

LGISWA



Your self insurance scheme

WA Local governments working together to secure their communities' future

LGISWA was created when the WA local government sector decided to work together in financing and managing their risks.

LGISWA is a not-for-profit industry based self-insurance scheme, jointly owned by the participating local governments, and providing a superior long-term alternative to the traditional insurance market.

Our goal is to work with members to protect their assets, people and community. We identify potential risks and proactively provide solutions tailored to members' needs.

Our West Australian based team of specialists have a deep understanding of risk management, insurance and the WA local government sector.

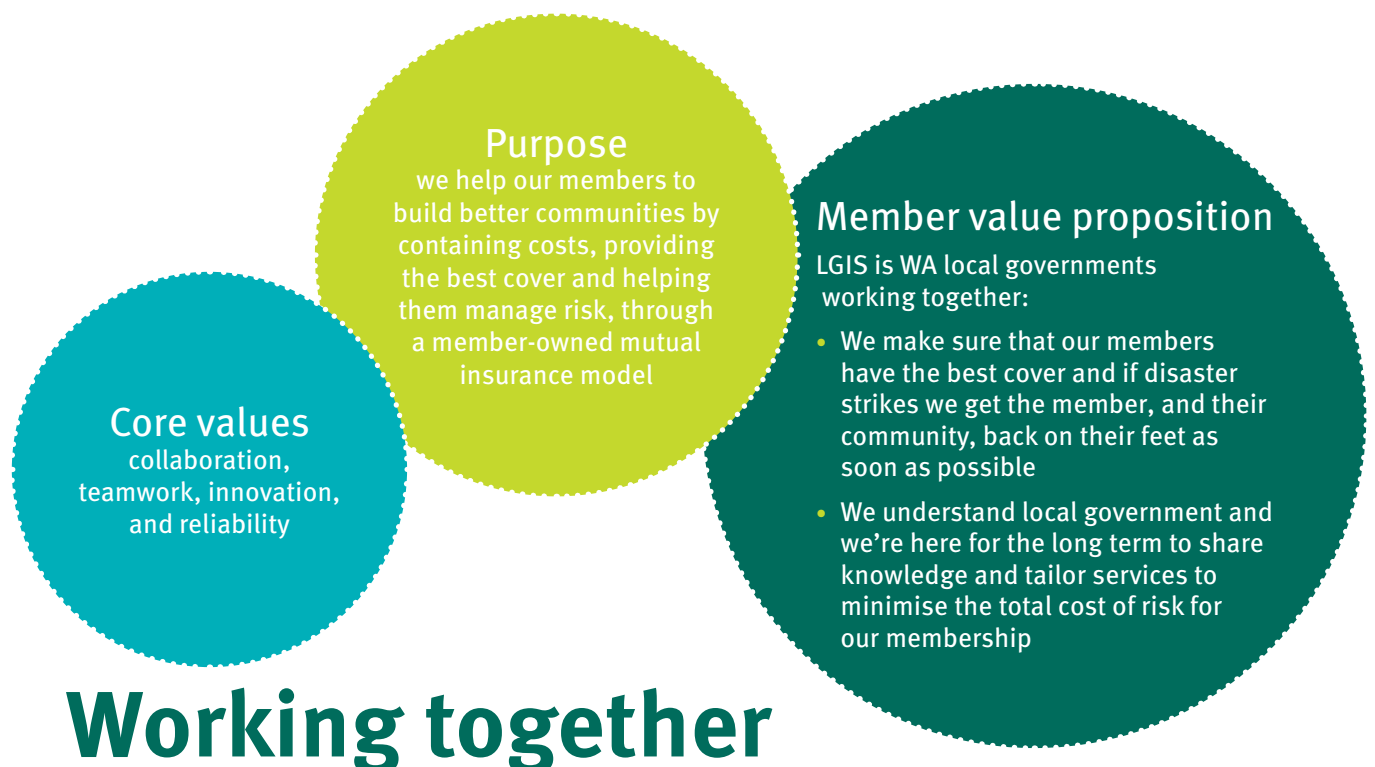
Risk management – the key

Every member benefits when claims are reduced across the sector. That's why LGISWA membership includes a broad range of risk management programs and services.

We take an holistic and co-ordinated approach to risk, claims and injury management.

The benefits to members from working together as part of LGISWA include:

- Covers specifically designed for WA local government that accurately and adequately reflects risk exposures, that cannot be replicated.
- Risk management services that are focused on driving down events / claims that force up the costs of cover.
- Balancing the cost of risk over time even in the face of adverse claims outcomes.
- Mitigating price volatility driven by cyclical hard or soft insurance market conditions across the globe.
- Investment earnings retained in the members fund.
- Including group covers that individual local governments can't always afford, such as pollution risks and journey cover.
- WA based local government experts provide members with a tailored, personalised service.
- Surplus funds returned to participating members, and not into the 'pockets' of insurance company shareholders.



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Directory

LGISWA

ABN 59 780 338 975

Board

Directors

The following persons were directors of LGISWA during the financial year and up to the date of this report:

Mr H (Howard) King	Independent Director (Chairman)
Cr L (Lynne) Craigie	WALGA President
Ms R (Ricky) Burges	WALGA CEO (to February 2019)
Mr N (Nick) Sloan	WALGA CEO (from May 2019)
Mayor T (Tracey) Roberts	Local Government member representative
Cr P (Paul) Omodei	Local Government member representative
Mr A (Andrew) Sharpe	Local Government member representative (to December 2018)
Mr J (John) Pearson	Local Government member representative (from January 2019)
Mr A (Aaron) Cook	Local Government member representative
Mr P (Peter) Forbes	Independent Director
Ms M (Mary) Woodford	Independent Director

Scheme Management

LGIS is managed by Jardine Lloyd Thompson Pty Ltd (ABN 69 009 098 864 AFS Licence 226827). The JLT Group is a part of the Marsh & McLennan Companies (MMC) group of companies.



Auditors

Ernst & Young
Perth, Western Australia



Actuary

PwC Actuarial Pty Ltd
Perth, Western Australia



LGISWA Registered Office

Level 3, 170 Railway Parade
West Leederville WA 6007



Postal Address

PO Box 1003, West Perth WA 6872
Telephone: (08) 9483 8888

Chairman's overview



On behalf of your Board of Directors I am pleased to present the LGISWA (the Scheme) Annual Report for 2019.

The WA Local Government Association's (WALGA) Discretionary Mutual schemes which comprise Liability, Property, Workcare and Bushfire Volunteer Personal Accident for the year ended 30 June 2019 are the basis for this Report.

The financial performance of the Scheme remains strong despite competitive pressures in the market where commercial insurers were prepared to discount from sustainable contribution levels to achieve growth in the short term. While many claims of lower contributions were being made, I am pleased to advise that the few Councils that were enticed to leave the Scheme have returned and 99% of WA local governments are again protected by the LGIS Scheme.

The financial performance of the Scheme was positively affected by lower than budgeted Property claims; and Workcare payments being substantially lower after changes to the injury management and claims management processes along with fewer claims. This has resulted in our performance-based councils paying significantly less contributions based on their individual claims results. It's also impacted our actuarial reserving positively for this class of business. Surprisingly our Bushfire Volunteer class has returned to a positive contribution, while Liability results were acceptable after an adjustment for past years deductible treatment.

Pleasingly, investment income was an over target contributor supporting the appointment of our Investment Funds Manager, Mercer Investments.

The surplus for 2019 is well in excess of budget. This has enabled the Scheme to declare a distribution of \$6M to members who support the scheme. The Capital Ratio, an important regulator industry soundness measure, remains at a level prudent for LGISWA.

During this reporting period the Board has made good progress on its Reinsurance Management Strategy and the Risk Management Framework both of which are important parts of our governance processes. With our Three-Year Strategic Plan now well established and ongoing appointments having been made for our Internal Audit, External Audit and Actuarial Services, your Scheme has a high level of sophistication and robustness across all aspects of the business.

We have again this year highlighted the Corporate Governance Framework on page 10 for a greater transparency into the procedures and practises which are undertaken to ensure that the Scheme is sustainable into the future.

As a mutual, LGISWA relies on insurance and reinsurance to protect our Scheme and level our results over time. Unfortunately, this means that we are subject to pricing fluctuations that result from their global results which are currently poor because of world catastrophe events and liability outcomes. While these increased prices are manageable currently, they are moving higher as reinsurers look to their own sustainability.

During the year one of our local government sector directors, Andrew Sharpe, retired after nine years contribution to the LGISWA Board. Andrew proved himself to be an excellent example of how a director should behave and contribute in the board room. His professional approach and diligent style was a strong influence to LGISWA being where and what it is today. I thank Andrew for his passion towards the Scheme on behalf of the members and WALGA. Local government appointee John Pearson joins the Board following Andrew's vacancy and I welcome John to the LGISWA Board.

Finally, I would like to thank the Scheme management led by Jonathan Seth for their terrific contribution to the performance and culture of LGIS. I am always impressed that each and every council is passionately valued by this team. To my fellow Board members, those independent directors who bring industry related governance skills and the sector directors who play an important advocacy role at every opportunity, I would like to acknowledge your positive and strong contribution throughout the year in making LGISWA a successful member owned mutual.

A handwritten signature in blue ink that reads "Howard King".

Howard King
Chairman
Perth
10 October 2019

2018/19 in review



Workforce Risk Forum, May 2019

Membership

137 of the 139 cities, towns and shires across WA participated in LGISWA for all or portion of the 2018/19 year. Inclusive of WALGA, regional councils and other like organisations, there were 147 participating organisations.

