

Tasmanian Risk Management Fund

Annual Report 2006-07



Contents

Policy statement	3
Performance	5
TRMF Unit achievements	7
Fund Administration Agent's report	8
Financial report	17
Independent audit report	36
Contact details	38

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 fully fund claims costs and protect against 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.

Tasmanian Risk Management Fund Unit

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

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.

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

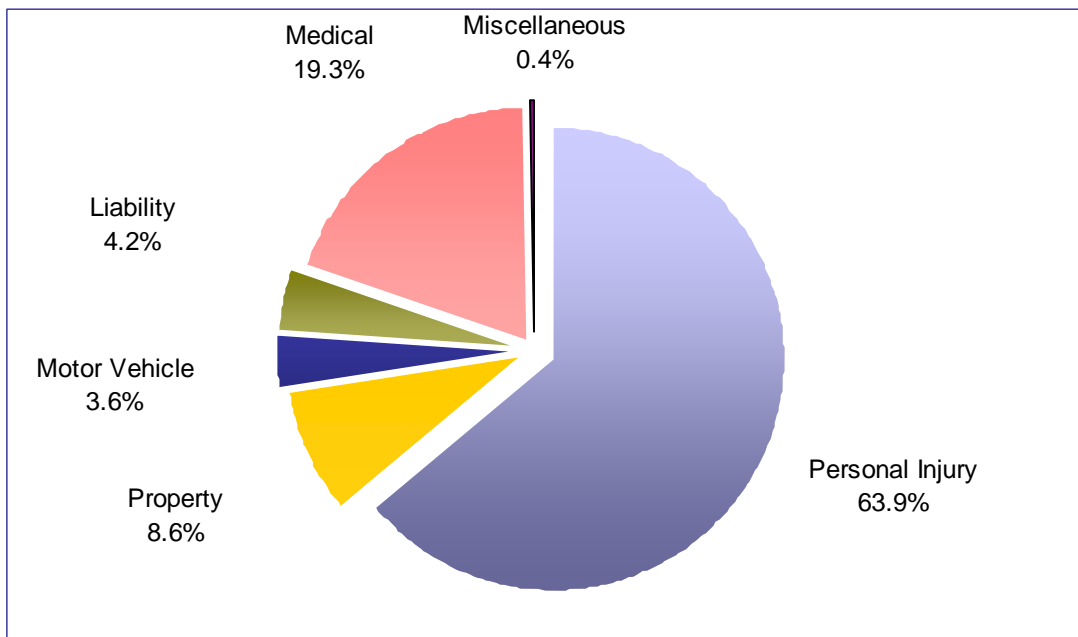
WHK Denison is engaged to prepare annual Financial Statements and Statement of Findings reports for the Fund. The main objective of the Statement of Findings is to verify the figures used in the Fund's Financial Statements and to review the controls and processes in place for the management of claims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

Performance

Contributions

In 2006-07 gross contributions to the Fund totalled \$27.8 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



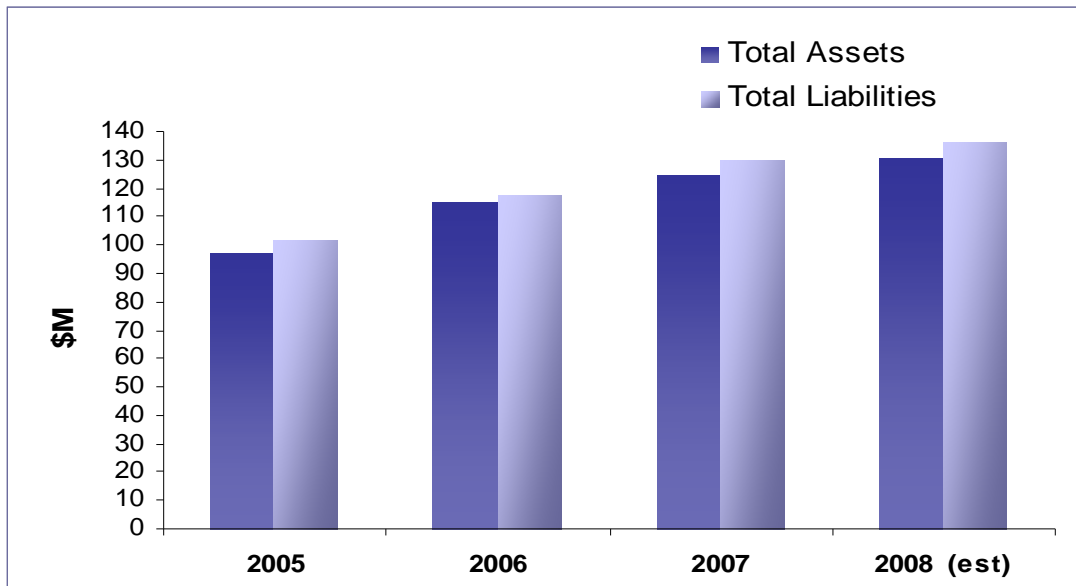
The Fund has continued the trend of minimal increases or, in some risk areas, reductions in contributions in 2006-07.

