Australian Government

Coal Mining Industry (Long Service Leave Funding) Corporation

ANNUAL REPORT 2016/17

COAL LSL

IT'S
YOUR
TIME.

LETTER OF TRANSMITTAL

Australian Government
Coal Mining Industry
(Long Service Leave Funding) Corporation

COAL LSL

10 October 2017

Senator the Hon. Michaelia Cash
Minister for Employment
Parliament House
CANBERRA ACT 2600

Dear Minister,

I am pleased to submit the Coal Mining Industry (Long Service Leave Funding) Corporation (Coal LSL) Annual Report for the year ended 30 June 2017 for presentation to the Parliament.

This report meets the requirements of federal law, including section 46 of the Public Governance, Performance and Accountability Act 2013, and reflects the requirements as approved by the Joint Committee of Public Accounts and Audit.

Following its tabling in Parliament, the report will be made available on the Coal LSL website.

Yours sincerely

Mr Andrew Vickers
Chairman

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APPROVAL OF 2016-17 ANNUAL REPORT FROM ACCOUNTABLE AUTHORITY

On behalf of the Board of Directors of the Coal Mining Industry (Long Service Leave Funding) Corporation (Coal LSL), I certify that:

- the Board of Directors (the Board) is the Accountable Authority of Coal LSL;
- that the Board is responsible for preparing and giving the annual report to the Minister of Employment in accordance with section 46 of the Public Governance, Performance and Accountability Act 2013; and
- the Board met and approved the 2016-17 annual report for submission to the Minister of Employment by way of resolution on 10 October 2017.

Mr Andrew Vickers
Chairman

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INTRODUCTION

I am pleased to present the 2016-17 Coal LSL Annual Report.

This year marks our 25th anniversary as a corporate Commonwealth entity. As a fund, we have a strong history dating back to 1949, a history that we are very proud of and will continue to honour. Our focus this year was to build solid foundations for our future. Leveraging the expertise and knowledge we have gained from our past, but adapting and being agile to capitalise on current and future opportunities and challenges.

Delivery of our optimised business model was a major achievement for the year. From inception until 30 June 2017, the fund was administered by a third-party service provider. The decision was made not to renew our administration contract when it expired on 30 June 2017. Rather, the Board made the decision in October 2016 that we would insource our operations and transition to a stand-alone business. We consider our transition to be very successful. We were operating in our new environment from the end of May 2017, and continued operating through our official changeover (at the end of June) from one day to the next with minimal impact to our services and clients. This new business model provides us a solid foundation, owning the end-to-end experience, to continue to build from.

Launching our refreshed brand was also a highlight for 2016-17. To keep pace and remain relevant, we needed to adopt a brand beyond the Australian Government black and white crest, to which clients, stakeholders and internal employees could relate. Our new look and feel provides the balance of conveying a modern, corporate tone whilst continuing to recognise our association to the Australian Government.

Finally, our engagement this year with stakeholders and clients has been pleasing. We have seen positive outcomes through the personal interactions we have undertaken. We will continue to purposefully engage with stakeholders and make a priority of educating them on our strategic goals and benefits as an organisation.

Darlene Perks
Chief Executive Officer

ABOUT COAL LSL

PURPOSE

MISSION

To regulate and facilitate the payments of long service leave entitlements to persons employed in the Australian black coal mining industry.

ROLE

We are established under the Coal Mining Industry (Long Service Leave) Administration Act 1992.

OUR ROLE IS TO:

- Collect funds from employers by way of levy;
- Invest funds and ensure fund sufficiency to finance the cost of reimbursements of long service leave;
- Ensure accurate and compliant record keeping;
- Reimburse employers' authorised payments of long service leave; and
- Enable recognition of long service leave entitlement for eligible employees.

RESPONSIBLE MINISTER

OUR RESPONSIBLE MINISTER DURING 2016-17 WAS:

Senator the Hon Michaelia Cash (21 September 2015-current)

- Minister for Employment
- Minister for Women
- Senator for Western Australia (from 2007)

ACCOUNTABLE AUTHORITY

We have a Board of Directors who collectively act as the accountable authority of Coal LSL. Our Board consists of members who represent employer and employee stakeholders within the Australian black coal mining industry.

MEMBERS OF THE BOARD

All members of our Board who served during the reporting period are non-executive directors.

Current members as at 30 June 2017

Andrew Vickers, Chair
Employee Representative (CFMEU)
Director since July 2013 and Chair since February 2016.

At the time of publication, Andrew had recently retired from his role as General Secretary (formerly General Vice President) of the Construction Forestry Mining and Energy Union (CFMEU) – Mining and Energy Division, and Vice President of the CFMEU. He is currently Director and Chair of the Coal Mining Industry (Long Service Leave Funding) Corporation and a Director of Unity Bank Limited. Until recently, Andrew was Director and Chair of the United Colliery Joint Venture and Co-Chair of the IndustriALL Global Union, Mining Sector. He is a member of the Australian Institute of Company Directors and has extensive experience within the union, working in the mining industry.

Mark Klasen, Deputy Chair
Employer Representative (QLD Employers)
Director since March 2016 and Deputy Chair since April 2017.

Mark is currently Financial Controller of Glencore Coal Assets Australia, and is a director of many of the Glencore Coal operating companies; Glencore's representative member of a number of unincorporated joint venture's; Director and Deputy Chair of the Coal Mining Industry (Long Service Leave Funding) Corporation; alternate Director of Port Waratah Coal Services Limited and alternate Director of Port Kembla Coal Terminal Limited. He is a member of the Australian Institute of Company Directors, and holds a Bachelor of Commerce degree from University of Newcastle and a Graduate Diploma of Computing from Deakin University. He has worked in chartered accounting firms, NSW utilities providers and a number of large scale multi-national mining companies in an accounting, finance and IT systems capacity.

Bradley Neven, Director
Employer Representative (WA Employers)
Director since April 2015

Brad is currently Group Manager Human Resources / Health & Safety at Yancoal Australia, and a Director of the Coal Mining Industry (Long Service Leave Funding) Corporation. He is a member of the Australian Institute of Company Directors, a certified member of the Australian Human Resources Institute and a member of Queensland Industrial Relations Society. Brad has a law degree from Queensland University of Technology, and a Master of Business Administration from Central Queensland University. He has considerable experience as a senior executive within organisations in the generation and mining sectors. In addition to his human resources and health and safety background, Brad has experience in operations, audit, risk and corporate governance.

Anne Donnellan, Director
Employee Representative (Other unions)
Director since May 2017

Anne is currently the National Organiser (manufacturing membership) at the Australian Manufacturing Workers Union (AMWU); alternate Director of CBUS United Super Pty Ltd; Member Director on the CBUS Member and Employer Services Committee; a Director of U-Cover Pty Ltd and a Director of the Coal Mining Industry (Long Service Leave Funding) Corporation. She is also a member of the AMWU National Council and a substitute executive committee member of the IndustriALL Global Union Federation. She has completed the Trustee Director Course level 1 of the Australian Institute of Superannuation Trustees. Anne holds a Bachelor Degree in Social Work from the South Australian Institute of Technology. She has extensive experience advocating for AMWU members in metal and engineering and associated industry sectors and occupations.

Christina Langby, Director
Employer Representative (NSW Employers)
Director since June 2017

Christina is currently the CFO, Director of Finance and Operations and Company Secretary at the New South Wales Minerals Council; Director of AUSCOAL Superannuation Pty Limited and Director of the Coal Mining Industry (Long Service Leave Funding) Corporation. She is a member of the Australian Institute of Company Directors, the Australian Institute of Superannuation Trustees and Chartered Accountants Australia and New Zealand. After graduating from Sydney University with a Bachelor of Economics, she worked for KPMG in their audit division, specialising in Banking and Finance. She has worked in several international banks and financial institutions, within both the finance and audit divisions, before moving into smaller corporate companies on a part time basis while her children were young. In addition to her accounting and finance background, she has experience in audit, risk, administration, corporate governance including board and secretariat management, insurance and consulting and relationship management.

Directors who served during the reporting period:

Martin Aicken
Employer Representative (NSW Employers)
Director from March 2015 to March 2017 and Deputy Chair from March 2016 to March 2017.

Martin is a senior human resources professional who has worked in several complex industrial relations environments and successfully completed both enterprise based and industry wide employee relations negotiations. He holds a Bachelor of Economics from the University of Sydney and a Bachelor of Legal Studies from Macquarie University. He was admitted as a solicitor in NSW in 2006. Martin is also a graduate of the Australian Institute of Company Directors.

Glenn Hall
Employee Representative (Other unions)
Director from May 2013 to May 2017

Glenn is an elected official of the CEPU/ETU Queensland and Northern Territory and a Director of AUSCOAL Superannuation Pty Ltd. He is a member of the Queensland Coal Mining Safety and Health Advisory Committee and a member of the Australian Institute of Company Directors. Glenn is a qualified electrician, having started working in the coal industry as an apprentice at Blackwater Mine and then as an electrician at Norwich Park Mine.

Lee Webb
Employee Representative (CFMEU)
Director from December 2015 to June 2017

Lee is currently the Secretary for the South-Western District of the Mining and Energy Division of the CFMEU. He currently sits on the Board of Management for the South-Western District of the Mining and Energy Division of the CFMEU. He has experience in risk management, corporate governance, agreement negotiations and Industrial Law. After successfully completing an electrical apprenticeship, he furthered his education with extra courses in DC Machines and PLC systems. He has experience in industrial electrics, including repairs to mining machinery, followed by an extensive career in an underground coal mine, as a special class electrician for long wall, board and pillar coal extraction systems. During his time in underground coal mining, he had 26 years as a union representative, looking after member's interests with many visits to FWA for either conciliation or arbitration. As District Secretary, Lee is responsible for finances for the Kembla Grange Office, and also the South West Lodges.

John Edwards
Employer Representative (NSW Employers)
Director from March 2017 to June 2017.

John was General Manager Human Resources for Centennial Coal Company prior to his retirement in November 2016. John has significant knowledge and experience in the black coal mining industry, over 38 years. He has a Master of Human Resources and Industrial Relations and a Graduate Diploma of Industrial Relations.

