Tasmanian Risk Management Fund

Annual Report 2007-08

Procurement and Risk Management
Department of Treasury and Finance

Tasmania
Explore the possibilities

Contents

Mission

Minimise the cost of risk to government through an efficient self-insurance arrangement.

Objectives

- Ensure adequate financial provision is made for the cost of risk;
- Be responsive to changing conditions in the insurance environment; and
- Provide an efficient and effective claims administration service to agencies.

Policy statement

Purpose of the Fund

The Tasmanian Risk Management Fund is the Tasmanian Government's self-insurance fund.

All inner-Budget agencies are required to participate in the Fund. Subject to their date of joining, agencies are covered for identified risks to which they are exposed or for which they wish to accept responsibility and which the Fund agrees to cover. These risks include:

- personal injury - workers compensation, personal accident;
- legal liability - public (general), directors and officers, product, professional indemnity and medical liability;
- property - building and contents, business interruption, fraud/fidelity, marine hull, motor vehicle and transit; and
- travel.

Marine hull and travel insurance are currently insured through the private sector. All other categories of risk noted above are self-insured.

The Fund operates on a cost-recovery basis with contributions set to ensure adequate financial provision for the cost of risk now and in the future. All participating agencies pay annual contributions to meet claim costs, administrative expenses, and where applicable, insurance premiums and reinsurance costs. The level of agencies' contributions is determined by an independent actuary and reflects their risk exposure, claims experience and nominated excess amounts.

In setting agency contributions, the Fund aims to achieve:

- the collection of sufficient moneys each year to fund claims costs and alleviate the financial impact of large unexpected events;
- equity for user agencies with minimal cross-subsidisation;
- stability in contributions over time; and
- incentives for risk management, through recognition of claims experience.

The Fund's finances are managed through the Tasmanian State Service Risk Management Account in the Special Deposits and Trust Fund.

Structure of the Fund

Governance Structure

The Department of Treasury and Finance is responsible for the management of the Fund and reports to the Treasurer on policy issues. Treasury chairs the Tasmanian Risk Management Fund Steering Committee meetings.

Internal Advisors

TRMF Steering Committee

The role of the TRMF Steering Committee is to serve as a consultative forum through which agencies can provide input into the operations of the Fund and feedback to Treasury, the Fund Administration Agent and the Actuary.

The Steering Committee is representative of the agencies participating in the Fund.

Department of Treasury and Finance

Administration of the Fund is undertaken by the Department of Treasury and Finance. The key activities of the Department are administration of the Fund, operational policy and advice, stakeholder relations and the management of relevant contracts.

External Advisors

Fund Administration Agent

The services of a Fund Administration Agent, Marsh Pty Ltd, are retained for claims administration, provision of advice in relation to claims management and for the placement of insurance as required.

Actuary

Bendzulla Actuarial Pty Ltd is contracted to estimate future liabilities, advise on agency contributions and excesses, and report on the Fund’s performance.

Accountant

WHK Denison is engaged to prepare annual Financial Statements and Statement of Findings reports for the Fund. The main objective of the Statement of Findings is to verify the figures used in the Fund’s Financial Statements and to review the controls and processes in place for the management of claims for the Fund.

Significant issues facing the Fund

After seven years of consolidation, the Fund is now in a position to tackle emerging policy issues.

One issue highlighted during the reporting period is the impact on the Fund of significant property claims, in particular, the provisioning for these claims.

While the Fund will meet the claims costs of inner-budget agencies, it currently operates on the basis that single claims in excess of $5 million will be funded post-event from external sources, increased agency contributions, or a combination of both.

During 2007-08, a number of large claims were reported including one from the Department of Education for $30.2 million following a fire at the Bridgewater High School, and others totalling in excess of $3.4 million from the Department of Environment, Parks, Heritage and the Arts for storm and flood damage.

All inner-Budget agencies currently make contributions to the Fund based on the $5 million 'large claims cut-off' figure. With the potential for future large claims, the Fund's Actuary has been requested to review whether this figure remains appropriate in the current circumstances and what impact there would be on agency contributions if the large claim cut-off figure was revised.

Also being considered is the introduction of some form of 'experience rating' for general property claims. This would see agency premiums being adjusted based on their claims history. Experience rating is currently applied to certain risk areas such as workers compensation and the motor fleet but it is not currently applied to property and liability risks as the risk profile is still developing and the number of claims is small.

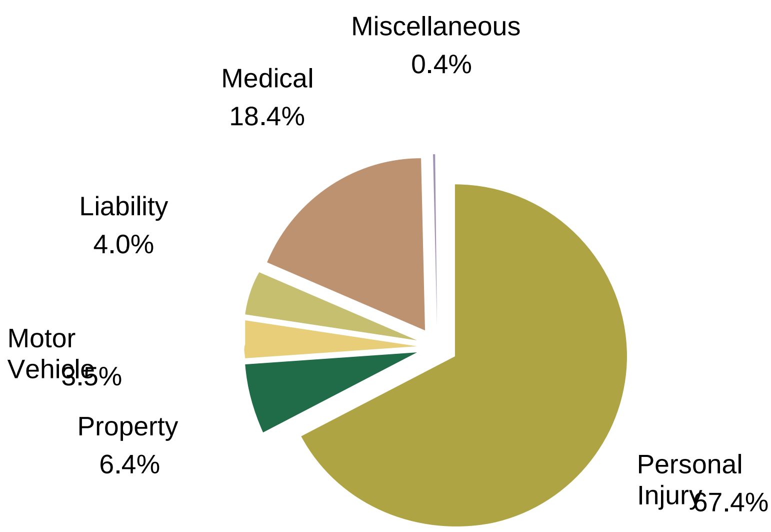
The Actuary will examine the potential for applying a limited form of risk rating, based on claim amounts, to the property contributions of agencies holding high value assets. The aim of such an approach would be to reflect the costs of any large claims in an agency's contributions, and avoid cross subsidisation by other agencies.

Financial position

Contributions

In 2007-08, gross contributions to the Fund totalled $29.6 million. The percentage of contributions by class of risk is shown in Chart 1.

