial assets	264,940	407,452
<b>Net assets per balance sheet</b>	<b>1,033,265</b>	<b>1,391,246</b>

### Foreign exchange risk

The TAC is exposed to foreign exchange risk through its investments which are denominated in foreign currency, and anticipated future transactions.

#### (i) Foreign currency denominated investments

The foreign exchange risk in respect of financial instruments held by the TAC is stated in Australian currency as follows:

	Fair value		Average exchange rate	
	2006 \$000	2005 \$000	2006	2005
United States dollar	1,090,984	1,127,078	0.743	0.762
Euro dollar	366,119	334,626	0.581	0.630
Japanese yen	213,292	182,790	84.930	84.465
British pound	199,239	186,301	0.402	0.425
Canadian dollar	43,314	65,247	0.826	0.934
Swiss franc	68,295	52,814	0.910	0.977
Other foreign currencies	199,854	212,570		
	<b>2,181,097</b>	<b>2,161,426</b>		

**24. Financial instruments (continued)***(ii) Forward foreign exchange contracts*

The TAC limits foreign exchange risk through the use of forward contracts where it agrees to sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The forward exchange contracts outstanding at balance date in Australian dollar equivalents are:

Outstanding contracts	Average exchange rate		Foreign currency		Contract value		Fair value	
	2006	2005	2006 FC'000	2005 FC'000	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>Buy – 3 months or less</b>								
Australian dollar	1.000	1.000	1,020,566	996,614	1,020,566	996,614	1,020,566	996,614
British pound	0.401	0.412	4,431	4,450	11,042	10,812	11,062	10,472
Canadian dollar	0.828	0.946	3,060	890	3,719	940	3,706	955
Danish kroner	4.302	4.623	5,566	6,254	1,294	1,353	1,290	1,342
Euro dollar	0.579	0.604	9,260	3,990	15,997	6,611	16,039	6,348
Hong Kong dollar	5.697	5.931	4,295	3,025	754	510	745	511
Japanese yen	84.548	81.767	952,668	34,076	11,268	4,169	11,311	4,044
Singapore dollar	1.172	–	870	–	743	–	741	–
South African rand	–	5.085	–	122	–	24	–	24
Swedish krona	5.375	5.603	24,165	13,183	4,495	2,353	4,543	2,230
Swiss franc	0.928	0.941	3,718	8,864	4,097	9,418	4,101	9,155
United States dollar	0.735	0.774	47,492	11,936	64,598	15,418	63,952	15,677
<b>Sell – 3 months or less</b>								
Australian dollar	1.000	1.000	(116,937)	(51,081)	(116,937)	(51,081)	(116,937)	(51,081)
British pound	0.406	0.413	(47,417)	(47,706)	(116,751)	(115,503)	(118,243)	(112,321)
Canadian dollar	0.838	0.950	(32,159)	(27,900)	(38,399)	(29,382)	(39,011)	(29,996)
Danish kroner	4.364	4.554	(18,779)	(21,372)	(4,304)	(4,696)	(4,354)	(4,580)
Euro dollar	0.589	0.604	(95,045)	(94,600)	(161,506)	(156,586)	(164,258)	(150,986)
Hong Kong dollar	5.735	5.942	(45,039)	(43,180)	(7,856)	(7,267)	(7,818)	(7,306)
Japanese yen	83.416	81.166	(10,026,005)	(7,827,864)	(120,200)	(96,448)	(119,150)	(93,446)
Singapore dollar	1.183	1.262	(5,036)	(4,507)	(4,258)	(3,572)	(4,299)	(3,521)
South African rand	–	4.779	–	(1,620)	–	(339)	–	(318)
Swedish krona	5.469	5.546	(80,280)	(63,715)	(14,684)	(11,496)	(15,083)	(10,762)
Swiss franc	0.917	0.932	(30,939)	(31,383)	(33,743)	(33,700)	(34,188)	(32,352)
United States dollar	0.740	0.764	(384,573)	(410,963)	(519,935)	(538,151)	(517,944)	(540,617)

**Liquidity risk**

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

**Credit risk***Credit risk exposures*

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.

Credit risk arises through the failure of a counter party to meet its contractual obligations as and when they fall due. The TAC's maximum credit risk exposure in relation to these is as follows:

- ~ the full amount of the foreign currency the TAC pays when settling a forward exchange contract, should the counter party not pay the dollars it is committed to deliver to the TAC; and
- ~ futures – the counter parties to all futures transactions are recognised Futures Exchanges and, as a result, it is unlikely that significant risk exists as to exposures to the exchange.