INVESTMENTS

We have adopted a balanced investment strategy, optimising the risk/return ratio over the medium to long term with Australian and overseas investments managed by appointed professional investment managers. We monitor our performance closely, with the assistance of our Asset Consultant. All investments are held for security by and in the name of an independent Master Custodian, JPMorgan Chase Bank N.A.

The following returns have been achieved in the last five years (ending 30 June)

2017	2016	2015	2014	2013
8.92%	3.40%	7.28%	13.13%	14.81%

ORGANISATIONAL STRUCTURE

We have continued to evolve our organisational structure throughout the reporting period.

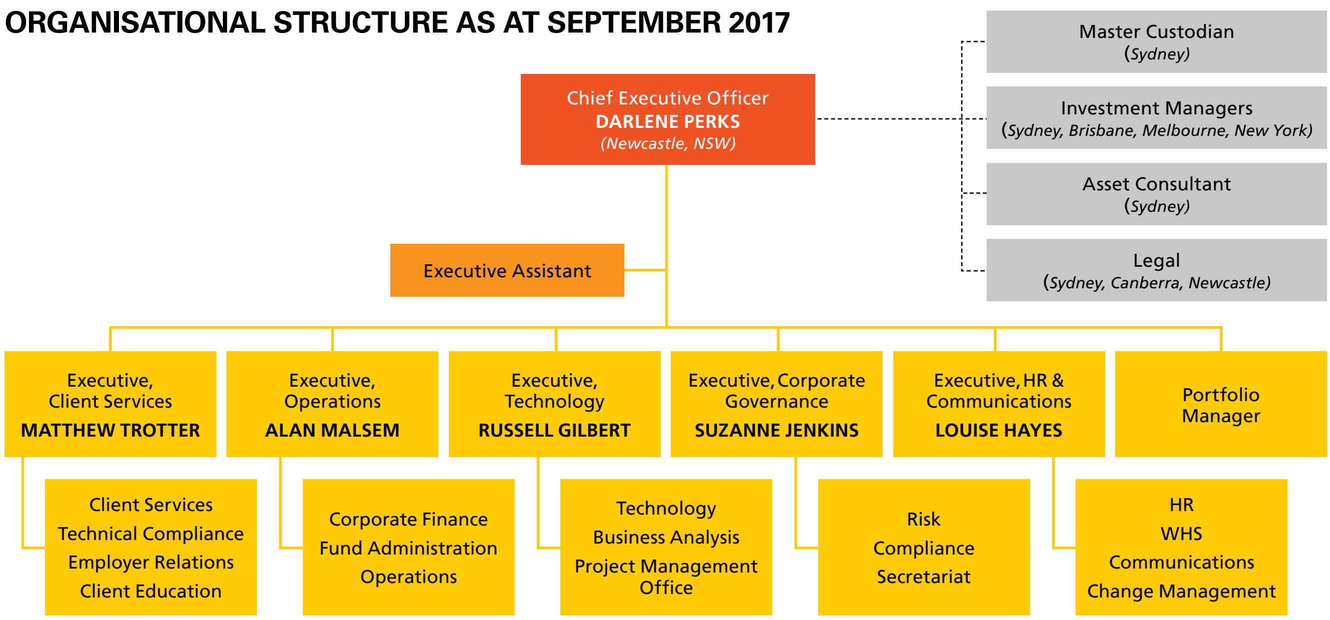
In 2015-16, we worked closely with our administration service provider to introduce senior executive resources into our business. This was in response to the evolution of our business, providing Coal LSL with the capacity and capability to deliver on our strategic agenda.

The decision to insource operations required our previous structure to be extended to deliver on all aspects of our business, previously delivered under our administration contract. Retaining a depth of knowledge within the business was critical to the success of our transition.

Our organisational structure was revised and three new appointments were made within our executive team, with the other executive roles transitioning across from the administration service provider. We retained the majority of the existing long service leave team from the previous administrator with 95% of the employees transitioning to Coal LSL. This retention of staff ensured we retained key business knowledge and could continue services in the new operating model with minimal impact on our clients.

We continue to utilise outsourced providers for specialist service areas including investments and legal. The current organisational structure and relationships with outsourced providers can be viewed in table below.

ORGANISATIONAL STRUCTURE AS AT SEPTEMBER 2017



GOVERNANCE

BOARD AND SUB-COMMITTEES

Our Board operates in accordance with the *Coal Mining Industry (Long Service Leave) Administration Act 1992* (the Admin Act) and accompanying legislation, and as a corporate Commonwealth entity subject to the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

As part of our 2017 annual internal audit plan, the conduct and performance of the Board of Directors, Independent Advisers, and year's meetings were reviewed against the Board's Charter.

The Board maintains a high level of corporate governance through sub-committees. A primary objective for Board sub-committees is to support the efficiency of the Board, by delegating tasks and allowing more time for issues to be discussed in sufficient depth.

During the year, we continued to comply with Government direction with an independent adviser performing the role of Chair to the Audit, Risk Management and Compliance Committee. We have adopted this approach across all sub-committees, with independent advisers performing the role of Chairs'.

AUDIT, RISK MANAGEMENT AND COMPLIANCE COMMITTEE (ARCC)

The ARCC meets bi-monthly and its' main functions include: to review the appropriateness of financial reporting; performance reporting; system of risk oversight and management; system of internal control; accounting policies; business policies and practices; compliance with applicable laws and regulations; and to oversee governance issues for Coal LSL.

INVESTMENT COMMITTEE (IC)

The IC meets bi-monthly and provides a forum for discussion on investment strategy, initiatives and market insights. Its' key objectives include; ongoing assessment of the Fund's performance against strategy; to oversee the performance of investment managers, the asset consultant and master custodian.

TECHNICAL COMPLIANCE COMMITTEE (TCC)

The TCC meets regularly, and provides a forum for Directors to consider and evaluate applications for recognition of service and calculation of long service leave entitlement under the transitional provisions of the Coal Mining Industry (Long Service Leave) Legislation Amendment Act 2011.

ORGANISATIONAL REVIEW COMMITTEE (ORC)

The ORC met regularly, and was a committee that provided Directors with a forum to consider, review and evaluate Coal LSL's organisational structure, and the utilisation of outsourced service providers in the delivery of an effective, efficient, ethical and economic service delivery model. With the decision to transition the business to an insourced operation, the Board approved the dissolution of the ORC at its' meeting in January 2017.

REMUNERATION COMMITTEE (RC)

In February, the Board approved the terms of reference for the newly formed RC, with the inaugural meeting held in June 2017. The membership for the RC comprises of an Independent Chair, one director appointed to represent employers engaged in the black coal mining industry and one director appointed to represent employees in the black coal mining industry. It provides a forum for discussion on the framework and policy for remuneration, conditions of employment and succession; and appointment and review of the Chief Executive Officer and Independent Advisers.

MEETINGS OF THE BOARD

There were a total of nine (9) meetings of the Board of Coal LSL convened during the year. Director attendance at each board meeting is detailed in the table below:

		Term of Appointment		Meeting Attendance								
				2016					2017			
Name	**Nominated by**	**From**	**To**	14 Jul	23 Aug	20 Sep	11 Oct	6 Dec	12 Jan	28 Feb	20 Apr	27 Jun
Mr Andrew Vickers (Chair)	Employees	26.07.2013	26.07.2021	X	X	X	X	X	X**	X	X	X
Mr Mark Klasen (Deputy Chair from 20 April 2017)	Employers	16.03.2016	15.03.2020	X	-	X	X	X	X**	X**	X	X
Mr Bradley Neven	Employers	14.04.2015	13.04.2019	X	X	X	X	X	X**	X	X	X
Mr Glenn Hall*	Employees	30.05.2013	29.05.2017	X	X	X	X	X	X**	X	X	
Mr Martin Aicken* (Deputy Chair)	Employers	30.07.2015	06.03.2017	X	X	X	X	X	X**	X		
Mr Lee Webb*	Employees	14.12.2015	30.06.2017	X	X	X	X	X	X**	X	X	X
Mr John Edwards*	Employers	06.03.2017	06.06.2017								X	
Ms Anne Donnellan	Employees	30.05.2017	30.05.2021									-
Ms Christina Langby	Employers	05.06.2017	05.06.2021									X

* Appointment ceased during the financial year **Via teleconference

GOVERNANCE PRACTICES

We have developed, and continue to improve, effective systems of risk and governance.

We have established governance standards and practices through:
- A comprehensive suite of policies, subject to regular reviews;
- Supporting frameworks and guidelines for policies;
- Regular monitoring and reporting on compliance;
- Internal training on policies and procedures; and
- Strong internal controls framework.

We acknowledge the importance of meaningful dialogue on risk through maintaining and reporting on strategic, operational and project risks, and the regular review and improvement of our systems of risk and governance.

Consideration of risk information across all our activities supports a more valued, accurate and contextual view on current and emerging risk. We strive to be risk-intelligent, adopting a philosophy of learning from our mistakes and wins, and sharing this knowledge.

We implemented an online governance system during the period to facilitate reporting of risks, incidents and complaints by staff and clients. This system assigns a work-flow process for handling each category, and enables reporting across all registered information, therefore delivering improved efficiencies and effectiveness in handling, response and reporting for governance matters for Coal LSL.

We will continue to review and enhance our risk and governance frameworks to ensure they:
- Align with organisational activities;
- Integrate into our business and project management;
- Engage our stakeholders in relation to shared risks;
- Facilitate appropriate and effective mechanisms to communicate and escalate information; and
- Provide a sound, articulated framework of accountability, responsibility and delegation.

In accordance with our guidelines, all Coal LSL Directors, Independent Advisers, the Chief Executive Officer and Executive provide an annual declaration of known and/or potential conflicts of interests.

PROCUREMENT

We established a procurement policy during the reporting period, applying within business operations, so far as is practicable, the principles of Section 30 of the Public Governance, Performance, and Accountability Rule 2014 (PGPA Rule regarding the Commonwealth Procurement Framework). The purpose of this policy is to establish a framework to ensure that the procurement of all goods and services is conducted in an honest, competitive, fair and transparent manner that delivers the best value for money outcome, whilst at the same time, protecting our reputation and ensuring compliance with all relevant legislation. In the event of any conflicts of interest or potential related party transactions, the relevant parties are required to make disclosures during the procurement process to ensure we adhere to the principles of our Procurement Framework.

STATEMENT OF NON-COMPLIANCE

We are aware of our compliance obligations with finance laws and we undertake a range of compliance activities to maintain ongoing compliance and assurance.

