



Australian Government

**Private Health Insurance
Administration Council**

Private Health Insurance Administration Council

Annual Report 2009-10



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Administration Council**

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Annual Report 2009-10

Report required under section 9 of the
Commonwealth Authorities and Companies Act 1997

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Administration Council

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13 September 2010

The Hon. Nicola Roxon MP
Minister for Health and Ageing
Parliament House
CANBERRA ACT 2600

Dear Minister

The Private Health Insurance Administration Council submits to you for presentation to Parliament the Annual Report of the Private Health Insurance Administration Council for the period 1 July 2009 to 30 June 2010 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 10 September 2010.

The Members of Council are responsible under section 9 of the CAC Act for the preparation and content of the report of operations. Council is required to provide the annual report to the Minister for Health and Ageing by the 15th of October. Subsection 9 (3) of the CAC Act 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 264–15 of the *Private Health Insurance Act 2007*.

Yours sincerely

David Learmonth
Acting Commissioner

Shaun Gath
Chief Executive Officer

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Abbreviations

APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investment Commission
A&CC	Audit and Compliance Committee
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CAC Orders	<i>Commonwealth Authorities and Companies (Report of Operations) Orders 2005</i>
CEO	Chief Executive Officer
DOHA	Department of Health and Ageing
EPBC Act	<i>Environment Protection and Biodiversity Conservation Act 1999</i>
FMA Act	<i>Financial Management and Accountability Act 1977</i>
FOI Act	<i>Freedom of Information Act 1982</i>
OH&S	Occupational Health and Safety
OH&S Act	<i>Occupational Health and Safety (Commonwealth Employment Act) 1991</i>
PHI Act	<i>Private Health Insurance Act 2007</i>
PHIAC	Private Health Insurance Administration Council
PHIO	Private Health Insurance Ombudsman
RAP	Reconciliation Action Plan

Symbols

-	nil or rounded to zero
%	per cent



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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 CAC Act, I hereby declare this report has been made in accordance with a resolution of the Council on 10 September 2010.

A handwritten signature in black ink, appearing to read 'D Learmonth'.

David Learmonth
Acting Commissioner

14 September 2010

About PHIAC

The Private Health Insurance Administration Council (PHIAC) regulates the private health insurance industry in Australia. It was established as a body corporate under the *National Health Act 1953* in 1989. PHIAC continues its existence under section 264-1 of the *Private Health Insurance Act 2007* (PHI Act) which came into effect from 1 April 2007. PHIAC is an independent statutory authority which reports to the Minister for Health and Ageing. At 30 June 2010, the Minister for Health and Ageing was the Hon Nicola Roxon MP.

In its day-to-day operations, PHIAC aims to achieve an appropriate balance between the following objectives:

- fostering an efficient and competitive health insurance industry
- protecting the interests of consumers of private health insurance
- ensuring the prudential safety of individual private health insurers.

Private health insurance is a fundamental element of the Australian health system and PHIAC plays an important role in assisting the development of the industry and supporting consumers in obtaining or maintaining cover. PHIAC focuses on monitoring and regulating the industry, maintaining its prudential standing and improving the consumer's experience of private health insurance.

PHIAC provides accurate, timely and useful information and advice about the financial operations of the industry to the government, including with respect to premium rate change applications.

PHIAC also seeks to support consumers with timely and appropriate information to inform their decisions when joining or changing membership in private health insurance.

Reflecting its statutory objectives, PHIAC's strategic vision is:

***“PROTECTING CONSUMERS OF
PRIVATE HEALTH INSURANCE.
ENSURING A WELL-RUN AND COMPETITIVE INDUSTRY”***

Chapter 1

Commissioner's Report



Australian Government

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Commissioner's Report

As Acting Commissioner, appointed during the 2010 caretaker period, I am pleased to commend this report on the operations of the Private Health Insurance Administration Council for the Parliament's consideration.

The attached report confirms that PHIAC has, during the year, continued to discharge its function of overseeing the operations of the private health insurance industry to ensure that the interests of Australian consumers are protected.

I would also like to pass on the gratitude of both the Council and PHIAC management to the previous Commissioner, Mr Jim Dominguez CBE AM, who was the Commissioner during the entire period under report, and to his two board members, Mr Peter Annand and Ms Sue Carter, both of whom retired from the board after long and distinguished service in the weeks prior to the finalisation of this report.

David Learmonth
Acting Commissioner

14 September 2010

Chapter 2

Agency Overview

What PHIAC achieved in 2009–10

PHIAC’s core objectives are to monitor and regulate the private health insurance industry and to provide information to government and other stakeholders on private health insurance membership, utilisation, risk equalisation and gap cover. PHIAC has developed a corporate plan that sets out five strategic themes to guide the operation of PHIAC:

- PHIAC will be a predictable and lawful regulator of the private health insurance industry
- PHIAC will be able to respond effectively if there is change in the industry
- PHIAC will be a collector, repository and publisher of useful information
- PHIAC will be an effective and valued adviser to government and the parliament
- PHIAC will be a custodian of both public and consumer interests in dealing with the private health insurance industry.

PHIAC’s corporate plan and reporting of performance are informed by the outcome and program requirements in the Portfolio Budget Statements 2009–10, which are:

Outcome 1: Prudential safety and competitiveness of the private health insurance industry in the interests of consumers, including through efficient industry regulation

Program 1.1: Private health insurance prudential regulation and risk equalisation trust management

The work that PHIAC does and the activities which it carries out to meet this outcome and program fall into three main categories:

- ensuring that the private health insurers in Australia are well-run and prudentially sound
- managing the Risk Equalisation Trust Fund to ensure that the risks of providing universal access to private health insurance are equitably distributed among the funds
- ensuring that information which can assist the private health insurance industry, consumers and government is collected and made available in a timely and reliable way.

PHIAC operates in a way that is consistent with the standards of the Australian Public Service, which means that in our dealings with stakeholders we ensure that we apply the ethics, values and behaviours of the Australian Public Service.

Performance information

PHIAC has met each of the key performance indicators required in the Portfolio Budget Statement 2009–10, below:

Quantitative Key Performance Indicators for Program 1.1 – Results 2009-10

Regulatory action and awareness		
Key Performance Indicator	Target	Result
Identification and successful management of non-compliance with PHIAC supervised obligations. Measured by the percentage of compliance and zero financial loss for policy holders.	100%	100%
Establishment and on-time maintenance of prudential requirements to reduce the risk of insurer failure and financial loss to policy holders. Measured by compliance with prudential requirements and zero financial loss to policy holders.	100%	100%
Effectively managing the Risk Equalisation Trust Fund		
Key Performance Indicator	Target	Result
Percentage of quarterly calculations calculated correctly and payments to and from the Risk Equalisation Trust Fund made on time.	100%	100%
Information to the Australian Government and the public		
Key Performance Indicator	Target	Result
Percentage of statistical publications, information, policies and operating procedures disseminated to the public in a timely manner.	100%	100%

Quantitative Deliverables for Program 1.1 – Results 2009-10

Information to the Australian Government and the public		
Key Performance Indicator	Target	Result
Number of industry education training seminars delivered.	1	6
Number of targeted reviews of insurers carried out.	30	23

Industry Operations

Registrations

The *Private Health Insurance Legislation Amendment Act 2008* required PHIAC to cancel the registration of an insurer if the insurer was not a company within the meaning of the *Corporations Act 2001* by 1 January 2010.

PHIAC worked closely with all insurers who had to meet this conversion requirement, such that by December 2009, the industry was fully compliant with this legislative requirement.

This requirement has brought an additional level of rigour to the governance arrangements of insurers, who are now all subject to regulatory oversight by the Australian Securities and Investments Commission.

The conversion process also provided an opportunity for insurers to refresh and strengthen their corporate governance processes.

Medibank Private Ltd

The start of the 2009-10 financial year saw PHIAC consider and approve the conversion to ‘for profit’ of Medibank Private Ltd. Under the PHI Act ‘for profit’ insurers have greater flexibility in the use of the assets of the health benefits fund, including the payment of dividends to shareholders.

Before making its decision, PHIAC sought submissions from policy holders and the public through advertisements in national newspapers. PHIAC received eight submissions in response to its advertisements, with only one submission addressing

the issue of demutualisation. Medibank Private Ltd’s conversion had effect from 1 October 2009.

As a consequence of that decision the private health insurance industry, at 30 June 2010, was approximately 71% ‘for profit’ on a market share basis, an increase from 38.1% two years ago and 15.8% three years ago.

BUPA Australia Mergers

On 18 June 2010, PHIAC approved, with effect from 1 July 2010, two separate, but related transactions to enable the transfer of all policies, health fund assets and liabilities of BUPA Australia Health Pty Ltd and MBF Alliances Pty Ltd into BUPA Australia Pty Ltd (formerly MBF Australia Pty Ltd).

At that same meeting PHIAC also agreed to cancel the registrations of BUPA Australia Health Pty Ltd and MBF Alliances Pty Ltd as private health insurers following conclusion of the mergers, as the BUPA Australia Group had determined that it would only require one registered private health insurer to run all of its health insurance operations post the mergers.

As BUPA Australia’s parent entity is UK based, the Foreign Investment Review Board also considered the internal restructuring of the BUPA Australia Group and did not oppose the mergers.

Following the mergers BUPA Australia Pty Ltd now operates Australia’s second largest health benefits fund with a market share of 27.1%, behind the Medibank Private Group with 31.3% (as at 30 June 2010).

Review of insurer operations

PHIAC conducted 23 targeted reviews of insurer operations during 2009–10 focusing on four of the nine key areas of risk: capital, investments, liquidity and governance.

These reviews enabled PHIAC to gain a detailed understanding of:

- how insurers manage these areas of risk
- what systems and internal controls the insurers have in place
- what level of understanding insurers have in relation to these key risks.

Prudential information

PHIAC collects and publishes a range of financial and statistical information from the industry to assist PHIAC to discharge its regulatory functions and to enable insurers, government and consumers to know more about the industry.

A number of quarterly and annual publications using the information provided are available on PHIAC's website.

PHIAC's quarterly reports are produced and disseminated within four weeks of receiving the information from the industry.

Monthly Reporting

At the beginning of 2009, PHIAC commenced collecting a limited series of statistics on a monthly basis from insurers — the PHIAC M statistics collection — as a precautionary response to the then declining economic environment.

The data collected was to provide PHIAC with regular information about lead indicators of prudential risk in the private health insurance industry and was a temporary response to volatility in the capital markets and the economy at the time.

PHIAC discontinued the PHIAC M collection in December 2009, as economic indicators suggested the volatility of capital markets had substantially abated.

Quarterly Reporting

PHIAC produces the following statistical reports on a quarterly basis:

- **Quarterly Statistics.** During the year PHIAC began publication of the Quarterly Statistics release. The Quarterly Statistics is PHIAC's principle release of statistics and summarises the key financials and membership statistics from other collections.
- **PHIAC A report.** The PHIAC A report provides, on a State and Territory basis information on policy categories, benefits paid for services, number of services, benefits paid by age category and gender and gap benefits.
- **PHIAC B report.** The PHIAC B report is distributed to private health insurers only. It provides the information contained in the

PHIAC A report by individual fund. Insurers are also provided with statistical reports comparing their fund against the industry.

- **PHIAC reports 3 and 4.** These reports detail by State, prosthetic benefits paid by major prosthetic category, and benefits paid and gap payments for medical services by major medical groups.
- **Quarterly gap payment and medical benefit statistics.** PHIAC collects gap data from insurers and produces a report called *Quarterly Gap Payment and Medical Benefit Statistics*. Insurers are allowed to pay a benefit in excess of the Medicare Benefits Schedule fee for medical services where an insurer has an agreement with the medical service provider. This allows funds to provide no gap or known gap in-hospital medical services to insured patients.
- **Membership and Coverage Statistics.** This report provides details by State, the number of insured people with hospital treatment and general treatment and the proportion of the population these people represent.
- **Hospital and general treatment insurance: statistical trends in policies and insured persons.** This document reports historical numbers and proportions of people with hospital insurance and with general treatment insurance since 1971. The report also shows trends in the number of policies and people since September 1995 by policy type, and trends in the number of people with hospital treatment and general treatment by age.
- **Hospital and general treatment insurance: statistical trends in benefits paid.** This report contains historical data from September 1997 on private health insurance benefits paid and utilisation of services for hospital and general treatment, by type of service.
- **Financial Statistics Report.** This report is distributed to private health insurers only. Its purpose is to assist insurers to assess the health benefits fund's financial position and performance against comparable funds.

With the exception of the PHIAC B and Financial Statistics Reports, these publications are available on PHIAC's website.

Annual Reporting

PHIAC produces two annual reports.

The *PHIAC Annual Report [this report]*, otherwise referred to as the *Commonwealth Authorities and Companies Act 1997* (CAC Act) report, is prepared in accordance with section 9 of the CAC Act and sets out PHIAC's functions, responsibilities and activities.

The *Operations of Private Health Insurers Annual Report* is produced pursuant to section 264–15 of the PHI Act. This report includes financial results for each insurer, membership and benefits paid, and utilisation rates. It also reports on major events that occurred during the financial year.

In 2009 PHIAC also prepared an annual membership survey report, *Private Health Insurance: People with Hospital Treatment cover by age*. The report detailed by place of residence, the number of privately insured persons covered for hospital benefits by State and Territory at the end of the calendar year. This information is now sourced from PHIAC's quarterly statistical collection and no longer requires a separate annual survey.

Risk management within PHIAC

Risk management forms a key aspect of all activity within PHIAC. Risk management processes are explicitly applied in the development of strategies and actions to create strategic and operational plans and also provide PHIAC with a mechanism to understand the relationships between the various components of the operational environment.

