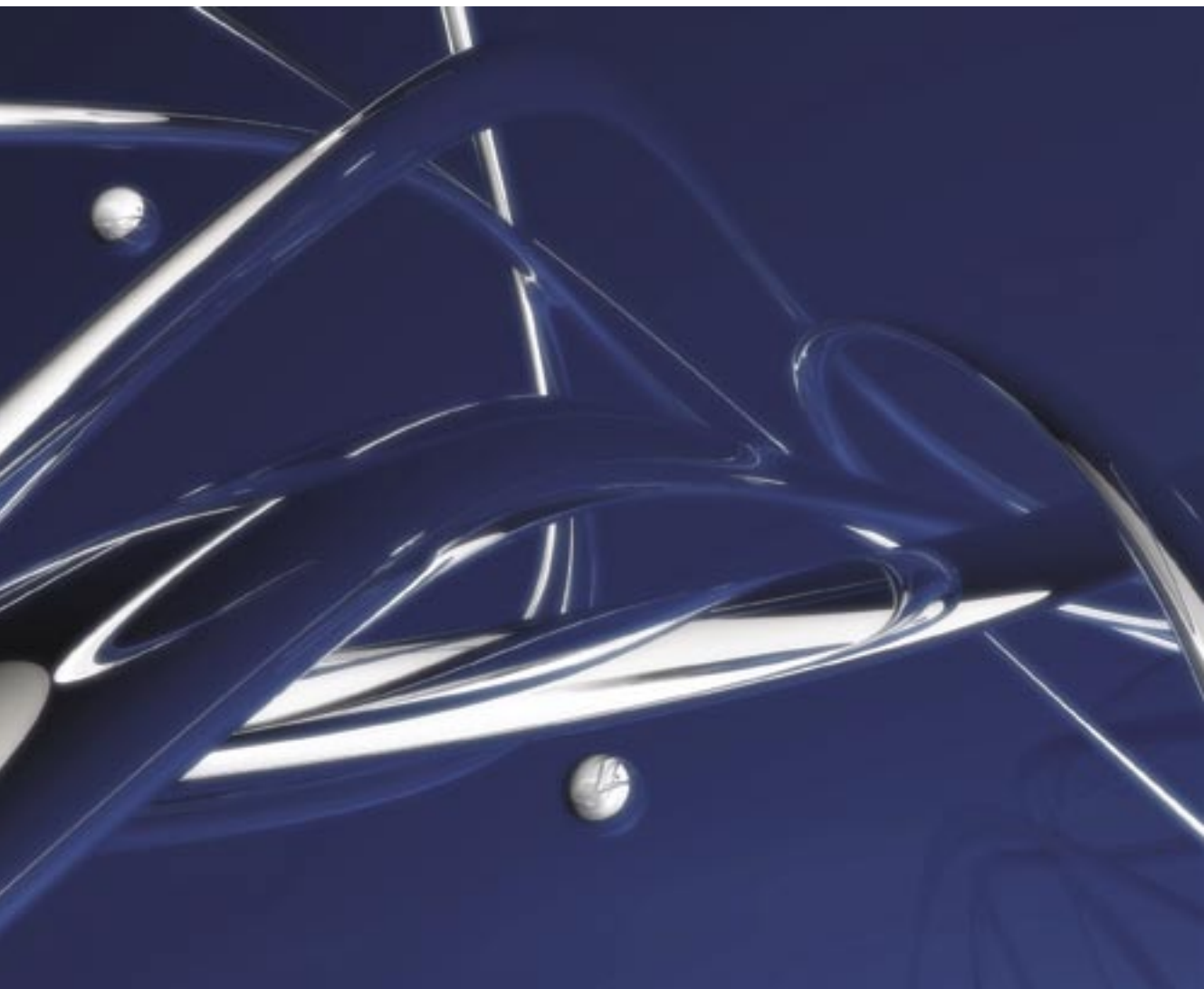




Australian Government

**Private Health Insurance
Administration Council**

**Private Health Insurance Administration Council
Annual Report 2005–06**





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Australian Government
Private Health Insurance
Administration Council

Minister for Health and Ageing
Parliament House
CANBERRA ACT 2600

Dear Minister

PHIAC submits to you for presentation to Parliament the annual report of the Private Health Insurance Administration Council for the period 1 July 2005 to 30 June 2006 as required under section 9 of the *Commonwealth Authorities and Companies Act 1997* (CAC Act).

The report has been prepared in accordance with the Finance Minister's Orders for the Report of Operations and the Financial Statements of a Commonwealth Authority. It is made in accordance with a resolution of the Council dated 8 September 2006.

The Members of Council are responsible under section 9 of the CAC Act for the preparation and content of the report of operations. PHIAC is required to provide the annual report to the Minister by the 15th of October. Subsection 9 (3) requires you to lay the report before each House of the Parliament as soon as practicable.

This report does not contain information on the operations of the health insurance industry. Such information will be the subject of a separate report as required under section 82PA of the *National Health Act 1953*.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Garry Richardson'.

Garry Richardson
Commissioner

8 September 2006

A handwritten signature in black ink, appearing to read 'Gayle Ginnane'.

Gayle Ginnane
Chief Executive Officer

8 September 2006

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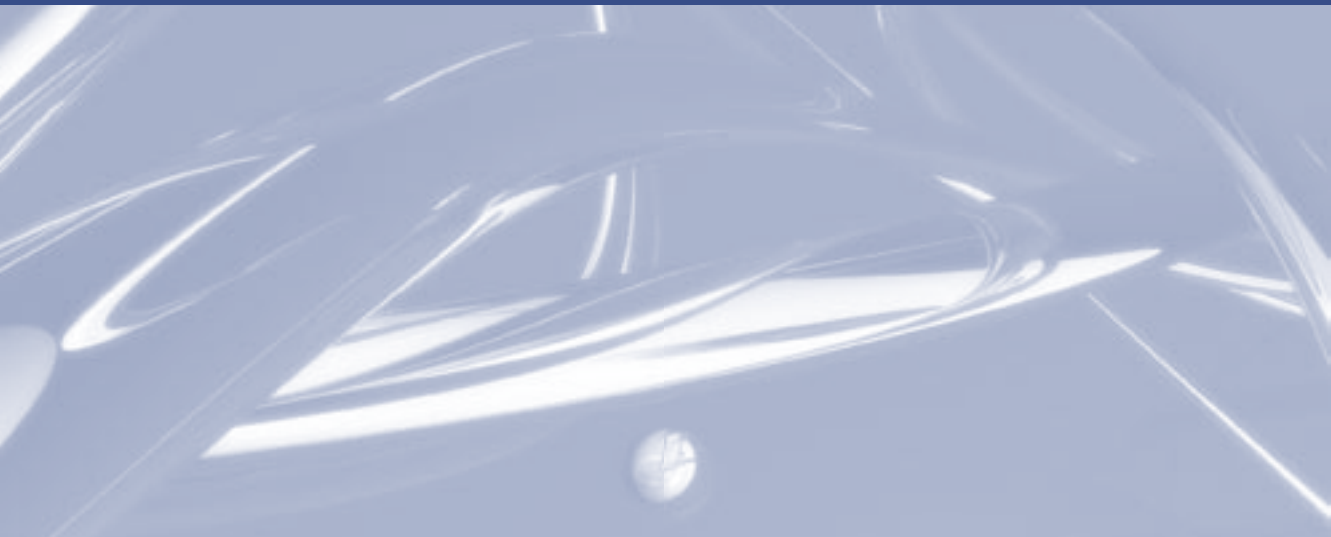
Abbreviations/Symbols used in this report

AASB	Australian Accounting Standards Board
ACAC	Acute Care Advisory Committee
Act, the	<i>National Health Act 1953</i>
AEIFRS	Australian Equivalents of International Financial Reporting Standards
AGAAP	Australian Generally Accepted Accounting Principles
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investment Commission
ATO	Australian Taxation Office
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CPI	Consumer Price Index
CSS	Commonwealth Superannuation Scheme
EPBC Act	<i>Environment Protection and Biodiversity Conservation Act 1999</i>
FAICD	Fellow of Australian Institute of Company Directors
FCR	Financial Condition Report
FMA	<i>Financial Management Accountability Act 1977</i>
FRLI	Federal Register of Legislative Instruments
GST	Goods and Services Tax
HBRTF	Health Benefits Reinsurance Trust Fund
IFRS	International Financial Reporting Standards
LIA	<i>Legislative Instruments Act 2003</i>
MBS	Medicare Benefits Schedule
OH&S Act	<i>Occupational Health and Safety (Commonwealth Employment Act) 1991</i>

OPA	Official Public Account
PHIAC	Private Health Insurance Administration Council
PSS	Public Sector Superannuation Scheme
RBC	Risk Based Capitations
RHBO/s	Registered Health Benefits Organisation/s
SEU/s	Single Equivalent Unit/s
SJAE	Social Justice, Access and Equity
-/---	nil or rounded to zero
%	percent
n/a	not applicable

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Part 1 | Report of Operations 2005–06



Council Certification

Council certifies that it is responsible under section 9 of the *Commonwealth Authorities and Companies Act 1997* (CAC Act) for the preparation and content of the report of operations in accordance with the Finance Minister's Orders.

This certification is given under Clause 4, Schedule 1 of the CAC Act.

As Commissioner of the Private Health Insurance Administration Council and a Director under Clause 4 of the Act, I hereby declare this report has been made in accordance with a resolution of the Council on 8 September 2006.

A handwritten signature in black ink, appearing to read 'Garry Richardson', with a long horizontal flourish extending to the right.

Garry Richardson
Commissioner

8 September 2006

Commissioner's Report

Overview

During 2005–06, private health insurance funds received contribution income in excess of \$10 billion for the first time. Over the same period, benefits of approximately \$8.8 billion were paid for hospital and ancillary services. Final audited figures for the 2005–06 financial year will be available when the report under section 82PA of the *National Health Act 1953* (the Act) on the *Operations of the Registered Health Benefits Organisations* is tabled later this year.

The number of persons with private health insurance cover is now at the highest level since the start of lifetime health cover, with nearly 8.85 million Australians (43.0% of the population) covered by 37 operational registered health benefits organisations. This membership is supported by the Australian government rebate of 30% of the cost of health insurance cover for privately insured persons under the age of 65, 35% for persons over 65 years of age and 40% for those aged over 70.

The Private Health Insurance Administration Council (PHIAC) has continued to focus on corporate governance in the industry. PHIAC's fund review program has now covered 90% of the registered health funds. A further round of fund reviews is being planned. PHIAC considers that the review program has been of benefit to both PHIAC and the industry.

The government has announced a number of changes to the private health insurance industry which will allow the registered health benefits organisations to expand their cover. These changes should provide enhanced value for consumers. PHIAC is working with the government and industry on the legislation and the implementation of these changes. As a result of the policy changes, there will be some increased responsibilities for PHIAC and implementation planning is underway.

The industry's current Financial Standards were introduced with effect 1 January 2001 and PHIAC had undertaken to review the industry financial standards after they had been in place for five years. This had been planned for 2006-07. However, in the light of the announced policy changes to private health insurance, PHIAC is of the view that it is sensible to delay the review until after the new legislation is in place. This will ensure that the effects of the policy changes on the Financial Standards can be accurately assessed.

PHIAC maintains its interest in seeing continuous improvement in corporate governance throughout the industry. PHIAC has released a discussion paper on corporate governance to the industry and we expect to finalise and implement corporate governance guidelines during the next year.

Activities with the industry

Directors' Education Programs

During 2005, PHIAC held the first of the Directors' Education Programs. Senior PHIAC Staff and Board Members made various presentations covering PHIAC's role and responsibilities. These programs are aimed at directors of RHBOs to inform and educate on their corporate governance and prudential responsibilities.

Program for the Review of Registered Organisations

PHIAC continued its program for the review of RHBOs during 2005–06 and has now completed 34 reviews. PHIAC is using the review process to gain a more detailed understanding of RHBOs.

PHIAC has received assistance from the Australian Prudential Regulation Authority (APRA) in undertaking the fund reviews of larger health funds in the industry. This is a sensible joint use of resources as there are areas of overlap in our regulatory responsibilities with a number of the large health funds owning subsidiaries which are regulated by APRA. PHIAC appreciates the support and assistance it has received from APRA.

Risk Equalisation

PHIAC worked closely with the Department of Health and Ageing during the year, preparing for the introduction of a new risk equalisation scheme. Risk equalisation is an essential component of community rating. It is expected that the new scheme will be implemented on 1 April 2007.

Membership Statistics

The population with hospital coverage increased by almost 150,000 persons over the last year. At 30 June 2005, there were 8.699 million persons covered. This represented an increase in the proportion of the population covered from 42.8% to 43.0%, over the same period.

Ancillary coverage continues the increasing trend of recent years. At 30 June 2005, ancillary coverage was 41.5% with 8.428 million persons covered. At 30 June 2006, coverage had increased marginally to 42.2 % of the population and 8.676 million persons covered. Ancillary cover has been increasing consistently, albeit slowly, over the last six years.

PHIAC Activities

Council Membership

Mr Peter Annand and Ms Sue Carter were both reappointed for further three-year terms with effect 30 May 2006. Mr Annand was also appointed PHIAC's Deputy Commissioner. All Board positions are currently filled.

Corporate Plan 2006-08

PHIAC revised and updated its Corporate Plan in June 2006. A summary of the Corporate Plan has been sent to all RHBOs and copies are available from our website and office.

Australian National Audit Office (ANAO) Review

PHIAC had a performance review by ANAO which was completed in late 2005. PHIAC welcomed the review as an opportunity to have an independent assessment of our operations and governance. The report, Audit Report No: 20 2005-2006, was tabled in Parliament on 6 December 2005. The audit report is available from the ANAO's website at <http://www.anao.gov.au>. The ANAO made four recommendations. PHIAC agreed with the recommendations and has implemented all of them.

Summary

The year to 30 June 2006 has seen a continuing focus on corporate governance, both internal to PHIAC and external in the industry we regulate. PHIAC continues to strengthen and refine its role as regulator through its fund review program.

Over the next year, PHIAC's principal focus will be on finalising our corporate governance guidelines, implementing the proposed legislation changes, implementing the new risk equalisation scheme and reviewing the financial standards.



Garry Richardson
Commissioner

Agency Overview

Objectives and Functions

In 1989, the Private Health Insurance Administration Council (PHIAC) was established as a body corporate under section 82B of the *National Health Act 1953* (the Act). Section 82BA of the Act requires that PHIAC achieve a balance between four broad objectives:

- ▶ fostering an efficient and competitive health insurance industry
- ▶ protecting the interests of consumers
- ▶ minimising the level of health insurance premiums
- ▶ ensuring the prudential safety of individual registered health benefits organisations (RHBOs).

Enabling Legislation

The functions of the Private Health Insurance Administration Council are listed at section 82G of the Act. These are:

- (a) to administer the Health Benefits Reinsurance Trust Fund;
- (b) to obtain from each registered organisation regular reports about the financial affairs of the organisation, including reports supported by actuarial certification;
- (ba) to obtain from the Department, for the purposes of modelling, evaluation and research, aggregated data derived from information referred to in the Hospital Casemix Protocol, being information of a kind determined in writing by the Minister for the purposes of this paragraph;
- (bb) to obtain regular reports from registered organisations about matters relating to the incentives scheme within the meaning of the *Private Health Insurance Incentives Act 1997* or the incentive payments scheme, or the premiums reduction scheme, within the meaning of the *Private Health Insurance Incentives Act 1998*, including reports supported by actuarial certification;
- (bc) to obtain regular reports from registered organisations about matters relating to the operation of gap cover schemes and to provide advice to the Minister on the operation of those schemes with particular reference to the extent to which the schemes genuinely reduce or eliminate the cost to consumers of hospital treatment and associated professional attention;
- (bd) to publish on the Internet, and make available for inspection at its offices, details of all gap cover schemes approved by the Minister under section 73BDD, including details of any terms and conditions that apply to the relationship between a registered organisation and individual medical providers;

- (c) to establish standards of the following kinds to be complied with by registered organisations:
 - (i) solvency standards;
 - (ii) capital adequacy standards;
 - (iii) uniform standards for reporting to the Council;
- (d) to examine, from time to time, the financial affairs of registered organisations, by means of the inspection and analysis of the records, books and accounts of the organisations and any other relevant information;
- (db) to appoint, under section 82R, inspectors for the purpose of investigating the affairs of registered organisations under Part VIA and to exercise other related powers and functions under that Part;
- (e) to review, by carrying out independent actuarial assessment, the value of the assets of each health benefits fund;
- (f) to appoint, on the basis of a report of an inspector or otherwise, persons as administrators of health benefits funds or of registered organisations and to terminate such appointments;
- (g) to receive, under section 82XZC, reports of administrators of health benefits funds or registered organisations concerning the administration of those funds or organisations and to deal with such reports in accordance with section 82XZD;
- (ga) to give approvals related to the voluntary winding up of health benefit funds or registered organisations in the circumstances set out in Subdivision 3 or 4 of Division 4 of Part VIA, as the case requires;
- (gb) to apply to a court for the winding up of insolvent health benefits funds or insolvent registered organisations in accordance with Subdivision 5 or 6 of Division 4 of Part VIA, as the case requires;
- (k) where it is necessary, for the purpose of making a proper examination of the financial affairs of a registered organisation, for the Council to incur unusually high costs—to impose an appropriate fee on the organisation concerned;
- (l) to distribute copies of the Private Patients' Hospital Charter issued under section 73F to registered organisations for distribution and display by the organisations;
- (la) to make copies of the Charter available to members of the public on request at each of its offices accessible to the public;
- (lb) where appropriate, to publicise the existence and availability of the Charter in its brochures and other documents, concerning health insurance, made available to the public;
- (m) to make statistics, and other financial information, relating to a registered organisation or registered organisations, publicly available in accordance with the Council's rules;

- (ma) to collect and disseminate information about private health insurance, for the purpose of enabling people to make informed choices about private health insurance;
- (n) to receive applications from registered organisations for review of certificates given under subsection 3B(1) of the *Health Insurance Act 1973* and to refer the applications to the Secretary*;
- (p) to impose fees in relation to applications for review of certificates given under subsection 3B(1) of the *Health Insurance Act 1973*;
- (r) to make rules, not inconsistent with this Act, for the purpose of the performance of its functions and the exercise of its powers;
- (s) to advise the Minister about the financial operations and affairs of registered organisations;
- (sa) to cooperate with other regulatory agencies on matters affecting registered organisations and the private health insurance industry generally;
- (sb) to provide the Private Health Insurance Ombudsman, from time to time, with information in the possession of the Council that is, in the view of the Council, likely to be of use in the production, after the end of each financial year, of the State of the Health Funds Report;
- (t) functions incidental to any other functions of the Council, and
- (u) any other functions conferred on the Council by this, or any other, Act.