Financial Position

As at 30 June 2007, the Fund had total assets of \$124.1 million and estimated liabilities of \$130.0 million, resulting in net liabilities of \$5.9 million. The position of the Fund for the past four years is represented in Chart 2.

The increase in liabilities in 2004-05, 2005-06 and 2006-07 has largely been the result of a revised estimate by the Fund's Actuary of outstanding medical liability claims. The value of outstanding medical liability claims was estimated in 2003-04 at \$37.2 million, revised to \$46.6 million in 2005-06 and revised again to \$55.2 million as at 30 June 2007.

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.

TRMF Unit achievements

During 2006-07, the TRMF Unit:

- developed and issued a **Policy and Disclosure document** for the Fund. This document provides a comprehensive summary of the purpose of the Fund and the risks and entities covered by the Fund. It can be found under the 'About the Fund' section on the TRMF website (www.treasury.tas.gov.au/trmf);
- initiated **regular visits to agencies** as part of a new communication strategy to replace TRMF sub-committee meetings. These visits provide an opportunity for effective discussion of arising issues and for building stronger relationships;
- commenced planning and prepared tender documentation in relation to the awarding of a new contract for the provision of fund administration services to the Fund, as the current **Fund Administration Agent contract** expires on 30 June 2008; and
- developed a policy in relation to the provision of **cover for agency-related entities**. The policy reaffirms that generally cover is only extended to inner-Budget agencies, however consideration will be given, on a case-by-case basis, to include agency-related entities that meet established criteria.

During 2007-08, the TRMF Unit will continue to work with agencies and the Fund's Actuary to ensure adequate financial provision is made for the cost of risk. The Unit will also evaluate tender submissions and award a new contract for the provision of fund administration services to the Fund.

Fund Administration Agent's report

Throughout 2006-07 the Fund Administration Agent continued to promote cooperative and sustainable relationships with agency personnel to the advantage of the Fund and all stakeholders.

During the 2006-07 year, 4 512 claims were lodged for incidents which occurred during the period 1 July 2006 to 30 June 2007.

These claims can be broken up as follows:

Table 1 – Claim Numbers and Incurred Cost – Incidents Occurring in 2006-07

	Number of Claims	Incurred Cost (\$ M)
Workers' Compensation	1 436	12.5
Property	2 658	6.8
Motor Vehicle	381	0.9
Liability	34	0.3
Miscellaneous	3	0.1