PHIAC initiated an external review of its risk management processes in 2009 to obtain independent assurance on the effectiveness of its risk management policies and processes. The review produced a number of recommendations which PHIAC has substantially implemented. The review concluded that:

- PHIAC, CEO and senior management are attuned to the importance of risk management in the achievement of PHIAC's objectives
- PHIAC has a specific risk management focus in key risk areas
- existing risk management projects will address key risks
- there is a strong desire to achieve excellence in risk management.

In May 2010, PHIAC engaged a risk management professional to the new position of Director, Risk Management and Corporate Compliance. This appointment will ensure that PHIAC moves to the next level of risk management maturity. In the lead up to the end of this financial year PHIAC has:

- refreshed its risk management policy
- developed and commenced implementation of an enterprise-wide risk management framework
- redrafted risk management guidelines to support staff's application of risk management
- established a reporting mechanism to facilitate the flow of risk management information throughout the organisation and governance structures
- moved to reinforce risk management responsibilities through staff position statements.

In the coming year PHIAC will continue to implement risk management improvement strategies and actions to further embed risk management as a core management process across business operations.

PHIAC – a custodian of both public and consumer interests

PHIAC plays an important role in ensuring that consumers can have confidence in the ongoing viability of private health insurance and that insurers can and will, meet the costs of claims.

PHIAC provides a range of information that supports consumers, including:

- publishing *Insure? Not Sure?*, an information brochure for consumers, which has been produced by PHIAC. This brochure explains the Australian health system to consumers in simple terms and assists them in making informed choices about how to meet their health insurance needs. The brochure also includes suggested questions consumers should ask about their insurance cover and a glossary of common terms.
- releasing on its website an online video informing consumers of PHIAC's role and approach to regulating the industry. The video discusses how PHIAC protects the interests of consumers through its regulation of the industry and its work with the Private Health Insurance Ombudsman (PHIO) and the Department of Health and Ageing (DOHA).

PHIAC is currently assessing the best way to support consumers and a refreshed edition of *Insure? Not Sure?* will be available in 2011.

PHIAC also has regular meetings with other consumer stakeholders such as the Consumers Health Forum of Australia. This helps ensure PHIAC is aware of, and responsive to, consumer issues and concerns.

Customer Service Charter

PHIAC's customer service charter sets out PHIAC's role, functions and objectives, and explains how PHIAC can be of assistance to its stakeholders, who include the private health insurance industry, DOHA and other regulatory agencies and members of the public.

The charter also sets out what can be expected of PHIAC, what information PHIAC can provide, customer service standards and the rights and responsibilities of PHIAC's stakeholders.

The charter was revised in 2007 in consultation with stakeholders. The next review is scheduled for late 2010.

PHIAC circulars

PHIAC circulars are released periodically on issues of importance to the private health insurance industry. In 2009-10 PHIAC released 25 circulars. These circulars are available on the PHIAC website and from PHIAC's office.

Reconciliation Action Plan

In June 2010 PHIAC signed its inaugural Reconciliation Action Plan (RAP) which details PHIAC's commitment to closing the gap between Indigenous and non-Indigenous Australians.

This first RAP explores PHIAC's goal of increasing its knowledge of Aboriginal and Torres Strait Islander heritage, culture and peoples, through building cultural awareness, respect, support and understanding of Aboriginal and Torres Strait Islander organisations, issues and peoples. As a first step, a cultural awareness training day was delivered to staff in May 2010.

Some of the other features of PHIAC's first RAP include:

- strategies to enable PHIAC to contribute to the Council of Australian Government employment target of 2.7% Aboriginal and Torres Strait Islander employment in the public sector by 2015
- celebration of Aboriginal and Torres Strait Islander cultures by supporting national days of celebration including NAIDOC Week, National Reconciliation Week and the anniversary of the apology to the stolen generation
- acknowledgement of Aboriginal and Torres Strait Islander custodianship as the first item at all PHIAC meetings, training programs and industry events
- increasing the knowledge of Indigenous issues within PHIAC by purchasing Indigenous newspapers, books and videos as appropriate and making them available to all staff.

PHIAC's RAP will be formally launched in September 2010 and will be available on the PHIAC website. It will be reviewed annually.

Working with stakeholders

PHIAC has close working relationships with other Commonwealth agencies including DOHA, PHIO, the Australian Prudential Regulation Agency (APRA) and the Australian Competition and Consumer Commission (ACCC).

PHIAC meets regularly with representatives of DOHA which shares the supervisory role of the industry with PHIAC under the PHI Act. During 2009-10, PHIAC provided information and advice to DOHA in relation to prudential supervision of the industry and the premium increase applications from insurers.

PHIAC and DOHA interact on a diverse range of subject matters including proposed prudential standards, policy matters relating to legislative reform and regulatory activity.

PHIAC also works closely with the PHIO, with regular meetings between officers of both agencies. The PHIO deals with inquiries and complaints about any aspect of private health insurance.

Over the year, PHIAC and the PHIO have worked collaboratively on issues such as regulation of brokers, the development of prudential standards and opportunities for better supporting consumers of private health insurance.

PHIAC has a positive and mutually beneficial relationship with APRA, the prudential regulator of the Australian financial services industry. During the year APRA provided assistance to PHIAC in a range of areas including regulatory training, development of prudential standards and discussions regarding actuarial involvement in insurance activities. PHIAC and APRA are currently working to refresh the Memorandum of Understanding between the organisations.

PHIAC also has a strong working relationship with the ACCC. PHIAC and the ACCC have shared interests in relation to mergers, acquisitions and competition policy and the two agencies meet from time to time. PHIAC annually provides advice to support the preparation by the ACCC of the Report *To The Australian Senate On Anti-Competitive And Other Practices By Health Funds And Providers In Relation To Private Health Insurance*. PHIAC and the ACCC are currently working together to develop a Memorandum of Understanding between the organisations.

Private health insurance industry training

PHIAC offers training and education opportunities to the industry to ensure that directors and senior managers have a good understanding of PHIAC's enforcement options as well as their roles and responsibilities under the PHI Act. PHIAC uses these opportunities to discuss issues of relevance face-to-face with stakeholders, which also supports good working relationships with the industry.

Following extensive consultation, in September 2009, PHIAC promulgated a governance standard for private health insurers. Two weeks after the standard was introduced, PHIAC commenced targeted education sessions with the industry to ensure compliance and to further discuss the policy intent of the standard.

Workshops were held in Sydney, Melbourne and Perth for over 150 representatives of the industry. Attendees received a governance overview delivered by an Australian Institute of Company Directors facilitator and a presentation on all aspects of the governance standard, delivered by PHIAC's Chief Executive Officer (CEO).

Following the success of the governance standard education sessions, PHIAC delivered a further suite of industry education seminars in December 2009, titled *Regulating the Private Health Insurance Industry*. These workshops were also held in Sydney, Melbourne and Perth. The sessions provided directors and senior managers with a comprehensive understanding of PHIAC's regulatory approach under the PHI Act. The sessions also provided a forum for the industry to discuss legislative thresholds for taking regulatory action.

Copies of PHIAC presentations to the industry during 2009-10 are available on the PHIAC website.

Managing the Risk Equalisation Trust Fund

To ensure that no insurer is unduly impacted by costly claims because of the risk profile of their members, the PHI Act provides that the costs of certain types of claims should be pooled and shared among all insurers. This is termed risk equalisation.

The Risk Equalisation Trust Fund plays an important role in ensuring that the private health insurance industry operates equitably. In particular, it is a vital part of "community rating" which ensures that private health insurance is available to any Australian citizen irrespective of, among other things, their age, gender or their current health status.

PHIAC administers the private health insurance Risk Equalisation Trust Fund on behalf of the Australian Government. PHIAC ensures that payments into and out of the fund are timely, accurate and in compliance with legal requirements. In 2009-10 PHIAC administered \$301,990,000 in Risk Equalisation Trust Fund payments to the industry.

New Premises

In February 2010, PHIAC relocated from its Kingston office to Level 2, 10-12 Brisbane Avenue Barton, ACT 2600. The move was managed in a timely manner with negligible impact on the operations of PHIAC and was completed under budget. The new premises locate PHIAC within the Parliamentary precinct and with sufficient room to meet current needs.

PHIAC website

PHIAC maintains a website where consumers and industry stakeholders can access relevant information. The website <www.phiac.gov.au> was upgraded in 2010 and went live on 3 July 2010.

The modern interface, ease of use and logical structure of the website provides consumers with a resource with which to learn about private health insurance when considering taking out or maintaining private health insurance cover.

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

- contact details of insurers
- *Insure? Not Sure?*
- information on PHIAC, including PHIAC's enabling legislation and functions, membership of the PHIAC Board, financial arrangements, PHIAC's mission statement and annual reports, and
- links to relevant departments and agencies including the PHIO and the consumer information website <www.privatehealth.gov.au>.

PHIAC's website provides industry with access to a range of relevant information including details of the regulatory framework, forms, statistics and discussion papers. Statistics are available in excel format, with other publications available in pdf and html format. All statistics are updated on the PHIAC website following their public release.

Chapter 3

Regulatory Framework

How PHIAC regulates the industry

PHIAC seeks to protect consumers of private health insurance through financial monitoring and prudential regulation of the private health insurance industry. Its objective is a financially sound, and innovative industry with professional management and strong governance.

Professionalism, accountability, leadership and integrity are central to PHIAC's regulatory oversight of the private health insurance industry. PHIAC strives to promote these values through:

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

The PHI Act gives PHIAC a broad range of powers to collect information, monitor the financial position of an insurer and to encourage or compel compliance with statutory requirements.

The appropriate regulatory response will depend upon a number of factors including the nature and severity of an alleged breach, or potential breach of the PHI Act, and an insurer's responsiveness to PHIAC's investigation of an issue.

In administering the PHI Act, PHIAC observes the following principles:

- **No surprises** – PHIAC works hard to establish a close and positive working relationship with insurers. No surprises works both ways, with PHIAC expecting early and clear disclosure of potential compliance issues and a commitment by PHIAC to giving insurers fair warning of proposed regulatory interventions.
- **Transparency** – PHIAC's decision making takes place within rigorous corporate governance processes. This ensures that the organisation can act predictably, proportionately and satisfy all natural justice requirements.
- **Confidentiality** – In general, investigations are conducted confidentially and PHIAC does

not comment on matters it may or may not be investigating.

- **Timeliness** – The investigative process and the resolution of enforcement matters will be conducted as efficiently as possible to avoid delays and insurer uncertainty.
- **Fairness** – PHIAC seeks to strike a balance between voluntary compliance and enforcement. PHIAC will give insurers who are subject to formal enquiry the opportunity to be heard and to rectify matters of their own accord. PHIAC will not, however, hesitate to act to ensure the protection of policy holders.
- **Responsibility** – Insurers are responsible for ensuring full compliance with the PHI Act. They are required to establish governance policies and systems to ensure their operations are conducted lawfully and in accordance with the PHI Act.

PHIAC has in place a regulatory framework to support its supervisory responsibilities. In addition to the PHI Act and subordinate legislation, this framework includes:

- industry standards
- modelling and risk assessment tools
- industry policies
- risk management requirements
- reporting requirements and other legislative requirements.

Capital Standards

PHIAC has established capital standards under Divisions 140 and 143 of the PHI Act. The capital standards have two principal objectives:

- the capital adequacy standard aims to ensure that there is sufficient capital within a health benefits fund to enable the ongoing conduct of the business of the fund and
- the solvency standard aims to ensure that assets of sufficient quantum and quality exist to satisfy the liabilities of the fund.

PHIAC maintains a constant watch over the relevance of these standards to the circumstances of the industry, other domestic regulatory requirements and international influences on best practice. PHIAC is currently continuing an intensive review of the

standards to ensure that standards applicable to the industry take into account the changing direction and circumstances of the industry and continue to promote best practice capital management by insurers.

Further information on the capital standards is available on PHIAC's website.

Prudential standards

PHIAC may also establish prudential standards under Division 163 of the PHI Act. Prudential matters refer to the conduct by an insurer of any of their affairs in such a way as to keep themselves in a sound financial position or not cause or promote instability in the industry, or the conduct by of the insurer of any of their affairs with integrity, prudence and professional skill. Prudential standards may not include matters relating to the solvency or capital adequacy of health benefits funds.

Currently the prudential standards located in the *Private Health Insurer (Insurer Obligations) Rules 2009* include two standards, an Appointed Actuary and a Governance Standard.

Appointed Actuary

Section 160–1 of the PHI Act requires insurers to have an Appointed Actuary. Actuaries taking on the Appointed Actuary role for private health insurers must ensure that they meet the Institute of Actuaries of Australia's professional requirements and code of conduct.

The Appointed Actuary to an insurer must be involved in or notified of:

- pricing
- new product development
- monitoring and adhering to financial standards
- application of certain Australian equivalents to International Financial Reporting Standards
- preparation of an annual financial condition report.

The role of the Appointed Actuary is important for both the insurer and PHIAC. In particular, the Appointed Actuary provides additional support and technical advice to insurers while operating as an element in the prudential oversight of the industry by PHIAC.

Governance Standard

The Governance Standard, which after consultation with the industry and other stakeholders, came into force on 19 September 2009 and requires:

- insurers to be managed in a sound and prudent manner by a competent Board of directors
- the directors of each insurer to be capable of making reasonable and impartial business judgements in the best interests of the insurer
- directors to give due consideration to the impact of decisions on policy holders.