PHIAC is responsible to the Minister for Health and Ageing, the Hon. Tony Abbott MP.

* Secretary, Department of Health and Ageing

PHIAC Levy Legislation

Subsection 10(1) of the *Private Health Insurance (Council Administration Levy) Act 2003* provides that the Governor-General may make regulations in relation to the Council Administration Levy.

The purpose of the Private Health Insurance Administration Council Administration Levy is to meet the general administrative costs of the Private Health Insurance Administration Council. The *Private Health Insurance (Council Administration Levy) Regulations 2004* (the Principal Regulations) implemented the levy scheme established by the Act.

With effect from 1 July 2005, the *Private Health Insurance (Council Administration Levy) Amendment Regulations 2005 (No.1)* were established.

Subsection 10(1) of the *Private Health Insurance (ACAC Review Levy) Act 2003* provides that the Governor-General may make regulations in relation to the ACAC Review Levy.

The purpose of the Acute Care Advisory Committee (ACAC) Review Levy is to meet the administrative costs of reviews conducted by the ACAC under section 3B of the *Health Insurance Act 1973*. The *Private Health Insurance (ACAC Review Levy) Regulations 2004* (the Principal Regulations) implemented the levy scheme established by the Act.

With effect from 1 July 2005, the *Private Health Insurance (ACAC Review Levy) Amendment Regulations 2005 (No.1)* were established.

PHIAC administers the Administration and ACAC Levies; however, monies collected are placed into the consolidated revenue fund and then appropriated for the purposes of each Levy. All interest earned on the PHIAC Receipts account, including that which is earned on levy receipts is transferred to the PHIAC Health Benefits Reinsurance Trust Fund (HBRTF) and included with the interest paid quarterly to RHBOs. Interest payments are distributed to organisations on a Single Equivalent Unit (SEU) basis.

Levies imposed

Under the *Private Health Insurance (ACAC Review Levy) Amendment Regulations 2005 (No.1)* the total levy imposed on the RHBOs during 2005–06 was \$5,000. During the 2005–06 financial year, the *Private Health Insurance (Council Administration Levy) Amendment Regulations 2005 (No.1)* imposed levies on the RHBOs totalling \$4.435 million.

The basis of the levy calculation is the number of SEUs in each organisation. A single member is counted as one SEU while all other categories of membership (family, couples, and single parent) are counted as two SEUs.

Under section 82G(1)(k) of the Act, PHIAC may impose a fee on a registered organisation where high costs are incurred in making a proper examination of the financial affairs of that organisation. Total fees of \$103,197 were imposed under section 82G(1)(k) during 2005–06.

Organisational Structure

The Act stipulates that the Council shall consist of a Commissioner and two to four other members, all appointed for a finite term by the Minister for Health and Ageing. In addition to the functions of the Council outlined in section 82G of the Act, section 82H outlines the power of the Council to do all things necessary in connection with the performance of its functions. These functions may include the appointment of an authorised person to examine books, records and accounts of RHBOs (section 82K). Section 82N notes the Commissioner's responsibility for convening Board Meetings.

Council appoints a Chief Executive Officer and employs the number of staff it considers necessary to assist in the performance of its functions and the exercise of its powers. All staff are employed on a full-time basis, with the exception of the Council Secretary, who, like the Council Members, is employed part-time.

Table 1 Staff employed by PHIAC 2005–06

Permanent & Part-Time Employees	Female	Male
Chief Executive Officer	1	-
Executive Assistant	1	-
Deputy Chief Executive Officer & Manager, Prudential Standards & Statistics	-	1
Manager, Reinsurance & Statistics	-	1
Manager, Finance & Administration	1	-
Manager, Governance & Industry Supervision	1	-
Manager, Data Services	-	1
Industry Analysts	3	3
Compliance Officer	1	-
Accountant	1	-
Receptionist	1	-
Council Secretary	-	1
Total	10	7

Council Members



Mr Garry Richardson, Commissioner



Mr Peter Annand, Deputy Commissioner



Ms Rebecca Davies, Council Member
Chairperson – Audit and Compliance Committee



Mr John McGee, Council Member



Ms Sue Carter, Council Member

Meeting Attendance

Council was convened 11 times in 2005–06.

Council Member	Council Meetings Eligible to Attend	Meetings Attended
Mr Richardson	11	10
Ms Davies	10	10
Ms Carter	11	11
Mr Annand	11	9
Mr McGee	11	10

PHIAC Board and Board Charter

Section 82BA of the Act provides that the Council is established for the following purposes:

- ▶ to regulate RHBOs in accordance with the Act, other laws of the Commonwealth and any directions given by the Minister
- ▶ to develop policies about the performance of its regulatory function.

Pursuant to this section of the Act, in carrying out its purposes, the Council must take all reasonable steps to achieve, in a balanced and considered manner, the following objectives:

- ▶ fostering an efficient and competitive health insurance industry
- ▶ protecting the interests of consumers
- ▶ minimising the level of health insurance premiums
- ▶ ensuring the prudential safety of individual RHBOs.

The PHIAC Board Charter cites the following: Board Members have the collective power, acting as the Board, to manage and direct the operations of the Council. The key responsibilities of the Board include:

- ▶ ensuring that the regulatory functions of the Council pursuant to the Act are carried out in an effective and efficient manner
- ▶ determining the strategic direction and objectives for the Council and monitoring the performance of management in achieving these objectives
- ▶ approving an annual budget for the Council and monitoring the financial performance

- ▶ overseeing the establishment of adequate internal controls and effective monitoring and evaluation systems
- ▶ ensuring all major business risks are identified and effectively managed
- ▶ ensuring that Council meets its legal and statutory obligations
- ▶ appointing and reviewing the performance of the Chief Executive Officer, approving the appointment of consultants, approving the terms and conditions of other staff and planning for executive succession.

Both the PHIAC Board Charter and the Audit and Compliance Committee Charter were reviewed in 2004, and are reviewed every three years.

Section 22 of the CAC Act imposes the following general obligations on Board Members in the exercise of their powers and the discharge of their duties:

- ▶ to act honestly, at all times
- ▶ to exercise the degree of care and diligence that a reasonable person in a like position in a Commonwealth Authority would exercise.

Good corporate governance practice demands that there is a clear identification of the powers and responsibilities between the Minister, Council and Chief Executive Officer. Council Members should possess a mix of appropriate skills and experience to address:

- ▶ operational
- ▶ technical
- ▶ financial
- ▶ legal and regulatory requirements.

Council may seek additional expert advice where appropriate. Good governance principles ensure that continuing education and professional development programs are made available to Council and staff members as necessary. In 2004, Boardroom Partners conducted a review of the PHIAC Board, which included seeking feedback from the industry, the Department of Health and Ageing and the Minister's Office. The Board will be the subject of an external review again in 2007. In the period of time between external reviews, the Board conducts internal, self-assessments.

The Commissioner and Members of the Council hold office on a part-time basis as non-executive directors.

Mr Garry Richardson

Mr Richardson, FAICD, was appointed Commissioner of PHIAC on 20 July 1998 and was subsequently reappointed on 20 July 2001 and 20 July 2004. His current term expires on 20 July 2007.

Mr Richardson has had extensive experience as a chief executive in the Australian health insurance industry, in addition to other senior positions in the life insurance industry. He retired from his executive career in 1997 and is now an independent, non-executive director. In addition to his role as PHIAC Commissioner, Mr Richardson is also:

- ▶ Chair of Health Super Pty Ltd
- ▶ Chair of Housing Guarantee Fund Ltd
- ▶ independent Chair - Stonnington City Council Audit Committee
- ▶ Director - Australian Red Cross

Mr Richardson is a Fellow of the Australian Institute of Company Directors (FAICD).

Ms Rebecca Davies

Ms Davies, BEc, LLB (Hons), has been a partner of one of Australia's premier law firms since 1983 and has over 25 years specialised commercial litigation and corporate law experience. She has been lead partner in many high-profile public matters. Ms Davies brings expertise in corporate governance matters, such as directors' duties, restructuring operations and key issues in a regulated environment. Ms Davies has held a number of directorships and has experience as an adviser to a variety of enterprises and government bodies.

Ms Davies' term expires on 18 March 2008.

Mr Peter Annand

Mr Annand, BA (Hons), LLB, BCL, FAICD, is an investment banker who brings over 20 years experience of mergers and acquisitions and equity and debt capital markets on behalf of major Australian and international corporations. He has been a director of listed, public unlisted, state and federal government owned, and not-for-profit organisations, in a range of industries including finance, investment and health insurance. His current directorships include Sunsuper and Port of Brisbane Corporation. He is Fellow of the Australian Institute of Company Directors (FAICD).

Mr Annand was appointed for a further three-year term on 13 June 2006.

Ms Sue Carter

Ms Carter, BA, ACA, M App Sc, FAICD, holds a number of board appointments in the public and private sectors and brings to Council considerable experience in accounting, auditing, statutory reporting, risk and compliance, actuarial, investment back office and company secretarial functions covering a

wide range of life insurance, trust, friendly society and general insurance products. She is a former Australian Securities and Investment Commission (ASIC) Regional Commissioner for Victoria. She also has a consulting practice specialising in corporate governance and board effectiveness, and is a tutor with the Australian Institute of Company Directors.

Ms Carter was reappointed for a three-year term on 13 June 2006.

Mr John McGee

Mr McGee, BEc, LLB, After initially practising as a solicitor in Sydney and London, Mr McGee has worked in the financial services industry for twenty years. He has particular experience in mortgage securitisation and life insurance, most recently as Chief Operating Officer of the ASX listed Homeloans Ltd. Prior to that he was Chief Financial Officer of a listed life insurer. He currently holds non-executive directorships with the Bank of New York-Trust Company Securitisation Joint Venture and Delhi Petroleum. He also consults to the finance industry.

Mr McGee was appointed for three years, commencing on 17 March 2005.

Audit and Compliance Committee

The PHIAC Audit and Compliance Committee is a sub-committee of the Council Board. Its role extends to oversight and review. The Audit and Compliance Committee has no executive powers or decision-making authority in relation to the operations of PHIAC.

The Audit and Compliance Committee's Charter defines its functions and role and aims to assist PHIAC and the Council by ensuring that due care and diligence is applied to:

- ▶ the objectivity and reliability of PHIAC's published financial information
- ▶ PHIAC's internal control systems
- ▶ the financial management processes adopted by PHIAC
- ▶ the processes for identifying, monitoring and controlling business risk
- ▶ the monitoring and review of any matters which the Council refer to the Committee.

On 10 December 2004, the Board agreed that all Board Members, with the exception of the Commissioner should be appointed to the Committee. Ms Davies was elected Chairperson of the Committee for a period of twelve months with effect from June 2005.

Meeting Attendance

The Audit and Compliance Committee met on four occasions. Attendance at these meetings is detailed below.

Table 3 **Audit and Compliance Committee meeting attendance 2005–06**

Committee Member	Committee Meetings	
	Eligible to Attend	Meetings Attended
Ms Davies	4	4
Ms Carter	4	3
Mr Annand	4	3
Mr McGee	4	4

PHIAC Secretariat

Qualifications of the Secretariat personnel range through commerce, economics and statistics, education, business management and information technology. The professional experience and backgrounds of the Secretariat personnel include management, accounting, mathematical and statistical analysis, economics, and statistical advice to international governments and the public and private health industry. PHIAC ascribes to the Australian Public Sector Values and Code of Conduct and actively encourages its staff to maintain an appropriate balance between work and family responsibilities. The PHIAC office is located at Suite 16, Kingston Warehouse, 71 Leichhardt Street, Kingston ACT. Secretariat personnel report to the Chief Executive Officer.



Mrs Gayle Ginnane, Chief Executive Officer



Mr Al Tilse, Council Secretary

Mrs Gayle Ginnane

Mrs Ginnane, BA, BEc, MDefence Studies, was appointed Chief Executive Officer to PHIAC in February 1996. Mrs Ginnane has spent more than 25 years working in the public sector.

Mrs Ginnane has degrees in mathematics and economics and holds post-graduate qualifications in defence and strategic studies. She is a member of the Institute of Public Administration, a member of the Australian Institute of Management, a Fellow of the Australian Institute of Company Directors, an affiliate member of the Institute of Actuaries of Australia, and a member of the National Institute for Governance.

Mrs Ginnane is a Trustee for the Arthur Shakespeare Foundation for Scouting.

Mr Al Tilse

Mr Tilse provides guidance to Council on a part-time basis, as Council Secretary, advising Council on appropriate administrative compliance with legislation. He is a Fellow of the Chartered Secretaries of Australia Limited, a qualified accountant and former member of the Australian Society of Accountants. Mr Tilse is also a Justice of the Peace in the ACT. Mr Tilse was previously Company Secretary of an \$8 billion superannuation funds investment company.

Performance Appraisals

PHIAC has a structured performance appraisal and management system. The PHIAC Corporate Plan identifies PHIAC's strategic directions and individual staff member's performance agreements are developed from the Corporate Plan objectives and Key Result Areas.

Performance agreements and a joint appraisal system measure and evaluate staff performance and identify areas for professional development and training. This system aims to create a culture of autonomy and an environment in which individual merit is rewarded.

At the end of each financial year, the individual staff member and their respective supervisor jointly assess performance. All staff participate in annual performance appraisals and can earn performance bonuses. PHIAC's staff is appointed on individual performance-based contracts which allow freedom of association.

The Chief Executive Officer has a performance agreement with the Commissioner and Council. Council undertakes a performance assessment of the Chief Executive Officer annually. The Chief Executive Officer is appointed under terms and conditions determined by the Remuneration Tribunal.

Social Justice, Access and Equity

PHIAC's employment policy ascribes to the principles of Social Justice, Access and Equity (SJAЕ), and selection on merit. Table 4 lists the number of staff in SJAЕ target groups who were employed by PHIAC during the year.

Table 4 Social Justice, Access and Equity target groups 2005–06

Occupational Group	NESB	ATSI	PWD	Women	Total Staff
SES	-	-	-	1	
Other	2	-	-	9	
Total	-	-	-	10	17

Key: SES: Senior Executive Service ATSI: Aboriginal and Torres Strait Islander
 Other: All other staff - full and part-time PWD: People with a disability
 NESB: Non-English speaking background

In 2005–06 PHIAC allocated \$48,900 to training courses, conferences and seminars for staff professional development. The details of the programs undertaken are set out in Table 5.

Table 5 Training courses, conferences and seminars 2005–06

Topic	Provider	Attendance
Accounting	Department of Finance and Administration, CPA Australia, MYOB, Seminars Australia, Applied Education	3
Computer Training	Wizard	2
Corporate Governance	National Institute Banking & Finance, University of Canberra, Australian Institute of Company Directors, CPA Australia, University of Sydney, L21 Pty Ltd, Conference Logistics	8
Industry Knowledge	Australian Health Insurance Association Ltd, International Federation of Health Plans, International Association of Insurance Supervisors, Australian Health Economics Society, Australian Private Hospitals Association	6
Professional Development	Institute of Actuaries, National Archives, Institute of Public Administration Australia, Australian Copyright Council, Synergy Plus Training, Australian Health Economists, Skillpath Seminars, University of Melbourne	10
Risk Management	Comcare, Attorney General's Department, Australian Public Service Commission, Risk Management Institute of Australia	3

During the financial year to 30 June 2006, professional advice and services were sought externally where it was determined it would not be cost effective for permanent staff to provide such expertise.