Chart 1 – Tasmanian Risk Management Fund Contributions by Class of Risk



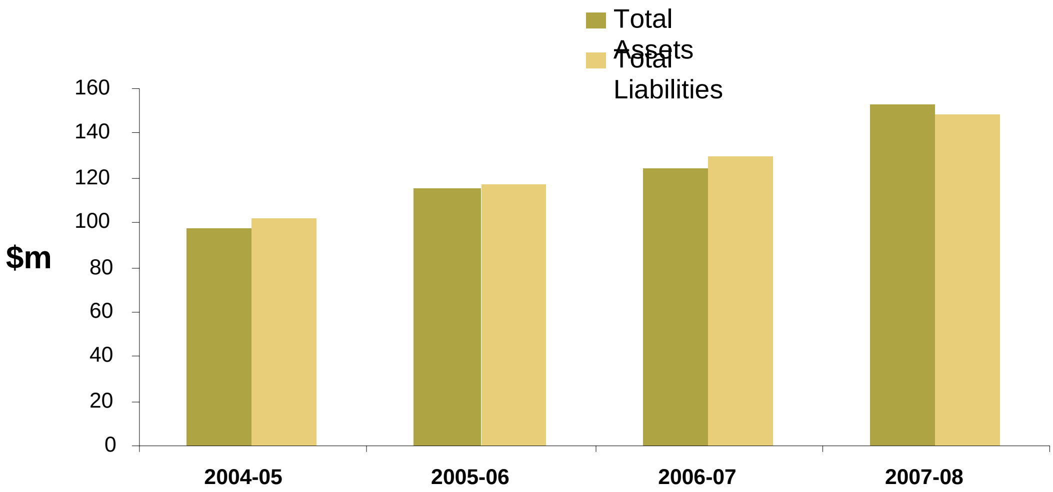
The Fund has continued the trend of minimal increases or, in some risk areas, reductions in contributions in 2007-08.

Financial Position

As at 30 June 2008, the Fund had total assets of $152.6 million and estimated liabilities of $147.5 million, resulting in net assets of $5.1 million. The position of the Fund for the past four years is represented in Chart 2.

The financial position of the Fund has improved from previous years largely as a result of a revised estimate by the Fund's Actuary of outstanding medical liability claims. The value of outstanding medical liability claims was estimated as $55.2 million in 2006-07 and revised to $47.4 million as at 30 June 2008. The fall in liability is due to more accurate assessment due to improved data, reduction in case estimates, increased discount rate and allowance for estimated recoveries.

Chart 2 – Assets and Liabilities as at 30 June



It is forecast that the Fund's financial position will continue to improve in future years. This position will be assisted by an annual contribution to the Fund from the Consolidated Fund until the outstanding medical liabilities are fully funded.

2007-08 achievements

What we achieved this year

During 2007-08 we undertook a major tender process for the Fund Administration Agent (FAA), which provides administration of claims, advice in relation to claims management and the placement of insurance as required. The previous FAA, Marsh, was the successful tenderer, and has been reappointed for three years from 1 July 2008, with options to extend up to a further four years.

We were required to respond to issues arising from the management of the Bridgewater High School fire claim, and provide advice to Government on funding issues.

We also developed comprehensive risk data information on corporate business travel to provide to prospective insurers. As a result, a broader than normal field of insurers expressed an interest in providing cover for this risk and at favourable rates.

Next year

In 2008-09, we will undertake a tender process for the provision of actuarial services to the Fund.

Fund Administration Agent's report

Throughout 2007-08, the Fund Administration Agent continued to actively promote cooperative and sustainable relationships with agency personnel to the advantage of the Fund and all stakeholders.

During the 2007-08 year, as at 30 June 2008, 4 833 claims were lodged for incidents which occurred during the period 1 July 2007 to 30 June 2008.

These claims can be broken up as follows:

Table 1 – Claim Numbers and Incurred Cost – Incidents Occurring in 2007-08

	Number of Claims	Incurred Cost ($ m)
Workers Compensation	1 410	13.8
Property	2 982	45.2
Motor Vehicle	395	0.8
Liability	35	1.6
Miscellaneous	11	0.0
Total	4 833	61.4

Chart 3 – Claim Numbers as a percentage of 2007-08 Claims

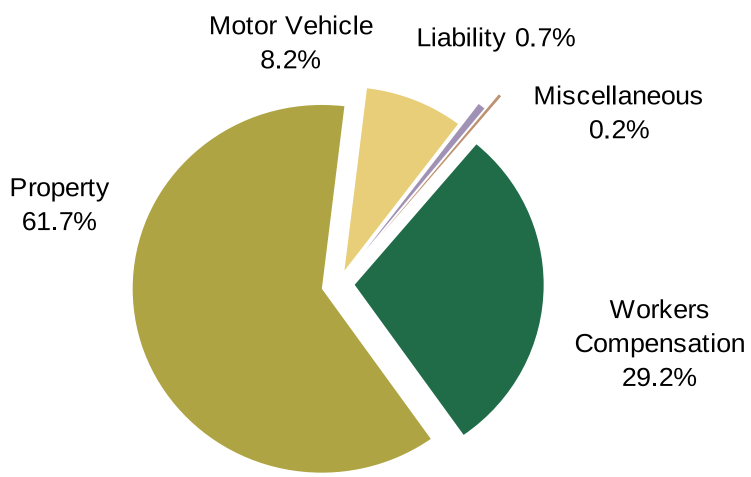
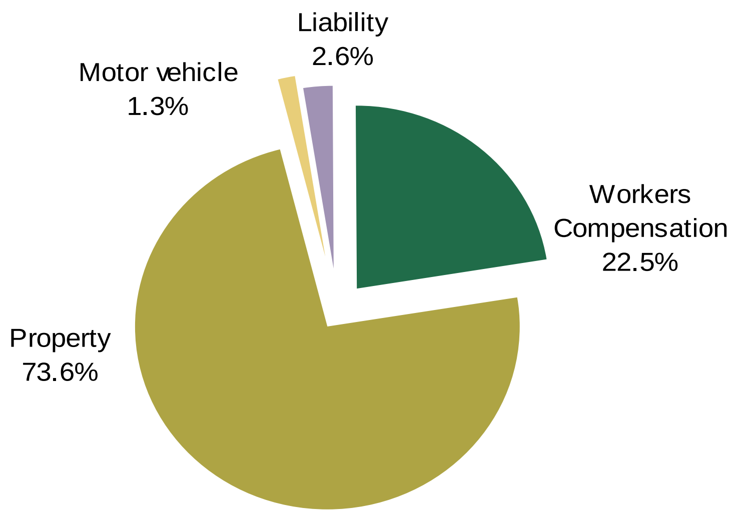


Chart 4 – Total Incurred Cost – 2007-08 Claims



Note: Total incurred cost is the sum of total amount paid and the estimated outstanding reserve.

Workers Compensation

There were 1 410 claims made for incidents that occurred in 2007-08 that were reported by 30 June 2008. This compares with 1 586 claims made in 2006-07, a decrease of 11.1 per cent. It is important to note that the number of claims attributable to incidents in any financial year and associated costs will vary over time as new claims that relate to incidents in previous years are reported.