The LGISWA alternative risk financing approach – WA local governments working together in a member owned mutual scheme, has proven to be the best long term option for the sector. The return of the City of Kalamunda, Shire of Wiluna, and Shire of Coolgardie in 2019 is testament to the enduring success of the WA local government self insurance Scheme.

Member value

2018/19 proved to be an excellent membership year with the Scheme welcoming back the Shire of Wiluna, City of Kalamunda and Shire of Coolgardie and retaining the City of Bayswater following a competitive tender process. Their membership is testament to the enduring value of the local government self-insurance scheme in delivering sustainable and tailored protection and services for the WA sector.

This strong performance has occurred in the face of strong competitive pressures from eastern states based tender consultants encouraging local governments back to the commercial insurance market for possible short term gain - which invariably turns to longer term loss.

This proved to be exactly the case for former Scheme members who felt the effects of a hardening commercial insurance market, resulting in large premium increases to levels well in excess of the costs of LGISWA Scheme membership.

Looking forward the Scheme pleasingly now has 100% of WALGA members as members of the Scheme.

The value of Scheme membership continues to extend far beyond the cost of cover – as demonstrated in this report and in our ongoing publications.

This year we worked with our members to keep their community, organisation and workforce safe. We completed over 45 ‘3 Steps to Safety’ audits, some 30 aquatic assessments at public swimming pools right across our great state, and we provided advice on a wide range of sector issues from verge activation, coastal erosion, combustible building cladding, transfer of land and assets, to the perennial ‘favourites’ of trees and potholes.

Over 250 local government staff attended LGIS risk events from May 2019’s inaugural Workforce Risk Forum to our bimonthly Risk Management Advisory Group which is focused on sharing local government experiences and learning about the latest issues and innovation in risk management.

All of these services are provided as part of Scheme membership.

Strategic plan

Following a rigorous process of strategic review, the Board adopted a new 2019-22 Strategic Plan.

A new LGISWA Purpose Statement and Member Value Proposition were adopted – see inside cover of this Annual Report.

Five strategic result areas were adopted

- Member engagement (“the members”),
- Financial governance and management (“the finances”),
- Member protection (“the cover”),
- Corporate governance and business excellence (“the business”), and
- Services focused on driving down events / claims that force up the costs of cover (“the services”).

The KPI’s for the results the Board wants to achieve for the strategic result areas are described under the “Looking Ahead” section of this Annual Report.

Scheme financial position

Your Scheme’s financial position has once again been maintained at a level in excess of the target capital (of 150% x independently assessed minimum capital requirement) per the APRA standard for capital adequacy, with excess funds of \$6 million to be returned to members.

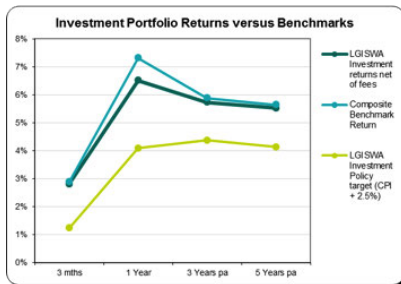
Surplus distributions to members

\$4.5 M from a surplus allocation from the previous year was returned to members as credits off their 2018/19 membership renewal contributions costs.

From the 2018/19 Scheme results an allocation of \$6M has been made for distribution back to members.

Each member will be given a choice to take their share as a credit off next years membership renewal contributions, as a distribution payment, or held in trust for funding risk management initiatives.

Investment performance



The LGISWA Board has selected a diversified investment fund composed of 65% defensive assets and 35% growth assets to provide an appropriate trade-off between return and risk.

Your Scheme's investment returns outperformed the modelled target under its investment policy statement, of CPI+2.5%, which contributed significantly to the surplus for return to members.

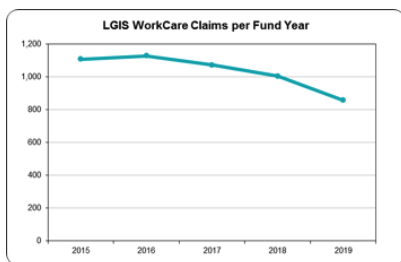
Program performance

WorkCare

Of the 36 performance-rated members, eighteen have accepted the blended pricing option, which enabled additional savings due to claim costs being kept in check.

Other members, including many smaller councils on fixed rating with good experience were also able to enjoy cost reductions.

The total number of claims for the year has reduced from 2017/18 and the net claims costs (\$14.5 M) was the lowest in a decade.



A significant contributor to the ongoing positive results is our integrated proactive approach to risk and claims management inclusive of tailored occupational safety and health, human resource risk

services, health and wellbeing, injury prevention; and injury management programs provided as benefits of Scheme membership.

Liability

Claims experience for 2018/19 was slightly improved compared with the preceding period with 1,159 claims received. However, the litigation environment is more combative with increased use of the small damages court

system, which promotes settlement without admission of liability. Whilst we can rely on well-established defences there is more pressure on the judicial system to achieve outcomes.

Given the long-tail nature of the portfolio the 2018/19 results were impacted by the development of a number of large claims arising from previous fund years.

The 2018/19 fund year closed on the back of increased scrutiny over the sectors exposure to various risks including child sexual abuse, aged care and the developing exposure around the building industry. At the close of June 2019, the hardening of the insurance market was evident with the Scheme witnessing significant de-selecting of risk by re-insurers, in particular the application of exclusions in relation to professional activities and activities involving child/aged care services.

The continuing ability of the Scheme to negotiate on behalf of the sector is evident in maintaining the expansive cover and stability in costs, in what is a turbulent liability insurance environment.

In 2018 the Scheme re-insurance arrangements were structured to provide an adequate level of liability cover for terrorism related risks. The Scheme continues to offer fully funded cover for pollution legal liability, and casual hirers liability, as well as subsidising the Crime protection policy.

Property

435 claims were received for the 2018/19 fund year, slightly reversing the upwards trend witnessed over the last five years.

In terms of both reported claims and expected claims outturns the period closed below the Scheme's self-insured retention.

Cyclone Veronica which impacted the Town of Port Hedland and surrounds was a significant loss in 2019. Weather related events continue to drive costly losses with a higher frequency of storm and hail. Worldwide, there is growing acknowledgment of the impact of what is referred to as "secondary perils" (storm, hail and bushfire) that increase in frequency and severity. There is no doubt that a changing climate is making an impact.

At a more local level, malicious damage/vandalism were the primary cause of loss and whilst the majority of losses were contained to isolated/unrelated events, vandalism is considered a causation element which can lead to major losses.

The Property re-insurance market in Australia continues to harden with significant focus on quality of assets and exposure to catastrophic losses. 2019 was a solid year in terms of performance of the LGIS Property 'pooled cover' which provided an adequate level of retention to limit significant price volatility to members, evident in the minimal price movements.

Bushfire volunteers personal accident

LGISWA is pleased to be able to continue to provide this cover to members.

Ongoing provision of this cover has not been without its challenges, with a Supreme Court decision handed down in March 2019 setting a precedent for insurance liability in the event of the death of a bushfire volunteer.

This decision, coupled with legislative amendments increasing death benefits entitlements, following on from amendments extending the insurance liability to covering prescribed cancers, has unavoidably forced up the cost of cover.

Pleasingly, however, in 2018/19 large claims were finalised for significantly less than the initial estimates, and the number of new bushfire claims was a welcome reduction with 22 new bushfire volunteers personal accident claims received from LGIS members this year.

Re/Insurance management strategy

As an additional corporate governance enhancement, the Board adopted a documented Re/insurance Management Strategy (ReMS) for the governance of the re/insurance arrangements of the Scheme.

The ReMS has the key objectives of:

- Minimising risk of withdrawal of coverage for members;
- Ensuring adequacy of re/insurance program to cover key functions of members;
- Ensuring that the Scheme is financially sustainable;
- Sustainable insurer/ reinsurer participation.

Member survey

A member survey, conducted by independent market researchers, gave the Board valuable insights into the levels of member satisfaction and trust in LGISWA across all key stakeholder groups.

153 CEOs/senior managers, 100 operational staff and 136 elected members took part in the 2019 survey.

Member ratings of LGIS averaged over 80% across the criteria of performance, service quality, success achieved, trust, favourability and loyalty.

91% of CEOs agreed that complimentary risk services support better practices, reducing claims, ensuring sustainability of their Scheme. 79% were satisfied that LGIS provides the right complimentary risk services to meet their requirements.

99% of elected members rated risk management programs and services to protect their local government organisation, its people and the community as important.

Suggested improvements for the Scheme, which LGIS will be actioning. Includes:

- Increase communication with elected members;
- More regular visits to smaller members;
- Present at more council meetings.

LGIS Board of Directors visited the Shire of Northam



LGIS Board Visit – Shire Of Northam

Every year, the LGIS Board of Directors head out to one of our regional members to see firsthand the excellent services and facilities local governments provide to their communities.

This year, the Board visited the Shire of Northam and were joined by over 60 guests for an evening of celebration and sharing of Noongar culture at the impressive Bilya Koort Boodya Centre.

The engagement with local government executives and elected members from the region was a great opportunity to talk about day to day issues and how the Scheme assists.



Members at the Kojonup Risk and Governance Day

LGIS Member service charter

This year also saw our commitment to our members formalised in a new LGIS Member Service Charter.

The Charter includes key elements which all members are encouraged to be familiar with, such as:

- LGIS Financial Services Guide;
- LGIS Collection Statement;
- LGIS Privacy Policy.

