Tasmanian Risk Management Fund

ANNUAL REPORT 2005-06

Department *of*
Treasury *and* Finance

Tasmania

Parliament House – Hobart

Our mission

Provide leadership in the management of risks to which the Government is exposed to minimise the resulting financial impact on agencies.

Our objectives

- ensure adequate financial provision is made for the cost of risk;
- manage the overall cost of risk to government agencies and the State; and
- promote and assist in the development of resources for the effective identification, quantification and treatment of risk within agencies.

Bridge at Campbell Town

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Executive Building
15 Murray Street, Hobart

Chairman’s review

The Tasmanian Risk Management Fund (TRMF) continued to provide an effective whole-of-government approach to the treatment of risks to which agencies are exposed during 2005-06.

The Fund remains in a sound financial position. At 30 June 2006, the Fund had total assets of $114.9 million and estimated liabilities of $116.7 million, resulting in net liabilities of $1.8 million. A net asset position of around $5.1 million is forecast for 30 June 2007. This will be assisted by additional contributions from the Consolidated Fund to meet outstanding medical liabilities.

The trend of minimal increases to agency contributions has continued, with reductions in contributions for some risk areas.

The TRMF Unit continued to promote and develop resources for the effective identification, quantification and treatment of risk within agencies. The Unit actively encouraged the sharing of information and strategies between agencies.

Looking forward, the TRMF is committed to continuing to provide an efficient and cost effective approach to managing the cost of risk to the Government.

Tony Ferrall
Chairman
Tasmanian Risk Management Fund
Steering Committee

Who we are

Police vessel 'Van Diemen' moored at the historic Victoria Dock

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

Participating government agencies pay annual contributions to the TRMF to meet claim costs for all insurable risks to which they are exposed. The TRMF meets the direct costs associated with all risks, including:

Personal Injury

- workers' compensation
- personal accident

Property

- general (includes property and business interruption)
- vehicle
- marine hull

Legal Liability

- general liability
- medical liability

Miscellaneous

- travel
- government contingency

The Treasury Building viewed from Franklin Square, Hobart

Why we are here

The TRMF was established on 1 January 1999 to facilitate the self-insurance arrangements of Tasmania's inner-Budget agencies on behalf of the State Government and to:

- ensure adequate financial provision is made for the cost of risk; and
- provide leadership in the management of risk.

Some of the benefits provided by the TRMF include:

- a whole-of-government approach to risk management and insurance;
- minimising the cost of risk to agencies and government through an efficient self-insurance arrangement which meets costs associated with large and unexpected losses;
- avoiding the volatility experienced in the insurance market in recent years; and
- promotion of a risk management culture within agencies.

Ross Bridge, Northern Tasmania

How we operate

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 inner-Budget agencies are required to participate and pay contributions which have been determined by an independent actuary.

In setting agency contributions, the TRMF aims to achieve:

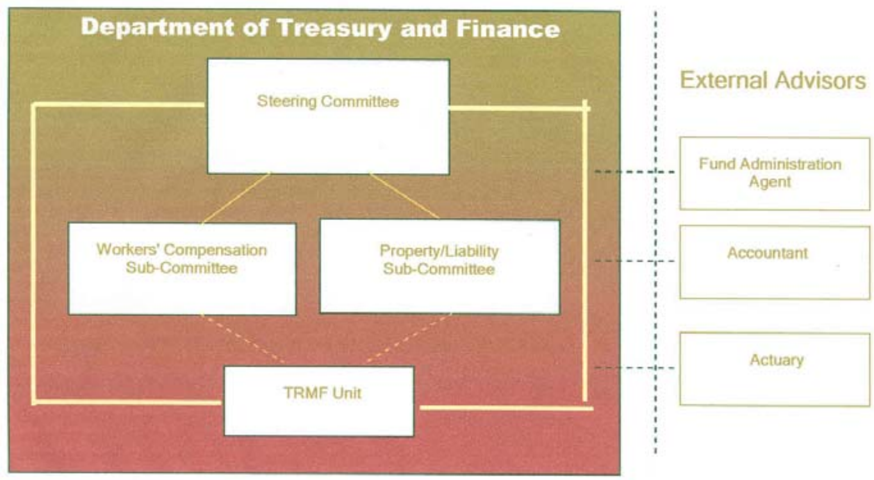
- the collection of sufficient moneys each year to fully fund claim costs and protect against major surprises;
- equity for user agencies with minimal cross-subsidisation;
- stability in contributions over time; and
- incentives for risk management, through recognition of claims experience.

The costs of all over excess claims, as well as administrative expenses, are met from the Fund.

One of the Tasmanian Museum and Art Gallery buildings in Hobart

Our structure

Governance Structure



The Department of Treasury and Finance is responsible for the management of the TRMF and reports to the Treasurer on policy issues. Treasury chairs the TRMF Steering Committee and sub-committee meetings.

Internal Advisors

Steering Committee and Sub-Committees

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.

Adult Education Building, Weld Street, Hobart

Our structure

Membership of the TRMF Steering Committee as at 30 June 2006:

Agency	Representative
Treasury and Finance	Tony Ferrall (Chair)
Treasury and Finance	Jonathon Root
Education	Greg Glass
Health and Human Services	Richard Lette
Infrastructure, Energy and Resources	Amanda Russell
Justice	Brian Smith
Police and Emergency Management	Frank Ogle
Premier and Cabinet	Geoff Owen
Primary Industries and Water	Robert Cockerell
Economic Development	Craig Watson
Tourism, Arts and the Environment	David Hudson
Office of the Director of Public Prosecutions	Paul Turner

The Steering Committee is supported by two sub-committees:

- Worker's Compensation Sub-Committee; and
- Property/Liability Sub-Committee.

All inner-Budget agencies, with the addition of TAFE, are represented on the sub-committees.

TRMF Unit

Administration of the Fund is undertaken by the TRMF Unit of the Department of Treasury and Finance.

The key activities of the Unit reflect the Mission and Objectives of the Fund. They fall under three broad categories:

- administration of the Fund;
- operational policy and advice; and
- promotion of risk management.

Ogilvie High School, Hobart

Our structure

External advisors

Fund Administration Agent

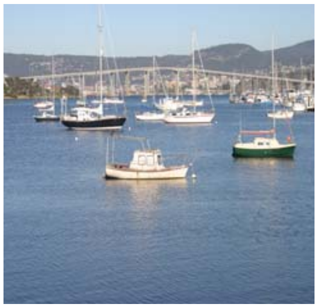
The services of a Fund Administration Agent, Marsh Pty Ltd, are retained on a contract basis for claims administration, provision of advice in relation to claims management and for the placement of insurance as required.

Actuarial Services

Bendzulla Actuarial Pty Ltd is contracted to undertake the calculation of the total contribution required from agencies for each self-insured risk on behalf of the Fund.

Accountant

WHK Denison is engaged to prepare the Financial Statements and Statement of Findings for the TRMF. The main objectives 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.