Details of professional fees of more than \$5,000 are set out in Table 6.

Project	Professional Fees	Total Cost
Legal Fees	Phillips Fox, Attorney General's Department	\$125,824
Actuarial Fees	Australian Government Actuary, Graham Rogers	\$26,361
Enforcement Fees	Clayton Utz, Phillips Fox, Phillips Group	\$137,740
Inspections*	Sims Partners	\$103,198
Recruitment	Hays Personnel	\$21,679
Public Relations	Phillips Group	\$30,433
Audit Guidelines, Templates	Price Waterhouse Coopers, KPMG	\$21,000
Reinsurance Review	Professional Financial Solutions	\$28,655
Review Support	Australian Prudential Regulatory Authority, Josal Enterprises Pty Ltd	\$48,198
Audit Fees	Australian National Audit Office	\$11,000
Total		\$554,089

* Inspection fees were recovered under section 82G(1)(k) of the Act in 2005–06.

Indemnities and Insurance Premiums for Officers

PHIAC has an insurance policy with Comcover for the indemnification of its directors and officers. The cost of the premium for this insurance in 2005–06 was \$32,779. The policy is consistent with sections 27M and 27N of the CAC Act.

PHIAC Financial Statements

PHIAC has accumulated a considerable surplus in the 2005–06 financial year. The surplus is a result of less regulatory action than expected at the time of preparing the budget. PHIAC's experience over a number of years is that there has been at least one major regulatory action each year that has resulted in a considerable cost to PHIAC's budget. As well, the PHIAC Board has formed the view that it is necessary for the Regulator to have sufficient funds to allow it to take any such necessary regulatory action in a timely manner. This requires holding appropriate financial reserves.

PHIAC will continue to review its budget annually to ensure that it maintains a balance between sufficient reserves to undertake its functions in accordance with the National Health Act and other legislation, whilst minimising the cost to RHBOs in an environment of considerable legislative and regulatory change.

PHIAC notes that its budget for 2005–06 of \$4.44 million remains below 0.05% of contribution income.

Financial Statements of the Council's operations are included with this report. The Council follows Schedule 1 of the CAC Act (Financial Statement 2005–06), which requires compliance with Statements of Accounting Concepts, Australian Accounting Standards and Accounting Interpretations, Accounting Guidance Notes, and other mandatory professional reporting requirements.

Major Investing and Financial Activities

PHIAC invests any excess funds in interest bearing accounts, in accordance with the Department of Finance and Administration's requirements. All operational accounts that are currently utilised by PHIAC are compliant with section 18 of the CAC Act and section 39 of the *Financial Management and Accountability Act 1997*. PHIAC investment accounts are also compliant with section 18(3) of the CAC Act relating to 'money on deposit with a bank'.

Transition to Australian Equivalents to International Financial Reporting Standards (AEIFRS)

With effect from 1 January 2005, the Australian Accounting Standards Board determined that Australian Equivalents to International Financial Reporting Standards (AEIFRS) would apply to Australian reporting entities for financial years commencing on, or after this date. PHIAC produced a detailed transition process task table, identifying various implementation steps and timelines, and presenting incremental reports to the Audit and Compliance Committee until the transition process was completed on 15 August 2005. PHIAC is now compliant with AEIFRS.

Corporate Governance and Risk Management

Corporate Governance in the Private Health Industry

Under section 82BA of the Act, PHIAC is required to:

- ▶ regulate RHBOs in accordance with the Act, other laws of the Commonwealth and any directions given by the Minister
- ▶ develop policies about the performance of its regulatory functions.

PHIAC exists to protect consumers through the financial monitoring and regulation of the private health insurance industry. Its objective is a financially sound, innovative industry with professional management and governance, acting in the interests of its contributors.

The corporate governance values of professionalism, accountability, leadership and integrity are central to PHIAC's relationships with the private health insurance industry. PHIAC strives to promote these values through:

- ▶ constant learning and improvement
- ▶ partnership with the industry
- ▶ fair dealing
- ▶ cost-effective regulation
- ▶ the effective management of resources
- ▶ clear reporting standards
- ▶ accurate data collection and dissemination
- ▶ improved capacity to identify and manage risk.

In June 2006, PHIAC released to the industry, a discussion paper to facilitate the development of corporate governance guidelines for the private health insurance industry. PHIAC's objectives in developing industry specific corporate governance guidelines are:

- ▶ to raise awareness within the industry of PHIAC's governance expectations
- ▶ to create more disciplined thinking by boards on governance issues and facilitate more robust systems of governance

- ▶ to encourage boards to benchmark their performance, upgrade standards of decision making and increase accountability and transparency, and
- ▶ to assist boards to evaluate whether the organisation is being managed prudently

PHIAC's four year fund review program has provided an excellent insight into areas of common governance concerns across the industry. The Guidelines being developed will provide an industry baseline. Following an extensive and ongoing industry consultation process, PHIAC aims to publish the Guidelines by mid 2007.

Risk Management Practices in the Private Health Insurance Industry

The following documents released in March 2001 and available on the PHIAC website, provide guidance to the private health insurance industry. They are:

- ▶ *Risk Management Practices in the Private Health Insurance Industry*
- ▶ *Managing Supervision and Intervention* (reviewed and updated in March 2004).

The Risk Management Practices in the Private Health Insurance Industry guidelines introduced new reporting requirements for RHBOs to allow PHIAC to monitor and regulate corporate governance and risk management processes with greater accuracy and effect, thus ensuring the continuation of a viable private health insurance industry.

The document aims to ensure that all RHBOs establish appropriate risk management policies.

The guidelines require RHBOs to have adequate systems in place to mitigate and manage risk. While the guidelines do not specify procedures for managing risk, they set out general policy requirements to be adhered to by RHBOs. The guidelines categorise risk within the two main types of financial and operational risk, and give examples of particular risks relevant to the private health insurance industry. They then discuss the roles of management and the board in ensuring appropriate risk management practices, and general matters to be addressed by these practices.

Directors of RHBOs are required to annually certify that the following risk management systems are in place:

- ▶ the organisation has referred to the Australian Standard for Risk Management: AS/NZS 4360:2004 as an accepted measure of appropriate risk management processes
- ▶ the system in place includes comprehensive written policies and procedures and adequate control systems to measure, monitor and manage risk
- ▶ the risk management system in place has been formulated from a framework for establishing the context, identification, analysis, evaluation, treatment, monitoring and communication of risk
- ▶ the Board has approved the risk management system in place and understands its content
- ▶ the Board reviews the policies and procedures, at least annually, to assess their implementation, effectiveness and to endorse them

- ▶ the Board receives regular reports on the operation of the risk management system and is satisfied with the level of adherence to the policies and procedures

RHBO directors are asked to certify that they carry Directors' and Officers' Liability Insurance and that they consider the coverage is adequate.

The giving of false or misleading information, documents or statements to PHIAC is a serious offence under the *Commonwealth's Criminal Code Act 1995*. The Criminal Code Act imposes substantial penalties, including imprisonment, for committing these offences.

Appointed Actuary

From 1 July 2004, RHBOs were required to have an Appointed Actuary for private health insurance. Actuaries taking on the Appointed Actuary role for private health insurance must ensure that they meet the Institute of Actuaries of Australia's professional requirements and Code of Conduct.

Within the increasingly complex environment of private health insurance, PHIAC considered that an Appointed Actuary could provide independent expert analysis and add value to the management and boards of RHBOs and to PHIAC as regulator. The Appointed Actuary must be involved in:

- ▶ pricing
- ▶ new product development and pricing
- ▶ Solvency and Capital Adequacy Standards
- ▶ Implementation of IFRS
- ▶ Annual Financial Condition Report.

PHIAC requires actuarial assessment of the reasonableness of the discretionary margin in relation to Capital Adequacy Standards.

Accounting Standards

PHIAC worked with industry to manage the transition process and to develop guidance for insurers, on the way to apply the new Industry Accounting Standards, which became effective during the period under review. Standards AASB 1023 and AASB 104 stipulate that in the annual return provided to PHIAC, the Directors of an organisation must provide a statement certifying that the capital adequacy margin and alternative loss ratio adopted by the organisation are considered appropriate and have been endorsed by the Board. Registered organisations are expected to seek actuarial advice in relation to these provisions as part of the annual financial audit. PHIAC requires that advice to be included with the PHIAC annual returns. PHIAC requirements in relation to reporting on the accounting standards are detailed in PHIAC Circular o6/11.

Financial Condition Reports

RHBOs are required to lodge financial condition reports annually. The actuary prepares the report in accordance with the Guidance Note on Financial Condition Reports provided by the Institute of Actuaries of Australia. Financial Condition Reports are provided to PHIAC along with the PHIAC annual returns by 30 September following the end of each financial year.

Managing Supervision and Intervention

In the *Managing Supervision and Intervention guidelines*, PHIAC details its powers of supervision under the Act, and its intended regulatory response to breaches of the Act and other issues where there is cause for concern. The guidelines are based upon the following principles:

- ▶ the board of each registered organisation is accountable for the financial stability and effective operation of the organisation, and for the management of risk
- ▶ PHIAC's role is to intervene where there is cause for concern about the affairs of a registered organisation, or where there has been a breach of the Act
- ▶ a 'no-surprises' approach to the management of risk and financial stability: PHIAC will be pro-active and will work closely with industry
- ▶ self-regulation: each registered organisation is responsible for ensuring that it meets regulatory requirements
- ▶ efficiency: PHIAC will operate efficiently to ensure regulatory requirements are not imposed in an unnecessarily onerous manner
- ▶ regulatory actions will be undertaken in a timely manner.

The procedures set out in the *Managing Supervision and Intervention guidelines* apply to all RHBOs.

PHIAC Reporting Requirements

PHIAC Reporting Requirements is a statement of the requirements for reporting to PHIAC by RHBOs. The requirements are issued by PHIAC under the provisions of section 82M of the Act. The requirements apply for all reports to PHIAC.

The reporting requirements cover a Schedule of Information to be provided by the RHBOs to PHIAC, including:

- ▶ annual return
- ▶ Public Officer's Report
- ▶ Statement by Directors in relation to the capital adequacy margin and loss ratio
- ▶ Statement by Directors in relation to risk management procedures of the organisation.

The current version of the report is available on the PHIAC website in Circular 06/11.

Corporate Governance within PHIAC

PHIAC Policy Statement

To address a recommendation made by the ANAO in its review, PHIAC has formulated a Policy Statement which further provides RHBOs with a clear statement of PHIAC's intent as a regulator, its legislative powers and reporting requirements. The Policy Statement is promulgated on PHIAC's website.

PHIAC's Corporate Plan

PHIAC's Corporate Plan, developed for the period 2005-07, identifies four Key Result Areas (KRAs):

- ▶ KRA 1 - ensure that health insurance regulation in Australia is best practice
- ▶ KRA 2 - strengthen industry governance
- ▶ KRA 3 - develop effective industry information to support strengthened governance, and
- ▶ KRA 4 - build capacity in staff skills and management.

Outlined in the Plan are PHIAC's core functions, values and behaviours; its vision statement; risk management framework and key risks, and how the Agency will achieve the KRAs mentioned.

The Business Plan emerges from the Corporate Plan and identifies the strategies, actions and target dates to achieve the KRAs. The Corporate Plan is reviewed and updated annually at the strategy and planning workshop and progress reports against achieving the KRAs are provided at each Council Meeting by the Chief Executive Officer and Management.

PHIAC aims to provide leadership by providing a model of good corporate governance to the industry. PHIAC has defined its key strategic intentions as follows:

- ▶ provide the Board with a statement of its resource position and identify resources needed to undertake regulatory tasks
- ▶ implement reinsurance in accordance with government decision
- ▶ examine the RHBO review process to evaluate its effectiveness and possible improvements
- ▶ identify key issues in the RHBO review process as patterns emerge
- ▶ ensure health insurance regulation is best practice
- ▶ ensure PHIAC's policy approach to regulation is developed and articulated to the industry
- ▶ encourage the strengthening of industry governance
- ▶ provide information to the industry to support good governance

- ▶ improve PHIAC staff skills and capacity to meet its statutory functions.
- ▶ PHIAC performance information is closely aligned with Portfolio Budget Statements.

During 2005, PHIAC updated its Delegations Policy Manual and made it available to all staff through the PHIAC Intranet.

Review of Legislative Instruments under the CAC Act 1997

A discussion paper released by the Department of Finance and Administration (DoFA) in November 2005, relating to a review of legislative instruments under the CAC Act, including the Commonwealth Authorities and Companies Regulations 1997 (CAC Regulations) and the Commonwealth Authorities and Companies (Report of Operations) Orders 2005, recommended introducing a regulation on audit committees, originally scheduled to take effect from the 2005–06 financial year.

DoFA has reviewed the CAC Regulations and considers, in light of the significant attention given to the role and importance of audit and audit committees to good governance, that it is an appropriate time to review the composition of audit committees of Commonwealth Authorities.

PHIAC has already widely implemented and abides by, the good governance processes that are proposed in the changes to the regulations.

The Report of Operations is one of the key means by which PHIAC as a Commonwealth Authority discharges its accountability obligations, through reporting on its activities throughout the year and the efficiency and effectiveness of its operations.

Risk Management within PHIAC

Risk management remains an integral part of all PHIAC activities and operations. PHIAC has a risk management action plan and crisis management framework and regularly reviews its own performance against other relevant agencies and specific incidents. PHIAC reports regularly against its risk management plan to the Audit and Compliance Committee of the Board. This plan covers not only the more common risks but specific risks that would apply primarily to regulators and regulatory action. Staff manuals approved by the Audit and Compliance Committee address specific risks as part of a multi-level approach to managing and mitigating risk. Compliance with PHIAC's Risk Management Plan is linked to staff performance appraisals.

During 2005 and 2006, along with updating the Staff Manual, PHIAC reviewed and updated its Anti-Fraud Plan. PHIAC plans to add an Insider Trading Policy, relevant to and tailored towards situations PHIAC staff may face in the course of performing their duties, and designed to complement existing provisions contained in the APS Code of Conduct. All of these documents are readily accessible to staff on the PHIAC Intranet.

PHIAC plans to fully and comprehensively review its existing Operational Risk Management Plan, later in 2006.

Directors' Education Programs

During 2005–06, the Secretariat conducted the first two of the *Directors' Education Programs*. The program was aimed primarily at directors, but was also attended by chief executive officers and senior managers of RHBOs. Attendance was limited to around 40 people per program, to ensure full and active participation.

Presentations made during the programs included those from senior PHIAC staff covering such regulatory functions as legislation, reinsurance, prudential standards and pricing. Industry Actuaries gave presentations explaining how RHBOs could best interpret and utilise the information and statistics released on a regular basis by PHIAC. A senior official from the Department of Health and Ageing provided information on policy issues in private health insurance. Workshops facilitated by a PHIAC Board Member and the Chief Executive Officer, run at the end of the two-day program, were designed to bring together all the issues covered during the sessions. PHIAC plans to conduct the programs on a regular basis, at least once or twice each year.

Directors from most of the RHBOs have taken the opportunity to participate in the programs held to date.

Effects of Ministerial Directions

Under section 82J of the Act, the Minister may, by notice in writing to the Commissioner, give directions with respect to the performance of the Council's functions or the exercise of its powers. The Council shall comply with any such direction.

PHIAC received no Ministerial directions in 2005–06.

Judicial Decisions and Reviews by Outside Bodies

PHIAC was not the subject of any complaint during the 2005–06 financial year. In 2005, the ANAO conducted a performance audit of PHIAC in accordance with the authority contained in the *Auditor-General Act 1997*. The objective of the audit was to assess PHIAC's administrative effectiveness as a regulator of private health insurance. In making this assessment, the ANAO addressed the following criteria:

- ▶ whether PHIAC monitored compliance with its legislative requirements and analysed related data
- ▶ whether PHIAC addressed and managed non-compliance with its legislative requirements
- ▶ whether PHIAC's governance and organisation supported the performance of its legislative functions

In its Report tabled in December 2005, the overall conclusion from the ANAO Audit was that PHIAC's administrative effectiveness as a regulator of private health insurance was sound, and that in performing its functions, PHIAC maintained an appropriate balance between its objectives of fostering

an efficient and effective health insurance industry; protecting the interests of consumers; minimising the level of health insurance premiums; and ensuring the prudential safety of individual RHBOs.

PHIAC fully accepted the recommendations contained in the Report and has implemented all of them. A copy of the ANAO Report (Audit Report No: 20 2005-2006) can be obtained from <http://www.anao.gov.au>

There were no other external reviews conducted on PHIAC during the reporting period.

Major Regulatory Interventions

Railway and Transport Health Fund Limited ('R&T')

At a special meeting held on 22 September 2005, the Council appointed an inspector to investigate allegations that R&T had contravened provisions of the National Health Act (the Act) in relation to certain financial and governance of matters. The inspector's report was provided to the Attorney General as required by the Act, and to ASIC. The Council placed R&T on monthly reporting. This requirement was removed in April 2006. The Council also imposed a fee on R&T under section 82G(1)(k) of the Act.