*Concentration of credit risk*

The TAC manages credit risk by diversifying the exposure among counter parties 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 of the TAC is to ensure a diversified portfolio.)

Notes to, and forming part of, the financial reports for the year ended 30 June 2006

## 24. Financial instruments (continued)

### *Fair value of financial instruments*

The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial report approximate their fair values unless otherwise stated in note 1.

The fair value of financial assets and financial liabilities are determined as follows:

- ~ the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- ~ the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- ~ the fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, the use of discounted cash flow analysis using the applicable yield curve for the duration of the instruments is made.

## 25. Segment information

The TAC operates the compulsory third-party accident compensation scheme in Victoria.

## 26. Repayment of contributed capital

An amount of \$600 million of accumulated surplus was converted into contributed capital as directed by the Minister for WorkCover. In accordance with section 29A of the *Transport Accident Act 1986*, the TAC paid a \$600 million repayment of capital to the Victorian State Government on 29 June 2006 as determined by the Treasurer after consultation with the Board and the responsible Minister.

## 27. Impacts of adopting A-IFRS

The transition to A-IFRS is accounted for in accordance with AASB 1 *First-time adoption of Australian Equivalent to International Financial Reporting Standard* with 1 July 2004 as the date of transition. Accordingly, the TAC changed its accounting policies on 1 July 2004, other than its accounting policies for financial instruments and insurance contracts, to comply with A-IFRS.

An explanation of how the transition from superseded policies to A-IFRS has affected the TAC's financial position as at 1 July 2004 and 30 June 2005, and financial performance and cash flows for year ended 30 June 2005 is set out in the following tables and the notes that accompany the tables.

**27. Impacts of adopting A-IFRS (continued)**

<b>Effect of A-IFRS on the balance sheet As at 1 July 2004</b>	<b>Note</b>	<b>Superseded policies* \$000</b>	<b>Effect of transition to A-IFRS \$000</b>	<b>A-IFRS \$000</b>
<b>Current assets</b>				
Cash assets		24,534	–	24,534
Receivables		42,097	–	42,097
Investments		786,568	–	786,568
Deferred acquisition costs		9,748	–	9,748
Other assets		22,595	–	22,595
<b>Total current assets</b>		<b>885,542</b>	<b>–</b>	<b>885,542</b>
<b>Non-current assets</b>				
Receivables		163,421	–	163,421
Investments		5,550,126	–	5,550,126
Plant and equipment	(a)	8,957	(3,710)	5,247
Intangibles	(a)	0	3,710	3,710
Deferred tax assets	(b)	171,483	(52)	171,431
<b>Total non-current assets</b>		<b>5,893,987</b>	<b>(52)</b>	<b>5,893,935</b>
<b>Total assets</b>		<b>6,779,529</b>	<b>(52)</b>	<b>6,779,477</b>
<b>Current liabilities</b>				
Outstanding claims		665,618	–	665,618
Unearned premiums		468,235	–	468,235
Payables		48,376	–	48,376
Tax liabilities		94,004	–	94,004
Provisions		4,054	–	4,054
Lease liabilities		111	–	111
<b>Total current liabilities</b>		<b>1,280,398</b>	<b>–</b>	<b>1,280,398</b>
<b>Non-current liabilities</b>				
Outstanding claims		4,160,832	–	4,160,832
Deferred tax liabilities		111,036	–	111,036
Provisions	(b)	5,196	(174)	5,022
Lease liabilities		513	–	513
<b>Total non-current liabilities</b>		<b>4,277,577</b>	<b>(174)</b>	<b>4,277,403</b>
<b>Total liabilities</b>		<b>5,557,975</b>	<b>(174)</b>	<b>5,557,801</b>
<b>Net assets</b>		<b>1,221,554</b>	<b>122</b>	<b>1,221,676</b>
<b>Equity</b>				
Reserves		4,404	–	4,404
Accumulated surplus	(d)	1,217,150	122	1,217,272
<b>Total equity</b>		<b>1,221,554</b>	<b>122</b>	<b>1,221,676</b>

\* Reported financial position for the financial year ended 30 June 2004.