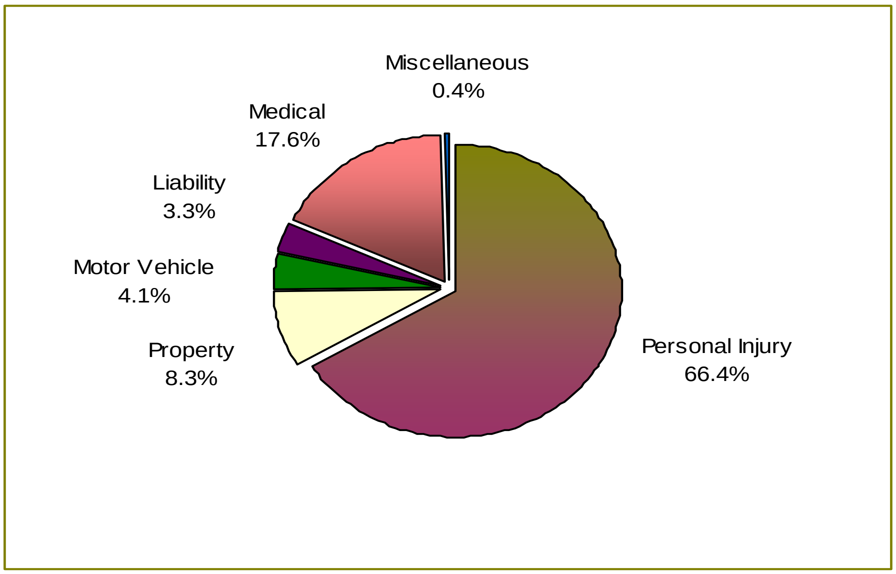
Tasman Bridge from Lindisfarne Bay.

Our performance

Contributions

In 2005-06 gross fund contributions totalled $28.3 million. The percentage of contributions by class of risk is shown in Chart 1.

Chart 1 - Tasmanian Risk Management Fund Contributions by Class



The Fund has continued the trend of minimal increases, and in some risk areas, reductions in contributions, in 2005-06.

Financial Position

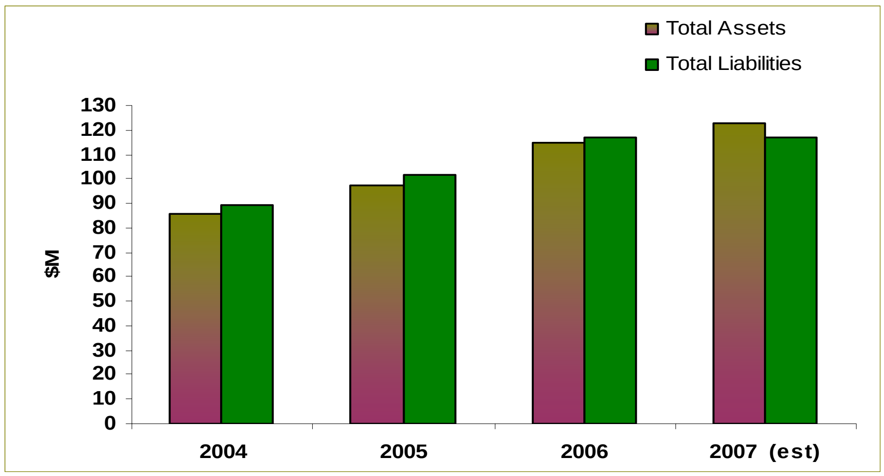
As at 30 June 2006, the Fund had total assets of $114.9 million and estimated liabilities of $116.7 million, resulting in net liabilities of $1.8 million. The position of the Fund for the past three years is represented in Chart 2.

Our performance

Highfield House, Stanley, Northern Tasmania

The increase in liabilities in 2003-04, 2004-05 and 2005-06 has been largely the result of a revised estimate by the Fund's Actuary of outstanding medical liability claims. The value of outstanding medical liability claims was first estimated in 2003-04 as being $25.4 million, revised to $37.2 million in 2004-05 and revised again to $46.6 million as at 30 June 2006.

Chart 2 – Assets and Liabilities as at 30 June 2006



It is forecast that the Fund will be in a positive net asset position by 30 June 2007 and this will be maintained 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.

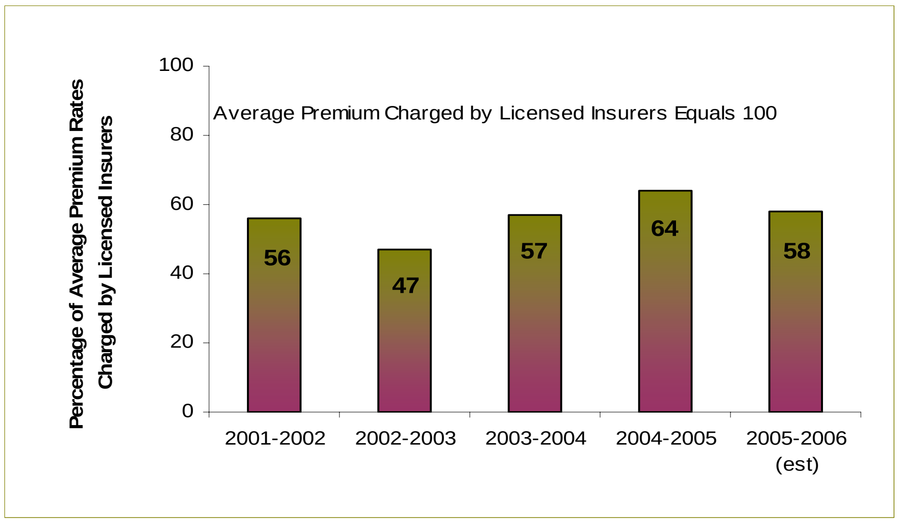
Chapel and Schoolhouse, Highfield House, Stanley, Northern Tasmania

Our performance

How we compare

Agencies continue to benefit from participation in the Fund.

Chart 3 - TRMF workers' compensation contributions as a percentage of the equivalent market premium



Workers' compensation contributions, which account for the major cost to agencies, continue to be considerably less than premiums paid in the private sector.

Richmond Bridge, Southern Tasmania.

Our activities

Training and Information Sharing Sessions

In 2005-06 the TRMF Unit facilitated a series of seminars for agencies to increase awareness of risk related issues. The sessions covered the following topics:

- **Managing Risks Associated with Contractors in the Workplace (7 and 8 July 2005)**
  Gerry Allen from Major Training Services Pty Ltd provided three half-day workshops in both the north and south of the State. The workshops covered workplace health and safety obligations, the procurement aspects of contractor occupational health and safety (OH&S) management, compliance with other legislative requirements and contract transition management.

- **Facilities Risk Management (13 September 2005)**
  David Kent from Marsh Risk Consulting guided participants through the regulatory framework relating to buildings and the potential impact of performance based design on property protection. Gerry Mullock, of local firm SEMF, then provided a detailed summary of equipment maintenance requirements both prior to and after the introduction of the *Building Act 2000* (Tas).

- **Insurance Clauses in Contracts (12 December 2005)**
  Melvyn Carr from the Office of the Crown Solicitor provided an overview of liability and insurance issues relevant to contracts for the provision of goods and services to government, with a focus on the particular features of Crown insurance clauses and the importance of undertaking a proper risk assessment. David Kent from Marsh then highlighted the differences between indemnity and insurance clauses, as well as conducting an examination of the different types of insurance cover policies.

St John Street Building, Launceston.

Our activities

- **Business Continuity Management (22 March 2006)**
  Bill Pollock of Marsh Risk Consulting provided advice on the practical considerations of recovering business processes and functions after an unexpected event has caused the work premises to be evacuated. Attendees were also given information about how to approach a business continuity plan and the relationship between business continuity planning and crisis management arrangements.