Chart 5 – Workers Compensation Claim Numbers by Year of Incident

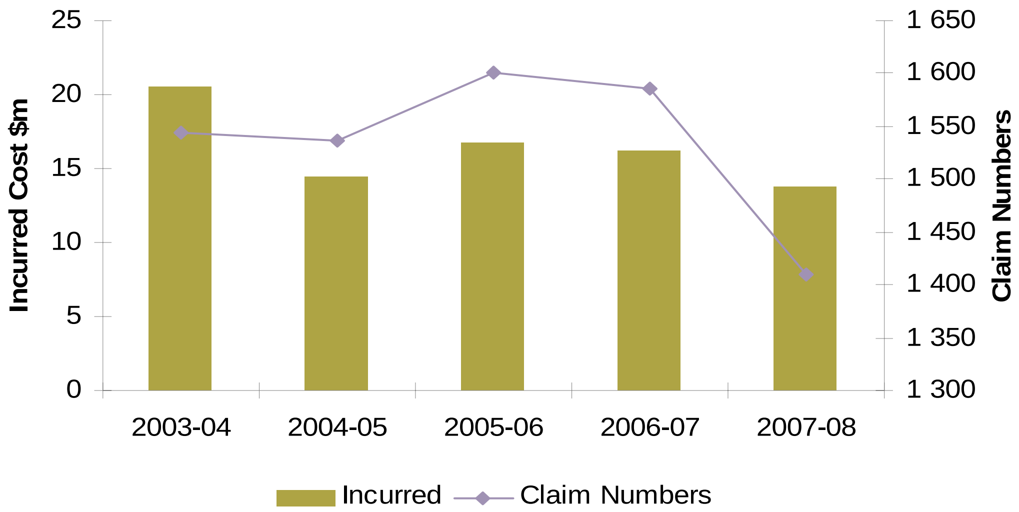
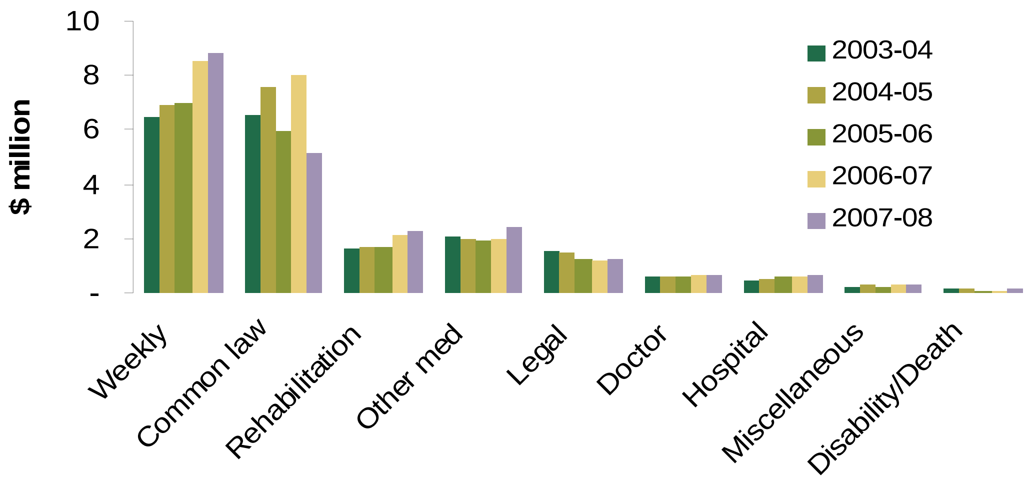


Chart 6 – Workers Compensation Payments by Category by Financial Year



Payments for most risk categories for workers compensation in 2007-08 were consistent with 2006-07.

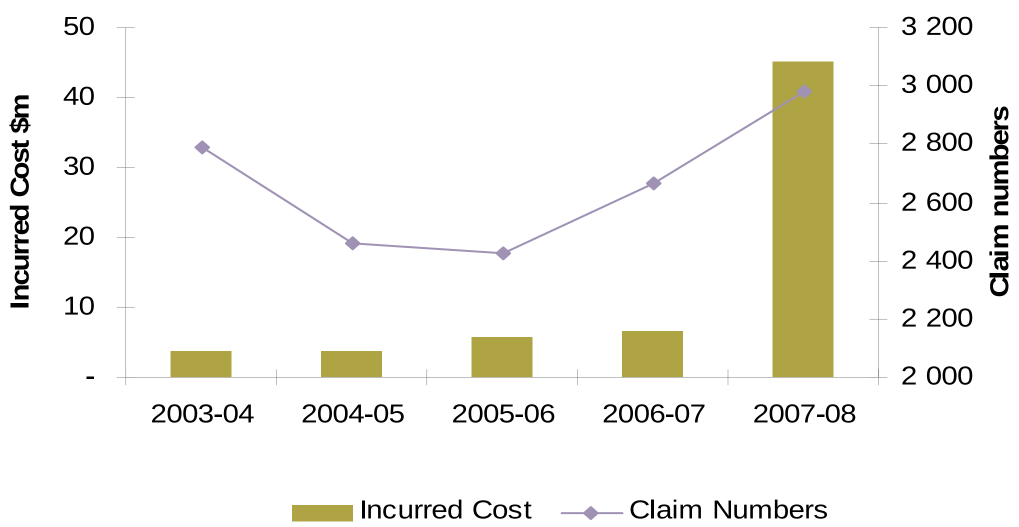
The main exception were payments for common law (including negotiated settlements), which decreased by 37.5 per cent from $8 million in 2006-07 to $5 million in 2007-08.

Property (excluding motor vehicle claims)

Overall, an increase of 12 per cent in the number of claims reported occurred in 2007-08, while property claims recorded an increase in incurred costs of 595 per cent.

These increases are attributable to the number of total losses of properties caused by fire, and increases in the cost of repairs. The major contributing factor to the significant increase in incurred cost relates to the Bridgewater High School fire claim.

Chart 7 – Property – Claim Numbers and Incurred Costs for the year ending 30 June



Note: Figures exclude data relating to the Department of Education's Property Protection Scheme.

Chart 8 – Property Incurred Costs by Category for the year ending 30 June

Note: As the incurred costs for marine hull and transit are very low, they have not been included in Chart 9

A large component of the incurred costs for property relates to damage to Housing Tasmania's assets. The Fund covers damage to, and loss of, Housing Tasmania properties under an 'aggregate stop loss arrangement'. Housing Tasmania is required to pay the total costs of all losses and damage to housing properties up to a selected excess in a financial year. The Fund meets the cost of any losses / damage above the excess. The excess changes from year to year. In 2007 – 08, the excess was $5.4 million.

The biggest component of the incurred cost for property relates to the Bridgewater High School claim.

Motor Vehicle

When compared to 2006-07, motor vehicle claim numbers reduced by 6 per cent and incurred costs increased by 5 per cent. The increase in the total incurred costs is attributable to a rise in the number of vehicles repaired at a cost exceeding $10 000 (14 in 2007-08 compared to 9 in 2006-07).