Performance - Outcomes and Outputs

Outcomes

PHIAC reports under its own outcome in the 2005–06 Portfolio Budget Statements: ‘The prudential safety of registered private health insurance funds, the best interest of members of those funds, and a competitive level of private health insurance premiums, are efficiently regulated to support a viable industry.’

Previously, PHIAC reported under the outcome ‘Choice through private health.’

PHIAC’s central functions are to monitor and regulate the private health insurance industry, and to provide information to Government and other stakeholders on private health insurance membership and utilisation, reinsurance benefits and gap cover. The performance of its functions requires the collection of financial and statistical returns from each registered health benefits organisation on both a quarterly and an annual basis.

Output Group 1 - Information to Government and other stakeholders relevant to private health insurance

PHIAC receives quarterly statistical reports from the 37 RHBOs. From these reports PHIAC produces the following publications:

Quarterly Publications

PHIAC produces the following reports on a quarterly basis:

- ▶ Membership and Coverage Statistics
- ▶ PHIAC A Report
- ▶ PHIAC B Report - available only to RHBOs
- ▶ Quarterly Gap Payment and Medical Benefit Statistics
- ▶ Hospital and Ancillary Insurance: Statistical Trends in Membership and Persons Covered
- ▶ Hospital and Ancillary Insurance: Statistical Trends in Benefits Paid.

The Membership and Coverage Statistics report the number and proportion of persons with hospital insurance and with ancillary insurance.

The PHIAC A report aggregates, on a state basis, detailed information on:

- ▶ membership categories
- ▶ benefits paid for services
- ▶ number of services
- ▶ benefits paid by age category and gender
- ▶ gap benefits
- ▶ ancillary benefits paid by classifications.

The PHIAC B report is distributed to RHBOs only. It provides the information contained in the PHIAC A report by individual organisation.

PHIAC collects gap data from RHBOs and produces this data in a quarterly report called Quarterly Gap Payment and Medical Benefit Statistics available on the PHIAC website. The National Health and Health Insurance Acts allow RHBOs to pay a benefit in excess of the Medicare Benefits Schedule (MBS) fee for medical services where conditions are met through contracts or other agreements. This allows organisations to provide ‘no gap’ or ‘known gap’ in-hospital medical services to insured patients.

The statistical trends publications contain data on private health insurance membership and benefits paid for hospital and ancillary services in Australia since September 1997.

PHIAC’s quarterly reports are produced and disseminated within four weeks of the industry reporting deadline.

New Data Collections

Prostheses

PHIAC began a new prostheses data collection in the December quarter 2005. RHBOs provide quarterly data on benefits and charges for ‘no-gap prostheses’ and ‘gap permitted prostheses’ by major prostheses categories.

Circular PHI 46/05 of 31 August 2005 from the Department of Health and Ageing advised that the Minister for Health and Ageing has made a determination giving effect to the first prostheses list under the new arrangements for listing of products and setting benefits. This list became effective on 31 October 2005 when the new arrangements commenced.

The Minister determined, under subsections 73AAG(6) and 73AAG(7) of the Act, that there will be ‘No gap prostheses’ and ‘Gap permitted prostheses’. The intention of the new prostheses data collection is to assist in monitoring the affect of the introduction of the new prostheses arrangements.

Medical Gap Data

PHIAC began a new medical gap data collection in the September quarter 2005. The data is by major specialty group and comprises benefits, charges and out of pocket (gap).

Circular PHI 65/05 of 31 October 2005 from the Department of Health and Ageing advised that funds will no longer be required to provide specialty data in their gap cover annual reports. The data will now be required to be provided quarterly to PHIAC.

PHIAC is collecting this quarterly medical gap information to facilitate consistent reporting and analysis of medical gap data.

Annual Publications

PHIAC produces the following reports on an annual basis:

- ▶ PHIAC Annual Report
- ▶ *Operations of the Registered Health Benefits Organisations*
- ▶ Annual Membership Survey.

The PHIAC annual report is prepared in accordance with section 9 of the CAC Act and sets out PHIAC's functions, responsibilities and activities under that legislation. It must be provided to the Minister for Health and Ageing by 15 October each year. The Minister must table the report as soon as practicable. The PHIAC annual report for 2004-05 was tabled out of session on 16 January 2006.

The report on the *Operations of the Registered Health Benefits Organisations* is made in accordance with section 82PA(1) of the Act. It includes financial results for each organisation, membership and benefits paid and usage of health insurance in Australia. The section 82PA report for 2004-05 was tabled out of session on 20 December 2005.

The Annual Membership Survey reports the actual number of privately insured persons covered for hospital benefits by state and territory at the end of the calendar year. The coverage data in this report differs from that collected quarterly for reinsurance calculations and is released as Membership and Coverage Statistics. In other publications, the ACT is included with New South Wales, while the annual survey reports each state and territory separately. Totals in the survey differ from those reported in other PHIAC publications where organisations have reported members only in states where they have 500 or more SEUs. For reinsurance purposes, organisations incorporate figures for states with less than 500 SEUs in their major state.

Quantity

In 2005-06 PHIAC produced:

- ▶ 1,000 copies of the PHIAC A and Membership and Coverage quarterly reports
- ▶ 1,000 copies of PHIAC Annual Report
- ▶ 1,650 copies of the report on the *Operations of the Registered Health Benefits Organisations*

- ▶ 77 copies of Quarterly Gap Statistics
- ▶ 120 copies of the Annual Membership survey.

These publications are also available on PHIAC's website at <http://www.phiac.gov.au>.

Other Publications

Insure? Not Sure?

This information brochure has been prepared by PHIAC to explain the Australian health system to consumers in simple terms and to assist them to make informed choices about how best to meet their health insurance needs. The publication:

- ▶ provides general information about Medicare
- ▶ explains how private health insurance works
- ▶ sets out general rules affecting the privately insured
- ▶ explains the types of private health insurance available and benefits that may be payable.

Also included are suggested questions consumers should ask about their cover and a glossary of common terms.

The content of the publication was reviewed externally in 2005. The Department of Health and Ageing engaged consultants to interview a cross-section of the general public with a view to removing any overlap of information between existing documents, including additional information consumers might need, and assessing how they prefer to access the documentation. The publication has also been updated to provide information pertaining to the increased rebate available for senior Australians, new provisions relating to Lifetime Health Cover and new information provided by the Department of Health and Ageing on prostheses.

Insure? Not Sure? is available in electronic format on the PHIAC website and as a printed booklet from the PHIAC office. During 2006, the updated publication was re-printed in bulk and made available to stakeholders for purchase and distribution.

The publication will be further reviewed in 2006-07 to incorporate planned legislative change announced by the Government in April 2006.

The Private Patients' Hospital Charter

The *Private Patients' Hospital Charter* is produced by the Department of Health and Ageing as a guide to what it means to be a private patient and what patients can expect from their doctors, the hospital and their health insurance organisation. By highlighting the types of information that may assist patients to manage their health care, the charter aims to help individuals achieve optimal results as private patients.

PHIAC makes copies of the charter available to members of the public at its office and by mail. Requests for large quantities are referred to the Department of Health and Ageing.

Availability of the charter is noted on the PHIAC website in accordance with the Act.

PHIAC Circulars

PHIAC circulars are released periodically on miscellaneous issues of importance to the private health insurance industry. Circulars are available from the PHIAC website or the PHIAC office.

Customer Service Charter

PHIAC's *Customer Service Charter* aims to assist stakeholders to understand PHIAC's role, and sets out what can be expected of PHIAC, what information it can provide, customer service standards, and the rights and responsibilities of PHIAC's stakeholders. In addition, it provides steps that can be taken if PHIAC does not meet the standard of service set out in the charter. The charter sets out PHIAC's role, functions and objectives, and explains how it can be of assistance to its stakeholders:

- ▶ the private health insurance industry
- ▶ the Department of Health and Ageing
- ▶ Acute Care Advisory Committee
- ▶ members of the public.

The charter was revised in August 2000 and again in 2005, in consultation with stakeholders and other interested parties. The next review is scheduled for 2008. As outlined in the charter, PHIAC maintains a complaints file. The charter is available on the PHIAC website and from the PHIAC office.

Internet Publications

PHIAC has established and maintains a website to make available to consumers and other industry stakeholders the information it collects and disseminates as part of its monitoring and regulatory activities.

All publications, with the exception of the PHIAC B report, are available on the PHIAC website. Statistics are available in *excel* format, with other publications available in pdf and html format. All statistics are updated on the PHIAC website upon their public release.

In addition to its published statistical data, PHIAC provides the following information on its website:

- ▶ approved gap cover schemes
- ▶ Solvency and Capital Adequacy Standards
- ▶ contact information for all RHBOs
- ▶ information on PHIAC, including PHIAC's enabling legislation and functions, the constitution of Council, financial arrangements and PHIAC's mission statement.

This information is updated annually to reflect the information published in the PHIAC annual report. To assist navigation within its website, PHIAC has installed a search facility.

Approved Gap Cover Schemes

Under section 82G(1)(bd) of the Act, PHIAC is responsible for the publication on its Internet site of the details of all gap cover schemes approved by the Minister under section 73BDD. The objective of this data on PHIAC's website is to encourage further expansion of health insurance products which address the gap, increase consumer awareness about such products and assist more customers to access 'no gap' or 'known gap' products. At the time of this report, 35 RHBOs have approved gap cover schemes listed on PHIAC's website.

Solvency and Capital Adequacy Standards

The Solvency and Capital Adequacy Standards and accompanying Interpretation Standard are published on the PHIAC website or can be obtained in hardcopy from the PHIAC office.

RHBO Contact Information

Up-to-date information on all RHBOs is available on the PHIAC website. PHIAC provides links to those organisations with websites of their own. The information available on organisations includes trading names, registered names, open and restricted membership classification, and profit status.

Output Group 2 - Regulatory Activity

Rewriting Private Health Insurance Legislation

In April 2006, the Minister for Health and Ageing, the Hon. Mr Tony Abbott MP announced changes to existing private health insurance legislation which will form part of a suite of other reforms being explored for the private health industry.

The focus of the proposed approach will be on rationalising the current regulation regime so that it more clearly expresses the Australian Government's objectives for private health insurance.

Currently, the regulatory regime for private health insurance is expressed in:

- ▶ nine primary Acts
- ▶ nine sets of regulations; and
- ▶ numerous determinations.

Significant elements of the current requirements placed on private health insurers are not in primary legislation but in a schedule to one of the principal Acts. This approach to presenting legislation is burdensome both to industry and government. The purpose of considering a proposed update of the legislation is to develop an efficient regulatory regime in which the private health insurance industry can operate.

It is proposed that the existing set of primary Acts, regulations and determinations be consolidated into:

- ▶ one primary Act, which will set out all the requirements for the conduct of private health insurance business - the Private Health Insurance Act
- ▶ one primary set of regulations to support the proposed new consolidated Act; and
- ▶ a systematic, uniform approach to developing and expressing subordinate legislation.

There will be further consultation with the private health industry before the introduction of the wider private health insurance reform legislation.

Financial Monitoring

Organisations are required to provide quarterly and annual financial returns. Through these reports PHIAC monitors the financial results, solvency and capital adequacy of each RHBO.

On a quarterly basis PHIAC provides each organisation with a report that compares its operating performance with that of the industry as a whole and the size segment in which it operates. PHIAC also provides a comparative report on membership and benefits statistics for the industry as a whole.

Program for the Review of RHBOs

A program for the review of RHBOs was developed in 2003 as part of PHIAC's 'no surprises' approach to regulation. The objective of the reviews is to enable PHIAC to gain a more detailed understanding of RHBOs than is available from the financial reports provided by the organisations throughout the year. The reviews assist PHIAC in determining the most appropriate manner in which the regulation of an organisation ought to be conducted, and to enable corrective action to be taken where necessary and appropriate, in the interests of contributors.

Within the parameters of the functions and powers set out in the Act, the review seeks to ascertain the following information:

- ▶ how well the organisation is managed and governed, including an understanding of its strategy and key risks
- ▶ how well the organisation understands its business
- ▶ whether the financial and other information available to management is sufficient to enable it to make informed business decisions
- ▶ whether the processes and procedures in place enable the business to be appropriately managed.

Five RHBO reviews were conducted in 2005–06. PHIAC sought support from APRA personnel to carry out the review program for the larger oRHBOs. PHIAC is further developing its review program for the coming years, with the second round of reviews being more issues focussed. The PHIAC analytical

team is developing a priority list of round two fund reviews, based on the findings of the reviews conducted to date. PHIAC is constantly reviewing its staffing levels and skills base to ensure that it has the right numbers of skilled staff to manage its functions effectively.

Industry Model

To further its aim to continuously improve its monitoring and analysis tools, PHIAC is developing an industry model that will predict the forward prudential position of RHBOs. This will lead to greater efficiency and improved accuracy of monitoring. The model will use a combination of historical and prospective data obtained primarily from the quarterly reports from RHBOs. At completion of the model, output parameters will enable analysts using assumptions of premium increases, population growth and utilisation rates to determine forward projections of targeted (prudential) outputs.

Solvency and Capital Adequacy Standards

PHIAC established financial standards as required under the National Health Act to ensure the solvency and capital adequacy of RHBOs.

The Solvency Standard determines the capital requirement of the RHBO in circumstances where the organisation is to be run-off. A breach of the Solvency Standard would result in significant regulatory intervention.

The Capital Adequacy Standard determines the capital adequacy and financial soundness requirements of the RHBO on an ongoing basis.

The Interpretation Standard details the various components for calculating the Solvency and Capital Adequacy Standards and assists RHBOs by setting out the terminology used in the standards.

In an approach grounded in risk management, the standards require the board and management of RHBOs to focus on the risks to which the organisation is exposed and the need to manage those risks by either mitigating them or setting aside an amount of capital commensurate with those risks.

The Solvency and Capital Adequacy Standards were first implemented on 1 January 2001. Revised standards were implemented with effect 1 July 2003.

In 2005, further revisions were necessary to ensure the standards maintained the ability to operate in the face of changing Australian Accounting Standards. These changes have arisen from the Australian Accounting Standards Board's implementation of the Financial Reporting Council's decision to adopt the standards of the International Accounting Standards Board.

The revised standards were developed in consultation with the industry and other stakeholders, including consultation with the Australian Government Actuary, in accordance with the Act.

PHIAC plans a further review of the Prudential Standards in 2006-07, in light of the proposed legislation changes.

Further information on the Solvency and Capital Adequacy Standards and the Interpretation Standard are available from PHIAC. The standards themselves are available on PHIAC's website at <http://www.phiac.gov.au/standardsguides/scastandards/index.htm>.

Registration of Organisations

The Registration Committee is formed under section 70 of the Act, and is made up of representatives from the Australian Government Actuary, the Department of Health and Ageing and PHIAC. There were no registrations during 2005–06.

At 30 June 2006 there were 39 RHBOs, 37 of which are operational. 23 were available to the public generally and 14 were operated as restricted membership organisations. At 30 June 2006 there were four organisations operating on a ‘for-profit’ basis.

Organisations seeking registration under the Act may be registered under one of two categories:

- ▶ an open membership organisation, which is available to the public generally
- ▶ a restricted membership organisation, whose members are drawn from an employment group, professional association or union.

The majority of RHBOs operate on a ‘not-for-profit’ basis, where any surpluses generated from carrying on business remain in the organisation to be used for the benefit of contributors in the form of reserves, or to fund part of future increases in benefits or operating costs. Organisations operating on a ‘for-profit’ basis may use monies in excess of the statutory minimum reserves level for payment of dividends.

Risk Equalisation

Each quarter PHIAC receives information from RHBOs to effect calculations for the Health Benefits Reinsurance Trust Fund (HBRTF). Reinsurance in private health insurance is a form of risk equalisation which supports community rating. Under community rating, a member will pay the same contribution rate for their chosen hospital insurance policy with a particular RHBO, irrespective of age (other than age at entry, under Lifetime Health Cover), health status or gender. The reinsurance calculation in the context of the private health insurance industry is a cost-equalisation process applicable to benefits payable for in-patient hospital services for persons aged 65 years and over, and RHBO memberships incurring more than 35 days hospitalisation in a rolling year.

The average of benefits paid per SEU for reinsurance categories is calculated by state each quarter, and organisations that have paid greater benefits than the state average are entitled to a payment from the pool. Those that have paid less than the state average in benefits will contribute to the pool. Generally, organisations with a demographically younger and healthier membership make payments to the HBRTF, whilst organisations with an older and less healthy demographic receive monies from the HBRTF.

RHBOs are required to participate in the reinsurance pool of any state where 500 or more SEUs reside in that state. A summary of the HBRTF calculations for the four quarters to 30 June 2006 will be included in the annual report of *Operations of the Registered Health Benefits Organisations 2005–06* published later in the year.