Chart 3 – Claim Numbers – 2006-07 Claims

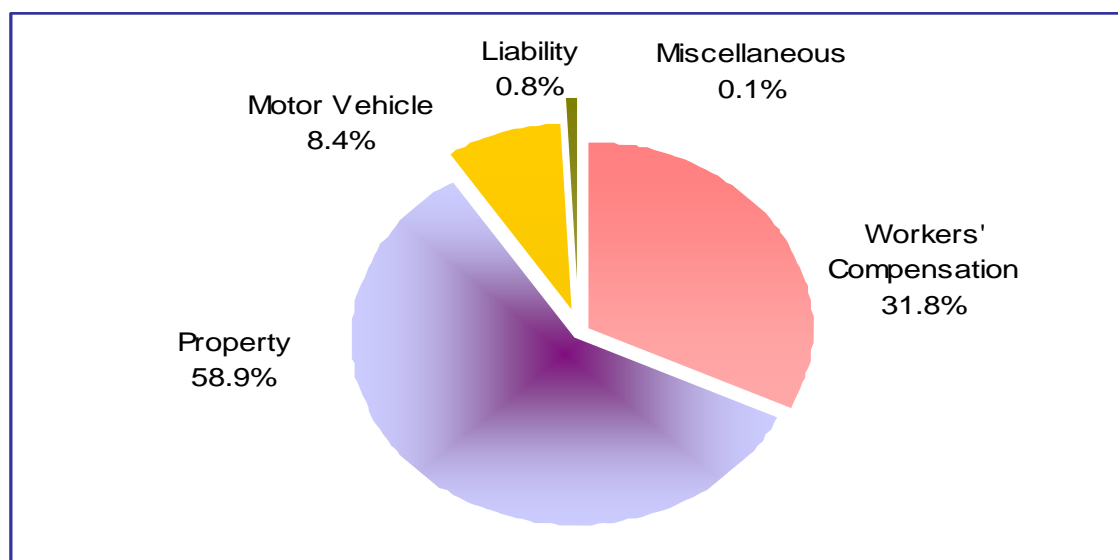
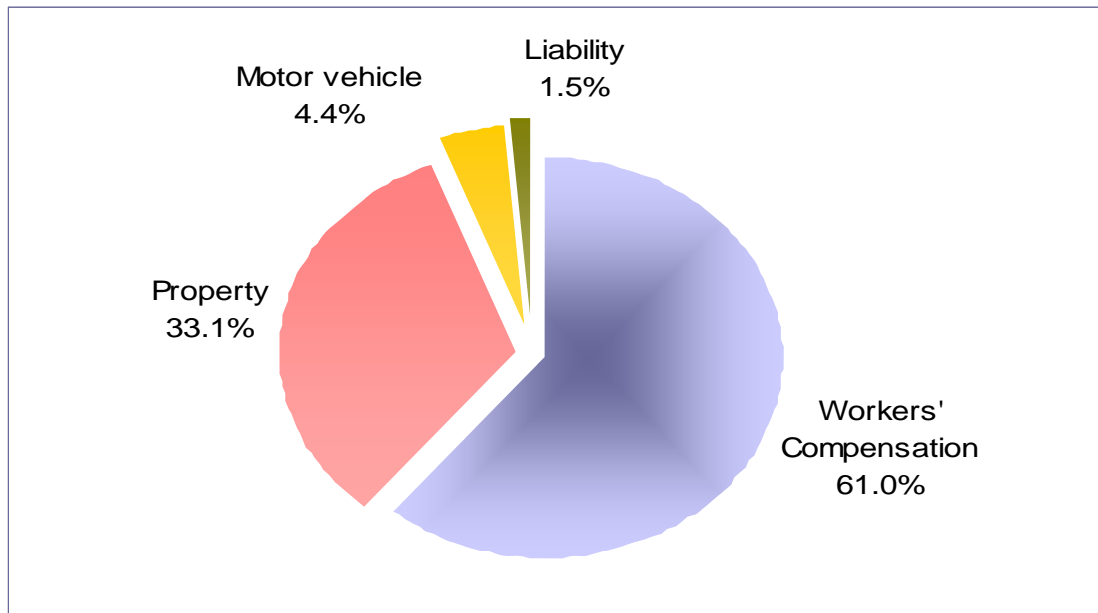