Guidelines for determining appropriate levels of insurance for goods and services contracts

Guidelines were developed in 2005-06 to provide practical assistance for agencies when determining the types and levels of insurance that must be held by contractors providing goods and services to government. The guidelines include a number of templates and process flow charts to assist agencies to undertake a risk assessment.

Peer review of the Actuary

Taylor Fry Consulting Actuaries was engaged in August 2005 to conduct a peer review of the actuarial services provided to the Tasmanian Risk Management Fund by its primary actuary.

The review provided the TRMF with comfort that reserves, methodologies and processes used by Bendzulla Actuarial Pty Ltd are appropriate and reflect good practice.

Peer review of the TRMF Unit

A peer review of the structure and operation of the Tasmanian Risk Management Fund (TRMF) Unit was undertaken by Adrian Westerman in August 2005.

Adult Education Building,
Weld Street, Hobart

Our activities

The review considered the operation and activities of the Unit, taking into consideration feedback from key stakeholders. Overall, the review concluded that the Unit effectively fulfils its role. Some suggestions were provided for further enhancement of the Unit's activities.

Performance indicators

A set of performance indicators has been developed to enable the TRMF to measure the degree to which it is meeting its stated risk, claim and Fund management objectives. Denominational information is being sourced from agencies to enable the further development of the performance indicators. As part of this process, the Fund Administration Agent will report against a suite of agreed performance targets regarding its legislative and contractual performance requirements, beginning in 2006-07.

The Return to Work and Injury Management Model

The TRMF Unit, with assistance from the Fund Administration Agent, Marsh Pty Ltd, provided a whole-of-government response to WorkCover Tasmania's draft Return to Work and Injury Management Model in March 2006. Stakeholder feedback will be considered by an Injury Management Working Group prior to making a final recommendation to the WorkCover Board. The TRMF is represented on the Working Group by Martin Broad from Marsh.

The Inter-agency Occupational Health and Safety Working Group

The TRMF Unit has continued to facilitate a bi-monthly forum for agency OH&S practitioners to discuss common OH&S issues and develop strategies to improve the whole-of-government approach to OH&S.

Our Fund Administration Agent's report

The last 12 months has seen the Fund Administration Agent, Marsh Pty Ltd, continue to develop and foster robust relationships with agency personnel to the advantage of the Fund and all stakeholders.

The "in-house" arrangement established by Marsh continues to provide efficiencies in the claims management process. Policies and procedures are monitored on an ongoing basis. Marsh is continually reviewing the current environment in order to identify any new initiatives that will provide benefits to the Fund.

During the 2005-06 year, 4 235 claims were lodged for incidents which occurred during the period 1 July 2005 to 30 June 2006.

Table 1 – Claim Numbers and Incurred Cost – Incidents Occurring in 2005-06

	Number of Claims	Incurred Cost ($ M)
Workers' Compensation	1 448	9.7
Property	2 417	5.8
Motor Vehicle	318	0.8
Liability	44	0.4
Miscellaneous	8	0.0

Chart 4 – Claim Numbers – 2005-06 Claims

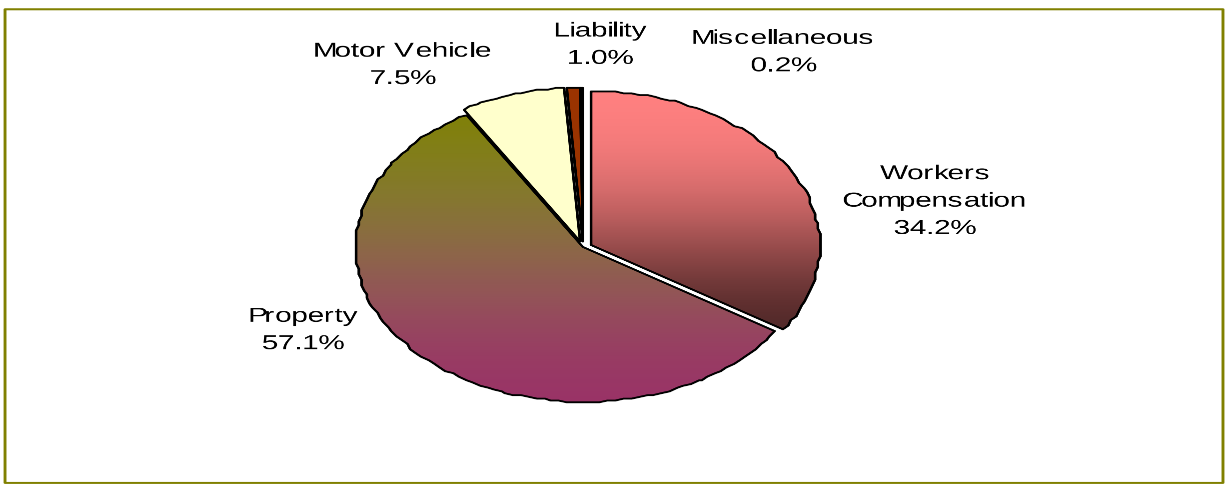
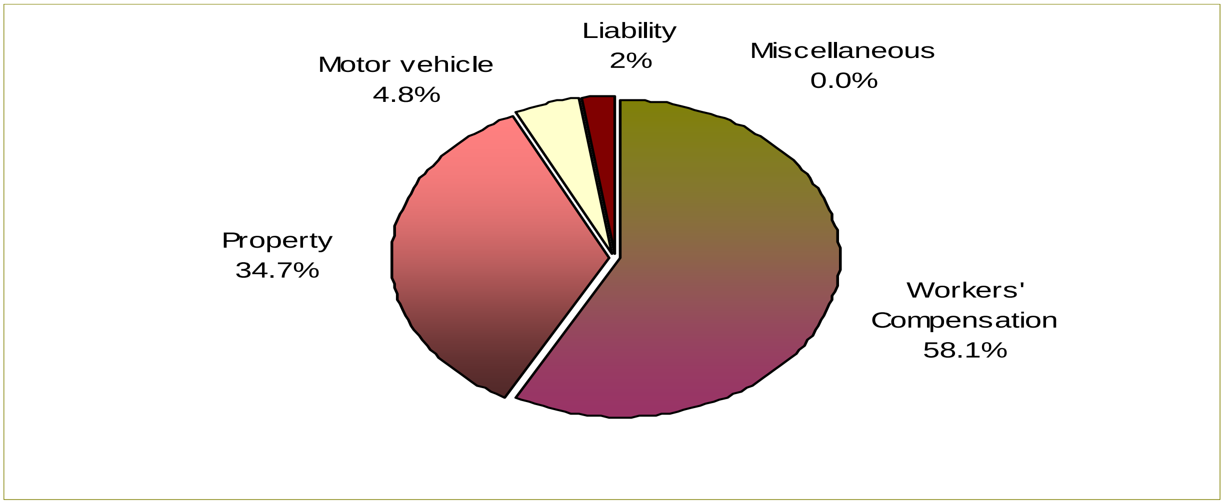


