## 11. Provisions

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Current provisions** | | |
| Employee benefits (i) (See Note 11(a)) – annual leave | | |
| Unconditional and expected to be settled within 12 months(ii) | 16,551 | 15,445 |
| Unconditional and expected to be settled after 12 months(iii) | 3,238 | 2,215 |
| Employee benefits (i) (See Note 11(a)) – long service leave | | |
| Unconditional and expected to be settled within 12 months(ii) | 1,633 | 1,360 |
| Unconditional and expected to be settled after 12 months(iii) | 23,109 | 19,249 |
| | 44,531 | 38,269 |
| Provisions related to employee benefit on-costs (Note 11(a)) | | |
| Unconditional and expected to be settled within 12 months(ii) | 4,012 | 3,626 |
| Unconditional and expected to be settled after 12 months(iii) | 4,986 | 3,927 |
| | 8,998 | 7,553 |
| Volunteer Compensation (See note 1(j)) | 2,396 | 2,679 |
| **Total current provisions** | **55,925** | **48,501** |
| **Non-current provisions** | | |
| Employee benefits (i) (See Note 11(a)) | 6,274 | 6,418 |
| Provisions related to employee benefit on-costs | 1,157 | 1,148 |
| Volunteer compensation (See note 1(j)) | 10,712 | 7,263 |
| **Total non-current provisions** | **18,143** | **14,829** |
| **Total provisions** | | |
| Employee benefits (See Note 11(a)) | 60,960 | 53,388 |
| Volunteer compensation (See note 1(j)) | 13,108 | 9,942 |
| | **74,068** | **63,330** |
| **(a) Employee Benefits and related on-costs** | | |
| Current employee benefits | | |
| Annual leave entitlements | 19,789 | 17,660 |
| Unconditional long service leave entitlements | 24,742 | 20,609 |
| Non-current employee benefits | | |
| Conditional long service leave entitlements | 6,274 | 6,418 |
| **Total employee benefits** | **50,805** | **44,687** |
| Current on-costs | 8,998 | 7,553 |
| Non-current on-costs | 1,157 | 1,148 |
| **Total on-costs** | **10,155** | **8,701** |
| **Total employee benefits and related on-costs** | **60,960** | **53,388** |

Note:

(i) Employee benefits consist of amounts for annual leave and long service leave accrued not including on-costs
(ii) The amounts disclosed are nominal amounts
(iii) The amounts disclosed are discounted to present values
(iv) An additional group of employees has been added to provision for long service leave. Prior year amounts have not been updated as they are considered immaterial.

| (b) Movement in provisions | Employee Benefits 2011 | On-costs 2011 | Volunteer Compensation 2011 | Total 2011 |
|---|---|---|---|---|
| **Opening balance** | **44,687** | **8,701** | **9,942** | **63,330** |
| Net additional provisions recognised | 6,118 | 1,454 | 3,166 | 10,738 |
| **Closing balance** | **50,805** | **10,155** | **13,108** | **74,068** |
| Current | 44,531 | 8,998 | 2,396 | 55,925 |
| Non-current | 6,274 | 1,157 | 10,712 | 18,143 |
| | 50,805 | 10,155 | 13,108 | 74,068 |

## 12. Financial Instruments

**(a) Financial risk management objectives and policies**
CFA's activities expose it to a variety of financial risks; credit risk, liquidity risk and market risk. CFA regularly reviews all risks in relation to financial assets and financial liabilities. Its overall risk management policies focus on mitigating risks associated with operating in a commercial environment and the unpredictability of financial markets and to seek to minimise potential adverse effects on its financial performance.

CFA has policies and procedures for its financial assets and financial liabilities which are reviewed at least annually. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 1 to the financial statements.

The main purpose in holding financial instruments is to prudentially manage CFA's financial risks within the government policy parameters.

The carrying amounts of CFA's financial assets and financial liabilities by category are shown in the table below.