LGIS scheme risk management Framework

Following a workshop in January 2019, the Board adopted a comprehensive new set of Risk Management Framework documents for the LGISWA business, which ties into its Strategic Plan strategy of having a contemporary risk management framework in place and under regular review. The risk framework documentation comprises:

- LGISWA Risk management framework overview;
- Risk management policy;
- Risk management process;
- Risk appetite and tolerance statements;

- Risk improvement plan;
- Risk dashboard and detailed risk profiles for all key identified risks.

Risk management strategies have been developed for key risks such as:

- Loss of a significant part of the membership base;
- Returns from investment funds under or over performing against targets;
- Extraordinary run of major claims – out of step with historical or expected patterns;
- Uninsured losses from a catastrophic event which exceed cover limits;
- Lack of transparency / clarity over LGISWA Scheme;
- Unforeseen cashflow shortage;
- Cyber breach.

Looking ahead

Under the Board's newly adopted Strategic Plan, the following have been adopted as the key performance indicators which will drive our focus over 2019-22



THE MEMBERS

- Achieve 100% participation of eligible members
- Maintain member survey ratings above an average of 4/5 across each of the criteria of: corporate reputation, service quality, success achieved, trust, favourability, performance and loyalty
- Continue to increase elected member awareness of LGIS service and value to members
- Achieve target levels of in-person engagement with key people from all members
- Have Integrated (risk financing and management) Service Plans for 90% of members in place by June 2022



THE SERVICES

- Member uptake and demonstrated impact - of risk management service programs and allied health programs provided
- Claims incidence and cost, across each class/segment, kept below projections of Scheme Actuary reports and financial plan
- Average cost of WorkCare and Liability claims tracking below % changes to members Total Wages
- Average cost of Property claims tracking below % changes to members total declared value of insured property (Property portfolio)
- Nil increase in average duration of lost time injury claims from year to year



THE FINANCES

- Financial position: net assets being maintained at 150% x independently assessed Minimum Capital Requirement
- Financial performance: per adopted 3-year strategic financial plan
- Achievement of investment returns of CPI+2½% over ten-year time horizons



THE BUSINESS

- Risk management framework in place and kept under regular review
- Capital Management Plan and Investment policy and strategy in place and kept under regular review
- Board and Directors performance rated at or above 8/10 from Board's self-assessment of performance against key performance criteria
- Scheme Manager performance rated at or above 8/10 from Board's assessment of management performance against KPI's
- Nil findings of any organisational practice, activity or decision which is unlawful or in violation of Board policies or management authorities, or of commonly accepted business and professional ethics
- No risks assigned a residual risk rating of Extreme or High after implementation of risk treatment actions



THE COVER

- Achievement of adopted net loss ratios for each Scheme portfolio
- Indemnity Cover (re/insurance) achieved in accordance with the Reinsurance Management Strategy and financial plan adopted by the Board
- Nil claims where indemnity is denied to a member which would otherwise be available under standard market wording

Corporate governance

Underpinning the service methodology is a corporate governance framework and business management strategies that ensure the success and longevity of the LGISWA Scheme.

These include legal instruments, policies, plans and procedures to ensure LGISWA delivers on its member value proposition; supported by good corporate governance, informed decision making and accountability.

The key elements are outlined below:

LGISWA Board

Pursuant to the Trust Deed, a Board is responsible to WALGA to achieve and implement the objects and purpose of the Scheme.

A Finance, Audit and Risk Committee is also in place to assist the Board in fulfilling its responsibilities by monitoring and providing recommendations on LGISWA's financial reporting process, audit, and management of operational risks.

2018/19 Board Meetings Attendance

Member	Number of eligible to attend	Number of meetings attended
Howard King	10	10
Lynne Craigie	10	7
Ricky Burges	8	5*
Tracey Roberts	10	9
Paul Omodei	10	9
Andrew Sharpe	5	5
Aaron Cook	10	10
Peter Forbes	10	10
Mary Woodford	10	10
John Pearson	5	4
Nick Sloan	2	2

*Deputised by Ian Duncan at October 2018 meeting

2018/19 Finance, Audit and Risk Committee Meetings Attendance

Member	Number of eligible to attend	Number of meetings attended
Peter Forbes	5	5
Howard King	5	5
Andrew Sharpe	2	2
Aaron Cook	5	4
John Pearson	2	0
Mary Woodford	5	5

Corporate governance framework

Local Government Act 1995

Establishes WALGA as an Association of Local Government, with provisions that include a power to arrange contracts of insurance on behalf of all or any of its members (S 9.58).

Provides for WALGA to establish and manage for its members a mutual Workers Compensation arrangement (S 5.49).

Trust Deed

Key legal instrument under which the mutual scheme is established, by WALGA. Sets out the core purposes of the Scheme along with provisions relating to governance of the Scheme, membership, financial and other administrative arrangements.

Scheme Rules

Provides more detailed terms on rights and obligations of Scheme members including rules for Scheme membership, fund years, membership contributions, protection, and claim procedures.

Workers Compensation and Injury Management Act 1981

Regulatory framework under which the LGIS WorkCare Scheme operates (S 164-5).

Corporate Governance Charter

Sets out in detail the roles, responsibilities and authorities of the Board in corporate governance and setting the strategic direction of LGISWA.

Code of Conduct

A code of conduct has been adopted to promote the highest ethical and professional standards by directors of the LGISWA Board.

Strategic Plan

The LGISWA Board's Strategic Plan, based on the following model, sets out the Board's visions for the Scheme



Longer Term Financial Plan

A three-year financial plan for the LGISWA Scheme forms part of the Board's strategic planning framework, together with documented financial policies and strategies underpinning the financial plan.

Risk Management Framework

A document, kept under regular review, which sets out the Scheme's policy, strategy and approach to the identification, assessment, management, reporting and monitoring of risks.

Capital Management Plan

A risk management document specifically focused on maintaining target capital levels, monitoring available capital against the adopted targets, and remedial actions to be taken where required, which is broadly consistent with APRA Prudential Standard GPS 110 (Capital Adequacy) for general insurers.

Reinsurance Management Strategy

Policies for the governance of the reinsurance arrangements of LGISWA, which is broadly consistent with APRA Prudential Standard GPS 230 (Reinsurance Management) for general insurers.

Investment Policy and Strategy Statement

Articulates the Board's investment risk appetite and establishes policy guidelines for investment strategy and the management and monitoring of the LGISWA investment portfolio.

Management Agreement

Stipulates the arrangements under which WALGA and JLT have partnered to manage the core operations of the Scheme and continuously enhance LGISWA to evolve with members' changing needs.

Statement of Scheme Manager Authorities and Delegations

Identifies the Scheme Manager's contractual and delegated authorities and associated control assurance, including limitations and accountability, performance and reporting requirements.

External audit

Annual audit by Ernst & Young of the financial report of LGISWA.

Internal audit

A program aimed at fostering continuous improvement through the engagement of independent consultants (Crowe) to review operational risks, controls and processes across all key operational areas for LGISWA.

Claims Management Process Audit

An annual process audit, by an independent consultant, of a random sample of LGISWA claims files, assists the Board in satisfying itself that LGISWA claims are being managed professionally, and in the best interests of the Scheme and participating local governments.

Business management strategies

Claims estimation

PwC Actuarial are engaged to provide independent consulting actuarial services to determine claims provisions ensuring adequacy of capital to meet claims liability.

Protection policies

Provides members with guidelines underlying the supporting (discretionary mutual) insurance program for each class of civic risk covered by the LGISWA Scheme.

Risk Management Services Plan

Three-year plan which defines the program of risk management services for provision to members to drive down events / claims that force up the costs of cover.

Allied Health Services Plan

Three-year plan of injury prevention, health and wellbeing and injury management services for provision to members to minimise claims costs and their direct impact on membership contributions.

Marketing and Communications Plan

Strategy plan for addressing the key objective of effective engagement with members.

Records Management Framework

Framework for the capture, retrieval, use, maintenance and disposition of records. This includes record keeping systems, disposal arrangements, policies, practices and processes.