During 2007-08, there were nine total loss claims (two more than in 2006-07), at a total cost of $163 475.

Chart 9 – Motor Vehicle – Claim Numbers and Incurred Costs for the year ending 30 June

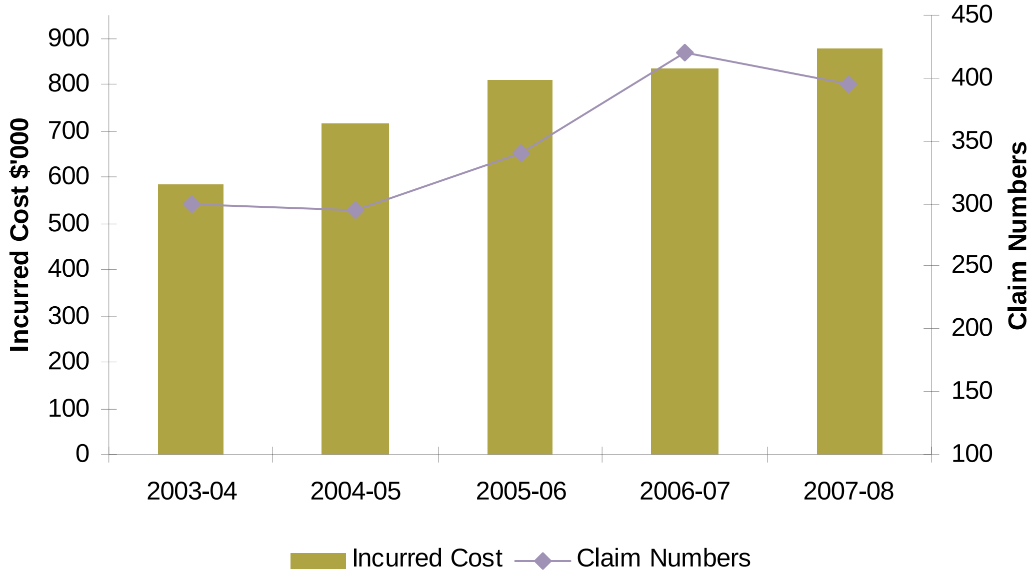
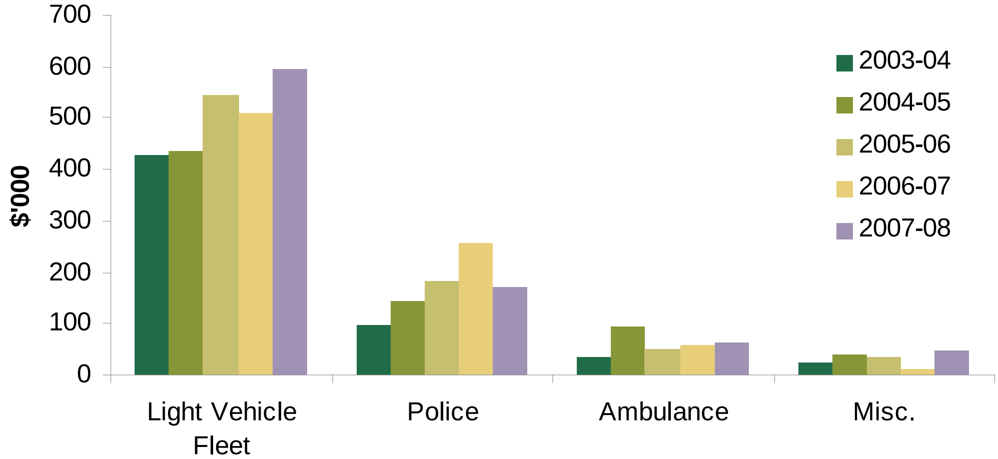


Chart 10 – Motor Vehicle Incurred Costs by Category for the year ending 30 June



Liability

During 2007-08, 35 public liability claims were reported where the incident giving rise to the claim occurred in that year. This represents a 22.2 per cent reduction in claim numbers compared to the 2006-07 period. No professional indemnity claims have been reported in the past four years.

It is expected that liability claims will arise and be reported in the future for incidents that occurred during 2007-08. Consequently, claim numbers and costs attributed to 2007-08 are expected to increase over time.

Table 2 – Liability Claims Comparison by Year of Incident

	2003-04	2004-05	2005-06	2006-07	2007-08	Difference as a % (2006-07 to 2007-08)
Claim Numbers	50	58	63	45	35	↓ 22%
Total Incurred Cost ($'000)	489	283	130	358	1 609	↑ 349%
Total Paid ($'000)	107	165	10	8	32	↑ 300%
Outstanding Payments ($'000)	382	118	121	350	1 577	↑ 350%
Largest Incurred Claim ($'000)	200	170	30	110	1 355	↑ 1 132%

Medical Liability

Medical liability claims are managed by the Department of Health and Human Services but are administered by the Fund Administration Agent.

The Fund covers the total cost of lump sum payments in excess of $50 000 for all medical liability claims. Only three new claims were lodged in 2007-08.

Table 3 – Medical Liability by Year Reported

Year	Number of Claims	Total Incurred Cost ($'000)
2003-04	25	613
2004-05	23	56
2005-06	16	1 035
2006-07	11	60
2007-08	3	Not quantified

Table 4 – Medical Liability Payments by Financial Year

Year	Payment	Difference as a %
2003-04	1 400 555	
2004-05	3 948 916	↑ 181%
2005-06	944 883	↓ 76%
2006-07	44 041	↓ 95%
2007-08	12 440	↓ 72%

Financial report

Table of Contents

Income Statement for the year ended 30 June 2008

	Notes	2008 $'000	2007 $'000
Income			
Agency contributions	1.5(a), 2	29 559	27 837
Investment income	1.5(b), 2	9 339	7 581
Revenue from government	1.5(c), 2	30 200	5 000
Other income	1.5(d), 2	-	2
Total income		69 098	40 420
Expenses			
Claims expense	1.4(c), 1.6(a), 3.2	55 750	42 821
Other underwriting expenses	1.6(b), 3.3	1 800	1 440
General administration expenses	1.6(c), 3.4	517	320
Total expenses		58 067	44 581
Net operating surplus (deficit)		11 031	(4 161)

This Income Statement should be read in conjunction with the accompanying notes.