**Table 12.1 Categorisation of financial instruments**

| | 2011 ($'000) | 2010 ($'000) |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 195,708 | 129,191 |
| Loans and receivables (at amortised cost). | 6,902 | 4,171 |
| **Total financial assets (i)** | **202,610** | **133,362** |
| **Financial liabilities** | | |
| At amortised cost | 22,014 | 27,085 |
| **Total financial liabilities (ii)** | **22,014** | **27,085** |

(i) The amount of receivables disclosed here exclude statutory receivables .(e.g. amounts owing from Victorian Government and GST input tax credit recoverable).
(ii) The total amount of financial liabilities disclosed here excludes statutory payables .(i.e. taxes payable).

**(b) Credit risk**
CFA's maximum exposures to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Balance Sheet.

CFA minimises concentrations of credit risk in relation to trade accounts receivable by undertaking transactions with a large number of customers. Other than trade debtors, the major amounts owing at any point in time are from Government (no credit risk considered), and the pool of Insurance industry contributors. There is not considered to be any major risk with this latter class as, in the event of one contributor failing, the amount so lost can be collected from the rest of the pool in a subsequent period.

Credit risk in trade receivables is managed in the following ways:

- payment terms are 30 days from date of invoice
- statements are issued on all debts outstanding, five working days after the end of each month
- debtors outstanding after 60 days are contacted and a record made of reason for delay in payment. Follow up statements continue to be issued
- debts outstanding after 90 days are referred to a debt collection agency, except in the case of CFA volunteer brigades when the process is continued internally.

CFA has in place:(i) a Board approved Treasury Management Policy that has been formally noted by the Department of Treasury and Finance and is in compliance with the *Borrowing and Investment Powers Act (1987)*; (ii) a Board approved Hedging Policy.

Investments are only made subject to the appropriate institution having a Standard & Poor's credit rating for short term investments of A3 or better, and long term investments of BBB or better, at the time of investing the funds.

**(i) Financial assets that are either past due or impaired**
Currently CFA does not hold any collateral as security nor credit enhancements relating to any of its financial assets. As at reporting date, there is no event to indicate that any of the financial assets are impaired.

There are no financial assets that have had their terms renegotiated so as to prevent them from being past due or impaired, and they are stated at the carrying amounts as indicated. The following table discloses the ageing only of financial assets that are past due but not impaired:

**Table 12.2 Ageing analysis of financial assets**

| $'000 | | | Past due but not impaired | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying Amount | Not past due and not impaired | Less than 1 month | 1-3 months | 3 months - 1 year | 1-5 years | Impaired financial assets |
| **2011** | | | | | | | |
| **Cash and cash equivalents** | 195,708 | 195,708 | 0 | 0 | 0 | 0 | 0 |
| **Receivables (i)** | | | | | | | |
| Trade and other receivables | 6,902 | 4,608 | 927 | 639 | 728 | 0 | 0 |
| | **202,610** | **200,316** | **927** | **639** | **728** | **0** | **0** |
| **2010** | | | | | | | |
| **Cash and cash equivalents** | 129,191 | 129,191 | 0 | 0 | 0 | 0 | 0 |
| **Receivables (i)** | | | | | | | |
| Trade and other receivables | 4,171 | 3,075 | 372 | 461 | 263 | 0 | 0 |
| | **133,362** | **132,266** | **372** | **461** | **263** | **0** | **0** |

Notes:
(i) Ageing analysis of receivables must exclude the types of statutory receivables (e.g. Amounts owing from Victorian Government and GST input tax credit recoverable). (This ageing analysis table is used only to show the ageing of past due but not impaired financial assets).

### (c) Liquidity risk

Liquidity risk would arise if CFA was unable to meet its financial obligations as they fall due. CFA operates under the Government fair payments policy of settling financial obligations within 30 days and in the event of a dispute, make payments within 30 days from the date of resolution. It also continuously manages risk through monitoring future cash flow requirements and maturities planning to ensure adequate holding of high quality liquid assets and dealing in highly liquid markets. CFA's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk.

Cash for unexpected events is generally sourced from liquidation of available-for-sale financial investments.