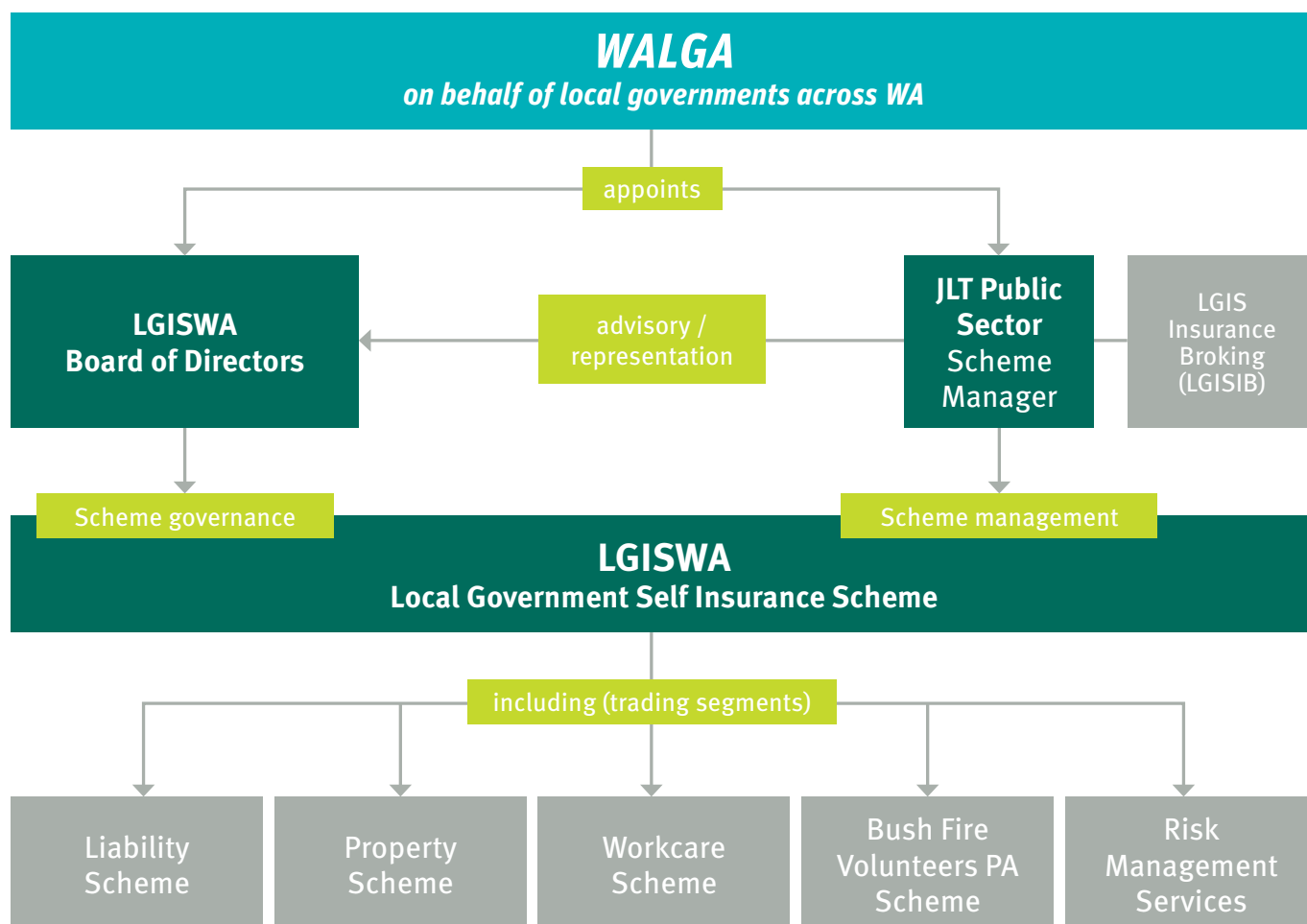
LGISWA structure and roles at a glance

The diagram below illustrates that WALGA has appointed Jardine Lloyd Thompson (JLT) as the scheme manager and has also appointed a Board of Directors, the majority of whom are local government representatives, to oversee the corporate governance of the scheme known as LGISWA.

As an insurance broker, JLT trades as LGIS Insurance Broking (LGISIB), which is the trading name of the joint venture in place between JLT and WALGA under which JLT is the appointed broker for WALGA local government members.

Where we use the term 'LGIS', we are referring to JLT's roles collectively (i.e as either scheme manager or insurance broker).

The chart below illustrates the relationship between WALGA, JLT and LGIS.



LGISWA



Board's annual financial report

Principal activities

During the year, the principal continuing activities of LGISWA consisted of managing a pooled fund and self-insurance scheme ("the Scheme") to manage various risks that members may have in connection with the exercise by the members of their powers, duties or functions.

No significant changes in the nature of the activities of the Scheme occurred during the year.

Presentation of annual financial report

LGISWA is not a reporting entity because in the opinion of the Board, there are unlikely to be users of the financial report who are dependent on a General Purpose Financial Report being produced by LGISWA to satisfy their information needs. Accordingly, this special purpose financial report has been prepared to satisfy the requirements of the Trust Deed dated 19 September 1996, and complies with the recognition, measurement and classification requirements of Australian Accounting Standards that are effective for annual reporting periods beginning on 1 July 2018.

Financial operating results

The Scheme's financial operating result is an aggregated result. Each Fund Year's individual operating result may be either surplus or deficit, depending on each Fund Year's claims performance.

The financial operating result of the Scheme for the year ended 30 June 2019 was a surplus of \$8,764,321. (2018 Restated: \$5,686,845).

Capital adequacy

The Board has adopted a policy on Capital Adequacy for the Scheme, drawing on independent consulting actuarial advice, which is reflected in the Statement of Financial Position by way of capital reserves being maintained at a level equivalent to 150% of the Scheme's assessed Minimum Capital Requirement.

Use of scheme information

No notices requesting the use of Scheme information, that would not have been otherwise available to them, were received by the Board from Board members in their capacity as members.

Board member interests

There have been instances throughout the year where members of the Board have declared a conflict of interest in a claim, or potential claim, and as a result, the relevant member has not participated in any Board discussion, or any decision, in relation to that claim.

During the Financial Year, no member of the Board has declared any financial interest, as may be interpreted under Commercial Law, to any financial transaction, whether actual or proposed, that was received or is receivable from the Scheme, which is not otherwise disclosed in this financial report.

Remuneration and other benefits

No Scheme Board member has received or become entitled to receive any benefit other than board sitting fees and its related superannuation, or a benefit which may be perceived by way of transactions with a related party.

Related parties

The Western Australian Local Government Association (WALGA) is a body corporate established under the Local Government Act 1995. WALGA is the Trustee for the LGISWA Scheme under the provisions of a Trust Deed made on 19 September, 1996.

The Scheme trades with its members in the normal course of business and on an arm's length basis.

Total expenses of \$2,042,000 (2018: \$2,231,000 which included \$800,00 surplus distributions) were payable to WALGA by LGISWA being payment in consideration of WALGA's responsibility for the establishment and management of the Scheme and its provision of human resource services such as supervisory, administrative, industrial, publicity and other advisory services to the Scheme Manager and Members.

WALGA is also party to a Broking Agreement with Jardine Lloyd Thompson Australia (JLTA), under which WALGA receives an agreed share of JLTA insurance broking income for services to WALGA and its members. This includes insurance broking income for placement of indemnity covers for LGISWA.

Events subsequent to balance date

There are no matters or circumstances having arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Scheme, the results of those operations or, the state of affairs of the Scheme in subsequent financial years.

This report is made in accordance with a Board resolution.



Howard King

Chairman

Perth

10 October 2019



Peter Forbes

Finance, Audit and Risk
Committee Chair

Board's declaration

In the Board's opinion:

- LGISWA is not a reporting entity as defined in the Australia Accounting Standards
- the accompanying financial report of LGISWA comprising the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, trading report and accompanying notes as set out on pages 22 to 30:
 - present fairly the financial position of the scheme as at 30 June 2019 and its performance for the year ended on the date:
 - are prepared in accordance with the provisions of the amended Trust Deed dated 19 September 1996;
 - comply with Australian Accounting Standards to the extent described in Note 1 to the financial statements:
- there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.



Howard King

Chairman

Perth

10 October 2019



Peter Forbes

Finance, Audit and Risk

Committee Chair

Statement of comprehensive income

	Note	\$ 2019	\$ 2018
Underwriting Result (i)		11,072,501	*Restated 8,227,077
Other Income			
Interest Income		171,899	192,579
Realised Investment Gains/(Losses)		(134,273)	(79,471)
Investment Rebates & Distributions		2,659,436	2,264,812
Unrealised Gains/(Losses) on Investments		2,661,396	2,675,831
Total Other Income		5,358,458	5,053,751
Other Expenses			
Operating		1,341,744	1,619,225
Additional Services	10	6,324,894	5,974,758
Total Other Expenses		7,666,638	7,593,983
Operating Result Before Income Tax		8,764,321	5,686,845
Income Tax Expense	1j	-	-
Total Comprehensive Income		8,764,321	5,686,845

(i) The underwriting result per fund is contained in the Trading Report section of this Report

* See note 15 for details regarding the restatement as a result of a correction of the prior period error

The Statement of Comprehensive Income is to be read in conjunction with the notes to the financial report set out on pages 22 to 30.

Statement of financial position

	Note	\$ 2019	\$ 2018	\$ 1 July 2017
ASSETS			*Restated	*Restated
Current Assets				
Cash and Cash Equivalents	7	12,674,897	2,515,497	21,638,289
Deferred Contributions		3,700,456	3,373,742	3,058,486
Investments	8	47,751,042	50,434,688	47,066,225
Prepayments		104,615	179,398	176,255
Outstanding Claims Recoveries		4,773,599	6,101,945	6,547,855
Trade and Other Receivables		1,396,651	5,375,797	396,683
Total Current Assets		70,401,260	67,981,067	78,883,793
Non Current Assets				
Investments	8	25,486,753	28,616,547	25,121,236
Deferred Contributions		3,785,651	3,435,229	3,974,581
Outstanding Claims Recoveries		14,403,317	15,777,100	13,232,670
Total Non Current Assets		43,675,721	47,828,876	42,328,487
Total Assets		114,076,981	115,809,943	121,212,280
LIABILITIES				
Current Liabilities				
Trade and Other Payables		468,976	407,316	578,397
Outstanding Claims Liability	5	25,396,254	28,475,161	29,737,879
Surplus Distribution Provision	1n	22,334,307	21,581,139	17,996,231
Total Current Liabilities		48,199,537	50,463,616	48,312,507
Non Current Liabilities				
Outstanding Claims Liability	5	34,078,170	36,311,374	39,351,665
Total Non Current Liabilities		34,078,170	36,311,374	39,351,665
Total Liabilities		82,277,707	86,774,990	87,664,172
Net Assets		31,799,274	29,034,953	33,548,108
Represented by Reserves Attributable to Members of the Fund				
Accumulated Operating Surplus / (Loss)		5,553,225	153,266	(50,892)
Reserve, Minimum Capital Requirement		17,497,366	19,254,458	17,066,000
Reserve, Prudential Margin		8,748,683	9,627,229	8,533,000
Reserve, Surplus Distribution			-	8,000,000
Total Reserves		31,799,274	29,034,953	33,548,108

* See note 15 for details regarding the restatement as a result of a correction of the prior period error

The Statement of Financial Position is to be read in conjunction with the notes to the financial report set out on pages 22 to 30.