The framework for the Governance Standard was developed in consultation with officers at APRA, and reference to APRA's *Governance Standard GPS 510* and the Australian Stock Exchange Corporate Governance Council's *Corporate Governance Principles and Recommendations*.

Disclosure Standard

PHIAC is in the process of developing a Disclosure Standard for the industry.

The Disclosure Standard will:

- ensure that PHIAC is better informed earlier about unusual events in an insurer
- provide evidence to enable PHIAC to intervene, if necessary, on a preventative basis in the activities of an insurer
- increase the protection provided to consumers through more effective prudential supervision of the industry.

The Disclosure Standard is being developed in consultation with insurers and is expected to be finalised by the end of the 2010.

Monitoring and modelling activities

PHIAC continued its proactive monitoring activities throughout 2009-10. Through conducting on-site reviews and analysing quarterly and monthly financial reports, PHIAC is able to inform itself of key areas of risk. The nine key areas of risk include:

- board
- management
- risk governance
- strategy and planning
- liquidity risk

- operational risk
- market and investment risk
- insurance risk
- capital.

Regular monitoring of these risk areas allows PHIAC to identify particular trends and to develop and implement strategies, such as developing standards, to reduce the likelihood of these risks having an adverse impact on policy holders.

PHIAC is also well advanced in the development of its risk rating model. This model is used to identify and rate the nine key areas of risk faced by individual insurers. In doing so, it establishes the context in which regulatory action should be applied, whether it be with the individual insurer, or the private health insurance industry as a whole. The model will be an integral part of PHIAC's suite of supervisory tools.

In 2010 a specialist actuarial modelling team was established within PHIAC. The team's purpose is to enhance PHIAC's modelling capacity, to assist PHIAC's development and monitoring of appropriate capital policies and strengthen the relationship with Appointed Actuaries.

Industry Policies

Compliance and Enforcement Policies

In 2009-10, PHIAC commenced development of a series of standard operating procedures to describe to the industry and consumers how PHIAC proposes to administer its responsibilities under the PHI Act. These documents will give insurers and consumers a better understanding of PHIAC's options for monitoring, and, where necessary, intervening in the affairs of an insurer to ensure compliance with the PHI Act.

After extensive consultation with the industry and other key stakeholders, PHIAC released the first of these documents in June 2010 titled, *Accepting a written undertaking given by a private health insurer*. This document details when and how PHIAC may accept a written undertaking from an insurer under section 197-1 of the PHI Act.

PHIAC is committed to formalising a series of other policy documents in the coming year and has identified the following priorities:

- Issuing a direction
- Information gathering powers
- Investigating an insurer's operations
- Appointing an external manager
- Maintaining capital adequacy.

Managing Supervision and Intervention

In the past, this document has set out the framework for PHIAC to supervise the industry and to encourage or compel insurer compliance with the PHI Act and related Rules. PHIAC is currently reviewing the *Managing Supervision and Intervention* guidelines and will consult with the industry on the outcome of the review.

The guidelines are based on the following principles, which are still considered central to PHIAC's regulation of the industry.

- The Board of each insurer is responsible for ensuring that:
 - the governance processes of the insurer, by which the health benefits fund is conducted, are rigorous
 - the organisation is financially robust
 - the insurer actively manages risk
 - the health benefits fund is prudentially sound
 - regulatory requirements are met.
- PHIAC is responsible for:
 - gathering information about the conduct of insurers
 - intervening where there is cause for concern about the affairs of an insurer or a fund it conducts
 - ensuring the interests of policy holders are protected.

PHIAC works cooperatively with the industry so that regulatory actions are undertaken in a timely and cost effective manner to ensure regulatory requirements are not imposed in an unnecessarily onerous manner.

Managing an industry crisis

During the reporting period PHIAC adopted a more proactive approach towards managing unpredictable events, with potential to undermine the industry, through the development of an industry crisis

management policy and a series of crisis scenarios attended by most staff and members of PHIAC.

The resulting internal policy document established a framework to identify how PHIAC will respond to situations where one or more insurers face an unexpected significant threat to their ongoing viability and where there could be adverse impacts on consumers and/or the government. The document was developed as part of PHIAC's ongoing commitment to effective risk management and ensuring that PHIAC is adequately positioned to proactively anticipate and manage an industry crisis.

A shorter, public version of the industry crisis management guidelines is available on the PHIAC website.

Merger and acquisition of health benefits funds

Section 137–25(1) of the PHI Act prohibits an insurer from transferring its health insurance policies to another fund except in accordance with Division 146 of the PHI Act. PHIAC's approval for the transfer must be obtained.

Section 146–5 of the PHI Act deals with an insurer transferring policies, assets and liabilities of a health benefits fund/s to another insurer so that the insurer to which the policies, assets and liabilities are transferred assumes the legal responsibilities for the transferred assets and liabilities.

PHIAC provides practice notes, an example deed and a compliance checklist on its website to assist funds with this process. These documents were updated in December 2009.

Whistleblower Policy

This policy advises members of the public and the industry on how they can report potential misconduct issues by an insurer or its staff, or PHIAC staff, to PHIAC for possible investigation. Misconduct may include fraudulent activity, mismanagement, failure to comply with legislative requirements, or dishonest behaviour by an individual that would, if proven, constitute a criminal offence, or warrant regulatory action.

The policy contains:

- a commitment that personal information will be protected from disclosure to the extent possible by law, or where the whistleblower authorises its release
- that whistleblowers will receive feedback wherever possible
- that all materials provided to PHIAC will be kept confidential and secure.

The policy also notes that the act of whistle blowing will not necessarily shield whistleblowers from the reasonable consequences should they also be found to have been involved in improper conduct.

Reporting requirements

The PHI Act sets out a number of reporting requirements that insurers must meet:

- section 169–5 of the PHI Act stipulates the information to be given to PHIAC annually
- section 169–15 of the PHI Act provides that insurers must keep DOHA and PHIAC advised of the current details of their CEO.

Circular 10/13 issued by PHIAC on 9 July 2010 informed insurers of their annual reporting requirements for 2009–10.

The circular contained:

- Risk Equalisation audit arrangements
- PHIAC 2 annual reporting requirements
- a schedule of critical dates for reporting.

The circular also described the requirement that insurers' external auditors adopt the audit program and guidance provided by PHIAC. Also outlined is the requirement to submit a financial condition report and certification by directors in relation to capital adequacy margin, loss ratio and risk management procedures. *The Private Health Insurance (Insurer Obligations) Rules 2009* and *The Private Health Insurance (Health Benefits Fund Administration) Rules 2007* give effect to these requirements.

Audit programs and guidance

Guidance notes for completing the PHIAC 1 and PHIAC 2 statutory returns, updates to the audit program and an example audit certificate are provided on the PHIAC website. PHIAC has also made available a data dictionary which explains the terms used in these forms.

Chapter 4

Corporate Governance

How is PHIAC governed?

PHIAC regulates the private health insurance industry in Australia. It was established as a body corporate under section 82B of the *National Health Act 1953* in 1989 and continues in existence under section 264-1 of the PHI Act, which came into effect from 1 April 2007.

The PHIAC Board consists of a Commissioner and two to four other members, all appointed for a finite term, by the Minister for Health and Ageing. The PHIAC Board appoints a CEO in consultation with the Minister and employs the number of staff it considers necessary to assist in the performance of its functions and the exercise of its powers.

PHIAC Board Members



Mr James Dominguez *CBE AM | Commissioner*

Mr Dominguez was Chairman of SBC Dominguez Barry and earlier, of Dominguez Barry Samuel Montagu prior to his retirement from the investment banking world. He spent eight years as a non-executive director of Samuel Montagu & Co of London.

Today he sits on a number of Boards including the Australian Wine and Brandy Corporation, Arrow Voice & Data, O'Connell Street Associates, Pacific Knowledge Systems and Wesbeam Holdings of Perth.

Mr Dominguez's substantial financial and corporate background provide PHIAC with expertise in governance and regulation.

Mr Dominguez was appointed Commissioner until 20 July 2010.



Mr Peter Annand *Deputy Commissioner*

Mr Annand 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, unlisted, State and federal government owned and not-for-profit organisations in a range of industries including finance, investment and health insurance. He is currently a director of Sunsuper and a Fellow of the Australian Institute of Company Directors.

Mr Annand was appointed Deputy Commissioner until 28 August 2010.

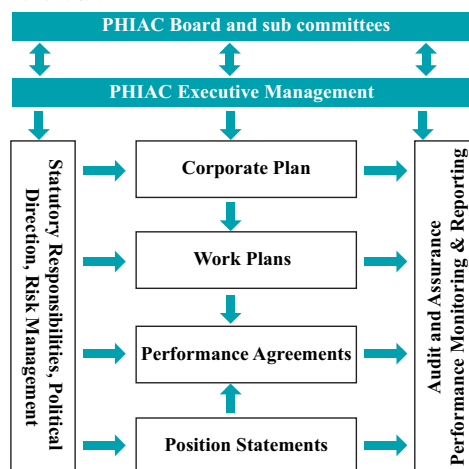


Mr John McGee *PHIAC Board Member
Chairperson, Audit and Compliance Committee (From 1 July 2009)*

After initially practising as a solicitor in Sydney and then London, Mr McGee has spent more than twenty years in the financial services industry. Apart from general management, his particular areas of experience include mortgage securitisation, custody, asset management, life insurance and business regulation. He is currently Managing Director of The Bank of New York Mellon's corporate trust business in Australia. He is a former non-executive director of Westpac Funds Management Ltd, the responsible entity for many Westpac related listed and unlisted trusts, and has served as a non-executive director on other corporate Boards in the fields of oil and gas, biotechnology industries and financial services.

Mr McGee's current term expires on 16 March 2011.

Governance Framework





Ms Rebecca Davies *PHIAC Board Member*

Ms Davies was a partner of one of Australia's premier law firms for 26 years with 30 years specialised commercial litigation and corporate law experience. She was lead partner in many high-profile public matters. Ms Davies brings expertise in corporate governance matters such as directors' duties, restructuring operations and industry regulation. Ms Davies holds a number of directorships including in the health sphere. Ms Davies is a Fellow of the Australian Institute of Company Directors.

Ms Davies' current term expires on 16 March 2011.



Ms Sue Carter *PHIAC Board Member*

Ms Carter holds a number of Board appointments in the public and private sectors and brings to PHIAC 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 ASIC Regional Commissioner for Victoria. She also has a consulting practice specialising in corporate governance and Board effectiveness and is a tutor with and a Fellow of the Australian Institute of Company Directors.

Ms Carter's current term expires on 28 August 2010.

Meeting attendance

During 2009, PHIAC made the decision to reduce the number of face-to-face meetings held each year from 10 to 8. The PHIAC Board was convened 8 times in 2009–10.

Table 1. PHIAC meeting attendance 2009–10

PHIAC Member	Eligible to Attend	Attended
Mr Dominguez	8	8
Ms Davies	8	7
Ms Carter	8	8
Mr Annand	8	6
Mr McGee	8	8

In addition to these meetings, the Board met once by telephone conference to discuss particular issues.

PHIAC Board Charter

The PHIAC charter, available on the PHIAC website sets out processes that:

- ensure that the regulatory functions of PHIAC, as set out in the PHI Act, are carried out in an effective and efficient manner

- determine the strategic direction and objectives for PHIAC and monitor the performance of management in achieving these objectives
- allow for the approval of PHIAC's annual budget and the monitoring of the financial performance of PHIAC
- ensure the establishment of adequate internal controls and effective monitoring and evaluation systems
- ensure all major business risks are identified and effectively managed
- ensure that PHIAC meets its legal and statutory obligations
- provide for the appointment and performance review of the CEO, approving the appointment of consultants, approving the terms and conditions of other staff and planning for executive succession.

The performance of the PHIAC Board is subject to external review every three years. In between external reviews, internal self-assessments are conducted.

Division 4 of the CAC Act imposes the following general obligation on PHIAC Board members in

the exercise of their powers and the discharge of their duties:

- to exercise the degree of care and diligence that a reasonable person in a like position in a Commonwealth Authority would exercise
- to make judgements in good faith in the interest of PHIAC and for a proper purpose
- to not have a material personal interest in the subject matter of the judgement.

Continuing education and professional development programs are made available to the PHIAC Board and staff as necessary. The PHIAC Board may also seek additional expert advice to assist in its duties where appropriate.

Audit and Compliance Committee

The Audit and Compliance Committee (A&CC) is a sub-committee of the PHIAC Board. Its charter defines its functions and role and is available on the website.

The A&CC ensures 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 PHIAC Board refers to the committee.

Regulations 6A and 6B of the *Commonwealth Authorities and Companies Regulations 1997* which commenced on 1 January 2009, prescribe base requirements for the composition of audit committees of Commonwealth authorities. The A&CC is compliant with these regulations.

Meeting attendance

During 2009 the frequency of A&CC meetings was reduced from four times per year to three. The charter was updated to reflect this change. Attendance at these meetings is detailed below. At its June 2009 meeting, the A&CC agreed that Mr McGee would replace Ms Davies as A&CC Chairperson with effect from 1 July 2009. PHIAC thanks Ms Davies for her contribution in her role as chairperson.

Table 2. A&CC meeting attendance 2009–10

Committee Member	Eligible to Attend	Attended
Ms Davies	3	3
Ms Carter	3	1
Mr Annand	3	2
Mr McGee	3	3

PHIAC Secretariat

During the 2009-10 year, PHIAC Secretariat operated with 25.8 full time equivalent staff. The Secretariat operates on behalf of PHIAC to:

- collect, analyse and disseminate statistics and information regarding private health insurance
- monitor and advise PHIAC on the prudential status and operation of the private health insurance industry
- advise PHIAC on regulatory matters and enforcement action
- provide corporate services to PHIAC.