Maximum exposure to liquidity risk is the carrying amounts of financial liabilities. The following table discloses the contractual maturity analysis for CFA's financial liabilities:

**Table 12.3 Maturity analysis of financial liabilities**

| $'000 | | | | | | |
|---|---|---|---|---|---|---|
| | | | Maturity dates (i) | | | |
| | Carrying Amount | Nominal amount | Less than 1 month | 1-3 months | 3 months - 1 year | 1-5 years |
| **2011** | | | | | | |
| **Payables:** | | | | | | |
| Amounts payable to other government agencies | 3,695 | 3,695 | 3,695 | 0 | 0 | 0 |
| Trade and other payables | 14,459 | 14,459 | 14,459 | 0 | 0 | 0 |
| **Borrowings:** | | | | | | |
| Advances from Government | 3,860 | 3,860 | 0 | 0 | 0 | 3,860 |
| | **22,014** | **22,014** | **18,154** | **0** | **0** | **3,860** |
| **2010** | | | | | | |
| **Payables:** | | | | | | |
| Amounts payable to other government agencies | 3,198 | 3,198 | 3,198 | 0 | 0 | 0 |
| Trade and other payables | 20,027 | 20,027 | 20,027 | 0 | 0 | 0 |
| **Borrowings:** | | | | | | |
| Advances from Government | 3,860 | 3,860 | 0 | 0 | 0 | 3,860 |
| | **27,085** | **27,085** | **23,225** | **0** | **0** | **3,860** |

Notes:
(i) The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities

### (d) Market risk

CFA's exposures to market risk which would primarily be through day to day interest rates is minimal because of fixed interest rate deposits and only insignificant exposure to foreign currency and other price risks.

### (i) Foreign currency risk

Foreign exchange risk arises when future transactions and recognised assets and liabilities are denominated in a currency that is not CFA's functional currency (Australian dollar).

CFA is exposed to insignificant foreign currency risk through its payables relating to purchases of supplies and consumables from overseas. This is because of a limited amount of purchases denominated in foreign currencies and a short timeframe between commitment and settlement with the availability of facilities such as EFT.

### (ii) Interest rate risk

Exposure to interest rate risk might arise primarily through CFA's floating rate bank deposits at call. However CFA's exposure to this risk is insignificant due to its policy to minimise risk by mainly undertaking fixed rate financial instruments with relatively even maturity profiles.

CFA's interest bearing liabilities are managed by the Treasury Corporation of Victoria, which monitors any movement in interest rates on a daily basis.

The carrying amounts of Financial assets and financial liabilities that are exposed to interest rates are set out in the Table below.

**Table 12.4 Interest rate exposure of financial instruments**

| | | | ($'000) | | |
|---|---|---|---|---|---|
| | | | Interest rate exposure | | |
| 2011 | Weighted average effective interest rate % | Carrying amount | Fixed interest rate | Variable interest rate | Non-interest bearing |
| **Cash and cash equivalents** | 4.76 | 195,708 | 137,000 | 58,664 | 44 |
| **Receivables (i)** | | | | | |
| Trade and other receivables | N/A | 6,902 | 0 | 0 | 6,902 |
| | | **202,610** | **137,000** | **58,664** | **6,946** |
| **Payables:** | | | | | |
| Amounts payable to other government agencies | - | 3,695 | 0 | 0 | 3,695 |
| Trade and other payables | - | 14,459 | 0 | 0 | 14,459 |
| **Borrowings:** | | | | | |
| Advances from Government | 4.46 | 3,860 | 3,860 | 0 | 0 |
| | | **22,014** | **3,860** | **0** | **18,154** |
| **2010** | | | | | |
| Cash and cash equivalents | 3.96 | 129,191 | 70,000 | 59,145 | 46 |
| **Receivables (i)** | | | | | |
| Trade and other receivables | N/A | 4,171 | 0 | 0 | 4,171 |
| | | **133,362** | **70,000** | **59,145** | **4,217** |
| **Payables:** | | | | | |
| Amounts payable to other government agencies | - | 3,198 | 0 | 0 | 3,198 |
| Trade and other payables | - | 20,027 | 0 | 0 | 20,027 |
| **Borrowings:** | | | | | |
| Advances from Government | 4.46 | 3,860 | 3,860 | 0 | 0 |
| | | **27,085** | **3,860** | **0** | **23,225** |

## (e) Fair value

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

CFA considers that the carrying amount of financial assets and financial liabilities recorded in the financial report to be a fair approximation of their fair values, because of the short-term nature of the financial instruments and the expectation that they will be paid in full.