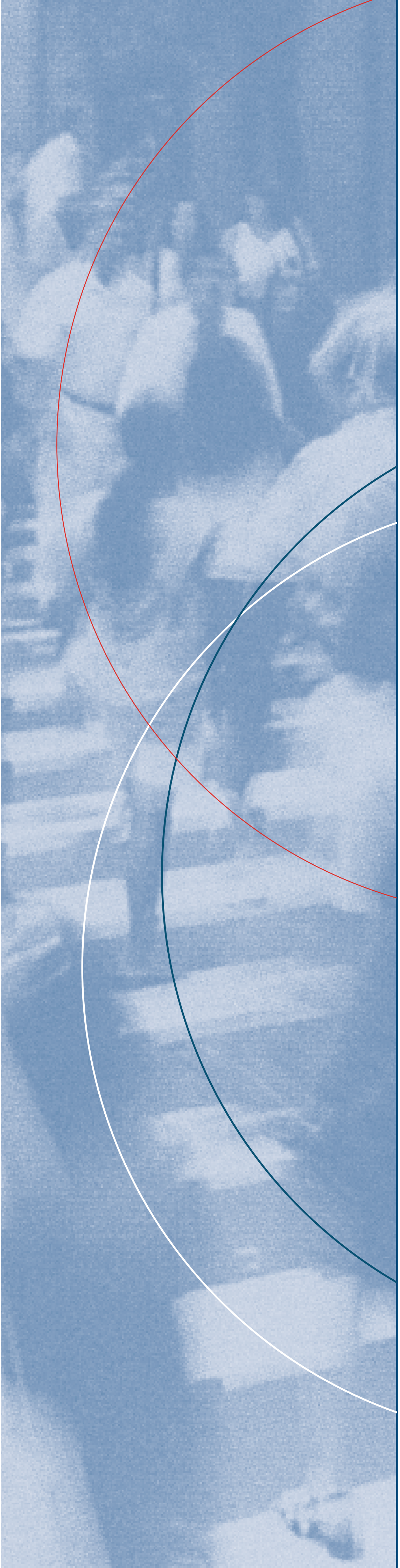
# Tasmanian Risk Management Fund

Annual Report 2001 – 2002

Department of
**Treasury** and **Finance**

Tasmania





# *Contents*

# *The Chairman's Report*

The 2001-02 year has been a period of consolidation for the Tasmanian Risk Management Fund since the start of its expanded operations in July 2001. During the year in review, the Tasmanian Risk Management Fund (TRMF or the Fund) continued to develop as a commercially sound means of ensuring a whole-of-government approach to the treatment of all risks to which government agencies are exposed.

The 2001-02 financial year was one of the most turbulent years ever experienced in the general insurance market. The effect of the attacks on 11 September 2001, the collapse of HIH and the much-publicised "Public Liability Crisis" have all contributed to a weakening of the Australian insurance market. Every business or group needing insurance has been affected, whether through increased general insurance program costs, increased excesses, reduced limits on sums insured or the loss of access to some cover they previously enjoyed. Despite the national trend, the Tasmanian Risk Management Fund remained relatively untouched by these events and was able to maintain agency contributions and excesses. By participating in the Fund, agencies have been shielded to a large extent from these external events. In fact, the Fund's performance in 2001-02 will enable agencies to receive a number of significant reductions in the contributions they make to the Fund in 2002-03. This is a major achievement in such a turbulent environment.

The Tasmanian Risk Management Fund is in a very sound financial position. 2001-02 was a very successful year from both an operational and a financial perspective.

The workers' compensation component has the benefit of having been in operation for many years, and is fully funded with highly competitive premiums. The average contributions (as a percentage of salaries) made by agencies are significantly less than the average premiums (as a percentage of salaries) charged by licensed insurers.

As at 30 June 2002, the Fund had total assets of $73.603 million (consisting of reserves of $64.797 million for workers' compensation and $8.806 million for all other risks). At 30 June 2002, the Fund recorded an estimated surplus of $17.814 million in assets over outstanding claims liabilities. While this is a very favourable outcome after such an eventful year, a cautious approach must continue to be taken, as there is always a degree of uncertainty regarding the quantification of the outstanding liability of medical malpractice and liability risks. The Fund also needs to ensure the retention of adequate funds in the event of a large one-off claim. The requirement to include risk margins when calculating the outstanding claims liabilities of the Fund in future years has the potential to significantly erode the surplus existing as at 30 June 2002. One of the Fund's major challenges in 2002-03 and beyond will be to manage this issue.

The Steering Committee's consolidation of the arrangements and operation of the Tasmanian Risk Management Fund during 2001-02 has enabled work to start on a number of key initiatives, including projects aimed at improving communication with the Fund's various stakeholders. The nature and extent of queries being received from agencies indicate that the Fund is now widely recognised and valued for its ability to provide risk management policy advice and services.

Philip Mussared
**Chairman**

Other important issues that must be addressed by the Fund in 2002-03 include improving the flow of information to agencies to assist in risk management, reducing the likelihood of claims occurring and reducing the severity of claims that do occur. Recent additions to the Fund's staffing structure in the Department of Treasury and Finance will enable these issues to be addressed.

I look forward to another successful year for the Tasmanian Risk Management Fund in 2002-03.

Philip Mussared

**Chairman**

Tasmanian Risk Management Fund
Steering Committee

# *History of the Fund*

In undertaking its operations, the Tasmanian Government is exposed to a diverse range of potential risks. The range of risks does not remain static; it tends to vary over time. For example, in recent years there has been an emergence of medical malpractice and professional indemnity claims. Furthermore, there is considerable variation in the frequency and amount of losses associated with each risk.

Historically, there was no clearly defined policy or strategy for the management of such risks by agencies. Agencies provided for the costs of a relatively small number of risks through insurance with the private sector, but met the costs associated with uninsured risk as those costs were incurred. Only in respect of workers' compensation was a whole-of-government arrangement in place. The fact that no formal provision was made to meet the costs associated with the remaining risks resulted from the lack of an established whole-of-government approach to risk management and insurance, rather than from a planned strategy to carry risk. Agencies were generally responsible for meeting the costs associated with the risks for which no provision was made. However, some agencies were unable to meet the costs associated with a number of large and unexpected losses, with the result that it was necessary to fund these losses through the Treasurer's Reserve.

As a consequence, an interdepartmental Risk Management Working Group was established in July 1995 to coordinate the development of a whole-of-government risk management policy framework for the inner-Budget sector. In June 1997, following an extensive review of arrangements in other jurisdictions, a Discussion Paper was finalised for the Working Group as the first step of a process leading to a Government-endorsed risk management policy. The Discussion Paper formed the basis for consideration of the matter by the former Government in March 1998, and the decision was made to establish the Tasmanian Risk Management Fund to provide for specific whole-of-government risk exposures, including the need for catastrophe insurance at a whole-of-government level.

The Tasmanian Risk Management Fund was established from 1 January 1999 to provide a whole-of-government approach to the treatment of all risks to which agencies are exposed, including ensuring that adequate financial provision is made for the cost of risk. The Fund operates in accordance with the following principles:

- the Fund is owned and underwritten by the Crown;
- the Fund is managed centrally within the Public Account;
- actuarially determined agency contribution costs, relating to the replacement of assets and the cost of liability exposures, are paid into the Fund;

- the costs of all claims, as well as administrative expenses, are met from the Fund;
- the Fund operates on a fully funded basis;
- a Fund Administration Agent is retained on a contract basis for claims administration, the provision of advice in relation to the identification, quantification and financing of risk and the placement of insurance as required; and
- the Department of Treasury and Finance is responsible for the administration of the Fund, and an inter-agency Steering Committee is responsible for the strategic operation of the Fund.

In order to facilitate the transition to providing for risk through the Fund, the inter-departmental Steering Committee responsible for the management of the Fund adopted a phased approach to its implementation. In this way, there was a transition from agencies having little or no cover (other than for workers' compensation), to covering risks through the purchase of insurance from the private sector, to covering risks through self-insurance.

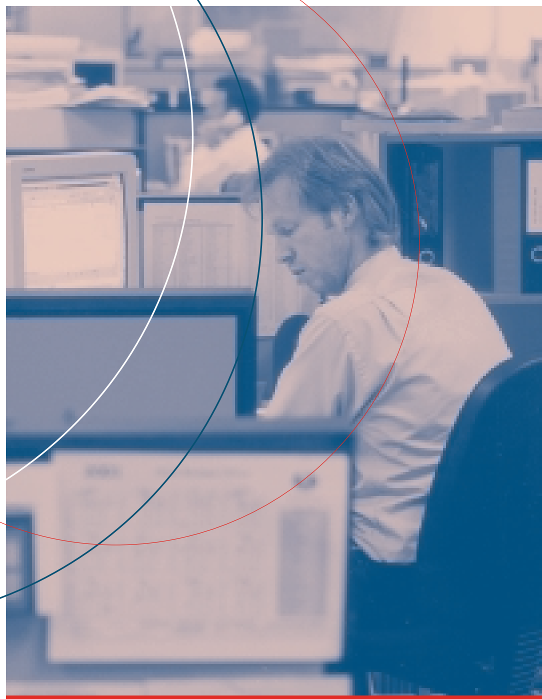
From 1 July 2001, the Fund and the Tasmanian State Service Workers' Compensation Scheme were merged. The Tasmanian State Service Workers' Compensation Scheme operated on a fully funded basis and the assets accumulated to meet workers' compensation liabilities were transferred to the Fund on 1 July 2001.

From 1 July 2001, all outstanding liabilities of the Tasmanian State Service Workers' Compensation Scheme are met from the Fund. The Fund will also meet the cost of all future workers' compensation claims.

The expanded Fund also meets the costs associated with all other risk, including property and business interruption and medical negligence, through a mixture of insurance and self-insurance. Cover for each risk is renewed at the end of each financial year. Treasury writes to agencies in June of each year seeking advice as to what risks each agency requires cover for in the forthcoming financial year, as well as each agency's nominated excess amounts.

All inner-Budget agencies are required to participate in the Fund and pay contributions into an Account in the Special Deposits and Trust Fund to meet insurance premiums, insurance costs, claims costs for which the Fund is responsible and administrative expenses. In addition, a number of other government entities participate in the Fund for workers' compensation purposes only. These government entities participated in the former Tasmanian State Service Workers' Compensation Scheme before its merger with the Fund on 1 July 2001.

The majority of claims costs are met directly from the Fund, while other costs, particularly in relation to risks about which little is known – for example, where limited claims experience is available – are met through insurance purchased from the private sector.



In addition, agencies are subject to an excess, whereby they meet a proportion of the cost of each claim in return for a lower premium. In this way, there are three levels of responsibility for meeting the cost of claims under the Fund:

- by insurance from the private sector. For 2001-02, in respect of machinery breakdown, marine hull, transit and travel risks, the Fund has placed the whole of each risk with private sector insurers. It was decided to fully insure these risks because the cost of insurance was cheaper than the cost of self-insurance;
- by self-insurance through the Fund, from pooled agency contributions. The Fund is responsible for all claim costs in respect of all other risks, including workers' compensation, public and products liability,

# *History of the Fund*

professional indemnity, motor vehicles, property and business interruption, medical negligence, directors' and officers' liability, fraud/fidelity and volunteers. In respect of all risks, except workers' compensation and motor vehicles, agency contributions were based on the claims experience of similar agencies in other jurisdictions. In respect of workers' compensation and motor vehicles, the claims experience of agencies participating in the Fund was used to calculate contributions; and

- by agencies, in the form of an excess.