Chart 4 – Total Incurred Cost – 2006-07 Claims



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

Workers' Compensation

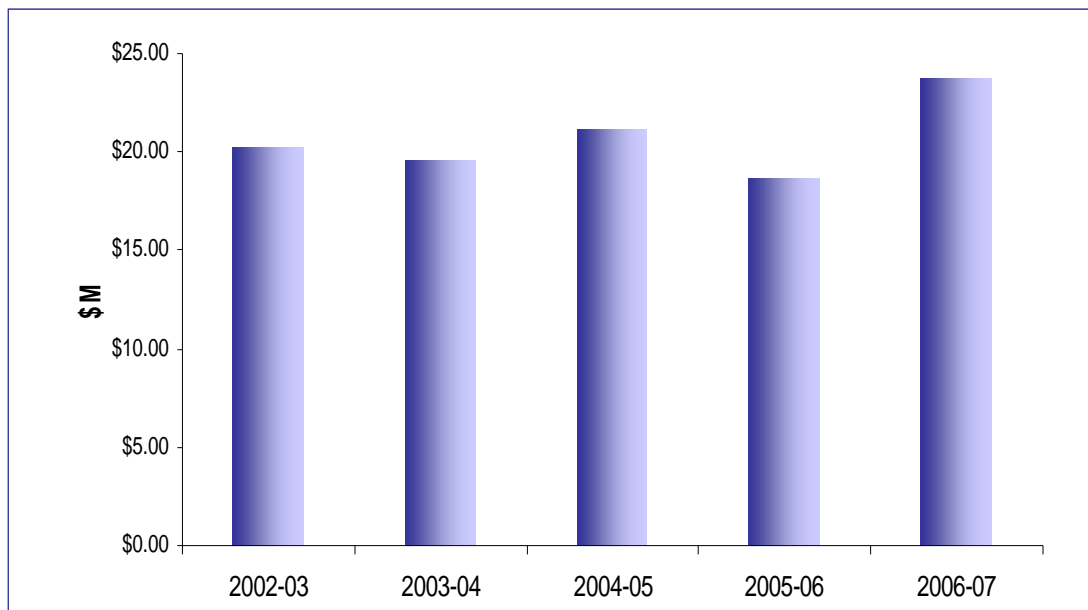
Workers' compensation payments for all categories for 2006-07 totalled \$23.7 million compared to \$18.7 million for 2005-06, which is an increase of 26.7 per cent. This is predominantly attributable to a change in the focus of agencies with resources directed towards efforts to settle outstanding claims.

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

Year	\$M
2002-03	20.2
2003-04	19.6
2004-05	21.1
2005-06	18.7
2006-07	23.7

Note: These figures include payments relating to claims with a date of occurrence prior to 1988 which differs from the data published by WorkCover Tasmania.

Chart 5 – Workers’ Compensation - Total Payments by Financial Year



As at 30 June 2007, there were 1 437 claims made for incidents that occurred in 2006-07. This compares with 1 596 claims made in 2005-06, a decrease of 10 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)
2002-03	1 559	14.9
2003-04	1 543	19.2
2004-05	1 535	13.0
2005-06	1 596	13.6
2006-07	1 436	12.5