Notes to, and forming part of, the financial reports for the year ended 30 June 2006

## 27. Impacts of adopting A-IFRS (continued)

<b>Effect of A-IFRS on the income statement For the year ended 30 June 2005</b>	<b>Note</b>	<b>Superseded policies* \$000</b>	<b>Effect of transition to A-IFRS \$000</b>	<b>A-IFRS \$000</b>
Premium revenue		975,822	–	975,822
Reinsurance premium expense		(2,157)	–	(2,157)
<b>Net premium revenue</b>		<b>973,665</b>	<b>–</b>	<b>973,665</b>
Gross claims incurred		(1,009,764)	–	(1,009,764)
Claims recoveries revenue		9,617	–	9,617
<b>Net claims incurred</b>		<b>(1,000,147)</b>	<b>–</b>	<b>(1,000,147)</b>
Administration costs	(b)	(88,585)	38	(88,547)
Accident prevention expenditure		(24,715)	–	(24,715)
Road safety infrastructure expenditure		(47,727)	–	(47,727)
Trauma projects expenditure		(4,925)	–	(4,925)
Premium collection fees		(20,016)	–	(20,016)
<b>Underwriting expenses</b>		<b>(185,968)</b>	<b>38</b>	<b>(185,930)</b>
<b>Underwriting result</b>		<b>(212,450)</b>	<b>38</b>	<b>(212,412)</b>
Investment income		859,575	–	859,575
Investment expenses		(18,711)	–	(18,711)
Other income		5,525	–	5,525
<b>Profit before income tax</b>		<b>633,939</b>	<b>38</b>	<b>633,977</b>
Income tax expense	(c)	(169,579)	294	(169,285)
<b>Net profit</b>		<b>464,360</b>	<b>332</b>	<b>464,692</b>

\* Reported financial results for the year ended 30 June 2005.

**27. Impacts of adopting A-IFRS (continued)**

<b>Effect of A-IFRS on the balance sheet As at 30 June 2005</b>	<b>Note</b>	<b>Superseded policies* \$000</b>	<b>Effect of transition to A-IFRS \$000</b>	<b>A-IFRS \$000</b>
<b>Current assets</b>				
Cash assets		22,343	–	22,343
Receivables		49,157	–	49,157
Investments		1,025,335	–	1,025,335
Deferred acquisition costs		10,216	–	10,216
Other assets		2,056	–	2,056
<b>Total current assets</b>		<b>1,109,107</b>	<b>–</b>	<b>1,109,107</b>
<b>Non-current assets</b>				
Receivables		176,270	–	176,270
Investments		5,947,376	–	5,947,376
Plant and equipment		4,381	–	4,381
Intangibles		2,150	–	2,150
Deferred tax assets	(b,c)	14,296	294	14,590
<b>Total non-current assets</b>		<b>6,144,473</b>	<b>294</b>	<b>6,144,767</b>
<b>Total assets</b>		<b>7,253,580</b>	<b>294</b>	<b>7,253,874</b>
<b>Current liabilities</b>				
Outstanding claims		703,846	–	703,846
Unearned premiums		491,086	–	491,086
Payables		62,742	–	62,742
Tax liabilities		57,031	–	57,031
Provisions		4,216	–	4,216
Lease liabilities		278	–	278
<b>Total current liabilities</b>		<b>1,319,199</b>	<b>–</b>	<b>1,319,199</b>
<b>Non-current liabilities</b>				
Outstanding claims		4,536,436	–	4,536,436
Provisions	(b)	6,423	(38)	6,385
Lease liabilities		608	–	608
<b>Total non-current liabilities</b>		<b>4,543,467</b>	<b>(38)</b>	<b>4,543,429</b>
<b>Total liabilities</b>		<b>5,862,666</b>	<b>(38)</b>	<b>5,862,628</b>
<b>Net assets</b>		<b>1,390,914</b>	<b>332</b>	<b>1,391,246</b>
<b>Equity</b>				
Reserves		6,300	–	6,300
Accumulated surplus	(d)	1,384,614	332	1,384,946
<b>Total equity</b>		<b>1,390,914</b>	<b>332</b>	<b>1,391,246</b>

\* Reported financial position for the financial year ended 30 June 2005.

Notes to, and forming part of, the financial reports for the year ended 30 June 2006

## 27. Impacts of adopting A-IFRS (continued)

### Effect of A-IFRS on the cash flow statement for the year ended 30 June 2005

There are no differences between the cash flow statement presented under A-IFRS and the statement of cash flow presented under the superseded policies.

### Notes to the reconciliations of income and equity

#### (a) Intangibles

Under A-IFRS, computer software is reclassified as intangible. There is no effect on the TAC assets.

#### (b) Employee benefits

Under A-IFRS, liabilities for short-term employee benefits such as wages and salaries and annual leave, payable within twelve months of reporting date, are to be measured at nominal amounts whilst liabilities for long-term employee benefits, such as accrued annual leave and long service leave, expected to be settled beyond twelve months, are to be measured at present value. Under superseded policies, all accrued annual leave was measured at nominal amount. The effect of the change is:

##### *At 1 July 2004:*

There has been a decrease in the provision for annual leave by \$174,000 and deferred tax assets by \$52,000 with a resultant increase in accumulated surplus by \$122,000.