We are committed to our obligation to report significant activities or issues to our responsible Minister in a timely manner. We have a robust internal controls system, which includes alerts, work-flows and approvals processes and reporting mechanisms that facilitates the awareness of potential matters for escalation and external reporting.

There have not been any significant non-compliance issues reported to the Minister during the reporting period, as per section 19(1)(e) of the PGPA Act. We have also not been subject to any ministerial directives or policy orders during the reporting period.

EXTERNAL SCRUTINY

During the year to 30 June 2017, there were no judicial decisions or independent tribunal outcomes that had a significant effect on our operations.

Additionally, there were no external reports on Coal LSL requiring disclosure by the following external parties:

- The Auditor General (with the exception of the external audit of the annual financial report);
- Any Committee of the Houses of Parliament;
- The Commonwealth Ombudsman; or
- The Office of the Australian Information Commissioner.

DISCLOSURES

WORK HEALTH AND SAFETY

Due to the change in our business model, we had an increased focus on WHS during the reporting period. We undertook several initiatives to ensure we were appropriately equipped to manage the health, safety and welfare of our workers.

Throughout the year, we:

- Approved and implemented a new WHS policy;
- Established a safety committee;
- Introduced an employee assistance program;
- Conducted workstation ergonomics training;
- Engaged an external consultant to complete a WHS review of our office;
- Developed and presented WHS awareness topics; and
- Provided regular WHS reporting to the Board.

Under the *Work Health and Safety Act 2011* (WHS Act) we are required to report particular information. During 2016–17, we had zero notifiable incidents, and we were not involved in any statutory enforcements or investigations.

ECOLOGICAL SUSTAINABLE DEVELOPMENT

As part of our business transition, we relocated to our current office on 29 May 2017. Our premises have a 4.5 star NABERS energy rating and is located near central public transport hubs. Within our office environment, we encourage a range of initiatives to assist us reduce our environment foot print. These include:

- Follow me printing (with default settings set to double sided greyscale);
- Encouraging electronic meeting papers and scanning to reduce the volume of paper;
- Shutting down computers outside of working hours;
- Energy efficient lighting, including sensor lighting throughout the office;
- Recycling of paper, cardboard, plastics, glass and print cartridges; and
- Encouraging the use of local public transport hubs and cycling to work.

ADVERTISING AND MARKET RESEARCH

Under section 311A of the *Commonwealth Electoral Act 1918*, we are required to disclose payments of $13,000 or more (inclusive of GST) to specific types of organisations. These organisations are advertising agencies, market research organisations, polling organisations, media advertising organisations, and direct mail organisations. We have no payments requiring disclosure for 2016-17.

RELATED PARTY TRANSACTIONS OF ACCOUNTABLE AUTHORITY

Apart from the remuneration of the directors as disclosed in the notes to the 30 June 2017 Financial Statements, no further related party transactions occurred between Coal LSL and the accountable authority.

INDEMNITIES AND INSURANCE PREMIUMS

We purchased directors' and officers' liability insurance and professional indemnity insurance for 2016–17 through an investment manager's insurance package with Lloyd's of London.

In addition to directors' and officers', the insurances provided coverage for staff, including the CEO, executive and staff officially engaged as employees of Coal LSL. Directors' and officers' liability insurance covered the consequences of any wrongful act of these officers. Directors' and officers' liability does not cover any wilful breach of duty.

We paid $48,940 for the investment managers insurance package for 2017–18 (including GST). There were no claims against the directors' and officers' liability insurance during 2016–17.

In addition to directors' and officers', the professional indemnity insurance indemnifies Coal LSL, the CEO and executive, for damages or judgements and defence costs awarded against Coal LSL arising from the execution for breach of their duty. There were no claims against the professional indemnity cover in 2016–17.

2016-17 YEAR IN REVIEW

As a business, we made some significant decisions in 2016-17 which led to changes in the way we operate. The most significant being the change in our business model. In October 2016, we made the decision not to renew our administration contract when it expired, rather to insource our operations and transition to a stand-alone business.

This decision guided our priorities for the remainder of the year. We adapted to the change in our agenda, and redirected our resources to focus on the delivery of our new business model. There are some aspects of our Corporate Plan we needed to defer in order to deliver a successful business transition. You can read details on what we achieved and what was deferred in our Annual Performance Statements.

Our key activities for 2016-17 include:

DELIVERED AN OPTIMISED BUSINESS MODEL

From inception until 30 June 2017, the Fund was administered by a third-party service provider. During the year, the decision was made not to renew our administration contract when it expired on 30 June 2017. Rather, we made the decision that we would insource our operations and transition to a stand-alone business.

When we were established in 1992, the Fund was small enough that operational and client needs could be delivered successfully through a model of outsourced service providers. Fast forward to today, and the industry we serve is more complex, operating in an ever-changing environment. To keep pace with the needs and expectations of our clients and stakeholders, we needed to adapt.

Financially strong, with funds under management surpassing $1.5B, today we have grown to a point where internal resourcing is a viable and sustainable operating model. Our optimised business model provides us with greater potential to create growth, innovation and improve outcomes for our stakeholders.

IMPLEMENTED NEW EMPLOYER REIMBURSEMENT RULES

After extensive consultation with a black coal mining industry working party group, the Board of Coal LSL approved an amended set of employer reimbursement rules. The new rules provide greater financial benefit to our employer group.

The Employer Reimbursement Rules 2017 (2017 rules) became effective from 1 July 2017 and revoked the previous rules.

Under the 2017 rules, on administrative approval, a reimbursement claim is fully reimbursed to an employer. This change removed the financial imposition known as 'shortfalls' experienced in some instances by employers under the previous rules.

REBRANDED

The strategic planning process highlighted an identity issue for Coal LSL and the need to adopt a brand beyond the Australian Government black and white crest, to which stakeholders and employees could relate. We launched our new Coal LSL brand early in 2017 including a new look and feel for our website and collateral.

INTRODUCED A NEW EMPLOYER COMPLIANCE PROGRAM

We introduced our employer compliance program during the year. The program has focused on engaging with employers of recognised eligible employees (through our service review processes) who are not currently registered with Coal LSL.

ENGAGED WITH OUR STAKEHOLDERS

We developed and implemented a stakeholder engagement and management plan during the reporting period. Our plan was derived on proactively connecting with key stakeholders to advise of our strategic direction and how we intended to deliver on our objectives.

ANNUAL PERFORMANCE STATEMENTS

INTRODUCTORY STATEMENT

This Annual Performance Statement has been completed as per s39(1)(a) of the Public Governance, Performance and Accountability Act 2013 (PGPA Act) for the 2016-17 financial year and accurately presents Coal LSL's performance in accordance with s39(2) of the PGPA Act.

ENTITY PURPOSE 1 – FUND ASSURANCE

We have a responsibility to maintain fund sufficiency. Achieving investment objectives contributes to the fund surplus; minimising the risk of an increase and providing opportunities to reduce the employer levy.

RESULTS

PERFORMANCE CRITERION

In 2016-17 we will aim to maintain a surplus in the fund of 115% at June 2017, with a 5% tolerance.

CRITERION SOURCE

2016-17 Corporate Plan (section 1.4)

RESULTS AGAINST PERFORMANCE CRITERION

Fund sufficiency is determined by our Actuary once every three years. The last actuarial review was undertaken as at 30 June 2014, and showed that the Fund was in surplus, being 119.2% (with assets of $1,286 million and liabilities of $1,079 million at that date). The Actuary is currently analysing the Fund information as at 30 June 2017, and will provide the final report by end of 2017. The preliminary report states the Fund is in significant surplus, exceeding the 2014 surplus.

ANALYSIS OF PERFORMANCE AGAINST PURPOSE

We have performed well against our fund assurance objective.

We perform a range of activities to support fund sufficiency, including;

- Providing actuarial information to the Minister;
- Effectively managing the collection of levies;
- Ensuring accurate reimbursements are made to employers; and
- Maintaining an audit register of employers.

We also invest funds to maximise the long-term investment return, taking account of diversification, liquidity and the following objectives:

- To obtain a net return from investment that exceeds inflation by at least 3% per annum over rolling 8 year periods;
- To limit the probability of an annual loss to no more than one in four years on average;
- To limit the expected return in very poor years (one-in-20 year events where financial markets are very adverse) to no worse than – 12% per annum.

Our return for the 8 years to 30 June 2017 was 10.1% per annum, which exceeded the CPI+3% target. The annual returns for the 4 years to 30 June 2017 were all positive, and the lowest return in the last 20 years was – 11.6%, which is no worse than – 12% (noting that these observations are indicative only, as the portfolio was not targeting these objectives for those entire periods).

Overall, we are confident robust processes are in place to ensure the Fund remains in a strong financial position.

ENTITY PURPOSE 2 – STAKEHOLDER RELATIONS

To be proactive, engaged and connected with the stakeholders of the fund in order to understand the operating environment, and to continue to be responsive, relevant and agile in this environment. To create meaningful, multi-channel delivery of communications to our stakeholders in government, industry groups, employer and employee organisations and service providers.

RESULTS

PERFORMANCE CRITERION 1

Develop a stakeholder engagement and management plan.

PERFORMANCE CRITERION 2

Implement a stakeholder engagement and management plan.

CRITERION SOURCE

2016-17 Corporate Plan (section 2.4)

RESULTS AGAINST PERFORMANCE CRITERION

We developed and implemented a stakeholder engagement and management plan during the reporting period. Our plan was derived on proactively connecting with key stakeholders to advise of our strategic direction and how we intended to deliver on our objectives.

In October 2016, the Board approved the transition to an insourced operating model. This decision increased the importance on delivering on our commitment to proactively engaging with stakeholders, ensuring they understood the change in our business model.

As part of the stakeholder engagement plan, we:

- Addressed the delegates at the CFMEU National Conference;
- Communicated with key union stakeholders including CFMEU and Professional Australia;
- Met with representatives from Queensland Resources Council and NSW Minerals Council;
- Held 129 meetings with employers about their obligations under our Act;
- Met with our responsible Minister, Senator the Hon Michaelia Cash; and
- Delivered multiple fund updates via e-newsletters and our website.

PERFORMANCE CRITERION 3

Stakeholder engagement: positive feedback from surveys.