Personnel working in the secretariat office report to the CEO. Qualifications of the secretariat personnel include law, corporate governance, commerce, actuarial, accounting, economics, statistics, education, business and risk management and information technology. PHIAC subscribes to the *Australia Public Service Values and Code of Conduct* and actively encourages its staff to maintain an appropriate work life balance.



Mr Shaun Gath *CEO*

Mr Gath was appointed CEO of PHIAC on 2 June 2008 for a term of five years. Prior to joining PHIAC, Mr Gath was a partner in a national law firm where he worked with government and health sector clients, focussing on governance and regulatory issues. In his earlier career he worked as a ministerial adviser and later spent four years as General Counsel of the Health Insurance Commission (now Medicare Australia). He holds a BA (Hons) LLB (Hons) and LLM from the Australian National University.

Mr Gath is a member of the Council of the ACT Division of the Institute of Public Administration, Australia.



Mr Paul Groenewegen

General Manager, Prudential Supervision and Deputy CEO

Mr Groenewegen was appointed to his current role in September 2005. Mr Groenewegen joined PHIAC in 2001 and has been instrumental in the ongoing development and implementation of PHIAC's supervisory and policy activities in regulating the private health insurance industry.

Prior to joining PHIAC, Mr Groenewegen held a series of financial management positions with a large health service provider and the Commonwealth Government.

Mr Groenewegen holds a degree in Commerce, a Graduate Diploma of Applied Corporate Governance, is a Certified Practicing Accountant and a graduate member of the Australian Institute of Company Directors.



Mr Neil Smith

General Manager, Industry Operations and General Counsel

Mr Smith joined PHIAC in December 2008 as General Manager Industry Operations and General Counsel.

Prior to joining PHIAC, Mr Smith had 13 years of policy and legal experience at DOHA. His experience includes extensive regulatory experience in private health insurance and the Divisions of General Practice. Mr Smith was previously DOHA's representative on the Private Health Insurance Registration Committee and held the positions of Special Legal Advisor, Private Health Insurance and Director of Legislation and Legal Policy, Private Health Insurance.

Mr Smith is a Barrister and Solicitor in the ACT and holds a BA (Adel) and a LLB (Grad (ANU)). Mr Smith is also a graduate member of the Australian Institute of Company Directors.



Mr Mark Lott

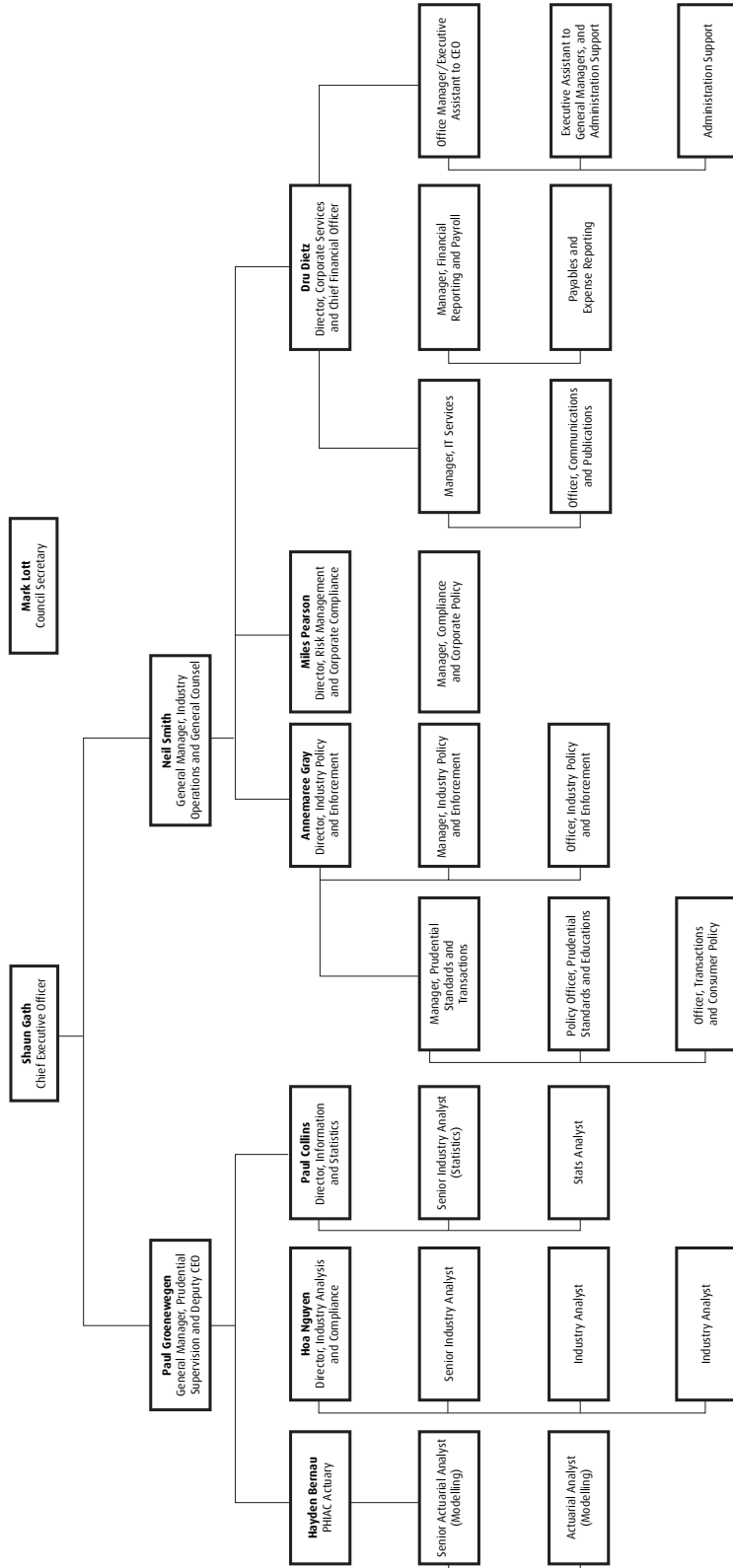
Council Secretary

Mr Lott provides guidance to PHIAC on a part-time basis as Council Secretary advising PHIAC on appropriate administrative processes. Mr Lott has over 10 years government experience in reporting and human resource management areas including both policy and advisory experience. He also has private sector management experience and holds a degree in Philosophy with a focus on ethics and logic.

Organisational Structure – August 2010

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL

Peter Annand - Acting Commissioner
Rebecca Davies, Sue Carter, John McGee



Access and Equity

PHIAC’s employment policy subscribes to the principles of access and equity and selection on merit. Table 3 lists the number of staff in access and equity target groups who were employed by PHIAC during the year.

Table 3. Access and Equity target groups during 2009–10

Group	NESB	ATSI	PWD	Women	Total Staff
Total	7	0	0	18	34

Key:
NESB: Non-English speaking background
ATSI: Aboriginal and Torres Strait Islander
PWD: People with a disability

Professional development

In 2009–10, PHIAC allocated \$147,300 to training courses, conferences and seminars for staff training and professional development. The details of the programs undertaken are set out in Table 4.

Professional services

During the financial year to 30 June 2010, 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 5.

During 2009-10, 14 new consultancies were engaged involving total actual expenditure of \$385,100. In addition, six ongoing consultancies were active during the 2009-10 year, involving total actual expenditure of \$57,700.

Performance appraisals

PHIAC has a structured performance appraisal and management system. PHIAC’s corporate plan identifies strategic directions and individual staff member’s performance agreements are developed from the requirements of the corporate plan.

Performance agreements and PHIAC’s 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 performance cycle, individual staff members and their respective supervisor jointly assess performance. All staff participate in annual performance appraisals and can earn performance bonuses. PHIAC’s staff are engaged on individual performance-based contracts.

The CEO has a performance agreement with the Commissioner and the PHIAC Board, who undertake a performance assessment of the CEO annually. The CEO is appointed under terms and conditions determined by the Remuneration Tribunal (the independent statutory body that handles the remuneration of key Commonwealth officers).

Table 4. Training courses, conferences and seminars 2009–10

Topic	Provider	Attendance
Accounting, Modelling	CPA Australia, National Tax & Accountants' Association Ltd, Seminars Australia, The Institute of Chartered Accountants in Australia, University of Wollongong and Kaplan	7
Computer Training	Excom Education, Wizard , Alpha Computers, Dimension Data Learning Solutions, New Horizons Learning Centre and Design emergency	12
Corporate Governance	Australian Institute of Company Directors & Australian Government Solicitor	8
Health and First Aid	St Johns Ambulance	13
Industry Knowledge	Australian Health Insurance Association Ltd, International Association of Insurance Supervisors, Elite Media P/L, Informa Australia and & International Federal of Health Plan	10
Professional Development	Australian Government Solicitor, Australian Institute of Management, IRR Pty Limited, Melbourne Institute of Technology, Criterion Conferences, Legalwise Seminars, ACT Law Society, Australian Institute of Administrative Law, Attorney General's Department, Tonkin Corporation, Law Council of Australia, Australian Public Service Commission, Institute of Public Administration of Australia, Boomanulla Oval Aboriginal Corporation, DLA Phillip Fox, Victorian Employer's Chamber of Commerce & Industry, Odyssey, Tracy Whetnall, University of New South Wales, Institute of Actuaries Australia, Chartered Financial Analyst, Yellowhouse Training, Expand, CPA Australia, Australian Lawyers Corporate Association, ActEd Australasia	22
Occupational Health & Safety	Comcare	2
Risk Management	Institute of Actuaries Australia	1

Table 5. Professional fees over \$5,000, 2009–10

Project	Professional Fees	Total Cost
Legal Fees	DLA Phillips Fox, Attorney General's Department, Clayton Utz	\$76,800
Actuarial Fees	Australian Government Actuary, Price Waterhouse Coopers	\$183,200
Recruitment	Kelly Services, Recruitment Solutions	\$51,300
IT Support	Forward IT, Oakton AA Services Pty Limited	\$32,700
Audit Fees	Australian National Audit Office, RSM Bird Cameron	\$20,850
Website, Intranet	Infinite Networks, NSynergy Pty Ltd	\$14,500
Information Management	Solved at McConchie Pty Limited, Forward IT	\$41,200
Audit Guidelines, System Audit	Price Waterhouse Coopers, RSM Bird Cameron	\$11,000
Inspections	Hedge & Associates	\$11,250
Total		\$442,800

Corporate social responsibility

PHIAC demonstrates its commitment to corporate social responsibility through explicit consideration of the social, environmental and economic impact of its decisions and activities. Particular corporate social responsibility aspects addressed in PHIAC's operations include good governance practice and compliance with applicable laws regarding employee wages and conditions. Environmental impact issues such as recycling of all appropriate materials and turning computers and lights off when the last staff member leaves the building are also addressed.

PHIAC endeavours to integrate social responsibility throughout the agency and to demonstrate this through its relationships with its stakeholders. Striving to attain the targets set out within PHIAC's inaugural RAP, actively demonstrates social responsibility by embracing the principles of building mutually respectful partnerships and closing the gap between Indigenous and non-Indigenous Australians.

PHIAC contributes to sustainable development by supporting health and well-being initiatives for all staff and by providing staff with the opportunity to participate in team-based social activities.

Intellectual property policy statement

DOHA portfolio agencies covered by the *Financial Management and Accountability Act 1997* (FMA Act) were required to develop an intellectual property policy statement by 1 July 2008. CAC Act agencies were encouraged to develop an appropriate policy based on the *Intellectual Property Principles for Australian Government Agencies* adopted by the Commonwealth in May 2007.

PHIAC's intellectual property policy statement was endorsed in November 2008 and PHIAC continues to populate an intellectual property register in support of the statement.

Principal intellectual property created within PHIAC includes PHIAC data, computer programs, the industry model and publications such as *Insure? Not Sure?*. The register also records the use of third party and background intellectual property such as information provided to PHIAC by insurers and other regulators.

The policy statement contains an undertaking that the A&CC will receive an annual report on PHIAC's intellectual property management, knowledge transfer and any breaches of the policy during the preceding year, as part of normal reporting arrangements.

Since the adoption of PHIAC's intellectual property policy statement all staff have received specialist training in the treatment and management of intellectual property.

Study leave guidelines

PHIAC believes its commitment to professional and leadership development is essential to its performance as a world class regulator. Managers and employees are encouraged to develop these capabilities in line with organisational needs.

Where formal accredited courses are identified as the most appropriate means of acquiring necessary skills, studies support is available to staff.

In June 2010, PHIAC Management endorsed study leave guidelines. These guidelines provide assistance to staff on the operation of the studies support policy, the criteria that should be applied in making decisions about approvals and the administration processes to be followed.

Chapter 5

Statutory Report

Statutory Reporting Information

PHIAC's functions

Section 264–10(1) of the PHI Act outlines the functions of PHIAC. These include:

- (a) to administer the Risk Equalisation Trust Fund
- (b) to administer the registration of private health insurers
- (c) the information collection function
- (d) the compliance functions
- (e) the enforcement functions
- (f) the public information functions
- (g) the agency cooperation functions
- (h) to advise the Minister about the financial operations and affairs of private health insurers
- (i) functions incidental to any other functions of Council
- (j) any other functions conferred on Council by this, or any other Act.

General policy orders

PHIAC received no general policy orders in 2009–10.

Directions by the Minister for Health and Ageing

Under section 264–25(1) of the PHI Act, the Minister for Health and Ageing may, by legislative instrument, give directions with respect to the performance of PHIAC's functions or the exercise of its powers. PHIAC did not receive any directions from the Minister in 2009–10.