Chart 5 – Total Incurred Cost – 2005-06 Claims



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

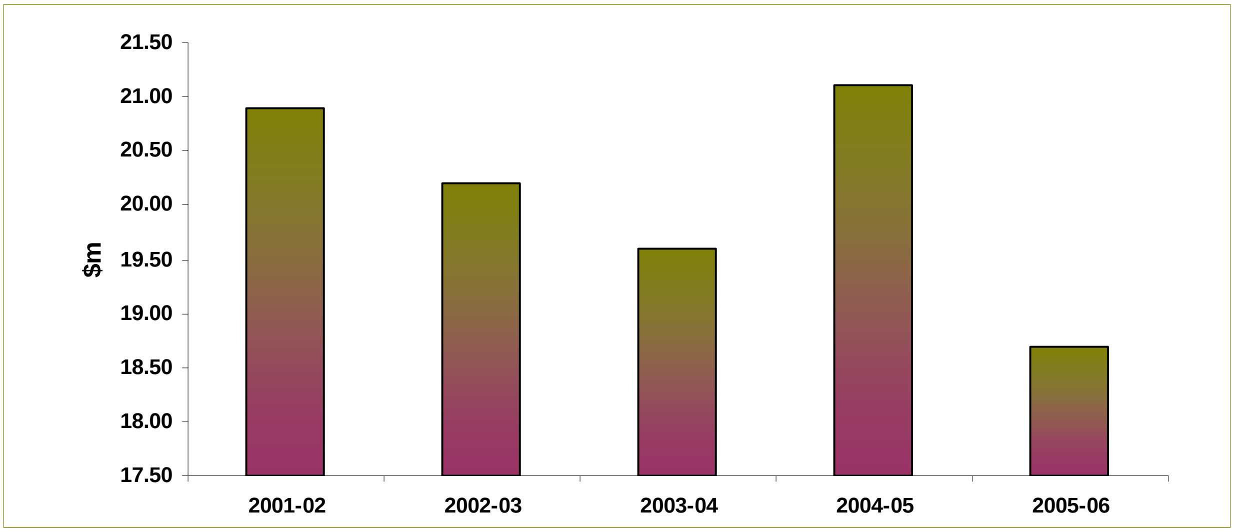
Workers' Compensation

Workers' compensation payments for all categories for 2005-06 totalled $18.7 million compared to $21.1 million for 2004-05, which is a decrease of 11.37 per cent. This is predominantly as a result of a decrease in the settlement of outstanding claims following a concerted effort by agencies to settle longer term claims in 2004-05. (These figures include payments relating to claims with a date of occurrence prior to 1988).

Table 2 – Workers' Compensation – Total Payments by Financial Year

Year	$M
2001-02	20.9
2002-03	20.2
2003-04	19.6
2004-05	21.1
2005-06	18.7

Chart 6 – Workers' Compensation – Total Payments by Financial Year



As at 30 June 2005, there were 1 448 claims made for incidents that occurred in 2005-06. This compares with 1 533 claims made in 2004-05, a decrease of 5.5 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.

Table 3 – Workers' Compensation Claim Numbers by Year of Incident

Year	Number Of Claims	Total Incurred Cost ($M)
2001-02	1 628	17.1
2002-03	1 559	13.9
2003-04	1 542	14.9
2004-05	1 533	10.4
2005-06	1 448	9.7

Chart 7 – Workers' Compensation Claim Numbers by Year of Incident

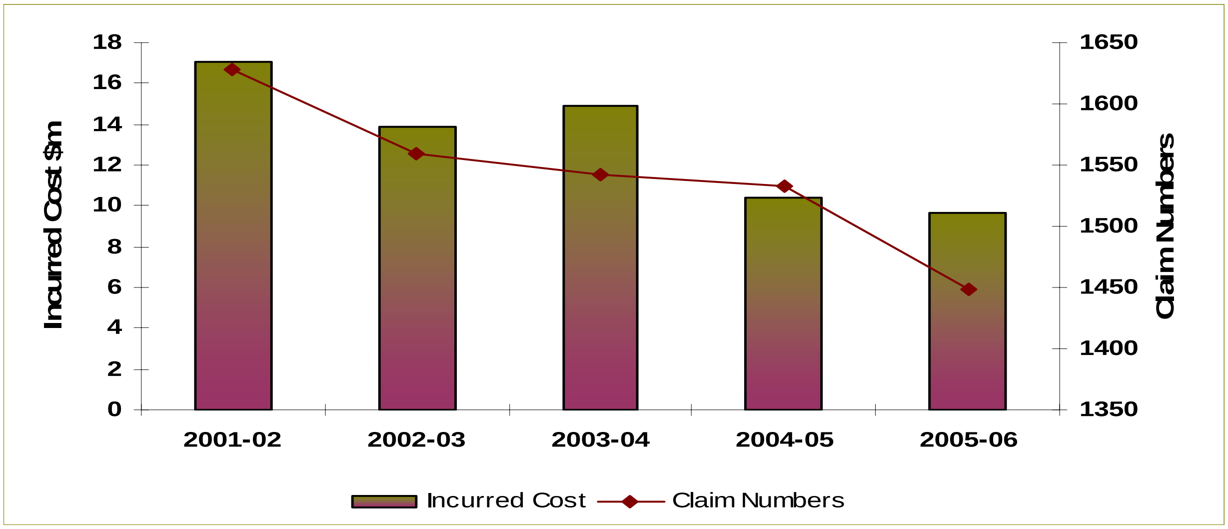
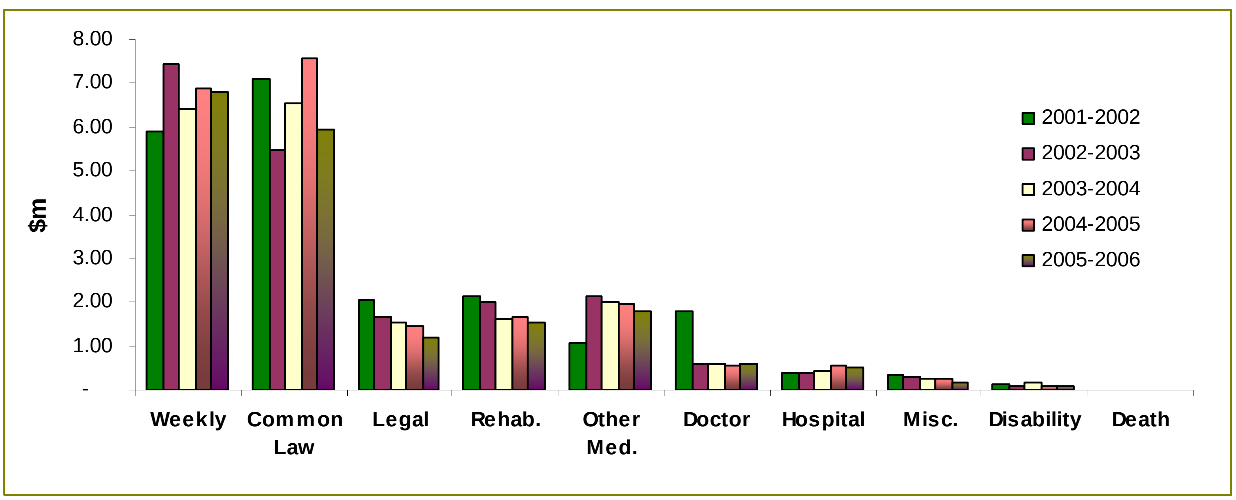


Chart 8 – Workers' Compensation Payments by Category by Financial Year



Payments by category for workers' compensation in 2005-06 were consistent with 2004-05.