CRITERION SOURCE

2016-17 Corporate Plan (section 2.4)

RESULTS AGAINST PERFORMANCE CRITERION

We deferred surveying our stakeholders in 2016-17. We focused on the development, implementation and delivery of our stakeholder engagement plan.

To continue to improve our engagement, we remain committed to surveying our different stakeholders as part of our 2017-18 Corporate Plan.

ENTITY PURPOSE 2 (CONT)

PERFORMANCE CRITERION 4

Brand Relevance: feedback from surveys.

CRITERION SOURCE

2016-17 Corporate Plan (section 2.4)

RESULTS AGAINST PERFORMANCE CRITERION

In December 2016, we endorsed a refreshed brand for our business.

Traditionally we adopted a simple brand, based on the use of the Australian Government crest, using black and white as the primary style. The strategic planning process highlighted an identity issue for Coal LSL and the need to adopt a brand beyond the Australian Government black and white crest, to which clients, stakeholders and employees could relate.

To commence the brand journey, engagement activities were undertaken to understand how we were viewed internally and externally. Two things became clear from these discussions;

i. There was a need for a simpler version of our organisational name to be used as part of a brand; and
ii. The proposed name had already been identified by clients in their interactions with us – Coal LSL.

The revised brand was endorsed in December 2016. The new look and feel provides the balance of conveying a modern, corporate tone whilst continuing to recognise our association to the Australian Government. We released our new brand externally in February 2017 with communications to all stakeholders. This was complemented with a refreshed website, updated collateral/forms and e-newsletters.

We have received positive feedback on the enhanced brand from stakeholders, clients and our employees. We deferred surveying brand relevance in 2016-17, to focus on the rebrand and change in business model. In 2017-18, we will seek to gain additional feedback on how our brand is being recognised in the marketplace through surveys and personal interactions.

ANALYSIS OF PERFORMANCE AGAINST PURPOSE

We understand the value of purposefully engaging with our stakeholders to promote our strategic direction and the value we provide to the industry.

Overall in 2016-17 we have delivered on our commitments to create and deliver meaningful multi-channel communications with our stakeholders. Throughout the reporting period, we have:

- Refreshed our brand, including our website, e-newsletters, collateral/forms;
- Presented at an industry conference;
- Engaged face-to-face with industry employers and employees;
- Met with industry stakeholders and our responsible minister; and
- Delivered multiple fund updates via e-newsletters and our website.

There are areas of our plan which we deferred. The plan to launch our client experience surveys was postponed due to the timing of transition to our new operating model. We remain committed to these surveys in our 2017-18 Corporate Plan.

ENTITY PURPOSE 3

To ensure all employers comply with the legislative obligations of the Coal Mining Industry (Long Service Leave) Administration Act 1992.

RESULTS

PERFORMANCE CRITERION 1

Increased employer awareness of compliance obligations: 10% increase on number of employer's attending knowledge workshops.

CRITERION SOURCE

2016-17 Corporate Plan (section 3.4)

RESULTS AGAINST PERFORMANCE CRITERION

In 2016-17, we introduced our employer compliance program. The program has focused on engaging with employers of recognised eligible employees (through our service review processes) who are not currently registered with Coal LSL. A secondary focus of the program has been working with employers we have identified as needing additional assistance to understand their obligations.

In the first year of the employer compliance program, our team has:

- Held 129 employer meetings; and
- Generated 29 new employer registrations.

We made the decision to defer the knowledge workshops. This allowed us to focus our resources on transition to our new operating model. We remain committed to a client education program, including knowledge workshops. These objectives are reflected in our 2017-18 Corporate Plan.

ANALYSIS OF PERFORMANCE AGAINST PURPOSE

We are committed to continually improving awareness of eligibility and obligations as set out in our legislation. Our employer compliance program, although still in its infancy, is demonstrating positive and measurable results. We have facilitated 29 new employer registrations as a result of the program and made strong advances in the recovery of unpaid levies.

We have performed well against our purpose of employer compliance with our legislation. Whilst we deferred the knowledge workshops, our compliance program has been effective in achieving outcomes towards our purpose.

However, we recognise this is an area we need to continually review and improve. There continues to be some misunderstanding of the Fund within the broader client base of registered and non-registered employers, particularly relating to the coverage and application of the legislation. It is our role to ensure rigor across our processes and ongoing compliance program, deliver a consistent educational message and address inconsistencies in applying our legislation.

ENTITY PURPOSE 4

To fine-tune operations in a way that delivers an optimised business model with improved accessibility for employers and employees. In turn, this will yield an efficient, effective and user-friendly self-service that demonstrates Coal LSL's value and encourages employer compliance.

RESULTS

PERFORMANCE CRITERION 1

Deliver new administration platform: Support the development of a new administration platform.

CRITERION SOURCE

2016-17 Corporate Plan (section 4.4)

RESULTS AGAINST PERFORMANCE CRITERION

We are committed to efficient and effective service delivery, including investing in technology solutions to improve our current capability.

In 2016-17, we commenced a project to review our administration platform. This involved us undertaking a detailed review of all current processes. We analysed these processes against a criterion for improvement, focusing on opportunities for straight through processing, with automated validations and calculations. Documenting the workflow mapping has provided us with the foundations for future digital solutions. Once we completed the analysis and requirements phase of the administration platform project, we redirected our resources to support the business transition.

We did not complete the development of a new administration platform during the period. However, investing in technology solutions remains a key strategic objective for us. We are committed to detailing and delivering a digital transformation strategy as outlined in our 2017-18 Corporate Plan.

ENTITY PURPOSE 4 (CONT)

PERFORMANCE CRITERION 2

Deliver new administration platform: development of engagement and training program.

CRITERION SOURCE

2016-17 Corporate Plan (section 4.4)

RESULTS AGAINST PERFORMANCE CRITERION

We did not reach the stage of delivering a new administration platform in 2016-17, therefore we did not develop an engagement and training program specifically for the administration platform.

We did develop a stakeholder engagement plan and an employer compliance program which has assisted us in delivering aspects of this purpose. An example of this is our engagement with stakeholders as part of making changes to our processes and forms. We contacted several of our largest registered employers and asked their feedback on our proposed changes to the Employer Reimbursement Form and process. We wanted to know how our changes would be received and if they considered the changes were an improvement. We found this was a valuable process, gaining insightful feedback.

We are committed to service improvement and have outlined this commitment in our 2017-18 Corporate Plan.

ANALYSIS OF PERFORMANCE AGAINST PURPOSE

In 2016-17, we delivered an optimised business model. By insourcing our operations, we have a solid foundation on which to build, providing greater flexibility to invest in tailored technology solutions and service-oriented initiatives.

However, we know the expectations of our clients and stakeholders are continually increasing. They want to be able to interact, obtain information and do business with us, when and however they like. It is important we offer an integrated range of touch-points that keep our service and offering accessible through multiple channels at all times. Timely and transparent processes are now considered the norm, with most organisations providing access to secure, self-service options. We need to give our digital services greater attention, and to use them to bring value and streamlined services to clients.

Our ongoing commitment in this area is demonstrated in our 2017-18 Corporate Plan with our goals of innovative operations and seamless interactions.

FINANCIAL STATEMENTS

STATEMENT BY DIRECTORS, CHIEF EXECUTIVE OFFICER & CHIEF FINANCIAL OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2017 of the Coal Mining Industry (Long Service Leave Funding) Corporation ("Coal LSL") comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement there are reasonable grounds to believe that Coal LSL will be able to pay its debts as and when they fall due.

This statement is made in accordance with a resolution of the Directors.

Andrew Vickers
Chairman

Darlene Perks
Chief Executive Officer

Alan Malsem
Chief Financial Officer

Sydney
10 October 2017

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2017

	Note	2017 $'000	2016 $'000
EXPENSES			
Employee Benefits	1.1 (a)	598	-
Investment Expenses	1.1 (b)	3,942	6,644
Professional Services	1.1 (c)	2,232	2,707
Directors' Remuneration and Expenses	1.1 (d)	163	171
Administration Expenses	1.1 (e)	6,930	4,637
Other Expenses	1.1 (f)	1,778	299
Increase in Provision for Reimbursements	6.1	165,768	172,904
Total Expenses		**181,411**	187,362
OWN-SOURCE REVENUE			
Investment Revenue	1.2 (b)	133,278	56,632
Total Own-Source Revenue		**133,278**	56,632
Net (Cost of) Services		**(48,133)**	(130,730)
Revenue from Government	1.2 (a)	144,992	146,970
Surplus on Continuing Operations		**96,859**	16,240
Other Comprehensive Income		-	-
Total Comprehensive Income		**96,859**	16,240

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

STATEMENT OF FINANCIAL POSITION
As at 30 June 2017

	Note	2017 $'000	2016 $'000
ASSETS			
Financial Assets			
Cash and Cash Equivalents	2.1	**35,207**	41,907
Equity Investments	2.2	**-**	68,886
Unit Trusts	2.2	**1,545,255**	1,355,622
Trade and Other Receivables	2.3	**1,256**	2,379
Total Financial Assets		**1,581,718**	1,468,794
Non-Financial Assets			
Plant and Equipment	3.1	**1,245**	-
Total Non-Financial Assets		**1,245**	-
Total Assets		**1,582,963**	1,468,794
LIABILITIES			
Payables			
Trade payables	5	**527**	336
Other payables		**-**	76
Total Payables		**527**	412
Provisions			
Employee Provisions	9.1	**95**	-
Other Provisions	6.1	**1,244,585**	1,227,485
Total Provisions		**1,244,680**	1,227,485
Total Liabilities		**1,245,207**	1,227,897
Net Assets		**337,756**	240,897
EQUITY			
Retained Surplus		**337,756**	240,897
Total Equity		**337,756**	240,897

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

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2017

	Note	**2017 $'000**	2016 $'000
Balance at the beginning of the financial year		**240,897**	224,657
Net surplus for the year		**96,859**	16,240
Other Comprehensive Income for the year		**-**	-
Total Comprehensive Income for the year		**337,756**	240,897
Closing Balance as at 30 June		**337,756**	240,897

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

STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

	Note	2017 $'000	2016 $'000
OPERATING ACTIVITIES			
Cash Received			
Investment Income		**74,714**	37,400
Receipts from Government		**144,993**	146,970
Net GST Received		**1,302**	590
		221,009	184,960
Cash Used			
Employees		**525**	-
Reimbursements to Employers		**148,669**	166,080
Administration Expenses		**7,692**	5,153
Investment Expenses		**13**	93
Other Expenses		**4,460**	3,207
		161,359	174,533
Net Cash Flow from Operating Activities	4	**59,650**	10,427
INVESTING ACTIVITIES			
Cash Received			
Sale of Investments		**186,300**	280,792
		186,300	280,792
Cash Used			
Purchase of Plant and Equipment		**1,268**	-
Purchase of Investments		**251,382**	289,003
		252,650	289,003
Net Cash Flow used by Investing Activities		**(66,350)**	(8,211)
Net Increase/(Decrease) in Cash Held		**(6,700)**	2,216
Cash at the beginning of the reporting period		**41,907**	39,691
Cash at the End of the Reporting Period	4	**35,207**	41,907

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

OVERVIEW

OBJECTIVES OF COAL LSL

Coal LSL is a not-for-profit Australian Government controlled entity established under the *Coal Mining Industry (Long Service Leave) Administration Act 1992*. The objectives of Coal LSL are to:

a) manage the collection and remittance of levies payable by employers to Consolidated Revenue on behalf of the Commonwealth;

b) keep proper record of individual employee entitlements;

c) promptly reimburse employers for payments made for approved long service leave taken by their employees; and

d) advise the Minister on setting the rate of levy to be paid by employers, sufficient to meet the liability for future reimbursement payments to employers.