## Roles of the Stakeholders in the Fund

The Fund is strategically managed by the Tasmanian Risk Management Fund Steering Committee, an inter-departmental committee with representatives from participating agencies. In addition, the Fund has three Sub-Committees – one for Workers' Compensation, one for Liability and one for Property – to deal with operational issues. Details of committee members are provided in the Committee Membership section of this Report.

## Department of Treasury and Finance

Treasury provides secretariat and administrative support for the Fund and for the Steering Committee and each of the Sub-Committees through the Tasmanian Risk Management Fund Unit. The Unit is responsible for:

- managing the Fund Administration Agent Agreement, including conducting annual fee reviews;
- administering the financial aspects of the Fund;
- developing and communicating risk management policies, procedures and processes to all stakeholders involved with the Fund;
- raising the profile of risk management within the participating agencies; and
- reporting at both strategic and operational levels to all stakeholders involved with the Fund.

## Agencies

All inner-Budget agencies are required to participate in the Tasmanian Risk Management Fund. A small number of statutory authorities have historically participated for workers' compensation. Participating agencies make contributions into an account in the Special Deposits and Trust Fund from which insurance premiums, claims costs for which the Fund is responsible and administrative expenses are met.

## The Fund Administration Agent

The Fund Administration Agent for the Fund from 1 July 2001 to 30 June 2004 is Marsh Pty Ltd. The Fund Administration Agent carries out its functions at the direction of agencies. The key responsibilities of the Fund Administration Agent are to:

- provide claims administration for both insured risks and self-insured risks on behalf of, and in accordance with, the requests and directions of agencies. This involves file management, processing of payments and reimbursement of wages, collecting recoveries from third parties, investigating liability, estimating the cost of claims, and providing risk identification and quantification advice. The Fund Administration Agent is also responsible for managing the claims dispute process on behalf of agencies;

- provide broking services for cover of insured risks;
- report to the Fund, agencies and other bodies as required;
- maintain a database (referred to as STARS) concerning all claims made by agencies covered by the Fund. The database includes information concerning the cost incurred to date, and also the estimated cost outstanding of each claim;
- provide data to agencies to assist with risk management and rehabilitation – although it is the responsibility of agencies to interpret that data and act on it; and
- provide claims management advice to agencies – although it is the responsibility of each individual agency to make decisions as to how claims are conducted.

The administration of workers' compensation claims has been sub-contracted by Marsh to NRMA, while the administration of all other claims has been sub-contracted to Lumley General Insurance.

### Office of the Director of Public Prosecutions

The Office of the Director of Public Prosecutions (DPP) provides legal advice to the Fund Administration Agent on individual claims as part of day-to-day administration of files and provides legal representation for agencies in various courts and tribunals as required. The Office of the DPP is paid on a fee-for-service basis.

The Head of Civil Litigation, Mr Paul Turner, represents the DPP at Steering Committee meetings and is the initial contact for Fund matters.

### Actuary

The Fund's Actuary is Brian Bendzulla, of Bendzulla Actuarial Pty Ltd.

Mr Bendzulla provides the following services to the Fund:

- calculating the total contribution required from participating agencies for each self-insured risk;
- calculating the proportion of the total contribution required from each participating agency;
- calculating the breakdown of contributions to division level, where requested by an agency;
- calculating excesses;
- providing an annual report on the Fund's performance as at 30 June each year;
- providing reports on administrative arrangements for the Fund, including the reduction in contribution for higher optional excesses;
- providing miscellaneous reports on the calculation of agency contributions; and
- attending meetings with agencies to discuss contributions where required.

# *The Year in Review*

During 2001-02, Treasury consolidated the arrangements and operation of the Tasmanian Risk Management Fund. The expanded Fund started full operation from 1 July 2001, providing cover for all risks to which agencies are exposed.

The establishment of the expanded Fund brought with it an increased workload for Treasury; two additional Senior Policy Analyst positions were created for the Tasmanian Risk Management Fund Unit. The staffing structure of the Unit comprises one Principal Policy Analyst and three Senior Policy Analysts.

During 2001-02, the Fund started developing a whole-of-government approach to risk management and the prevention of claims. The Fund increased its activities in the following strategic areas, with the aim of establishing appropriate policies and procedures to minimise the cost of risk to agencies.

## Communication

Communication of risk management policy issues, policy and processes to all stakeholders involved in the operation of the Fund is essential.

During 2001-02, Treasury improved communication with stakeholders through the development of a Fund website, which can be accessed through Treasury's website at www.treasury.tas.gov.au. The website contains Annual Reports and the financial statements of the Fund, the Fund's Procedures Manual, the Fund's newsletter, copies of Discussion Papers and links to other useful risk management web sites. The website will be regularly expanded and updated by Treasury.

Communication of risk management issues has also been improved through the production of a quarterly electronic Fund newsletter, *riskmatters*, from June 2002. The aim of *riskmatters* is to provide agency staff members who are involved in risk management with regular access to information about risk management issues and claims trends, both within the Fund and, more generally, in Tasmania and Australia. The *riskmatters* newsletter also provides information about strategies to minimise the cost of risk. This newsletter is available through Treasury's website, under the Tasmanian Risk Management Fund page.

## Education

The profile of risk must be raised before the cost can be significantly reduced. To date, the profile of risk management within the participating agencies has been relatively low and the cost of risk has been relatively high.

In 2001-02, to raise the awareness and profile of risk and risk management issues, the Fund held seminars on various risk management topics in conjunction with the Fund Administration Agent. The seminars included a Workers' Compensation Case Estimates Seminar on 15 May 2002, and a number of other information sessions and presentations to the Fund Steering Committee and Sub-Committees. Treasury will continue to conduct regular seminars in 2002-03, including a two-day risk management seminar in October 2002 presented by the Fund Administration Agent, Marsh Pty Ltd.

## Risk Management

Risk management is a relatively new discipline; many participating agencies have previously thought of risk management in terms of insurance only. However, a range of other issues must be addressed if risk is to be successfully managed within participating agencies. This strategy will be facilitated through establishing appropriate policies and procedures for the operation of the Fund; undertaking research into general risk management issues; monitoring risk management developments in other jurisdictions; actively encouraging and monitoring the implementation of risk management and health and safety programs in participating agencies; and developing agency risk management profiles. Evidence that this strategy is being implemented is the number of agencies that have undertaken agency-wide risk assessments and audits in 2001-02. These agencies include the Department of Treasury and Finance, the Department of Health and Human Services and the Department of Infrastructure, Energy and Resources.

Draft Statements of Cover have been developed, which set out the basis on which the Fund will meet claims costs for those risks that the Fund self-insures. Draft Statements of Cover were circulated to committee members for comment during the year. The Statements of Cover have been developed with input from the Fund Administration Agent and Crown Law and will be finalised early in 2003.

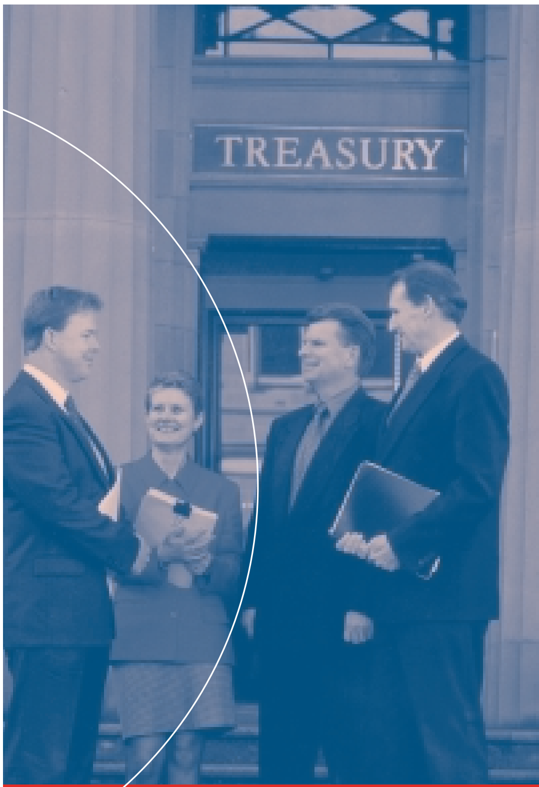
A Procedures Manual has been developed for the Fund and is available in pdf format from the Treasury website at www.treasury.tas.gov.au.

The Procedures Manual assists stakeholders in carrying out their risk management responsibilities and activities. Version 2 of the Procedures Manual was completed in August 2002.

## Reporting

The key to successfully implementing risk management in participating agencies is the availability of information, both at a strategic and operational level.

During the year, Treasury facilitated the provision of information to the Fund's stakeholders by preparing regular reports on the operation and management of the Fund for the Steering Committee, Sub-Committees, participating agencies, the Treasurer and Budget Committee. Treasury will continue to enhance reporting to the Fund's stakeholders.




2001-02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FIRE-RESISTING
STRONG HOLDFAST SAFE
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# *Future Challenges*

The expansion of the Fund has created many new and interesting challenges for the future.

A number of specific projects have been identified for the year ahead, in addition to the activities already commenced during 2001-02.

## Analysing trends in traffic infringements and motor vehicle accidents and developing appropriate policies and strategies

Treasury was represented at a Fleet Safety Forum, hosted by the Department of Infrastructure, Energy and Resources (DIER), in Launceston in April 2002. On 13 June 2002, the Fund's Property Sub-Committee endorsed the development of a motor vehicle fleet purchase and use policy for agencies participating in the Fund. Treasury is currently developing this policy. The policy will draw on information from a number of sources, including accident data collected by the Fund and information from the Road Safety Branch of DIER. The Fleet Purchase and Use Policy should be finalised by March 2003.

## Coordinating a review of agency property registers, including building values and contents values

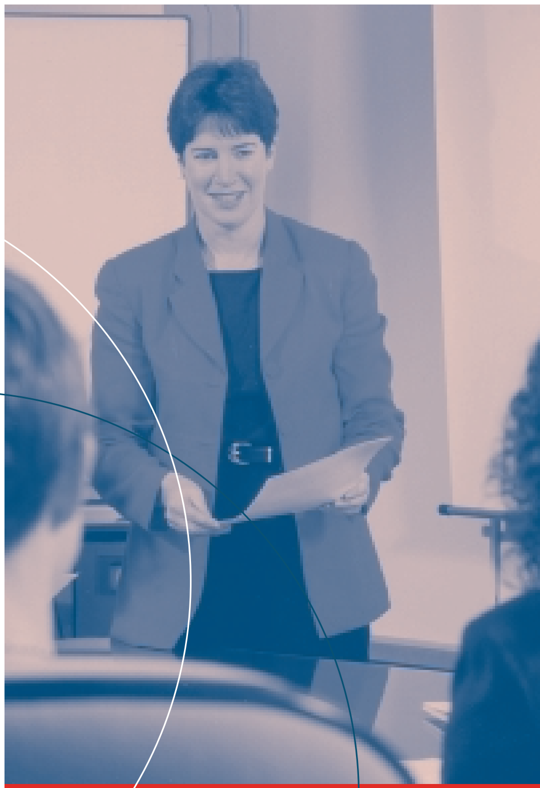
The Fund will update existing data on agency properties and contents by 30 June 2003. The revised data will be used in determining agency contributions for 2003-04.