The only exceptions were payments for common law (including negotiable settlements), which decreased by 21 per cent from $7.6 million in 2004-05 to $6.0 million in 2005-06.

Property (excluding motor vehicle claims)

In contrast to trends in other risk categories, property claims recorded an increase in incurred cost and average claim costs of 61 per cent and 65 per cent respectively.

These increases are attributable to an increase in the number of total losses of properties caused by fire, and increases in the cost of repairs.

Table 4 – Property – Claim Numbers and Claim Costs as at 30 June

Year	Number of Claims	Total Incurred Cost ($M)
2001-02	3 052	3.8
2002-03	2 832	3.2
2003-04	2 786	3.6
2004-05	2 461	3.7
2005-06	2 417	5.9

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

Chart 9 – Property – Claim Numbers and Incurred Costs as at 30 June

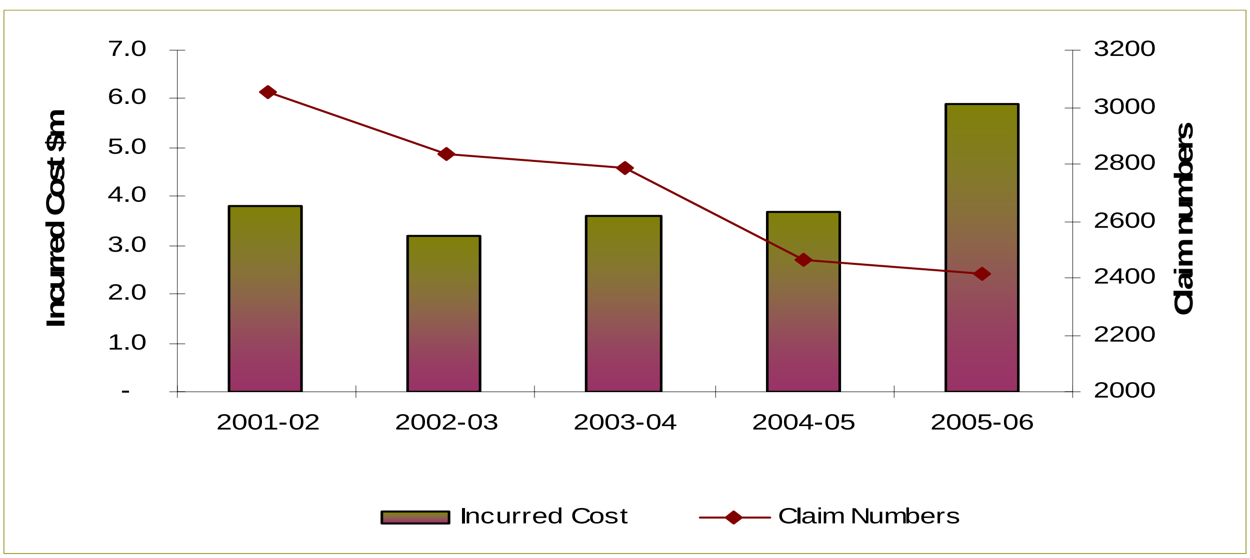
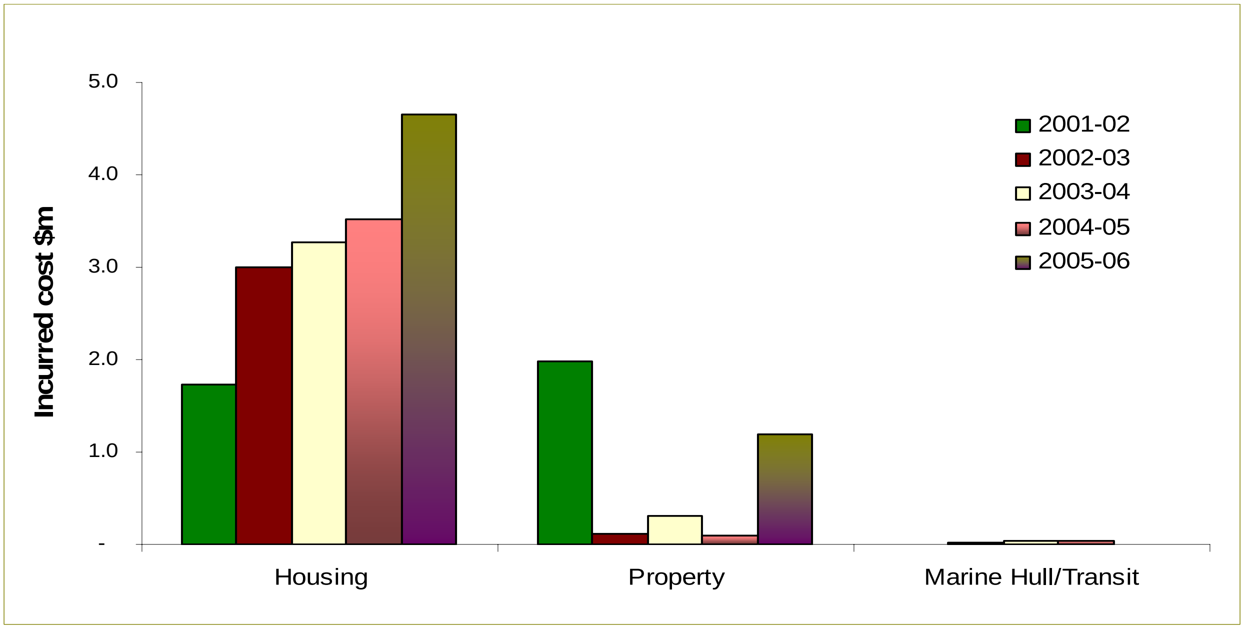


Chart 10 – Property Incurred Costs by Category as at 30 June



The majority of the incurred costs for property relate to damage to Housing Tasmania's assets. In 2005-06 the Department met the cost of claims up to an annual level of $3.8 million. The Fund provides an aggregate stop loss cover for claims costs for property damage in excess of this level.

Motor Vehicle

Motor vehicle claim numbers and incurred costs increased in 2005-06 compared to 2004-05. The increase in the total incurred cost is attributable both to a rise in the number of vehicles repaired at a cost exceeding $10 000 and an increase in the number of vehicles within the fleet.