As disclosed in 'Events After the Reporting Period' below, from 1 July 2017 Coal LSL has officially transitioned from an outsourced business administration model to a full insourced operation. The transactional impact of this transition is reflected in these financial statements with the following recognised for the first time in the year ended 30 June 2017: employee benefits, operating lease commitments, plant & equipment, employee provisions and key management personnel.

BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements are a general purpose financial report and are required by section 42 of the *Public Governance, Performance and Accountability Act 2013*.

The continued existence of Coal LSL in its present form is dependent on Government policy and on continuing appropriations by Parliament for Coal LSL's administration.

The financial statements have been prepared in accordance with:

a) Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (FFR) for reporting periods ending on or after 1 July 2015; and

b) Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accruals basis in accordance with the 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 statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless disclosure of the full amount is specifically required.

NEW ACCOUNTING STANDARDS

Adoption of new Accounting Standards

No accounting standard has been adopted earlier than the application date as stated in the standard. All other accounting standards, amendments to standards and interpretations that were issued prior to the sign-off date and are applicable to the current reporting period did not have a material effect and are not expected to have a future material effect on the entity's financial statements.

Future Australian Accounting Standard requirements

The following new standards, amendments to standards or interpretations were issued by the AASB prior to the signing of the statements by the Board of Directors, Chief Executive Officer and Chief Financial Officer, which may have a material impact on Coal LSL's financial statements for future reporting period(s):

AASB 9 Financial Instruments effective for reporting periods on or after 1st January 2018

AASB 15 Revenue from Contracts with Customers effective for reporting periods on or after 1st January 2018

AASB 16 Leases effective for reporting periods on or after 1st January 2019

AASB 1058 Income of Not-for-Profit Entities effective for reporting periods on or after 1st January 2019

An assessment of any impact on Coal LSL's financial statements of each of the above will be conducted in advance of the respective reporting periods which they come into effect.

FUNDING

During the period 1 July 2016 until 30 June 2017 levies payable by employers under the provisions of the *Coal Mining Industry (Long Service Leave) Payroll Levy Collection Act 1992*, were calculated at 2.7% of "eligible wages" as defined by the Act (period 1 July 2015 until 30 June 2016: 2.7%).

TAXATION

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

ECONOMIC DEPENDENCY

Coal LSL is economically dependent upon continued funding by appropriation of monies out of the Consolidated Revenue Fund of the Commonwealth of Australia derived from levies made in accordance with the *Coal Mining Industry (Long Service Leave) Payroll Levy Collection Act 1992*.

GOING CONCERN

Coal LSL is legally separate from the Commonwealth and is ultimately responsible for all its own debts.

Commonwealth authorities are legally separate from the Commonwealth, but as the Australian Government is solely responsible for their creation and operation they are 'wound up' only when the government decides that all their functions are to be performed by another body or are not to be performed at all.

EVENTS AFTER THE REPORTING PERIOD

From 1 July 2017, Coal LSL has officially transitioned from an outsourced business administration model to a full insourced operation. This also coincides with a change in the employer reimbursement rules which removes the requirement to limit reimbursement payments for post 31 December 2011 leave entitlements to the value of the employee notional account balance. Both events are considered to have no significant impact on the structure or financial activities of the entity.

In addition to the above, the following board and key management personnel appointments were made subsequent to 30 June 2017:

- Ms Jennifer Short – Director (appointed 1 July 2017 for a 4 year period)
- Ms Louise Hayes – Executive Human Resources & Communications (appointed 1 July 2017)
- Ms Suzanne Jenkins – Executive Corporate Governance (appointed 1 July 2017)

There were no other specific events subsequent to 30 June 2017 that had the potential to significantly affect the ongoing structure and financial activities of the entity.

1. STATEMENT OF COMPREHENSIVE INCOME

1.1 EXPENSES	2017 $'000	2016 $'000
(a) Employee Benefits		
Wages and salaries	458	-
Superannuation	45	-
Leave and other entitlements	95	-
Total Employee Benefits	**598**	-

ACCOUNTING POLICY

Accounting policies for employee related expenses is contained in the People and Relationships note.

	2017 $'000	2016 $'000
(b) Investment Expenses		
Net realised losses on sale of investments	3,942	6,644
Total Investment Expenses	**3,942**	6,644
(c) Professional Services		
Rendering of Services – External Parties	2,232	2,707
Remuneration of Auditors		
Amounts received, or due and receivable by: Australian National Audit Office – audit of the financial statements for the reporting period.	70	70
Total remuneration of Auditors	**70**	70

(d) Directors' Remuneration and Expenses

The remuneration of Directors is by way of a daily fee for part-time holders of public office as determined under Part 6 of the determination of the (Commonwealth) Remuneration Tribunal. Directors are also entitled to reimbursement for expenses incurred in travelling to/from meetings and in the conduct of business directly related to the affairs of Coal LSL as approved.

	2017 $'0	2016 $'0
Remuneration received or due and receivable by Directors	64,775	56,084
Directors expenses	98,031	114,510
Total Directors' Remuneration and Expenses	**162,806**	170,594

	2017 $'000	2016 $'000
(e) Administration Expenses		
Administration fees	6,930	4,637

	2017 $'000	2016 $'000

(f) Other Expenses

During the financial year, the Board of Directors approved a resolution to transition the operations of Coal LSL from an outsourced administration model to an insourced operating model from 1 July 2017. This included the costs of relocating to new premises, establishing independent business systems and transitioning the employment of the outsourced administrators' staff to Coal LSL.

	2017 $'000	2016 $'000
Business Transition Costs*	865	-
Other expenses	913	299
Total Other Expenses	**1,778**	299

* Included in Business Transition Costs are $93,093 of operating lease payments for the new head office premises.

(g) Operating Lease Commitments

During the year, Coal LSL signed an operating lease for its new head office premises in Newcastle commencing from 1 April 2017 for an initial lease period of seven (7) years with a five (5) year plus five (5) year renewal option. Included in this lease is an annual review fixed increase of 3.5% over the initial lease period, with a market review should the option be exercised. The first option period has been excluded from the commitment calculation as a market review in seven (7) years is considered to be not reasonably quantifiable.

	2017 $'000	2016 $'000
Minimum Lease Payment Commitments		
Not later than one year	375	-
Later than one year and not later than five (5) years	1,623	-
Greater than five (5) years	775	-
Total Minimum Lease Payment Commitments	**2,773**	-

ACCOUNTING POLICY

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 rewards incidental to ownership of leased assets. An operating lease is a lease that is not a financial lease.

Where an asset is acquired by means of a financial 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 inception of the contract and a liability is recognised at the same time and for the same amount.

The discount rate used is the interest rate implicit in the lease. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are expensed on a straight-line basis which is representative of the pattern of benefits derived from the lease assets.

1.2 REVENUE

	2017 $'000	2016 $'000
(a) Revenue from Government		
Revenue from Government		
– Levy collections from employers	**144,992**	146,970
Total Revenue from Government	**144,992**	146,970

ACCOUNTING POLICY

Revenues from Government are recognised to the extent they have been received into Coal LSL's bank account. Coal LSL collects a levy paid by employers in a levy collection account. The levy is transferred to the Department of Employment via Consolidated Revenue and is appropriated back from Consolidated Revenue on a monthly basis. This levy account is not recognised as revenue until it is appropriated back from Consolidated Revenue and paid to Coal LSL as it is not controlled by Coal LSL until this appropriation occurs. At 30 June 2017 the balance in this levy account was $10,453,752 (2016: $11,963,055) and this amount was remitted on 3 July 2017 to Consolidated Revenue.

	2017 $'000	2016 $'000
(b) Investment Revenue		
Dividends	**982**	2,311
Unit Trust Distributions	**70,344**	33,392
Deposit Interest	**751**	987
Investment manager fee rebates	**1,593**	1,074
Investment revenue arising from changes in fair value (investments held at reporting date)	**59,608**	15,550
Net realised gains on sale of investments	**-**	3,318
Total Investment Revenue	**133,278**	56,632

ACCOUNTING POLICY

Dividend and distribution income is recognised when the right to receive a dividend/distribution has been established. Interest income is recognised as it accrues using the effective interest method of the instrument. Fair value gains and losses are recognised as unrealised when the investment is still held at balance date or as realised when the investment has been disposed during the financial year.