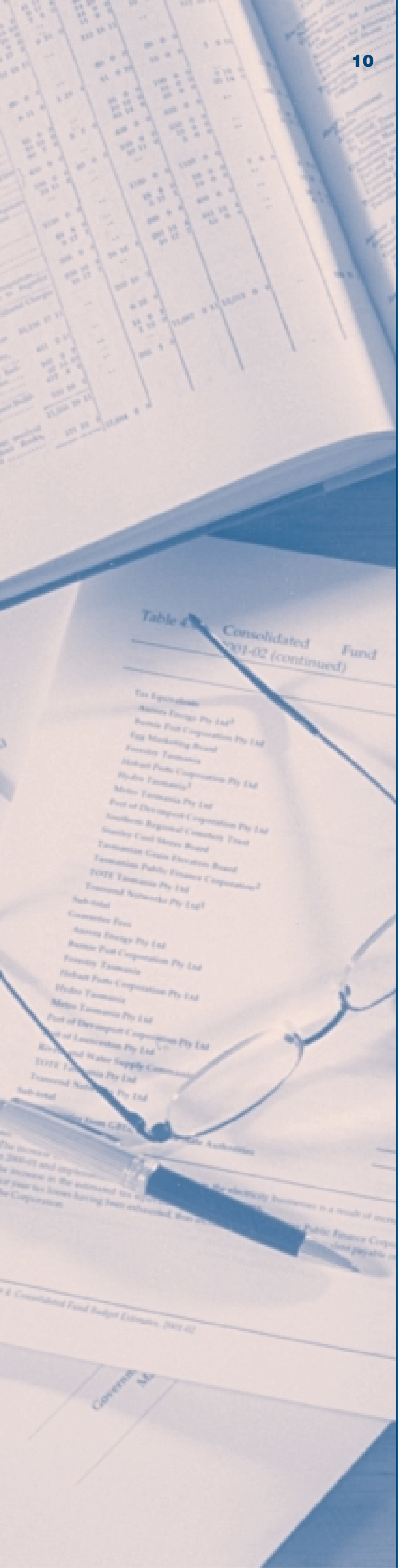
## Reviewing return to work for employees on workers' compensation on a whole-of-government basis as a result of recent changes to the *Workers Rehabilitation and Compensation Act 1988*

The Fund will prepare a Discussion Paper on return to work for employees on workers' compensation as a result of recent changes to the *Workers Rehabilitation and Compensation Act 1988* for consideration by the Steering Committee. The Discussion Paper will canvass best practice procedures.

## Appointing panels of pre-qualified service providers

In June 2002, the Fund's Steering Committee endorsed the conducting of tender processes by Treasury to appoint panels of pre-qualified providers for each of the categories of service provider to the Fund. These categories include Loss Assessors/Claims Investigators, Rehabilitation Providers, and Repairers for each class of property. The tender processes will ensure that all service providers have appropriate qualifications and expertise, and that the provision of services is in accordance with agreed fee structures. The panels of pre-qualified providers will be finalised by 30 June 2003.







# *Report from the Fund Administration Agent*

The introduction of the Tasmanian Risk Management Fund, in its current form, has coincided with one of the most turbulent years ever experienced in the general insurance market.

Every organisation needing insurance was affected, whether through increased general insurance program costs, increased retentions or deductibles, reduced limits on sums insured or the loss of some cover they previously enjoyed.

The effect of 11 September 2001 on the insurance industry has been well documented and has shaped the way that underwriters now assess and price risk. This has had a direct impact on the financial results of many companies.

The changing insurance market cannot be solely attributed to the events of 11 September 2001. A range of global and local events has influenced the state of the Australian insurance market.

## Global factors affecting the Australian market

- The continuing contraction or withdrawal of insurers and reinsurers operating in the worldwide insurance market.
- The profitability of general insurers. This has been affected by the decline in global equity markets, while losses from natural catastrophes continue to impact on the insurance industry.
- The poor underwriting performance in recent years by most of the global insurers and reinsurers. This has resulted in a lower return on capital than expected by shareholders, which has precipitated a price correction affecting most lines of insurance.

  Many shareholders see this correction as a necessary business survival strategy if insurers and reinsurers are to continue to meet policy claim obligations, particularly in the event of another major global catastrophe.

## Local factors affecting the Australian market

- The number of local insurers operating in Australia continues to decrease.
- New minimum capital adequacy requirements and increased regulatory obligations for Australian insurers under the new Australian Prudential Regulation Authority (APRA) insurance licensing provisions have changed the local insurance market landscape.
- The much-publicised “Liability Crisis” is a result of either a lack of available insurers willing to underwrite public liability insurance, or, where a local market offer exists, terms that are unaffordable to businesses.
- APRA has recently announced that insurers writing business in Australia recorded an underwriting loss of $766 million in the calendar year ended 31 December 2001. This was an 18 per cent improvement over the underwriting loss of $936 million in 2000.

In this difficult time, the Fund has been able to maintain affordable contributions (premiums) for agencies to address their insurable risk exposure.

The following achievements have been realised through the Fund Administration Agent, Marsh Pty Ltd:

## Reporting

There is now an improved awareness of the Fund, with regular monthly reporting held with all participating agencies. In addition, there are quarterly sub-committee meetings for Workers' Compensation, Liability and Property. Ad hoc meetings involving Marsh, its subcontractors NRMA Insurance Ltd or Lumley General Insurance Ltd, and Treasury have also assisted agencies in understanding the Fund and its processes.

The Marsh STARS system was implemented in October 2001 as a database for all classes of risk for the Fund. This system is directly responsible for:

- reporting to the Workplace Standards Authority;
- claim payments; and
- regular and ad hoc reporting.

Through the STARS system, Marsh has introduced improved cost coding for some agencies, with further improvement to follow in 2002-03.

## Workers' Compensation

The NRMA is the provider of this service as a sub-contractor to Marsh Pty Ltd. The main achievements during 2001-02 are:

- the role of the Office of the DPP is now better defined;
- there is now a regular structured file review process with most agencies; and
- there have been two formal "information sessions" which focused in particular on Office of the DPP involvement and file estimation.

## Property Insurance

Lumley General is the provider of claims management services, as a subcontractor to Marsh Pty Ltd. There were three losses in the past 12 months in excess of $50 000, all of which related to school fires. The management of these losses has accommodated both the accepted government procurement process and the traditional insurer approach.

## Liability

Lumley General, as a sub-contractor to Marsh Pty Ltd, also provides a property claims management service. While a number of potential claims have been reported, few claims had been settled at 30 June 2002.

Although there has been an improvement in the timely reporting of potential liability claims, this remains a critical element of the effective management of these types of claims.

The following risks are insured in the private sector:

- machinery breakdown (engineering);
- marine hull;
- marine transit; and
- corporate travel/extra-territorial workers' compensation.

## Risk Management

The implementation of any risk management initiative is the responsibility of the individual agency. In the first year of the Fund one risk management process was undertaken by a participating agency with the assistance of Marsh.



# Risks

## *Workers' Compensation*

The Fund provides cover for three categories of employee risk:

- workers' compensation – provides cover for the liabilities arising out of the *Workers Rehabilitation and Compensation Act 1988*, which provides a range of benefits for employees injured in the course of their employment;
- personal accident – provides a no-fault cover for people who are not covered under the *Workers Rehabilitation and Compensation Act* (those who are not employees of an agency) in the event of an accident resulting in injury or death while in service to the government; and
- travel – provides worldwide cover for employees and other nominated persons (including board members and consultants) while on authorised business travel or travel incidental to business or trade.

While the Fund's Steering Committee is responsible for the strategic management of the Fund, a Workers' Compensation Sub-Committee has also been established to deal with operational matters associated with workers' compensation. The Terms of Reference for the Workers' Compensation Sub-Committee are provided in the Committee Membership Section of this Report.

The services of a Fund Administration Agent, Marsh Pty Ltd, have been retained on a contract basis for three years from 1 July 2001 for claims administration and the provision of advice about the identification, quantification and financing of workers' compensation risk.

It is intended that agencies will retain complete control of the management of workers' compensation claims, including whether to dispute liability. Therefore, while the Fund Administration Agent's duties are to assist agencies with the management of workers' compensation claims, individual agencies continue to retain ownership of claims.

### Workers' Compensation Sub-Committee

The Sub-Committee met three times in 2001-02.

In June 2002, the Sub-Committee endorsed a Workers' Compensation and Personal Accident Statement of Cover. The Statements of Cover set out the basis on which the Fund will meet claims costs for these risks. In general terms, the Statement of Cover is the equivalent of a traditional private sector insurance policy. It is anticipated that the Statements of Cover will be finalised early in 2003.

### Port Arthur Tragedy

Eighty-two claims were made as a result of the Port Arthur tragedy in April 1996. Sixteen of those claims were later denied cover. During the course of 2001-02, Allianz, the reinsurer for the Tasmanian State Service Workers' Compensation Scheme at the time of the tragedy, reimbursed the Tasmanian Risk Management Fund around $6.2 million in claims costs. It is considered unlikely that any additional claims will be made.

### Impact of HIH collapse

Following the collapse of HIH in March 2001, amendments to the *Workers Rehabilitation and Compensation Act* require all policy holders and self-insurers to pay to the Nominal Insurer a special contribution commencing from 2002-03. The Nominal Insurer, which is funded through payments made by insurers and self-insurers, is responsible for meeting the unfunded outstanding cost of claims against private sector employers previously insured by HIH. The Fund will make a special contribution equivalent to four per cent of its workers' compensation contributions to the Nominal Insurer in 2002-03.

### Workers' Compensation Trends

In recent years, there has been some evidence that the workers' compensation performance of the Tasmanian Risk Management Fund has improved – for example, through decreases in the total contribution pool. The Fund has been able to gain a more complete picture of its performance by comparing the performance of other insurers and self-insurers to that of the Fund. The WorkCover Tasmania Board report for the 12 months ending June 2002 has now been released, detailing the performance of insurers and self-insurers operating under the *Workers Rehabilitation and Compensation Act* for the year ending 30 June 2002.

The report revealed the following trends:

- the cost of workers' compensation cover for all employers increased from $118.261 million in 2000-01 to $119.561 million in 2001-02, or an increase of 1.1 per cent. The average premium rate for all employers remained constant at 3.09 per cent in 2001-02 compared to 2000-01;
- by contrast, agency contributions to the Fund decreased from $19.002 million (plus GST) in 2000-01 to $17.064 million (plus GST) in 2001-02, or a decrease of 10.2 per cent. As a consequence, the average contribution rate of agencies decreased from 1.99 per cent in 2000-01 to 1.69 per cent in 2001-02, a decrease of 15.1 per cent;
- the number of claims reported against all employers (regardless of when the incident leading to the claim occurred) decreased from 11 370 in 2000-01 to 10 532 in 2001-02, or a decrease of 7.4 per cent. In the same period, the number of claims against the Fund decreased from 1 632 to 1 614, or a decrease of 1.1 per cent; and
- claim payments made on behalf of all employers (regardless of when the claim occurred) decreased from $122.820 million in 2000-01 to $120.723 million in 2001-02, or a decrease of 1.7 per cent. In the same period, claims payments made by the Fund increased from $18.817 million to $21.233 million, or an increase of 12.8 per cent.

The Fund performed worse than all employers in general in the following categories:

- weekly benefits – an increase of 6.2 per cent for the Fund compared to a decrease of 4.9 per cent for all employers;
- common law – an increase of 21.8 per cent for the Fund compared to an increase of 2.6 per cent for all employers;
- medical costs – an increase of 12.8 per cent for the Fund compared to a decrease of 0.9 per cent for all employers;
- legal and investigation costs – an increase of 3.3 per cent compared to a decrease of 12.9 per cent for all employers; and
- lump sum payments – an increase of 36.1 per cent for the Fund compared to a decrease of 7.4 per cent for all employers.

These results are expected, given the increase in claim payments made by the Fund in 2001-02 compared to 2000-01. However, it should be noted that a number of categories of claims costs decreased in 2001-02 compared to 1999-00: for example, weekly benefits (8 per cent), medical costs (15.9 per cent) and lump sum payments (35.6 per cent).