Directions by the Minister for Finance and Deregulation

The Department of Finance and Deregulation's Circular 2008/05 stipulates that PHIAC must report on legislative compliance and financial sustainability on an annual basis to the Minister for Health and Ageing and the Minister for Finance and Deregulation (Finance Minister). The compliance report must be provided to the Finance Minister by 15 October, annually. Directors of a CAC Act body are to provide a compliance report indicating whether or not, in their opinion the:

- (a) provisions and requirements of the CAC Act, the *Commonwealth Authorities and Companies Regulations 1997* and the *Commonwealth*

Authorities and Companies (Report of Operations) Orders 2005 (CAC Orders), collectively 'the CAC Act legislation', have been complied with

- (b) the costs of the body are forecast to be within estimated sources of external receipts for the current financial year, including, where appropriate, estimates of external receipts in the Australian Government's central budget system.

The Finance Minister's requirement under paragraph 16(1)(c) of the CAC Act to provide the compliance report is a Ministerial Direction to a Commonwealth Authority in the general government sector that must be described in its annual report (for the purposes of paragraph 12(1)(a) of the CAC Orders). PHIAC complied with this requirement in 2009

Office of Best Practice Regulation

PHIAC complied in full with the best practice regulation requirements for regulations made or introduced into Parliament during 2009–10. During 2009–10 PHIAC produced a Regulation Impact Statement for the *Private Health Insurance (Insurer Obligations) Rules 2009*, which sets minimum requirements for the governance arrangements of private health insurers, and a preliminary assessment relating to the Disclosure Standard.

Department of the Prime Minister and Cabinet, Annual Report requirements

There are no legislative requirements for PHIAC to comply with the *Requirements for Annual Reports 2009–10* prepared by the Department of the Prime Minister and Cabinet pursuant to the *Public Service Act 1999*. PHIAC has, however, adopted specific reporting elements from these requirements for the purpose of improving the quality of the annual report.

Judicial decisions and reviews by outside bodies

During the reporting period PHIAC was not the subject of any judicial decisions or decisions of an administrative tribunal.

Indemnities and insurance premiums for officers

PHIAC has an insurance policy with Comcover for general insurance including the indemnification of its directors and officers. The cost of the premium for

this insurance in 2009–10 was \$9,077. The policy is consistent with sections 27M and 27N of the CAC Act.

PHIAC financial statements

PHIAC reviews its budget annually to ensure that it maintains a balance between sufficient reserves to undertake its functions in accordance with the PHI Act and other legislation, while minimising cost to insurers.

PHIAC has formed the view that it is necessary for it to have sufficient funds to allow it to take any necessary regulatory action in a timely manner. PHIAC continues to believe that its policy with respect to its reserves is appropriate.

Financial statements of PHIAC's operations are included with this report. PHIAC follows Schedule 1 of the CAC Act (Financial Statement 2009–10), which requires compliance with the 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 funds not immediately required in interest bearing accounts, in accordance with the requirements of the Department of Finance and Deregulation. All operational accounts that are currently utilised by PHIAC are compliant with section 18 of the CAC Act and section 39 of the FMA Act. PHIAC's investment accounts are also compliant with section 18(3) of the CAC Act relating to 'money on deposit with a bank'.

PHIAC remains fully compliant with the Australian Equivalents to International Financial Reporting Standards.

The Council Administration Levy

This PHIAC levy is imposed under the *Private Health Insurance (Council Administration Levy) Act 2003* on registered private health insurers conducting health insurance business. The purpose of the levy is to meet the general administrative costs of PHIAC (section 307-10 of the PHI Act refers).

Last year, PHIAC's CEO wrote to all insurers, advising them that the Minister for Health and Ageing had approved an increase in this levy.

In 2009–10 this levy collected \$5.085 million from the industry. The levy amount collected will increase in 2010–11 to \$5.235 million per annum.

Freedom of information

Section 8(1) of the *Freedom of Information Act 1982* (FOI Act) requires the publication of information concerning the functions and documents of agencies. The following information is supplied in accordance with that FOI Act and is correct as at 30 June 2010.

Information and procedures for freedom of information requests

During the reporting period, PHIAC did not receive any requests under the FOI Act.

PHIAC Reporting Requirements, *Conversion to For Profit Status Practice Notes and Merger and Acquisition of Health Benefits Funds Practice Notes* are documents which may be classified under section 9 of the FOI Act. They are available from the PHIAC website and from PHIAC's office.

PHIAC receives financial reporting information and statistics from insurers. Aggregate information held by PHIAC is made publicly available in the quarterly statistical releases and the annual report on the operations of the insurers.

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

The Freedom of Information Officer
Private Health Insurance Administration Council
PO Box 4549
Kingston ACT 2604

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

Documents held by PHIAC

The following publications are available from PHIAC:

- Operations of the Registered Health Benefits Organisations Annual Reports (up until 2005-06)
- Annual Reports on the Operations of the Private Health Insurers (from 2007)
- PHIAC Annual Reports required under the CAC Act (up until 2008-09)

- a range of industry guidance notes, policies and standards
- PHIAC Board and A&CC Charters
- the PHIAC Corporate Plan
- PHIAC reporting requirements and approved forms
- *Insure? Not Sure?*
- Customer Service Charter
- the Private Patients' Hospital Charter
- PHIO brochures.

PHIAC also produces a range of statistical publications which have been discussed in earlier chapters.

Access to documents

PHIAC documents may be obtained from PHIAC's office or the PHIAC website, using the following links:

Phone: 02 6215 7900
 Fax: 02 6215 7977
 Email: phiac@phiac.gov.au
 Website: www.phi.ac.gov.au

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 of the EPBC Act.

While PHIAC is a comparatively 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. All publicly available information can be obtained from the PHIAC website. Wherever possible, publications are printed double-sided, on recycled paper, and scrap paper is recycled.

Occupational health and safety

Section 74(1) (c) of the *Occupational Health and Safety Act 1991* (OH&S Act) requires Commonwealth departments and agencies to report on their occupational health and safety (OH&S) arrangements and outcomes in their annual reports.

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.

Responsibility for the overall health and safety of all staff rests with the CEO. PHIAC has two appointed OH&S officers and agency policy specifies that a number of staff maintain current first aid qualifications. PHIAC's OH&S guidelines are included in the staff procedures manual to ensure all staff are aware of the potential hazards within the normal office environment and to provide such detail as information on optimum set-up of their immediate working environment and workstations.

Within risk management measures and annual performance appraisals, staff take responsibility for safe working practices and maintaining a safe working environment.

Ergonomic assessments of work practices and workstations are commissioned as a matter of course when new staff commence with PHIAC.

As a teambuilding exercise, early in the reporting year PHIAC implemented a health and well-being program for staff in the form of a stretching and flexibility class. The classes, held weekly during lunchtimes, are facilitated by a professional trainer and all participants have reported an increased feeling of well-being.

The PHIAC Board and the A&CC monitor OH&S matters to ensure PHIAC remains fully compliant with the requirements of OH&S legislation.

PHIAC participated in a desk-top investigation of its Health and Safety Matters Arrangements conducted by Comcare during May 2010. Post the investigation, PHIAC was advised that its reporting complies with the Comcare better practice guide: *OHS Reporting in Annual Reports*. During the reporting period all PHIAC OH&S officers attended training for case managers provided by Comcare.

PHIAC made two claims to Comcare during the year. PHIAC was not the subject of any Comcare investigation nor was it issued with any notices by Comcare during the year.

Notifiable incidents reported in annual report under section 74(1)(c) of the OH&S Act and notifiable to Comcare under section 68 of the OH&S Act, are set out in Table 6.

Table 6. OH&S Notifiable incidents

Notifiable Incidents	2007	2008	2009
Deaths	0	0	0
Dangerous occurrences	0	0	0
Serious personal injury	0	0	0
Incapacity	0	0	2
Total	0	0	2

PHIAC is a small agency, and, in the interests of preserving anonymity, no detail is provided as to the notifiable incidents detailed above.

PHIAC is committed to discharging its responsibilities under the OH&S Act, and will continue to work cooperatively with staff to promote and develop measures to ensure the health, safety and welfare of PHIAC employees at work.

- PHIAC’s notifiable incidents incidence rate for 2009-10, per 1000 FTE employees, was 71.9.
- PHIAC’s lost time serious injury incident rate for 2009-10, per 1000 full time equivalent employees, was 71.9.
- PHIAC’s average weeks lost time for 2009-10, per 1000 FTE, was 1133.3.

Other reporting

Commonwealth fraud control guidelines

As an agency covered by the CAC Act that does not receive at least 50% of its 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 appropriate fraud prevention, detection, investigation, reporting and data collection procedures and processes that meet the specific needs of the agency. PHIAC also has in place an insider trading policy that outlines PHIAC’s policy regarding handling or receiving inside information and trading in shares of a company which incorporates a private health insurer.

The guidelines also require relevant agencies to collect data on fraud within their organisation and report it annually to the Australian Institute of Criminology. There have been no instances of fraud within the agency during the reporting period.

PHIAC will continue to comply with better practice standards as set out in the Commonwealth Fraud Control Guidelines.

Commonwealth disability strategy

PHIAC recognises and accepts its responsibilities under Australian 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 reviews and updates its compliance with the Commonwealth Disability Strategy on an annual basis.

Chapter 6

Financial Statements



INDEPENDENT AUDITOR'S REPORT

To the Minister for Health and Ageing

Scope

I have audited the accompanying financial statements of the Private Health Insurance Administration Council for the year ended 30 June 2010, which comprise: a Statement by the Council, Chief Executive Officer, and Chief Financial Officer; Statement of Comprehensive Income; Balance Sheet; Statement of Changes in Equity; Cash Flow Statement; Schedule of Commitments; Schedule of Contingencies; Schedule of Asset Additions; and Notes to and Forming Part of the Financial Statements, including a Summary of Significant Accounting Policies.

The Council's Responsibility for the Financial Statements

The members of the Council are responsible for the preparation and fair presentation of the financial statements in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, including the Australian Accounting Standards (which include the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Private Health Insurance Administration Council's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Private Health Insurance Administration Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

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

Auditor's 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*, including the Australian Accounting Standards; and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders including the Private Health Insurance Administration Council's financial position as at 30 June 2010 and its financial performance and cash flows for the year then ended.

Australian National Audit Office



Peter Kerr
A/Executive Director
Delegate of the Auditor-General
Canberra

10 September 2010



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**PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
STATEMENT BY COUNCIL, CHIEF EXECUTIVE OFFICER and CHIEF FINANCIAL
OFFICER**

In our opinion, the attached financial statements for the year ended 30 June 2010 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*, as amended.

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.

D Learmonth
Acting Commissioner
10 September 2010

J McGee
Council Member
10 September 2010

S Gath
Chief Executive Officer
10 September 2010

D Dietz
Chief Financial Officer
10 September 2010

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2010

	Notes	2010 \$	2009 \$
EXPENSES			
Employee benefits	3A	3,265,202	2,990,266
Suppliers	3B	1,725,138	1,419,012
Depreciation and amortisation	3C	239,953	264,322
Finance costs	3D	2,035	2,035
Losses from asset sales	3E	15,071	-
Total Expenses		5,247,399	4,675,635
LESS:			
OWN-SOURCE INCOME			
Own-source revenue			
Sale of goods and rendering of services	4A	83,927	5,617
Interest	4B	201,413	254,233
Other revenue	4C	99,333	1,103
Total own-source revenue		384,674	260,953
Net costs of services		4,862,725	4,414,682
Revenue from Government	4D	5,085,000	4,435,000
Surplus		222,275	20,318
OTHER COMPREHENSIVE INCOME			
Changes in asset revaluation reserve		29,009	-
Total comprehensive income		251,284	20,318
Total comprehensive income attributable to the Australian Government		251,284	20,318

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

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL

BALANCE SHEET

as at 30 June 2010

	Notes	2010 \$	2009 \$
ASSETS			
Financial Assets			
Cash and cash equivalents	6A	5,306,030	5,115,379
Trade and other receivables	6B	76,993	97,357
Other investments	6C	4,957	4,957
Total financial assets		5,387,980	5,217,693
Non-Financial Assets			
Land and buildings	7A,D	400,035	124,754
Property, plant and equipment	7B,D	182,876	164,607
Other	7C	23,504	60,108
Total non-financial assets		606,415	349,469
Total Assets		5,994,395	5,567,162
LIABILITIES			
Payables			
Suppliers	8A	339,417	273,780
Other	8B	106,716	97,225
Total payables		446,133	371,005
Interest Bearing Liabilities			
Leases	9A	4,457	9,320
Total interest bearing liabilities		4,457	9,320
Provisions			
Employee provisions	10A	788,386	691,203
Other	10B	90,000	81,500
Total provisions		878,386	772,703
Total Liabilities		1,328,976	1,153,028
Net Assets		4,665,419	4,414,135
EQUITY			
Reserves		93,138	64,129
Retained surplus		4,572,281	4,350,006
Total Equity		4,665,419	4,414,135

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

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
STATEMENT OF CHANGES IN EQUITY
as at 30 June 2010

Opening balance

Balance carried forward from previous period

Adjusted opening balance

Comprehensive income

Other comprehensive income

Surplus for the year

Total comprehensive income

of which:

