

**MOTOR
ACCIDENT
COMMISSION
ANNUAL REPORT
2016-17**

MAC



Government
of South Australia



Motor Accident Commission
GPO Box 2438, Adelaide SA 5001
T 08 8422 8100 F 08 8422 8101
mac@sa.gov.au mac.sa.gov.au

29 September 2017

The Hon Tom Koutsantonis MP
Treasurer
Minister for Finance
Level 8, State Administration Centre
200 Victoria Square
ADELAIDE SA 5000

Dear Minister

This annual report is presented to Parliament to meet the statutory reporting requirements of the *Motor Vehicle Accident Commission Act, 1992* and Premier and Cabinet Circular *PC013 Annual Reporting*.

This report is verified to be accurate for the purposes of annual reporting to the Parliament of South Australia.

Submitted on behalf of the Motor Accident Commission by:

Trudy Minett
Acting Chief Executive Officer



**Government
of South Australia**

CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S REPORT

The Motor Accident Commission's (MAC's) continued focus on improving road safety in South Australia has contributed to a record low number of fatalities and serious injuries for the calendar year 2016¹, and the delivery of an operating (profit) result of \$360.6 million for 2016-17.

At 30 June 2017, the MAC Fund was approximately \$1.6 billion with 5 046 claims outstanding. MAC Compulsory Third Party (CTP) staff will continue to manage these claims in a fair and timely manner until finalised.

MAC staff associated with CTP and property management moved premises to be co-located with the Department of Treasury and Finance this financial year, as part of the transition arrangements for the run-off of CTP claims. The move occurred with minimal disruption to CTP operations and we acknowledge the efforts of CTP and property management staff in achieving this.

The sale of MAC's property portfolio made good progress in this financial year, with an expected finalisation in early 2017-18.

Focussed on saving lives and reducing serious injuries on South Australian roads, MAC's communication programs and partnerships are vital in achieving the goals set out in *Towards Zero Together, South Australia's State Road Safety Strategy 2020*.

With the aim to achieve less than 80 fatalities and 800 serious injuries per year by 2020, it is encouraging that South Australia saw a record low of 86 fatalities and 692 serious injuries in the calendar year 2016¹.

However, we are not complacent – a sustainable reduction in fatalities and serious injuries will not happen without a continued focus. The achievements in South Australia have come from long term changes in behaviour by the community as well as the dedicated work of people across Government passionate in improving road safety.

The contribution of all stakeholders is acknowledged and appreciated. From government to not-for-profit organisations, community groups and other organisations – they all play an important part in improving road safety.

As part of the *Towards Zero Together, South Australia's Road Safety Strategy 2020*, one of our roles is to increase community awareness and influence road user behaviours and attitudes. A number of new partnership initiatives and campaigns ranging from public activations, media engagement and innovative digital content have been used to continue MAC's effort in delivering effective and engaging road safety awareness campaigns.

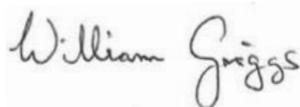
MAC is building on current data analytical capability to improve access to data sources and facilitate better analysis and evaluation of road safety issues. Consistent with the objectives of the Office for Data Analytics, this initiative is focused on delivering improved integration across government.

The MAC Board and management have worked closely with the State. We acknowledge the Treasurer, the Hon. Tom Koutsantonis MP, the Minister for Road Safety, the Hon. Peter Malinauskas MLC, and the Minister for Transport and Infrastructure, the Hon. Stephen Mullighan – who have all showed great support for the importance of road safety and MAC.

In closing, the achievements and results of MAC are a credit to the Board, management, staff and partners who have continued to demonstrate their expertise and commitment throughout the year. On behalf of the Board, we wish to thank outgoing Chief Executive Officer, Aaron Chia and Acting Chief Executive Officer, David Mazzone for their efforts during their time at MAC.

We look forward to a safer 2017-18, with continued collaboration across Government, enhanced use of data capability, and a renewed focus on improving road safety.

"Towards Zero Together"



William M Griggs AM ASM
Chairman



Trudy Minett
Acting Chief Executive Officer

¹ Fatalities and serious injuries statistics are reported on a calendar year basis to be consistent with the *Towards Zero Together, South Australia's Road Safety Strategy 2020*.

CONTENTS

SECTION A: MOTOR ACCIDENT COMMISSION BUSINESS REVIEW	5	Governance	14
MAC Purpose and Objectives	6	Board of Directors	14
Key strategies and their relationship to South Australian Government objectives	6	Role of the Board	15
MAC programs	6	Board committees – Risk, Finance and Audit Committee	15
Road safety and Strategic Communications	6	Risk management	15
Data Analytics	7	Ethical standards	15
Compulsory Third Party Insurance Claims	7	Conflicts of interest	15
MAC Organisation	10	Indemnification and insurance of Directors	15
MAC Organisational Structure	10	SECTION B: LEGISLATIVE REPORTING	16
Management of human resources information	10	Financial Statements	17
Executives	10	Commission’s Charter (in place as at 30 June 2017)	17
Work Health and Safety and Injury Management	11	Ministerial Directions	19
Equal Employment Opportunity	11	Approval of Borrowings	19
Mental Health	11	Approval of Contracts	19
Leadership and management development	11	Sufficient level of Solvency Formula	19
Administrative matters	12	SECTION C: FINANCIAL STATEMENTS	20
Review of operations	12		
Contractual arrangements	12		
Public complaints	13		
Freedom of Information	13		
Fraud detected in MAC	13		
Whistleblowers’ disclosure	13		

SECTION A

**MOTOR
ACCIDENT
COMMISSION
BUSINESS
REVIEW**



SECTION A: MOTOR ACCIDENT COMMISSION BUSINESS REVIEW

MAC Purpose and Objectives

Motor Accident Commission (MAC) is a statutory authority established under the *Motor Accident Commission Act, 1992* (MAC Act). The MAC Act establishes the Board of Directors as the governing body of MAC. The Board is subject to direction by the Minister for Finance.

MAC is South Australia's leader in road safety behaviour change and education, and is dedicated to the safety of all South Australian road users.

Through collaboration with other lead agencies, key stakeholders and partners, MAC manages the State's road safety communications program to deliver campaigns and programs that support South Australia's road safety priorities as detailed in *Towards Zero Together, South Australia's State Road Safety Strategy 2020*.

MAC provides funding for research and projects that aim to reduce the number and impact of road injuries and deaths.

These initiatives focus on increasing community awareness and changing road user attitudes and behaviours to reduce the incidence of road trauma.

MAC is also responsible for the management of residual Compulsory Third Party (CTP) insurance claims for motor vehicle crashes that occurred up to and including to 30 June 2016.

The Functions and Objectives of MAC are detailed in Section 14 of the MAC Act.

Key strategies and their relationship to South Australian Government objectives

The South Australian Government issued the *Towards Zero Together, South Australia's State Road Safety Strategy 2020* in October 2011.

The objective of the Strategy is to "reduce our annual road toll to less than 80 fatalities and 800 serious injuries by 2020".

The Strategy provides clear direction for MAC "to plan, coordinate, implement and evaluate comprehensive road safety marketing programs to support the reduction of road trauma".

MAC's activities are consistent with and underpin this Strategy.

MAC programs

Road safety and Strategic Communications

Overview

In 2016-17, MAC continued to implement and strengthen its strategic road safety initiatives and campaigns to increase community awareness and influence behaviour to reduce the incidence and severity of road trauma.

MAC was encouraged by a record low road toll in calendar year 2016², with 86 fatalities in 2016, compared to 102 in 2015. There was also a decrease in serious injuries, totalling 692 in 2016 down from 759 in 2015.

Key road safety issues were addressed through a range of targeted communications platforms including mass media, partnership strategies, digital initiatives and public relations.

Each platform offers a different way to approach key issues and audience groups, with the layering of multiple methods providing an effective way to create awareness and achieve behaviour change.

MAC's campaigns in 2016-17 focused on the issues of drug driving, drink driving, speed, fatigue, mobile phone distraction, regional drivers, seatbelts, sharing the road, pedestrians, cycling laws and motorcycles.

Successful partnerships continued across a range of organisations, giving MAC significant reach and engagement with schools, community groups, sporting clubs and the general public throughout the state.

Pedestrians: 'Ken Walker'

This campaign launched in July 2016.

An enthusiastic, puppet presenter, Ken Walker, delivers humorous road safety messages through a series of webisodes and digital content called 'Walk this way'.

The campaign was extended during Adelaide's 'mad march' period to outdoor and ambient spaces in the CBD and Fringe areas.

Speed: 'There's nothing normal about speeding'

This campaign launched in October 2016.

Starring the Hairy Fairy, a fictional character who helps drivers recognise moments when they may be tempted to speed, the campaign encourages avoiding situations that could 'get hairy'.

This mass media campaign featured across all available mediums including television, radio, bus back and shelters, regional banner network and various online channels.

² Fatalities and serious injuries statistics are reported on a calendar year basis to be consistent with the *Towards Zero Together, South Australia's Road Safety Strategy 2020*.

Motorcycling: 'Ride to return'

This campaign launched in December 2016.

The campaign used Grand Prix motorcycle champion, Mick Doohan, in a short video to encourage the use of protective clothing, safe driving behaviour and promoted a voluntary returning rider course to improve and refresh riding skills.

This campaign featured in outdoor and ambient spaces, as well as having a strong presence across various digital channels.

Fatigue: 'Don't fight fatigue'

This campaign launched in April 2017.

With the key message to 'rest every 2 hours', this campaign originally featured on the MAC regional banner network in 2015, targeting drivers at the point of behaviour and in the key region of interest.

Due to its successful resonance amongst the community, this was expanded and re-launched as a multi-media campaign that included radio, bus shelters, mobile billboards, posters, coasters and various online channels.

Seatbelts: 'Get your *click* together'

This campaign launched in May 2017.

Originally featuring on the MAC regional banner network in 2015, this cheeky message gave a timely reminder to forgetful drivers to buckle up.

In 2016-17, this was expanded across other channels to reach drivers in situ, including, bus shelters, bus backs and radio.

Road safety partnerships

In 2016-17, MAC continued partnerships with organisations that provide road safety education, intervention and engagement opportunities.

Educating South Australians about road safety is a key priority in the State's Road Safety Strategy.

Through a partnership with MAC, the following organisations (South Australia Police, Metropolitan Fire Service and Royal Automobile Association) are required to deliver targeted road safety education programs. In 2016-17, the program directly reached more than 90,000 South Australians.

Sporting environments provide MAC with the opportunity to engage directly with thousands of game attendees in a situation that is susceptible to risk-taking behaviours, such as drink driving.

Partnerships with the Adelaide Oval Stadium Management Authority and the Department of Planning,

Transport and Infrastructure allowed MAC to continue to provide the highly popular MAC Footy express service and free public transport on New Year's Eve.

MAC remained the major partner of SANFL Community Football, giving reach to almost 200 football clubs throughout the state, allowing access to the key demographic of young, regional males who are noticeably over represented in road trauma.

MAC continued partnerships with the MAC Adelaide Lightning WNBL team, the Adelaide 36ers NBL team, as well as beginning a new partnership with Adelaide United Football Club A-League team, enabling MAC to promote road safety messages in the clubs' venues and engage with supporters through community education programs.

The partnership with the Santos Tour Down Under continued with promotion of the cycling safety program 'Be Safe Be Seen'. Through the event, MAC was the Stage 6 naming rights partner, providing opportunities to promote cycling safety messages in the Victoria Square 'Tour Village' to tens of thousands of spectators.

Data Analytics

In 2016-17, MAC embarked on a project to create a road safety database to facilitate the use of enhanced data analytics to support improved system wide analysis, decision-making and targeted interventions and responses.

MAC has implemented the infrastructure component of the project via a Microsoft Azure solution. This solution currently contains MAC data, and provides the flexibility and robustness to combine other road safety data sources. The ability for MAC to collaborate with other agencies and consider road safety in a more holistic manner is consistent with the Government's Data Sharing Bill.

Once fully operational, it will provide advanced analytical and predictive capacity for road safety at both strategic and operational levels.

Compulsory Third Party Insurance Claims

From 1 July 2016 MAC ceased its role as the sole provider of Compulsory Third Party (CTP) insurance in South Australia, following the Government's reforms to move to private sector provision of CTP insurance.

MAC's CTP role is now limited to the management of outstanding claims for motor vehicle accidents that occurred prior to 1 July 2016. As a result of this, the number of claim lodgements during 2016-17 has reduced compared to previous years as lodgements relate to accidents that occurred prior to 1 July 2016.

During the year, 3 658 claims were closed, resulting in a reduction in the current claims portfolio (including 'recoveries') from 8 061 on 30 June 2016 to 5 046 on 30 June 2017.