# *Risks*

It should also be noted that the reason for the increase in claim payments in some cost categories is partly because NRMA altered the way in which it coded legal costs and miscellaneous costs in 2000-01.

To reverse the trend in claims costs experienced in 2001-02 and improve performance relative to all other employers, participating agencies may need to devote more resources to the prevention and management of claims.

## Nature of Injuries

The table opposite shows the number and cost of claims from 1998-99 to 2001-02 by nature of injury that were actually reported as at 30 June 2002. The estimated cost of claims represents the Fund Administration Agent's estimated cost of those claims that were reported and is calculated on a claim-by-claim basis.

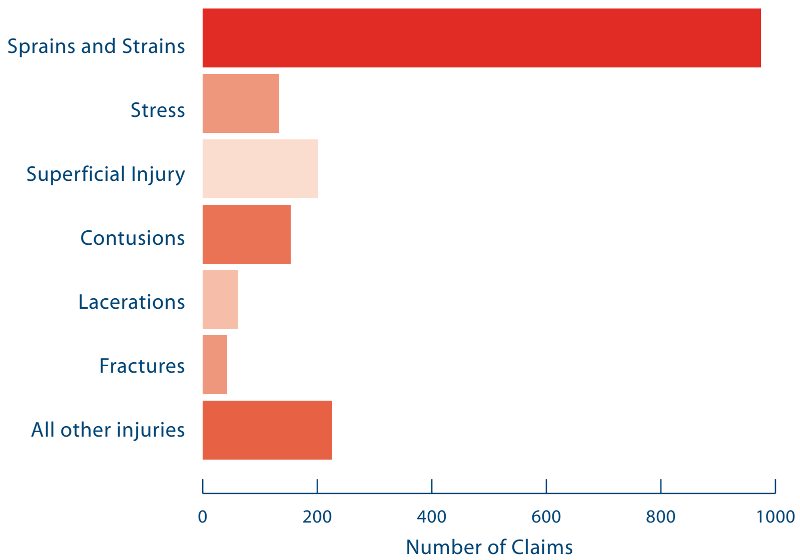
Since 1998-99, it appears that the number of claims reported has been decreasing. This trend continued in 2001-02, during which 1 487 claims were reported. It must be remembered that there were a number of injuries which occurred during the course of 2001-02, but which had yet to be reported at 30 June 2002. Based on past experience, the Fund's Actuary has estimated that there may be as many as 1 638 claims in respect of 2001-02.

This is similar to the claims experience of 2000-01 (1 637 claims) and is an improvement over 1999-00 (1 734 claims) and 1998-99 (1 791 claims).

It is difficult to draw any firm conclusions regarding the total cost of claims based on the case estimates of the Fund Administration Agent. This is due to the fact that case estimates have tended to increase over time as more information is gathered concerning the likely total cost of each claim. This pattern is evident for the total cost of claims in respect of accidents occurring from 1998-99 ($17.044 million) to 2001-02 ($8.738 million). However, it may also be the case that the total cost of claims is progressively decreasing, not withstanding the effects of the Fund Administration Agent's estimate process.

During the period 1998-99 to 2001-02, sprains and strains and stress have been the most significant injury types. Sprains and strains have consistently

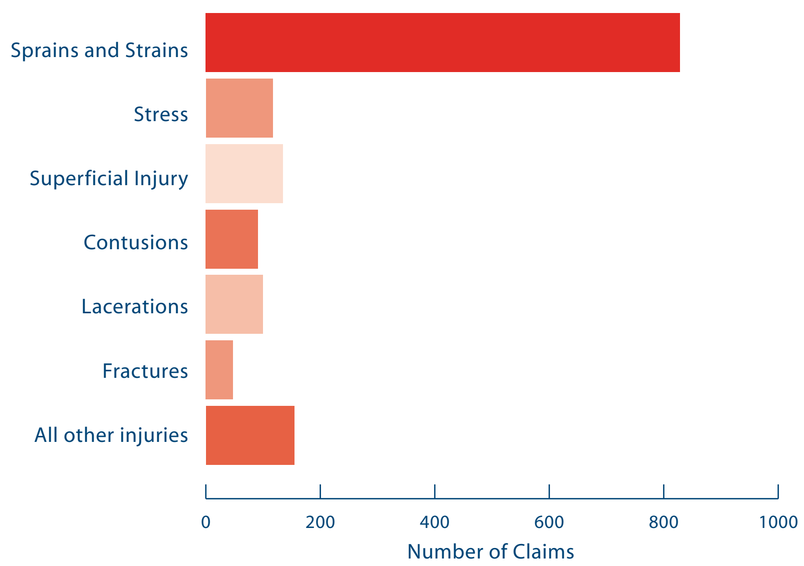
**Workers' Compensation Claims by Injury Type 1998-99**



## Workers' Compensation Claims by Injury Type

| | 1998-99 | | 1999-00 | | 2000-01 | | 2001-02 | |
|---|---|---|---|---|---|---|---|---|
| | Claim No | Estimated Claims Cost $ | Claim No | Estimated Claims Cost $ | Claim No | Estimated Claims Cost $ | Claim No | Estimated Claims Cost $ |
| Amputations | – | – | 1 | 12 856 | – | – | – | – |
| Burns | 18 | 7 292 | 15 | 11 501 | 25 | 11 369 | 19 | 34 342 |
| Contusions | 153 | 772 246 | 130 | 185 804 | 12 | 232 591 | 92 | 239 935 |
| Dermatitis | 19 | 177 939 | 3 | 70 666 | 11 | 42 970 | 7 | 15 821 |
| Digestive Diseases | 6 | 19 706 | 6 | 2 431 | 6 | 3 466 | 5 | 32 129 |
| Dislocations | 5 | 24 467 | 10 | 15 051 | 9 | 346 756 | 4 | 40 008 |
| Eye | 4 | 907 | 2 | 118 | 1 | 86 | 3 | 7 278 |
| Foreign Body | 31 | 5,562 | 40 | 48 007 | 23 | 7 936 | 26 | 88 853 |
| Fractures | 42 | 456 199 | 48 | 444 968 | 44 | 455 871 | 48 | 433 460 |
| Heart Disease | 2 | 315 421 | 1 | 238 | – | – | – | – |
| Hernia | 1 | 4 805 | 3 | 7 806 | 1 | 20 000 | 1 | 5 000 |
| Industrial Deafness | 3 | 16 673 | 1 | 374 | 3 | 877 | 4 | 20 791 |
| Internal Injuries | 2 | 114 | 5 | 7 395 | 5 | 10 378 | – | – |
| Lacerations | 62 | 164 722 | 91 | 54 162 | 89 | 143 007 | 101 | 192 397 |
| Multiple Injuries | 3 | 28 924 | 9 | 70 604 | 9 | 130 243 | 13 | 69 178 |
| Muscle and Tendon Injury | 26 | 311 114 | 46 | 378 794 | 76 | 847 031 | 14 | 87 718 |
| Nervous System | 8 | 219 674 | 3 | 5,117 | 1 | 88 649 | – | – |
| Other | 18 | 186 361 | 29 | 199 253 | 11 | 151 978 | 8 | 72 112 |
| Other Injuries | 53 | 1 022 743 | 35 | 303 989 | 33 | 350 894 | 33 | 263 541 |
| Poisoning | 19 | 107,702 | 16 | 13 706 | 8 | 23 066 | 10 | 3 799 |
| Respiratory Diseases | 8 | 29 542 | 8 | 5 242 | 14 | 119 083 | 9 | 81 722 |
| Sprains and Strains | 974 | 9 579 908 | 917 | 5 824 368 | 848 | 4 997 215 | 836 | 4 970 315 |
| Stress | 133 | 2 901 ,042 | 149 | 4 272 891 | 148 | 3 064 836 | 118 | 1 848 110 |
| Superficial Injury | 201 | 691 ,435 | 166 | 139 446 | 147 | 223 473 | 136 | 231 550 |
| **Total by Period** | 1 791 | 17 044 497 | 1 734 | 12 074 785 | 1 637 | 11 271 774 | 1 487 | 8 738 061 |

## Workers' Compensation Claims by Injury Type 2001-02





# Risks

represented approximately 50 per cent of claims and 50 per cent of total estimated costs. On the other hand, stress claims have represented less than 10 per cent of total claims, but approximately 25 per cent of total estimated costs.

### Outlook for 2002-03

The workers' compensation component of the Fund now has highly competitive premiums. The Fund is currently enjoying generally favourable trends in terms of the number and total cost of claims. From a risk margin perspective, it is clear that the Fund can cover this risk with a very high level of probability. However, the recent changes to the *Workers Rehabilitation and Compensation Act* will need to be monitored by the Fund. In particular, weekly benefits for claims in respect of accidents occurring after 1 July 2001 are now payable for a maximum of 10 years, rather than being capped at a fixed dollar amount as was previously the case. This means that the potential exposure of the Fund to make weekly benefit payments has significantly increased. The Fund's focus in 2002-03 will be on the duration of these weekly benefits.

## *Property*

In broad terms, the Fund provides cover for five categories of property risk:

- property and business interruption – provides cover for buildings and contents arising from any fortuitous loss or damage;
- machinery breakdown – provides cover for machinery breakdown (covering damage to machinery as a consequence of breakdown of a mechanical nature from internal or external causes, except damage to petrol, diesel or gas powered engines unless specifically declared for the purpose of the Fund) and electronic equipment breakdown (covering damage to electronic equipment as a consequence of breakdown of a mechanical nature from internal or external causes, including loss of records);
- motor vehicle – provides cover for accidental loss or damage to a vehicle and the legal claims arising from damage to the property of third parties. Motor vehicle also provides cover for the ad hoc use of private motor vehicles by employees on agency business;
- marine hull – provides cover for accidental loss or damage to a vessel and its equipment. Cover includes the costs of salvage and any environmental liability due to accidental collision, sinking or stranding; and
- transit – provides worldwide cover for loss or damage to goods while in transit, including loading and unloading and incidental storage.

While the Fund's Steering Committee is responsible for the strategic management of the Fund, a Property Sub-Committee has also been established to deal with operational matters associated with property. The Terms of Reference for the Property Sub-Committee are provided in the Committee Membership Section.

The services of a Fund Administration Agent, Marsh Pty Ltd, have been retained on a contract basis for three years from 1 July 2001 for claims administration and the provision of advice on identifying, quantifying and financing property risk. It is intended that agencies will retain complete control of the management of property claims, including whether to dispute liability. Therefore, while the Fund Administration Agent's duties are to assist agencies with the management of property claims, individual agencies continue to retain ownership of such claims.

## Property Sub-Committee

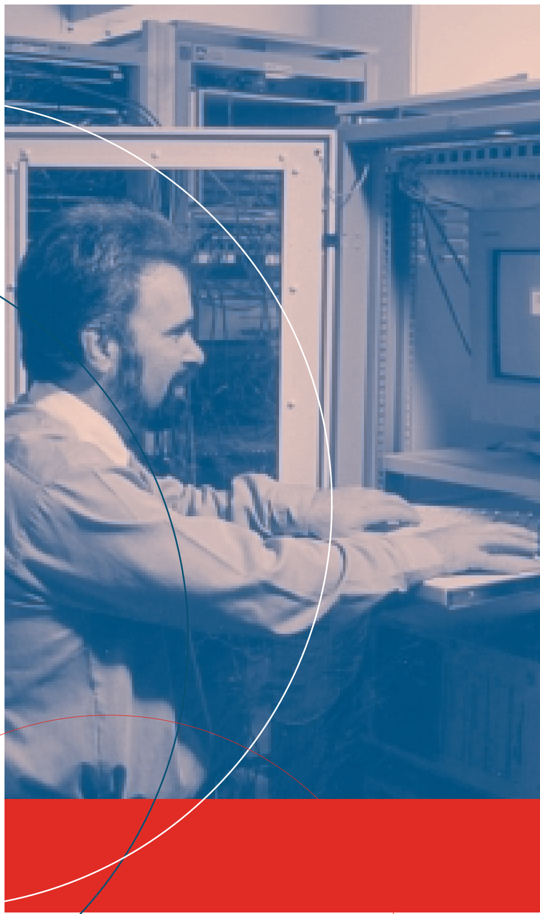
The Sub-Committee met three times in 2001-02.