Chart 6 – Workers’ Compensation Claim Numbers by Year of Incident

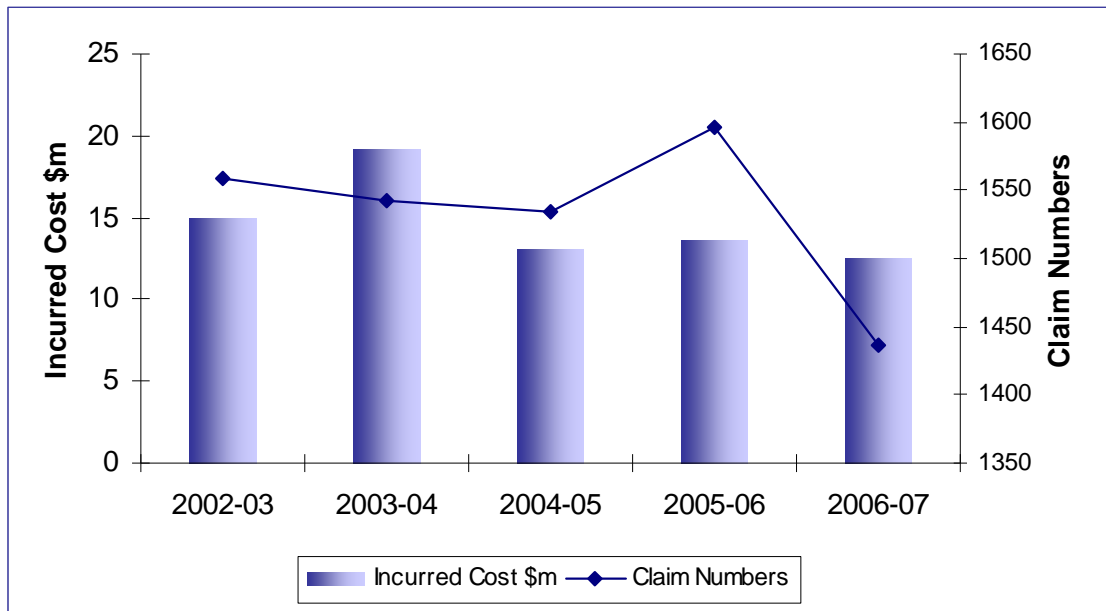
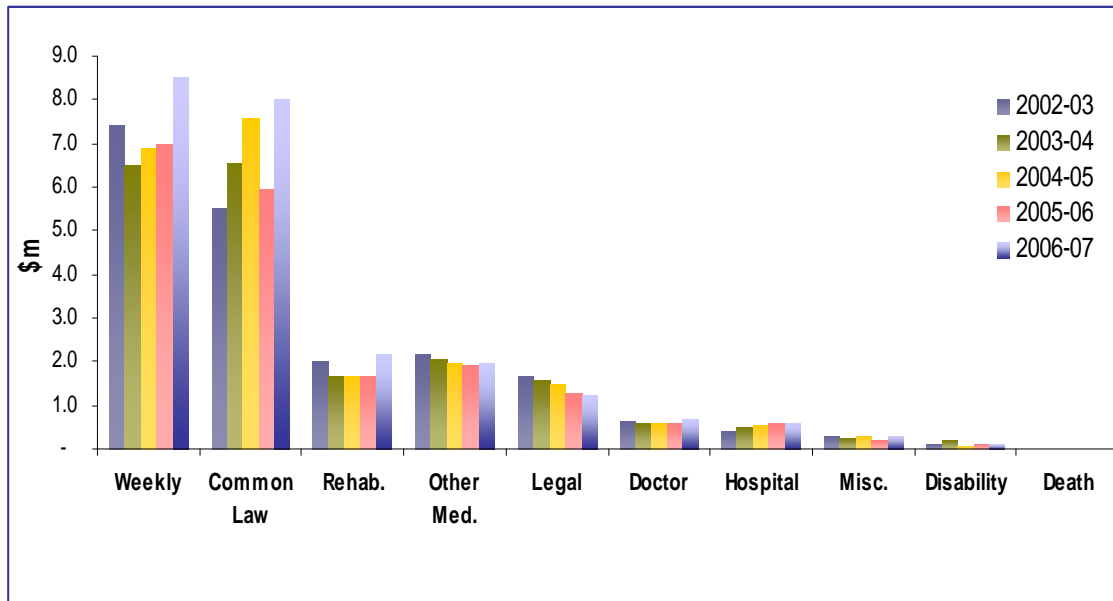


Chart 7 – Workers’ Compensation Payments by Category by Financial Year



Payments for most risk categories for workers’ compensation in 2006-07 were consistent with 2005-06.

The main exceptions were payments for common law (including negotiated settlements), which increased by 33.3 per cent from \$6m in 2005-06 to \$8m in 2006-07, and weekly payments which increased by 22 per cent from \$6.9m in 2005-06 to \$8.5m in 2006-07.

The significant increase in common law payments from 2005-06 to 2006-07 is attributable to a change in focus by agencies with resources directed towards settlement of older claims.

Property (excluding motor vehicle claims)

Overall, an increase of 9.7 per cent in the number of claims reported occurred in 2006-07, and property claims recorded an increase in incurred costs of 15.5 per cent.