##### *At 30 June 2005:*

There has been a decrease in the provision for annual leave by \$38,000 and deferred tax assets by \$11,000 with a resultant increase in accumulated surplus by \$27,000.

##### *For the year ended 30 June 2005:*

The annual leave expense has decreased by \$38,000 and income tax expense increased by \$11,000.

#### (c) Income tax

Under A-IFRS, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of the assets and liabilities in the statement of financial position and their associated tax bases. Under superseded policies, deferred tax balances were determined using the income statement method and items were only tax-affected if they had been included in the determination of pre-tax profit. The effect of the change is:

##### *At 1 July 2004:*

There is no effect on the TAC.

##### *At 30 June 2005:*

There has been a decrease in deferred tax liabilities by \$305,000 and a corresponding increase in accumulated surplus.

##### *For the year ended 30 June 2005:*

Income tax expense has decreased by \$294,000.

#### (d) Accumulated surplus

The effects on accumulated surplus of the changes set out above are as follows:

	Note	1 July 2004 \$000	30 June 2005 \$000
Decrease in annual leave provision	(b)	122	27
Tax effect accounting on balance sheet method	(c)	–	305
<b>Total adjustment</b>		<b>122</b>	<b>332</b>

**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 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 2006 and the financial position of the Transport Accident Commission as at that date.

At the date of signing the financial report, we are not aware of any circumstances which would render any particulars included in the financial report misleading or inaccurate.

Dated at Melbourne this 30th day of August 2006.



**James MacKenzie**  
Chairman



**Paul O'Connor**  
Chief Executive Officer



**Tim Fitzmaurice**  
Chief Finance and Accounting Officer



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AUDITOR GENERAL  
VICTORIA

## INDEPENDENT AUDIT REPORT

### Transport Accident Commission

#### To the Members of the Parliament of Victoria and Members of the Board of the Commission

#### Scope

##### *The Financial Report*

The accompanying financial report for the year ended 30 June 2006 of the Transport Accident Commission consists of an income statement, balance sheet, statement of changes in equity, cash flow statement, notes to and forming part of the financial report, and the statement by chairman, chief executive officer and chief finance and accounting officer.

##### *Members' Responsibility*

The Members of the Board of the Transport Accident Commission are responsible for:

- the preparation and presentation of the financial report and the information it contains, including accounting policies and accounting estimates
- the maintenance of adequate accounting records and internal controls that are designed to record its transactions and affairs, and prevent and detect fraud and errors.

##### *Audit Approach*

As required by the *Audit Act 1994*, an independent audit has been carried out in order to express an opinion on the financial report. The audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement.

The audit procedures included:

- examining information on a test basis to provide evidence supporting the amounts and disclosures in the financial report
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the members
- obtaining written confirmation regarding the material representations made in conjunction with the audit
- reviewing the overall presentation of information in the financial report.

These procedures have been undertaken to form an opinion as to whether the financial report is presented in all material respects fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia, and the financial reporting requirements of the *Financial Management Act 1994*, so as to present a view which is consistent with my understanding of the Commission's financial position, and its financial performance and cash flows.

The audit opinion expressed in this report has been formed on the above basis.



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AUDITOR GENERAL  
VICTORIA

**INDEPENDENT AUDIT 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. The Auditor-General and his staff and delegates comply with all applicable independence requirements of the Australian accounting profession.

**Audit Opinion**

In my opinion, the financial report presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and the financial reporting requirements of the *Financial Management Act 1994*, the financial position of the Transport Accident Commission as at 30 June 2006 and its financial performance and cash flows for the year then ended.

Melbourne  
30 August 2006

JW Cameron  
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 six non-executive directors, including the Chairman.

The Board has established clearly defined accountabilities and delegations for the Chief Executive Officer and TAC management. 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: James MacKenzie (Chairman), Elana Rubin and Maria Wilton

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 and 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 the remuneration increase 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: Paul Barker (Chair), Julie Caldecott and Michael Wright, all of whom are independent persons for the purpose of the Standing Directions of the Minister for Finance under the *Financial Management Act 1994*.

Role:

- ~ Oversee an appropriate risk management framework and consider the effectiveness of the TAC's risk management and internal controls.
- ~ Provide an 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 the 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 compliance requirements of the Prudential Statement.
- ~ Advise the Finance and Investment Strategies Committee of any matter or internal control weakness that impacts that committee's area of responsibility.
- ~ Review and recommend approval of the annual audit 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).
- ~ Initiated and supervise, where appropriate, special reviews.
- ~ Review and monitor the policies (including whistleblowers) for preventing and detecting fraud.