2. FINANCIAL ASSETS AND LIABILITIES

2.1 CASH AND CASH EQUIVALENTS	2017 $'000	2016 $'000
Cash at Bank – CBA	**35,175**	39,781
Deposits at Custodian	**32**	2,126
Total cash and cash equivalents shown in Cash Flow Statement	**35,207**	41,907

ACCOUNTING POLICY

Cash and cash equivalents means cash on hand and demand deposits in bank accounts with an original maturity of three 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. Cash and cash equivalents include:

a) cash on hand; and
b) demand deposits in bank accounts with an original maturity of three (3) months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

2.2 FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	2017 $'000	2016 $'000
(a) Investments		
At the beginning of the year	**1,424,508**	1,404,073
Purchases	**251,382**	289,003
Sales	**(186,300)**	(280,792)
Realised and unrealised gains/(losses)	**55,666**	12,224
At end of year	**1,545,255**	1,424,508

NOTES TO THE FINANCIAL STATEMENTS (CONT)

2.2 FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONT)	2017 $'000	2016 $'000
(b) As at 30 June 2017, a total of $1,545 million (2016: $1,424 million) from the assets of the Coal Mining Industry Long Service Leave Fund was invested by Coal LSL with the appointed fund managers, in accordance with the approved Investment Policy as follows:		
AMP Capital Wholesale Office Fund	45,084	42,671
AMP Global Listed Property	-	84,264
Bridgewater	72,945	68,294
Brigade	70,776	50,576
Hyperion	70,934	-
K2 Advisors	72,485	69,189
Lazard	53,790	54,266
Macquarie Funds Management	56,630	55,233
MFS Emerging Markets Equity Trust	64,217	40,036
Palisade	56,760	46,164
Pimco	62,908	70,676
QIC Fixed Interest	213,392	212,030
QIC Inflation Plus	130,346	126,554
Resolution Capital	87,276	-
Schroder Global Bond Fund	61,927	64,854
State Street Global Advisors	116,650	101,521
Stone Harbour	57,973	55,003
Vanguard International Shares Hedged	101,959	84,471
Vanguard International Shares Unhedged	149,202	129,820
Total Unit Trusts	**1,545,255**	**1,355,622**
Hyperion	-	68,886
Total Equity Investments	**-**	**68,886**
Total Unit Trusts & Equity Investments	**1,545,255**	**1,424,508**
JPMorgan Chase Bank N.A Cash Account	32	2,126
Cash held directly by Coal LSL	35,174	39,781
Total Financial Assets	**1,580,461**	**1,466,415**

All investments were held on behalf of Coal LSL by the Master Custodian, JPMorgan Chase Bank N.A. For the year ended 30 June 2017, the gross return on the investment of funds was 8.9% (2016: 3.4%).

2.2 FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONT)	2017 $'000	2016 $'000
Sector exposure		
Australian Fixed Interest	**343,738**	338,584
Overseas Fixed Interest	**124,835**	135,530
Australian Equities	**181,355**	178,385
Overseas Equities	**432,028**	355,848
Alternatives	**330,939**	289,226
Property	**132,360**	126,935
Cash and cash equivalents	**35,207**	41,907
Total Financial Assets	**1,580,461**	1,466,415

ACCOUNTING POLICY

Financial assets at fair value through profit or loss

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

- Has been acquired principally for the purposes of selling in the near future;
- Is part of an identified portfolio of financial instruments that Coal LSL manages together and has a recent pattern of short term profit taking; or
- Is a derivative that is 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 the Statement of Comprehensive Income. The net gain or loss recognised incorporates any interest earned on the financial asset.

Derecognition of financial assets

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

2.3 TRADE AND OTHER RECEIVABLES

	2017 $'000	2016 $'000
Accrued income from investments	**711**	2,190
Accrued bank interest	**114**	64
GST paid and claimable	**21**	124
Prepayments	**23**	-
Other assets	**387**	1
Total Trade and Other Receivables	**1,256**	2,379

At 30 June 2017 none of the Trade and Other Receivables are overdue or impaired (30 June 2016: none).

ACCOUNTING POLICY

Loans and receivables

Trade receivables and other receivables, that have fixed or determinable payments that are not quoted in an active market are classified as 'Loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment, if any. Interest is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets are assessed for impairment at each balance date. If there is objective evidence that an impairment loss has been incurred for loans and receivables 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.

Trade creditors

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

3. NON-FINANCIAL ASSETS

3.1 PLANT AND EQUIPMENT	Leasehold Improvements $'000	Plant and Equipment $'000	Total $'000
Reconciliation of the opening and closing balances of leasehold improvements and plant and equipment for 2017			
As at 1 July	-	-	-
Gross book value	-	-	-
Accumulated depreciation, amortisation and impairment	-	-	-
Total as at 1 July	-	-	-
Purchases	746	522	1,268
Depreciation and amortisation	(9)	(14)	(23)
Total as at 30 June	737	508	1,245
Total as at 30 June represented by			
Gross book value	746	522	1,268
Accumulated depreciation, amortisation and impairment	(9)	(14)	(23)
Total as at 30 June	737	508	1,245

ACCOUNTING POLICY

Assets are recorded at cost on acquisition. The cost of acquisition includes the fair value of assets transferred in exchange of liabilities undertaken.

Asset recognition threshold

Purchases of property, plant and equipment are recognised at cost in the statement of financial position, except for purchases costing less than $1,000 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 taken up by the entity where there exists an obligation to restore leased premises. As at 30 June 2017, it is the opinion of the Directors that Coal LSL did not have any future obligation for the make good of any leased premises as it is reasonably certain that Coal LSL will exercise the first option period and therefore waive the obligation to make good the site under the lease contract.

Revaluations

Following initial recognition at cost, property, plant and equipment are carried at fair value less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets did not differ materially from the assets' fair values as at the reporting date. The regularity of independent valuations depended 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 reversed a previous revaluation decrement of the same asset class that was previously recognised in the surplus/deficit. Revaluation decrements for a class of assets are recognised directly in the surplus/deficit except to the extent that they reversed a previous revaluation increment for that class.

No assets were revalued as at 30 June 2017 as it is the opinion of Coal LSL that the current book values approximate fair value.

Depreciation

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the entity using, in all cases, using the straight-line method of depreciation.

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:

	2017	2016
Leasehold improvements	**Term of Lease**	Nil
Plant and equipment	**3 years**	Nil

Impairment

All assets were assessed for impairment at 30 June 2017. Where indications of impairment exist, the assets' recoverable amount is estimated and an impairment adjustment made if the assets' recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs of disposal 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 assets' ability to generate future cash flows, and the asset would be replaced if the entity 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.

4. CASH FLOW RECONCILIATION

	2017 $'000	2016 $'000
Reconciliation of Cash and Cash equivalents as per Statement of Financial Position and Cash Flow Statement		
Cash and Cash Equivalents as per		
Cash Flow Statement	**35,207**	41,907
Statement of Financial Position	**35,207**	41,907
Discrepancy	**-**	-

	2017 $'000	2016 $'000
Reconciliation of Net (Cost of) Services to the Net Cash from/(used by) Operating Activities		
Net (Cost of) Services	**(48,133)**	(130,730)
Add Revenue from Government	**144,992**	146,970
Net investment (gains) / losses	**(55,666)**	(12,224)
Depreciation/Amortisation	**23**	-
(Increase)/decrease in other current assets	**1,123**	(365)
Increase/(decrease) in supplier payables	**116**	(48)
Net increase/(decrease) in employee provisions	**95**	-
Net increase/(decrease) in provision for reimbursements	**17,100**	6,824
Net cash from operating activities	**59,650**	10,427

5. PAYABLES

	2017 $'000	2016 $'000
Trade Payables	**527**	336
Other Payables	**-**	76
Total Payables	**527**	412

ACCOUNTING POLICY

Trade payables

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

6. PROVISIONS

6.1 PROVISION FOR REIMBURSEMENTS	2017 $'000	2016 $'000
Provision for Reimbursements expected to be settled		
No more than 12 months	**955,412**	918,443
More than 12 months	**289,173**	309,042
Total Provision for Reimbursements	**1,244,585**	1,227,485
Balance at beginning of year	**1,227,485**	1,220,661
Reimbursements paid to employers	**(148,669)**	(166,080)
Increase in Provision for Reimbursements	**165,768**	172,904
Balance at end of year	**1,244,585**	1,227,485

ACCOUNTING POLICY

Provision for reimbursements

This provision represents the expected liability for the reimbursement of employers for the long service leave entitlements of eligible employees under the *Coal Mining Industry (Long Service Leave) Administration Act 1992 (the Admin Act)* as at 30 June.

The provision for reimbursement is recalculated annually by multiplying the individual employee's total number of hours of long service leave accrued by their average hourly rate of pay. The liability for each eligible employee whose service is not yet vested is reviewed in terms of probability factors of the employee reaching the qualifying service period, estimates of future salary growth and then discounted to its present value.

The current portion (No more than 12 months) of the provision includes unconditional entitlements where employees have met the eligibility requirements for long service leave. The entire amount has been presented as current however based on past experience Coal LSL does not expect that all employees will take the full amount within the next 12 months. Current leave obligations expected to the paid in the next 12 months is $157m (2016: $164m).

Coal LSL recognises that the present value of the provision for reimbursements is sensitive to changes in assumptions used in determining its value.

Salary growth

At 30 June 2017, the salary growth rate assumptions were 1.5% for long service leave balances with a vesting date of within 3 years and 3.5% for all other vesting periods (2016: 2% and 4%). With all other variables held constant a 1% increase in salary growth rates used in the calculation would increase the present value of the provision for reimbursements by $8.1m (2016:$9.1m). A 1% decrease would decrease the present value by $7.9m (2016: $8.9m).

Probability factors

At 30 June 2017, the probability factors utilised ranged from 19.84% to 100% depending on the type and category of long service leave (2016: 20.61% to 100%). An increase in the probability factors used in the calculation would increase the present value of the provision for reimbursements. A decrease would decrease the present value.

Discount rates

At 30 June 2017, the discount rate utilised was 2.6% for all non-vested categories of long service leave (2016: 1.98%). With all other variables held constant a 1% increase in discount rates used in the calculation would decrease the present value of the provision for reimbursements by $8.1m (2016: $8.8m). A 1% decrease would increase the present value by $7.8m (2016: $9.2m).

7. EQUITY POSITION

For the year ended 30 June 2017 there is a surplus in net assets of $337.8m (2016: $240.9m). This surplus is a result of the strong returns from the investment funds during the year.