Table 5 – Motor Vehicle – Claim Numbers and Incurred Costs as at 30 June

Year	Number of Claims	Total Incurred Cost $,000
2001-02	276	545 331
2002-03	257	766 641
2003-04	300	562 188
2004-05	295	698 266
2005-06	318	744 031

Chart 11 – Motor Vehicle – Claim Numbers and Incurred Costs as at 30 June

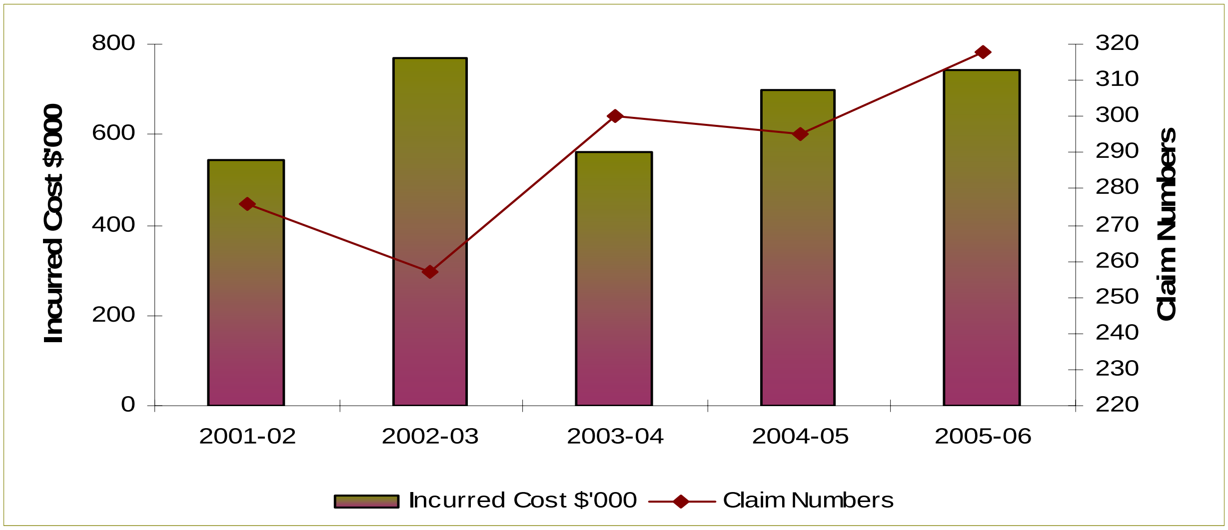
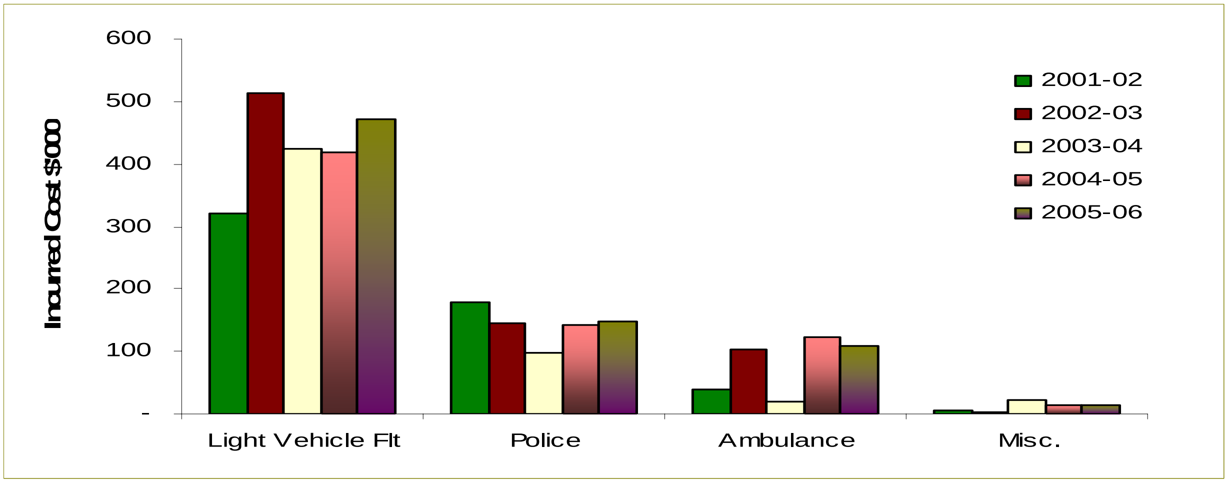


Chart 12: Motor Vehicle Incurred Costs by Category as at 30 June



Legal Liability

Forty-four public liability claims were reported where the incident giving rise to the claim occurred during 2005-06. This represents an 18 per cent reduction in claim numbers compared to the 2004-05 period. No professional indemnity claims have been reported in the last three years.

It is expected that further liability claims will be reported in the future for incidents that occurred during 2005-06. Consequently, claim numbers and costs are likely to increase slightly over time.

Table 6 – Liability Claims Comparison by Year of Incident

	2001-02	2002-03	2003-04	2004-05	2005-06	Difference as a % (2004-05 to 2005-06)
Claim Numbers	62	44	48	54	44	↓ 18 %
Total Paid	$46 378	$304 473	$130 572	$10 511	$724	↓ 93%
Outstanding Payments	$1 591 598	$100 607	$684 552	$279 558	$376 345	↑ 34%
Total Incurred Cost	$1 637 976	$405 080	$815 124	$290 069	$377 069	↑ 30%
Largest Incurred Claim	$1 200 000	$279 377	$313 169	$52 428	$181 235	↑ 245%

Medical Liability

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

Table 7 – Medical Liability Claims by Year Reported

Year	Number of Claims	Total Incurred Cost ($)
2003-04	25	612 526
2004-05	23	55 801
2005-06	16	1 035 071

Table 8 – 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%

As at 30 June 2006, there were 95 current medical liability claims with a total estimated cost of $26.8 million, of which $9.1 million has been paid and $17.8 million remains outstanding.

Our financial statements

Income Statement for the year ended 30 June 2006

	Notes	2006 $'000	2005 $'000
Income			
Agency contributions and recoveries	1.3(a), 2	30 463	29 285
Investment income	1.3(b), 2	6 322	5 069
Appropriation revenue – recurrent	1.3(c), 2	5 000	5 000
Other income	1.3(d), 2	27	21
Total income		41 812	39 375
Expenses			
Claims expense	1.4(a), 3.2	36 402	39 636
Other underwriting expenses	1.4(b), 3.3	1 435	1 343
General administration expenses	1.4(c), 3.4	426	644
Total expenses		38 263	41 623
Net operating surplus (deficit)		3 549	(2 248)

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

Balance Sheet as at 30 June 2006

	Notes	2006 $'000	2005 $'000
Assets			
Cash and cash equivalents	1.5(a), 10.1	112 805	95 961
Receivables	1.5(b), 5	2 104	839
Total assets		114 909	96 800
Liabilities			
Payables	1.6(a), 6	1 315	531
Outstanding claims	1.6(b), 7	115 300	101 523
Provision for employee entitlements	1.6(c), 8	65	66
Total liabilities		116 680	102 120
Net assets (liabilities)		(1 771)	(5 320)
Equity			
Accumulated (deficit)/surplus		(1 771)	(5 320)
Total equity	9	(1 771)	(5 320)

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

Cash Flow Statement for the year ended 30 June 2006

	Notes	2006 $'000 Inflows (Outflows)	2005 $'000 Inflows (Outflows)
Cash flows from operating activities			
Cash inflows			
Agency contributions		29 339	28 851
Other income		5 000	5 021
Interest received		6 208	5 035
Total cash inflows		40 547	38 907
Cash outflows			
Claims and expenses paid		(19 949)	(24 880)
Fund management fees		(1 913)	(1 865)
Underwriting expenses		(1 435)	(1 343)
General and administration expenses		(406)	(631)
Total cash outflows		(23 703)	(28 719)
Net cash from (used by) operating activities	10.2	16 844	10 188
Net increase (decrease) in cash held		16 844	10 188
Cash at the beginning of the reporting period		95 961	85 773
Cash at the end of the reporting period	10.1	112 805	95 961

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

Statement of Changes in Equity for the year ended 30 June 2006

	Notes	2006 $'000	2005 $'000
Balance as at 1 July		(5 320)	(3 072)
Profit attributable to the Fund		3 549	(2 248)
Transfers to and from reserves		…	…
Sub total		3 549	(2 248)
Balance as at 30 June	9	(1 771)	(5 320)

This Statement of Changes in Equity should be read in conjunction with the accompanying notes.