Balance Sheet as at 30 June 2008

	Notes	2008 $'000	2007 $'000
Assets			
Financial Assets			
Cash and cash equivalents	1.7(a), 10.1	152 010	122 735
Receivables	1.7(b), 5	588	1 327
Total assets		152 598	124 062
Liabilities			
Financial Liabilities			
Payables	1.8(a), 6	1 385	650
Outstanding claims	1.8(b), 7	146 037	129 283
Employee entitlements	1.8(d), 8	77	61
Total liabilities		147 499	129 994
Net assets (liabilities)		5 099	(5 932)
Equity			
Accumulated surpluses (deficits)		5 099	(5 932)
Total equity		5 099	(5 932)

This Balance Sheet should be read in conjunction with the accompanying notes

Cash Flow Statement for the year ended 30 June 2008

	Notes	2008 $'000	2007 $'000
Cash flows from operating activities			
Cash inflows			
		Inflows (Outflows)	Inflows (Outflows)
Agency contributions		30 479	28 681
Other income		30 200	5 000
Interest received		9 158	7 487
Total cash inflows		69 837	41 168
Cash outflows			
Claims and expenses paid		(36 122)	(27 543)
Fund management fees		(2 202)	(1 817)
Underwriting expenses		(1 800)	(1 440)
General and administration expenses		(438)	(438)
Total cash outflows		(40 562)	(31 238)
Net cash from (used by) operating activities	10.2	29 275	9 930
Net increase (decrease) in cash held		29 275	9 930
Cash and cash equivalents at the beginning of the reporting period		122 735	112 805
Cash and cash equivalents at the end of the reporting period	10.1	152 010	122 735

This Cash Flow Statement should be read in conjunction with the accompanying notes.

Statement of Recognised Income and Expense for the year ended 30 June 2008

	Notes	2008 $'000	2007 $'000
Balance as at 1 July		(5 932)	(1 771)
Surplus (deficit) attributable to the Fund		11 031	(4 161)
Transfers to and from reserves		-	-
Sub total		11 031	(4 161)
Balance as at 30 June		5 099	(5 932)

This Statement of Recognised Income and Expense should be read in conjunction with the accompanying notes.

Notes to and forming part of the Financial Statements for the year ended 30 June 2008

Note 1 Significant Accounting Policies

1.1 Objectives and Funding

The Tasmanian Risk Management Fund (TRMF) was established on 1 January 1999 as a self-insurance arrangement within the Tasmanian State Service to provide a whole-of-government approach to funding and managing specific identified insurable liabilities of inner-budget agencies. On 1 July 2001, the Tasmanian State Service Workers Compensation Scheme merged with the TRMF.

The TRMF operates on a cost recovery basis and participating government agencies pay annual contributions to the TRMF to meet current and emerging claim costs for identified risks to which they are exposed. In addition, the outstanding liabilities for medical liability are being offset by a contribution to the TRMF through Finance-General.

1.2 Basis of Accounting

The financial statements are a general purpose financial report and have been prepared in accordance with:

- Australian Accounting Standards issued by the Australian Accounting Standards Board; and
- The Treasurer's Instructions issued under the provisions of the *Financial Management and Audit Act 1990.*

The financial statements were signed by the Acting Secretary on 1 September 2008.

Compliance with the Australian Accounting Standards (AASBs and AASs) may not result in compliance with International Financial Reporting Standards (IFRS), as the AASBs and AASs include requirements and options available to not-for-profit organisations that are inconsistent with IFRS. The TRMF is considered to be not-for-profit and has adopted some accounting policies under AASBs and AASs that do not comply with IFRS.

The financial statements have been prepared on an accrual basis and, except where stated, are in accordance with the historical cost convention. The accounting policies are generally consistent with the previous year except for those changes outlined in Note 1.4.

1.3 Functional and Presentation Currency

These financial statements are presented in Australian dollars, which is the TRMF's functional currency.

1.4 Changes in Accounting Policies

(a) Impact of new and revised Accounting Standards

In the current year, the TRMF has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current annual reporting period. These include:

- AASB 7 *Financial Instruments: Disclosures* replaces the presentation requirements of financial instruments in AASB 132 and introduces new financial instrument disclosure requirements. There has been no financial impact on the financial statements.
- AASB 2007-4 *Amendments to Australian Accounting Standards arising from Exposure*

Draft 151 and Other Amendments and Erratum: *Proportionate Consolidation*. AASB 2007-4 makes amendments to a number of Australian Accounting Standards to introduce various accounting policy options, delete various disclosures presently required, and to make a number of editorial amendments.

The TRMF has not intended to change any of its current accounting policies on adoption of AASB 2007-4; accordingly, there has been no financial impact to these financial statements. However, in the financial statements, certain information is no longer required to be disclosed, or has been disclosed in an alternative manner, due to amendments made by AASB 2007-4 to the disclosure requirements of various Accounting Standards.

- AASB 2007-5 *Amendments to Australian Accounting Standard – Inventories Held for Distribution by Not-for-Profit Entities* amends AASB 102 *Inventories* to require inventories held for distribution by not-for-profit entities to be measured at cost, adjusted when applicable for any loss of service potential. This change had no financial impact on the TRMF.
- AASB 2007-7 *Amendments to Australian Accounting Standards* makes editorial amendments to six Standards. The key change removes the encouragement in AASB 107 *Cash Flow Statements* to adopt a particular format for the cash flow statement. The TRMF did not intend to change any of its current accounting policies on adoption of AASB 2007-7; accordingly, there has been no financial impact to these financial statements.

(b) Impact of new and revised Accounting Standards yet to be applied

The following new standards have been issued by the AASB and are yet to be applied:

- AASB 2007-6 *Amendments to Australian Accounting Standards Arising from AASB 123* – revised standard to be applied in reporting periods on or after 1 January 2009. Eliminates the option of expensing borrowing costs directly attributable to the construction or production of qualifying assets, instead requiring capitalisation. The transitional provisions apply for prospective application and as a result there will be no retrospective financial impact on the 2009 financial statements.
- AASB 2007-8 *Amendments to Australian Accounting Standards Arising from AASB 101* - revised standard to be applied in reporting periods on or after 1 January 2009. The Standard will not have a financial impact on the financial statements but will require a number of changes in disclosures.
- AASB 2007-9 *Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31* – amending Standard to be applied on or after 1 July 2008. The primary focus of this Standard has been on relocating, where necessary, the requirements in AASs 27, 29 and 31, substantively unamended (with some exceptions), into topic-based Standards. The Standard will not have a material financial impact on the financial statements.
- AASB 2008-3 *Amendments to Accounting Standards arising from AASB 3 and AASB 127* - revised Standard to be applied to annual reporting periods beginning on or after 1 July 2009. The focus of the Standard is to reduce alternatives in accounting for subsidiaries in consolidated financial statements and in accounting for investments in the separate financial statements of a parent. The Standard will not have a material financial impact on the financial statements.
- AASB Interpretation 14 AASB 119 – *the Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* – this Interpretation is applicable to annual reporting periods beginning on or after 1 January 2008. The interpretation clarifies when

refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also gives guidance on when a MFR might give rise to a liability. The TRMF has not yet determined the potential effect of the interpretation.

