

ATTACHMENT 1 - GUIDANCE ON DISCLOSURE AND RECOGNITION OF FINANCIAL IMPACTS RESULTING FROM THE CESSATION OF THE MAV WORKCARE SCHEME

Introduction

The Municipal Association of Victoria (MAV) ceased operating the MAV WorkCare Scheme (Scheme) on 30 June 2021 and continues to support the orderly transition of claims management responsibilities to the Victorian WorkCover Authority (Authority).

As a result of the cessation there is a need to reconsider the accounting recognition and disclosures required in the 2020-21 financial statements (and future years financial statements) of Scheme participants.

The 2020-21 Local Government Model Financial Report (LGMFR) was issued by Local Government Victoria (LGV) in February 2021. The LGMFR includes general text disclosures on the Scheme under note 8.1 Contingent assets and liabilities.

What are the potential impacts on the 2020-21 financial year?

The cessation of the Scheme and transfer of claims management responsibilities to the Authority is subject to the legislative requirements outlined in the *Workplace Injury Rehabilitation and Compensation Act 2013* (WIRC Act 2013). These include the need to conduct an initial actuarial assessment of the Scheme's tail claims liabilities.¹

Subject to this assessment there may be a net financial impact on Scheme participants in the 2020-21 financial year. It is possible that such an obligation no longer represents only a contingent liability and therefore requires recognition on the balance sheet and a corresponding accounting impact on the statement of comprehensive income.

At the time of writing the net financial impact as a result of the cessation of the Scheme is not expected to be known until the first week of September 2021 (at the earliest).

What are the potential impacts on future financial years?

In accordance with the WIRC Act 2013, there is a six-year liability period following the Scheme's cessation. During this liability period the Authority must ensure that there is an annual actuarial assessment of the Scheme's tail claims liabilities as at the end of each year.² The WIRC Act 2013 also makes provision for adjustment payments at the end of the 3rd year and 6th year of the liability period. The determination of any adjustment payments is dependent upon revised actuarial assessments of the Scheme's tail claims liabilities.

Dependent upon whether the Authority's year 3 revised actuarial assessment exceeds or is less than the initial actuarial assessment, a payment may be required (or received) by Scheme participants.³

Dependent upon whether the Authority's year 6 revised actuarial assessment exceeds or is less than the year 3 revised actuarial assessment, a payment may be required (or received) by Scheme participants.⁴

What accounting recognition and disclosure issues should be considered?

The Australian Accounting Standards prescribe the measurement, recognition and disclosure requirements for transactions and balances. The key aspects to consider as a result of the cessation of the Scheme are set out below.

¹ *Workplace Injury Rehabilitation and Compensation Act 2013* section 415

² *Workplace Injury Rehabilitation and Compensation Act 2013* section 417

³ *Workplace Injury Rehabilitation and Compensation Act 2013* section 418

⁴ *Workplace Injury Rehabilitation and Compensation Act 2013* section 419

Minimum disclosure requirements

At a minimum, it is expected that participants of the Scheme continue to disclose a contingent liability. **APPENDIX 1** includes an amended text disclosure for use by Scheme participants. These disclosures may be supplemented to reflect individual, local circumstances. In addition, these disclosures may require update subject to the timing of advice regarding the financial impact of the initial actuarial assessment.

Potential recognition requirements

As noted above, the Authority's initial actuarial assessment of the Scheme's tail claims liabilities will determine whether Scheme participants face a payment obligation or not. In considering whether or not an adjusting event after the reporting period has occurred, Scheme participants are encouraged to familiarise themselves with applicable Australian Accounting Standards including:

- AASB 110 Events after the Reporting Period; and
- AASB 137 Provisions, Contingent Liabilities and Contingent Assets.

Scheme participants that determine that they had a present obligation at the end of the reporting period are encouraged to discuss the matter with their auditors. This may result in the recognition on the balance sheet of a liability that was not previously recognised.

Where can I get further information?

For further information and details regarding the cessation of the Scheme, please contact the MAV directly. For assistance to review and agree on any accounting and disclosure impacts this matter may have on your 2020-21 financial report please consider contacting your auditors. For queries in relation to the LGMFR or this guidance please contact LGV at daniel.oshea@ecodev.vic.gov.au.