Summary of operational results

	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12
Number of Claims lodged	598	3 650	3 926	4 634	5 684	5 825
Number of settlements ¹	1 455	1 933	2 490	3 383	3 594	3 521
Number of claims current at end of period ²	5 046	8 061	8 602	9 685	10 641	10 695
Average duration – months open to finalised ³	31.3	27.3	24.7	23.2	22.3	22.1
Net claim payments (\$'000) ⁴	\$253 301	\$304 279	\$327 346	\$359 924	\$382 623	\$334 994
Average claim cost (settlements) ⁵	\$120 671	\$116 110	\$114 430	\$113 608	\$115 224	\$113 055

NOTES:

- 1 Number of claims where an amount is paid for general damages
- 2 Includes Recoveries
- 3 Based on year claim finalised
- 4 Net of Recoveries and GST credits
- 5 Amounts paid to date on claims settled during each year in 2016-17 values

Claim payments

TOTAL PAYMENTS BY HEADS OF DAMAGE (GROSS OF RECOVERIES)

Claimant benefits		2016-17	2015-16	2014-15	2013-14	2012-13	2011-12
Non-Economic Loss		6.9%	8.6%	10.1%	11.0%	10.6%	11.5%
Economic Loss	Past	10.6%	10.1%	9.8%	9.6%	8.7%	8.5%
	Future	29.7%	28.0%	29.2%	30.2%	32.0%	30.3%
Treatment	Hospital	3.9%	8.4%	7.2%	6.1%	6.1%	5.6%
	Medical	4.5%	4.8%	4.7%	4.6%	4.4%	5.0%
	Future care	19.4%	16.1%	16.1%	15.4%	15.6%	15.1%
Other		3.9%	4.5%	4.2%	4.1%	4.2%	3.7%
Total		78.9%	80.5%	81.3%	81.0%	81.6%	79.7%
Claim costs		2016-17	2015-16	2014-15	2013-14	2012-13	2011-12
Legal	Plaintiff costs	9.8%	8.9%	9.0%	9.3%	8.7%	9.8%
	Defendant costs	5.2%	4.9%	4.7%	4.7%	4.4%	4.7%
Other		6.1%	5.7%	5.0%	5.0%	5.3%	5.8%
Total		21.1%	19.5%	18.7%	19.0%	18.4%	20.3%

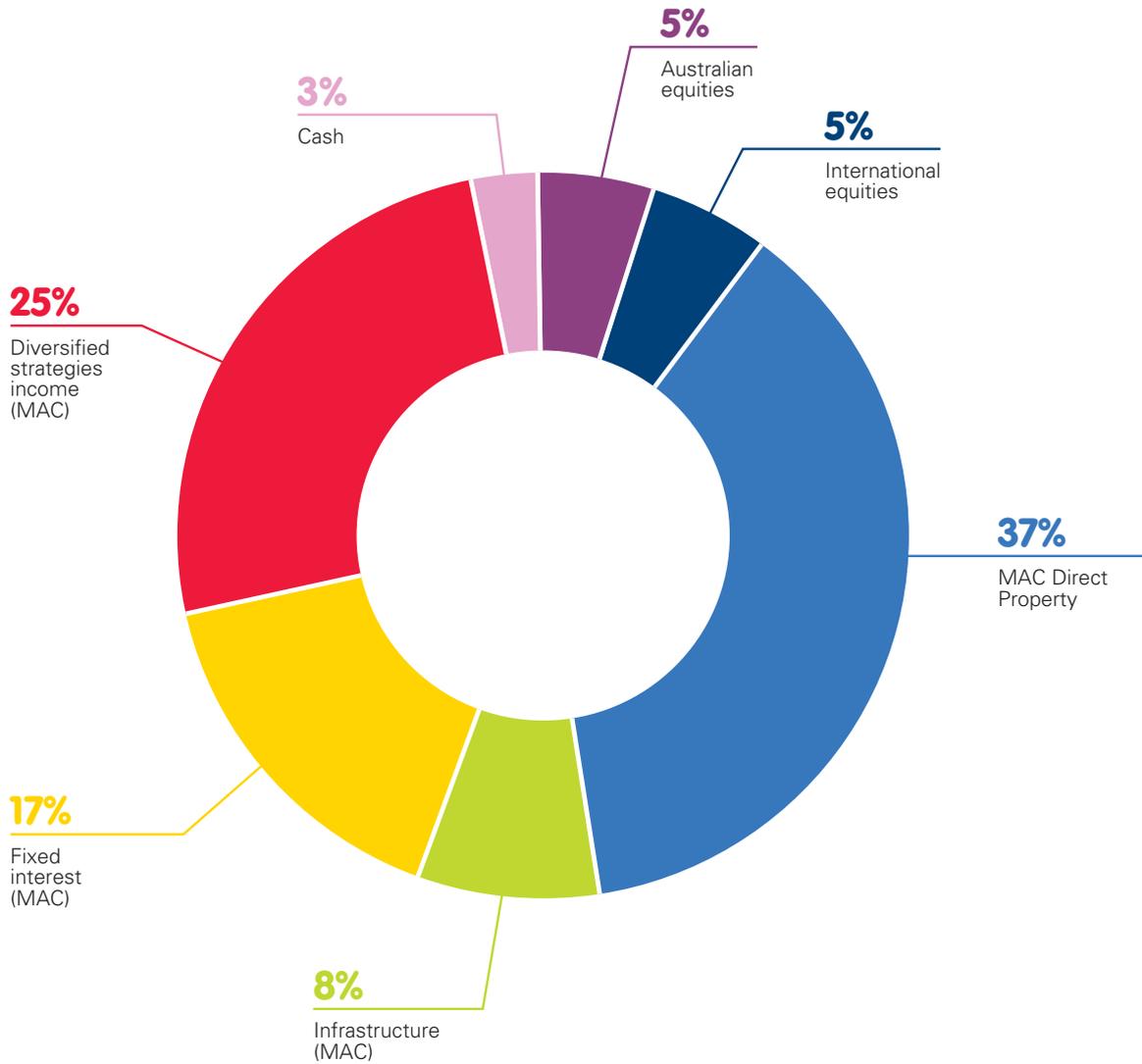
Investment Management

MAC manages the MAC Fund worth approximately \$1.6 billion (as at 30 June 2017). The portfolio includes a range of diversified domestic and international fixed income securities, domestic and international equities, infrastructure, absolute return funds, direct property assets and cash.

A defensive stance towards its asset allocation has been adopted by MAC, with a higher weight to defensive assets while managing and monitoring the MAC Fund's risks.

For the 2016-17 financial year, the MAC Fund performance was 7.085%, outperforming the benchmark return of 3.931% by 3.154 percentage points.

**STRATEGIC ASSET ALLOCATION POSITION
AS AT 30 JUNE 2017**



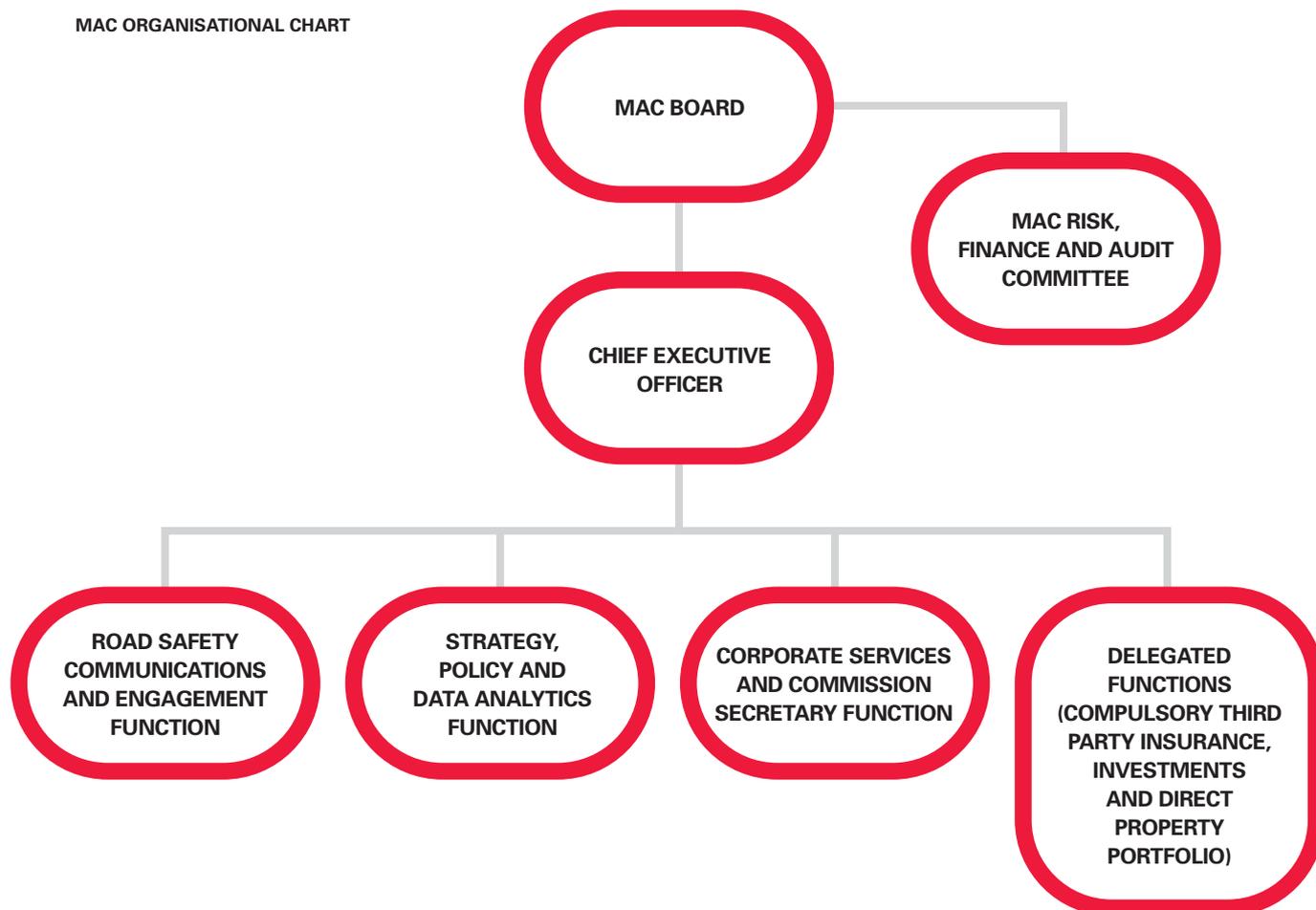
MAC Direct Property

The MAC Direct Property Portfolio is managed in-house by MAC and represents 37.1% of MAC's investments. It is comprised of 11 buildings in five states: seven commercial properties (85% of the portfolio) and four industrial properties (15% of the portfolio).

No properties were purchased or sold during 2016-17. As MAC has ceased its role in providing CTP Insurance Policies, the MAC Direct Property Portfolio is expected to be sold in early 2017-18.

MAC ORGANISATION

MAC ORGANISATIONAL CHART



Management of human resources information

As at 30 June 2017, MAC employed 30 staff (29.0 FTE positions). All staff were employed on individual term contracts. Temporary staff and contractors complemented the workforce to ensure MAC's operations were managed in a timely manner or to provide specialist expertise.

Further human resources information is available from the Commissioner for Public Sector Employment publicsector.sa.gov.au

Executives*

BY GENDER, CLASSIFICATION AND STATUS

Classification	Term untenured		Total
	Male	Female	
Chief Executive	—	Note ¹	Note ¹
Executives	1	—	1
Total	1	Note¹	1¹

*An executive is an employee who receives a total remuneration package value equivalent to \$147,196 per annum or more and who has executive responsibilities.

¹ As at 30 June 2017, MAC's CEO is on a secondment arrangement from ReturnToWorkSA.

Work health and safety and injury management

MAC's Work, Health and Safety (WHS) committee oversees the operation of MAC's WHS framework. This committee has representation from staff and senior management including representation of the different Divisions within MAC.

WORK HEALTH AND SAFETY PROSECUTIONS, NOTICES AND CORRECTIVE ACTION TAKEN

Number of notifiable incidents pursuant to WHS Act Part 3	Nil
Number of notices served pursuant to WHS Act Section 90, 191 and 195 (Provisional Improvement, improvement and prohibition notices)	Nil
Number of new work place injury claims	Nil
Number of prosecutions pursuant to WHS Act Part 2 Division 5	Nil
Number of enforceable undertakings (corrective action) pursuant to WHS Act Part 11	Nil

Equal Employment Opportunity

As an Equal Employment Opportunity (EEO) employer, MAC ensures that the principles of EEO are understood and enacted.