(c) Voluntary changes in accounting policy

The TRMF has adopted new accounting policies in relation to accounting for recoveries receivable. The change in accounting policy is a result of a change in the accounting system where the recoveries are no longer recorded as revenue but netted off against claim payments. The impact of the changes has been adjusted in the comparative information presented in the financial statements and associated notes. The net operating surplus (deficit) and net assets (liabilities) and accumulated funds were not impacted.

1.5 Income

Income is recognised in the Income Statement when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably.

(a) 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. Contributions are treated as earned from the date of attachment of risk.

(b) Investment Income

Interest is recognised as it accrues.

(c) Revenue from Government

Revenue from government is recognised as revenue in the period in which the TRMF gains control of the appropriated funds.

(d) Other Income

Revenue from commissions is recognised when the right to receive a commission has been established. Revenue from training is recognised upon the delivery of training to the agencies.

1.6 Expenses

Expenses are recognised in the Income Statement when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

(a) Claims Expense

The TRMF commenced providing cover as follows:

Personal injury	- from 1 July 2001 (formerly covered under TSSWCS)
Property	- from 1 July 2001
Motor vehicle	- from 1 July 1999
General liability	- from 1 July 1999
Medical liability	- post 1 July 2001 claims - from 1 July 2001
	- pre 1 July 2001 claims - from 1 July 2002
Miscellaneous	- from 1 July 1999

Claims incurred, expenses and liabilities for outstanding claims are recognised in the financial statements. The liability covers incurred but not yet paid claims, incurred but not reported claims and the anticipated direct and indirect costs of settling those claims. Claims outstanding (and estimated, un-notified claims and settlement costs) are reassessed by the Fund Administration Agent in consultation with the TRMF's Actuary. The method of determining the liability for outstanding claims varies according to the risk category. The following summarises the different methods.

(i) Personal Injury

The liability for outstanding workers compensation 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 amount of funds sufficient to meet claims as they become payable. The details of rates applied are included in Note 7.2.

Liabilities for claims arising under personal accident cover and as a result of aero-medical retrieval activity have been included in this category. Claims outstanding have been assessed in consultation with the TRMF’s Actuary.

Claims arising from the Port Arthur tragedy which are not recoverable under the TRMF’s insurance policies have also been included in this category. Claims outstanding have been assessed in consultation with the TRMF’s Actuary.

(ii) Property

The liability for outstanding claims in respect of general property risks (including business interruption, machinery breakdown, fidelity and fraud and transit risks), is measured using aggregate case estimates, increased by 25 per cent (2006-07: 25 per cent) for incurred but not reported (IBNR) and incurred but not enough reported (IBNER) claims, together with an allowance for expected claims management expenses and 10 per cent for GST recoveries (2006-07: 0 per cent).

For the stop-loss insurance arrangement over the Department of Health and Human Services (DHHS) housing portfolio, the expected cost to the TRMF for outstanding claims is measured as the amount by which the total losses on the portfolio in each incident year is expected to exceed the stop-loss level selected by the DHHS for that incident year (if any), plus an allowance for outstanding claims administration expenses. The expected total loss for each incident year is measured as the sum of past payments plus the expected future payments. The expected future payments are estimated on the basis of the ultimate cost of settling losses, which is affected by factors such as the number of incidents that will occur in each year and the average amount of losses. For purposes of estimating these factors, losses have been separated into “small” (up to $0.010 million) and “large” (more than $0.010 million). The TRMF’s Actuary also took into account other factors arising during the period to settlement such as inflation, and the time taken to settle claims. Due to observed increases in the average size of “small” claims over recent periods, an allowance for short term “super-imposed inflation” on these claims has also been included in the calculation of the 2007-08 liability. In view of the short average term to settlement, the TRMF’s liability provision for outstanding claims was not discounted. The details of rates applied are shown in Note 7.4.

In addition, the TRMF provides cover in respect of marine hull under this category. This risk is insured in the private market so that the TRMF carries no outstanding liability.

(iii) Motor Vehicle

The liability for outstanding claims in respect of vehicles is measured using aggregate case estimates with allowances of 15 per cent (2006-07: 15 per cent) for expenses, 35 per cent (2006-07: 35 per cent) for IBNR and IBNER claims and 10 per cent for GST recoveries (2006-07: 0 per cent). Claims outstanding have been assessed in consultation with the TRMF’s Actuary.

(iv) General Liability

The liability for outstanding claims in respect of general liability risks (including public and products, professional, directors and officers risks) is measured using aggregate case estimates with allowances of 10 per cent (2006-07: 10 per cent) for expenses, 70 per cent (2006-07: 70 per cent) for IBNR and IBNER claims and 2 per cent (2006-07: 0 per cent) for GST recoveries. Claims outstanding have been assessed in consultation with the TRMF's Actuary.

(v) Medical Liability

The TRMF commenced providing cover in respect of medical liability from 1 July 2001 and is liable for claims arising from that date. In addition, during 2002-03 the TRMF assumed the liability for all pre 1 July 2001 medical liability claims.

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 yields currently available on Australian government bonds with durations similar to the term of the liability. The details of rates applied are shown in Note 7.3. Allowances of 1.5 per cent (2006-07: 1.25 per cent) for expenses and 2 per cent (2006-07: 0 per cent) for GST recoveries have been made in determining the liability.

(vi) Miscellaneous

This category relates to claims that the TRMF is required to pay but which are not covered under the above risk areas. Claims outstanding have been assessed in consultation with the TRMF's Actuary. Travel insurance for agencies is also included in this category but is insured in the private market so that the TRMF carries no outstanding liability.

(b) Other Underwriting Expenses

Other underwriting expenses comprise levies paid to statutory bodies. Other underwriting expenses are recognised when the TRMF has a present obligation in respect of the expenditure and the amount can be reliably determined.

(c) General Administration Expenses

General administration expenses comprise the operating costs of the TRMF. General administration expenses are recognised when the TRMF has a present obligation in respect of the expenditure and the amount can be reliably determined.

(d) Impairment – Financial Assets

Financial assets are assessed at each reporting date to determine whether there is any objective evidence that there are any financial assets that are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative affect on the estimated future cash flows of that asset.

An impairment loss, in respect of a financial asset measured at amortised cost, is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognised in profit or loss.

1.7 Assets

Assets are recognised in the Balance Sheet when it is probable that the future economic benefits will flow to the TRMF and the asset has a cost or value that can be measured reliably.

(a) Cash and Cash Equivalents

Cash means notes, coins, and any deposits held at call with a bank or financial institution, as well as funds held in the Special Deposits and Trust Fund. Deposits are recognised at their nominal amounts. Interest is credited to revenue as it accrues.