The task of allocating monies to and from the reinsurance pool involves collection and verification of data from organisations' quarterly returns, resolution of errors, calculation of payments under the pooling system, notification of entitlements and finally, collection from or contribution to the HBRTF. A total of \$182 million was transferred through the HBRTF in 2005–06.

RHBOs are required to provide annual audit certification of the PHIAC 1 Returns for the four quarters to 30 June. The reinsurance year concludes with the finalisation of transactions from the quarter ending 30 June. Audit certificates from the RHBOs are required by no later than 30 September each year. PHIAC conducts an annual audit of HBRTF calculations when all transactions are complete. The audit certificate is included with the *Operations of the Registered Health Benefits Organisations 2005–06*.

PHIAC's objective in contributing to this outcome is the accurate calculation of reinsurance. The HBRTF is administered in accordance with section 82G(1)(a) of the Act. There is an adjustment process for reinsurance, governed by Ministerial Determination.

The risk equalisation process is currently under review with a decision expected by the end of calendar year 2006.

Federal Government Rebate

Under this scheme, members' private health insurance premiums are reduced as a result of a 30% subsidy from the Government. For older Australians aged between 65 and 69 years of age, the rebate increases to 35% and for Australians aged over 70 years it is 40%. The higher subsidies became effective in April 2005. The subsidies can be claimed:

- ▶ directly from Medicare Australia
- ▶ as part of an individual's tax return from the Australian Taxation Office
- ▶ as a premium reduction from RHBOs.

Under the CAC Act, PHIAC is responsible for monitoring and reporting to Parliament, on the effectiveness of the government's premium reduction initiatives. RHBOs are advised of the requirement to submit their audit certificate by the due date of 28 July, annually through Circulars (No: 06/08 in June 2006). PHIAC monitors the Federal Government rebate through annual audit certification submitted by RHBOs participating in the scheme. There were four qualified audit reports submitted in 2005–06.

Australian Unity Health Limited and Grand United Health Fund Pty Ltd

Auditors Ernst & Young's qualification states that 'the Fund is unable to provide signed rebate application forms in accordance with section 11-5 of the Act for participating members transferred from Grand United Health Fund Pty Limited to the Fund on 30 September 2005. Whilst we advise the quantum is unable to be determined, the results of our testing indicate a number of instances where the rebate application forms were unable to be located and therefore there is no evidence of these participating members' signatures. However, no exceptions were noted from our testing, for participating members registered subsequent to 1 July 2001, with Australian Unity Health Limited.'

Hospitals Contribution Fund of Australia Limited

Auditors Ernst & Young's qualification states that 'section 11-5 of the Private Health Insurance Incentives Act 1998 requires that members apply in the form required in section 11-5 of the Act in order to be registered for participation in the premium reduction scheme. In our sample test of 25 membership applications, 3 membership applications were unable to be located. As a result we were unable to conclude whether these members had applied in the form required in section 11-5 to participate in the premium reduction scheme. We were able to confirm that these members had been registered with the HIC to participate.'

Medibank Private Limited

The qualification report from Auditors the Australian National Audit Office, states that 'the Fund is unable to provide completed and signed rebate application forms for all members who were registered for participation in the premium reduction scheme in accordance with section 11-5 of the Act. Specifically, approximately 9.6% of rebate application forms were not available for members who were registered for participation within the past five years.'

Approved Gap Cover Schemes

Section 73BDE(1) of the Act requires each RHBO operating an approved gap cover scheme to report on the operation of the scheme to PHIAC and the Minister for Health and Ageing. Gap cover scheme reporting complements PHIAC's gap payment and medical benefits statistics by providing further monitoring of the effects of the schemes on the private health insurance industry. Though the information collected in each report is different, the aim of monitoring is the same: to reduce the incidence and range of out-of-pocket costs to privately insured patients.

Gap cover schemes must meet specific criteria to gain approval from the Minister:

- ▶ the scheme must genuinely reduce or eliminate gaps
- ▶ it must not have an inflationary impact
- ▶ simplified billing must be provided where appropriate
- ▶ the professional freedom of medical practitioners must be maintained.

Other requirements for the scheme include measures to ensure privately insured patients are able to make informed decisions on matters affecting their medical treatment. A central provision within the Minister's criteria is informed financial consent.

Acute Care Advisory Committee

Under the *Private Health Insurance (ACAC Review Levy) Act 2003* PHIAC is responsible for financing the Acute Care Advisory Committee (ACAC) review process. The ACAC Secretariat is located within the Commonwealth Department of Health and Ageing's New South Wales office. It is funded by a combination of a levy that PHIAC collects from RHBOs and fees imposed on certificates for review.

Departmental officers staff the ACAC Secretariat. The Department’s Secretary appoints the Chair. All Committee members are registered medical practitioners. They are nominated by the following organisations:

- ▶ Australian Health Ministers’ Advisory Council
- ▶ Australian Health Insurance Association
- ▶ Australian Medical Association
- ▶ Consumers’ Health Forum
- ▶ Health Insurance Commission
- ▶ Australian Private Hospitals Association
- ▶ specialists in psychiatry and developmentally disabled children
- ▶ the Secretary, Department of Health and Ageing.

ACAC meets as required to review formally each certificate.

PHIAC raises most of the cost of the ACAC on a user-pays basis. The fee for review is \$2,000 per certificate.

Table 7 shows, for each financial year, the number of certificates received by PHIAC for review, the total fees received for certificates, and the amount paid to the ACAC for administration costs. PHIAC collects the fees and imposes a levy on RHBOs for payment in respect of the ACAC. However, it has no input into, or control over the ACAC budget.

PHIAC notes with concern the number of 3B Certificates it is receiving that are incomplete or inaccurate, or where details appear to have been changed after the event. PHIAC would advise RHBOs that may have concerns over the accuracy or fidelity of certificates, to refer them to the appropriate authorities, for investigation.

Table 7 Acute Care Advisory Committee 2000-01 to 2005-06

Financial Year	Number of certificates received	Number of certificates revoked or varied	Amount received for certificates	Amount paid to ACAC
2001-01	142	74	\$20,700	\$190,000
2001-02	95	32	\$45,600	\$157,853
2002-03	41	11	\$41,000	\$77,810
2003-04	34	12	\$34,000	\$65,045
2004-05	14	15	\$18,000	\$36,967
2005-06	54	17	\$108,000	\$31,150

Statutory Reporting Information

Freedom of Information

Section 8(1) of the *Freedom of Information Act 1982* requires the publication of information concerning the functions and documents of agencies. The following information is supplied in accordance with that Act and is correct as at 30 June 2006.

Risk Management Practices in the Private Health Insurance Industry, Managing Supervision and Intervention and PHIAC Reporting Requirements are documents which may be classified under section 9 of the *Freedom of Information Act 1982*. They are available from the PHIAC website and from the PHIAC office.

PHIAC's Role and Functions

PHIAC was established as a statutory authority to regulate RHBOs in accordance with the Act, other laws of the Commonwealth and any directions given by the Minister, and to develop policies about the performance of its regulatory functions.

PHIAC's legislated functions are set out at section 82G of the Act. These are listed in full under Enabling Legislation at the beginning of this report. Under section 82H of the Act, PHIAC has the power to do all things necessary or convenient to be done for, or in connection with the performance of its functions. PHIAC's decision-making powers relate to these functions, specifically:

- ▶ calculations and adjustments of the reinsurance pool
- ▶ regulation of the private health insurance industry
- ▶ the PHIAC industry levy for administrative costs, including ACAC funding
- ▶ registration of health benefits organisations.

PHIAC receives financial reporting information and private health industry statistics from RHBOs. The majority of information held by PHIAC is made publicly available in its quarterly statistical releases and the annual report on the *Operations of the Registered Health Benefits Organisations*.

Documents held by PHIAC

The following publications are available from PHIAC:

- ▶ *Operations of the Registered Health Benefits Organisations Annual Reports*
- ▶ PHIAC Annual Reports
- ▶ *Risk Management Practices in the Private Health Insurance Industry*
- ▶ *Managing Supervision and Intervention Guidelines*
- ▶ the PHIAC *Customer Service Charter*
- ▶ the PHIAC *Corporate Plan*
- ▶ the consumer information booklet, *Insure? Not Sure?*
- ▶ the *Private Patients' Hospital Charter*
- ▶ development of Corporate Governance Guidelines for the Private Health Insurance Industry A Discussion Paper
- ▶ brochures produced by the Private Health Insurance Ombudsman
- ▶ PHIAC Reporting Requirements

The following industry statistics are available from PHIAC:

- ▶ Membership Statistics - a publication which details by state, the number of persons covered by private health insurance for hospital cover and ancillary cover and the proportion of the population these persons represent. The tables shown in these statistics are on both a quarterly and annual basis and include hospital coverage by age cohort.
- ▶ Annual (December) Coverage Survey
- ▶ Medical Gap Information - a quarterly publication on in-hospital medical services. The proportion of services for which there was no gap or known gap and the average gap payment are shown for each state.
- ▶ PHIAC A Report - a quarterly publication detailing by state, the membership and benefits paid by registered organisations for the period.
- ▶ Statistical Trends in Membership and Benefits - two separate publications detailing trends in membership and benefits paid since 1997, in private health insurance membership and coverage, and benefits paid for hospital and ancillary services.

Other documents available:

- ▶ circulars
- ▶ discussion papers
- ▶ presentations from the Directors' Education Programs

- ▶ a complaints file
- ▶ correspondence and working papers relating to the administration of PHIAC, including personnel and financial papers
- ▶ correspondence and working papers relating to the functions of PHIAC.

The majority of these documents are available on the PHIAC website. All published information is available free of charge.

Certain types of information collected by PHIAC in the performance of its functions may be classified as exempt documents under section 38 of the Freedom of Information Act.

Section 135A of the Act prohibits the disclosure of information acquired by PHIAC about a third party except as is permitted under the Act.

Access to Documents

Documents held by PHIAC may be obtained as indicated below:

- ▶ from the PHIAC office
- ▶ by telephoning 02 6215 7900
- ▶ by fax 02 6215 7977
- ▶ by email to phiac@phiac.gov.au
- ▶ from the website at <http://www.phiac.gov.au>

Information and Procedures for Freedom of Information Requests

Requests for information under the Freedom of Information Act should be made in writing and accompanied by a \$30 administration fee as required by the Act, addressed to:

Freedom of Information Officer
Private Health Insurance Administration Council
Suite 16
Kingston Warehouse
71 Leichhardt Street
Kingston ACT 2604

Initial enquiries about access to documents may be made in person, by telephone or by email.

During 2005–06 PHIAC did not receive any requests under the Freedom of Information Act.

Ecologically Sustainable Development and Environmental Performance

The *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act) requires Commonwealth agencies to report on ecologically sustainable development and environmental matters under section 516A.

While PHIAC is a small reporting entity in terms of its location and staffing, it is mindful of its responsibilities under the EPBC Act. At all times PHIAC strives to ensure it subscribes to the principles of ecologically sustainable development and that its decision-making processes effectively integrate long-term and short-term economic, environmental, social and equitable considerations.

Occupational Health and Safety

PHIAC is committed to providing a safe working environment that supports the rights, responsibilities and interests of its staff by taking all reasonably practicable steps to ensure the health and safety of all employees. PHIAC's Occupational Health and Safety Guidelines are included in the staff procedures manual to ensure all staff are aware of the potential hazards within the normal office environment. Within risk management measures and annual performance appraisals, staff take responsibility for safe working practices and maintaining a safe working environment.

PHIAC has two appointed occupational health and safety officers and office policy and training ensures that a number of staff hold current first aid qualifications. Responsibility for the overall health and safety of all staff rests with the Chief Executive Officer. In 2004 PHIAC underwent an Occupational Health and Safety Workplace Audit and has progressively reviewed and implemented all the recommendations outlined in this audit. A fresh audit was commissioned when PHIAC relocated its office premises to Kingston in 2005. Ergonomic assessments of work practises and workstations are commissioned whenever new staff commence work with PHIAC.

The PHIAC Audit and Compliance Committee monitors occupational health and safety matters to ensure PHIAC is fully compliant with the Occupational Health and Safety (Commonwealth Employment Act) 1991 (OH&S Act).

Section 68 of the OH&S Act requires agencies to report dangerous occurrences as classified under the section 68 Regulations to Comcare without delay. PHIAC had no such occurrences or injuries to report for the year ended 30 June 2006.

In accordance with subsection 74(1) of the OH&S Act, PHIAC is required to include information relating to occupational health and safety in its annual report.

Safety, Rehabilitation and Compensation Act 1988

Under section 4 of the Safety, Rehabilitation and Compensation Act 1988, (the SRC Act), PHIAC as an employer, is generally taken to be a 'Rehabilitation Provider'. Effective from 1 September 2005 and pursuant to subsection 41(2) of the SRC Act, a Rehabilitation Authority shall comply with these guidelines. As the Rehabilitation Authority, PHIAC has specific statutory powers and functions under

Part III of the SRC Act. These include arranging for a rehabilitation assessment, determining that a rehabilitation program should be undertaken, arranging with an approved rehabilitation program provider for the provision of a suitable program and ensuring suitable employment is provided for employees who may be injured or become ill, in the course of their duties.

Commonwealth Fraud Control Guidelines

As an agency covered by the CAC Act that does not receive at least 50% of funding for its operating costs from the Commonwealth or a Commonwealth Agency, the Commonwealth Fraud Control Guidelines do not apply directly to PHIAC. However, PHIAC has in place an Anti-Fraud Plan and practises appropriate fraud prevention, detection, investigation, reporting and data collection procedures and processes that meet the specific needs of the Agency. During the reporting year, PHIAC updated its existing Anti-Fraud Plan and plans to add an Insider Trading Policy. PHIAC will continue to comply with best practice standards as set out in the Commonwealth Fraud Control Guidelines.

Commonwealth Disability Strategy

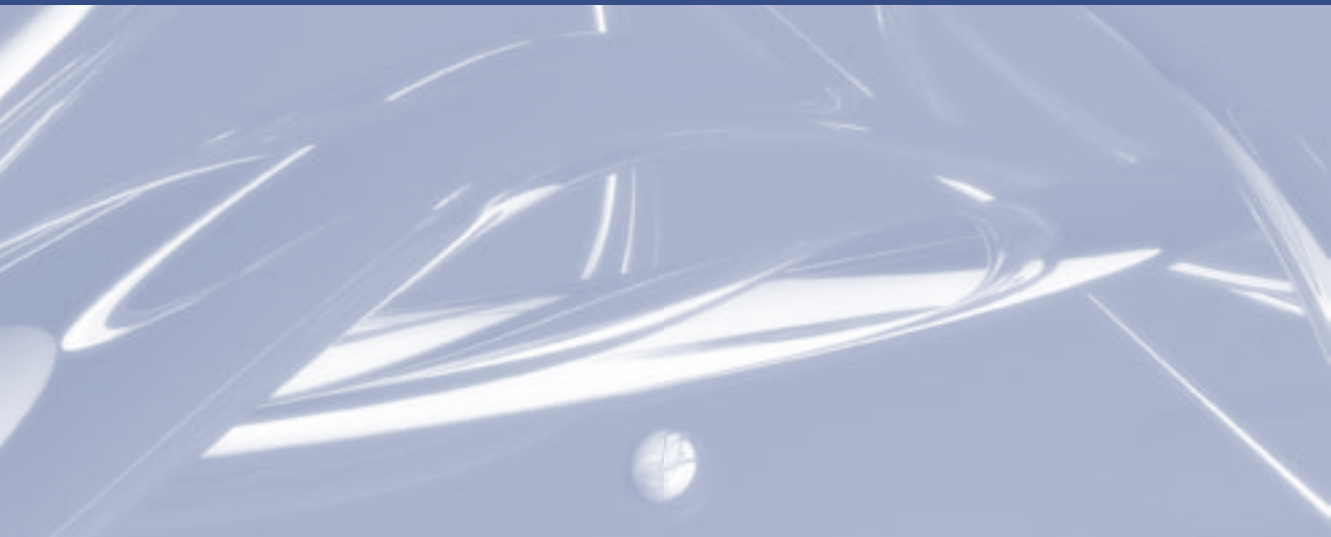
PHIAC recognises and accepts its responsibilities under Federal Legislation, including the *Disability Discrimination Act 1992*. As a prescribed agency, PHIAC adheres to the legal requirements and the principles of better practice of the strategy in all matters that have an impact on employees, especially those that may have a disability. To this end, PHIAC office premises, work practices and policies reflect the principles of the Commonwealth Disability Strategy. Within the limitations of a small entity, PHIAC plans to review and update compliance with the Commonwealth Disability Strategy on an annual basis.