## **Section 1 – Corporate Governance (continued)**

### *Financial and Investment Strategies Committee*

Members: Elana Rubin (Chair), James MacKenzie and Michael Wright

Role:

- ~ Make recommendations (at least annually) to the Board on investment objectives in the context of the overall balance sheet risk management and consistent with the capital, pricing and reserving policy set by the Government.
- ~ Make recommendations to the Board on the establishment of a stock voting policy and review VFMC's reports to ensure that voting activity is in accordance with policy.
- ~ Review the performance of the VFMC and other service providers in the context of the investment objectives, service level agreements and other appropriate measures.
- ~ Monitor the success of the investment strategy by reviewing fund performance compared to the objectives, long-term targets and peer group.

### *Marketing and Road Safety Committee*

Members: Paul Barker (Chair), Julie Caldecott and Maria Wilton

Role:

- ~ Review the strategies of the marketing, sponsorship and communications programs, ensuring the strategies are supported by sound business principles.
- ~ Make recommendations to the Board on proposals which are beyond the delegated authority of the Chief Executive Officer.
- ~ Monitor the identification and management of critical reputation and performance risks.

### *Health Issues Committee*

Members: Michael Wright (Chair) and Julie Caldecott

Role:

- ~ Review and challenge health care strategies and related business plans and monitor their progress as required.
- ~ Oversee the potential impact on the agencies' financial positions of proposed health care initiatives, including fee setting and initiatives to influence service usage.
- ~ Monitor purchasing approaches, relationships and interactions with the health care sector to ensure strong relationships with the external health care environment and to establish appropriate formal agreements where required.
- ~ Monitor developments and trends in the health care sector to ensure that viability and service delivery risks and opportunities are appropriately identified and that appropriate strategies are in place to mitigate risks.
- ~ Ensure health care strategies and initiatives are directed toward achieving improved health, employment and social outcomes for clients and stakeholders.
- ~ Monitor health care performance measures ensuring reasonableness of cost of care and quality of service delivery and outcomes.
- ~ Monitor the performance of the clinical panels and any other similar panels established to assess the efficiency and value of clinical services provided by the agencies to clients and stakeholders.
- ~ Review and make recommendation on health care related research guidelines and priorities, ensuring that they meet objectives.
- ~ Monitor research strategies and ensure that these are addressing the Board's objectives and measures, including return on investment.
- ~ Examine any other health related issues referred by the Board.

### **Prudential statement**

The TAC Board is required to submit an annual certification to the Victorian Treasurer that, in managing the investment portfolio, the TAC:

- ~ maintains adequate planning processes and appropriate internal controls
- ~ adheres with maximum exposure limits to various asset classes
- ~ has established investment objectives and financial planning objectives
- ~ has established long-term investment strategies consistent with those investment objectives
- ~ complies with quarterly and annual reporting requirements to the Treasurer.

To this end the Board obtains appropriate comfort statements from the TAC management, the internal auditors of the TAC and the VFMC and from the VFMC Board.

### **Risk management**

The TAC has in place a risk management framework to ensure that appropriate procedures are in place for the effective identification, quantification and management of risks.

The risk management framework details the roles of the Board and its Committees, the internal auditor and management. The Board is responsible for setting the risk priorities which are the major focus of the internal plan. The Audit and Risk Management Committee oversees the risk management framework and is responsible for ensuring the effectiveness and implementation of control strategies and operational practices.

## Section 1 – Corporate Governance (continued)

### Shared values and guiding principles

#### *Integrity*

We will be open, honest and reliable in everything that we do, achieving and maintaining the highest levels of professional service to our stakeholders and each other.

#### *Unity of purpose*

We will work together to achieve our vision and mission. We will share experiences, knowledge and ideas to foster greater communication, interaction and cohesiveness within the organisation.

#### *Dignity and respect*

We will treat all people, inside and outside the organisation, with dignity and respect.

#### *Innovation*

We recognise the role innovation can play in achieving the organisation's vision. We will foster a culture that encourages employees to maximise their potential.

#### *Accountability and responsibility*

We will support and encourage employees to be responsible and accountable, and to make decisions within the scope of their role.

## 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. 10 dated 25 August 2005). The Act sets out the objectives, functions and powers of the TAC.

The Minister for WorkCover is the Minister administering the *Transport Accident Act 1986*.