Statement of changes in members funds

	\$ 2019	\$ 2018
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*Restated

Accumulated Operating Surplus

Surplus / Deficit at Beginning of Year	153,266	(50,892)
Net Surplus for the Year	8,764,321	5,686,845
	8,917,587	5,635,953
Transfer from/ (to) minimum capital requirement reserve	1,757,092	(2,188,458)
Transfer from/ (to) prudential margin reserve	878,546	(1,094,229)
Surplus Distribution, Provided for	(6,000,000)	(2,200,000)
Accumulated Operating Surplus at Year End	5,553,225	153,266

Reserve, Surplus Distribution

Reserve at the beginning of the financial year	-	8,000,000
Transfer to Reserve, Surplus Distribution	-	(8,000,000)
Reserve at end of the financial year	-	-

Reserve, Minimum Capital Requirements

Reserve at the beginning of the financial year	19,254,458	17,066,000
Transfer (to)/ from Accumulated Operating Surplus	(1,757,092)	2,188,458
Transfer to Reserve, Prudential Margin	-	-
Reserve at end of the financial year	17,497,366	19,254,458

Reserve, Prudential Margin

Reserve at the beginning of the financial year	9,627,229	8,533,000
Transfer (to) / from Accumulated Operating Surplus	878,546	1,094,229
Transfer from Reserve, Minimum Capital Requirement	-	-
Reserve at end of the financial year	8,748,683	9,627,229
Total Equity Attributable to Members of the Fund	31,799,274	29,034,953

* See note 15 for details regarding the restatement as a result of a correction of the prior period error

The Statement of Changes in Members Funds is to be read in conjunction with the notes to the financial report set out on pages 22 to 30.

Statement of cash flows

\$ 2019	\$ 2018
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Cash Flows from Operating Activities

Receipts:		
Receipts from Members	56,760,710	54,738,051
Claims Related Recoveries	8,397,255	4,720,305
Interest Income	171,899	192,579
Investment Income	134,272	144,196
Reinsurance Premium Rebate	2,375,878	1,295,982
Total Receipts	67,840,014	61,091,113
Payments:		
	-	-
Claimants and Advisors	(33,403,693)	(32,888,295)
Reinsurance Expense	(19,509,600)	(19,995,868)
Claims Management Expenses	(10,453,040)	(9,677,000)
Suppliers & Services	(8,080,147)	(8,659,620)
Work Cover Compliance Expense	(499,802)	(551,005)
Total Payments	(71,946,282)	(71,771,788)
Net Cash used in Operating Activities	(4,106,268)	(10,680,675)

Cash Flows from Financing Activities

Reserve Fund Distributions	(734,332)	(2,295,320)
Net Cash used in Financing Activities	(734,332)	(2,295,320)

Cash Flows from Investing Activities

Purchase of Investments	(3,000,000)	(16,146,797)
Proceeds from Sale of Investments	18,000,000	10,000,000
Movement from Investment Cash	-	-
Net Cash from / (used in) Investing Activities	15,000,000	(6,146,797)
Net Increase / (Decrease) in Cash and Cash Equivalents	10,159,400	(19,122,792)
Cash and Cash Equivalents at Beginning of the Financial Year	2,515,497	21,638,289
Cash and Cash Equivalents at Financial Year End	12,674,897	2,515,497

The Statement of cash flows is to be read in conjunction with the notes to the financial report set out on pages 22 to 30.

Trading report

Note	\$ 2019	\$ 2018	\$ 2019	\$ 2018	\$ 2019	\$ 2018	\$ 2019	\$ 2018	\$ 2019	\$ 2018
		*Restated								*Restated
Revenue	Liability	Liability	Property	Property	Workcare	Workcare	Bushfire	Bushfire	Total	Total
Underwriting Income										
Member Contributions	16,148,345	15,402,503	21,434,335	20,759,524	23,461,090	22,223,660	1,229,925	1,044,364	62,273,695	59,430,051
Claims Related Recoveries Received	7,066,182	2,042,104	815,488	816,995	802,718	1,291,667	897,185	594,622	9,581,573	4,745,388
Reinsurance Premium Rebates	2,161,007	1,513,853	-	-	-	-	-	-	2,161,007	1,513,853
Total Underwriting Revenues	25,375,534	18,958,460	22,249,823	21,576,519	24,263,808	23,515,327	2,127,110	1,638,986	74,016,275	65,689,292
Underwriting Expenditure										
Reinsurance Expense	10,411,251	10,330,267	9,410,525	8,838,800	563,529	435,138	308,610	262,526	20,693,915	19,866,731
Net Claims Expense	7,334,769	3,843,645	7,882,883	6,281,750	14,460,552	15,048,394	970,865	1,389,816	30,649,069	26,563,605
Claim Management Expenses	3,263,440	3,058,200	2,416,200	2,188,600	4,966,761	4,796,851	181,000	169,000	10,827,401	10,212,651
Work Cover Levies	-	-	-	-	499,802	551,005	-	-	499,802	551,005
Property Risk Management	-	-	273,587	268,223	-	-	-	-	273,587	268,223
Total Underwriting Expenditures	21,009,460	17,232,112	19,983,195	17,577,373	20,490,644	20,831,388	1,460,475	1,821,342	62,943,774	57,462,215
Underwriting Result	4,366,074	1,726,348	2,266,628	3,999,145	3,773,164	2,683,939	666,635	(182,356)	11,072,501	8,227,077

The Trading Report is to be read in conjunction with the notes to the financial report set out on pages 22 to 30.

Notes to the financial report

Note 1.

Significant accounting policies

The principal accounting policies adopted in the preparation of this financial report are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

A. Basis of preparation

The principal accounting policies adopted by LGISWA in respect of the Scheme are stated to assist in a general understanding of the financial report and have been consistently applied during the year. The scheme is not a reporting entity, because in the opinion of the Board, there are unlikely to be users of the financial report who are dependent on a General Purpose Financial Report being produced by LGISWA to satisfy their information needs. Accordingly, this special purpose financial report has been prepared to satisfy the requirements of the Trust Deed dated 19 September 1996, and complies with the recognition, measurement and classification requirements of Australian Accounting Standards that are effective for annual reporting periods beginning on 1 July 2018.

The Scheme adopted AASB 9 Financial Instruments ("AASB 9") using the modified retrospective method on 1 July 2018. AASB 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. This standard replaces AASB 139 Financial Instruments: Recognition and Measurement ("AASB139"). The comparative information continues to be reported under AASB 139.

AASB 9 introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and are solely payments of principal and interest ("SPPI"). All other financial instrument assets are to be classified and measured at fair value through profit or loss ("FVTPL") unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for trading) in other comprehensive income ("OCI").

For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch).

The adoption of AASB 9 has changed the Scheme's accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward looking expected credit loss ("ECL") approach. AASB 9 requires the Scheme to recognise an allowance for ECLs for all debt instruments not held at fair value through the Statement of Comprehensive Income.

The adoption of these new and amended standards has not had any financial impact on the financial position or results of the Scheme.

A new Insurance Accounting Standard, referred to as IFRS 17 Insurance Contracts was issued on 18 May 2017. Whereas the Standard will not be applied until annual reporting periods starting on or after 1 January 2022, stakeholders are advised that LGISWA will be preparing for the interpretation, implementation and application of the new Standard, to the extent that it is expected to apply to LGISWA. The impact of adoption of this standard is yet to be determined.

A new Revenue Accounting Standard under AASB 15 becomes effective for LGISWA on 1 July 2019. The core principle of AASB15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The impact of adoption of this standard is not expected to be material to the financial report of the Scheme.

Historical cost convention

This financial report has been prepared under the historical cost convention and, except in the case of investments which are fair valued through profit or loss as disclosed in the accounting policies below.

The financial report is presented in Australian dollars, which is also LGISWA's functional currency.

B. Trade and other payables

Trade payables and other payables represent liabilities for goods and services provided to the Scheme prior to the end of the financial year which are unpaid. These amounts are initially measured at fair value of the consideration to be paid on goods and services received and then subsequently carried at amortised cost. These amounts are unsecured and are normally settled within 30 days of the due date.

C. Assets backing insurance liabilities

Management has determined that all financial assets are held to support insurance liabilities and their accounting treatment is described below. Financial assets backing insurance liabilities are designated at fair value through profit or loss. Initial recognition is at cost and subsequent measurement is at fair value in the Statement of Financial Position with any resultant unrealised profits and losses recognised in the Statement of Comprehensive Income.

D. Financial assets

Cash and cash equivalents

Cash and cash equivalents are carried at face value of the amounts deposited or drawn which approximate their fair value.

For the purpose of the Statement of Cash flows, cash includes cash at bank, deposits held at call with banks, and other short term deposits.