These increases are attributable to 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 for the year ending 30 June

Year	Number of Claims	Total Incurred Cost (\$M)
2003	2 832	3.2
2004	2 786	3.6
2005	2 462	3.7
2006	2 423	5.8
2007	2 658	6.7

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

Chart 8 – Property – Claim Numbers and Incurred Costs for the year ending 30 June

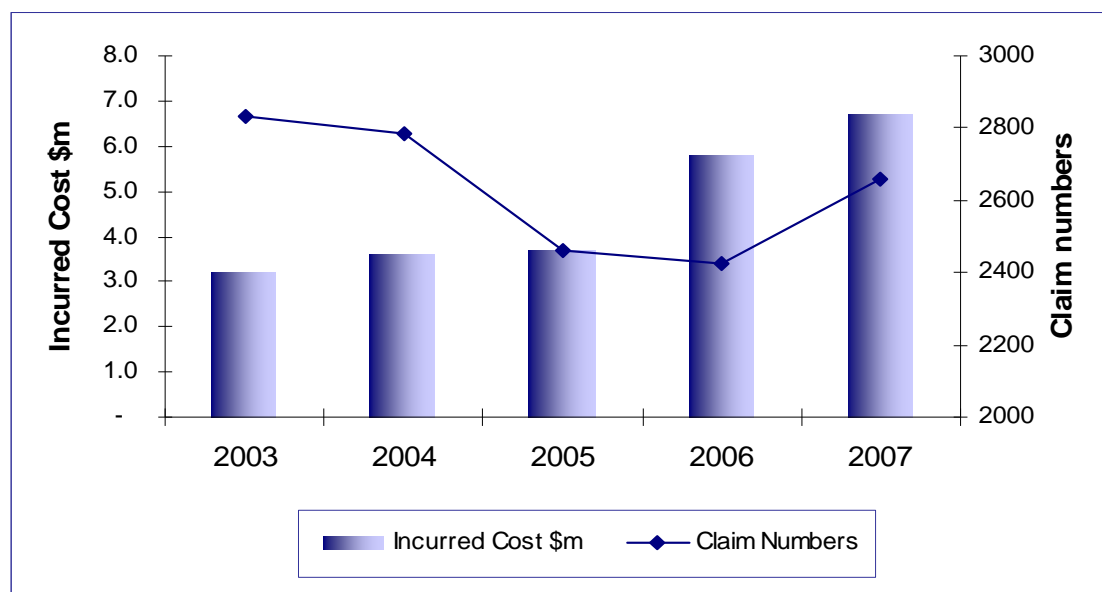
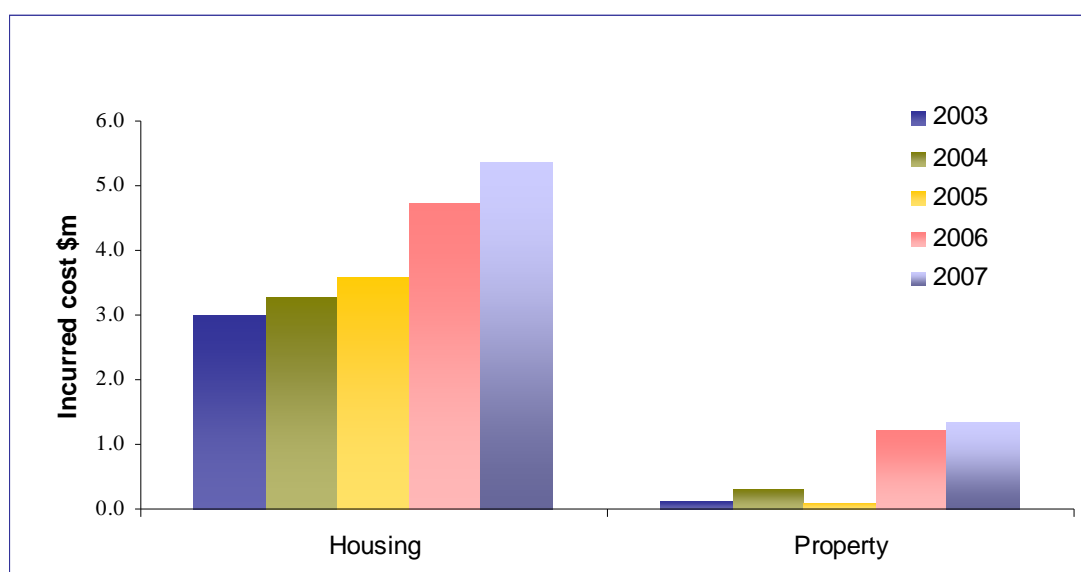


Chart 9 – Property Incurred Costs by Category for the year ending 30 June



The majority of the incurred costs for property relates to damage to Housing Tasmania's assets. In 2006-07 the Department of Health and Human Services met the basic cost of claims up to an annual level of \$3.8m. The Fund provides an aggregate stop loss insurance cover for claims costs for property damage in excess of this level.