### **Ministerial directions**

There were two Ministerial Directions given by the Minister for WorkCover in the period 1 July 2005 to 30 June 2006:

1. On the 19 May 2006, the Minister made the following direction: "I am pleased to inform you that in accordance with Section 15 of the *Transport Accident Act 1986* (the "Act"), I direct the Board to appoint Mr Paul O'Connor as Chief Executive Officer to the TAC."
2. On the 26 May 2006, the Minister made the following direction: "I John Lenders, MP, Minister for WorkCover of the State of Victoria, in accordance with Section 14 of the *Transport Accident Act 1986* (the "Act") and all other enabling powers vested in me, hereby direct the Transport Accident Commission of Victoria (the "Commission") to, in accordance with this instrument, convert the amount of \$600 million of accumulated funds into contributed capital."

### **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.143A of the *Accident Compensation Act 1985*, to carry out the functions and powers of a self-insurer as effectively, efficiently and economically as possible.

## **Section 2 – Compliance (continued)**

### *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 143A 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 143A of that Act.

### *Accountability of the Commission*

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 2005 to 30 June 2006.

#### *Accident Compensation and Transport Accident Acts (Ombudsman) Act 2005, No.46/2005*

The *Accident Compensation and Transport Accident Acts (Ombudsman) Act 2005* came into operation on 1 October 2005. The Act amended the *Transport Accident Act 1986* to enable payments to be made from the Transport Accident Fund to the Consolidated Fund representing the costs incurred, or to be incurred, annually by the Ombudsman in enquiring into or investigating administrative actions (as defined by the *Ombudsman Act 1973*) of the Commission".

### **Subordinate legislation**

#### *Regulations*

No regulations were made under the *Transport Accident Act 1986* in the 2005/06 year.

#### *Orders in Council*

The orders in Council made during 2005/06 were:

- ~ The Transport Accident Charges Order (No.1) 2006 (Gazette 18 May 2006 page 975). This order fixed the transport accident charges to apply during the 2006/07 financial year. The order increased the transport accident charges for vehicles in all classes by the CPI.
- ~ Declaration that the TAC Medical Excess not be indexed in the financial year commencing 1 July 2006 (Gazette 22 June 2006 page 1299). This order provided that the TAC medical excess not be indexed on 1 July 2006 as provided by the *Transport Accident Act 1986*. This order was made following legislative changes in late 2004 that enabled the making of an Order in Council to override the automatic indexation of the amount of the medical excess.

## Section 2 – Compliance (continued)

### 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 Minister for WorkCover now requests 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 2005/06, the TAC commenced no new contracts to which the VIPP applied.

### Consultants

Consultancies >\$100,000	Description of work	Total approved project fee	2005/06 expenditure	Future expenditure
Deloitte Touche Tohmatsu	Human resource management information system gap/option analysis	\$126,924	\$126,924	0
PricewaterhouseCoopers	Geelong relocation feasibility study	\$785,000	\$785,000	0

In addition, a further 21 consultancies where the total fees payable to the consultant were less than \$100,000 were engaged during the financial year at a total cost of \$0.28 million. Total approved project fees and expenditure for 2005/06 excludes GST.

### 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.

### 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 2005/06 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 the year the TAC continued a number of 'green office' initiatives, supported by an awareness program, to reduce waste and improve resource efficiency. Initiatives include:

- ~ office equipment – use of photocopiers made from recycled and recyclable parts with energy saving mode and the use of double-sided printers
- ~ recycling – separation of kitchen waste for recycling and an office paper recycling program
- ~ energy consumption – nightly security patrols to ensure all lighting is turned off when staff have left for the day and limitation of the operation of the building's air-conditioning system commensurate with staff occupation of the building
- ~ paper – recycled office paper is available for use and a campaign is underway to introduce its use throughout the TAC's operations.

### 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.

## Section 2 – Compliance (continued)

### Scheme notes

#### *Service of documents*

Section 130 of the *Transport Accident Act 1986* sets out the method of service of documents on the TAC, namely, 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, Level 7, 222 Exhibition Street, Melbourne, 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:

Chief Claims Officer  
GPO Box 2751Y  
MELBOURNE 3001  
Ausdoc: DX 28 Melbourne

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 receipt and initial action on requests made under the *Freedom of Information Act 1982* are Mr Richard Pang, Ms Samantha de Forest and Ms Sarah Klaikalietis.

The TAC maintains paper-based, microfiche and electronic documents with respect to claims administration, and general administrative, financial and investment functions.