Trade and other receivables

Amounts due from members are initially recognised at fair value, being the actual amounts due. Subsequent measurements are measured at amortised cost and are reduced for impairment. Under AASB 139, an estimate of

doubtful debts was made when there was objective evidence that the Scheme will not be able to collect the debts. Bad debts were written-off as incurred. Under AASB 9, the Scheme recognises an allowance for expected credit loss (“ECL”) for receivables using a general approach. The Scheme applies AASB 9’s simplified approach to measure ECLs which uses a lifetime expected loss allowance for all trade receivables.

Financial assets at fair value through profit or loss

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned.

Investments are initially recognised at fair value (net of transaction costs) in the Statement of Financial Position and subsequently measured at fair value with any resultant realised or unrealised gains or losses recognised in the Statement of Comprehensive Income.

E. Outstanding claims liability

For Liability and WorkCare claims, the liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under general insurance contracts issued by the Scheme, with an additional prudential margin (net of reinsurance and other recoveries) to reflect the inherent uncertainty in the central estimate of the outstanding claims liability.

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not yet reported (IBNR), claims incurred but not enough reported (IBNER) and anticipated claims handling expenses.

The expected future payments are discounted to present value using the risk free rate that relates to the term of the obligation. The risk free rates are based on the observed yields on Commonwealth Government securities at the balance date.

The gross claims expense or income in the Statement of Comprehensive Income comprises claims paid and the change in the liability for outstanding claims, both reported and unreported, including the prudential margin and claims handling expenses.

Claims handling expenses include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be directly associated with individual claims, such as claims administration costs.

For Property and Bushfire Volunteers Personal Injury, the liability for outstanding claims is measured as the central estimate of outstanding claims plus a prudential margin.

Independent consulting actuarial services are engaged for the assessment of outstanding claims for Liability and WorkCare claims, whilst outstanding liability for Property claims and Bushfire Volunteers Personal Injury claims are internally assessed, using a model developed with the assistance of the Scheme Actuary.

F. Excesses and recoveries

When claim payments made by the Scheme include excesses (or part thereof) recoverable from a third party, excesses due at balance date are brought to account as recoveries outstanding.

The movement in reinsurance recoveries receivables during two reporting dates is presented in the net claims expense line in the Trading Report.

G. Reinsurance recoveries – liability claims

Central estimates for liability claims are calculated gross of any reinsurance and non-reinsurance recoveries. A separate estimate is made of the amounts recoverable from reinsurers and other parties. The nature of the liability claims for which LGISWA provides cover is such that they can take many years to settle with related “Excess Layer” reinsurance recoveries not falling due for payment until the primary claim has been finalised.

H. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the GST incurred is not recoverable from the Australian Taxation Office (ATO). In this case, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense or for receivables and payables which are recognised inclusive of GST.

Receivables and payables are stated inclusive of the amount of GST. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position.

Cashflows from operating activities are presented in the statement of cashflows on a net basis with the net GST component being presented within the Suppliers & Services cashflow line item. The GST component of the cashflows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cashflows.

I. Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Scheme and the revenue can be reliably measured.

i. Member contribution revenue

Member contributions include amounts charged for policy cover including levies and other amounts collected on behalf of third parties less rebates, GST and other similar allowances.

Member contributions are recognised in the Statement of Comprehensive Income when they have been earned (net of GST), that is, from the attachment date over the period of the financial year of indemnity. The pattern of recognition over the policy is based on time, which is considered to closely approximate the pattern or risks undertaken.

The proportion of Member contributions received or receivable not earned in the Statement of Comprehensive Income at the reporting date is recognised in the Statement of Financial Position as an unearned contributions liability.

ii. Interest revenue

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method when the Scheme has control of the right to receive the interest payment.

iii. Rebate and distribution income

Rebate and Distribution income on investments is recognised in the Statement of Comprehensive Income when the Scheme has control of the right to receive the distribution income.

J. Income Tax

The Scheme operates as a trust in accordance with existing Australian tax law and qualifies for exemption from tax as a State/Territory Body. Accordingly, all of its income is exempt from income tax and no provision has been made.

K. Outwards reinsurance expense

Premiums ceded to reinsurers under reinsurance contracts held by the Scheme are recorded as an outwards reinsurance expense and are recognised in the Statement of Comprehensive Income from the attachment date over the period of indemnity of the reinsurance contract in accordance with the pattern of the incidence of the risk ceded. Accordingly, a proportion of outwards reinsurance premium may be treated as prepaid and disclosed as deferred reinsurance expense in the Statement of Financial Position.

L. Impairment of assets

Gains and losses arising from changes in assets at Fair Value Through Profit or Loss are recognised directly in the Statement of Comprehensive Income.

At each reporting date, Management reviews the ECL on financial assets at amortised cost. ECL's are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The ECL is recognised directly in the Statement of Comprehensive Income for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in the Statement of Comprehensive Income immediately.

M. Reinsurance premium rebates

From 2004 the Scheme has participated in a national liability reinsurance programme which covers LGISWA and similar schemes in other states. Under the reinsurance treaty, the member schemes become entitled to rebates after maturity of the claims provision if premiums paid to reinsurers exceed the ultimate claims paid by the schemes in the relevant underwriting year.

The entitlement to rebates is sensitive to future claims expenses, the cumulative national claims experience and the interest rate movements over the next 10 years. As such, the estimated rebates accrued will be reassessed on an annual basis.

N. Surplus distribution

Provision included in the Statement of Financial Position comprises:

- \$19,746,555 allocation for distributions payable to Scheme members in future years (2018: \$18,250,000);
- \$500,000 special projects provision for development of a new property valuations program for members \$390,000, catastrophe modelling project (\$80,000), and climate resilience project (\$30,000), (2018: \$500,000); and
- \$2,087,752 undrawn members dividend entitlements from prior years (2018: \$2,831,139).

The distributions are approved by the Board in view of net surplus in excess of Target Capital.

Note 2. Critical accounting judgements and estimates

Management makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates are applied are described below.

A. The ultimate liability arising from claims made under insurance contracts

Provision is made at financial year end for the estimated cost of claims incurred but not settled at Balance Sheet date, including the cost of claims incurred but not yet reported (IBNR) to the Scheme.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of the expected value of salvage and other recoveries. Management takes all reasonable steps to ensure that it has appropriate information regarding the Scheme's claims exposure. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of IBNR claims is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims that have been already notified to the Scheme and more information about the claim event is generally available. IBNR claims may often not be apparent to the insured until many years after the events that give rise to the claims. For instance, the Product Liability class of insurance claims would typically display greater variation between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNR reserves. In contrast, the Property class of insurance claims would typically be reported soon after the claim event, and hence today

would tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims, Management utilises actuarial estimates based upon statistical analyses of historical experience and assumes the development pattern of current claims will be consistent with past experience. Allowances are made, however, for changes or uncertainties which may create distortions in the underlying statistics or which may cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims.

Such allowances include:

- changes in Scheme processes which might accelerate or slow down the development and or recording of paid or incurred claims, compared with statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- the impact of large losses, and
- medical and technological developments.

A component of the estimation techniques used is usually the estimation of the cost of the notified but not paid claims. In estimating the cost of those claims, Management has regard to the reported claim circumstance, information available from loss adjusters and legal counsel and information on the cost of settling claims with similar characteristics in previous periods.

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

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from re-insurers based upon the gross provisions.

B. Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Scheme may not receive amounts due to it and the amounts can be reliably measured.

Note 3.

Insurance contracts, risk management policies and procedures

The financial condition and operation of the Scheme are affected by a number of key risks. Notes on the Scheme's policies and procedures in respect of managing these risks are set out in this note.

A. Terms and conditions of insurance and outwards reinsurance business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Scheme. The majority of direct insurance contracts written are entered into using a standard form basis. All outwards reinsurance contracts are subject to substantially the same terms and conditions. There are no special terms and conditions in any non standard contracts that have a material impact on the financial report.

B. Concentration of insurance risk

The Scheme's exposure to concentrations of insurance risk is mitigated by acquisition of catastrophe reinsurance cover to limit exposure from any single event and the provision of preventative risk management programmes.

Risk	Personal injuries Professional negligence Natural catastrophes and Property damage
Source of Concentration	Properties concentrated in regions that are subject to earthquake, bushfires, cyclones and hail storms
Risk Management Measures	Management has implemented ISO 31000 standards and purchased catastrophe reinsurance cover to limit exposure from any single event

Note 4. Estimate of outstanding claims

	\$ 2019	\$ 2018	\$ 2019	\$ 2018	\$ 2019	\$ 2018	\$ 2019	\$ 2018	\$ 2019	\$ 2018
	Liability	Liability	Property	Property	Workcare	Workcare	Bushfire	Bushfire	Total	Total

Outstanding Claims, Gross of Reinsurance and Other Recoveries

Reported Claims Outstanding	11,850,666	14,114,788	3,593,279	4,560,368	15,766,513	17,955,773	6,77,619	1,618,035	31,888,077	38,248,964
Development Claims Provision	8,687,157	5,995,890	706,762	303,609	13,663,930	14,597,844	479,813	1,058,264	23,537,662	21,955,607
Central Estimate of Outstanding Claims, Gross of Reinsurance Recoveries	20,537,823	20,110,678	4,300,041	4,863,977	29,430,443	32,553,617	1,157,432	2,676,299	55,425,739	60,204,571
Prudential Margin	419,810	425,547	452,089	502,600	3,055,256	3,372,805	121,530	281,011	4,048,685	4,581,963
Less:	20,957,633	20,536,225	4,752,130	5,366,577	32,485,699	5,926,422	1,278,962	2,957,310	59,474,424	64,786,535
Provision for Reinsurance Recoveries	17,662,624	17,196,183	54,861	732,245	332,769	431,666	231,350	1,938,808	18,281,604	20,298,902
Net Central Estimate of Outstanding Claims	3,295,009	3,340,042	4,697,269	4,634,332	32,152,930	35,494,756	1,047,612	1,018,502	41,192,820	4,487,632
Less:										