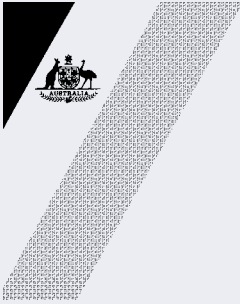
Corporate Social Responsibility

All PHIAC staff have a commitment to operating in a way that takes account of not only the financial implications of business decisions it makes, but also the social, environmental and economic impacts. Corporate social responsibility issues are covered in the Staff Procedures and Chief Executive Officer's Instructions given to staff as part of their induction. Particular corporate social responsibility issues relevant to PHIAC's operations include aspects of: governance, compliance with the law with regard to employee wages and benefits, no discrimination against potential employees (employed on basis of skill as opposed to personal characteristics), and health and safety issues such as fire safety and emergency evacuation procedures. Environmental impact issues such as recycling are also considered.

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Part 2 | Financial Statements 2005–06





INDEPENDENT AUDIT REPORT

To the Minister for Health and Ageing

Scope

The financial statements and Directors' responsibility

The financial statements comprise:

- Statement by Council;
- Income Statement, Balance Sheet and Statement of Cash Flows;
- Statement of Changes in Equity;
- Schedules of Commitments and Contingencies;
- Schedule of Administered Items; and
- Notes to and forming part of the Financial Statements

of the Private Health Insurance Administration Council for the year ended 30 June 2006.

The members of the Council are responsible for preparing the financial statements that give a true and fair view of the financial position and performance of the Private Health Insurance Administration Council, and that comply with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, Accounting Standards and mandatory financial reporting requirements in Australia. The members of the Council are also responsible for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

Audit Approach

I have conducted an independent audit of the financial statements in order to express an opinion on them to you. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial statements are free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive, rather than conclusive, evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of audit procedures, the audit was not designed to provide assurance on internal controls.

I have performed procedures to assess whether, in all material respects, the financial statements present fairly, in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Private Health Insurance Administration Council's financial position, and of its financial performance and cash flows.

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial statements; and
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the members of the Council.

Independence

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the ethical requirements of the Australian accounting profession.

Audit Opinion

In my opinion, the financial statements of the Private Health Insurance Administration Council:

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*; and
- (b) give a true and fair view of the Private Health Insurance Administration Council's financial position as at 30 June 2006 and of its performance and cash flows for the year then ended, in accordance with:
 - (i) the matters required by the Finance Minister's Orders; and
 - (ii) applicable Accounting Standards and other mandatory financial reporting requirements in Australia.

Australian National Audit Office



Ron Wah
Senior Director

Delegate of the Auditor-General

Canberra
8 September 2006



Australian Government

Private Health Insurance
Administration Council

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
STATEMENT BY COUNCIL

In our opinion, the attached financial statements for the year ended 30 June 2006 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Private Health Insurance Administration Council will be able to pay its debts as and when they become due and payable.

This Statement is made in accordance with a resolution of the directors.

G Richardson
Commissioner
8 September 2006

P Annand
Council Member
8 September 2006

R Davies
Council Member
8 September 2006

J McGee
Council Member
8 September 2006

S Carter
Council Member
8 September 2006

G Ginnane
Chief Executive Officer
8 September 2006

D Dietz
Chief Financial Officer
8 September 2006

**PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
INCOME STATEMENT**

for the year ended 30 June 2006

	Notes	2006 \$	2005 \$
INCOME			
<i>Revenue</i>			
Revenue from Government	4A	4,440,000	4,214,000
Goods and services	4B	225,269	160,088
Interest	4C	128,895	85,542
Other	4D	81,062	4,577
Total Revenue		<u>4,875,226</u>	<u>4,464,207</u>
<i>Gains</i>			
Net gains from disposal of assets	4E	-	500
Total Gains		-	<u>500</u>
TOTAL INCOME		<u>4,875,226</u>	<u>4,464,707</u>
EXPENSE			
Employees	5A	1,825,253	1,446,597
Suppliers	5B	1,499,945	1,609,735
Depreciation and amortisation	5C	126,112	94,042
Finance costs	5D	3,430	5,330
Net loss from disposal of assets	5E	1,724	-
TOTAL EXPENSES		<u>3,456,465</u>	<u>3,155,704</u>
OPERATING RESULT		<u>1,418,762</u>	<u>1,309,003</u>

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

**PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
BALANCE SHEET**

as at 30 June 2006

	Notes	2006 \$	2005 \$
ASSETS			
Financial assets			
Cash	6A, 10	3,918,452	2,631,099
Receivables	6B	23,523	47,662
Other financial assets	6C, 17	4,957	4,957
Total financial assets		<u>3,946,932</u>	<u>2,683,718</u>
Non-financial assets			
Leasehold Improvements	7A,C	186,486	182,444
Plant and equipment	7B,C	140,117	83,058
Other non-financial assets	7D	60,194	18,282
Total non-financial assets		<u>386,797</u>	<u>283,784</u>
Total assets		<u>4,333,729</u>	<u>2,967,502</u>
LIABILITIES			
Interest Bearing Liabilities			
Leases	8	9,458	25,370
Total interest bearing liabilities		<u>9,458</u>	<u>25,370</u>
Provisions			
Employees	9A	585,298	475,737
Other	9B	65,000	-
Total provisions		<u>650,298</u>	<u>475,737</u>
Payables			
Suppliers	9C	111,968	323,152
Total payables		<u>111,968</u>	<u>323,152</u>
TOTAL LIABILITIES		<u>771,724</u>	<u>824,260</u>
NET ASSETS		<u>3,562,005</u>	<u>2,143,242</u>
EQUITY			
Reserves		41,138	41,138
Retained surpluses		3,520,867	2,102,105
TOTAL EQUITY		<u>3,562,005</u>	<u>2,143,242</u>
Current liabilities		640,437	780,073
Non-current liabilities		131,287	44,186
Current assets		3,951,097	2,697,043
Non-current assets		382,632	270,459

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

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
STATEMENT OF CASH FLOWS

for the year ended 30 June 2006

	Notes	2006 \$	2005 \$
OPERATING ACTIVITIES			
Cash received			
Appropriations		4,440,000	4,214,000
Goods and services		225,269	160,088
Interest		128,895	85,542
GST received from the ATO		153,721	164,379
Other		81,062	4,577
Total cash received		<u>5,028,947</u>	<u>4,628,586</u>
Cash used			
Employees		(1,726,570)	(1,390,126)
Suppliers		(1,646,040)	(1,784,472)
Financing costs		(2,928)	(4,885)
Total cash used		<u>(3,375,538)</u>	<u>(3,179,483)</u>
Net Cash from (used by) operating activities	10	<u>1,653,409</u>	<u>1,449,103</u>
INVESTING ACTIVITIES			
Cash received			
Proceeds from sales of property, plant and equipment		165	500
Total cash received		<u>165</u>	<u>500</u>
Cash used			
Purchase of property, plant and equipment		(430,823)	(15,584)
Loss on disposal of property, plant and equipment		(1,889)	-
Total cash used		<u>(432,712)</u>	<u>(15,584)</u>
Net Cash from/(used by) investing activities		<u>(432,547)</u>	<u>(15,084)</u>
FINANCING ACTIVITIES			
Cash used			
Lease principal repayments		66,491	(42,036)
Net Cash from /(used by) financing activities		<u>66,491</u>	<u>(42,036)</u>
Net increase (decrease) in cash held		1,287,353	1,391,983
Cash at the beginning of the reporting period		2,631,099	1,239,116
Cash at the end of the reporting period	6A,10	<u>3,918,452</u>	<u>2,631,099</u>

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

**PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
STATEMENT of CHANGES in EQUITY**

for the year ended 30 June 2006

	Retained Surplus		Asset Revaluation Reserve		Total Equity	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
Opening Balance	2,102,105	793,102	41,138	41,138	2,143,243	834,240
Adjustment for changes in Accounting policies	-	-	-	-	-	-
Adjusted Opening Balance	2,102,105	793,102	41,138	41,138	2,143,243	834,240
Income and Expense						
Revaluation adjustment	-	-	-	-	-	-
Subtotal income and expenses recognised directly in equity	-	-	-	-	-	-
Net Operating Result	1,418,762	1,309,003	-	-	1,418,762	1,309,003
Total income and expenses	1,418,762	1,309,003	-	-	1,418,762	1,309,003
Closing Balance	3,520,867	2,102,105	41,138	41,138	3,562,005	2,143,243

**PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
SCHEDULE OF COMMITMENTS**

as at 30 June 2006

	2006 \$	2005 \$
BY TYPE		
OTHER COMMITMENTS		
Operating lease ¹	601,373	696,530
Total other commitments	<u>601,373</u>	<u>696,530</u>
COMMITMENTS RECEIVABLE		
GST Receivable	(54,670)	(63,321)
Net commitments	<u>546,702</u>	<u>633,209</u>
 BY MATURITY		
Operating lease commitments		
One year or less	149,101	147,009
From one to five years	397,602	486,200
Net operating lease commitments	<u>546,702</u>	<u>633,209</u>

NB: Commitments are GST inclusive where relevant.

¹ Operating lease included is effectively non-cancellable and comprises a lease for office accommodation.

Nature of lease	General description of leasing arrangement
Leases for office accommodation.	Lease payments are subject to annual 4% increase . The initial periods of office accommodation leases are still current and each may be renewed for up to five years at PHIAC's option, subject to annual 4% increases.

The above schedule should be read in conjunction with the accompanying notes

**PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
SCHEDULE OF CONTINGENCIES**

as at 30 June 2006

	2006	2005
	\$	\$
CONTINGENT LOSSES	-	-

There are no contingencies at 30 June 2006. (Nil at 30 June 2005)

The above schedule should be read in conjunction with the accompanying notes

**PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
SCHEDULE OF ADMINISTERED ITEMS**

	Notes	2006 \$	2005 \$
Income Administered on Behalf of the Government			
<i>for the year ended 30 June 2006</i>			
Revenue			
Goods and services	19	<u>182,230,145</u>	<u>163,229,718</u>
Total Revenues Administered on Behalf of the Government		<u><u>182,230,145</u></u>	<u><u>163,229,718</u></u>
Expense			
Goods and services	19	<u>(182,230,145)</u>	<u>(163,229,718)</u>
Total Expenses Administered on Behalf of the Government		<u><u>(182,230,145)</u></u>	<u><u>(163,229,718)</u></u>
Assets Administered on Behalf of the Government			
<i>as at 30 June 2006</i>			
Financial assets			
Receivables (Current)	20	<u>-</u>	<u>-</u>
Total Assets Administered on Behalf of the Government		<u><u>-</u></u>	<u><u>-</u></u>
Administered Cash Flow			
<i>for the year ended 30 June 2006</i>			
Operating Activities			
Cash Received			
Rendering of services		<u>182,230,145</u>	<u>163,229,718</u>
Total Cash Received		<u><u>182,230,145</u></u>	<u><u>163,229,718</u></u>
Cash Used			
Payments to Reinsurance pool recipients		<u>182,230,145</u>	<u>163,229,718</u>
Total Cash Used		<u><u>182,230,145</u></u>	<u><u>163,229,718</u></u>
Net Cash From (Used In) Operating Activities		<u><u>-</u></u>	<u><u>-</u></u>
Net Increase (Decrease) in Cash Held			
Cash at beginning of the reporting period		<u>-</u>	<u>-</u>
Cash to Official Public Account for:			
- Appropriations		<u>(182,230,145)</u>	<u>(163,229,718)</u>
Cash from Official Public Account for:			
- Appropriations		<u>182,230,145</u>	<u>163,229,718</u>
Cash at end of the reporting period		<u><u>-</u></u>	<u><u>-</u></u>

The Private Health Insurance Administration Council (PHIAC) administers the Health Benefits Reinsurance Trust Fund on behalf of the Australian Government, the revenues from which are not available to be used by PHIAC for its own purposes and are remitted to the Australian Government's Official Public Account. Transactions and balances relating to the Trust Fund are reported as Administered Items.

Under the new levy arrangements with effect from 1 July 2004, payments into and from the Trust Fund were placed in the consolidated revenue fund and then appropriated as an Administered Item.

The above schedule should be read in conjunction with the accompanying notes

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2006

Note	Description
1	Summary of Significant Accounting Policies
2	The impact of the transition to AEIFRS from previous AGAAP
3	Events after the Balance Sheet Date
4	Income
5	Operating Expenses
6	Financial Assets
7	Non-financial Assets
8	Interest Bearing Liabilities
9	Provisions and Payables
10	Cash Flow Reconciliation
11	Council Remuneration
12	Related Party Disclosures
13	Executive Remuneration
14	Remuneration of Auditors
15	Average Staffing Levels
16	External Financing Arrangements
17	Trust Money
18	Financial Instruments
19	Income Administered on Behalf of Government
20	Assets Administered on Behalf of Government
21	Administered Reconciliation Table
22	Administered Financial Instruments
23	Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund - Special Appropriation
24	Reporting of Outcomes
25	Economic Dependency

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
Notes to and forming part of the Financial Statements
for the year ended 30 June 2006

1. Summary of Significant Accounting Policies

1.1 Basis of Preparation of the Financial Statements

The financial statements are required by clause 1(b) of Schedule 1 of the *Commonwealth Authorities and Companies Act 1997*(CAC) and are a general purpose financial report.

The continued existence of the Private Health Insurance Administration Council (PHIAC) in its present form and with its present programs is dependent on Government policy.

The statements have been prepared in accordance with Finance Minister's Orders (or FMOs, being the CAC Orders (Financial Statements for reporting periods ending on or after 01 July 2005)); Australian Accounting Standards issued by the Australian Accounting Standards Board that apply for the reporting period; and Interpretations issued by the AASB and UIG that apply for the reporting period.

This is the first financial report to be prepared under Australian Equivalents to International Financial Reporting Standards (AEIFRS). The impacts of adopting AEIFRS are disclosed in Note 2.

The Income Statement, Balance Sheet and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets and liabilities, which as noted, are at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial report is presented in Australian dollars and values are rounded to the nearest thousand dollars unless disclosure of the full amount is specifically required.

Unless alternative treatment is specifically required by an accounting standard, assets and liabilities are recognised in the Balance Sheet when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an Accounting Standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies.

Unless alternative treatment is specifically required by an accounting standard, revenues and expenses are recognised in the Income Statement when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

Administered revenues, expenses, assets, liabilities and cash flows reported in the Schedule of Administered Items and related notes are accounted for on the same basis and using the same policies.

1.2 Significant Accounting Judgements and Estimates

In the process of applying the accounting policies listed in this note, PHIAC has made the following judgements that have the most significant impact on the amounts recorded in the financial statements. The fair value of infrastructure, plant and equipment has been reviewed to ensure the written down values fairly represent the fair value at the reporting date. A further review of impairment indicators did not show a need for any additional write-downs.

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
Notes to and forming part of the Financial Statements
for the year ended 30 June 2006

1.3 Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian Equivalents to International Financial Reporting Standards (AEIFRS).

Australian Accounting Standards require PHIAC to disclose Australian Accounting Standards that have not been applied, for standards that have been issued but are not yet effective.

The AASB has issued amendments to existing standards, these amendments are denoted by year and then number, for example 2005-1 indicates amendment 1 issued in 2005.

The table below illustrates standards and amendments that will become effective for PHIAC in the future. The nature of the impending change within the table, has been out of necessity abbreviated and users should consult the full version available on the AASB's website to identify the full impact of the change. The expected impact on the financial report of adoption of these standards is based on PHIAC's initial assessment at this date, but may change. PHIAC intends to adopt all of standards upon their application date, if relevant.

Title	Standard affected	Application date*	Nature of impending change	Impact expected on financial report
2005-1	AASB 139	1 Jan 2006	Amends hedging requirements for foreign currency risk of a highly probable intra-group transaction.	No expected impact.
2005-4	AASB 139, AASB 132, AASB 1, AASB 1023 and AASB 1038	1 Jan 2006	Amends AASB 139, AASB 1023 and AASB 1038 to restrict the option to fair value through profit or loss and makes consequential amendments to AASB 1 and AASB 132.	No expected impact.
2005-5	AASB 1 and AASB 139	1 Jan 2006	Amends AASB 1 to allow an entity to determine whether an arrangement is, or contains, a lease. Amends AASB 139 to scope out a contractual right to receive reimbursement (in accordance with AASB 137) in the form of cash.	No expected impact.
2005-6	AASB 3	1 Jan 2006	Amends the scope to exclude business combinations involving entities or businesses under common control.	No expected impact.
2005-9	AASB 4, AASB 1023, AASB 139 and AASB 132	1 Jan 2006	Amended standards in regards to financial guarantee contracts.	No expected impact.
2005-10	AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038	1 Jan 2007	Amended requirements subsequent to the issuing of AASB 7.	No expected impact.
2006-1	AASB 121	31 Dec 2006	Changes in requirements for net investments in foreign subsidiaries depending on denominated currency.	No expected impact.
	AASB7 Financial Instruments: Disclosures	1 Jan 2007	Revise the disclosure requirements for financial instruments from AASB132 requirements.	No expected impact.

* Application date is for annual reporting periods beginning on or after the date shown

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
Notes to and forming part of the Financial Statements
for the year ended 30 June 2006

1.4 Revenue

The revenues described in this Note are revenues relating to the core operating activities of PHIAC.