During 2005/06:

- ~ The TAC received 746 Freedom of Information (FOI) requests for access to documents, compared with 803 during 2004/05, a decrease of 7%. Most requests related to anticipated or current common law proceedings.
- ~ The average number of days for the TAC to make an initial decision in response to an FOI request for access to documents was 17 days, well within the statutory timeframe of 45 days.
- ~ There were no requests for amendment to personal records.
- ~ There were no notices received specifying that a document was not included in a published statement of documents available from or in the possession of the TAC.

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 \$21.50 application fee, preferably in the form of a cheque payable to the TAC.

The statutory application fee of \$21.50 is applicable for the period 1 July 2006 to 30 June 2007 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 general information about FOI is available from the Victorian Government's FOI Online website: [www.foi.vic.gov.au](http://www.foi.vic.gov.au)

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

Freedom of Information Officer  
Transport Accident Commission  
GPO Box 2751  
MELBOURNE VIC 3001  
Phone: (03) 9664 6527  
Fax: (03) 9656 9360  
Email: [foi@tac.vic.gov.au](mailto: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 Customer Service Centre, Level 7, 222 Exhibition Street, Melbourne. The TAC prefers to have a minimum of 14 days notice prior to the return date of the subpoena.

**Section 2 – Compliance (continued)***Publications*

The TAC produces and makes available the following publications:

Description	Mode of access
TAC Annual Reports	Copy/Internet
TAC Business Plan (2006–2009)	Copy
TAC Statement of Corporate Intent (2006–2009)	Copy/Internet
TAC Enterprise Agreement 2005–2008	Copy
Annual Transport Accident charges including GST and duty	Copy
TAC Research Charter	Copy
Your Privacy and the TAC	Copy
About the TAC	Copy/Internet
Information for people with Major Injuries (Booklets 1–4)	Copy
Empower	Copy/Internet
TAC benefits for self-employed people	Copy
TAC income support	Copy
TAC impairment benefits	Copy
Returning to work (information sheet)	Copy
If you need further treatment (information sheet)	Copy
Choosing an Attendant Care Agency (information sheet)	Copy
Choosing a Case Manager (information sheet)	Copy
Community Group Programs (information sheet)	Copy
Therapy Support (information sheet)	Copy
Daily Support (information sheet)	Copy
4th Edition Impairment Examinations Information Manual	Copy
Working Together	Copy
TAC support when a person dies	Copy
TAC Dependency Benefits – a guide for funeral directors	Copy
Your Feedback	Copy
Drive Smart 2 (brochure)	Copy
Drive Smart 2 CD-ROM (available to learner drivers)	CD
HELP pack	Copy
120 hours. Make it your goal	Copy
Make sure you're right to drive: how to reduce the risk for yourself and others on the road	Copy
Muck Up Day Video and Curriculum advice booklet	Copy
Road Safety Reports (monthly summary)	Internet
Safe Driving Policy	Copy
Save your skin: don't hit the road without full protective gear	Copy
Ride Smart CD-ROM (available to learner motorcyclists)	Copy
VCE Legal Studies Resources Kit	Copy
VCE Media Resource Kit	Copy
At home with the family	Copy
About lifetime support	Copy
Principles of therapy	Copy
Clinical justification flow chart	Copy
TAC information for people with soft tissue injuries	Copy
Information on TAC medical examinations (information sheet)	Copy
Post-hospital support (information sheet)	Copy
Residential care (information sheet)	Copy
TAC impairment examination (information sheet)	Copy
Community services (information sheet)	Copy
Community services for families (information sheet)	Copy
Self-purchasing your TAC services (information sheet)	Copy
Returning to work (information sheet)	Copy
Loss of earnings capacity (information sheet)	Copy
Your individual plan (information sheet)	Copy
TAC information for employers (information sheet)	Copy

**Section 2 – Compliance (continued)****Publications**

Description	Mode of access
Additional support for self-employed people (information sheet)	Copy
A better approach to lifetime support	Copy
Victorian Trauma Foundation (information kit)	Copy/Internet
The Transport Accident Commission – the benefits of the TAC model for proposed injury insurance	Copy
Self-purchasing TAC services	Copy
A career at the TAC	Copy
Checklist of services available as part of vocational programs	Copy
Course of employment transport accident notes	Copy
GST compliance	Copy
Integration support billing information	Copy
Pharmacy expenses	Copy
Physiotherapy (fees)	Copy/internet
Prosthetic and orthotics (fees)	Copy/internet
Self-purchasing – client as employer	Copy
TAC allied health billing standards	Copy
TAC billing requirements	Copy
TAC billing requirements for home, domestic and housekeeping services	Copy
TAC domestic services	Copy
TAC equipment suppliers billing standards	Copy
TAC home modifications	Copy
TAC vehicle modifications	Copy
TAC home services	Copy
TAC hospital services billing standards	Copy
TAC housekeeping	Copy
TAC medical billing standards	Copy
TAC post-acute support services	Copy
TAC prosthetics and orthotics billing standards	Copy
TAC vehicle modifications	Copy
Using modified vehicles – cost exemptions	Copy

**Research information**

Requests for information for research purposes should be directed in the first instance to the Senior Manager, 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](http://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](http://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](http://www.howsafeisyourcar.com.au)).