(b) Receivables

Receivables are recognised at amortised cost, less any impairment losses. However, due to the short settlement period, receivables are not discounted back to their present value.

1.8 Liabilities

Liabilities are recognised in the Balance Sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.

(a) Payables

Payables, including services incurred but not yet invoiced are recognised at amortised cost, which due to the short settlement period, equates to face value, when the TRMF becomes obliged to make future payments as a result of a purchase of assets or services.

(b) Outstanding Claims

Claims incurred, expenses and liabilities for outstanding claims are recognised in the financial statements. The liability covers incurred but not yet paid claims, incurred but not reported claims and the anticipated direct and indirect costs of settling those claims. Claims outstanding (and estimated, un-notified claims and settlement costs) are reassessed by the Fund Administration Agent in consultation with the TRMF's Actuary. The method of determining the liability for outstanding claims is outlined in Note 1.6(a).

(c) Provisions

A provision arises if, as a result of a past event, the TRMF has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. Any right to reimbursement relating to some or all of the provision is recognised as an asset when it is virtually certain that the reimbursement will be received.

(d) Employee Entitlements

Liabilities for wages and salaries and annual leave are recognised when an employee becomes entitled to receive a benefit. Those liabilities expected to be realised within 12 months are measured as the amount expected to be paid. Other employee entitlements are measured as the present value of the benefit at 30 June 2008, where the impact of discounting is material, and at the amount expected to be paid if discounting is not material.

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.

1.9 Goods and Services Tax

Income, expenses, assets and liabilities are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of 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. Receivables and payables in the Balance Sheet are shown net of GST. Similarly, cash flows are included in the Cash Flow Statement on a net basis. Records of the Department of Treasury and Finance indicate that GST relating to income items amounted to $2.946 million ($2.794 million in 2006-07) and GST relating to expense items amounted to $1.738 million ($0.732 million in 2006-07).

1.10 TRMF Taxation

The TRMF is exempt from all forms of taxation except Fringe Benefits Tax, Payroll Tax and GST.

1.11 Judgements and Assumptions

In the application of Australian Accounting Standards, the TRMF's Actuary is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by the TRMF's Actuary that have significant effects on the financial statements are disclosed in the relevant notes to the financial statements.

The TRMF has made no assumptions concerning the future that may cause a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

1.12 Comparative Figures

Amendments to comparative figures arising from the change in accounting policy are disclosed in Note 1.4.

Where the amounts have been reclassified within the financial statements, the comparative statements have been restated.

1.13 Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars, unless otherwise stated. Where the result of expressing amounts to the nearest thousand dollars would result in an amount of zero, the financial statement will contain a note expressing the amount to the nearest whole dollar.

1.14 Contingent Assets and Liabilities

There has been no change in contingent liabilities since the last annual reporting date.

1.15 Events Occurring After Balance Date

There are no known events that have occurred after balance date.

Note 2 Income

	2008 $'000	2007 $'000
Agency contributions	29 559	27 837
Investment income	9 339	7 581
Revenue from government	30 200	5 000
Other income	-	2
Total income	69 098	40 420

The revenue from government is transferred from the Consolidated Fund. The revenue received in 2007-08 is comprised of $25.2 million towards the cost of the Bridgewater High School fire claim and $5 million to ensure that outstanding medical liability claims are adequately funded. It is intended that the funds received for medical liability will continue until all medical liability claims are fully funded.

Note 3 Expenses

3.1 Individually Significant Expenses

	2008 $'000	2007 $'000
Claims – personal injury	19 907	24 185
Claims – medical	(6 409)	11 712
Claims – property	38 130	2 608

3.2 Claims Expense

	2008 $'000	2007 $'000
Claims paid	36 122	28 745
Claims accrued	833	(1 885)
Movement in outstanding claims (including medical liability)	16 754	13 983
Management expenses	2 041	1 978
	55 750	42 821

3.3 Other Underwriting Expenses

	2008 $'000	2007 $'000
Payment to WorkCover Tasmania Board and Nominal Insurer	1 800	1 440

As a result of the HIH collapse and amendments to the *Workers Rehabilitation and Compensation Act 1988,* the TRMF contributes four per cent of workers compensation contributions to the Nominal Insurer.

3.4 General Administration Expenses

	2008 $'000	2007 $'000
Actuarial expenses	146	130
Accounting and audit fees	25	26
Salaries and on-costs	269	280
Other	77	(116)
	517	320

Note 4 Underwriting Result

	2008 $'000	2007 $'000
Agency contributions	29 559	27 837
Claims expense	(55 750)	(42 821)
Other underwriting expenses	(1 800)	(1 440)
	(27 991)	(16 424)

Note 5 Receivables

	2008 $'000	2007 $'000
Accrued interest	816	635
Contributions receivable from agencies	(228)	690
Other receivables	-	2
	588	1 327
Settled within 12 months	816	637
Settled in more than 12 months	(228)	690
Total	588	1 327

Note 6 Payables

	2008 $'000	2007 $'000
Un-reimbursed claims	1 269	435
Other	116	215
	1 385	650
Due within 12 months	1 385	650
Due in more than 12 months	-	-
Total	1 385	650

Settlement is made by the due date for payment.

Note 7 Outstanding Claims

7.1 Outstanding Claims Liabilities

	2008 $'000	2007 $'000
Claims Liabilities		
Personal injury	63 417	62 983
Property	27 780	4 300
Motor vehicle	160	370
General liability	7 290	6 410
Medical liability	47 390	55 220
Total	146 037	129 283
Due within 12 months	35 736	31 615
Due in more than 12 months	110 301	97 668
Total	146 037	129 283

The amount shown as "Due within 12 months" has been determined in accordance with the Australian Accounting Standards, in particular AASB 101 *Presentation of Financial Statements.*

Explanation for major variances in provisions for outstanding claims:

Medical Liability

For medical liability, the liabilities as at 30 June 2008 are based on the TRMF's own data, which is consistent with the approach adopted for liabilities as at 30 June 2007.

The fall in liability is due to more accurate assessment due to improved data, reduction in case estimates, increased discount rate and allowance for GST recoveries.

It is noted that the TRMF's Actuary has advised that the data available for estimating the medical liability claims is limited, and that this is a particularly long-tailed class of risk. Therefore significant uncertainty will always remain in this estimate.

Property

The main reason for the increase in the outstanding claim liability for general property is a fire at Bridgewater High School, with an estimated loss of $30.2 million. At 30 June 2008, the outstanding liability in respect of this claim was $23.6 million. There were also five other claims over $0.50 million which have contributed to the increase in the outstanding claim liability.