Mental Health

MAC is committed to implementing appropriate mental health and safety prevention programs. MAC supports flexible working arrangements to assist employees to achieve a greater work/life balance. MAC values the wellbeing of its employees and provides an Employee Assistance Program to staff through an external provider.

MAC also offers a number of wellbeing initiatives, such as free flu vaccinations, fund-raising casual days and promotion of other health initiatives. This included the participation in "Mental Health Week", which is an annual, national event that aims to improve community awareness and knowledge about mental health illness and reduce the stigma and discrimination associated with mental health problems.

Leadership and management development

Staff are provided with appropriate development opportunities which are identified through MAC's Performance Management System. These opportunities include training courses, conferences and seminars along with support to undertake study to further their educational qualifications. Leadership management and development opportunities are also provided to staff as appropriate. A total of \$85 585 was spent for Leadership and Management Training.

Administrative matters

Review of operations

The net result for the entity for the year ended 30 June 2017 was a surplus of \$360.6 million, compared to \$313.4 million as at 30 June 2016.

Contractual arrangements

MAC operates in a substantially outsourced environment. A service contract commencing 1 July 2007 is in place with Allianz Australia Ltd for the management of CTP claims. The contracting out of the claims management function is a requirement of clause 1.1(b) of the MAC Charter.

In addition, MAC engaged a number of other consultants during the year as detailed below:

Consultant Expenditure 2016-17

Value below \$10 000	6 Consultants	\$29,911
Value \$10 000 and above	17 Consultants	\$2,932,525
	Besenjei, Andrea	Claim Audit Services
	Blade Assurance & Advisory	Audit Services
	Chris Rae Services	Road Safety Data Analytics
	Colmar Brunton Social Research	Market Research Services
	Cummins & Partners SA	Creative Advertising Services
	Cummins Hybrid Pty Ltd	Creative Advertising Services
	Expose data Pty Ltd	Road Safety Data Analytics
	Finity Consulting Pty Ltd	Actuarial Services
	Fusion	Creative & Website Services
	Hender Consulting	HRM Services
	Hostworks Pty Ltd	Road Safety Data Analytics
	Jamshop Pty Ltd	Creative Advertising Services
	KPMG	Business Advisory & Audit Services
	KWP! Advertising Pty Ltd	Creative Advertising Services
	New Focus Pty Ltd	Market Research Services
	Pernix Pty Ltd	Road Safety Data Analytics
	Taylor Fry Consulting	Actuarial Services

Public complaints

Road Safety

There were six formal complaints to the Advertising Standards Bureau (ASB) about the "Hairy Fairy" campaign. The ASB dismissed the complaints, finding that the advertisement did not breach the Australian Advertising Code of Practice.

A further complaint was made to the Equal Opportunity Commission regarding the same "Hairy Fairy" campaign. The complainant believed there was gender discrimination. The Equal Opportunity Commission determined not to action this complaint.

There were no complaints made to the Ombudsman regarding road safety.

CTP Insurance Scheme

MAC received a total of 34 complaints regarding the CTP Scheme in 2016-17, which is a significant decrease on the previous year (59). Of these, 4 complaints were received through the Ombudsman's office and Ministerial correspondence.

MAC works closely with its claims manager Allianz to resolve complaints in a timely manner and identify any trends for improvement to claims management. Most are resolved within two business days and 10 business days for more complex complaints.

Freedom of Information

MAC's current Freedom of Information statement can be found at www.mac.sa.gov.au.

Freedom of Information requests relating to a particular CTP claim are exempt under Schedule 2 of the *Freedom of Information Act, 1991*.

Fraud detected in MAC

MAC adopts the South Australian Public Sector Fraud and Corruption Control Policy, and has developed procedures to support this Policy. Fraud Awareness and testing forms part of MAC's Internal Audit program.

MAC is not aware of any instances of actual, suspected or alleged fraudulent activity affecting MAC during 2016-17.

Whistleblowers' disclosure

As part of the South Australian Public Sector Fraud and Corruption Control Policy, MAC employees are required to comply with the *Whistleblowers' Protection Act, 1993*. The purpose of this Act is to formalise and communicate the process for disclosure of maladministration and waste in the public sector and of corrupt or illegal conduct generally by providing means by which such disclosures may be made and providing the appropriate protections for those who make such disclosures.

MAC is not aware of any disclosures made during 2016-17.

Governance

Board of Directors

As at 30 June 2017, there were seven Directors appointed to the Board, as follows:

Dr William M Griggs AM ASM

MB, BS, MBA, PGDipAvMed
Independent Non-Executive Director
Chairman
Director since 7 August 2014

Julie Brennan

FCA, BA(Acc), PC SMSF
Independent Non-Executive Director
Director since 1 July 2016

Hon Kevin O Foley

Independent Non-Executive Director
Director since 7 August 2014

Ruth A Korotcoff

B.Mgt, LLB (Hons.)
Independent Non-Executive Director
Director since 9 July 2009

Greg McCarthy

Independent Non-Executive Director
Director since 1 July 2016

Sylvia Rapo

BSc (Hons)
Independent Non-Executive Director
Director since 1 July 2016

Adrian G Tisato

BA, LL B, GDLP, MAICD
Independent Non-Executive Director
Director since 1 July 2015

Role of the Board

The Board is responsible for the overall corporate governance of MAC and management of the Funds under its control, including:

- ▶ Oversight of the strategic direction of MAC; and
- ▶ Determining its policies and objectives and monitoring performance.

Section 18 of the MAC Act requires for a Charter, detailing the nature and scope of activities which may be undertaken by MAC, to be prepared and reviewed annually by the Minister for Finance in consultation with the Board. The Charter is provided in Section B of this report.

Financial results and general performance are monitored against objectives and reported regularly to the Minister for Finance. The Board is subject to direction by the Minister for Finance.

Responsibility for the operation and administration of MAC is delegated to the Chief Executive Officer and senior management.

Board committees – Risk, Finance and Audit Committee

To assist in the execution of Board responsibilities, the Board may establish committees, and has established the Risk, Finance and Audit Committee (RFAC). RFAC has a documented Charter, approved by the Board. All members must be Non-Executive Directors of MAC and the Board reviews membership annually.

The role of the RFAC is to oversee the establishment and maintenance of a robust internal control framework and appropriate ethical standards for the management of the entity. This gives the Board additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in financial statements.

As at 30 June 2017, membership of the RFAC was made up of the following Directors:

- ▶ J A Brennan (Chair);
- ▶ R A Korotcoff; and
- ▶ A G Tisato.

MAC's internal and external auditors are invited to RFAC meetings. The Committee may meet with the external auditors without management present if deemed necessary.

Risk management

The Board is committed to managing the material business risks presented by its environment and operations through a system of risk management and internal control. Risk management is integral to the MAC Fund activities and the Board takes the view that well-managed risks are critical to optimise performance.

The Board oversees the establishment, implementation and regular review of MAC's Risk Management Policy and Assessment Process. A focus of the RFAC is to ensure that internal controls are established and maintained within the Risk Management Framework. Regular reporting on the identification and monitoring of risks is undertaken and any issues conveyed to the Board as necessary.

Ethical standards

Directors, management, staff and MAC's external managers have a fiduciary duty not to disclose or utilise for their personal gain or for the gain of their associates, any information not generally known to the public or to do anything that would prejudice the rights of the South Australian Government. MAC complies with the Code of Conduct applicable to employees in the public sector.

Each year, Directors must lodge a statement of pecuniary interests and the Board has developed a process to assist Directors in this regard.

Conflicts of interest

Directors must advise the Board of any interest that could potentially conflict with those of MAC. In addition, all Directors are required to abide by the South Australian Government's 'Honesty and Accountability for Members of Government Boards'.

The Public Sector (Honesty and Accountability) Act, 1995 and the *Public Sector Act, 2009* specifies Directors' duties of honesty, care and diligence and responsibilities in relation to conflict of interest, and the Board strictly observes all requirements.

Indemnification and insurance of Directors

Pursuant to Section 74 of the *Public Sector Act, 2009* a Director incurs no liability for anything done honestly and with reasonable care and diligence in the performance or purported performance of functions or duties under the MAC Act. Any liability that would attach to a Director attaches instead to MAC.



REPORTS

**MOTOR
ACCIDENT
COMMISSION
LEGISLATIVE
REPORTING**



SECTION B: LEGISLATIVE REPORTING

Section 29 of the MAC Act, details information that must be published as part of MAC's Annual Report.

Financial Statements

Refer to Section C of this report.

Commission's Charter (in place as at 30 June 2017)

Charter

This Charter is prepared pursuant to Section 18 of the *Motor Accident Commission Act, 1992* (MAC Act).

Interpretation

Expressions used in this Charter have the same meanings as in the MAC Act.

CHARTER

1. Nature and Scope of Activities which may be undertaken – Section 18(2)(a) MAC Act

The nature and scope of the activities which may be undertaken are as defined in the MAC Act, subject to the following additional conditions:-

- 1.1. Compulsory Third Party Insurance Market Reform Project (CIMR Project)
 - (a) To conduct MAC's operations consistent with the Government's changes to the market for the provision of Compulsory Third Party (CTP) motor accident insurance in this State, including that from 1 July 2016, the MAC has ceased its role as the sole provider of CTP vehicle insurance in South Australia to open the way for provision of CTP insurance by the private sector.
 - (b) To refer MAC Board papers, submissions and other matters that have a potential to impact on the ongoing execution of the CIMR Project to the CIMR Steering Committee for approval prior to going to the MAC Board, until such time as the CIMR Steering Committee notifies MAC either that those papers are to be referred to a different part of the government bearing responsibility for the ongoing execution of the CIMR Project or that those papers no longer need to be referred at all.
 - (c) To conduct its activities on the basis that the balance of this Charter is subject to this clause 1.1 and all of MAC's operations are to be conducted in a manner consistent with this clause 1.1.

- 1.2. Residual Compulsory Third Party (CTP) Insurance
 - (a) To conduct residual CTP insurance business arising from its operations as the sole approved insurer under Part 4 of the *Motor Vehicles Act, 1959* in accordance with the provisions of the *Motor Vehicles Act, 1959* and in accordance with the Government's long term financial objectives as advised by the Minister from time to time.
 - (b) To contract the management of claims to a manager or managers or agent or agents approved by the Minister.
 - (c) To provide support for anti-fraud campaigns and community and other similar programs as, and to the extent that, this support is consistent with the objectives in section 14 and 25 of the MAC Act.
 - (d) Consistent with Section 14(1)(d) of the MAC Act, to provide funding from a separately maintained MAC account that is not the MAC Fund for, and to manage, the Government Road Safety Marketing and Communications program, complying with Government advertising guidelines and protocols and with the approval of the Minister for Road Safety as appropriate.
- 1.3. Investment Policies – Section 18(2)(a)(i) MAC Act
 - (a) To adopt a prudent investment strategy with the funds comprising the MAC Fund and to manage those investments against the strategic asset allocation benchmarks adopted by the Commission and approved by the Minister. The strategy should be framed consistent with the outcomes of the CIMR Project, which required MAC to transition to a strategic asset allocation consisting of a higher weight of defensive assets and lower earning rate of return whilst achieving a portfolio of investments with characteristics which allow the Commission to meet identifiable claims as and when they become due for settlement from 1 July 2016. Funds SA will manage an investment portfolio transferred to it by MAC in line with MAC's strategic asset allocation benchmarks and provide MAC with a suitable level of reporting in a timely manner that will provide assurance to MAC that its investment strategy objectives are being achieved.
 - (b) To divest MAC's investments in property assets in accordance with the Direct Property Portfolio Sale process being managed as part of the CIMR Project and to acquire no new property assets.

1.4. Activities Outside the State –
Section 18(2)(a)(ii) MAC Act

In pursuing the objectives specified in section 14 of the Act, the Commission may undertake activities or transactions outside the State consisting of:

- (a) Activities and transactions necessary to avoid exposure to excessive levels of insurance risk by reinsuring its risks.
 - (b) Any activities and transactions relating to the conduct of any part of the run-off of the Commission's insurance business.
 - (c) Any activities and transactions relating to the conduct of the investment policies of the Commission as adopted pursuant to clause 1.3 of this Charter.
- 1.5. Subsidiaries, Unincorporated Joint Ventures, Partnerships, or Undertakings – Section 18(2)(a)(iii) MAC Act
- (a) The Commission must not undertake in partnership, or under any arrangement for the sharing of profits, co-operation or joint venture with another person, or allow subsidiaries of the Commission, or other companies or entities related to the Commission to undertake, any activities or transactions, unless approved by the Minister.
 - (b) The remaining Inwards Reinsurance undertaking from the former SGIC (California Re) to continue until a resolution is reached as required under existing contractual arrangements and subject to clause 1.4(a).