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 the treatment of all insurable risks to which agencies are exposed. On 1 July 2001, the Tasmanian State Service Workers' Compensation Scheme (TSSWCS) merged with the TRMF.

The TRMF operates on a fully funded basis and participating government agencies pay annual contributions to the TRMF to meet current and emerging claim costs for all 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 have been drawn up as a general purpose financial report in accordance with Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board (AASB).

From 1 January 2005, Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AEIFRS). Accordingly, the TRMF's Financial Statements have been prepared in accordance with AEIFRS for the first time.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Accounting Reporting Standards, adjustments to the accounts resulting from the introduction of AEIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied.

The Financial Statements have been prepared on an accrual basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

The Financial Statements are presented in Australian dollars.

1.3 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 and Recoveries

Agency contributions comprise amounts required to be paid by participating agencies of the TRMF to meet the cost of claims. Recoveries comprise of costs recovered from legally liable third parties. The earned portion of the contributions and recoveries received and receivable is recognised as revenue. Contributions and recoveries are treated as earned from the date of attachment of risk.

(b) Investment Income

Interest is recognised as it accrues.

(c) Appropriation Revenue - Recurrent

Appropriation revenue is recognised as revenues 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.

1.4 Expenses

Expenses are recognised in the Income Statement when a decrease in future economic benefits related to a decrease in 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
Liability	- from 1 July 1999
Medical Malpractice	- 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, unnotified claims and settlement costs) are reassessed by the Fund Manager in consultation with an independent actuary. The method for 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 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 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 an independent 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 an independent actuary.

(ii) Property

The liability for outstanding claims in respect of property and business, business interruption and machinery breakdown is measured using aggregate case estimates increased by 37.5 per cent (2005: 30 per cent) for expenses and 25 per cent (2005: 25 per cent) for incurred but not reported (IBNR) and incurred but not enough reported (IBNER) claims. For the Department of Health and Human Services housing portfolio, the IBNR/IBNER allowance is 20 per cent (2005: 20 per cent). Claims outstanding have been assessed in consultation with an independent actuary.

In addition, the TRMF provides cover in respect of marine hull under this category. This risk is fully reinsured with external insurers 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 plus allowances for expenses and IBNR and IBNER claims. Claims outstanding have been assessed in consultation with an independent actuary. At 30 June 2006 the aggregate case estimates showed a net recovery position. Receipt of this net recovery has not been anticipated in the 2006 provision. Allowance for claims administration expenses and for IBNR and IBNER claims has however been made. (In 2005, the provision was based on aggregate case estimates and was increased by 15 per cent for expenses and 25 per cent of 2004-05 case estimates for IBNR and IBNER claims).

(iv) Liability

The liability for outstanding claims in respect of public and products, professional, and directors and officers is measured using aggregate case estimates and increased by 10 per cent for expenses and 35 per cent for IBNR and IBNER claims (2005: 10 per cent and 35 per cent respectively). Claims outstanding have been assessed in consultation with an independent 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 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 7.3.

(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 an independent actuary. Travel insurance for agencies is also included in this category but is fully reinsured 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 Fund. General administration expenses are recognised when the TRMF has a present obligation in respect of the expenditure and the amount can be reliably determined.

1.5 Assets

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

(a) Cash and Cash Equivalents

Cash and cash equivalents include cash-on-hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(b) Receivables

Receivables are recognised as the amounts receivable as they are due for settlement. Impairment of receivables is reviewed on an annual basis. Impairment losses are recognised when there is an indication that there is a measurable decrease in the collectability of receivables.

1.6 Liabilities

Liabilities are recognised in the Balance Sheet when it is probable than 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 are recognised when the TRMF becomes 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.

(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, unnotified claims and settlement costs) are reassessed by the Fund Manager in consultation with an independent actuary. The method for determining the liability for outstanding claims is outlined in Note 1.4 - Claims Expense.

(c) Provision for Employee Entitlements

Liability for wages and salaries and annual leave are recognised and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

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.

1.7 Goods and Services Tax (GST)

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 (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 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 Statement of Cash Flows on a net basis. Records of the Department of Treasury and Finance indicate that GST relating to income items amounted to $2.754 million (2004-05: $2.734 million) and GST relating to expense items amounted to $0.635 million (2004-05: $0.607 million).

1.8 Tax Status

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

Note 2 Income

	2006 $'000	2005 $'000
Agency contributions and recoveries	30 463	29 285
Investment income	6 322	5 069
Appropriation revenue – recurrent	5 000	5 000
Other income	27	21
Total income	**41 812**	**39 375**

Appropriation revenue - recurrent is received from the Consolidated Fund to ensure that outstanding medical claims are adequately funded. It is intended that this appropriation will continue until all medical claims are fully funded.

Note 3 Expenses

3.1 Individually Significant Expenses

	2006 $'000	2005 $'000
Claims - personal injury	19 792	19 230
Claims - medical	10 031	15 412

3.2 Claims Expenses

	2006 $'000	2005 $'000
Claims paid	19 949	23 997
Claims accrued	764	384
Movement in outstanding claims (including medical liability)	13 777	13 390
Management expenses	1 912	1 865
	36 402	39 636

3.3 Other Underwriting Expenses

	2006 $'000	2005 $'000
Payment to WorkCover Tasmania Board and Nominal Insurer	1 435	1 343

As a result of the HIH collapse and amendments to the *Workers Rehabilitation and Compensation Act 1988,* the TRMF contributes 4 per cent of workers' compensation contributions to the Nominal Insurer.

3.4 General Administration Expenses

	2006 $'000	2005 $'000
Actuarial expenses	96	130
Accounting and audit fees	23	21
Salaries and on costs	253	255
Other	54	238
	426	644

The TRMF is currently in discussions with the previous agent of the Fund Administrator regarding the underpayment of management fees. The current estimate of underpayment is $0.107 million, and was recognised as a liability and expense in 2005. The likelihood of payment is considered to be minimal.

Note 4 Underwriting Result

	2006 $'000	2005 $'000
Agency contributions and recoveries	30 463	29 285
Claims expense	(36 402)	(39 636)
Other underwriting expenses	(1 435)	(1 343)
	(7 374)	(11 694)

Note 5 Receivables

Accrued interest	542	429
Contributions receivable from agencies	1 533	357
Insurance recoveries	29	53
	2 104	839

Note 6 Payables

Unreimbursed claims	1 148	384
Other	167	147
	1 315	531

As described in Note 3.4, other creditors includes an allowance for the underpayment of management fees to the previous agent of the Fund Administrator for $0.107 million.

Note 7 Outstanding Claims

7.1 Current and Non-Current Outstanding Claims

Current outstanding claims are those expected to be settled no more than twelve months after the reporting date. Non-current outstanding claims are those expected to be settled more than twelve months after the reporting date.