Attributable to the Australian Government

Closing balance at 30 June

Closing Balance attributable to the Australian Government

Retained Earnings		Asset Revaluation Reserves		Total Equity	
2010	2009	2010	2009	2010	2009
\$	\$	\$	\$	\$	\$
4,350,006	4,329,688	64,129	64,129	4,414,135	4,393,817
4,350,006	4,329,688	64,129	64,129	4,414,135	4,393,817
-	-	29,009	-	29,009	-
222,275	20,318	-	-	222,275	20,318
222,275	20,318	29,009	-	251,284	20,318
4,572,281	4,350,006	93,138	64,129	4,665,419	4,414,135
4,572,281	4,350,006	93,138	64,129	4,665,419	4,414,135

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

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL

CASH FLOW STATEMENT

for the year ended 30 June 2010

	Notes	2010 \$	2009 \$
OPERATING ACTIVITIES			
Cash received			
Goods and services		83,927	5,617
Receipts from Government		5,085,000	4,435,000
Interest		210,027	287,245
Net GST received		188,165	138,099
Other cash received		32,622	1,103
Total cash received		<u>5,599,741</u>	<u>4,867,063</u>
Cash used			
Employees		3,159,012	3,054,726
Suppliers		1,834,711	1,397,758
Borrowing costs		2,035	2,035
Total cash used		<u>4,995,757</u>	<u>4,454,518</u>
Net cash from Operating Activities	12	<u>603,984</u>	<u>412,545</u>
INVESTING ACTIVITIES			
Cash used			
Purchase of property, plant and equipment		408,470	101,546
Total cash used		<u>408,470</u>	<u>101,546</u>
Net cash used by investing activities		<u>(408,470)</u>	<u>(101,546)</u>
FINANCING ACTIVITIES			
Cash used			
Repayment of borrowings		4,863	4,863
Total cash used		<u>4,863</u>	<u>4,863</u>
Net cash used by financing activities		<u>(4,863)</u>	<u>(4,863)</u>
Net increase in cash held		<u>190,651</u>	<u>306,137</u>
Cash at the beginning of the financial year		5,115,379	4,809,242
Cash at the end of the financial year	6A	<u>5,306,030</u>	<u>5,115,379</u>

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

PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
SCHEDULE OF COMMITMENTS

as at 30 June 2010

	2010	2009
	\$	\$
BY TYPE		
Commitments Receivable		
GST recoverable on commitments	(129,601)	(27,318)
Total Commitments Receivable	<u>(129,601)</u>	<u>(27,318)</u>
Commitments Payable		
Other commitments		
Operating leases ¹	1,425,613	300,503
Total other commitments	<u>1,425,613</u>	<u>300,503</u>
Net Commitments by Type	<u><u>1,296,012</u></u>	<u><u>273,185</u></u>
BY MATURITY		
Commitments Receivable		
Operating Lease Income		
One year or less	(29,908)	(20,367)
From one to five years	(99,693)	(6,951)
Over five years	-	-
Total operating lease income	<u>(129,601)</u>	<u>(27,318)</u>
Commitments Payable		
Operating Lease Commitments		
One year or less	328,988	224,038
From one to five years	1,096,625	76,465
Over five years	-	-
Total operating lease commitments	<u>1,425,613</u>	<u>300,503</u>
Net Commitments by Maturity	<u><u>1,296,012</u></u>	<u><u>273,185</u></u>

NB: Commitments are GST inclusive where relevant.

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

Nature of lease/General Description

Leases for office accommodation.

Lease payments are subject to annual 4% increase . The initial period of office accommodation lease in Barton ACT is still current and may be renewed for up to two 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 2010

There are no contingent assets or liabilities at 30 June 2010. (Nil at 30 June 2009)

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

**PRIVATE HEALTH INSURANCE ADMINISTRATION COUNCIL
SCHEDULE OF ASSET ADDITIONS**

for the period ended 30 June 2010

The following non-financial non-current assets were added in 2009-10:

	Heritage & cultural	Other property, plant & equipment	Total
	\$	\$	\$
By purchase - Government funding	4,800	408,470	413,270
Total additions	4,800	408,470	413,270

The following non-financial non-current assets were added in 2008-09:

	Heritage & cultural	Other property, plant & equipment	Total
	\$	\$	\$
By purchase - Government funding	-	101,546	101,546
Total additions	-	101,546	101,546

Notes to and Forming part of the Financial Statements

Note 1: Summary of Significant Accounting Policies

Note 2: Events after the Reporting Period

Note 3: Expenses

Note 4: Income

Note 5: Income Tax Expense (Competitive neutrality)

Note 6: Financial Assets

Note 7: Non-Financial Assets

Note 8: Payables

Note 9: Interest Bearing Liabilities

Note 10: Provisions

Note 11: Restructuring

Note 12: Cash Flow Reconciliation

Note 13: Contingent Liabilities and Assets

Note 14: Council Remuneration

Note 15: Related Party Disclosures

Note 16: Executive Remuneration

Note 17: Remuneration of Auditors

Note 18: Average Staffing Levels

Note 19: Financial Instruments

Note 20: External Financing Arrangements

Note 21: Compensation and Debt Relief

Note 22: Trust Money

Note 23: Reporting of Outcomes

1.1 Objective of the Private Health Insurance Administration Council (PHIAC)

PHIAC is an Australian Government controlled entity. The objective of PHIAC is to protect and maintain a viable, prudentially sound and competitive private health insurance industry.

The Council is structured to meet 1 outcome:

Outcome 1: Prudential safety and competitiveness of the private health insurance industry in the interests of consumers, including through efficient industry regulation

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 and on continuing funding by Parliament for PHIAC's administration and programs.

1.2 Basis of Preparation of the Financial Report

The Financial Statements and notes are required by clause 1(b) of Schedule 1 to the *Commonwealth Authorities and Companies Act 1997* and are a General Purpose Financial Report.

The Financial Statements and notes have been prepared in accordance with:

- Finance Minister's Orders (or FMOs) for reporting periods ending on or after 1 July 2009; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial report has been prepared on an accrual basis and is in accordance with historical cost convention, except for certain assets and liabilities 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 dollar unless otherwise specified. Where numbers have been rounded, discrepancies may occur between sums of component items and totals.

Unless an alternative treatment is specifically required by an Accounting Standard or the FMOs, assets and liabilities are recognised in the Balance Sheet when and only when it is probable that future economic benefits will flow to the Entity 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.

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

1.3 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 property, plant and equipment has been reviewed to ensure the written down values fairly represent the fair value at the reporting date as determined by an independent valuer as at 30 June 2010 less subsequent depreciation charges.

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.

1.4 New Accounting Standards**Adoption of new Australian Accounting Standard requirements**

No accounting standard has been adopted earlier than the application date as stated in the standard.

No new accounting standards issued prior to the signing of the statement by the Council and Chief Executive applicable to the current reporting period had a material financial impact on PHIAC.

Future Australian Accounting Standard Requirements

No accounting standards issued prior to the signing of the statement by the Council and Chief Executive that are applicable to future reporting periods have a material financial impact on PHIAC.

1.5 Revenue

Revenue from the sale of goods is recognised when:

- The risks and rewards of ownership have been transferred to the buyer;
- The authority 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 PHIAC.

Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when:

- The amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- The probable economic benefits with the transaction will flow to PHIAC.

The stage of completion of contracts at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Receivables for goods and services, which have 30 day terms, are recognised at the nominal amounts due less any impairment allowance. Collectability of debts is reviewed as at end of reporting period. An impairment allowance is made when collectability of the debt is no longer probable.

Interest revenue is recognised using the effective interest method as set out in *AASB 139 Financial Instruments: Recognition and Measurement*.

Resources Received Free of Charge

Resources 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.

Resources received free of charge are recorded as either revenue or gains depending on their nature.

Revenues from Government

PHIAC administers the Council Administration Levy collecting the monies from the industry which are placed into the Consolidated Revenue Fund and then allocated back to PHIAC. For the purposes of these accounts, income from the Levy is shown as Revenue from Government. PHIAC does not receive any direct appropriations.

Section 304-1 of the *Private Health Insurance Act 2007* states Levies collected under the following Acts are payable to PHIAC:

- *Private Health Insurance (Transitional Provisions and Consequential Amendments Levy) Act 2007*
- *Private Health Insurance (Council Administration Levy) Act 2003*
- *Private Health Insurance (Collapsed Organisation Levy) Act 2003*

Section 307-10 (2) of the *Private Health Insurance Act 2007* appropriates the Consolidated Revenue Fund for the amounts payable under section 307-10.

1.6 Gains

Other Resources Received Free of Charge

Services received free of charge are recognised as gains 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 gains at their fair value when the asset qualifies for recognition.

Resources received free of charge are recorded as either revenue or gains depending on their nature (i.e. whether they have been generated in the course of the ordinary activities of PHIAC).

Sale of Assets

Gains from the disposal of non-current assets are recognised when control of the asset has passed to the buyer.

1.7 Employee Benefits

Liabilities for short term employee benefits (as defined in AASB 119) and termination benefits due within twelve months of the end of reporting period 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.

Other long-term employee benefits are measured as net total of the present value of defined benefit obligation at the end of the reporting period minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly.

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 2010. 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.

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. This liability is reported by the Department of Finance and Deregulation as an administered item.

PHIAC makes employer contributions to the employee superannuation schemes at rates determined by an actuary to be sufficient to meet the current cost to the Government of the superannuation entitlements of PHIAC's employees. An additional contribution for employer productivity benefits is made in accordance with Employer Productivity Superannuation Contribution rates where applicable.

1.8 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 assets. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Where an asset is acquired by means of a finance lease, the asset is capitalised at either the fair value of the lease property or, if lower, 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 principal component and the interest expense. The discount rate used is the interest rate implicit in the lease. Leased assets are amortised over the period of the lease. Lease terms are four years.

Operating lease payments are expensed on a straight-line 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.

1.9 Cash

Cash and cash equivalents includes notes and coins held and any deposits in bank accounts with an original maturity of 6 months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash is recognised at its nominal amount.

1.10 Financial Assets

PHIAC classifies its financial assets in the following categories:

- financial assets 'at fair value through profit or loss';
- 'held-to-maturity investments';
- 'available-for-sale' financial assets; and
- 'loans and receivables'.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets are recognised and derecognised upon 'trade date'.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis except for financial assets 'at fair value through profit or loss'.

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss where the financial assets:

- have been acquired principally for the purpose of selling in the near future;
- are a part of an identified portfolio of financial instruments that PHIAC manages together and has a recent actual pattern of short-term profit-taking; or
- are derivatives that are not designated and effective as a hedging instrument.

Assets in this category are classified as current assets.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest earned on the financial asset.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that PHIAC has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the asset within 12 months of the balance sheet date.

Available-for-sale financial assets are recorded at fair value. Gains and losses arising from changes in fair value are recognised directly in the reserves (equity) with the exception of impairment losses. Interest is calculated using the effective interest method and foreign exchange gains and losses on monetary assets are recognised directly in profit or loss. Where the asset is disposed of or is determined to be impaired, part or all of the cumulative gain or loss previously recognised in the reserve is included in profit for the period.

Where a reliable fair value cannot be established for unlisted investments in equity instruments, cost is used. PHIAC has no such instruments.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets are assessed for impairment at the end of each reporting period.

- *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 the statement of comprehensive income.
- *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 expenses, is transferred from equity to the statement of comprehensive income.
- *Available-for-sale financial assets (held at cost)* - If there is objective evidence that an impairment loss has been incurred, 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.

1.11 Investments in Associates

PHIAC has no investments in associates.

1.12 Jointly Controlled Entities

PHIAC has no interests in jointly controlled entities.

1.13 Financial Liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Financial liabilities are recognised and derecognised upon 'trade date'.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are initially measured at fair value. Subsequent fair value adjustments are recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Supplier and other payables

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

1.14 Property, Plant and Equipment

Asset Recognition Threshold

Purchases of property, 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 'make good' 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 other non-financial assets with a corresponding provision for the 'make good' taken up.

Revaluations

Fair values for each class of asset 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 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 operating result. Revaluation decrements for a class of assets are recognised directly through operating result 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

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to PHIAC 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 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:

	2010	2009
Furniture & fittings	5-10 years	5-10 years
Computer equipment	3-6 years	3-6 years
Leasehold improvements	Lease term	Lease term
Office equipment	3-4 years	3-4 years
Heritage and cultural	Indefinite	Indefinite

Impairment

All assets were assessed for impairment at 30 June 2010. 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.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

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 income at their fair value at the date of acquisition.

1.15 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 does not have Competitive Neutrality obligations with Government.

1.16 Contingent Liabilities and Contingent Assets

Contingent liabilities and contingent assets are not recognised in the balance sheet but are reported in the relevant schedules and notes.

They may arise from uncertainty as to the existence of a liability or asset or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain and contingent liabilities are disclosed when settlement is greater than remote.

1.17 Reporting of Risk Equalisation Activities

Cash Transfers to and from the Official Public Account

Revenue collected by PHIAC through the levy arrangements described in Revenue collected and payments made by PHIAC for the Health Benefits Risk Equalisation Trust Fund (HBRTF) is considered by the Government as Administered revenue and expenses for the Department of Health and Ageing. Collections are transferred to the Official Public Account (OPA) maintained by the Department of Finance and Deregulation. These monies are drawn down from the OPA to the HBRTF in order to make payments from the Trust Fund. Detail of the movements within the HBRTF are disclosed at Note 22.

Note 2: Events after the Reporting Period

There are no subsequent events after the reporting period which the Council is aware of that may affect the Financial Statements for the year ended 30 June 2010.