8. CONTINGENT ASSETS AND LIABILITIES

Unquantifiable contingencies

Since 2012 Coal LSL has been undertaking a Transitional Service Review ("TSR") which was established in line with the changes to the *Coal Mining Industry (Long Service Leave) Legislation Amendment Act 2011.*

The provision of this Act provides that "Eligible Employees" and "Former Eligible Employees" can make application to Coal LSL for recognition of period or periods of eligible employment service between 1 January 2000 and 31 December 2011 that may not be presently recognised and recorded by Coal LSL. Coal LSL has not raised a liability for unknown claims by employees for recognition of period(s) of employment service between 1 January 2000 and 31 December 2011. At balance date these amounts are unknown and are not reliably measurable.

Coal LSL has not recognised levies attributable to those employers of "Eligible Employees" and "Former Eligible Employees" that previously did not contribute to the fund. At balance date the amounts that would be receivable are not reliably measurable. Coal LSL recognises that there will be a contingent asset arising in respect of the TSR applications yet to be funded however was unable to quantify this amount with any reasonable certainty at balance date.

Included in the Provision for Reimbursements at 30 June 2017 is a liability of $1.8m (30 June 2016: $3.8m) which is an estimate of future expected liabilities from eligible employees as a result of the TSR. Recognition of a contingent asset for unallocated levies in arrears was not made because at balance date a reliable estimate could not be determined.

ACCOUNTING POLICY

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

9. PEOPLE AND RELATIONSHIPS

9.1 EMPLOYEE PROVISIONS	2017 $'000	2016 $'000
Leave		
No more than 12 months	64	-
More than 12 months	30	-
Total Leave Provisions	94	-
Superannuation	1	-
Total Employee Provisions	95	-

The current portion (No more than 12 months) of the provision includes unconditional entitlements where employees have met the eligibility requirements for long service leave.

ACCOUNTING POLICY

Leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in provisions in respect of employees' service up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting dates. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on Government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Superannuation

The liability for superannuation recognised as at balance date represents outstanding contributions.

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. The entity has determined the key management personnel to be the Chief Executive Officer, Board of Directors and Executives. Remuneration of Key management personnel remuneration (excluding the Board of Directors which is disclosed in note 1(d)) is reported in the table on the following page.

	2017 $'000	2016 $'000
Short-term employee benefits	**300**	-
Post-employment benefits	**29**	-
Other long-term employee benefits	**-**	-
Termination benefits	**-**	-
Total key management personnel remuneration expenses	**329**	-

The total number of key management personnel that are include in the above table are 4 (2016: none).

10. RELATED PARTY DISCLOSURES

a) Related party relationships

Coal LSL is an Australian Government controlled entity. Related parties to this entity are the Directors, key management personnel, and other Australian Government entities.

The Directors of Coal LSL during the year were:

- Mr Andrew Vickers – Chairman (reappointed 26 July 2017 for a 4 year term)
- Mr Bradley Neven (appointed 14 April 2015 for a 4 year term)
- Mr Mark Klasen (appointed 16 March 2016 for a 4 year term)
- Ms Anne Donnellan (appointed 30 May 2017 for a 4 year term)
- Ms Christina Langby (appointed 5 June 2017 for a 4 year term)
- Mr Glenn Hall (appointed 30 May 2013 for a 4 year term and resigned 29 May 2017)
- Mr Martin Aicken (appointed 30 July 2015 for a 4 year term and resigned 6 March 2017)
- Mr John Edwards (appointed 6 March 2017 for a 3 month period and resigned 6 June 2017)
- Mr Lee Webb (appointed 14 December 2015 for a 4 year term and resigned 30 June 2017)

Other than where noted, Directors held their positions for the full year.

Key management personnel employed by Coal LSL during the year were:

- Ms Darlene Perks – Chief Executive Officer (Appointed 3 January 2017)
- Mr Russell Gilbert – Executive Technology (Appointed 3 January 2017)
- Mr Alan Malsem – Executive Operations & Chief Financial Officer (Appointed 13 March 2017)
- Mr Matthew Trotter – Executive Client Services (Appointed 24 April 2017)

b) Transactions with related parties

Given the breadth of government activities, related parties transact with the government sector in the same capacity as ordinary citizens. These transactions have not been disclosed in this note.

Apart from items disclosed at note 9.2 and 1.1(d) relating to the remuneration and expenses of directors and key management personnel during the year, the receipt of levy collections from government disclosed in note 1.2 and as already noted above, there were no further related party transactions.

11. FINANCIAL INSTRUMENTS

a) Statement of Terms, Conditions and Accounting Policies

(i) Financial Assets are recognised when control over the future economic benefits is established and the amount of the benefit can be reliably measured. Investments consist of short term deposits, equities and unit trusts.

Financial Instruments	Accounting Policies	Terms and Conditions
Cash and Cash Equivalents	Cash deposits are recognised at their nominal amounts. Interest is credited to revenue as it accrues.	Funds are placed on deposit at call with Coal LSL's bankers and custodian. Refer to Interest Rate Risk table.
Equity Investments	Equities are recognised at fair value.	The shares held are ordinary shares.
Unit Trusts	Unit Trusts are recognised at fair value.	Investments are held in Units.
Trade and Other Receivables	Recognised at face value adjusted for impairment.	Usually settled within 30 days.

(ii) Financial Liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.

Financial Instruments	Accounting Policies	Terms and Conditions
Payables	Recognised at their nominal amounts as it approximates fair value.	Settlement net 30 days.

b) Interest Rate Risk	Floating $'000	Fixed Interest $'000	Non-interest bearing $'000	Total $'000
30 Jun 17				
Cash & Cash Equivalents	**35,207**	**-**	**-**	**35,207**
Unit Trusts	**-**	**-**	**1,545,255**	**1,545,255**
Trade and Other Receivables	**-**	**-**	**1,256**	**1,256**
Total Financial Assets	**35,207**	**-**	**1,546,511**	**1,581,718**
Trade and Other Payables	**-**	**-**	**527**	**527**
Total Financial Liabilities	**-**	**-**	**527**	**527**
30 Jun 16				
Cash & Cash Equivalents	41,907	-	-	41,907
Equity Investments	-	-	68,886	68,886
Unit Trusts	-	-	1,355,622	1,355,622
Trade and Other Receivables	-	-	2,379	2,379
Total Financial Assets	41,907	-	1,426,887	1,468,794
Trade and Other Payables	-	-	412	412
Total Financial Liabilities	-	-	412	412

11. FINANCIAL INSTRUMENTS (CONT)

c) Categories of Financial Instruments	Fair Value 2017 $'000	Fair Value 2016 $'000
FINANCIAL ASSETS		
Amortised cost		
Cash and Cash equivalents	35,207	41,907
Fair value through profit or loss		
Equity Investments	-	68,886
Unit Trusts	1,545,255	1,355,622
Loans and Receivables		
Trade and Other Receivables	1,256	2,379
Total Financial Assets	1,581,718	1,468,794
FINANCIAL LIABILITIES		
Amortised cost		
Trade and Other Payables	527	412
Total Financial Liabilities	527	412
Carrying value of Net Financial Assets	1,581,191	1,468,382
Carrying value of Non-Financial Assets	1,245	-
Less Employee Provisions	(95)	-
Less Provision for Reimbursements	(1,244,585)	(1,227,485)
Carrying value of Net Assets per Statement of Financial Position	337,756	240,897

d) Credit Risk Exposures

Credit risk is defined as "the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation."

Coal LSL's maximum exposure to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

Coal LSL has no significant exposures to any concentrations of credit risk. All figures for credit risk referred to do not take into account the value of any collateral or other security.

Coal LSL has counterparty credit procedures in place and the exposure to credit risk is monitored on an ongoing basis in accordance with the Valuation Policy and procedures and the Statement of Investment Objectives and Policy.

11. FINANCIAL INSTRUMENTS (CONT)

e) Liquidity Risk

Liquidity risk is defined as "the risk that Coal LSL will not be able to settle or meet its obligations as they fall due. Coal LSL adopts an active cash management strategy".

Coal LSL's investment portfolio allocation profile is determined by the Board in conjunction with advice from external professional investment consultants and the Investment Committee. It is structured to ensure sufficient funds are held in investments that can be converted to cash to meet its obligations as they fall due. Equities, other Listed Securities, Cash and Short-term debt securities constitute the significant component of the Coal LSL's financial instruments. The liquidity risk of Unlisted Securities is managed through holding a diversified portfolio of assets with known investment horizons, different expected exit dates, and ensuring the total exposure of this class is maintained at a level whereby forced sales will not be required.

The Investment Committee is charged with the monitoring of liquidity and the Board with the overall responsibility for liquidity funding, as well as settlement management.

f) Market Risk

Market risk is defined as "the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices" and includes interest rate risk, foreign currency risk and "other price risks." Other price risks are further defined as "the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market."

Coal LSL's overall market positions are monitored via the asset consultant performance report on a monthly basis and evaluated annually based on rolling three, five and eight year results. There has been no change to Coal LSL's exposure to market risks or the manner in which it manages and measures the risk from 2016 to 2017.

(i) Currency Risk

Coal LSL derives its revenue streams principally in Australian dollars. Payments to overseas denominated currency sources for the supply of goods and services provided to Coal LSL is considered immaterial and as such foreign exchange risk in these transactions is considered insignificant.

The currency risk demonstrates the sensitivity to a reasonably possible change in the AUD/Trade Weighted Index with all other variables held constant, on Coal LSL's Profit and Loss and Coal LSL's Equity. For the year ended 30 June 2017, Coal LSL has no direct exposure to currency risk (2016: None).

Coal LSL is exposed to the effects of exchange rate fluctuations indirectly through its investment in unlisted unit trusts. Exchange rate exposures are managed within approved policy parameters. This exchange rate exposure is managed in line with Coal LSL's investment policies. Coal LSL's overall policy in foreign currency risk management remains unchanged from the previous reporting period.

(ii) Interest Rate Risk

Interest rate risk is the risk that the realisable value of a financial instrument will fluctuate due to the changes in market interest rates. Coal LSL's exposure to the risk of changes in market interest rates relates primarily to long-term investments with floating interest rates.

Coal LSL's interest rate risk arises from the investment in cash, fixed and floating interest and short term money market securities. The portfolio is fully invested in AUD denominated securities.

At 30 June 2017, if interest rates decreased/(increased) by volatility per sector as shown in the table below, with all other variables held constant, operating result and equity would have been $35 thousand higher/(lower) (2016: $42 thousand higher/(lower)).