In June 2002, the Sub-Committee endorsed a Property and Motor Vehicle Statement of Cover. As the claims costs payable for property risks are not governed by legislation, it was necessary to develop Statements of Cover to set out the basis on which the Fund will meet claims costs for property risks. In general terms, the Statement of Cover is the equivalent of a traditional private sector insurance policy. The Statements of Cover will be finalised early in 2003.

The Property Sub-Committee has also addressed the important issue of staff safety in Government vehicles. In April 2002, the Department of Infrastructure, Energy and Resources hosted a Fleet Safety Forum. The forum was a half-day management development seminar focusing on the purchase of safer vehicles and fleet safety management principles. In June 2002, the Sub-Committee noted that road accidents are the most common cause of work-related death, injury and absence from work and that, as a result, employers are subjected to costs both directly (for example, workers' compensation) and indirectly (for example, loss of corporate knowledge). Consequently, in order to improve the level of safety of employees driving Government vehicles, the Sub-Committee recommended that a Motor Vehicle Fleet Purchase and Use Policy be developed for use by all agencies participating in the Fund. The policy is due for completion by March 2003.

Another highlight for 2001-02 was the Sub-Committee's assessment of the current situation within participating agencies for the selection of service providers for motor vehicle repairs. It was found that, in some instances, these providers were not engaged in accordance with the *Handbook for Government Procurement*. To eliminate this problem, the Sub-Committee has recommended that a panel of service providers be appointed by the Fund. As a result of this assessment, Treasury will conduct tenders in 2002-03 to appoint panels of pre-qualified providers for each category of service provider. The purpose of the tenders will be to ensure that all providers have appropriate qualifications and expertise, and that the provision of services is in accordance with agreed fee structures.

As a result of two fires at Springfield Gardens Primary School, the Department of Education, in conjunction with Marsh Pty Ltd and Lumley, developed a process for managing claims for damage to buildings. The policy was subsequently endorsed by the Property Sub-Committee and the Steering Committee for use by agencies participating in the Fund.



## Property Claims

### Housing Tasmania

Total claims costs and claim numbers for Housing Tasmania in 2001-02 were higher than in 2000-01. There were 3 014 claims in 2001-02, compared with 2 921 claims in 2000-01. The average cost per claim has increased from $567 in 2000-01 to $604 in 2001-02, but this is less than the average cost in 1999-00 of $670.

### Property claims

During 2001-02, there were three significant property claims – two at Springfield Gardens Primary School and one at Fairview Primary School.

# *Risks*

## Motor Vehicle Claims

### Light motor vehicle fleet

In 2001-02, there were 158 claims, three less than in 2000-01. The average cost of claims has dropped from $2 374 in 2000-01 to $1 720 in 2001-02. This represents a total reduction of more than $110 000 in claims costs.

The decrease in the average claims cost is partly due to the fact that there were eight large claims (greater than $10 000) in 2000-01 totalling $181 453, compared to six large claims in 2001-02 totalling $95 791. The decrease is also reflected in the fact that the cost of right of way crashes was significantly higher in 2000-01 ($158 564), compared to 2001-02 ($54 418).

### Police and Public Safety vehicle fleet

There has been a decrease in the number of claims by the Department of Police and Public Safety (78 claims for 2001-02, compared with 115 claims in 2000-01). However, there has been an increase in the average claim cost ($2 549 for 2001-02, compared with $1 397 for 2000-01). This was due to the total loss of three vehicles during 2001-02, compared with no total loss of vehicles during 2000-01.

### Other vehicles

The number and cost of claims in relation to miscellaneous vehicles are consistent with 2000-01. The claims made by the Tasmanian Ambulance Service doubled from the previous year in both claim numbers and total cost, from eight claims at a cost of $16 007 in 2000-01 to 17 claims at a cost of $42 986 in 2001-02.

## Types of vehicle accidents

In 2001-02, there were 158 claims for the light vehicle fleet (excluding Police and Public Safety vehicles) at a cost of $269 965.

A number of trends emerged from the 2001-02 claims experience, including:

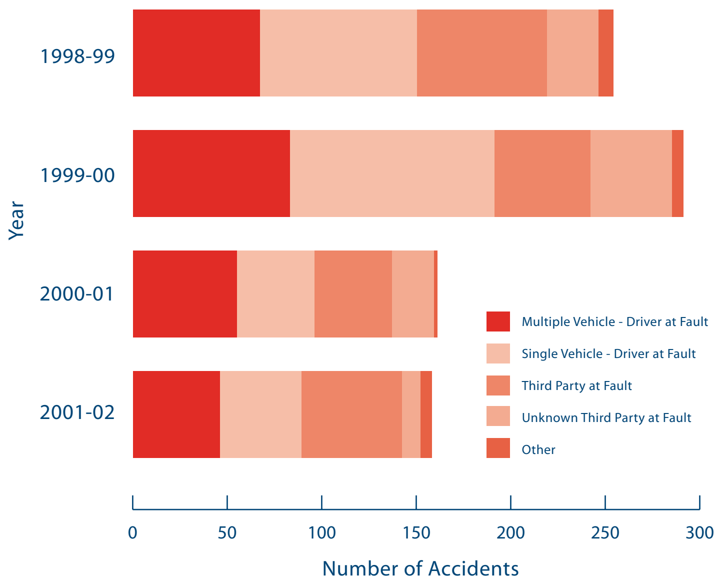
- single vehicle accidents were the most significant type of claims in terms of cost, comprising approximately 38 per cent of the total claims costs (and 27 per cent of claim numbers);
- 77 per cent of single vehicle claims were classified as either “lost control”, “hit object” or “reversing;”
- approximately 25 per cent of total claim numbers (ie 39 claims) related to reversing incidents;
- out of the 39 reversing claims, 28 were single vehicle or “at fault” accidents; and
- in addition to single vehicle accidents, accidents in which agency drivers were “at fault” were 29 per cent of total claim numbers and 26 per cent of total claim costs.

Consequently, approximately 57 per cent of claim numbers and 65 per cent of claims costs were generated as a direct result of the fault of agency drivers. This is an area in which agencies can have an influence over the ultimate cost and number of claims.

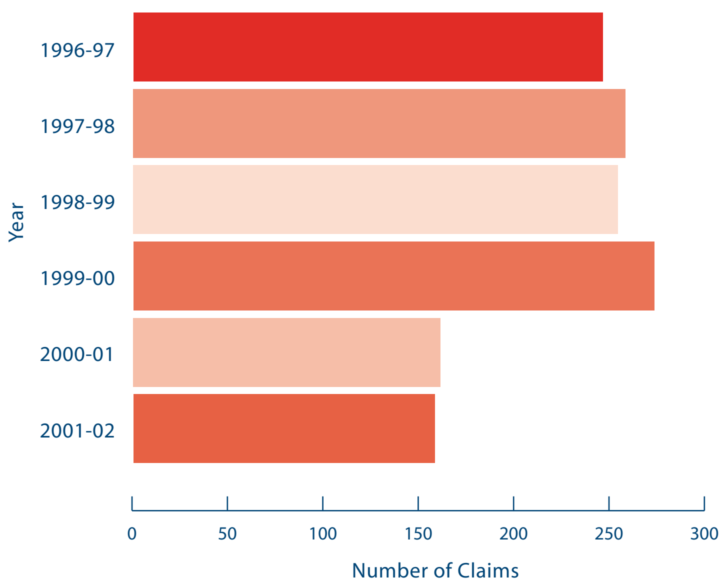
## Marine Hull

Only one claim, of $11 300, was made against the Fund in 2001-02.

### Motor Vehicle Accidents by Type




### Light Motor Vehicle Claims




### Marine transit

Four claims totalling $1 500 were made against the Fund in 2001-02.

### Machinery breakdown

Only one claim, of $2 380, was made against the Fund in 2001-02.

### Outlook for 2002-03

Despite a number of large claims in 2001-02, the performance of the Fund in this category of risk is pleasing. This is reflected in the fact that the Fund will not be increasing agency contributions in 2002-03.



# Risks

## Liability

The Tasmanian Risk Management Fund provides liability cover to Government agencies and their employees in the event that they are sued by a third party. The Fund self-insures all liability risks. In broad terms, the Fund provides cover for five categories of risk:

- public (general) liability – provides cover for any injuries to third parties or damage to property belonging to others caused by the negligent actions of an agency and/or agency representative;
- medical negligence – provides cover for the cost of claims arising from any act, error or omission in the provision of medical services;
- directors' and officers' – provides cover for the personal liability of directors and officers against the cost of claims made by third parties. Cover applies to directors, managers, individual officers and others who are involved in the management of an agency, against claims alleging a breach of their managerial duties, or an act or omission in relation to the discharge of their functions as an officer of the agency;
- professional indemnity – provides cover against a claim from a third party arising from a breach of the professional duties of an agency or its representative (excluding medical malpractice); and
- product liability – provides cover for any injuries to third parties, or damage to property belonging to others, caused by anything manufactured, serviced, altered or prepared by the agency.

While the Fund's Steering Committee is responsible for the strategic management of the Fund, a Liability Sub-Committee has also been established to deal with operational matters associated with liability. The Terms of Reference for the Liability Sub-Committee are provided in the Committee Membership Section of this Report.

The services of a Fund Administration Agent, Marsh Pty Ltd, have been retained on a contract basis for three years from 1 July 2001 for claims administration and the provision of advice about identifying, quantifying and financing liability risk. It is intended that agencies will retain complete control of the management of liability claims, including whether to dispute liability. Therefore, while the Fund Administration Agent's duties are to assist agencies with the management of liability claims, individual agencies continue to retain ownership of such claims.

### Liability Sub-Committee

The Liability Sub-Committee met twice in 2001-02.

In June 2002, the Sub-Committee endorsed a Liability Statement of Cover. As the claims costs payable for liability risks are not governed by legislation, it was necessary to develop a Statement of Cover to set out the basis on which the Fund will meet claims costs for liability risks. In general terms, the Liability Statement of Cover is the equivalent of a traditional private sector insurance policy. A separate Medical Negligence Statement of Cover will also be developed by the Fund. It is anticipated that the Liability Statement of Cover will be finalised early in 2003.

During the course of 2001-02, the Sub-Committee also invited key stakeholders of the Fund to attend and present at meetings on a number of key issues of concern to agencies. This, coupled with extended group discussion on areas of interest, has significantly advanced the development of best practice guidelines and procedures for the management of liability claims.

### Major events affecting Liability Insurance

In 2001-02, there were two major events that affected the Liability Insurance sector. These were the collapse of HIH and the terrorist attacks of 11 September 2001. The HIH Group of companies was a significant insurer and reinsurer of medical indemnity. The withdrawal of the capacity provided by the HIH Group and the events of 11 September 2001 have made liability insurance more expensive and difficult to obtain in the private sector. However these events have had relatively little effect on the contributions collected by the Fund from participating agencies, as agency contributions are calculated on a claims history basis. The Fund is therefore able to pass on savings to participating agencies by keeping contributions relatively stable.