2. Information to be provided to the Minister for Finance – Section 18(2)(b)(i) MAC Act

- 2.1. The Minister for Finance requires the Commission to provide a range of appropriate reports including the following:
- (a) Regular financial information as presented to the Board;
 - (b) Budgets and projections as presented to the Board;
 - (c) Regular analysis of investment performance compared to asset allocation benchmarks including any change in the basis of valuation of investments; and
 - (d) Any other information which, in the opinion of the Board, should be provided or is requested by the Minister for Finance, the Treasurer or his nominee.
- 2.2. To notify the Minister for Finance and the Treasurer whenever the Commission enters into any arrangements which give rise to a material contingent liability, and whenever a material event occurs.

3. Accounting Policies and Financial Statements – Section 18(2)(b)(ii) and (iii) MAC Act

- 3.1 To comply with appropriate Australian Accounting Standards, generally accepted accounting principles and practices and all relevant Treasurer's Instructions issued under the *Public Finance and Audit Act, 1987*. Preparation of financial statements by MAC will be in accordance with Government reporting standards for statutory authorities.
- 3.2 To maintain separate accounts and records for the MAC Fund established under the MAC Act and for the Road Safety Fund.
- 3.3 To develop and adopt performance indicators relating to the MAC Funds as approved by the Minister and to include in any reports on those Funds assessment of those Funds' performance judged against such indicators.

4. Other Matters – Section 18(3)(b) MAC Act

- 4.1 The Treasurer's Representative, in accordance with Treasurer's Instruction 7, is authorised to attend meetings of the Board and access its papers and all other Board communications, materials and information.
- 4.2 Every delegation made by the Board or a delegate of the Board under section 13 of the MAC Act which will or could give rise to a liability or contingent liability must contain a limitation which requires that the delegate must not incur a liability that exceeds the monetary amount specified in the instrument of delegation.
- 4.3 The strategic planning process undertaken by the Board must be linked to South Australia's Strategic Plan (SASP) with a focus on relevant Priorities from the Government's Seven Strategic Priorities. Annual Performance reports of the Board (e.g. Annual Report or suitable alternative) must include reference to achievement of MAC Actions/Targets linked to the SASP.
- 4.4 The Government will comply with the SASP targets on gender balance (Women in Leadership) when appointing MAC Board Directors. Relevant expertise required for appointment to the Board will take into account business and commercial experience, financial and legal skills and knowledge of personal injury insurance and road safety matters.
- 4.5 In addition to the Government, MAC has a number of critical relationships to manage. It is expected that the MAC Board will ensure that these key stakeholders and relationships will be managed appropriately for the benefit of the CTP Scheme and the government's Road Safety Marketing and Communications program.

5. Commencement Date – Section 18(6) MAC Act

- 5.1. This Charter comes into effect on 1 July 2016.

Ministerial Directions

1. Pursuant to Sections 25(5)(d) and Section 26(2) of the MAC Act, a direction dated 28 March 2017 was given to the MAC Board that an amount of \$688.2 million be made from the MAC Fund surplus assets into the State Government's Highway Fund in 2016-17.
2. Pursuant to Section 5(3) of the MAC Act, a direction dated 27 July 2016 was issued to the MAC Board by the Treasurer that:
 - ▶ on the 4 August 2016 MAC make a payment of the Insurer Premium from the MAC Fund in accordance with section 25(5)(a) of the MAC Act in the amount of \$98,503,445.46 to the DTF Operating Account; and
 - ▶ on such dates and in such instalments as the Chief Executive of the DTF notifies, MAC make payment of the Administrative component totalling \$21,622,669.70 from the MAC Fund in accordance with section 25(5)(a) of the MAC Act to the DTF Operating Account.
3. Pursuant to Section 5(3) of the MAC Act, a direction dated 31 October 2015 was issued to MAC by the Treasurer with immediate effect that MAC must not employ any permanent or contract executive staff, or amend any executive's pay or terms and conditions of employment without the approval of the Minister or his authorised appointee, the Under-Treasurer.

Approval of Borrowings

Nil.

Approval of Contracts

Nil.

Sufficient level of Solvency Formula

From 7 December 2016, the formula to determine the sufficient level of solvency is:

"MAC Fund will have a sufficient level of solvency if its assets exceed the sum of the Fund's liabilities".

U
N
O
I
T
E
S

**MOTOR
ACCIDENT
COMMISSION
FINANCIAL
STATEMENTS**

For the year ended
30 June 2017

Motor Accident Commission
Compulsory Third Party
ABN: 45 346 597 132

Motor Accident Commission
Non-Compulsory Third Party
ABN: 64 417 679 821



STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2017

	Note	MAC Fund		Consolidated	
		2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Premium revenue	5	-	458,275	-	458,275
Outwards reinsurance expense		-	(2,834)	-	(2,834)
Net premium		-	455,441	-	455,441
Claims expense	6	260,501	(140,157)	260,501	(140,157)
Reinsurance and other recoveries	5	(1,758)	(1,415)	(1,758)	(1,415)
Net claims	21	258,743	(141,572)	258,743	(141,572)
Unexpired risk expense	10	-	16,168	-	16,168
Other underwriting expenses	7	(35,015)	(124,610)	(47,101)	(124,387)
Contributions	8	-	(12,000)	-	(12,000)
Underwriting profit (loss)		223,728	193,427	211,642	193,650
Investment revenue	5	47,431	50,136	47,162	49,759
Other revenue	5	65	-	13,594	6
Investment management fee		(8,666)	(8,572)	(8,666)	(8,572)
Net investment revenue		38,830	41,564	52,090	41,193
Net Result before market value movements		262,558	234,991	263,732	234,843
Investment market value movements	5	96,859	78,564	96,859	78,564
Net result		359,417	313,555	360,591	313,407
Total comprehensive result		359,417	313,555	360,591	313,407

The net result and total comprehensive result are attributable to the SA Government as owner.

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

STATEMENT OF FINANCIAL POSITION

as at 30 June 2017

	Note	MAC Fund		Consolidated	
		2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Current Assets					
Cash	25	11,545	15,216	14,590	16,661
Receivables	9	3,394	3,459	3,596	3,482
Reinsurance and other recoveries receivable	11	958	1,667	958	1,667
Other financial assets	12	202,566	440,300	202,566	440,300
Assets held for sale	13	565,500	587,900	565,500	587,900
Total Current Assets		783,963	1,048,542	787,210	1,050,010
Non-Current Assets					
Receivables	9	500	500	-	-
Reinsurance and other recoveries receivable	11	3,893	6,190	3,893	6,190
Other financial assets	12	799,331	1,481,961	799,331	1,481,961
Property, plant and equipment	14	-	-	417	478
Total Non-Current Assets		803,724	1,488,651	803,641	1,488,629
Total Assets		1,587,687	2,537,193	1,590,851	2,538,639
Current Liabilities					
Payables	15	2,615	5,102	3,747	5,243
Premiums held for other entities	16	15,089	120,126	15,089	120,126
Outstanding claims	17	337,037	323,232	337,039	323,234
Provisions	19	13,264	11,413	13,515	11,790
Total Current Liabilities		368,005	459,873	369,390	460,393
Non-Current Liabilities					
Outstanding claims	17	860,241	1,389,096	860,303	1,389,161
Provisions	19	-	-	557	875
Total Non-Current Liabilities		860,241	1,389,096	860,860	1,390,036
Total Liabilities		1,228,246	1,848,969	1,230,250	1,850,429
Net Assets		359,441	688,224	360,601	688,210
Equity					
Retained earnings		359,441	688,224	360,601	688,210
Total Equity		359,441	688,224	360,601	688,210
The Total Equity is attributable to the SA Government as owner.					
Commitments	23				
Contingent assets and liabilities	27				

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

STATEMENT OF CASH FLOWS

for the year ended 30 June 2017

	MAC Fund		Consolidated		
	Note	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Cash Flows from Operating Activities					
Cash receipts from CTP insurance premiums		-	472,278	-	472,278
Other cash receipts in the course of operations		2,983	1,711	16,648	1,717
Cash payments in settlement of claims		(273,441)	(328,327)	(273,441)	(328,327)
Rescue Retrieval & Aviation Services Base contribution		-	(12,000)	-	(12,000)
Other cash payments in the course of operations		(152,542)	(128,174)	(165,924)	(127,712)
Interest and other investment income		1,073,622	310,700	1,073,642	310,727
GST refunded/(paid) to the ATO		15,907	(15,152)	17,236	(15,183)
Net Cash inflows/(outflows) from Operating Activities (Note 25)		666,529	301,036	668,161	301,500
Cash Flows from Investing Activities					
Payment for property, plant and equipment		-	-	(32)	(19)
Net Cash outflows from Investing Activities		-	-	(32)	(19)
Cash Flows from Financing Activities					
Return of capital		(688,200)	(448,500)	(688,200)	(448,500)
Net Cash outflows from Financing Activities		(688,200)	(448,500)	(688,200)	(448,500)
Net change in cash held		(21,671)	(147,464)	(20,071)	(147,019)
Cash at the beginning of the year		37,197	184,661	38,642	185,661
Cash at the end of the year (Notes 2(p), 25)		15,526	37,197	18,571	38,642

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2017

		MAC Fund	Consolidated
	Note	\$'000	\$'000
Retained Earnings at 30 June 2014		1,251,287	1,251,610
Total Comprehensive Result for 2014-15		424,782	424,593
Return of capital for 2014-15		(852,900)	(852,900)
Retained Earnings at 30 June 2015		823,169	823,303
Total Comprehensive Result for 2015-16		313,555	313,407
Return of capital for 2015-16	22	(448,500)	(448,500)
Retained Earnings at 30 June 2016		688,224	688,210
Total Comprehensive Result for 2016-17		359,417	360,591
Return of capital for 2016-17	22	(688,200)	(688,200)
Balance at 30 June 2017		359,441	360,601

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

1 Activities of the Motor Accident Commission

During the year ended 30 June 2017, the principal activities of the Motor Accident Commission (MAC and/or the Commission) were:

- (a) to manage the run-off of claims against policies issued up to and including 30 June 2016. From 1 July 2016, the SA Government opened the provision of CTP insurance in South Australia to the private sector. Accordingly MAC no longer has a role as a provider of CTP insurance in South Australia and ceased writing new CTP insurance policies from this date. However, MAC will continue its role as Nominal Defendant and run-off its claims against policies issued up to and including 30 June 2016;
- (b) to lead in road safety behaviour change and education, with responsibility for managing SA's road safety communications program. As part of this role, MAC promotes road safety awareness through non-commercial programs, including sponsorship of road safety research, partnerships and the delivery of communications aimed at safer road user behavior.

2 Statement of Significant Accounting Policies

(a) Basis of Preparation

MAC has prepared these financial statements in compliance with section 23 of the *Public Finance and Audit Act 1987 (PFAA)*.

The financial report has been prepared with MAC being treated as a Not for Profit entity. The financial report for MAC consists of the MAC Fund and the Consolidated financial statements which includes the Road Safety Fund for the year ended 30 June 2017 and are prepared for the same reporting period, using consistent accounting policies. The MAC CTP Fund formerly established by the Commission continues in existence as the MAC Fund per section 25 of the *Motor Accident Commission Act 1992* and all intra-group balances, transactions, income and expenses are eliminated in full.

The financial statements are general purpose financial statements. The accounts have been prepared in accordance with relevant Australian accounting standards and comply with Treasurer's Instructions (TI) and accounting policy statements promulgated under the provision of the *Public Finance and Audit Act 1987*.

In the interest of public accountability and transparency, the accounting policy statements require the following note disclosures, which have been included in this financial report:

- i) *revenues, expenses, financial assets and liabilities where the counterparty/transaction is with an entity within the SA Government as at reporting date, classified according to their nature. A threshold of \$100,000 for separate identification of these items applies;*
- ii) *expenses incurred as a result of engaging consultants;*
- iii) *employees whose normal remuneration is equal to or greater than the base executive remuneration (within \$10 000 bandwidths) and the aggregate of the remuneration level paid or payable or otherwise made available, directly or indirectly by the entity to those employees; and*
- iv) *board/committee member and remuneration information where a board/committee member is entitled to receive income from membership other than a direct out of pocket reimbursement.*

Australian Accounting Standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted by MAC for the reporting period ending 30 June 2017. Refer to Note 3.

The financial statements have been prepared on an accrual basis and are in accordance with the historical cost convention, except for Other financial assets and Assets held for sale which are valued in accordance with the valuation policy applicable.

(b) Premium Revenue

The earned portion of premiums received and receivable, is recognised as revenue. Premium is treated as earned from the date of attachment of risk.

Effective 1 July 2016, the provision of CTP insurance policies in South Australia is provided by four approved private insurers. Accordingly MAC no longer has an entitlement to premiums collected.