Note 3: Expenses

	2010 \$	2009 \$
Note 3A: Employee benefits		
Wages and salaries	2,606,569	2,408,521
Superannuation:		
Defined contribution plans	193,779	186,744
Defined benefit plans	172,466	132,278
Leave and other entitlements	278,251	252,563
Other employee benefits	14,137	10,159
Total employee benefits	3,265,202	2,990,266
Note 3B: Suppliers		
Goods and services		
Consultants	459,357	466,313
Travel	249,854	224,821
Training, recruitment, temporary staff	191,752	96,931
Accommodation other than rent	90,884	64,187
Industry information	80,958	130
Equipment expense	80,635	74,116
Stationery, postage, printing, publications	65,124	72,151
Other	112,246	116,498
Total goods and services	1,330,810	1,115,146
Goods and services are made up of:		
Provision of goods – external entities	80,958	130
Rendering of services – external entities	1,249,852	1,115,016
Total goods and services	1,330,810	1,115,146
Other supplier expenses		
Operating lease rentals:		
Minimum lease payments	361,745	279,238
Workers compensation premiums	32,583	24,628
Total other supplier expenses	394,328	303,866
Total supplier expenses	1,725,138	1,419,012
Note 3C: Depreciation and amortisation		
Depreciation:		
Property, plant and equipment	235,090	259,459
Total depreciation	235,090	259,459
Amortisation:		
Assets held under finance leases	4,863	4,863
Total amortisation	4,863	4,863
Total depreciation and amortisation	239,953	264,322
Note 3D: Finance costs		
Finance leases	2,035	2,035
Total finance costs	2,035	2,035
Note 3E: Losses from assets sales		
Property, plant and equipment		
Proceeds from sale	-	-
Carrying value of assets sold	15,071	-
Total losses from assets sales	15,071	-

Note 4: Income

	2010	2009
	\$	\$
Note 4A: Sale of goods and rendering of services		
Provision of goods - external entities	-	5,617
Total sale of goods	-	5,617
Rendering of services - external entities	83,927	-
Total rendering of services	83,927	-
Total sale of goods and rendering of services	83,927	5,617
Note 4B: Interest		
Deposits	201,413	254,233
Total interest	201,413	254,233
Note 4C: Other revenue		
Other	99,333	1,103
Total other revenue	99,333	1,103
Note 4D: Revenue from Government		
Department of Health and Ageing:		
CAC Act body payment items	5,085,000	4,435,000
Total revenue from Government	5,085,000	4,435,000

Note 5: Income Tax Expense (Competitive neutrality)

PHIAC is not subject to Competitive Neutrality.

Note 6: Financial Assets

Note 6A: Cash and cash equivalents

Cash on hand or on deposit	5,306,030	5,115,379
Total cash and cash equivalents	5,306,030	5,115,379

Note 6B: Trade and other receivables

GST receivable from the Australian Taxation Office	55,226	51,214
Other:		
Interest	18,509	27,123
Other receivables	3,258	19,020
Total other receivables	21,767	46,143
Total trade and other receivables (gross)	76,993	97,357
No receivables were impaired as at 30 June 2009		
Total trade and other receivables (net)	76,993	97,357
Receivables are aged as follows:		
Not overdue	76,993	97,357
Overdue by:		
Less than 30 days	-	-
30 to 60 days	-	-
61 to 90 days	-	-
More than 90 days	-	-
Total receivables (gross)	76,993	97,357

Receivables are expected to be recovered as:

No more than 12 months	76,993	97,357
Total trade and other receivables (net)	76,993	97,357

Note 6C: Other investments

Deposits	4,957	4,957
Total other investments	4,957	4,957

Total other investments are expected to be recovered in:

No more than 12 months	4,957	4,957
Total other investments	4,957	4,957

Note 7: Non-Financial Assets

	2010	2009
	\$	\$
Note 7A: Land and buildings		
Leasehold improvements		
– fair value	400,035	414,879
– accumulated depreciation	-	(290,125)
Written down value	400,035	124,754
Total leasehold improvements	400,035	124,754

No indicators of impairment were found for land and buildings.

Note 7B: Property, plant and equipment

Property, plant and equipment:

Office Equipment

- gross carrying value (at fair value)
- accumulated depreciation

Written down value

41,750	24,045
-	(12,352)
41,750	11,693

Computer Equipment

- gross carrying value (at fair value)
- accumulated depreciation

Written down value

75,626	172,436
-	(95,499)
75,626	76,937

Office Furniture & Fittings

- gross carrying value (at fair value)
- accumulated depreciation

Written down value

56,242	108,558
-	(41,901)
56,242	66,657

Leased Assets

- gross carrying value (at cost)
- accumulated depreciation

Written down value

19,451	66,384
(14,994)	(57,063)
4,457	9,320

Total property, plant and equipment

- gross carrying value (at fair value)
- accumulated depreciation

Total property, plant and equipment

193,070	371,422
(14,994)	(206,815)
178,076	164,607

Heritage and cultural:

- Artworks – at fair value
- accumulated depreciation

Total heritage and cultural

Total property, plant and equipment (non-current)

4,800	-
-	-
4,800	-
182,876	164,607

Plant and equipment under finance leases are not subject to revaluation. The carrying amount is included in the valuation figures above and is separately disclosed in Table A.

All revaluations are conducted in accordance with the revaluation policy stated at Note 1. On 30 June 2010, an independent valuer, Australian Valuation Office, conducted revaluations of all plant and equipment other than those under finance leases. There was no revaluation conducted in 2008-09.

Revaluation increment of \$1,549 for leasehold improvements (2009: nil) and \$27,460 for plant and equipment (2009: nil) were credited to the asset revaluation reserve by asset class and included in the equity section of the balance sheet; no increments or decrements were expensed (2009: nil expensed).

No indicators of impairment were found for property, plant and equipment.

Note 7C: Other non-financial assets

Prepayments

Total other non-financial assets

23,504	60,108
23,504	60,108

Total other non-financial assets are expected to be recovered in:

No more than 12 months

Total other non-financial assets

23,504	60,108
23,504	60,108

No indicators of impairment were found for other non-financial assets.

Note 7: Non-Financial Assets

Note 7D: Analysis of property, plant and equipment

TABLE A – Reconciliation of the opening and closing balances of property, plant and equipment (2009-10)

	Leasehold Improvements \$	Property, Plant & Equipment	Total \$
As at 1 July 2009			
Gross book value	414,879	371,422	786,301
Accumulated depreciation/amortisation and impairment	(290,125)	(206,815)	(496,940)
Net book value 1 July 2009	124,754	164,607	289,361
Additions:			
by purchase	346,722	66,548	413,270
by establishment of make good asset	90,000		90,000
by lease incentive	-	16,295	16,295
Revaluations and impairments through equity	1,549	27,460	29,009
Depreciation/amortisation expense	(162,991)	(76,963)	(239,953)
Disposals:			-
Other disposals	-	(15,071)	(15,071)
Net book value 30 June 2010	400,035	182,876	582,911
Net book value as of 30 June 2010 represented by:			
Gross book value	400,035	197,870	597,905
Accumulated depreciation/amortisation and impairment	-	(14,994)	(14,994)
	400,035	182,876	582,911

TABLE A – Reconciliation of the opening and closing balances of property, plant and equipment (2008-09)

Item	Leasehold Improvements \$	Property, Plant & Equipment	Total \$
As at 1 July 2008			
Gross book value	372,977	311,778	684,756
Accumulated depreciation/amortisation and impairment	(101,081)	(131,537)	(232,618)
Net book value 1 July 2008	271,896	180,242	452,138
Additions:			
by purchase	41,902	59,644	101,546
Revaluations and impairments through equity	-	-	-
Depreciation/amortisation expense	(189,044)	(75,278)	(264,322)
Other disposals	-	-	-
Net book value 30 June 2009	124,754	164,607	289,361
Net book value as of 30 June 2009 represented by:			
Gross book value	414,879	371,422	786,301
Accumulated depreciation/amortisation and impairment	(290,125)	(206,815)	(496,940)
	124,754	164,607	289,361

Note 8: Payables

	2010	2009
	\$	\$
Note 8A: Suppliers		
Trade creditors and accruals	273,465	261,816
Operating lease rentals	65,952	11,965
Total supplier payables	339,417	273,780
Supplier payables are expected to be settled in:		
No more than 12 months	273,465	261,816
More than 12 months	65,952	11,965
Total supplier payables	339,417	273,780

Settlement is usually made net 30 days.

Note 8B: Other payables

Salaries and wages	104,178	90,305
FBT payable to ATO	2,538	6,920
Total other payables	106,716	97,225
Other payables are expected to be settled in:		
No more than 12 months	106,716	97,225
Total other payables	106,716	97,225

Note 9: Interest Bearing Liabilities

Note 9A: Leases

Finance leases	4,457	9,320
Total finance leases	4,457	9,320
Payable:		
Within one year		
Minimum lease payments	5,616	6,127
Deduct: future finance charges	(1,159)	(1,264)
In one to five years		
Minimum lease payments	-	5,616
Deduct: future finance charges	-	(1,159)
In more than five years		
Minimum lease payments	-	-
Deduct: future finance charges	-	-
Finance leases recognised on the balance sheet	4,457	9,320

Finances leases exist in relation to a photocopier lease which expires in May 2011. The lease is non-cancellable and for a fixed term of 4 years. The interest rate implicit in the lease averaged **4.5% (2009:4.5%)**. The lease assets secure the lease liabilities. PHAC guarantees the residual values of all assets leased. There are no contingent rentals.

Note 10: Provisions

Note 10A: Employee provisions

Performance Provision	200,179	185,556
Leave	588,207	505,646
Total employee provisions	788,386	691,203
Employee provisions are expected to be settled in:		
No more than 12 months	391,288	278,822
More than 12 months	397,098	412,381
Total employee provisions	788,386	691,203

Note 10: Provisions

	2010 \$	2009 \$
Note 10B: Other provisions		
Restoration obligations	90,000	81,500
Total other provisions	90,000	81,500
Other provisions are expected to be settled in:		
More than 12 months	90,000	81,500
Total other provisions	90,000	81,500
	Provision for restoration	Total
Carrying amount 1 July 2009	81,500	81,500
Additional provisions made	90,000	90,000
Amounts used	(14,788)	(14,788)
Amounts reversed	(66,712)	(66,712)
Unwinding of discount or change in discount rate	-	-
Closing balance 2010	90,000	90,000

PHIAC currently has an agreement for the leasing of its premises which has a provision requiring PHIAC to restore the premises to its original condition at the conclusion of the lease. PHIAC has made a provision to reflect the present value of this obligation.

Note 11: Restructuring

Note 11A: Departmental Restructuring

No departmental restructuring took place during the years ended 30 June 2010 or 2009.

Note 12: Cash Flow Reconciliation

Reconciliation of cash and cash equivalents as per Balance Sheet to Cash Flow Statement

Report cash and cash equivalents as per:

Cash Flow Statement	5,306,030	5,115,379
Balance Sheet	5,306,030	5,115,379
Difference	-	-

Reconciliation of operating result to net cash from operating activities:

Net cost of services	4,862,725	4,414,682
Add revenue from Government	5,085,000	4,435,000

Adjustments for non-cash items

Depreciation /amortisation	239,953	264,322
Make good provision utilised	(81,500)	-
Disposal of assets	15,071	-

Changes in assets / liabilities

(Increase) / decrease in net receivables	20,365	17,997
(Increase) / decrease in prepayments	36,605	(33,808)
Increase / (decrease) in employee provisions	97,183	(87,053)
Increase / (decrease) in supplier payables, net of asset additions	44,542	207,425
Increase / (decrease) in other payables	9,491	23,344
Net cash from operating activities	603,984	412,545

Note 13: Contingent Liabilities and Assets

Quantifiable Contingencies

There are no quantifiable contingencies at 30 June 2010. (Nil at 30 June 2009).

Unquantifiable Contingencies

There are no unquantifiable contingencies at 30 June 2010. (Nil at 30 June 2009).

Remote Contingencies

There are no significant remote contingencies at 30 June 2010. (Nil at 30 June 2009)

Note 14: Council Remuneration

	2010	2009
The number of Council Members included in these figures are shown below in the relevant remuneration bands:		
\$ nil - \$14,999	-	-
\$45,000 - \$59,999	3	4
\$60,000 - \$74,999	1	1
\$75,000 - \$90,000	1	-
Total number of Council Members	5	5
	\$	\$
Total remuneration received or due and receivable by Council Members	300,702	293,928

Note 15: Related Party Disclosures

The Members of the Council during the year were:

	Date Appointed
James Dominguez - Commissioner	21-Jul-08
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 14, 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.

Note 16: Executive Remuneration

	2010	2009
Note 16A: Actual Remuneration Paid to Senior Executives		
Executive Remuneration		
The number of senior executives who received:		
less than \$145,000*	--	--
\$145,000 to \$159,000	1	-
\$175,000 to \$189,999	1	1
\$205 000 to \$219 999	-	1
\$245 000 to \$259 999	1	-
Total	3	2

* Excluding acting arrangements and part-year service.