Provisions for Outstanding Reinsurance:

Paid Claims Reinsurance Recovery Outstanding	895,312	1,580,144	-	-	-	-	-	-	895,312	1,580,144
Total Provisions for Outstanding Reinsurance and Other Recoveries:	895,312	1,580,144	-	-	-	-	-	-	895,312	1,580,144

Net Claims Outstanding

Net Claims Outstanding	2,399,697	1,759,898	4,697,269	4,634,332	32,152,930	35,494,756	1,047,612	1,018,502	40,297,508	42,907,488
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Claims Development Assumptions

The following assumptions have been made in determining gross outstanding claims provisions:

	Liability		Property		Workcare		Bushfire	
	2019	2018	2019	2018	2019	2018	2019	2018
Future Development *	6.16%	4.69%	0.39%	0.06%	3.82%	4.48%	-	-
Claims Handling expenses **	15.0%	15.0%	5.0%	5.0%	7.90%	7.88%	8%	8%
Future Interest ***	-3.67%	-7.99%	-	-	-2.14%	-4.21%	-	-
Prudential margins ****	2.04%	2.12%	10.5%	10.5%	10.38%	10.36%	10.5%	10.5%

* Expected future development in case estimates, including IBNR and IBNER.

** Claims handling cost which relates to the future claim payments in the outstanding claim provision.

*** Future Interest represents wage inflation assumptions and discount rates to allow for the time value of money. Discount rates are derived as the one-year forward rates implied by the Commonwealth Government bond yield curve. Prudential margins are applied as a percentage of the present value of net future claim payments, excluding claims administration expenses (assuming lognormal distribution with 15% coefficient of variation for WorkCare and 30% for Liability)

**** interest provisioning not available, however the provision is captured within the reported Development Claims Provision.

Note 5. Outstanding claims liability

	\$ 2019	\$ 2018	\$ 2019	\$ 2018	\$ 2019	\$ 2018	\$ 2019	\$ 2018	\$ 2019	\$ 2018
	Liability	Liability	Property	Property	Workcare	Workcare	Bushfire	Bushfire	Total	Total
Current	4,191,527	4,600,000	4,514,524	5,098,249	16,058,000	17,801,000	632,203	975,912	25,396,254	28,475,161
Non Current	16,766,106	15,936,225	237,607	268,329	16,427,699	18,125,422	646,758	1,981,398	34,078,170	36,311,374
Total Outstanding Claims Liability	20,957,633	20,536,225	4,752,131	5,366,578	32,485,699	35,926,422	1,278,961	2,957,310	59,474,424	64,786,535

Note 6. Net claims expense

	\$ 2019	\$ 2018	\$ 2019	\$ 2018	\$ 2019	\$ 2018	\$ 2019	\$ 2018	\$ 2019	\$ 2018
	Liability	Liability	Property	Property	Workcare	Workcare	Bushfire	Bushfire	Total	Total
Opening Outstanding Claims	(1,759,898)	(1,550,971)	(4,634,332)	(5,135,588)	(35,494,756)	(42,324,246)	(1,018,502)	(298,214)	(42,907,488)	(49,309,019)
Gross Claims Paid	6,828,827	3,645,081	7,819,946	6,783,006	17,802,378	21,877,884	941,755	669,528	33,392,906	32,975,499
Claims Excess Received	(133,857)	(10,363)	-	-	-	-	-	-	(133,857)	(10,363)
Net Claims Paid	6,694,970	3,634,718	7,819,946	6,783,006	17,802,378	21,877,884	941,755	669,528	33,259,049	32,965,136
Net Claims Outstanding	2,399,697	1,759,898	4,697,269	4,634,332	32,152,930	35,494,756	1,047,612	1,018,502	40,297,508	42,907,488
Net Claims Expense	7,334,769	3,843,645	7,882,883	6,281,750	14,460,552	15,048,394	970,865	1,389,816	30,649,069	26,563,605

Note 7.

Cash and cash equivalents

	\$ 2019	\$ 2018
Cash at Bank	12,674,897	2,515,497
Total Cash and Cash Equivalents	12,674,897	2,515,497

Note 8.

Financial assets - investments

	\$ 2019	\$ 2018
Current		
Managed Investment Funds	47,751,042	50,434,688
Total Current Investment Assets	47,751,042	50,434,688

Non Current		
Diversified Balanced Funds	25,486,753	28,616,547
Total Non Current Investment Assets	25,486,753	28,616,547

Investment classifications

Investments held in units in managed investment funds are based upon tailored benchmark allocations for the Scheme. They are initially recognised at cost and the subsequent fair value is taken as the quoted price of the instrument at balance date.

The Scheme's investments are invested in a multi-manager unit trust fund comprising underlying investments in domestic and international equities, property and infrastructure, fixed interest, cash and alternative assets.

The property and infrastructure assets, Australian and Global equities and alternative growth assets portion of the funds under investment are classified as non-current investments, with the remainder classified as current investments.

Investment policy

Scheme funds in excess of working capital requirements are invested in accordance with an Investment Policy Statement adopted by the Board.

The investment guidelines are based upon an investment horizon of greater than ten years. The Fund intends to maintain the portfolio assets in perpetuity. Therefore, interim fluctuations over shorter time horizons should be viewed with due regard to interest volatilities in market values.

The Board's investment policy is targeted at a return of CPI plus 2.5% p.a. on average over 10 years.

The long term investment risk objective is to achieve a negative return no more frequently than one year in every five.

Note 9.

Guarantee facility

The Scheme has in place a guarantee facility of \$48.2 million (2018: \$58.4 million) with ANZ Bank, pursuant to a statutory requirement by WorkCover WA to hold a bank guarantee determined at 150% of the central estimate of outstanding claims liability. The facility is undrawn.

Note 10.

Additional services expenses

	\$ 2019	\$ 2018
Health Services	1,647,390	1,486,093
Property Valuation	46,840	110,711
Injury Management	738,876	724,389
Regional Risk Management Fees	1,068,521	1,005,825
Risk Management Projects	2,823,267	2,647,740
Total Additional Services Expenses	6,324,894	5,974,758

Additional Services expenditures are predominantly for programs designed to assist Scheme members in the effective management of risk exposures and thereby minimise the impact on Scheme funds of claims incidence and severity.

Note 11.

Remuneration of auditors

	\$ 2019	\$ 2018
Remuneration of Auditors (Ernst & Young)	81,000	79,950
Total Remuneration of Auditors	81,000	79,950

Note 12.

Directors remuneration

	\$ 2019	\$ 2018
Amounts received by members of the Board of Directors for attendance at Board Meetings	291,099	387,926

Board members receive Directors fees, which are paid quarterly in arrears. Board members are also entitled to Superannuation Guarantee payments and reimbursement of the costs of travel expenses associated with attending Board or Committee meetings. No loans were made or are payable to Board members.

There were no other material transactions with Board members.

Note 13.

Events occurring after balance date

There are no matters or circumstances having arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Scheme, the results of those operations or, the state of affairs of the Scheme in subsequent financial years.

Note 14.

Reserve, minimum capital requirement

The Reserve was established to retain a capital base reserve which reflects the Directors view of the requirements to maintain the Schemes operations.

Note 15.

Correction of prior period error

During the current year, management discovered that reinsurance recoveries receivable on paid claims had been overstated as it included claim excess that was absorbed by LGISWA since 2004. As a consequence, Liability outstanding claims recoveries on paid claims have been overstated. The error has been corrected by restating each of the affected financial statement line items for prior periods. The following table summarises the impacts on the LGISWA's financial report.

Statement of Financial Position			
	As previously reported	Adjustments	As restated
1 July 2017			
Outstanding Claims Recoveries (Current)	9,532,470	(2,984,615)	6,547,855
Total Assets	124,196,895	(2,984,615)	121,212,280
Accumulated Operating Surplus / (loss)	2,933,723	(2,984,615)	(50,892)
Total Reserves	36,532,723	(2,984,615)	33,548,108
30 June 2018			
Outstanding Claims Recoveries (Current)	9,480,566	(3,378,621)	6,101,945
Total Assets	119,188,564	(3,378,621)	115,809,943
Accumulated Operating Surplus	3,531,887	(3,378,621)	153,266
Total Reserves	32,413,574	(3,378,621)	29,034,953
Statement of Comprehensive Income			
30 June 2018			
Net claims expense	26,169,598	394,006	26,563,605
Underwriting Result (i)	(8,621,083)	394,006	(8,227,077)
Total Comprehensive Income	6,080,851	(394,006)	5,686,845
Trading Report			
30 June 2018			
Net claims expense - Liability portfolio	3,449,639	394,006	3,843,645
Underwriting Result - Liability portfolio	(2,120,354)	394,006	1,726,348



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Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

Independent Auditor's Report to the Members of LGISWA

Opinion

We have audited the financial report, being a special purpose financial report of LGISWA, which comprises the statement of financial position as at 30 June 2019, the statement of comprehensive income, statement of changes in members funds, statement of cash flows and the trading report for the year then ended, a summary of significant accounting policies, other explanatory notes excluding the membership listing, and the director's declaration.