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

Motor Vehicle

When compared to 2005-06, motor vehicle claim numbers and total incurred costs increased by 13 per cent and 3 per cent respectively in 2006-07. The increase in the total incurred costs is attributable both to a rise in the number of claims reported and the number of vehicles repaired at a cost exceeding \$10 000. During 2006-07, there were seven total loss claims (one more than in 2005-06), at a total cost of \$97 455.

Table 5 – Motor Vehicle – Claim Numbers and Incurred Costs for the year ending 30 June

Year	Number of Claims	Total Incurred Cost \$'000
2003	257	758 483
2004	300	597 279
2005	295	715 200
2006	338	893 949
2007	381	921 576

Chart 10 – Motor Vehicle – Claim Numbers and Incurred Costs for the year ending 30 June

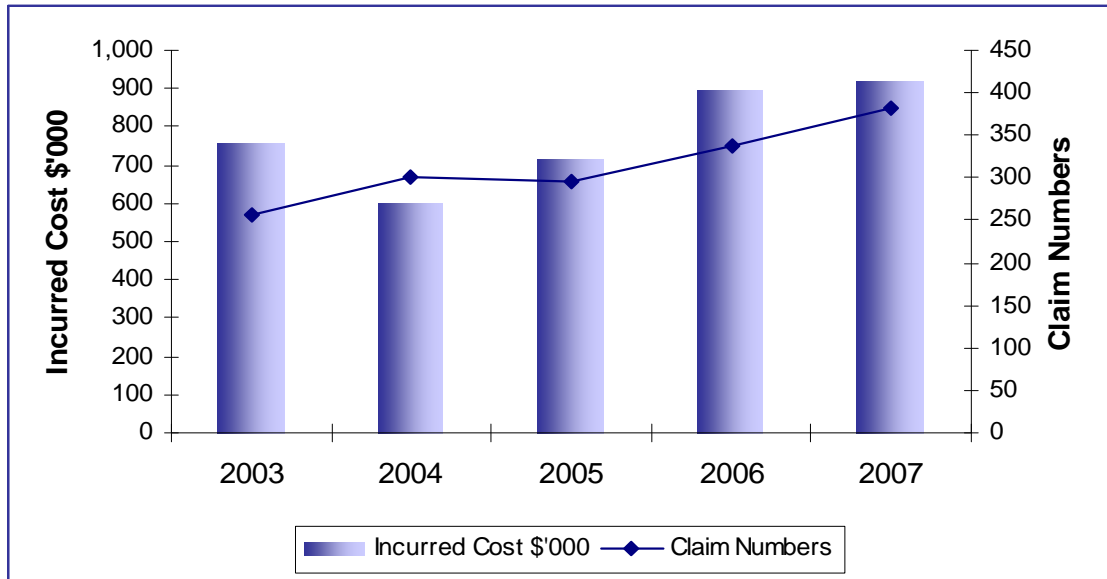
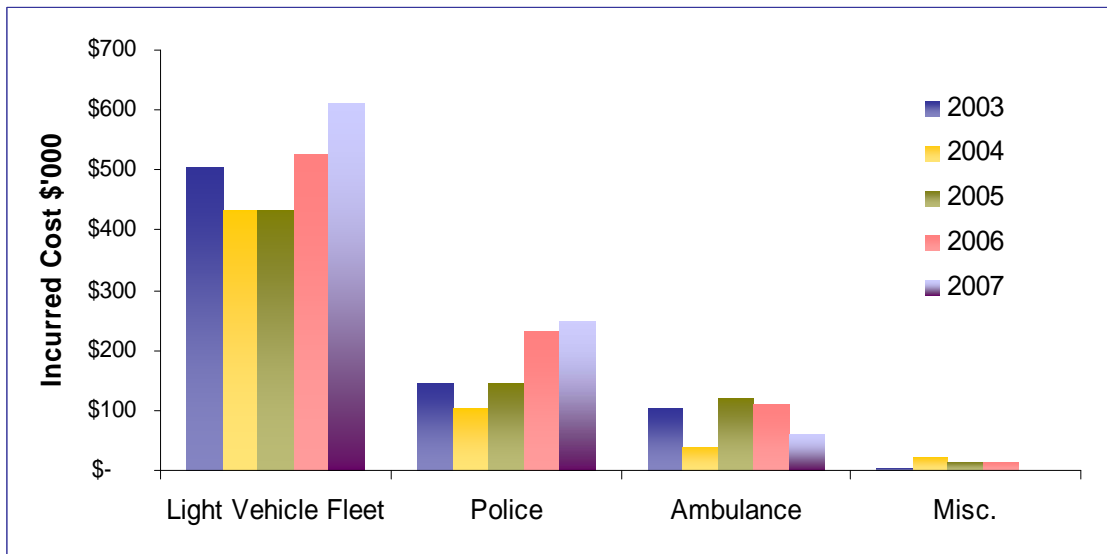