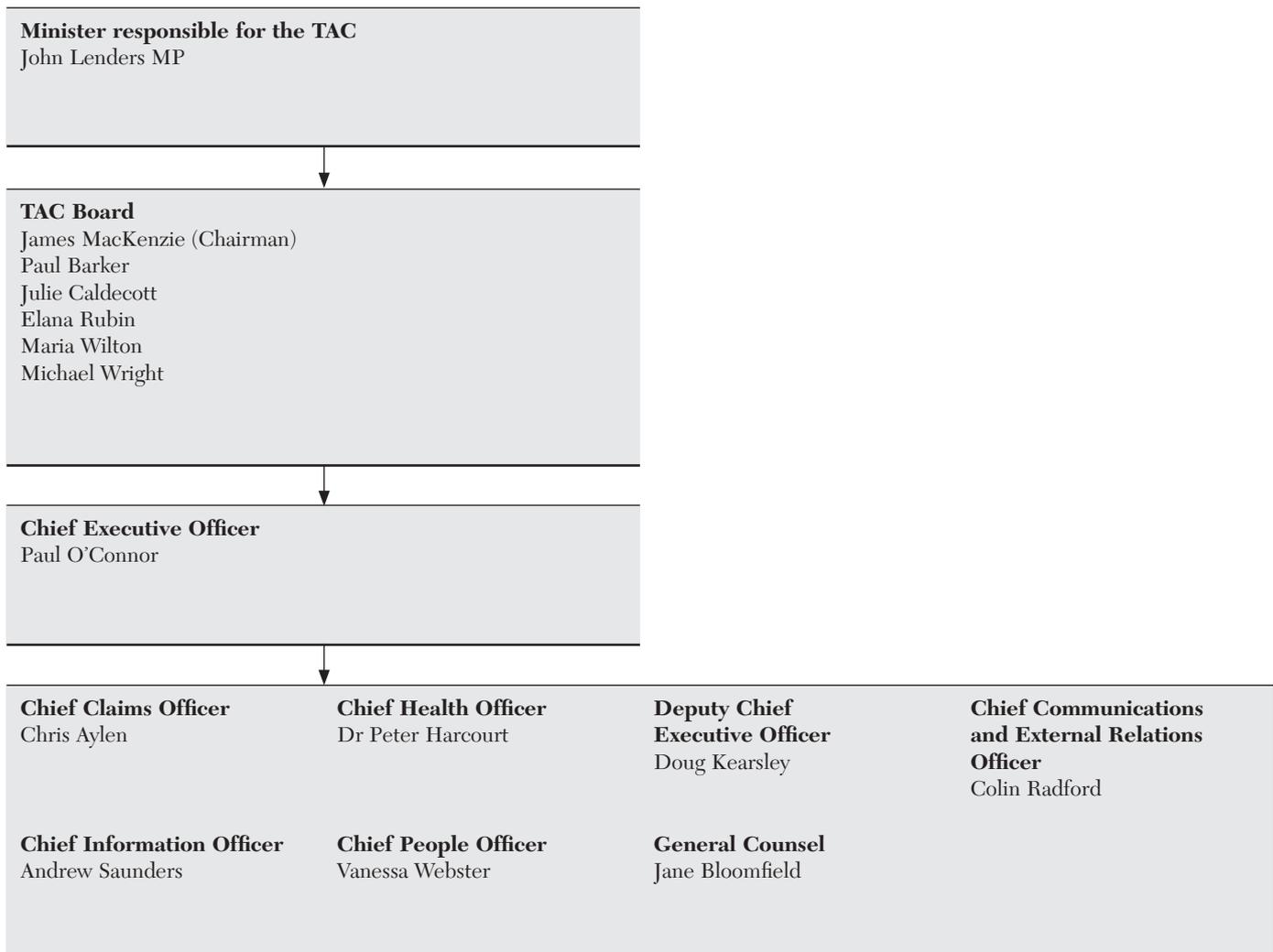
**Application of merit and workplace equity principles**

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**

	2006	2005
TAC	703	666
Average age	37	37

**TAC Organisational Structure**

**Compliance index to disclosure requirements 2005/06****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.

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