In our opinion, the accompanying financial report presents fairly, in all material respects, the financial position of LGISWA as at 30 June 2019, and its financial performance and its cash flows for the year then ended in accordance with the accounting policies described in Note 1 of the report.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of LGISWA in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting and Restriction on Distribution

We draw attention to Note 1 to the financial report which describes the basis of accounting. The financial report is prepared to assist LGISWA to meet the requirements of the Trust Deed dated 19 September 1996 (as amended). As a result, the financial report may not be suitable for another purpose. Our report is intended solely for LGISWA and members of LGISWA and should not be distributed to parties other than LGISWA and its members. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.



In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The Directors of LGISWA are responsible for the preparation and fair presentation of the financial report and have determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the requirements of the Trust Deed dated 19 September 1996 (as amended) and is appropriate to meet the needs of the members. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing LGISWA's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate LGISWA or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LGISWA's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



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- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on LGISWA's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause LGISWA to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in dark ink that reads 'Ernst & Young' in a cursive, stylized script.

Ernst & Young
Perth
10 October 2019

Membership list

LGISWA SCHEME MEMBERSHIP 2018/19

Program	Code
Liability Program	LI
WorkCare Program	WC

Program	Code
Property Program	PR
Bushfire Volunteers PA program	BF

	LI	WC	PR	BF
Albany, City of	✓	✓	✓	✓
Armada, City of	✓	✓	✓	✓
Ashburton, Shire of	✓	✓	✓	✓
Augusta-Margaret River, Shire of	✓	✓	✓	✓
Bassendean, Town of	✓	✓	✓	
Bayswater, City of	✓	✓	✓	
Belmont, City of	✓	✓	✓	
Beverley, Shire of	✓	✓	✓	✓
Boddington, Shire of	✓	✓	✓	✓
Boyup Brook, Shire of	✓	✓	✓	✓
Bridgetown-Greenbushes, Shire of	✓	✓	✓	✓
Brookton, Shire of	✓	✓	✓	✓
Broome, Shire of	✓	✓	✓	✓
Broomehill-Tambellup, Shire of	✓	✓	✓	✓
Bruce Rock, Shire of	✓	✓	✓	✓
Bunbury, City of	✓	✓	✓	✓
Bunbury-Harvey Regional Council	✓	✓	✓	
Busselton, City of	✓	✓	✓	✓
Cambridge, Town of	✓	✓	✓	
Canning, City of	✓	✓	✓	
Capel, Shire of	✓	✓	✓	✓
Carnamah, Shire of	✓	✓	✓	✓
Carnarvon, Shire of	✓	✓	✓	✓
Chapman Valley, Shire of	✓	✓	✓	✓
Chittering, Shire of	✓	✓	✓	✓
Christmas Island, Shire of	✓		✓	
Claremont, Town of	✓	✓	✓	
Cockburn, City of	✓	✓	✓	✓
Cocos (Keeling) Islands, Shire of	✓		✓	
Collie, Shire of	✓	✓	✓	✓
Coolgardie, Shire of	✓			
Coorow, Shire of	✓	✓	✓	✓
Corrigin, Shire of	✓	✓	✓	✓
Cottesloe, Town of	✓	✓	✓	✓

	✓	✓	✓	✓
Cranbrook, Shire of	✓	✓	✓	✓
Cuballing, Shire of	✓	✓	✓	✓
Cue, Shire of	✓	✓	✓	✓
Cunderdin, Shire of	✓	✓	✓	✓
Dalwallinu, Shire of	✓	✓	✓	✓
Dandaragan, Shire of	✓	✓	✓	✓
Dardanup, Shire of	✓	✓	✓	✓
Denmark, Shire of	✓	✓	✓	✓
Derby-West Kimberley, Shire of	✓	✓	✓	✓
Donnybrook-Balingup, Shire of	✓	✓	✓	✓
Dowerin, Shire of	✓	✓	✓	✓
Dumbleyung, Shire of	✓	✓	✓	✓
Dundas, Shire of	✓	✓	✓	✓
East Fremantle, Town of	✓	✓	✓	
East Pilbara, Shire of	✓	✓	✓	✓
Eastern Metropolitan Regional Council	✓	✓	✓	
Esperance, Shire of	✓	✓	✓	✓
Exmouth, Shire of	✓	✓	✓	✓
Fremantle, City of	✓	✓	✓	
Gingin, Shire of	✓	✓	✓	✓
Gnowangerup, Shire of	✓	✓	✓	✓
Goomalling, Shire of	✓	✓	✓	✓
Gosnells, City of	✓	✓	✓	✓
Greater Geraldton, City of	✓	✓	✓	✓
Hall's Creek, Shire of	✓	✓	✓	
Harvey, Shire of	✓	✓	✓	✓
Irwin, Shire of	✓	✓	✓	✓
Jerramungup, Shire of	✓	✓	✓	✓
Joondalup, City of	✓	✓	✓	
Kalamunda, City of				from 25/2/19'
Kalgoorlie-Boulder, City of	✓	✓	✓	✓
Karratha, City of	✓	✓	✓	✓
Katanning, Shire of	✓	✓	✓	✓
Kellerberrin, Shire of	✓	✓	✓	✓

Kent, Shire of	✓	✓	✓	✓
Kojonup, Shire of	✓	✓	✓	✓
Kondinin, Shire of	✓	✓	✓	✓
Koorda, Shire of	✓	✓	✓	✓
Kulin, Shire of	✓	✓	✓	✓
Kwinana, City of	✓	✓	✓	✓
Lake Grace, Shire of	✓	✓	✓	✓
Laverton, Shire of	✓	✓	✓	✓
Leonora, Shire of	✓	✓	✓	✓
Local Government House Trust	✓		✓	
Mandurah, City of	✓	✓	✓	✓
Manjimup, Shire of	✓	✓	✓	✓
Meekatharra, Shire of	✓	✓	✓	✓
Melville, City of	✓	✓	✓	✓
Menzies, Shire of	✓	✓	✓	✓
Merredin, Shire of	✓	✓	✓	✓
Mindarie Regional Council	✓	✓	✓	
Mingenew, Shire of	✓	✓	✓	✓
Moora, Shire of	✓	✓	✓	✓
Morawa, Shire of	✓	✓	✓	✓
Mosman Park, Town of	✓	✓	✓	✓
Mt Magnet, Shire of	✓	✓	✓	✓
Mt Marshall, Shire of	✓	✓	✓	✓
Mukinbudin, Shire of	✓	✓	✓	✓
Mundaring, Shire of	✓	✓	✓	✓
Murchison, Shire of	✓	✓	✓	✓
Murray, Shire of	✓	✓	✓	✓
Nannup, Shire of	✓	✓	✓	✓
Narembene, Shire of	✓	✓	✓	✓
Narrogin, Shire of	✓	✓	✓	✓
Ngaanyatjarraku, Shire of	✓	✓	✓	
Northam, Shire of	✓	✓	✓	✓
Northampton, Shire of	✓	✓	✓	✓
Nungarin, Shire of	✓	✓	✓	✓
Perenjori, Shire of	✓	✓	✓	✓
Peppermint Grove, Shire of	✓	✓	✓	
Perth, City of	✓		✓	
Pingelly, Shire of	✓	✓	✓	✓
Plantagenet, Shire of	✓	✓	✓	✓
Port Hedland, Town of	✓	✓	✓	✓
Quairading, Shire of	✓	✓	✓	✓

Ravensthorpe, Shire of	✓	✓	✓	✓
Rivers Regional Council	✓	✓	✓	
Rockingham, City of	✓	✓	✓	✓
Sandstone, Shire of	✓	✓	✓	✓
Serpentine-Jarrahdale, Shire of	✓	✓	✓	✓
Shark Bay, Shire of	✓	✓	✓	✓
South Perth, City of	✓	✓	✓	
Southern Metro. Reg. Council	✓	✓	✓	
Stirling, City of	✓	✓	✓	
Subiaco, City of	✓	✓	✓	
Swan, City of	✓	✓	✓	✓
Tamala Park Regional Council	✓	✓	✓	
Tammin, Shire of	✓	✓	✓	
Three Springs, Shire of	✓	✓	✓	✓
Toodyay, Shire of	✓	✓	✓	✓
Trayning, Shire of	✓	✓	✓	✓
Upper Gascoyne, Shire of	✓	✓	✓	✓
Victoria Park, Town of	✓	✓	✓	
Victoria Plains, Shire of	✓	✓	✓	✓
Vincent, City of	✓	✓	✓	
WALGA	✓	✓	✓	
WALGA & Qube Railway Parade Pty Ltd	✓		✓	
Wagin, Shire of	✓	✓	✓	✓
Wandering, Shire of	✓	✓	✓	✓
Wanneroo, City of	✓	✓	✓	✓
Waroon, Shire of	✓	✓	✓	✓
West Arthur, Shire of	✓	✓	✓	✓
Western Metro. Regional Council	✓	✓	✓	
Westonia, Shire of	✓	✓	✓	✓
Wickepin, Shire of	✓	✓	✓	✓
Williams, Shire of	✓	✓	✓	✓
Wongan-Ballidu, Shire of	✓	✓	✓	✓
Woodanilling, Shire of	✓	✓	✓	✓
Wyalkatchem, Shire of	✓	✓	✓	✓
Wyndham-East Kimberley, Shire of	✓	✓	✓	✓
Yalgoo, Shire of	✓	✓	✓	✓
Yilgarn, Shire of	✓	✓	✓	✓
York, Shire of	✓	✓	✓	✓



Level 3, 170 Railway Parade West Leederville WA 6007
T: +61 8 9483 8888

lgiswa.com.au

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