### Trends

As this is the first year of operation of the expanded Fund, there is little or no comparative history to compare liability risks. In 2001-02, 50 Public and Product liability claims were made, totalling $1.35 million. Of the $1.35 million, $1.2 million related to a single claim against the Department of Primary Industries, Water and Environment.

The challenge for the pricing of this category of risk is that a single large claim, like the one noted above, may be a significant driver of total cost.

No professional, medical malpractice or directors' and officers' liability claims were made in 2001-02.

### Outlook for 2002-03

Based on claims trends from the Fund's first year of expanded operation, it is expected that nearly all liability contributions collected from participating agencies in 2002-03 will be reduced by ten per cent. This is a significant achievement in the current environment, where the private sector has seen premium increases on June renewals ranging from 50 per cent to more than 300 per cent for Public and Products Liability Insurance. The average premium increase on June 2002 renewals for private sector Directors' and Officers' Liability insurance was approximately 25 per cent; for Professional Indemnity insurance the average increases on June 2002 renewals were between 50 and 100 per cent, with some renewals experiencing increases of several hundred per cent.

The Tasmanian Risk Management Fund has largely been able to shield participating agencies from the consequences of the changing insurance market. These have particularly manifested themselves in the availability and cost of liability insurance. The Fund's 2001-02 performance in this category of risk is pleasing.

# *Committee Membership*

## Steering Committee Terms of Reference

The Tasmanian Risk Management Fund was established to provide for specific whole-of-government risk exposures, including the need for catastrophe insurance at a whole-of-government level. The risks covered include:

- property;
- public liability;
- professional indemnity; and
- directors' and officers' liability.

The appointment of a Fund Manager was approved, to provide advice on risk management, premiums, claims management and catastrophe insurance.

An inter-departmental Steering Committee, chaired by the Department of Treasury and Finance, is responsible for the implementation and strategic operation of the Fund. Secretariat and administrative support for the Steering Committee is provided by an Executive Officer (Risk Management).

In relation to the ongoing management of the Fund, the Steering Committee:

- provides strategic oversight of the operations of the Fund, consistent with the policy directions established by Government;
- monitors the financial performance of the Fund;
- monitors the performance of the Fund Manager;
- formulates policies to improve the performance of the Fund and of agencies participating in the Fund; and
- reports to the Treasurer, through the Secretary of the Department of Treasury and Finance, in relation to the above matters.

From 1 July 2001, the Fund merged with the Tasmanian State Service Workers' Compensation Scheme. The Scheme operated on a fully funded basis and the reserves accumulated to meet workers' compensation liabilities were transferred to the Fund on 1 July 2001. From 1 July 2001, all outstanding liabilities of the former Scheme will be met from the Fund. The Fund will also meet the cost of all future workers' compensation claims. In addition, the expanded Fund will meet the costs associated with all other risk, including property and business interruption and medical negligence, through a mixture of insurance and self-insurance.

In June 2001, the Steering Committee endorsed the establishment of three sub-committees dealing with the operational matters associated with liability, property and workers' compensation.

### Sub-Committee Responsibilities

| Liability | Property | Workers' Compensation |
|---|---|---|
| Public and Product Liability | Property and Business Interruption | Workers' Compensation |
| Professional Liability | Machinery Breakdown | Personal Accident/Travel |
| Medical Liability | Motor Vehicle | |
| Directors' and Officers' Liability | Marine Hull<br>Transit<br>Fidelity/Fraud | |

**Membership of the TRMF Steering Committee and Sub-Committees at June 2002**

| Agency | Steering Committee representative | Liability Sub-Committee representative | Property Sub-Committee representative | Workers' Compensation Sub-Committee representative |
|---|---|---|---|---|
| Treasury | Philip Mussared (Chair) | Craig Jeffery (Chair) | Craig Jeffery (Chair) | Craig Jeffery (Chair) |
| Treasury | Robert Cockerell | Michael McIntyre | Michael McIntyre | Jane Goodluck |
| Education | Simon Barnsley | Armin Howald | Armin Howald | David Salisbury |
| Health | Dianne Smith | David Page | Peter Alexander | John Burgess |
| Infrastructure | David Hudson | Stephen Shirley | Stephen Shirley | Amanda Russell |
| Justice | Brian Smith | Brian Smith | Brian Smith | Linda Urh |
| Police | Frank Ogle | Ian Latham | Ian Latham | Diane Green |
| Premier | Geoff Owen | Peter Wright | Paul Jacobs | Mark Cook |
| Primary Industries | Michele Moseley | John Doering | John Doering | Karen Steenhuis |
| State Development | Peter Harwood | Kevin Thomas | Kevin Thomas | Greg Burgess |
| TAFE | | David Marshall | David Marshall | Leo Foley |
| Office of the DPP | Paul Turner | | | Luci Wilkins |

### Responsibilities of the Liability Sub-Committee

The role of the Liability Sub-Committee is to:

- develop best practice guidelines for the management of liability claims within the Fund;
- develop and monitor appropriate benchmarks relating to the management of liability claims within the Fund, including:
  - claims trends
  - the performance of the Fund Administration Agent and liability subcontractor in relation to the administration of liability claims;
- advise the TRMF Steering Committee on the total contribution pool and agency contribution rates for liability claims;
- report on specific issues and proposals as required by the TRMF Steering Committee; and
- address other issues that impact on liability claims.

### Responsibilities of the Property Sub-Committee

The role of the Property Sub-Committee is to:

- develop best practice guidelines for the management of property claims within the Fund;
- develop and monitor appropriate benchmarks relating to the management of property claims within the Fund, including:
  - claims trends
  - the performance of the Fund Administration Agent and property subcontractor in relation to the administration of property claims;
- advise the TRMF Steering Committee in relation to the total contribution pool and agency contribution rates for property claims;
- report on specific issues and proposals as required by the TRMF Steering Committee; and
- address other issues that impact on property claims.

# Committee Membership

### Responsibilities of the Workers' Compensation Sub-Committee

The role of the Workers' Compensation Sub-Committee is to:

- develop best practice guidelines for the management of workers' compensation claims within the Fund;
- develop and monitor appropriate benchmarks relating to the management of workers' compensation claims within the Fund, including:
  - claims trends
  - the performance of the Fund Administration Agent and workers' compensation subcontractor in relation to the administration of workers' compensation claims
- advise the TRMF Steering Committee in relation to the total contribution pool and agency contribution rates for workers' compensation claims;
- report on specific issues and proposals as required by the TRMF Steering Committee; and
- address other issues that impact on workers' compensation claims.

### Reporting by the Sub-Committees to the TRMF Steering Committee

The Sub-Committees prepare reports on their activities for consideration at each TRMF Steering Committee meeting. The reports include the following:

- the Minutes of each Sub-Committee meeting held since the previous TRMF Steering Committee meeting;
- a summary of the activities of the Sub-Committees since the previous TRMF Steering Committee meeting; and
- a summary of any recommendations made by the Sub-Committees to the TRMF Steering Committee.

The Sub-Committees approve the final report prepared for submission to each TRMF Steering Committee meeting.

### Agency Representation

Each portfolio agency is entitled to be represented on each of the Sub-Committees. The Sub-Committee representatives have sufficient authority to make decisions that bind their respective agencies, bearing in mind that the TRMF Steering Committee has overall responsibility for the strategic management of the Fund.

As with the TRMF Steering Committee, Treasury chairs the Sub-Committees and provides administrative support.

Agencies may send additional representatives with advance notice, depending on the issues to be discussed at a particular meeting.

### Conduct of Meetings

Meetings are held at least quarterly, with additional meetings held as required. Decisions of the Sub-Committees are made on a consensus basis.

# *Participating Agencies*

At June 2002, the following agencies had all risks to which they were exposed covered by the Fund:

- Department of Education (including TAFE Tasmania, a State authority);
- Department of Health and Human Services (including the Tasmanian Ambulance Service, a corporation sole);
- Department of Infrastructure, Energy and Resources;
- Department of Justice and Industrial Relations;
- Department of Police and Public Safety;
- Department of Premier and Cabinet;
- Department of Primary Industries, Water and Environment;
- Department of State Development;
- Department of Treasury and Finance;
- House of Assembly;
- Legislative Council
- Legislature-General;
- Office of the Governor; and
- Tasmanian Audit Office.

The following statutory authorities had only their workers' compensation risks covered by the Fund:

- Inland Fisheries Service;
- Port Arthur Historic Site Management Authority;
- Private Forests Tasmania;
- Retirement Benefits Fund Board; and
- Royal Tasmanian Botanical Gardens.

Marine and Safety Tasmania has its public, products and professional liability risks covered by the Fund.



# *Contact Details*

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Senior Policy Analyst

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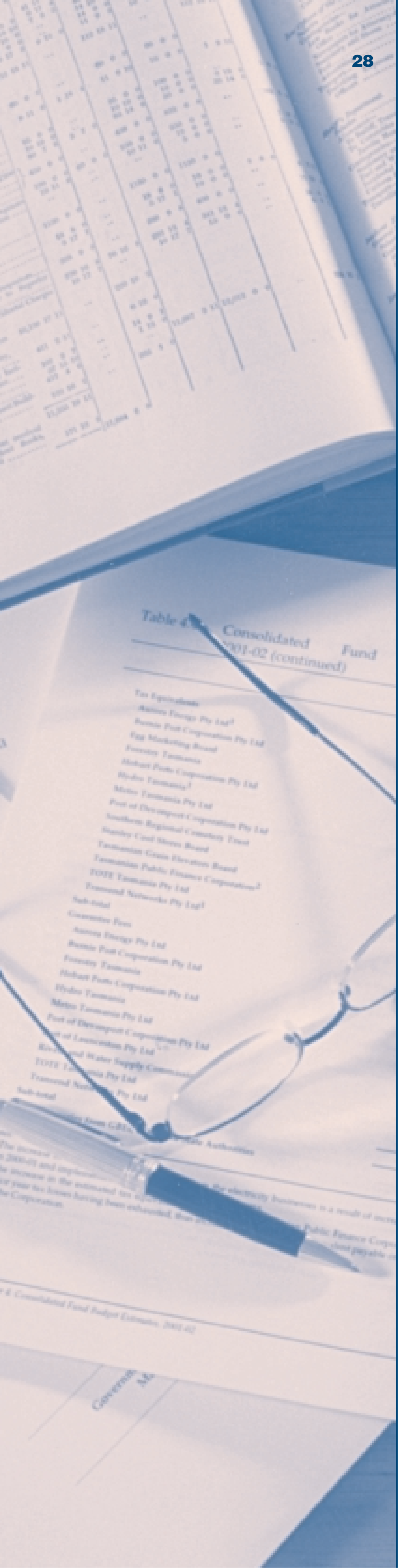
# Financial Statements

For the year ending 30 June 2002

Department of
**Treasury** and **Finance**

Tasmania



# *Financial Statements*

## TASMANIAN RISK MANAGEMENT FUND

### *Statement of Financial Performance*

**for the year ended 30 June 2002**

| | Note | 2002 $'000 |
|---|---|---|
| Revenue from ordinary activities | | |
| Agency Contributions & Recoveries | 2 | 27,796 |
| Investment Revenue | 2 | 3,368 |
| Total revenue from ordinary activities | | 31,164 |
| Expenses from ordinary activities | | |
| Claims Expense | 3 | (25,621) |
| Other Underwriting Expenses | 3 | (426) |
| General Administration Expenses | 3 | (286) |
| Expenses from ordinary activities | | (26,333) |
| Net operating surplus (deficit) from ordinary activities | 9 | 4,831 |

The statement of financial performance is to be read in conjunction with the notes to and forming part of the financial statements.