Revenue from the sale of goods is recognised when:

- The risks and rewards of ownership have been transferred to the buyer;
- The seller retains no managerial involvement nor effective control over the goods;
- The revenue and transaction costs incurred can be reliably measured; and
- It is probable that the economic benefits associated with the transaction will flow to the entity.

Interest revenue is recognised using the effective interest method as set out in AASB 139.

Receivables for goods and services, which have 30 day terms, are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collectability of the debt is no longer probable.

Revenues from Government

Amounts appropriated for Departmental outputs appropriations for the year are recognised as revenue on an accrual basis.

Appropriations receivable are recognised at their nominal amounts.

Section 82PO (1) of the *National Health Act 1953* states Levies collected under the following Act are payable to PHIAC:

- *Private Health Insurance (ACAC Review Levy) Act 2003*
- *Private Health Insurance (Council Administration Levy) Act 2003*
- *Private Health Insurance (Collapsed Organisation Levy) Act 2003*

Section 82PO (2) of the *National Health Act 1953* appropriates the Consolidated Revenue Fund for the amounts payable under Section 82PO (1).

Resources Received Free of Charge

Services received free of charge are recognised as revenue when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised as revenue at their fair value when the asset qualifies for recognition.

1.5 Employee Benefits

As required by the Finance Minister's Orders, PHIAC has early adopted AASB 119 Employee Benefits as issued in December 2004.

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for wages and salaries (including non-monetary benefits) and annual leave due within twelve months are measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

All other employee benefit liabilities are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
Notes to and forming part of the Financial Statements
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Leave

The liability for employee benefits includes provisions for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration, including PHIAC's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The non-current portion of the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at 30 June 2006. In determining the present value of the liability, PHIAC has taken into account attrition rates and pay increases through promotion and certified agreement increases.

Separation and Redundancy

Provision is made for separation and redundancy payments in circumstances where PHIAC has developed a detailed formal plan for the terminations and has informed those employees affected that it will carry out the terminations.

Superannuation

Staff of PHIAC are members of Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), or the PSS accumulation plan (PSSap). The CSS and PSS are defined benefit schemes for the Commonwealth. The PSSap is a defined contribution scheme. Employer contributions amounting to \$168,123 (2004-05: \$127,656) were made in relation to these schemes and have been expensed in these financial statements.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course.

Employer Productivity Superannuation Contributions totalled \$45,649 (2004-05: \$40,813)

PHIAC makes employer contributions to the Australian Government at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of PHIAC's employees. Contribution rates in 2005-06 were 25.3% of salary (CSS), 13.3% of salary (PSS), and 15.4% (PSSap). An additional contribution for employer productivity benefits is made in accordance with Employer Productivity Superannuation Contribution rates where applicable.

From 1 July 2005, new employees are eligible to join the PSSap scheme.

1.6 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is capitalised at the present value of minimum lease payments at the beginning of the lease term and a liability recognised at the same time and for the same amount. Lease payments are allocated between the principle component and the interest expense. Leased assets are amortised over the period of the lease. Lease terms are three to four years.

Operating lease payments are expensed on a basis which is representative of the pattern of benefits derived from the leased assets. The net present value of future net outlays in respect of surplus space under non-cancellable lease agreements is expensed in the period in which the space becomes surplus.

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
Notes to and forming part of the Financial Statements
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1.7 Cash

Cash means notes and coins held and any deposits held at call with a bank or financial institution. Cash is recognised at its nominal amount.

1.8 Financial Risk Management

PHIAC's activities expose it to normal commercial financial risk. As a result of the nature of PHIAC's business and internal and Australian Government policies, dealing with the management of financial risk, PHIAC's exposure to market, credit, liquidity and cash flow and fair value interest rate risk is considered to be low.

1.9 Derecognition of Financial Assets and Liabilities

As prescribed in the Finance Minister's Orders, PHIAC has applied the option available under AASB 1 of adopting AASB 132 and 139 from 1 July 2005 rather than 1 July 2004.

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or the asset is transferred to another entity. In the case of a transfer to another entity, it is necessary that the risks and rewards of ownership are also transferred.

Financial liabilities are derecognised when the obligation under the contract is discharged or cancelled or expires.

For the comparative year, financial assets were derecognised when the contractual right to receive cash no longer existed. Financial liabilities were derecognised when the contractual obligation to pay cash no longer existed.

1.10 Impairment of Financial Assets

As prescribed in the Finance Minister's Orders, PHIAC has applied the option available under AASB 1 of adopting AASB 132 and 139 from 1 July 2005 rather than 1 July 2004.

Financial assets are assessed for impairment at each balance date.

Financial Assets held at Amortised Cost

If there is objective evidence that an impairment loss has been incurred for loans and receivables or held to maturity investments held at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in profit and loss.

Financial Assets held at Cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because it cannot be reliably measured, or a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate for similar assets.

Available for Sale Financial Assets

If there is objective evidence that an impairment loss on an available for sale financial asset has been incurred, the amount of the difference between its cost, less principal repayments and amortisation, and its current fair value, less any impairment loss previously recognised in profit and loss, is transferred from equity to the profit and loss

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
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Comparative Year

The above policies were not applied for the comparative year. For receivables, amounts were recognised and carried at original invoice amount less a provision for doubtful debts based on an estimate made when collection of the full amount was no longer probable. Bad debts were written off as incurred.

Other financial assets carried at cost which were not held to generate net cash inflows, were assessed for indicators of impairment. Where such indicators were found to exist, the recoverable amount of the assets was estimated and compared to the assets carrying amount and, if less, reduced to the carrying amount. The reduction was shown as an impairment loss.

1.11 Trade Creditors

Trade creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

1.12 Acquisition of Assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition.

1.13 Infrastructure, Plant and Equipment

Asset recognition threshold

Purchases of infrastructure, plant and equipment are recognised initially at cost in the Balance Sheet, except for purchases costing less than \$500, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to 'makegood' provisions in property leases taken up by PHIAC where there exists an obligation to restore the property to its original condition. These costs are included in the value of PHIAC's leasehold improvements with a corresponding provision for the 'makegood' taken up.

Revaluations

Basis

Infrastructure, plant and equipment are carried at valuation, being revalued with sufficient frequency such that the carrying amount of each asset class is not materially different, as at reporting date, from its fair value.

Fair values for each class of assets are determined as shown below:

Asset Class	Fair Value Measured at:
Leasehold Improvements	Depreciated replacement cost
Plant & Equipment	Market selling price

Following initial recognition at cost, valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not materially differ with the assets' fair values as at the reporting

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
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date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised through profit and loss. Revaluation decrements for a class of assets are recognised directly through profit and loss except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

Depreciation and Amortisation

Depreciable infrastructure, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives using, in all cases, the straight-line method of depreciation. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation/amortisation rates (useful lives) residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	<u>2006</u>	<u>2005</u>
Furniture & fittings	5-10 years	5-10 years
Computer equipment	3-6 years	3-6 years
Office equipment	3-4 years	3-4 years
Leasehold improvements	lease term	lease term

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 5C.

Impairment

All assets were assessed for impairment at 30 June 2006. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its *fair value less costs to sell* and its *value in use*. *Value in use* is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if PHIAC were deprived of the asset, its *value in use* is taken to be its depreciated replacement cost.

No indicators of impairment were found for assets at fair value.

1.14 Taxation/Competitive Neutrality

PHIAC is exempt from all forms of taxation except fringe benefits tax and the goods and services tax (GST).

Revenues, expenses and assets are recognised net of GST:

- except where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
- except for receivables and payables.

Competitive Neutrality

PHIAC is not subject to Competitive Neutrality.

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
Notes to and forming part of the Financial Statements
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1.15 Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

1.16 Rounding

Amounts have been rounded to the nearest dollar with the exception of Note 24. Where numbers have been rounded, discrepancies may occur between sums of component items and totals.

1.17 Reporting of Administered Activities

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the *Schedule of Administered Items* and related notes.

Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for PHIAC departmental items, including the application of Australian Accounting Standards, Accounting Interpretation and UIG Abstracts.

Administered Cash Transfers to and from Official Public Account

Revenue collected and payments made by PHIAC for the Health Benefits Reinsurance Trust Fund (HBRTF) is considered by the Government as Administered revenue and expenses. Collections are transferred to the Official Public Account (OPA) maintained by the Department of Finance and Administration. These monies are drawn down from the OPA to the HBRTF in order to make payments from the Trust Fund. These transfers to and from the OPA are adjustments to the administered cash held on behalf of the Government and reported as such in the Statement of Cash Flows in the Schedule of Administered Items and in the Administered Reconciliation Table in Note 21.

Revenue

All administered revenues are revenues relating to the administration of the Health Benefits Reinsurance Trust Fund (HBRTF). These revenues are not directly available to be used by PHIAC for its own purposes and are remitted to the Australian Government's Official Public Account.

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

2. The impact of the transition to AEIFRS from previous AGAAP

Reconciliation of total equity as presented under previous AGAAP to that under AEIFRS

	2005	2004
	\$	\$
Total equity under previous AGAAP	2,140	826
Adjustments to retained earnings:		
Annual Leave Provision (1)	8	8
Lease Accrual (2)	(5)	---
Adjustments to other reserves	-	---
Total equity translated to AEIFRS	<u>2,143</u>	<u>834</u>

Reconciliation of profit or loss as presented under previous AGAAP to AEIFRS

Prior year profit as previously reported	1,314
Adjustments:	
Annual Leave Provision (1)	-
Lease Accrual (2)	(5)
	<u>1,309</u>

(1) AEIFRS requires that annual leave that is not expected to be taken within 12 months of balance date is to be discounted. After assessing the staff leave profile, PHIAC does not expect that any material amounts of the annual leave balance will not be taken in the next 12 months. Consequently, there is only a minor adjustment for non-current annual leave.

(2) AEIFRS requires that operating leases with fixed increases are recognised on a straight-line basis over the term of the lease. Consequently, a minor adjustment to rent expense has been made in 2005.

3. Events after the Balance Sheet Date

There are no subsequent events which the Council is aware of that may affect the financial statements.

4. Income

	2006	2005
	\$	\$
Revenues		
<u>Note 4A. Revenues from Government</u>		
Departmental Appropriations for outputs - PHIAC Administration Levy	4,435,000	4,189,556
Departmental Appropriations for outputs - ACAC Levy	5,000	24,444
Total revenues from government	<u>4,440,000</u>	<u>4,214,000</u>

This revenue is levied on registered health benefits organisations. Organisations remit the levy to PHIAC who transfers the revenue to the OPA (Official Public Account) and then drawn down quarterly into the PHIAC operating account.

Note 4B. Goods and Services

Special Levy Income	103,198	142,088
Acute Care Advisory Committee Fees	108,000	18,000
Publications	14,072	-
Total sales of goods and services	<u>225,269</u>	<u>160,088</u>

Provision of goods to:

Related entities	-	-
External entities	14,072	-
Total sales of goods	<u>14,072</u>	<u>-</u>

Provision of services to:

Related entities	-	-
External entities	211,198	160,088
Total sales of services	<u>211,198</u>	<u>160,088</u>

Note 4C. Interest

Interest on deposits	<u>128,895</u>	<u>85,542</u>
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Note 4D. Other Revenue

Other	<u>81,062</u>	<u>4,577</u>
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Note 4E. Net Gains from Disposal of Assets

Non-financial assets:		
Plant & Equipment	-	500
Total net gain from disposal of assets	<u>-</u>	<u>500</u>

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

	2006	2005
	\$	\$
5. Operating Expenses		
<u>Note 5A. Employee Expenses</u>		
Wages and salaries	1,456,769	1,151,065
Superannuation	213,772	168,470
Leave and other entitlements	130,018	103,141
Other employee benefits	24,695	23,922
Total employee expenses	<u>1,825,253</u>	<u>1,446,597</u>
<u>Note 5B. Suppliers expenses</u>		
Supply of goods and services	1,322,652	1,503,151
Operating lease rentals*	166,416	100,276
Workers compensation premiums	10,877	6,308
Total suppliers expenses	<u>1,499,945</u>	<u>1,609,735</u>
* These comprise minimum lease payments only.		
<u>Note 5C. Depreciation and Amortisation</u>		
Depreciation of property, plant and equipment	39,864	22,425
Amortisation of leased assets	72,319	71,617
Amortisation of deferred expense	13,929	-
Total depreciation and amortisation	<u>126,112</u>	<u>94,042</u>
The aggregate amounts of depreciation or amortisation expensed during the reporting period for each class of depreciable asset are as follows:		
• Plant and equipment	56,125	64,810
• Leasehold improvements	56,058	29,232
• Deferred expense	13,929	-
Total allocated	<u>126,112</u>	<u>94,042</u>
<u>5D. Finance costs</u>		
Finance Charges on Lease Liabilities	3,430	5,330
Total borrowing cost expense	<u>3,430</u>	<u>5,330</u>
<u>Note 5E. Net Loss From Disposal of Assets</u>		
Non-financial assets:		
Plant & Equipment	1,724	-
Total net loss from disposal of assets	<u>1,724</u>	<u>-</u>
6. Financial Assets		
<u>6A. Cash</u>		
Cash at bank	3,918,252	2,630,899
Cash on hand	200	200
Total cash	<u>3,918,452</u>	<u>2,631,099</u>
<u>6B. Receivables</u>		
Other receivables	140	-
GST receivables	23,383	47,662
Total receivables	<u>23,523</u>	<u>47,662</u>
All receivables are current assets		
Receivables (gross) which are overdue are aged as follows:		
Not Overdue	23,523	47,662
Overdue by:		
less than 30 days	-	-
30 to 60 days	-	-
60 to 90 days	-	-
more than 90 days	-	-
Total receivables (gross)	<u>23,523</u>	<u>47,662</u>
<u>6C. Other Financial Assets</u>		
Deposits	4,957	4,957
Total Other Financial Assets	<u>4,957</u>	<u>4,957</u>

Other Financial Assets are non-current assets

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

7. Non-financial Assets

7A. Leasehold Improvements

	2006	2005
	\$	\$
Leasehold Improvements at cost	235,236	175,137
Accumulated amortisation	(48,750)	-
Written down value	<u>186,486</u>	<u>175,137</u>

Leasehold Improvements at fair value	16,156	95,358
Accumulated amortisation	(16,156)	(88,050)
Written down value	<u>-</u>	<u>7,308</u>

Total Leasehold Improvements (non-current)	<u>186,486</u>	<u>182,444</u>
---	-----------------------	-----------------------

7B. Plant and Equipment

Furniture & Fittings, at cost	45,028	---
Accumulated depreciation	(6,826)	---
Written down value	<u>38,201</u>	<u>---</u>

Furniture & Fittings at fair value	42,161	44,551
Accumulated depreciation	(18,396)	(11,571)
Written down value	<u>23,765</u>	<u>32,980</u>

Computer Equipment, at cost	76,641	15,584
Accumulated depreciation	(20,139)	(2,539)
Written down value	<u>56,502</u>	<u>13,045</u>

Computer equipment at fair value	13,910	13,947
Accumulated depreciation	(11,027)	(6,920)
Written down value	<u>2,883</u>	<u>7,027</u>

Office equipment, at cost	8,508	---
Accumulated depreciation	(2,127)	---
Written down value	<u>6,381</u>	<u>---</u>

Office equipment at fair value	5,761	5,766
Accumulated depreciation	(2,749)	(1,394)
Written down value	<u>3,011</u>	<u>4,371</u>

Leased equipment, at cost	65,315	147,717
Accumulated amortisation	(55,941)	(122,083)
Written down value	<u>9,374</u>	<u>25,635</u>

Total plant and equipment (non-current)	<u>140,117</u>	<u>83,058</u>
--	-----------------------	----------------------

All revaluations are independent and are in accordance with the revaluation policy stated at Note 1. In 2003-04, the revaluations were conducted by an independent valuer the Australian Valuation Office.

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
Notes to and forming part of the Financial Statements
for the year ended 30 June 2006

7C. Analysis of Property, Plant, Equipment and Intangibles

Table A – Reconciliation of the opening and closing balances of property, plant and equipment and intangibles.