(c) Investment Income

Fees and discounts are amortised over the period to which they relate. Interest is taken to income on an earned basis. Investment income is reported after deducting costs and expenses relating to management, operation and maintenance of the investment portfolio.

(d) Outwards Reinsurance

Premiums paid to reinsurers are recognised as an expense in accordance with the pattern of reinsurance service received. Effective 1 July 2016 MAC no longer has a role as a provider of CTP insurance in South Australia and ceased writing new CTP insurance policies from this date.

(e) Claims

Claims expense and a liability for outstanding claims are recognised in respect of the direct insurance and inwards reinsurance businesses. The liability covers claims reported but not yet paid, incurred but not reported (IBNR) claims, the anticipated direct and indirect costs of settling those claims and estimated reinsurance and other insurance recoveries. Claims outstanding are based on average or individual claim file estimates, with IBNRs and settlement costs calculated using statistics from past experience and trends.

- i) *CTP Claims* - The liability for outstanding CTP claims is measured as the present value of the expected future payments. These payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal and superimposed inflation. The expected future payments are discounted to present value at balance date and a margin is included to provide sufficient confidence that the provision is adequate. The outstanding claims liability is subject to actuarial assessment.

A risk margin is added to the outstanding claims provision to increase the probability that the net liability is adequately provided to a sufficiency level of 80%.

- ii) *Other Claims* - In the insurance and inwards reinsurance businesses, delays occur in the notification of information normally used in the calculation of claims provisions. The directors, having due consideration for the nature of the risks involved and any material event that would adversely affect the operating results, have provided an amount for claims in the accounts that is sufficient to cover known events and at the same time, assist to maintain prudential reserves.

(f) Reinsurance and Other Recoveries Receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and IBNRs are recognised as revenue. Recoveries receivable used in the calculation of claims provisions are brought to account where they can be reliably measured. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims.

(g) Unexpired Risk

AASB 1023 'General Insurance Contracts' requires an assessment of the net unearned premium reserve to ensure that it is at least equal to the future claims expense, inclusive of a prudential margin and associated claims management expenses. If this is not so, then additional provisioning is included such that this condition is met.

Effective 1 July 2016, MAC no longer has a role as provider of CTP insurance policies in South Australia. Accordingly no expected future claims relating to the unexpired risk period of unearned premium exist as at 30 June 2016 and 30 June 2017.

(h) Collection Charges

Costs incurred in obtaining and recording policies of insurance are recognised as collection costs.

Effective 1 July 2016, the provision of CTP insurance policies in South Australia is provided by four approved private insurers. Accordingly MAC no longer collect premiums hence no collection charges are applicable in 2016-17.

(i) Levies and Charges

Levies and charges payable by MAC are expensed on the same basis as the recognition of premium revenue, with the portion relating to unearned premium being recorded as a prepayment, which is the Licence Fee payable to Revenue SA.

Effective 1 July 2016, MAC will no longer be liable for payment for levies and charges relating to premium revenue hence no licence fee will be payable to Revenue SA.

(j) Receivables

i) Trade Debtors

For 2015-16, Trade debtors principally related to premiums collected by the Department for Planning, Transport and Infrastructure (DPTI), an agent of MAC, not yet passed over to the MAC Fund. The settlement of these amounts would have occurred within seven working days.

Effective 1 July 2016, MAC no longer collect premiums however the Trade Debtors balance relates to ATO refunds that are receivable at balance date.

ii) Investment Debtors

Investment debtors consists of interest and rental due on other investments.

The collectability of debts is assessed at balance date and specific allowance is made for any doubtful debts. The carrying amount of receivables approximates fair value due to being receivable on demand.

(k) Other Financial Assets

AASB1023 requires that assets backing insurance liabilities are to be measured at fair value with any changes in value taken to the Statement of Comprehensive Income. All assets of an investment nature held by the MAC Fund are considered to be for the purpose of backing insurance liabilities.

i) Unit Trusts

The bulk of MAC's investment portfolio is held with Funds SA, the SA State Government investment body. These investments are held via unit trusts in a range of asset classes. Market quotations are used as the valuation basis for these units.

ii) Property Securities

By market quotations.

iii) Other Investments

Other investments are valued based on current economic conditions, market interest rates and the latest available information on the investments as considered appropriate by the directors.

(l) Assets Held for Sale

In 2015-16, Investment Properties were reclassified to Assets Held for Sale. As at 2016-17 MAC owned the property portfolio with amounts recognised in the Statement of Comprehensive Income for rental income and direct property expenses.

Rental income is recognised in the Statement of Comprehensive Income on a straight line basis over the term of the lease.

On 31 July 2017 the Direct Property Portfolio was sold. The Assets Held for Sale are recorded at fair value in the Statement of Financial Position with changes in fair value being recognised in the Statement of Comprehensive Income.

(m) Employee Benefits

A liability for employee benefits has been accrued at 30 June 2017.

These benefits accrue for employees as a result of services provided up to the reporting date that remain unpaid. Long term employee benefits are measured at present value and short-term employee benefits are measured at nominal amounts.

Salaries and wages, annual leave, SERL and sick leave

The liability for salaries and wages is measured as the amount unpaid at the reporting date at remuneration rates current at reporting date.

The annual leave liability and the SERL is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees is estimated to be less than the annual entitlement for sick leave.

Long service leave

The liability for long service leave is measured at the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

The estimated liability for long service leave is based on actuarial assumptions over expected future salary and wage levels, experience of employee departures and periods of service. These assumptions are based on employee data over SA Government entities across the government sector. Expected future payments are discounted using market yields at the end of the reporting period on government bonds with durations that match, as closely as possible, the estimated future cash outflows.

Employment on-costs include superannuation contributions and payroll tax with respect to outstanding liabilities for salaries and wages, long service leave and annual leave and are accounted for under Payables.

Superannuation

MAC makes contributions to SA Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at balance date relates to any contributions due but not yet paid to the South Australian Superannuation Board (SASB) or external schemes.

(n) Taxation

MAC is an income tax exempt organisation pursuant to Section 24AK of the *Income Tax Assessment Act 1936*.

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

Income, expenses and assets are recognised net of the amount of GST except:

- ▶ when the GST incurred on a purchase of goods or services is not recoverable from the Australian Taxation Office (ATO), in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- ▶ receivables and payables, which are stated with the amount of GST included.

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

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST which is payable to the ATO is disclosed separately.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to the ATO. If GST is not payable to, or recoverable from the ATO, the commitment and contingencies are disclosed on a gross basis.

(o) Payables

Payables include creditors, accrued expenses, GST payable and employment on-costs.

Creditors represent the amounts owing for goods and services received prior to the end of the reporting period and that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of MAC.

Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period and where an invoice has not been received.

All payables are measured at their nominal amount and are normally settled within 30 days from the date of the invoice or the date the invoice is first received.

Employee benefits on-costs include superannuation contributions and payroll tax with respect to outstanding liabilities for salaries and wages, long service leave, annual leave and skills and experience retention leave.

The carrying amount of payables approximates fair value due to amounts owing being payable on demand.

(p) Cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and at bank and short term deposits at call.

(q) Provision for Incentive Payment

Liabilities for payment of incentives to Allianz have been accrued at 30 June 2017. Payment of these incentives is based on Allianz's performance in reducing the cost of claims over the 2016-17 financial year, compared to benchmarks in accordance with the terms of the CTP Services Contract.

(r) Rounding

All amounts in the financial statements and accompanying notes have been rounded to the nearest thousand dollars (\$'000).

(s) Interest in a Jointly Controlled Property

MAC has a 50% interest in a jointly controlled property at 400 George Street, Brisbane. MAC recognises its interest in the jointly controlled property by recognising its share of liabilities, expenses and income from the use and output of the jointly controlled property.

3 Changes in Accounting Policies

The Commission did not voluntarily change any of its accounting policies during the year.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2017

4 Net Result

	MAC Fund		Consolidated	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000

Net result is arrived at after crediting and charging the following specific items:

Credits

Interest received/receivable	703	2,313	724	2,340
------------------------------	-----	-------	-----	-------

Charges

Amounts set aside to provide for:

- Employee benefits	-	-	(28)	215
- Depreciation of property, plant and equipment	-	-	93	290

5 Revenue

Premium revenue				
- Direct	-	458,275	-	458,275
	-	458,275	-	458,275
Reinsurance and other recoveries				
- Other	(1,758)	(1,415)	(1,758)	(1,415)
	(1,758)	(1,415)	(1,758)	(1,415)
Investment revenue				
- Interest	685	2,313	724	2,340
- Rentals	45,844	45,734	45,536	45,330
- Profit/(loss) – investments realised	902	2,089	902	2,089
	47,431	50,136	47,162	49,759
Investment market value movements – unrealised gains/(losses)				
- Fixed Interest	6,037	34,056	6,037	34,056
- Equities	57,453	(5,592)	57,453	(5,592)
- Properties	(25,774)	(16,730)	(25,774)	(16,730)
- Other	59,143	66,830	59,143	66,830
	96,859	78,564	96,859	78,564
Other revenue				
- Foreign exchange gains/(losses)	-	-	2	(2)
- Road Safety Funding	-	-	13,525	-
- Other	65	-	67	8
	65	-	13,594	6
	142,597	585,560	155,857	585,189

In 2016-17, MAC and the SA CTP Regulator entered into a 3 year Memorandum of Administrative Arrangement (MoAA). Amongst other things, this MoAA establishes a funding arrangement whereby the CTP Regulator provides funding to MAC to continue to perform its road safety function. The funding provided in 2016-17 was \$13.5 million.

6 Claims Expense

	MAC Fund		Consolidated	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Claims paid*	254,549	305,808	254,549	305,808
Claims provision adjustment	(520,051)	(185,532)	(520,051)	(185,532)
Adjustment for economic assumptions	5,001	19,881	5,001	19,881
	(260,501)	140,157	(260,501)	140,157

* Claims paid includes supplies and services paid or payable to SA Government entities as follows:

Ambulance and helicopter rescue services	-	6,095	-	6,095
--	---	-------	---	-------

7 Other underwriting expenses

	MAC Fund		Consolidated	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Management expenses *	35,015	50,677	47,101	50,454
Levies and charges **	-	62,433	-	62,433
Collection charges **	-	11,500	-	11,500
	35,015	124,610	47,101	124,387

* Management expenses includes supplies and services paid or payable to SA Government entities as follows:

Corporate support services	-	-	289	225
Road safety supplies & services	-	2,198	2,561	2,198

** In relation to Levies and charges and Collection charges, the entire amount was paid or payable to SA Government entities.

8 Contributions

	MAC Fund		Consolidated	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Rescue Retrieval & Aviation Services Base	-	12,000	-	12,000
	-	12,000	-	12,000

In 2015-16, MAC and SA Health entered into a Memorandum of Administrative Arrangement (MoAA) for MAC to provide \$12 million in funding less any amounts previously expended by MAC for this project. The payment was required by the Treasurer pursuant to sections 25(5)(d) and 26(2) of the *Motor Accident Commission Act 1992*. Payment was made to the Department of Health and Ageing in the 2015-16 financial year.

9 Receivables

	MAC Fund		Consolidated	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Current				
Trade debtors	2,901	2,729	3,035	2,744
Other debtors	-	-	67	7
	2,901	2,729	3,102	2,751
Investment debtors	493	892	494	893
Allowance for Doubtful Debts	-	(162)	-	(162)
	493	730	494	731
Total Current Receivables	3,394	3,459	3,596	3,482
Non-Current				
Payroll Advance	500	500	-	-
Total Non-Current Receivables	500	500	-	-
Total Receivables	3,894	3,959	3,596	3,482

Investment debtors consists of interest and rent due on investments.

Other debtors generally arise from transactions outside the usual operating activities of the Commission.

Movement in the allowance for doubtful debts

Carrying amount at beginning of year	(162)	-	(162)	-
Increase in the allowance	(9)	(162)	(9)	(162)
Amounts written off	171	-	171	-
Amounts recovered during the year	-	-	-	-
Carrying amount at end of year	-	(162)	-	(162)

10 Unexpired risk liability

	MAC Fund		Consolidated	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Opening balance	-	16,168	-	16,168
Unexpired risk expense	-	(16,168)	-	(16,168)
Closing balance	-	-	-	-

Effective 1 July 2016, MAC no longer has a role as provider of CTP insurance policies in South Australia. Accordingly no expected future claims relating to the unexpired risk period of unearned premium exist as at 30 June 2016 and 30 June 2017.