# Financial Statements

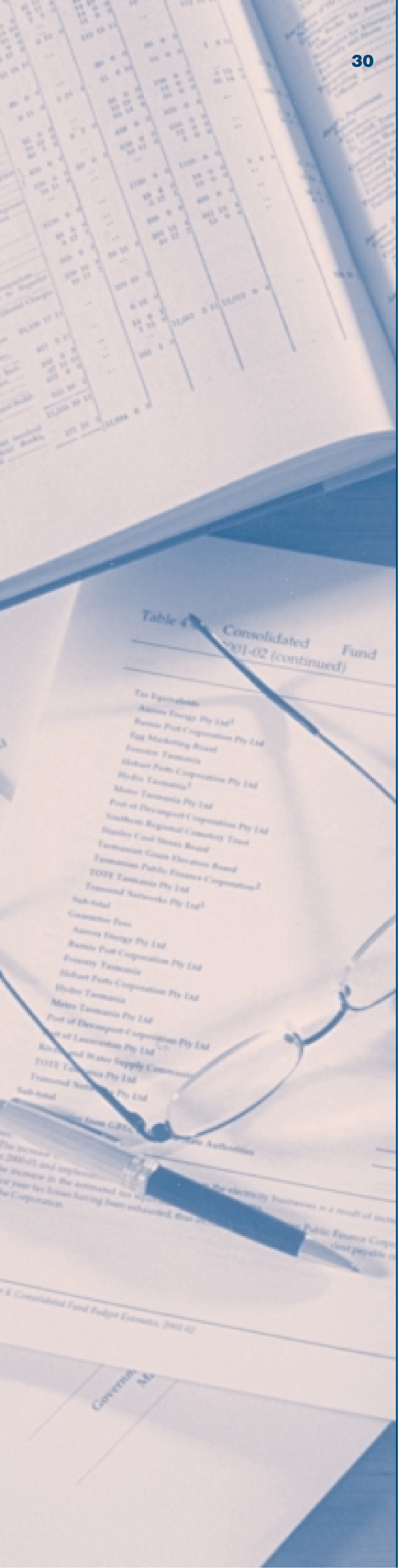
TASMANIAN RISK MANAGEMENT FUND

## *Statement of Financial Position*

**as at 30 June 2002**

| | Note | 2002 $'000 |
|---|---|---|
| **Current Assets** | | |
| Trust Account | 10 (a) | 73,603 |
| Receivables | 5 | 493 |
| | | 74,096 |
| **Total Assets** | | 74,096 |
| **Current Liabilities** | | |
| Outstanding Claims | 8 | 21,964 |
| Payables | 6 | 1,592 |
| Provisions | 7 | 35 |
| | | 23,591 |
| **Non-Current Liabilities** | | |
| Outstanding Claims | 8 | 28,789 |
| | | 28,789 |
| **Total Liabilities** | | 52,380 |
| **Net Assets / (Liabilities)** | | 21,716 |
| **Equity** | | |
| Retained Surplus | 9 | 21,716 |

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements.



# *Financial Statements*

## TASMANIAN RISK MANAGEMENT FUND

### *Statement of Cash Flows*

**for the year ended 30 June 2002**

| | Note | 2002<br>$'000 |
|---|---|---|
| Cash flows from operating activities | | |
| Agency Contributions | | 28,561 |
| Interest received | | 3,100 |
| Claims and Expenses paid | | (22,141) |
| Fund Management Fees | | (1,710) |
| Underwriting Expenses | | (426) |
| General and Administration Expenses | | (335) |
| Net cash inflow (outflow) from operating activities | 10 (b) | 7,049 |
| Net increase (decrease) in cash held | | 7,049 |
| Cash at beginning of the financial year | | 66,554 |
| Cash at end of the financial year | 10 (a) | 73,603 |

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements.

TASMANIAN RISK MANAGEMENT FUND

## Notes to and forming part of the Financial Statements

**for the year ended 30 June 2002**

The Tasmanian Risk Management Fund (TRMF) is a self-insurance arrangement established within the Tasmanian State Service to provide a whole-of-government approach to the treatment of all risks to which agencies are exposed. The Scheme was established on 1 January 1999 and is intended to operate on a fully funded basis. On 1 July 2001, the Tasmanian State Service Workers' Compensation Scheme (TSSWCS) merged with the Fund.

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *(a) Basis of preparation*

The financial statements have been drawn up as a general purpose financial report in accordance with Australian Accounting Standards, and other relevant requirements.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

This is the first year where financial statements have been prepared for the TRMF. As such, comparative information is not provided. Financial statements have historically been prepared for the TSSWCS.

#### *(b) Revenue recognition*

*Agency contributions*

Agency contributions comprise amounts required to be paid by participating agencies of the TRMF to meet the cost of claims. The earned portion of the contributions received and receivable is recognised as revenue. The contribution is treated as earned from the date of attachment of risk.

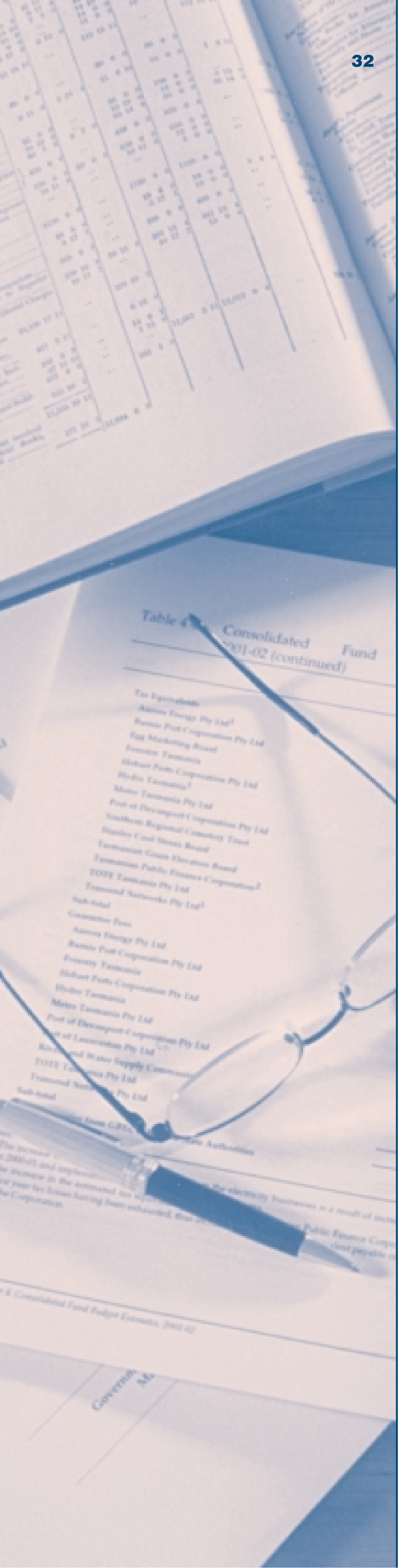
*Investment revenue*

Interest is recognised as it accrues.

#### *(c) Claims*

The TRMF commenced providing cover as follows:

| | |
|---|---|
| – Workers compensation | – from 1 July 2001 (formerly covered under TSSWCS) |
| – Property | – from 1 July 2001 |
| – Motor vehicle | – from 1 July 1999 |
| – Liability | – from 1 July 1999 |
| – Medical Malpractice | – from 1 July 2001 |
| – Miscellaneous | – from 1 July 1999 |





# *Financial Statements*

## TASMANIAN RISK MANAGEMENT FUND

## *Notes to and forming part of the Financial Statements*

**for the year ended 30 June 2002**

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *(c) Claims (continued)*

*Workers compensation*

Claims incurred expense and a liability for outstanding claims are recognised in the financial statements. The liability covers claims incurred, but not yet paid, incurred but not reported claims and the anticipated direct and indirect costs of settling those claims. Claims outstanding (and estimated, unnotified claims and settlement costs) are reassessed by the Fund Manager in consultation with an independent actuary.

The liability for outstanding claims is measured as the present value of the expected future payments, reflecting the fact that all the claims do not have to be paid out in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and "super-imposed inflation". Super-imposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury. The expected future payments are then discounted to a present value at the balance date using discount rates based on investment opportunities available to the organisation on the amounts of funds sufficient to meet claims as they become payable. The details of rates applied are included in note 11.

*Property*

The liability for outstanding claims in respect to property and business, business interruption and machinery breakdown is measured using aggregate case estimates increased by 30% for expenses and 25% for incurred but not reported (IBNR) claims. Claims outstanding have been assessed in consultation with an independent actuary.

*Motor vehicle*

The liability for outstanding claims in respect to vehicles is measured using aggregate case estimates increased by 30% for expenses and 25% for incurred but not reported (IBNR) claims. Claims outstanding have been assessed in consultation with an independent actuary.

*Liability*

The liability for outstanding claims in respect to public and products, professional, directors and officers is measured using aggregate case estimates increased by 30% for expenses and 25% for incurred but not reported (IBNR) claims. Claims outstanding have been assessed in consultation with an independent actuary.

TASMANIAN RISK MANAGEMENT FUND

## *Notes to and forming part of the Financial Statements*

**for the year ended 30 June 2002**

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *(c) Claims (continued)*

*Medical malpractice*

The TRMF commenced providing cover in respect to medical malpractice from 1 July 2001, and is liable for claims arising from that date. Whilst there have been some claims in respect of the 2001-02 financial year, at this point in time it is not possible to reliably measure the amount of any future liability. As a consequence, no liability has been recorded as at 30 June 2002.

*Miscellaneous*

The TRMF provides cover in respect to marine hull, fidelity/fraud, transit, government contingency, travel, volunteers, hirer and aviation charter. Whilst there have been some claims in respect of the 2001-02 financial year, at this point in time it is not possible to reliably measure the amount of any future liability. As a consequence, no liability has been recorded as at 30 June 2002.

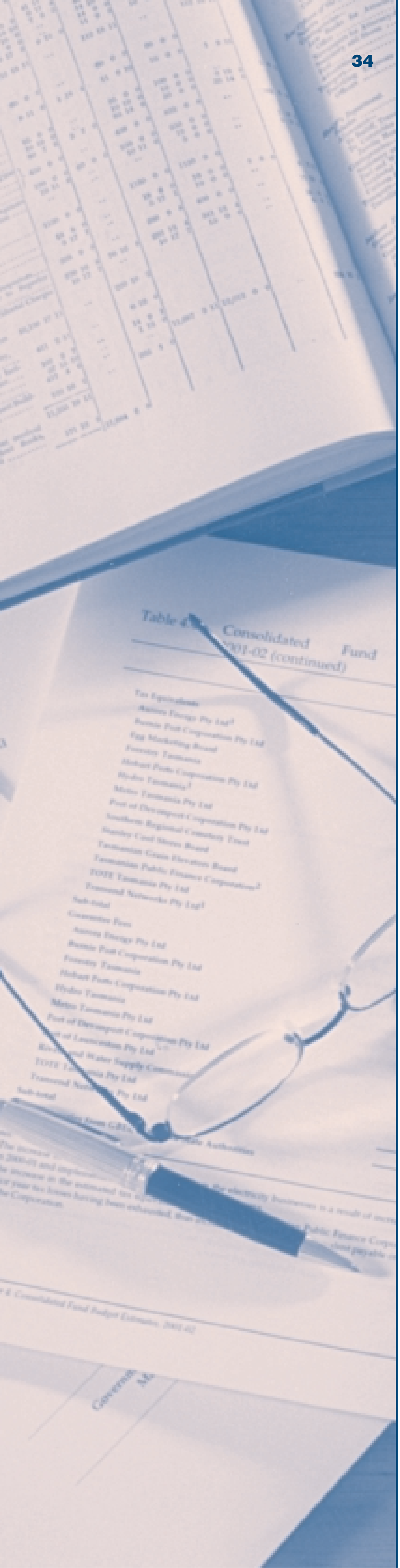
#### *(d) Payables*

Payables are recognised when the Fund become obliged to make future payments as a result of purchases of assets or services. Payables are recognised when goods have been delivered and/or services rendered even though invoices may not have been received.