Item	Leasehold Improvements \$	Plant & Equipment \$	Computer software - Total intangibles \$	Total \$
As at 1 July 2005				
Gross book value	270,494	227,565	-	498,060
Accumulated Depreciation/ Amortisation	(88,050)	(144,508)	-	(232,558)
Net Book Value	182,444	83,057	-	265,502
Additions				
By purchase	60,100	115,074	-	175,174
From acquisition of operations	-	-	-	-
Net revaluation increment/ decrement	-	-	-	-
Depreciation/ amortisation expense	(56,058)	(56,125)	-	(112,183)
Recoverable Amount write-downs	-	-	-	-
Disposals				
From disposal of operations	-	-	-	-
Other disposals	-	(1,889)	-	(1,889)
Disposals:	(79,201)	(85,315)	-	(164,517)
Disposals Deprec	79,201	83,426	-	162,627
As at 30 June 2006				
Gross book value	251,393	257,324	-	508,717
Accumulated Depreciation/ Amortisation	(64,907)	(117,207)	-	(182,114)
Net Book Value	186,486	140,117	-	326,603

Table B – Assets held under finance lease

Item	Leasehold Improvements \$	Plant & Equipment \$	Computer software - Total intangibles \$	Total \$
As at 30 June 2006				
Gross value	-	65,315	-	65,315
Accumulated Depreciation/ Amortisation	-	(55,941)	-	(55,941)
Net Book Value	-	9,374	-	9,374
As at 30 June 2005				
Gross value	-	147,717	-	147,717
Accumulated Depreciation/ Amortisation	-	(122,083)	-	(122,083)
Net Book Value	-	25,635	-	25,635

	2006	2005
7D. Other Non-Financial Assets	\$	\$
Prepayments	9,123	18,282
Deferred Expense - Make Good	65,000	-
Amortisation Deferred Expense	(13,929)	-
Total Other Non-Financial Assets	60,194	18,282

8. Interest Bearing Liabilities

Leases

Finance Lease Commitments

Payable:

Within one year	10,072	18,689
In one to five years	847	10,919
Minimum lease payments	10,919	29,608
Deduct: future finance charges	(1,461)	(4,238)
Total lease liability	9,458	25,370

Lease liability is categorised as follows:

Current	8,689	15,911
Non-current	769	9,458
Total lease liability	9,458	25,370

The Council has one lease for a photocopier which expires in February 2007, a phone system which expires in July 2006, and three leases for computers which expire in October 2006, March 2007, and January 2008.

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

	2006	2005
	\$	\$
9. Provisions and Payables		
9A. Employee Provisions		
Salaries and wages	173,322	128,731
Leave	411,976	347,006
Aggregate employee entitlement liability	<u>585,298</u>	<u>475,737</u>
9B. Other Provisions		
Make good Provision	65,000	-
	<u>650,298</u>	<u>475,737</u>
Current	533,877	445,643
Non-current	116,421	30,094
	<u>650,298</u>	<u>475,737</u>
9C. Payables		
Suppliers	111,968	323,152
Total payables	<u>111,968</u>	<u>323,152</u>
All supplier payables are current.		

10. Cash Flow Reconciliation

Balance of cash as at 30 June shown in the Statement of Cash Flows	3,918,452	2,631,099
Financial Asset - Cash as shown in the Balance Sheet	3,918,452	2,631,099
Reconciliation of operating surplus to net cash from operating activities:		
Operating Surplus/ (Deficit)	1,418,762	1,309,003
Depreciation and amortisation	126,112	94,042
Loss on disposal of property, plant & equipment	1,889	-
Gain on sale of property, plant & equipment	(165)	(500)
(Increase)/ decrease in receivables	24,139	(18,095)
(Increase)/ decrease in prepayments	(41,912)	(4,870)
Increase/(decrease) in employee provisions	109,560	62,779
Increase/(decrease) in supplier payables	(36,047)	6,744
Net cash from/(used by) operating activities	<u>1,602,337</u>	<u>1,449,103</u>

11. Council Remuneration

The number of Council Members included in these figures are shown below in the relevant income bands.

	Number	
\$ nil - \$14,999	---	1
\$15,000 - \$29,999	---	1
\$30,000 - \$44,999	3	3
\$45,000 - \$59,999	1	---
\$60,000 - \$74,999	1	1
	<u>5</u>	<u>6</u>

Aggregate amount of Superannuation payments in connection with the retirement of Council Members	\$ 21,294	\$ 19,211
Other remuneration received or due and receivable by Council Members	237,549	214,331
Total remuneration received or due and receivable by Council Members	<u>258,843</u>	<u>233,543</u>

The Council Members of PHIAC are appointed by the Minister for Health and Ageing.

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

2006	2005
\$	\$

12. Related Party Disclosures

The Members of the Council during the year were:

	Date Appointed
Garry Richardson - Commissioner	20-Jul-98
Peter Annand - Deputy Commissioner	29-May-03
Sue Carter	29-May-03
Rebecca Davies	1-Jun-02
John McGee	17-Mar-05

The aggregate remuneration of Council Members is disclosed in Note 14.

Other than that shown in Note 11, during the year no member of the Council has received, or become entitled to receive, a material benefit by way of a contract made by the Private Health Insurance Administration Council with a member of the Council or with an organisation in which he or she is a member or has a substantial financial interest.

13. Executive Remuneration

Income received or due and receivable by officers:	\$	\$
	259,683	247,197

The Officers remuneration includes that of the Chief Executive Officer and the Council Secretary during 2005-06.

The number of Council Officers who received or were due to receive total remuneration of \$100,000 or more:

	Number	
\$210,000 - \$224,999	1	1

14. Remuneration of Auditors

Remuneration to the Auditor-General for:	2006	2005
• auditing the financial statements for the reporting period	\$	\$
	<u>11,500</u>	<u>11,000</u>

15. Average Staffing Levels

	Number	
Staffing levels at 30 June were:	16	11

16. External Financing Arrangements

The Council has access to seven credit cards with Westpac Banking Corporation.	2006	2005
	\$	\$
Total facility	50,000	50,000
Amount of facility used as at 30 June	<u>2,948</u>	<u>6,574</u>
Facility available	<u>47,052</u>	<u>43,426</u>

17. Trust Money

The Council administers the Health Benefits Reinsurance Trust Fund (HBRTF). Payments are made to the Trust Fund in accordance with the Reinsurance Arrangements specified under section 73BC of the National Health Act. These monies are not available for other purposes of PHIAC.

Opening Balance	34,630	52,117
Add: Receipts to HBRTF pool	182,230,145	163,229,718
Add: Interest received	176,296	139,275
Add: Late Penalty Fees Received	5,392	151
Less: Expenditure from HBRTF pool	(182,230,145)	(163,229,718)
Less: Expenditure interest paid to registered organisations	(150,469)	(156,913)
Closing Balance	<u>65,849</u>	<u>34,630</u>

\$4,957 of this amount are funds provided by PHIAC to maintain a minimum balance in the HBRTF bank account.

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL

Notes to and forming part of the Financial Statements
for the year ended 30 June 2006

18. Financial Instruments

a) Interest Rate Risk

Financial Instrument	Notes	Floating Interest Rate		Fixed Interest Rate				Non-Interest Bearing		Total		Weighted Average Effective Interest Rate	
		Rate		1 Year or Less		1 to 5 Years		Bearing		Total		Effective Interest Rate	
		05-06	04-05	05-06	04-05	05-06	04-05	05-06	04-05	05-06	04-05	05-06	04-05
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Financial Assets													
Cash at Bank	6A	3,918,252	2,630,899	---	---	---	---	---	---	3,918,252	2,630,899	5.4%	5.4%
Cash on Hand	6A	---	---	---	---	---	---	200	200	200	200	n/a	n/a
Deposits	6C	---	---	---	---	---	---	4,957	4,957	4,957	4,957	n/a	n/a
Total Financial Assets		3,918,252	2,630,899	---	---	---	---	5,157	5,157	3,923,409	2,636,056		
TOTAL ASSETS										4,333,729	2,967,502		
Financial Liabilities													
Lease Liabilities	8	---	---	8,689	15,911	769	9,458	---	---	9,458	25,370	4.5%	4.5%
Payables	9C	---	---	---	---	---	---	111,968	323,152	111,968	323,152	n/a	n/a
Total Financial Liabilities		---	---	8,689	15,911	769	9,458	111,968	323,152	121,426	348,522		
TOTAL LIABILITIES										771,724	824,260		

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

18. Financial Instruments

b) Net Fair Value of Financial Assets and Liabilities

	Note	2005-06		2004-05	
		Total Carrying amount	Aggregate Net Fair Value	Total Carrying amount	Aggregate Net Fair Value
		\$	\$	\$	\$
Financial Assets					
Cash at Bank	6A	3,918,252	3,918,252	2,630,899	2,630,899
Cash on Hand	6A	200	200	200	200
Deposits	6C	4,957	4,957	4,957	4,957
Total Financial Assets		<u>3,923,409</u>	<u>3,923,409</u>	<u>2,636,056</u>	<u>2,636,056</u>
Financial Liabilities					
Finance lease liabilities	8	9,458	9,458	25,370	25,370
Payables	9C	111,968	111,968	323,152	323,152
Total Financial Liabilities		<u>121,426</u>	<u>121,426</u>	<u>348,522</u>	<u>348,522</u>

d) Credit Risk Exposures

The Council's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Balance Sheet.

The Council has no significant exposures to any concentrations of credit risk except for cash which is receivable from Westpac Institutional Bank.

This note also applies to the administered financial instruments and is therefore not reproduced at Note 22.

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

2006
\$

2005
\$

19. Income Administered on Behalf of Government

Revenue

Non-taxation

Goods and services

Revenue from registered organisations

182,230,145 163,229,718

Total Revenue Administered on Behalf of the Government

182,230,145 163,229,718

Expenses

Non-taxation

Goods and services

Payments to registered organisations

(182,230,145) (163,229,718)

Total Expenses Administered on Behalf of the Government

(182,230,145) (163,229,718)

20. Assets Administered on Behalf of Government

Financial Assets

Receivables

Goods and services

--- ---

Less: Provision for doubtful debts

--- ---

Total Assets Administered on Behalf of the Government

--- ---

21. Administered Reconciliation Table

Opening administered assets less administered liabilities at 1 July

- -

Plus: Administered revenues

182,230,145 163,229,718

Less: Transfers to Official Public Account

(182,230,145) (163,229,718)

Closing administered assets less administered liabilities

- ---

22. Administered Financial Instruments

There were no administered financial instruments for 2005-06 (2005: Nil)

23. Appropriations

Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund - Special Appropriation

Private Health Insurance (Reinsurance Trust Fund Levy) Act 2003	2006		2005	
	Departmental \$	Administered \$	Departmental \$	Administered \$
Amount available carried from previous period	-	-	-	-
Appropriation for reporting period	-	182,230,145	-	163,229,718
Appropriations to take account of recoverable GST (FMA s30A)	-	-	-	-
Available for payments	-	182,230,145	-	163,229,718
Cash payments made during the year (GST inclusive)	-	182,230,145	-	163,229,718
Appropriations credited to Special Accounts	-	-	-	-
Appropriations lapsed	-	-	-	-
Amount available carried to the next period	-	-	-	-
<i>Represented by:</i>				
Cash	-	-	-	-
Departmental appropriation receivable	-	-	-	-
Undrawn, unlapsd administered appropriations	-	-	-	-
Departmental appropriation receivable – drawing rights withheld by the Finance Minister (FMA s27(4))	-	-	-	-
Total	-	-	-	-

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

23. Appropriations (Continued)

<i>Private Health Insurance (Council Administration Levy) Act 2003</i>	2006		2005	
	Departmental \$	Administered \$	Departmental \$	Administered \$
Amount available carried from previous period	-	-	-	-
Appropriation for reporting period	4,435,000	-	4,189,556	-
Appropriations to take account of recoverable GST (FMA s30A)	-	-	-	-
Available for payments	4,435,000	-	4,189,556	-
Cash payments made during the year (GST inclusive)	4,435,000	-	4,189,556	-
Appropriations credited to Special Accounts	-	-	-	-
Appropriations lapsed	-	-	-	-
Amount available carried to the next period	-	-	-	-
<i>Represented by:</i>				
Cash	-	-	-	-
Departmental appropriation receivable	-	-	-	-
Undrawn, unapplied administered appropriations	-	-	-	-
Departmental appropriation receivable – drawing rights withheld by the Finance Minister (FMA s27(4))	-	-	-	-
Total	-	-	-	-

<i>Private Health Insurance (ACAC Review Levy) Act 2003</i>	2006		2005	
	Departmental \$	Administered \$	Departmental \$	Administered \$
Amount available carried from previous period	-	-	-	-
Appropriation for reporting period	5,000	-	24,444	-
Appropriations to take account of recoverable GST (FMA s30A)	-	-	-	-
Available for payments	5,000	-	24,444	-
Cash payments made during the year (GST inclusive)	5,000	-	24,444	-
Appropriations credited to Special Accounts	-	-	-	-
Appropriations lapsed	-	-	-	-
Amount available carried to the next period	-	-	-	-
<i>Represented by:</i>				
Cash	-	-	-	-
Departmental appropriation receivable	-	-	-	-
Undrawn, unapplied administered appropriations	-	-	-	-
Departmental appropriation receivable – drawing rights withheld by the Finance Minister (FMA s27(4))	-	-	-	-
Total	-	-	-	-

4. Reporting of Outcomes

Note 24A: Outcomes of the Authority

PHIAC is structured to meet one outcome:

Two Output Groups are identified for this Outcome:

Output Group 1. Information to Government and other stakeholders relevant to private health insurance.

Output Group 2. Regulatory activities

Note 24B: Net Cost of Outcome Delivery

	Outcome		Total	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<i>Expenses</i>				
Administered	182,230	163,230	182,230	163,230
Departmental	3,460	3,151	3,460	3,151
Total expenses	185,690	166,381	185,690	166,381
<i>Costs recovered from provision of goods and services to the non-government sector</i>				
Administered	182,230	163,230	182,230	163,230
Departmental	225	160	225	160
Total costs recovered	182,455	163,390	182,455	163,390
<i>Other external revenues</i>				
Departmental				
Interest	129	86	129	86
Revenue from sale of assets	0	1	0	1
Other	81	5	81	5
Total Departmental	210	91	210	91
Total other external revenues	210	91	210	91
Net costs/(contribution) of outcome	3,025	2,900	3,025	2,900

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL

Notes to and forming part of the Financial Statements

for the year ended 30 June 2006

24. Reporting of Outcomes (Continued)

Note 24C: Departmental Revenues and Expenses by Output Groups and Outcome

	Outcome				Total	
	Output 1.		Output 2.		2006 \$'000	2005 \$'000
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000		
Operating expenses						
Employees	716	567	1,120	886	1,836	1,453
Suppliers	581	624	908	980	1,489	1,603
Depreciation and amortisation	49	37	77	57	126	94
Write-down of assets	-	-	-	-	-	-
Value of assets disposed	1	-	1	-	2	-
Borrowing cost expense	1	2	2	3	3	5
Total operating expenses	1,349	1,229	2,108	1,926	3,457	3,156
Funded by:						
Revenues from Government	1,732	1,644	2,708	2,570	4,440	4,214
Sale of goods and services	88	62	137	98	225	160
Interest	50	33	79	52	129	86
Revenue from Sale of Assets	0	0	0	0	0	1
Other	32	2	49	3	81	5
Total Operating Revenues	1,902	1,742	2,973	2,723	4,875	4,465

Note 24D: Administered Revenues and Expenses by Output Groups and Outcome

	Outcome				Total	
	Output 1.		Output 2.		2006 \$'000	2005 \$'000
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000		
Expenses						
Payments from Health Benefits Reinsurance Trust Fund	-	-	182,230	163,230	182,230	163,230
Total expenses	-	-	182,230	163,230	182,230	163,230
Funded by:						
Revenues from Government	-	-	182,230	163,230	182,230	163,230
Total Revenues	-	-	182,230	163,230	182,230	163,230

PHIAC uses an Activity Based Costing System to determine the attribution of its outputs. This system was based on a time and motion study for corporate activities conducted in 2004 for the 2004-05 Budget. An update of the time and motion study was concluded for the 2005-06 Budget.

25. Economic Dependency

PHIAC was established by section 82B of the *National Health Act 1953* and is controlled by the Australian Government.

PHIAC is dependent on income received from levies imposed on registered health benefits organisations throughout Australia for its continued existence and ability to carry out its normal activities.

Financial Statements

Items in the Income Statement that show a significant variation in amount, when compared to the previous year, are detailed as follows:

Revenue

Goods and services – Receipts for the Acute Care Advisory Committee increased \$90,000 in 2005–06 over 2005–04. The consumer information brochure *Insure? Not Sure?* was reprinted in 2005–06 and distributed to registered organisations on a cost recovery basis.

Other Revenue – The figure for 2005–06 includes revenue from three Directors' Education Programs conducted by PHIAC for registered organisations on a cost recovery basis.

Items in the Balance Sheet that show a significant variation in amount, when compared to the previous year, are detailed as follows:

Cash – The increase in Cash for 2005–06 reflects the operating result for the year.

Receivables – GST Receivables for 2004–05 include costs incurred in June 2005 in relation to the fitout of the PHIAC offices.

Other Financial Assets – A deferred expense was taken up in 2005–06 in relation to the make-good obligations under the terms of the current PHIAC office lease.

Plant and equipment – This variance reflects the purchase of furniture in 2005–06 following the relocation to a new premises and the replacement of computer equipment which had previously been leased.

Provisions – A provision for the make-good of the current PHIAC premises was established in 2005–06 in accordance with the terms of the lease.

Payables – Payables for 2004–05 includes costs owing in relation to the fitout of the new PHIAC premises.

Compliance Index

The table below shows compliance with information requirements contained in the *Commonwealth Authorities and Companies Act 1997* and *Commonwealth Authorities and Companies Orders 2005*.

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Contact Details

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Kingston ACT 2604

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Chief Executive Officer
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