11 Reinsurance and other recoveries receivable

	MAC Fund		Consolidated	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Expected future recoveries (undiscounted)	5,267	8,423	5,267	8,423
Discount to present value*	(416)	(566)	(416)	(566)
Reinsurance and other recoveries receivable	4,851	7,857	4,851	7,857
Reinsurance and other recoveries receivable				
- Current	958	1,667	958	1,667
- Non-current	3,893	6,190	3,893	6,190
	4,851	7,857	4,851	7,857

*Refer to Note 17(b) for details of the inflation and discount rates used in the determination of this discounting adjustment.

12 Other financial assets

	MAC Fund		Consolidated	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Current				
Fixed interest				
- Cash and deposits	3,981	21,981	3,981	21,981
- Cash - Unit trust	8,042	17,889	8,042	17,889
- Fixed interest - Unit trust	53,374	111,026	53,374	111,026

Equities				
- Australian equities - Unit trust	15,548	37,489	15,548	37,489
- International equities - Unit trust	15,992	36,545	15,992	36,545

Other				
- Absolute return - Unit trust	-	7,037	-	7,037
- MAC infrastructure - Unit trust	26,364	33,534	26,364	33,534
- MAC diversified strategies income - Unit trust	79,265	174,799	79,265	174,799

Total Current Other Financial Assets	202,566	440,300	202,566	440,300
Non-Current				
Fixed interest				
- Cash - Unit trust	32,370	63,376	32,370	63,376
- Fixed interest - Unit trust	214,836	393,326	214,836	393,326

Equities				
- Australian equities - Unit trust	62,581	132,810	62,581	132,810
- International equities - Unit trust	64,368	129,467	64,368	129,467

Other				
- Absolute return - Unit trust	-	24,928	-	24,928
- MAC infrastructure - Unit trust	106,120	118,799	106,120	118,799
- MAC diversified strategies income - Unit trust	319,056	619,255	319,056	619,255

Total Non-Current Other Financial Assets	799,331	1,481,961	799,331	1,481,961
Total Other Financial Assets	1,001,897	1,922,261	1,001,897	1,922,261

13 Assets held for sale

	MAC Fund		Consolidated	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Balance at 1 July	587,900	587,900	587,900	587,900
Capitalised subsequent expenditure	3,374	-	3,374	-
Net loss on revaluation to sale price	(25,774)	-	(25,774)	-
Direct property portfolio	565,500	587,900	565,500	587,900
Amounts recognised in the Statement of Comprehensive Income for investment property held for sale				
Rental income	61,664	58,731	61,356	58,327
Direct operating expenses	(15,820)	(12,997)	(15,820)	(12,997)
Total amount recognised	45,844	45,734	45,536	45,330

In 2015-16, Investment properties were classified as Assets held for sale. Amounts are recognised in the Statement of Comprehensive Income for rental income and direct property expenses for these Investment Properties. Commitments under non-cancellable operating leases were also receivable on these properties. Further details in relation to these amounts are included in Commitments Note 23.

Fair value hierarchy

The fair value of non-financial assets must be estimated for recognition and measurement or for disclosure purposes. MAC categorises non-financial assets measured at fair value into the hierarchy based on the level of inputs use in measurement.

Fair value measurements for Assets held for sale recognised in the Statement of Financial Position are classified as level 2 being fair values that are based on inputs that are directly or indirectly observable for the assets other than unadjusted quoted price.

Valuation basis

The Property Portfolio is classified as held for sale and recorded at fair value in the Statement of Financial Position. The sale was completed and finalised on 31 July 2017 for \$565.5 million, which is reflected as the fair value at 30 June 2017.

14 Property, plant and equipment

	MAC Fund		Consolidated	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Building Fitout	-	-	1,024	1,012
Accumulated depreciation	-	-	(691)	(611)
	-	-	333	401
Plant and equipment	-	-	125	105
Accumulated depreciation	-	-	(65)	(56)
	-	-	60	49
Other	-	-	38	38
Accumulated depreciation	-	-	(14)	(10)
	-	-	24	28
Total Property Plant and Equipment	-	-	417	478
<i>Building Fitout</i>				
Carrying amount at beginning of year	-	-	401	675
Additions	-	-	11	-
Depreciation	-	-	(79)	(274)
Carrying amount at end of year	-	-	333	401
<i>Plant and equipment</i>				
Carrying amount at beginning of year	-	-	49	55
Additions	-	-	21	12
Disposals	-	-	-	(6)
Depreciation	-	-	(10)	(12)
Carrying amount at end of year	-	-	60	49
<i>Other</i>				
Carrying amount at beginning of year	-	-	28	25
Additions	-	-	-	7
Depreciation	-	-	(4)	(4)
Carrying amount at end of year	-	-	24	28

15 Payables

	MAC Fund		Consolidated	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Current				
Creditors and accruals	2,615	5,102	3,747	5,243

16 Premiums held for other entities

	MAC Fund		Consolidated	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Total Premiums held for other entities	15,089	120,126	15,089	120,126

During 2016-17, MAC was directed by the Minister for Finance in accordance with section 25(5)(a) of the *Motor Accident Commission Act 1992* to make a payment of \$105.0 million to Department of Treasury and Finance for distribution to the approved Insurers and to the South Australian CTP Insurance Regulator. The remainder is payable on such dates and in such instalments as notified to MAC by the Department of Treasury and Finance.

17 Outstanding claims

	MAC Fund		Consolidated	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
a) Expected future claims payments (undiscounted)	1,110,576	1,597,929	1,110,640	1,597,996
Risk margin applied (undiscounted)	168,653	217,551	168,653	217,551
Discount to present value - central estimate	(71,352)	(90,737)	(71,352)	(90,737)
Discount to present value - risk margin applied	(10,599)	(12,415)	(10,599)	(12,415)
Liability for outstanding claims	1,197,278	1,712,328	1,197,342	1,712,395
Current	337,037	323,232	337,039	323,234
Non-Current	860,241	1,389,096	860,303	1,389,161
Liability for outstanding claims	1,197,278	1,712,328	1,197,342	1,712,395

On 1 July 2013, a new South Australian CTP Scheme came into effect. The New Scheme embodies a series of scheme reforms designed to improve the Scheme's affordability, deliver a consistent compensation system for those injured in a motor vehicle crash and promote optimal recovery for injured people.

Old Scheme	460,625	789,287	460,625	789,287
New Scheme	736,653	923,041	736,653	923,041
Non-CTP	-	-	64	67
Liability for outstanding claims	1,197,278	1,712,328	1,197,342	1,712,395

b) The following average inflation (normal and superimposed) rates and discount rates were used in the measurement of outstanding claims:

For the succeeding year				
- Inflation rate	5.25%	5.25%	5.25%	5.25%
- Discount rate	2.25%	1.80%	2.25%	1.80%
For subsequent years				
- Inflation rate	5.25%	5.25%	5.25%	5.25%
- Discount rate	2.25%	1.80%	2.25%	1.80%

c) The weighted average expected term to settlement of the outstanding claims from balance date is estimated to be:

	2.9 years	3.2 years	2.9 years	3.2 years
--	-----------	-----------	-----------	-----------

The method of calculating outstanding claims is set out in detail on Note 2(e).

17 Outstanding claims (continued)

The claims provision for the MAC Fund as at 30 June 2017 has been reviewed by the Fund Actuary, Gillian Harrex BEc, FIAA of Finity Consulting Pty Limited. The directors have adopted a central estimate plus a risk margin as determined by the Actuary to achieve an 80% probability that the provision will prove adequate. An overall risk margin of 15% (2016: 14%) has been applied and is derived using the framework established by the Actuaries Institute. As MAC only includes one class of insurance, no allowance has been made for diversification of insurance classes.

For Inwards Reinsurance, the directors have adopted an internal valuation of the estimated outstanding liability.

Sensitivity analysis

There is considerable uncertainty inherent in the estimation of the outstanding claims liability and in particular there is uncertainty arising from:

- The MAC Fund now being in run-off. It is possible that claims development patterns may change now that MAC has ceased underwriting new business. This could be due to differences that emerge in terms of claims management and also the potential for the external claims environment (which is now influenced by four insurers who have entered the market) having an impact on Scheme performance.
- The actual impact of the CTP legislative changes effective 1 July 2013 (i.e. "New Scheme") and the

commencement of the Lifetime Support Scheme (LSS) from 1 July 2014. The key risks include:

- ▶ estimating the claims frequency and number of claim settlements; and
 - ▶ estimating the impact of tort reform on the ultimate cost of claims.
- Large claims, given their potential to cause significant one-off effects on the valuation and the difficulty in estimating future large claims experience, particularly as the Scheme goes further into run-off. The claims which are harder to resolve will become a greater proportion of the overall liability.
 - Future inflation and superimposed inflation. While the claims environment has been benign for some years, it is possible for some level of claims cost escalation to emerge as service providers (particularly solicitors) adjust to the New Scheme environment and as the new market participants start to exert influence on the market overall.

The relative financial sensitivity of the outstanding claims provision to changes in the key valuation assumptions is illustrated in the following table. The sensitivities shown should not be considered to be equally probable, nor are they mutually exclusive. Furthermore, they do not represent upper or lower bounds of all possible outcomes.

Change in Model parameters	Impact on Provision	
	%	\$'000
Change in Valuation Assumption:		
For accidents from 1 July 2011 to 30 June 2013:		
- average size of attritional claims increased by 15%	0.9	10,900
- average size of large claims increased by 33%	7.1	84,900
For accidents after 30 June 2013:		
- number of claims involving a settlement decreased by 15%	(6.8)	(81,600)
- average size of attritional claims increased by 15%	7.6	90,400
- average size of large claims increased by 33%	3.7	44,400
Number of large claims increased by 12% to 84	0.6	7,100
Discount rate increased from 2.25% to 2.75% p.a.	(1.4)	(16,400)
Discount rate decreased from 2.25% to 1.75% p.a.	1.4	17,000
Superimposed inflation rate increased from 2.0% to 3.0% p.a.	2.5	30,300
Superimposed inflation rate decreased from 2.0% to 1.0% p.a.	(2.4)	(28,800)

17 Outstanding claims (continued)

Claims Development											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Net ultimate claims cost estimate											
At end of accident year	426,940	444,156	459,249	483,650	492,426	514,693	400,476	338,287	330,164	-	
One year later	394,295	426,282	458,570	469,417	488,162	461,742	373,204	289,240	304,856		
Two years later	397,754	433,527	440,122	466,825	432,909	428,069	316,737	249,295			
Three years later	397,925	411,612	426,006	429,090	422,326	384,174	247,424				
Four years later	394,421	408,503	400,245	402,857	399,451	355,826					
Five years later	383,942	366,346	359,144	390,716	370,748						
Six years later	355,010	336,619	350,019	364,330							
Seven years later	344,165	329,045	352,922								
Eight years later	339,296	328,184									
Nine years later	334,305										
Current est. of net ultimate claims cost	334,305	328,184	352,922	364,330	370,748	355,826	247,424	249,295	304,856	-	
Cumulative payments	(313,464)	(313,770)	(315,647)	(322,908)	(283,773)	(240,855)	(82,425)	(63,837)	(53,709)	-	
Net undiscounted claims liability for the ten most recent accident years	20,841	14,414	37,275	41,422	86,975	114,971	164,999	185,458	251,147	-	917,502
Discount to present value	(1,523)	(1,012)	(7,914)	(2,486)	(5,537)	(6,831)	(8,558)	(9,151)	(16,768)	-	(59,780)
Net discounted claims liability for the ten most recent accident years	19,318	13,402	29,361	38,936	81,438	108,140	156,441	176,307	234,379	-	857,722
Reconciliation											
Net discounted claims liability for accident years 2006-07 and prior											78,362
Claims handling expenses											98,289
Risk margin											158,054
Net outstanding claims liability											1,192,427
Gross outstanding claims liability on the statements of financial position											1,197,278
Reinsurance and other recoveries on outstanding claims liability											(4,851)
Net outstanding claims liability											1,192,427

Estimated timing of net cash outflows resulting from recognised insurance liabilities is provided below. This is provided instead of a maturity analysis for financial liabilities showing remaining contractual liabilities.

Estimated timing of net cashflows

	Up to 1 year	2-4 years	5-9 years	10-14 years	15-19 years	20-24 years	Later	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Liabilities	336,079	601,424	182,728	52,930	18,828	438	-	1,192,427

18 Insurance Contracts Risk Management

A key risk from operating in the CTP insurance industry is the exposure to insurance risk arising from underwriting CTP insurance contracts. CTP insurance policies transfer risk to the insurer by indemnifying the policyholders against adverse affects arising from the occurrence of specified uncertain future events. The risk is that the actual amount of claims to be paid in relation to CTP insurance policies will be different to the amount estimated at the time CTP premiums are determined. MAC is exposed to this risk because the price for a policy must be set before the losses relating to the insurance cover are known. Hence the insurance business involves inherent uncertainty. MAC also faces other risks relating to the conduct of the CTP insurance business including financial and capital risks.