How do I know if my organisation was a participant in the MAV WorkCare Scheme?

A list of the original participants in the MAV WorkCare Scheme is included at **APPENDIX 2**.

APPENDIX 1

MAV WorkCare Scheme (Scheme) **current** disclosure in 2020-21 Model Accounts note 8.1
Contingent assets and liabilities:

MAV WorkCare

Council is / (was) a participant of the MAV WorkCare Scheme. The MAV WorkCare scheme provides workers compensation insurance. The MAV WorkCare Scheme states that each participant will remain liable to make further contributions to the scheme in respect of any insurance year in which it was a participant to the extent of its participant's share of any shortfall in the provision set aside in respect of that insurance year, and such liability will continue whether or not the participant remains a participant in future insurance years.

MAV WorkCare Scheme **amended** disclosure:

MAV WorkCare

In November 2017, the Victorian WorkCover Authority (the Authority) granted the Municipal Association of Victoria (MAV) a three-year self-insurance licence allowing it to provide workers' compensation insurance to Victorian councils. When the MAV WorkCare Scheme commenced, there were 31 inaugural members, including the MAV.

In accordance with the Authority's decision not to renew the MAV's self-insurance licence, the MAV WorkCare Scheme ceased operation on 30 June 2021. The MAV is continuing to support the orderly transition of claims management responsibilities to the Authority.

Council was a participant of the MAV WorkCare Scheme.

The MAV WorkCare Scheme participation agreement stated that each participant would remain liable to make further contributions to the Scheme in respect of any insurance year in which it was a participant to the extent of its participant's share of any shortfall in the provision set aside in respect of that insurance year, and such liability would continue whether or not the participant remained a participant in future insurance years.

The net financial impact on Council as a result of the cessation of the MAV WorkCare Scheme for the 2020-21 financial year is yet to be determined. Any obligation is dependent upon the Authority's initial actuarial assessment of the tail claims liabilities of the MAV WorkCare Scheme.⁵

In accordance with the *Workplace Injury Rehabilitation and Compensation Act 2013*, there is a six-year liability period following the cessation of the MAV WorkCare Scheme. During the liability period, adjustment payments may be required (or received) by Council. The determination of any adjustment payments is dependent upon revised actuarial assessments of the Scheme's tail claims liabilities as undertaken by the Authority.

⁵ If advice on the net financial impact of the Authority's initial actuarial assessment does become available, this paragraph could be revised to read "An initial actuarial assessment of the tail claims liabilities of the MAV WorkCare Scheme has been completed by the Victorian WorkCover Authority. The assessment has resulted in a net financial impact to Council for the 2020-21 financial year of \$XXX. This obligation has been recognised in the Balance Sheet."

APPENDIX 2 – MAV WORKCARE SCHEME INAUGURAL MEMBERSHIP

MAV Work Care inaugural membership

Victorian councils / RLCs

- 1 Bass Coast Shire Council
- 2 Bayside City Council
- 3 Borough of Queenscliffe
- 4 Cardinia Shire Council
- 5 City of Casey
- 6 City of Greater Dandenong
- 7 City of Melton
- 8 City of Port Phillip
- 9 City of Stonnington
- 10 City of Wodonga
- 11 Corangamite Regional Library Service
- 12 East Gippsland Shire Council
- 13 Glenelg Shire Council
- 14 Golden Plains Shire Council
- 15 Hepburn Shire Council
- 16 Hindmarsh Shire Council
- 17 Horsham Rural City Council
- 18 Indigo Shire Council
- 19 Mildura Rural City Council
- 20 Moyne Shire Council
- 21 Murrindindi Shire Council
- 22 Northern Grampians Shire Council
- 23 Pyrenees Shire Council
- 24 South Gippsland Shire Council
- 25 Southern Grampians Shire Council
- 26 Strathbogie Shire Council
- 27 Swan Hill Rural City Council
- 28 Wangaratta Rural City Council
- 29 Warrnambool City Council
- 30 West Wimmera Shire Council

Other members

- 31 Municipal Association of Victoria

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