Volatility Factor		
30 June 2017		
Australian Cash	**0.10%**	0.10%
30 June 2016		
Australian Cash	**0.10%**	0.10%

Impact on Surplus/Total Equity	+ $'000	- ($'000)
30 June 2017	**35**	35
30 June 2016	**42**	42

(iii) Other Price Risk

The following table demonstrates the sensitivity to a reasonably possible change in market prices, with all other variables held constant.

Volatility Factor 30 June 17	+ %	+ $'000	- (%)	- ($'000)
Australian Fixed Interest	1.6%	5,500	-1.6%	5,500
Overseas Fixed Interest	1.3%	1,624	-1.3%	1,624
Australian Equity securities	19.7%	35,727	-19.7%	35,727
International Equity securities	17.2%	74,309	-17.2%	74,309
Alternatives	9.9%	32,906	-9.9%	32,906
Property	16.9%	22,369	-16.9%	22,369
Volatility Factor 30 June 16				
Australian Fixed Interest	1.2%	4,063	1.2%	4,063
Overseas Fixed Interest	0.6%	813	0.6%	813
Australian Equity securities	19.8%	35,203	19.8%	35,203
International Equity securities	16.9%	60,138	16.9%	60,138
Alternatives	5.1%	14,806	5.1%	14,806
Property	16.5%	20,944	16.5%	20,944

Impact on Net Surplus/Total Equity	+ $'000	- ($'000)
30 June 17	**172,433**	**172,433**
30 June 16	135,967	135,967

12. FAIR VALUE MEASUREMENT RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

AASB 13 requires enhanced disclosure about fair value measurement. The standard requires an entity to provide a quantitative and qualitative analysis of those instruments recognised at fair value based on a three-level measurement hierarchy. The different levels have been defined as follows:

- Level 1 fair value measurements are those instruments valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those instruments valued based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 fair value measurements are those instruments valued based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by Coal LSL. Coal LSL considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Financial instruments which are classified as level 2 investments comprise unlisted unit trust investments which are valued based on the net realisable value provided by the investment manager. The investment manager determines the value based on the fair value of the underlying investments of the Fund.

The following table outlines Coal LSL's classification of investments.

Financial assets/ financial liabilities	Fair value as at 30 June 2017 $'000	Fair value as at 30 June 2016 $'000	Fair Value Hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Equity Investments	-	68,886	1	Quoted bid prices in an active market.	N/A	N/A
Unit trusts	1,488,495	1,309,458	2	Recorded at the redemption value per unit as reported by the investment managers of the trusts. The unit price is derived from the value of the underlying investments based on the most recent available prices in the market.	N/A	N/A
Unit trusts	56,760	46,164	3	Recorded at the redemption value per unit as reported by the investment managers of the trusts. The unit price is derived from the value of the underlying investments which have been valued on estimated future cash flows and discount rates.	– Future cash flows of the underlying investments – Discount rates – An increase/ (decrease) of 17.1% (2016: 17.3%) in the unit price (reasonably possible change) would increase/ (decrease) the fair value of the investment by $9.7m (2016: $7.9m).	An increase in the future cash flows would increase the fair value of the investment. An increase in the discount rate would decrease the fair value of the investment.

12. FAIR VALUE MEASUREMENT RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION (CONT)

(i) Transfers between levels

The following table presents the transfers between levels for the year ended 30 June 2017 (2016: None).

30 Jun 17	Level 1 $'000	Level 2 $'000	Level 3 $'000
Transfers between levels 1 and 2:			
Equity Investments	(70,934)	-	-
Unlisted unit trust	-	70,934	-
	(70,934)	70,934	-

The transfer from level 1 to level 2 represents the transfer of investments in the Hyperion portfolio mandate which transitioned to an unlisted unit trust on 19 December 2016.

13. COMMITMENTS

Coal LSL has the following commitments at 30 June.

Investment commitments	2017 $'000	2016 $'000
Within one year	-	17,378
From one to five years	**15,000**	36,000

Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at balance date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including use of recent arm's length market transactions, references to the current fair value of other instruments that has substantially the same characteristics, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Coal LSL may have derivative financial instruments in place from time to time by virtue of an active mandate with an investment manager. Active investment managers may utilise derivatives to ensure they comply with the mandated strategy approved by Coal LSL. Coal LSL itself does not invest in derivatives directly and expects that investment managers utilise derivatives in the short term only.

The fair value of derivatives that are not exchange-traded is estimated at the amount that Coal LSL would receive or pay to transfer a liability of the contract at the balance date before taking into account current market conditions and the creditworthiness of the counterparties.

Investments in unlisted unit trusts are recorded at the exit price as reported by the managers of such trusts.

It is a requirement of all managers that if derivatives are utilised, any such derivatives are fully cash backed.

INDEPENDENT AUDITOR'S REPORT

To the Minister for Employment

Opinion

In my opinion, the financial statements of the Coal Mining Industry (Long Service Leave Funding) Corporation for the year ended 30 June 2017:

(a) comply with Australian Accounting Standards – Reduced Disclosure Requirements and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of the Coal Mining Industry (Long Service Leave Funding) Corporation as at 30 June 2017 and its financial performance and cash flows for the year then ended.

The financial statements of the Coal Mining Industry (Long Service Leave Funding) Corporation, which I have audited, comprise the following statements as at 30 June 2017 and for the year then ended:

- Statement by Directors, Chief Executive Officer and Chief Financial Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Statement of Cash Flows; and
- Notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Coal Mining Industry (Long Service Leave Funding) Corporation in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* to the extent that they are not in conflict with the *Auditor-General Act 1997* (the Code). I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Accountable Authority's Responsibility for the Financial Statements

As the Accountable Authority of the Coal Mining Industry (Long Service Leave Funding) Corporation, the Directors are responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards – Reduced Disclosure Requirements and the rules made under that Act. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Coal Mining Industry (Long Service Leave Funding) Corporation's ability to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Directors are also responsible for disclosing matters related to going concern as applicable and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

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Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office

Peter Kerr

Executive Director

Delegate of the Auditor-General

Canberra

10 October 2017

APPENDICES

GLOSSARY

The **Admin Act** means *Coal Mining Industry (Long Service Leave) Administration Act 1992*.

The **Amendment Act** means *Coal Mining Industry (Long Service Leave) Legislation Amendment Act 2011.*

Coal LSL means the Coal Mining Industry (Long Service Leave Funding) Corporation.

PGPA Act means *Public Governance, Performance and Accountability Act 2013*.

Eligible employee means a person:

- Employed in the black coal mining industry by an employer engaged in the black coal mining industry, whose duties are directly connected with the day to day operation of black coal mining; or
- Employed in the black coal mining industry, whose duties are carried out at or about a place where black coal is mined and are directly connected with the day to day operation of a black coal mine; or
- Permanently employed with a mine rescue service for the purpose of the black coal mining industry.

Former eligible employee is as defined in Part 2 of the Amendment Act. A person is a former eligible employee if they are not an eligible employee at any time in 2012 and have an entitlement (or may become entitled) to long service leave for service as an eligible employee before 2012.

The Australian black coal mining industry includes:

- The extraction or mining of black coal on a coal mining lease by means of underground or surface mining methods.
- The processing of black coal at a coal handling or coal processing plant on or adjacent to a coal mining lease.
- The transportation of black coal on a coal mining lease.
- Other work on a coal mining lease directly connected with the extraction, mining and processing of black coal.

COMPLIANCE INDEX

The following table outlines the mandatory requirements for our annual report and where the information can be found. These requirements are prescribed by the Public, Governance, Performance and Accountability Rule 2014 (PGPA Rule) in sections 17BA and 17BF (Subdivision B – Annual report for corporate Commonwealth entities).

Requirement	Section/comments	Page #
PGPA Act rule		
Approval of annual report by accountable authority (section 17BB)	Approval of Accountable Authority	2
Parliamentary standards of presentation (section 17BC)	YES	-
Plain English and clear design (section 17BD)	YES	-
Details of enabling legislation (paragraph 17BE(a))	About Coal LSL: Purpose	5
Summary of objects and functions (paragraph 17BE(b))	About Coal LSL: Purpose	5
Responsible Minister (paragraph 17BE(c))	About Coal LSL: Responsible Minister	5
Directions by the Minister (paragraph 17BE(d))	Governance: Statement of Non-compliance	12
Government policy orders (including details of non-compliance) (paragraph 17BE(e))	Governance: Statement of Non-compliance	12
Annual performance statements (paragraph 17BE(g))	Annual Performance Statements	16
Significant non-compliance with finance law (paragraph 17BE(h))	Governance: Statement of Non-Compliance	12
Details of accountable authority members (paragraph 17BE(j))	About Coal LSL: Accountable Authority	6
Organisational structure (paragraph 17BE(k))	About Coal LSL: Organisational Structure	9
Locations (paragraph 17BE(l))	About Coal LSL: Organisational Structure	9
Main corporate governance practices (paragraph 17BE(m))	Governance: Governance practices	11
Decision making for procurement, tenders and contracts (including details) (paragraph 17BE(n))	Governance: Procurement	12
Significant activities affecting operations or structure (paragraph 17BE(p))	2016-17 Year in Review	15
Judicial decisions and administrative decisions (paragraph 17BE(q))	Governance: External Scrutiny	12
Reports by: (paragraph 17BE(r)) • the Auditor General • a Committee of either house, or of both Houses, of Parliament • the Commonwealth Ombudsman • the Office of the Australian Information Commissioner	Governance: External Scrutiny	12
Obtain information from a subsidiary (paragraph 17BE(s))	N/A	-
Indemnity and insurance (paragraph 17BE(t))	Governance: Disclosures	13
Index and list of requirements (paragraph 17BE(u))	Compliance index	59
Disclosure requirements for government business enterprises (section 17BF)	N/A	-
Financial statements (including the Auditor-General's report)	Financial Statements	24
Other requirements		
Work health and safety – Work Health and Safety Act 2011 (Schedule 2, Part 4)	Governance: Disclosures	13
Environmental matters – Environment Protection and Biodiversity Conservation Act 1999 (section 516A)	Governance: Disclosures	13
Advertising and market research – Commonwealth Electoral Act 1918 (section 311A)	Governance: Disclosures	13
Work health and safety statistics – Work Health and Safety Act 2011 (Schedule 2, Part 3)	Governance: Disclosures	13

MORE INFORMATION

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