A fundamental part of the overall risk management strategy is the effective governance and management of the risks that impact the amount, timing and uncertainty of cash flows arising from insurance policies.

Risk Management objectives and policies for mitigating insurance risk

The risk management activities can be broadly separated into underwriting (acceptance and pricing of risk), claims management and investment management. The objective of these risk management functions is to secure the longer term financial performance of the CTP insurance scheme.

The key policies in place to mitigate risks arising from underwriting CTP insurance policies include the following:

Pricing

Actuarial models are used which combine historical and projected data to calculate premiums and monitor claims patterns. The data used includes historical pricing, investment behaviours and claims experience and takes account of current market and Scheme trends. All data used is subject to thorough verification and reconciliation processes.

A recommendation in relation to the premiums which MAC may charge is made by an independent body, the Third Party Premiums Committee (TPPC), taking into account actuarial models and having regard to MAC's obligation to seek to achieve and maintain a sufficient level of solvency in the Fund. The CTP Premiums to be charged for each financial year are ultimately determined by Cabinet.

Whilst premiums are set based on assumptions regarding the behaviour of claims and investments during the year, actual claims and investment behaviour often varies from these assumptions and the results achieved by MAC can therefore be affected by a range of factors over which MAC has limited or no control, including variations in economic factors (such as inflation and interest rates) and investment market volatility and directions by the Minister to charge premiums other than those recommended by the TPPC.

As MAC ceased writing new CTP insurance policies from 1 July 2016, its involvement in the premium setting process has now ended.

Reinsurance

The use of reinsurance is to limit exposure to large single claims and accumulation of claims that arise from the same event or the accumulation of similar events. This includes the monitoring of reinsurers' credit risk to control exposure to potential reinsurance counterparty default. All reinsurers are required contractually to have a minimum security Standard & Poor's rating of "A -". MAC's reinsurance broker monitors the Standard & Poor's rating of all panel reinsurers.

As MAC ceased writing new CTP insurance policies from 1 July 2016, its involvement in the premium setting process has now ended.

Claims management

Claim determination is managed by Allianz on behalf of MAC by their employees who possess the requisite degree of experience and competence. It is MAC's policy to respond and settle claims quickly whenever possible and to pay claims fairly, in accordance with the law and in line with community and Government expectations.

Investment management

Assets and liabilities are managed so as to correlate the expected pattern of claims payments with the assets that are held to back insurance liabilities. Further information regarding investment related risks is contained in the Notes to the Accounts.

Risk reduction

MAC looks to reduce the frequency and severity of claims by investing in community road safety initiatives.

19 Provisions

	MAC Fund		Consolidated	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Current				
Employee benefits				
- Annual leave	-	-	235	371
- SERL	-	-	16	6
Incentive payments*	13,264	11,413	13,264	11,413
Total Current Provision	13,264	11,413	13,515	11,790
Non-Current				
Employee benefits				
- LSL	-	-	557	875
Total Non-Current Provisions	-	-	557	875
Total Provisions	13,264	11,413	14,072	12,665

*Refer to Note 2(q) for detail on the Incentive payments.

20 Additional Financial Instrument Disclosures

(1) Categorisation of Financial Instruments

The total carrying amount for all financial assets is equal to the fair value of these assets. The direct property portfolio are classified as Assets held for sale as detailed in note 13 and Property, Plant and Equipment in note 14 are classed as level 2 assets being fair values that are based on inputs that are directly or indirectly observable for the assets other than unadjusted quoted price. All assets held in unit trusts as detailed in note 12 are classed as a combination of level 1 assets being the fair value that reflect unadjusted quoted prices in active markets for identical assets and level 2 assets being fair values that are based on inputs that are directly or indirectly observable for the assets other than unadjusted quoted price.

(2) Derivative Financial Instruments

Derivatives can be defined as financial contracts whose value depend on, or are derived from assets, liabilities, reference rates or indices. Derivatives are used to manage portfolio risk and to facilitate the implementation of investment strategies efficiently and cost effectively. MAC's external investment managers uses a variety of derivative instruments, such as over the counter swap agreements, forward rate agreements, futures and options.

Derivatives are an authorised investment within certain mandates managed by MAC's external investment managers, for the purposes described above.

The fair values of all derivative positions as at 30 June 2017 are incorporated within the Statement of Financial Position.

(3) Foreign Exchange Risk

As part of a diversified investment strategy, MAC has funds invested in international markets. MAC's external currency overlay manager for international equities, hedges 50% of the developed markets exposure within international equities to Australian dollars. MAC's external fund managers for International Fixed Income Securities and Infrastructure Securities hedge 100% of this exposure back to Australian dollars. The Global Macro Absolute Return investment is denominated in Australian dollars, but the external fund manager takes active currency positions.

(4) Interest Rate Risk

Interest Rate risk is the risk that movements in interest rates will cause the value of fixed interest securities and the discount rate used to calculate MAC's outstanding liabilities, to deviate from expectations. MAC manages interest rate risk by using an appropriate asset / liability duration matching strategy and ensuring that asset allocations for different investment products are consistent with the time horizon for each. The risk is also managed through the use of specialist external investment managers.

MAC's exposure to interest rate risk, repricing maturities and the weighted average effective interest rates on financial assets and liabilities at balance date is set out below:

	Floating interest rate	Non-interest bearing	Total carrying amount
30 June 2017	\$'000	\$'000	\$'000
Financial Assets			
Cash and deposits	18,571	-	18,571
Receivables	-	3,596	3,596
Cash - Unit trust*	-	40,412	40,412
Fixed interest - Unit trust*	-	268,210	268,210
Australian equities - Unit trust*	-	78,129	78,129
International equities - Unit trust*	-	80,360	80,360
Other - Unit trust*	-	530,805	530,805
Total financial assets	18,571	1,001,512	1,020,083
Weighted average interest rate %	2.00%		
Financial Liabilities			
Creditors	-	3,747	3,747
Total financial liabilities	-	3,747	3,747
Net financial assets	18,571	997,765	1,016,336

* Investments are held in unit trusts which are exposed directly to market risk only. Any income derived is directly attributable to market movements.

20 Additional Financial Instrument Disclosures (continued)

(4) Interest Rate Risk (continued)

The entity's exposure to interest rate risk, repricing maturities and the weighted average effective interest rates on financial assets and liabilities at balance date is set out below:

	Floating interest rate	Non-interest bearing	Total carrying amount
30 June 2016	\$'000	\$'000	\$'000
Financial Assets			
Cash and deposits	38,642	-	38,642
Receivables	-	3,482	3,482
Cash - Unit trust*	-	81,265	81,265
Fixed interest - Unit trust*	-	504,352	504,352
Australian equities - Unit trust*	-	170,299	170,299
International equities - Unit trust*	-	166,011	166,011
Other - Unit trust*	-	978,353	978,353
Total financial assets	38,642	1,903,762	1,942,404
Weighted average interest rate %	2.28%		
Financial Liabilities			
Creditors	-	5,243	5,243
Total financial liabilities	-	5,243	5,243
Net financial assets	38,642	1,898,519	1,937,161

* Investments are held in unit trusts which are exposed directly to market risk only. Any income derived is directly attributable to market movements.

Reconciliation of Net Financial Assets

	2017 \$'000	2016 \$'000
Net Financial Assets	1,016,336	1,937,161
Add - Reinsurance and other recoveries receivable	4,851	7,857
- Assets held for sale	565,500	587,900
- Property, plant and equipment	417	478
Less - Premiums held for other entities	(15,089)	(120,126)
- Outstanding claims	(1,197,342)	(1,712,395)
- Provisions	(14,072)	(12,665)
Net Assets	360,601	688,210

(5) Credit Risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

Recognised Financial Instruments

The carrying amounts of financial assets included in the Statement of Financial Position represent MAC's maximum exposure to credit risk to these assets. MAC minimises concentrations of credit

risk by undertaking diversified transactions in a large number of investments through underlying external fund managers. MAC is not materially exposed to any individual counterparty.

The credit risk relating to investments is monitored and assessed, and maximum exposures are limited. The following table provides information regarding the credit risk exposure relating to MAC's interest bearing investments, based on S&P's counterparty credit ratings.

20 Additional Financial Instrument Disclosures (continued)

30 June 2017	A1+	A1				
Short Term	Allocation %					
Cash	88.0	12.0				
Cash & Deposits	100	-				
	AAA	AA	A	BBB	Below BBB	Not Rated
Long Term	Allocation %					
Fixed interest	80.6	19.3	0.1	-	-	-
Diversified strategies income	27.5	20.3	27.6	20.1	3.50	1.0
30 June 2016	A1+	A1				
Short Term	Allocation %					
Cash	89.8	10.2				
Cash & Deposits	81.3	18.7				
	AAA	AA	A	BBB	Below BBB	Not Rated
Long Term	Allocation %					
Fixed interest	74.6	25.4	-	-	-	-
Diversified strategies income	29.1	20.7	20.0	25.4	4.70	0.1

The MAC Cash portfolio is predominately comprised of highly liquid Floating Rate Deposits.

The MAC Fixed Interest Liability Matched portfolio is comprised of Australian Government and Semi Government Bonds.

The MAC Diversified Strategy Income (DSI) portfolio is predominantly invested in investment grade securities (rated BBB and above by S&P).

(6) Market Risk

In addition to the effects of movements in interest rates, the Fund is exposed to market risks influencing investment valuations.

Market risk represents the risk that investment returns generated by different financial markets will be volatile and will deviate from long term

expectations over the short / medium term. Market risk analysis is conducted on a regular basis and is conducted on a total portfolio basis.

In managing market risks, MAC aims to reduce the impact of short term fluctuations on the reported result for the period. Over the longer term, sustained variations in economic variables will have an ongoing impact on the reported results. MAC manages the risk of financial market volatility through ensuring a diversity of exposures to different financial markets and sub-markets and via an asset liability matching process.

The estimated financial impact of changes in interest rates and in the value of equities is shown in the following table. It should be noted that the financial impact on MAC's reported total comprehensive result and equity are the same.

20 Additional Financial Instrument Disclosures (continued)

Financial Impact

	Movement in Variable %	2017 \$'000	2016 \$'000
Interest rates	(1.0)	24,628	60,906
	(0.5)	11,682	29,107
	0.5	(10,418)	(26,415)
	1.0	(19,573)	(50,139)

An interest rate change will inversely affect the values of fixed interest investments. This change is calculated by multiplying the modified duration plus an adjustment for convexity of the fixed interest portfolio by the interest rate change.

Financial Impact

	Movement in Variable %	2017 \$'000	2016 \$'000
Australian equity markets	(10)	(7,813)	(17,030)
	(5)	(3,906)	(8,515)
	(1)	(781)	(1,703)
	5	3,906	8,515
	10	7,813	17,030
International equity markets	(10)	(8,036)	(16,601)
	(5)	(4,018)	(8,301)
	(1)	(804)	(1,660)
	5	4,018	8,301
	10	8,036	16,601

Changes in Australian and International Equities markets will proportionally affect the values of the Australian and International Equity investments. The currency movement of the AUD will also have an impact on the International Equities portfolio.

(7) Liquidity and Cash Flow Risk

Liquidity risk is the risk that MAC will not be able to meet its financial obligations as they fall due. The liquidity risks associated with the need to satisfy requests for business cash outflows are mitigated by maintaining sufficient cash reserves to satisfy usual levels of demand. MAC ensures that a very high proportion of the Fund is invested in securities that are actively traded and highly liquid. Liquidity risks are further minimised through trading with approved exchanges and counterparties. An outstanding liabilities cash flow matching process has also been implemented to assist the business in managing future cash flow requirements.

21 Net claims incurred

Current period claims relate to risks borne in the current reporting period. Prior period claims relate to a reassessment of the risks borne in all previous reporting periods.