Motor Vehicle

This year, the outstanding liability for motor vehicle risks has fallen. This is mainly because, following a review of the data, the TRMF's Actuary has included a more complete allowance for recoveries in the 2007-08 figure.

7.2 Workers' Compensation

	2008 $'000	2007 $'000
The liability for outstanding workers compensation claims is determined by the TRMF's Actuary.		
Expected future claims payments (undiscounted)	78 003	74 000
Less discounted to present values	(12 760)	(9 397)
Less recoveries under excess and GST	(1 850)	(1 658)
Total	63 393	62 945
Due within 12 months	19 296	20 945
Due in more than 12 months	44 097	42 000
Total	63 393	62 945
The weighted average expected term of settlement from the balance date is estimated at:	2.70 years	2.30 years
In measuring the liability for outstanding claims, the following rates were used:		
- Inflation rate	5.5%	5.5%
- Discount rate	6.75%	6.5%

7.3 Medical Liability

	2008 $'000	2007 $'000
The liability for outstanding medical liability claims is determined by the TRMF's Actuary.		
Expected future claims payments (undiscounted)	80 960	84 410
Less discounted to present values	(28 940)	(27 690)
Less recoveries under excess and GST	(4 630)	(1 500)
Total	47 390	55 220
Due within 12 months	5 000	5 000
Due in more than 12 months	42 390	50 220
Total	47 390	55 220
The weighted average expected term of settlement from the balance date is estimated at:	7 years	7 years
In measuring the liability for outstanding claims, the following rates were used:		
- Inflation rate	4.0%	4.0%
- Super-imposed inflation rate	4.0%	4.0%
- Discount rate	6.75%	6.25%

7.4 Department of Health and Human Services - Housing Portfolio

	2008	2007
The weighted average expected term of settlement from the balance date is estimated at:	1.8 months	2.1 months
In measuring the liability for outstanding claims, the following rates were used:		
- Inflation	4.0%	4.0%
- Super-imposed inflation rate (for "small claims" only)	14.0%	n/a
- Discount rate	0%	6.25%

The TRMF's Actuary has applied a nil discount rate for 2007-08 because the short duration means the effect would be immaterial relative to the other factors.

Note 8 Employee Entitlements

	2008	2007

	$'000	$'000
Annual leave	20	15
Long service leave	57	46
Total	77	61
Due within 12 months	20	15
Due in more than 12 months	57	46
Total	77	61

Note 9 Contingent Assets

Contingent assets and liabilities are not recognised in the Balance Sheet due to uncertainty regarding the amount or timing of the underlying claim or obligation.

(a) Quantifiable contingencies

A quantifiable contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A quantifiable contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

	2008 $'000	2007 $'000
Quantifiable Contingent Assets		
Claims Management Account	370	370
Total quantifiable contingent assets	370	370

The TRMF is in discussions with the previous agent of the Fund Administration Agent for the balance of the claims management account held by the previous agent to be transferred to the TRMF. The balance of the claims management account is $0.370 million.

Note 10 Cash Flow Reconciliation

10.1 Reconciliation of Cash

	2008 $'000	2007 $'000
Cash at the end of the financial year as shown on the Cash Flow Statement is reconciled to the related item in the Balance Sheet as follows:		
Cash and deposits	152 010	122 735

10.2 Reconciliation of Net Cash provided by Operating Activities to Operating Surplus

	2008 $'000	2007 $'000
Operating surplus (deficit)	11 031	(4 161)
Decrease (increase) in interest receivable	(181)	(93)
Decrease (increase) in agency contributions receivable	920	843
Decrease (increase) in insurance recoveries receivable	-	(31)
Increase (decrease) in creditors	735	(606)
Increase (decrease) in provisions	16	(5)
Increase (decrease) in claims payable	16 754	13 983
Net cash from (used by) operating activities	29 275	9 930

Note 11 Financial Instruments

11.1 Risk exposures

(a) Risk management policies

The TRMF has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

The Department of Treasury and Finance has overall responsibility for the establishment and oversight of the TRMF's risk management framework. Risk management policies are established to identify and analyse risks faced by the TRMF to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

(b) Credit risk exposures

Credit risk is the risk of financial loss to the TRMF if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

At 30 June there were nil financial assets that were past due.

(c) Liquidity risk

Liquidity risk is the risk that the TRMF will not be able to meet its financial obligations as they fall due. The TRMF's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they fall due.

At 30 June there were nil financial liabilities that were past due.

(d) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The primary market risk that the TRMF is exposed to is interest rate risk.

11.2 Net Fair Values of Financial Assets and Liabilities

Financial Assets

The net fair values of cash and non-interest bearing monetary financial assets approximate their carrying amounts.

The net fair values of receivables are based on published price quotations in an active market.

Financial Liabilities

The net fair values of outstanding claims liabilities are determined by the TRMF's Actuary in consultation with the Fund Administration Agent. The method for determining the liabilities for outstanding claims is outlined in Note 1.6(a).

The net fair values for trade creditors are approximated by their carrying amounts.

Tasmanian Risk Management Fund

Certification of Financial Statements for the year ended 30 June 2008

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, to an extent where practicable, issued under the provisions of the *Financial Management and Audit Act 1990* to present fairly the financial transactions for the year ended 30 June 2008 and the financial position as at 30 June 2008.

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.

R B Nicholl

Rob Nicholl
ACTING SECRETARY

Department of Treasury and Finance

Date: 1/09/08

Independent audit report

Tasmanian Audit Office

STRIVE | LEAD | EXCEL | TO MAKE A DIFFERENCE

INDEPENDENT AUDIT REPORT

To Members of the Parliament of Tasmania

TASMANIAN RISK MANAGEMENT FUND

Financial Statements for the Year Ended 30 June 2008

Report on the Financial Statements

I have audited the accompanying financial statements of the Tasmanian Risk Management Fund, which comprise the balance sheet as at 30 June 2008, the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the statement from the Secretary.

The Responsibility of the Secretary for the Financial Statements

The Secretary is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based upon my audit. My audit was conducted in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

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

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

Independence

In conducting my audit, I have met applicable independence requirements of Australian professional ethical pronouncements.

Auditor's Opinion

In my opinion the financial statements of the Tasmanian Risk Management Fund:

(a) present fairly, in all material respects, the financial position of the Tasmanian Risk Management Fund as at 30 June 2008, and of its financial performance, cash flows and changes in equity for the year then ended; and

(b) are in accordance with Australian Accounting Standards (including Australian Accounting Interpretations).

TASMANIAN AUDIT OFFICE

H M Blake
AUDITOR-GENERAL

HOBART
17 October 2008

Contact details

The members of the Procurement and Risk Management Unit of the Department of Treasury and Finance as at 30 June 2008 are:

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