Total expense recognised in relation to Senior Executive employment

	\$	\$
Short-term employee benefits:		
Salary (including leave taken)	473,307	335,764
Changes in annual leave provisions	8,642	17,497
Performance bonus	54,996	18,625
Total Short-term employee benefits	536,945	371,886
Superannuation (post-employment benefits)	62,507	40,176
Total	599,451	412,062

During the year the entity paid nil in termination benefits to senior executives (2009: nil)

Note 16: Executive Remuneration

Note 16B: Salary Packages for Senior Executives

Average annualised remuneration packages for substantive Senior Executives

		As at 30 June 2010	
	No. Δ	Base salary (including annual leave)	Total remuneration package 1
Total remuneration:			
less than \$145,000		--	--
\$145,000 to \$159,999	1	126,382	155,478
\$175,000 to \$189,999	1	144,912	188,552
\$235,000 to \$249,999	1	202,013	246,779
Total	3		
		As at 30 June 2009	
	No. Δ	Base salary (including annual leave)	Total remuneration package 1
Total remuneration:			
less than \$145,000		--	--
\$175,000 to \$189,999	1	148,651	185,808
\$205,000 to \$219,999	1	187,113	208,758
Total	2		

Notes

1. Non-Salary elements available to Senior Executives include:

- (a) Performance Bonus
- (b) Superannuation

Δ SES (1) Senior Managers (2) included in accordance with FMO 23 (2009: SES (1) Senior Managers (1))

Note 17: Remuneration of Auditors

	2010	2009
	\$	\$
Financial statement audit services provided by the Australian National Audit Office		
The fair value of the services provided was:	<u>13,115</u>	<u>12,800</u>
	<u>13,115</u>	<u>12,800</u>

No other services were provided by the Auditor-General.

Note 18: Average Staffing Levels

Staffing levels on a full-time equivalent basis at 30 June were:	26	24
--	----	----

Note 19: Financial Instruments

Note 19A Categories of financial instruments

Financial Assets

Loans and receivables		
Cash at Bank	5,306,030	5,115,379
Interest Receivable	18,509	27,123
Receivables for goods and services	3,258	19,020
Other Financial Assets	4,957	4,957
Carrying amount of financial assets	<u>5,332,754</u>	<u>5,166,479</u>

Financial Liabilities

Other Financial Liabilities		
Finance lease liabilities	4,457	9,320
Supplier Payables	339,417	273,780
Other Payables	106,716	97,225
Carrying amount of financial liabilities	<u>450,590</u>	<u>380,325</u>

19B Net income and expense from financial assets

Loans and receivables		
Interest revenue (See note 4B)	201,413	254,233
Net gain/(loss) loans and receivables	<u>201,413</u>	<u>254,233</u>
Net gain/(loss) from financial assets	<u>201,413</u>	<u>254,233</u>

19C Net income and expense from financial liabilities

Financial liabilities - at amortised cost		
Finance Lease costs (See note 3D)	2,035	2,035
Net gain/(loss) from financial liabilities	<u>2,035</u>	<u>2,035</u>

19D Fair value of financial instruments

The carrying value of all financial instruments as recognised in the Balance Sheet approximates the fair value of these assets and liabilities

19E: Credit Risk Exposures

PHIAC is exposed to minimal credit risk as the majority of loans and receivables are cash, appropriation made under law (which guarantees fixed amounts of funding that the entity can drawdown as required), cash which is receivable from Westpac Institutional Bank, amounts owed by the Australian Tax Office in the form of a Fringe Benefit and a Goods and Services Tax refund or Comcare. The maximum exposure to credit risk is the risk that arises from potential default of a debtor. This amount is equal to the total amount of trade receivables (2010: \$76,993 and 2009: \$97,357). PHIAC has assessed the risk of the default on payment and has made no allocation in 2010 (2009: nil) to an allowance for impairment account.

PHIAC has policies and procedures for debt recovery to be used by employees.

PHIAC holds no collateral to mitigate against credit risk.

Credit risk of financial instruments not past due or individually determined as impaired:

	Not Past Due Nor Impaired 2010 \$	Not Past Due Nor Impaired 2009 \$	Past due but not impaired 2010 \$	Past due but not impaired 2009 \$
Cash at bank	5,306,030	5,115,379	-	-
Receivables for goods and services	76,993	97,357	-	-
Total	5,383,023	5,212,736	-	-

Ageing of financial assets that are past due but not impaired for 2010

	0 to 30 days \$	31 to 60 days \$	61 to 90 days \$	90+ days \$	Total \$
Receivables for goods and services	-	-	-	-	-
Total	-	-	-	-	-

Ageing of financial assets that are past due but not impaired for 2009

	0 to 30 days \$	31 to 60 days \$	61 to 90 days \$	90+ days \$	Total \$
Receivables for goods and services	-	-	-	-	-
Total	-	-	-	-	-

Note 19: Financial Instruments

19F Liquidity risk

PHIAC's financial liabilities are payables, and finance leases. The exposure to liquidity risk is based on the notion that PHIAC will encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely due to appropriation funding and mechanisms available to PHIAC and internal policies and procedures put in place to ensure there are appropriate resources to meet its financial obligations.

The following tables illustrates the maturities for financial liabilities:

	On demand 2010 \$	Within 1 year 2010 \$	1 to 5 years 2010 \$	> 5 years 2010 \$	Total 2010 \$
Finance lease liabilities	-	4,457	-	-	4,457
Trade creditors	-	273,465	65,952	-	339,417
Other payables	-	106,716	-	-	106,716
Total	-	384,638	65,952	-	450,590

	On demand 2009 \$	Within 1 year 2009 \$	1 to 5 years 2009 \$	> 5 years 2009 \$	Total 2009 \$
Finance lease liabilities	-	4,863	4,457	-	9,320
Trade creditors	-	261,816	11,965	-	273,780
Other payables	-	97,225	-	-	97,225
Total	-	363,903	16,422	-	380,325

PHIAC revenue is paid into consolidated revenue and then appropriated back to PHIAC by the Australian Government. PHIAC manages its budgeted funds to ensure it has adequate funds to meet payments as they fall due. In addition, PHIAC has policies in place to ensure timely payments are made when due and has no past experience of default.

19G Market risk

PHIAC holds basic financial instruments that do not expose it to certain market risks. PHIAC is not exposed to 'currency risk' or 'other price risk'.

Interest Rate Risk

The only interest-bearing items on the balance sheet are a term deposits held with ANZ and NAB. The interest is at a fixed interest rate and will not fluctuate due to changes in the market interest rate.

Note 20: External Financing Arrangements

	2010	2009
	\$	\$
External Financing Arrangements		
The Council has access to twelve credit cards with Westpac Banking Corporation.		
Total facility	60,000	60,000
Amount of facility used as at 30 June	33,570	21,976
Facility available	26,430	38,024

Note 21: Compensation and Debt Relief

	2010	2009
	\$	\$
Departmental		
No payments were made during the reporting period. (2009: Nil payments made)	-	-

Note 22: Trust Money

The Council administers the Risk Equalisation Trust Fund. Payments are made to the Trust Fund in accordance with *Private Health Insurance (Risk Equalisation Trust Fund Levy) Act 2003*. These monies are not available for other purposes of PHIAC.

Balance carried forward from previous year	44,077	98,827
Receipts during the year to the pool	301,989,847	280,872,052
Interest received	193,344	210,877
Late Penalty Fees Received	1,408	7,239
Available for payments	302,228,676	281,188,995
Expenditure from pool	(301,989,847)	(280,872,052)
Expenditure Interest paid to private health insurers	(180,054)	(272,866)
Balance carried forward to next year held by PHIAC	58,775	44,077

\$4,957 of this amount are funds provided by PHIAC to maintain a minimum balance in the Risk Equalisation Trust Fund bank account. (Note 6C)

Note 23: Reporting of Outcomes

Note 23A: Net Cost of Outcome Delivery

	Outcome		Total	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Expenses	5,247	4,676	5,247	4,676
Income from non-government sector				
Other	84	6	84	6
Total	84	6	84	6
Other own-source income				
Interest	201	254	201	254
Other	99	1	99	1
Total other own-source income	301	255	301	255
Net costof outcome	4,863	4,415	4,863	4,415

Note 23B: Major Classes of Expenses, Income, Assets and Liabilities by Outcome

	Outcome		Total	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Expenses				
Employees	3,265	2,990	3,265	2,990
Suppliers	1,725	1,419	1,725	1,419
Depreciation and amortisation	240	264	240	264
Value of assets disposed	15	-	15	-
Finance Costs	2	2	2	2
Total	5,247	4,675	5,247	4,676
Income:				
Income from Government	5,085	4,435	5,085	4,435
Sale of goods and services	84	6	84	6
Interest	201	254	201	254
Other	99	-	99	-
Total	5,470	4,695	5,470	4,695
Assets				
Cash and cash equivalents	5,306	5,115	5,306	5,115
Trade and other receivables	77	97	77	97
Other investments	5	5	5	5
Land and buildings	400	125	400	125
Property, plant and equipment	183	165	183	165
Other	24	60	24	60
Total	5,994	5,567	5,994	5,567
Liabilities				
Suppliers	339	274	339	274
Other	107	97	107	97
Leases	4	9	4	9
Employee provisions	788	691	788	691
Other	90	82	90	82
Total	1,329	1,153	1,329	1,153

Financial Statements

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

Expenses

- Suppliers – The 2010 figure includes an amount for expenses relating to the Industry Information Program which was not conducted in 2008-09. Staff recruitment costs in 2009-10 were greater than 2008-09 due to a higher number of recruits being sought. Newly recruited analysts in 2009-10 completed a number of function-based development activities.

Income

- Sale of goods and rendering of services – The 2010 figure reflects the income from the Industry Information Program conducted in that year.
- Other revenue – The 2010 figure includes the excess in the Make Good provision which was not incurred at the completion of the lease and costs recovered from an insurer.

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

Assets

- Non-financial assets: Land and buildings – The 2010 figure includes the fit out of the new premises.
- Non-financial assets: Other – The majority of the 2009 figure relates to conference fees and Industry Information prepaid in that year.

Liabilities

- Suppliers – The 2010 figure includes the lease accrual for the Barton premises.

Items in the Schedule of Commitments that show a significant variation in amount, when compared to the previous year, include the 2010 figures that reflect the Barton lease and the 2009 figures which reflect the winding down of the Kingston leases.

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Contact Details

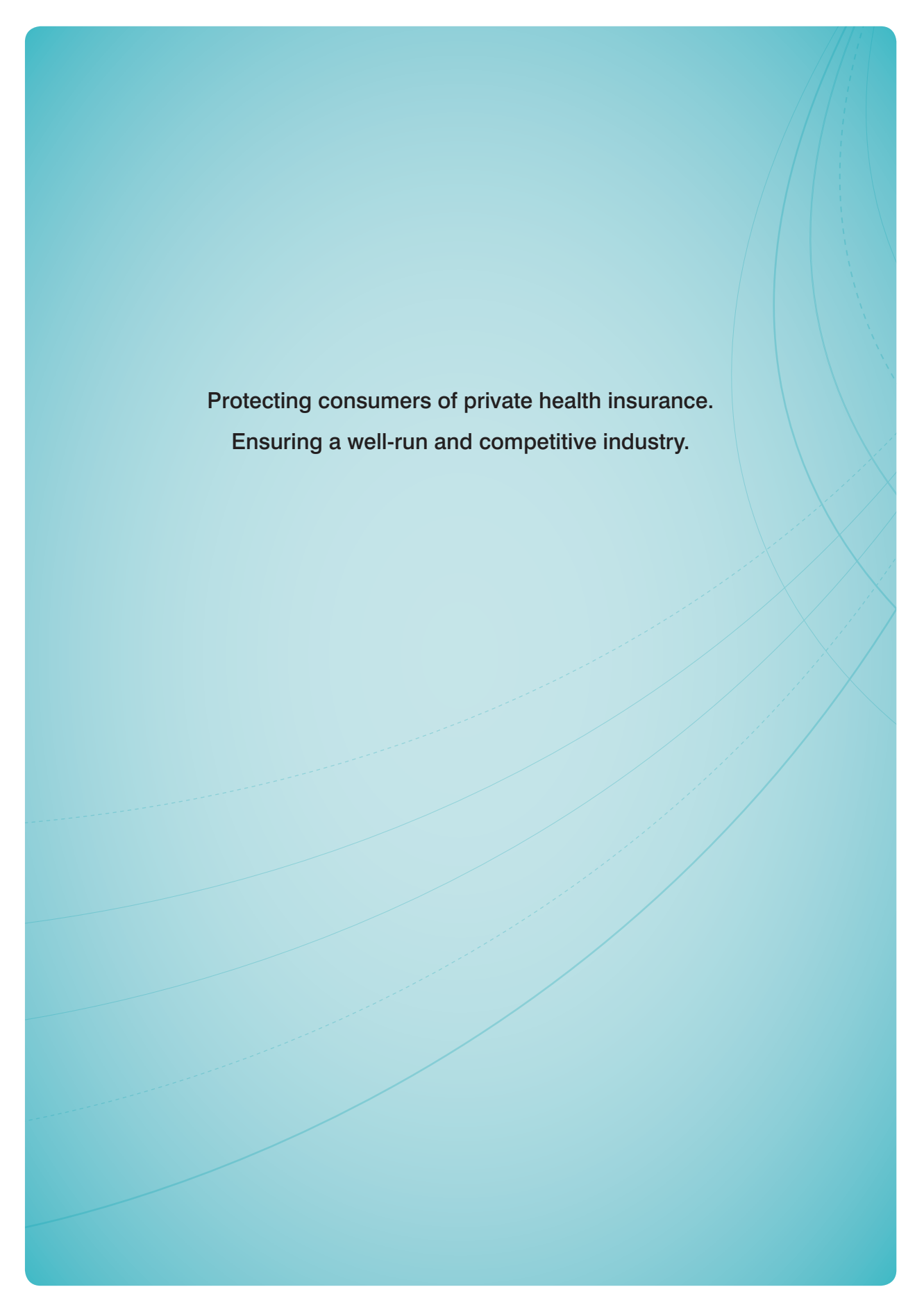
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The background is a solid teal color with a gradient. On the right side, there are several curved, overlapping lines in a lighter shade of teal. Some of these lines are solid, while others are dashed, creating a sense of depth and movement.

**Protecting consumers of private health insurance.
Ensuring a well-run and competitive industry.**