#### *(e) Provisions for employee entitlements*

Provisions for employee entitlements include entitlement to annual leave, sick leave and long service leave. Employee entitlements are accounted for in accordance with Australian Accounting standard AAS 30 “Accounting for Employee Entitlements”.

Liabilities annual leave are recognised, and are measured as the amount unpaid at the reporting date at current pay rates plus on-costs for payroll tax and employer superannuation contributions in respect of employees’ service up to that date. Sick leave taken by employees is typically less that the rate at which it accrues and, accordingly, no liability for sick leave entitlements is recognised.





TASMANIAN RISK MANAGEMENT FUND

## *Notes to and forming part of the Financial Statements*

**for the year ended 30 June 2002**

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *(e) Provisions for employee entitlements (continued)*

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given, when assessing expected future payments, to expected future wage and salary levels plus on-costs, experience of employee departures and periods of service. On-costs include payroll tax and employer superannuation contributions, however they normally exclude workers' compensation contributions and fringe benefits tax. Expected future payments are discounted using interest rates attaching, as at the reporting date, to Commonwealth Government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

#### *(f) Goods and Services Tax (GST)*

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

GST transactions are administered by the Department of Treasury and Finance with only the net amounts reflected in the accounts of the TRMF. As such, the net amount of GST recoverable from, or payable to, the ATO is not included as a current asset or liability in the balance sheet.

Similarly, cash flows are included in the statement of cash flows on a net basis. Records of the Department of Treasury and Finance indicate that GST relating to revenue items amounted to $2.691m and GST relating to expense items amounted to $0.734m.

#### *(g) Tax status*

The activities of the scheme are exempt from taxation.

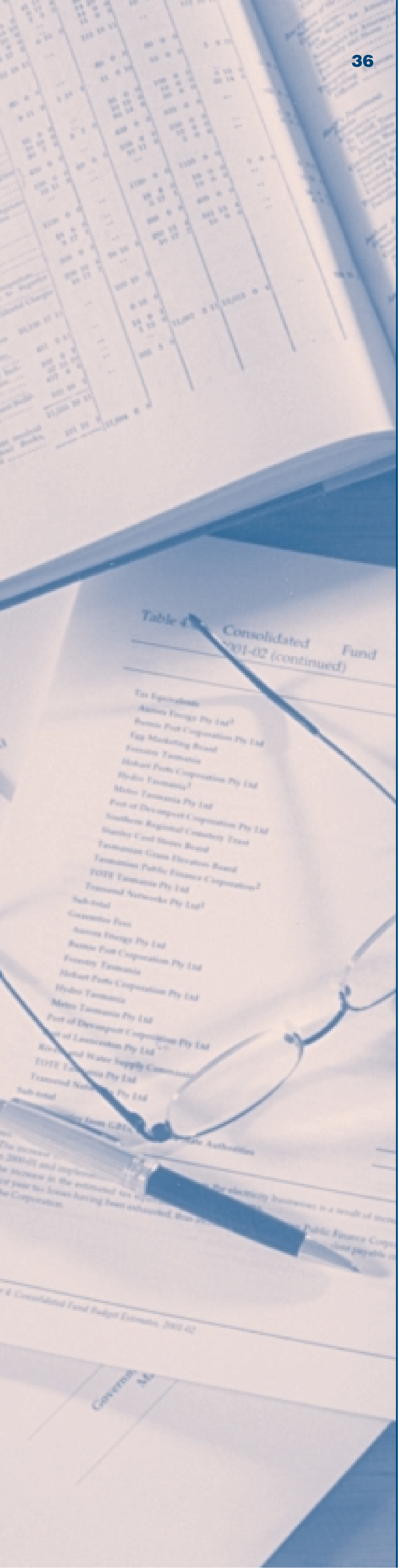
# Financial Statements

TASMANIAN RISK MANAGEMENT FUND

## *Notes to and forming part of the Financial Statements*

**for the year ended 30 June 2002**

| | 2002 $'000 |
|---|---|
| **2. REVENUE FROM ORDINARY ACTIVITIES** | |
| Agency Contributions & Recoveries | 27,796 |
| Investment Revenue | 3,368 |
| Total revenue from ordinary activities | 31,164 |
| **3. EXPENSES FROM ORDINARY ACTIVITIES** | |
| Claims Expense | |
| Claims Paid | 20,578 |
| Claims Accrued | 1,560 |
| Movement in Outstanding Claims | 1,772 |
| Management Expenses | 1,711 |
| | 25,621 |
| Other Underwriting Expenses | |
| Payment to Workplace Safety Board | 426 |
| General Administration Expenses | |
| Actuarial Expenses | 79 |
| Accounting and Audit Fees | 17 |
| Salaries | 163 |
| Other | 27 |
| | 286 |
| **4. UNDERWRITING RESULT** | |
| Agency Contributions & Recoveries | 27,796 |
| Claims Expense | (25,621) |
| Other Underwriting Expenses | (426) |
| | 1,749 |
| **5. RECEIVABLES** | |
| Accrued Interest | 267 |
| Contributions Receivable from Agencies | 226 |
| | 493 |



TASMANIAN RISK MANAGEMENT FUND

## *Notes to and forming part of the Financial Statements*

**for the year ended 30 June 2002**

| | | 2002 $'000 |
|---|---|---|
| **6.** | **PAYABLES** | |
| | Unreimbursed Claims | 1,560 |
| | Other | 32 |
| | | 1,592 |
| **7.** | **PROVISIONS** | |
| | Employee Entitlements | 35 |
| **8.** | **OUTSTANDING CLAIMS** | |
| | Current | |
| | Workers Compensation | 18,986 |
| | Property | 2,024 |
| | Motor Vehicle | 153 |
| | Liability | 801 |
| | Medical | – |
| | Miscellaneous | – |
| | | 21,964 |
| | Non-Current | |
| | Workers Compensation | 28,789 |
| | Property | – |
| | Motor Vehicle | – |
| | Liability | – |
| | Medical | – |
| | Miscellaneous | – |
| | | 28,789 |

TASMANIAN RISK MANAGEMENT FUND

## Notes to and forming part of the Financial Statements

**for the year ended 30 June 2002**

***Workers Compensation***

The liability for outstanding claims is determined by the consulting independent actuary, Bendzulla Tasmania Pty Ltd.

| | |
|---|---|
| Expected future claims payments (undiscounted) | 53,831 |
| Less discounted to present values | (4,985) |
| Less recoveries under excess | (1,071) |
| Liability for outstanding claims | 47,775 |
| Current | 18,986 |
| Non-Current | 28,789 |
| | 47,775 |

(a) The weighted average expected term of settlement from the balance date is estimated to be 2.03 years.

(b) In measuring the liability for outstanding claims, the following rates were used; inflation rate (4.0%) and discount rate (5.5%).

### 9. RETAINED SURPLUS

| | |
|---|---|
| Retained surplus (deficit) at the beginning of the year | 16,885 |
| Current year net surplus (deficit) | 4,831 |
| Retained surplus (deficit) at the end of the year | 21,716 |

### 10. NOTES TO STATEMENT OF CASH FLOWS

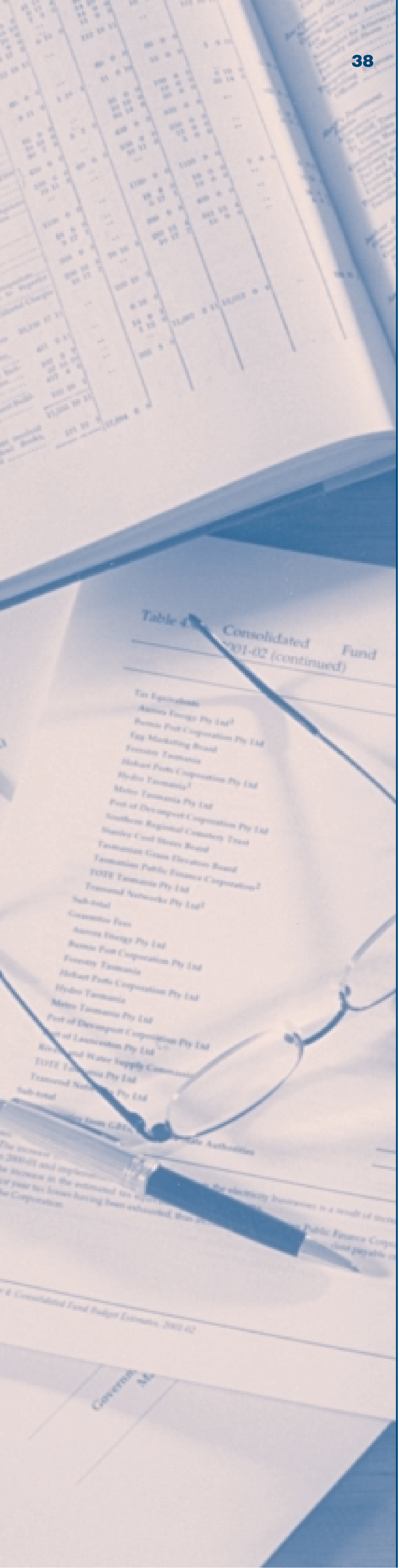
***(a) Reconciliation of Cash***

Cash at the end of the financial year as shown on the statement of cash flows is reconciled to the related item in the Statement of Financial Position as follows:

| | |
|---|---|
| Trust Account | 73,603 |

***(b) Reconciliation of Net Cash provided by Operating Activities to Operating Surplus***

| | |
|---|---|
| Operating Result | 4,831 |
| (Increase)/Decrease in Interest Receivable | (267) |
| (Increase)/Decrease in Agency Contributions | (173) |
| (Increase)/Decrease in Insurance Recoveries | 938 |
| Increase/(Decrease) in Creditors | (84) |
| Increase/(Decrease) in Provisions | 32 |
| Increase/(Decrease) in Claims Payable | 1,772 |
| Net cash inflow/(outflow) from operating activities | 7,049 |



TASMANIAN RISK MANAGEMENT FUND

## *Notes to and forming part of the Financial Statements*

**for the year ended 30 June 2002**

### 11. FINANCIAL INSTRUMENTS

#### *Interest Rate Risk*

Financial instruments for the purposes of the Scheme are limited to Receivables, Creditors and the Trust Account investment. Creditors and Receivables of the Scheme are not subject to any interest rate risk. The Trust Account investment is subject to a variable interest rate, which resulted in an average interest rate for the year ended 30 June 2002 of 4.41%.

#### *Credit Risk*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Scheme. The Scheme has the policy of only dealing with creditworthy counterparties. Therefore, the company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

#### *Net Fair Value*

The carrying amount of the Trust Account investment approximates the net fair value due to its short maturity. Receivables are carried at nominal amounts due and Creditors are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Scheme.

# Financial Statements

## TASMANIAN RISK MANAGEMENT FUND

### *Certification of Financial Statements*

**for the year ended 30 June 2002**

The accompanying financial statements of the Tasmanian Risk Management Fund are in agreement with the relevant accounts and records and have been prepared in compliance with Treasurer's Instructions issued under the provisions of the *Financial Management and Audit Act 1990* to present fairly the financial transactions for the year ended 30 June 2002 and the financial position as at 30 June 2002.

At the date of signing, I am not aware of any circumstances which would render the particulars included in the financial statements misleading or inaccurate.

D W Challen
Secretary
Department of Treasury and Finance

Date: 11 February 2003