	MAC Fund 30 Jun 17			Consolidated 30 Jun 17		
	Current Year \$'000	Prior Years \$'000	Total \$'000	Current Year \$'000	Prior Years \$'000	Total \$'000
	Gross claims incurred and related expenses					
- undiscounted	-	(281,701)	(281,701)	-	(281,701)	(281,701)
Reinsurance and other recoveries						
- undiscounted	-	1,907	1,907	-	1,907	1,907
Net claims incurred						
- undiscounted	-	(279,794)	(279,794)	-	(279,794)	(279,794)
Discount and discount movement						
- gross claims incurred	-	21,200	21,200	-	21,200	21,200
Discount and discount movement						
- reinsurance and other recoveries	-	(149)	(149)	-	(149)	(149)
Net discount movement	-	21,051	21,051	-	21,051	21,051
Net claims incurred	-	(258,743)	(258,743)	-	(258,743)	(258,743)

	MAC Fund 30 Jun 16			Consolidated 30 Jun 16		
	Current Year \$'000	Prior Years \$'000	Total \$'000	Current Year \$'000	Prior Years \$'000	Total \$'000
	Gross claims incurred and related expenses					
- undiscounted	395,989	(323,848)	72,141	395,989	(323,848)	72,141
Reinsurance and other recoveries						
- undiscounted	(1,898)	3,801	1,903	(1,898)	3,801	1,903
Net claims incurred						
- undiscounted	394,091	(320,047)	74,044	394,091	(320,047)	74,044
Discount and discount movement						
- gross claims incurred	(26,296)	94,313	68,017	(26,296)	94,313	68,017
Discount and discount movement						
- reinsurance and other recoveries	114	(603)	(489)	114	(603)	(489)
Net discount movement	(26,182)	93,710	67,528	(26,182)	93,710	67,528
Net claims incurred	367,909	(226,337)	141,572	367,909	(226,337)	141,572

22 Return of capital

	MAC Fund		Consolidated	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
	Return of capital	688,200	448,500	688,200

During 2016-17, MAC made a payment of \$688.2 million to the State Government's Highway Fund, an account maintained by the Department of Planning, Transport and Infrastructure in accordance with the *Public Finance and Audit Act 1987*. The payment was a return of net surplus capital as required by the Treasurer pursuant to section 26(2) of the *Motor Accident Commission Act 1992*.

23 Commitments

	MAC Fund		Consolidated	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Operational expenditure commitments				
<i>Road Safety and Sponsorship expenditure *</i>				
Committed but not provided for and payable:				
Not later than one year	-	2,458	2,990	2,458
Later than one year but no later than five years	-	2,995	1,857	2,995
	-	5,453	4,847	5,453

*The amounts indicated above are contract amounts and do not allow for CPI adjustments.

Management agreements

MAC's contractual arrangements with Allianz Australia Insurance Limited (AAL) for the provision of the claims management operations of the Fund currently expires on 30 June 2018. The initial contract arrangement with AAL commenced on 1 July 2003. The base management fee payable each year to AAL until the contract period concludes has been supplemented with an Incentive Fee arrangement. AAL is part of Allianz AG.

MAC does not have any contingent liabilities or commitments in relation to the jointly controlled property at 400 George Street, Brisbane.

	MAC Fund		Consolidated	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Operating Leasing arrangements				
<i>Commitments under non-cancellable operating leases at the reporting date are receivable as follows:</i>				
Not later than one year	4,719	50,968	4,719	50,968
Later than one year but no later than five years	-	156,113	-	156,113
Later than five years	-	62,747	-	62,747
	4,719	269,828	4,719	269,828

These operating leases are not recognised in the Statement of Financial Position as assets.

The non-cancellable leases are property leases with numerous tenants for a variety of terms where the rent is payable monthly in advance. Provisions within the lease agreements typically require the minimum lease payments to be increased by various methods including CPI, fixed increases and to market. In some cases options exist to renew the leases at the end of the term of the leases. With the sale of MAC's Direct Property Portfolio on 31 July 2017 the leasing arrangements are for July 2017 only based on the calculations provided by independent valuers engaged by MAC to determine the commitments under non-cancellable operating leases as at 30 June 2017. In determining those figures, our valuers have based their figures consistent with AASB117.

24 Auditors' remuneration

	MAC Fund		Consolidated	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Audit fees paid / payable to the Auditor-General's Department relating to work performed under the PFAA	99	104	110	115

No other services were provided by the Auditor-General's Department.

Auditor's remuneration costs are recognised in the Statement of Comprehensive Income and included in the balance of 'Other underwriting expenses' (refer to Note 7).

25 Cash flow reconciliation

	MAC Fund		Consolidated	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
1) Reconciliation of cash				
Cash	11,545	15,216	14,590	16,661
Deposits at call	3,981	21,981	3,981	21,981
	15,526	37,197	18,571	38,642
2) Reconciliation of net cash inflows/(outflows) from operating activities				
Total comprehensive result	359,417	313,555	360,591	313,407
Add/(less) non-cash items:				
- Depreciation	-	-	93	290
- Loss/(profit) on disposal of assets	-	-	-	6
- (Profit)/loss on sale and revaluation to market value of investments	(96,859)	(78,726)	(96,859)	(78,726)
Increase in taxes payable and provisions	-	-	39	(35)
Net cash inflows/(outflows) from operating activities before changes in assets and liabilities	262,558	234,829	263,864	234,942
Change in assets and liabilities				
- (Inc)/dec in investments	1,020,590	256,394	1,021,861	256,394
- (Inc)/dec in other assets	-	348	-	348
- (Inc)/dec in receivables	(29)	17,347	(281)	17,654
- Inc/(dec) in payables and provisions	492	(18,877)	(198)	(18,836)
- Inc/(dec) in outstanding claims	(512,045)	(162,661)	(512,048)	(162,658)
- Inc/(dec) in unearned premium	(105,037)	(26,344)	(105,037)	(26,344)
Net cash (outflows)/inflows from operating activities	666,529	301,036	668,161	301,500

26 Sufficient level of solvency

Section 13A of the *Motor Accident Commission Act 1992* states that the MAC Fund has a sufficient level of solvency if the amount in the Fund equals or exceeds an amount calculated in accordance with the formula published in the South Australian Government Gazette. A revised formula to calculate a Sufficient Level of Solvency was issued by the Treasurer on 7 December 2016 and subsequently published in The South Australian Government Gazette. The formula specifies that the MAC Fund will have a Sufficient level of Solvency if its assets exceed the sum of the Fund's liabilities. Prior year calculations are based on the previous formula which specifies that the MAC Fund will have a Sufficient Level of Solvency if its assets exceed the sum of the Fund's liabilities plus 10% of the outstanding claims liabilities, 10% of the premium liabilities provision and 10% of the investments in equities and property.

As at 30 June 2017, the Sufficient Solvency target was \$1,228.2 million (2016: \$2,131.1 million) which compares to the Fund's assets of \$1,587.7 million (2016: \$2,537.2 million) and this equates to 129.3% (2016: 119.1%) of the required level of Sufficient Solvency.

In recent years, there has been significant movement in MAC's solvency, which demonstrates the potential volatility of the MAC Fund on an annual basis and its dependence on strong investment market returns to achieve and maintain Sufficient Solvency.

The Sufficient Solvency Target has created a prudential reserve for MAC which has allowed it to remain in a strong net asset position (\$359.4 million). The Sufficient Solvency Target has therefore fulfilled its role of underpinning the viability of the MAC Fund.

The accounts are prepared on a going concern basis after consideration of the following issues:

- ▶ The Fund reports positive net assets as at 30 June 2017;
- ▶ The Fund's investment strategy ensures adequate liquidity to meet liabilities as and when they fall due;
- ▶ The Fund's investment strategy is designed to assist in maintaining Sufficient Solvency; and
- ▶ MAC is supported by a Government guarantee pursuant to sub-section 21(1) of the *Motor Accident Commission Act 1992*.

27 Contingent assets and liabilities

Insurance underwriting by its very nature has liabilities contingent upon certain events occurring which give rise to a claim under the policy of insurance. All of the known and expected claims in respect of events that have occurred up to balance date have been accounted for in the preparation of these financial statements. Occasionally certain claims may require legal judgment to determine a suitable settlement. The result of such legal arbitration may result in a liability to the Commission different to that incorporated in these accounts.

28 Consultants

The number and value of consultancies paid/payable that fell within the following bandwidths during the financial year were:

	MAC			
	2017		2016	
	Number	\$'000	Number	\$'000
Below \$10,000	6	30	9	57
Above \$10,000	17	2,933	20	4,000

29 Directors' remuneration

The names of each person holding the position of director of MAC during the financial year are:

J Brennan (Appointed 1 July 2016)	R A Korotcoff	A G Tisato
K O Foley	G McCarthy (Appointed 1 July 2016)	
W M Griggs	S M Rapo (Appointed 1 July 2016)	

	2017 \$'000	2016 \$'000
Total remuneration paid or payable, or otherwise made available, to all directors of MAC from the Commission:	316	339

	2017 Number	2016 Number
The number of directors of MAC whose remuneration received or receivable from the Commission falls within the following bands:		
\$20,000 - \$29,999	1	-
\$30,000 - \$39,999	2	3
\$40,000 - \$49,999	3	2
\$50,000 - \$59,999	-	1
\$70,000 - \$79,999	1	1

Directors of MAC receive remuneration in the form of statutory fees. In accordance with the Department of Premier and Cabinet circular No. 016, government employees did not receive any remuneration from the Commission for Board or Committee duties during the financial year.

Superannuation and retirement benefits

Directors of MAC are not paid superannuation or retirement benefits for their activities associated with MAC other than the amount set aside by the Commission in compliance with the Superannuation Guarantee Charge of \$27,000 (2016: \$29,000).

30 Remuneration of Employees

	MAC	
	2017 \$'000	2016 \$'000
Salaries & Wages	4,056	4,601
LSL	(52)	168
Annual Leave	(3)	45
SERL	27	2
Employment on-costs - superannuation	346	385
Employment on-costs - other	248	282
Board & committee fees	316	340
Total employee remuneration expense	4,938	5,823

		Number	Number
The number of employees			
whose remuneration received or receivable falls	\$147,001 - \$157,000	2	-
within the following bands:	\$157,001 - \$167,000	-	1
	\$167,001 - \$177,000	-	2
	\$187,001 - \$197,000	1	1
	\$197,001 - \$207,000	1	-
	\$227,001 - \$237,000	1	-
	\$237,001 - \$247,000	-	1
	\$247,001 - \$257,000	-	2
	\$267,001 - \$277,000	-	1
	\$297,001 - \$307,000	1	1
	\$367,001 - \$377,000	-	1
	\$657,001 - \$667,000*	1	-
Total number of employees		7	10

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year. Remuneration of employees reflects all costs of employment including salaries and wages, payments in lieu of leave, superannuation contributions, fringe benefits tax and any other salary sacrifice benefits. The total remuneration received by these employees for the year was \$1.9 million (2016 \$2.4 million).

* This includes payments on termination.

31 Related Parties

MAC is a statutory authority and is wholly owned and controlled by the Crown.

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

Key Management Personnel

The Key management personnel of MAC include the Ministers, the governing board members and senior management (including the Acting Chief Executive Officer) who have responsibility for the strategic direction and management of MAC. The compensation detailed below excludes salaries and other benefits the Minister for Road Safety and Minister for Finance receives, the Minister's remuneration and allowances are set by the *Parliamentary Remuneration Act 1990* and the Remuneration Tribunal of SA respectively and are payable from the Consolidated Account (via the Department of Treasury and Finance) under section 6 the *Parliamentary Remuneration Act 1990*.

Compensation

	2017 S'000	2016 S'000
Salaries and other short-term employee benefits	1,257	na
Post-employment benefits	117	na
Other Long-term employee benefits	383	na
Termination benefits	208	na

Transactions with Key Management Personnel and other related parties

There were no transactions requiring disclosure for key management personnel and related parties.

Directors' transactions with the Commission

The directors of MAC may hold positions in other organisations in which MAC invests or provides funding in the ordinary course of business. The terms and conditions of those transactions with director-related entities are no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arms' length basis.

Transactions with other government entities

There were no significant transactions with government entities. All transactions have been adequately disclosed elsewhere in the financial statements.

35 Events after Reporting Date

On 6 July 2017, following Cabinet approval, the MAC Board approved the sale of the Direct Property Portfolio. The Property Portfolio is classified as held for sale and recorded at fair value in the Statement of Financial Position. Subsequent to year end, the sale was completed and finalised on 31 July 2017 for \$565.5 million with the gross proceeds after costs deposited with Funds SA and invested on behalf of MAC.

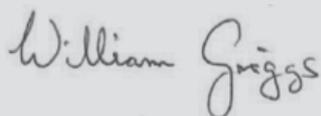
Motor Accident Commission certification of the Financial Statements

We certify that the attached general purpose financial statements for the Motor Accident Commission:

- 1 comply with relevant Treasurer's Instructions issued under section 41 of the *Public Finance and Audit Act 1987*, and relevant Australian Accounting Standards;
- 2 are in accordance with the accounts and records of the Commission; and
- 3 presents a true and fair view of the financial position of the Commission as at 30 June 2017 and the results of its operation and cash flows for the financial year.

We certify that the internal controls employed by the Motor Accident Commission for the financial year over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the reporting period.

Signed in accordance with a resolution of the directors.



William (Bill) Griggs AM ASM
MBBS, MBA, PGDipAvMed
Chairman



Trudy Minett
Acting Chief Executive Officer



Marianne Panzarino CPA
Manager, Finance

Adelaide | Dated the 25th day of August 2017

MAC



Government
of South Australia