	2006	2005
	$'000	$'000
Current		
Personal injury	19 292	20 000
Property	4 080	2 890
Motor vehicle	50	140
Liability	1 000	1 000
Medical	4 666	4 320
	29 088	28 350
Non-current		
Personal injury	39 848	36 843
Liability	4 470	3 460
Medical	41 894	32 870
	86 212	73 173
Total outstanding claims	115 300	101 523

Explanation for major variances in provisions for outstanding claims:

Property

The increase in the provision for property claims is a result of:

- worse than expected claims experience on the Department of Health and Housing Services housing portfolio in respect of the 2005-06 year; and
- payments in 2005-06 being less than expected.

Medical Liability

The change in the provision for medical liability claims is a result of:

- increases in the case estimates for reported claims with incident dates prior to 1 July 2005;
- allowance for claims expected to arise in respect of the 2005-06 year; and
- payments in 2005-06 being less than expected.

7.2 Workers' Compensation

	2006	2005
	$'000	$'000
The liability for outstanding workers' compensation claims is determined by an independent actuary.		
Expected future claims payments (undiscounted)	66 595	63 633
Less discounted to present values	(6 350)	(5 775)
Less recoveries under excess	(1 184)	(1 015)
	59 061	**56 843**
Current	19 292	20 000
Non-current	39 769	36 843
	59 061	**56 843**
The weighted average expected term of settlement from the balance date is estimated at:	2.10 years	2.22 years
In measuring the liability for outstanding claims, the following rates were used:		
- Inflation rate (years 1 – 3)	5.5%	5.5%
- Inflation rate (years 4 onward)	5.5%	5.5%
- Discount rate	5.5%	5.0%

7.3 Medical Liability

	2006 $'000	2005 $'000
The liability for outstanding medical liability claims is determined by an independent actuary.		
Expected future claims payments (undiscounted)	70 370	55 000
Less discounted to present values	(22 000)	(15 910)
Less recoveries under excess	(1 810)	(1 900)
Liability for outstanding claims	46 560	37 190
Current	4 666	4 320
Non-current	41 894	32 870
	46 560	37 190
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 (years 1 – 3)	8.0%	8.0%
- Inflation rate (years 4 onward)	8.0%	8.0%
- Discount rate	5.5%	5.0%

Note 8 Provision for Employee Entitlements

Annual leave	16	11
Long service leave	49	55
Employee entitlements	65	66

Note 9 Equity

	2006 $'000	2005 $'000
Accumulated (deficit)/surplus at the beginning of the year	(5 320)	(3 072)
Current year net (deficit)/surplus	3 549	(2 248)
Accumulated (deficit)/surplus at the end of the year	(1 771)	(5 320)

Note 10 Cash Flow Reconciliation

10.1 Reconciliation of Cash

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	112 805	95 961

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

Operating surplus (deficit)	3 549	(2 248)
(Increase)/decrease in interest receivable	(114)	(34)
(Increase)/decrease in agency contributions	(1 176)	(357)
(Increase)/decrease in insurance recoveries	23	(40)
Increase/(decrease) in creditors	785	(220)
Increase/(decrease) in provisions	-	(6)
Increase/(decrease) in claims payable	13 777	13 093
Net cash inflow/(outflow) from operating activities	16 844	10 188

Note 11 Financial Instruments

11.1 Financial Risk Management

The TRMF's financial instruments consist mainly of cash in the TRMF Account in the Special Deposits and Trust Fund, accounts receivable and accounts payable.

The main purpose of non-derivative financial instruments is to raise finance for the TRMF's operations. The TRMF does not have any derivative instruments at 30 June 2006.

The Department of Treasury and Finance monitors the TRMF's financial position and performance on an ongoing basis.

The main risks to which the TRMF is exposed through its financial instruments are interest rate risk, liquidity risk and credit risk.

11.2 Interest Rate Risk

Financial instruments for the purposes of the TRMF are limited to receivables, creditors and cash in the TRMF Account in the Special Deposits and Trust Fund. Creditors and receivables of the TRMF are not subject to any interest rate risk. The TRMF Account is subject to a variable interest rate, which resulted in an average interest rate for the year ended 30 June 2006 of 5.82 per cent (30 June 2005: 5.44 per cent).

11.3 Foreign Currency Risk

The TRMF is not exposed to fluctuations in foreign currencies.

11.4 Liquidity Risk

The TRMF manages liquidity risk by monitoring forecast cash flows and ensuring that adequate facilities are maintained.

11.5 Credit Risk

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

11.6 Price Risk

The TRMF is not exposed to any material commodity price risk.

11.7 Net Fair Value

The carrying amount of the TRMF account 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 TRMF.

Note 12 Changes in Accounting Policy

12.1 Transition to Australian Equivalents to International Financial Reporting Standards

The TRMF's management, along with external consultants, have assessed the significance of the expected changes and are preparing for their implementation. The impact of the alternative treatments and elections under AASB1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The TRMF is of the opinion that there are no material differences in the TRMF's accounting policies on conversion to AEIFRS. Users of the financial statements should note, however, that the impact of AEIFRS on the TRMF could change if there are any amendments by standard-setters to the current AEIFRS.

Tasmanian Risk Management Fund

Certification of Financial Statements for the year ended 30 June 2006

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 2006 and the financial position as at 30 June 2006.

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.

Rob Nicholl
ACTING SECRETARY
Department of Treasury and Finance

Date: 23 August 2006

Our Auditor's report

Tasmanian Audit Office

INDEPENDENT AUDIT REPORT

To the Members of the Parliament of Tasmania

TASMANIAN RISK MANAGEMENT FUND

Financial Statements for the Year Ended 30 June 2006

Matters Relating to the Electronic Presentation of the Audited Financial Report

This audit report relates to the financial statements published in both the annual report and on the website of the Department of Treasury and Finance for the year ended 30 June 2006. The Secretary of the Department of Treasury and Finance is responsible for the integrity of both the annual report and the website.

The audit report refers only to the financial statements and notes named below. It does not provide an opinion on any other information that may have been hyperlinked to/from the audited financial statements.

If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial statements in the Tasmanian Risk Management Fund's annual report.

Scope

The financial statements and the Secretary's responsibilities

The financial statements comprise the income statement, balance sheet, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the statement from the Secretary for the year ended 30 June 2006.

The Secretary is responsible for the preparation and true and fair presentation of the financial statements. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

Audit approach

I conducted an independent audit in order to express an opinion to the Members of the Parliament of Tasmania. My audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial statements are free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

I performed procedures to assess whether in all material respects the financial statements presents fairly, in accordance with the Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Tasmanian Risk Management Fund's

Accountability on Your Behalf

financial position, and of its performance as represented by the results of its operations, cash flows and changes in equity.

I formed my audit opinion on the basis of these procedures, which included:

- Examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial statements, and
- Assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Secretary.

While I considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of my procedures, my audit was not designed to provide assurance on internal controls.

The Audit Opinion expressed in this report has been formed on the above basis.

Independence

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

Audit 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 2006, and the results of its operations, cash flows and changes in equity for the year then ended; and

b) Are in accordance with applicable Accounting Standards and other mandatory financial reporting requirements in Australia.

TASMANIAN AUDIT OFFICE

N G I'Anson
ACTING DIRECTOR
Delegate of the AUDITOR-GENERAL

HOBART
16 October 2006

Our contact details

Theatre Royal, Hobart

The members of the Tasmanian Risk Management Fund Unit of the Department of Treasury and Finance as at 30 June 2006 are:

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