Chart 11 – Motor Vehicle Incurred Costs by Category for the year ending 30 June



Liability

During 2006-07, 34 public liability claims were reported where the incident giving rise to the claim occurred in that year. This represents a 43.3 per cent reduction in claim numbers compared to the 2005-06 period. No professional indemnity claims have been reported in the last three years.

It is expected that liability claims will arise and be reported in the future for incidents that occurred during 2006-07. Consequently, claim numbers and costs attributed to the 2006-07 year are expected to increase over time.

Table 6 – Liability Claims Comparison by Year of Incident

	2002-03	2003-04	2004-05	2005-06	2006-07	Difference as a % (2005-06 to 2006-07)	
Claim Numbers	44	49	57	60	34	↓	43%
Total Paid (\$'000)	297	114	5	10	5	↓	44%
Outstanding Payments (\$'000)	62	401	374	296	263	↓	11%
Total Incurred Cost (\$'000)	359	515	379	305	269	↓	12%
Largest Incurred Claim (\$'000)	279	200	165	45	68	↑	51%

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.

Table 7 – Medical Liability 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
2006-07	11	60 041

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%
2006-07	44 041	↓	95%

As at 30 June 2007, there were 93 open claims with an estimated value of \$25.5 million. The total amount paid on these claims was \$10.3 million with \$15.2 million outstanding.

Eleven new claims were lodged during the 2006-07 financial year with a total estimated cost of \$60 041.

Financial report

Income Statement for the year ended 30 June 2007

	Notes	2007 Actual \$'000	2006 Actual \$'000
Income			
Agency contributions	1.3(a), 2	27 837	29 451
Recoveries	1.3(a), 2	1 232	1 012
Investment income	1.3(b), 2	7 581	6 322
Revenue from government	1.3(c), 2	5 000	5 000
Other income	1.3(d), 2	2	27
Total income		41 652	41 812
Expenses			
Claims expense	1.4(a), 3.2	44 053	36 402
Other underwriting expenses	1.4(b), 3.3	1 440	1 435
General administration expenses	1.4(c), 3.4	320	426
Total expenses		45 813	38 263
Net operating surplus (deficit)		(4 161)	3 549

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

Balance Sheet as at 30 June 2007

	Notes	2007 Actual \$'000	2006 Actual \$'000
Assets			
<i>Financial Assets</i>			
Cash and cash equivalents	1.5(a), 10.1	122 735	112 805
Receivables	1.5(b), 5	1 386	2 104
Total assets		124 121	114 909
Liabilities			
<i>Financial Liabilities</i>			
Payables	1.6(a), 6	709	1 315
Outstanding claims	1.6(b), 7	129 283	115 300
Provision for employee entitlements	1.6(c), 8	61	65
Total liabilities		130 053	116 680
Net assets (liabilities)		(5 932)	(1 771)
Equity			
Accumulated funds		(5 932)	(1 771)
Total equity		(5 932)	(1 771)

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

Cash Flow Statement for the year ended 30 June 2007

	Notes	2007 Actual \$'000	2006 Actual \$'000
Cash flows from operating activities			
Cash inflows		Inflows	Inflows
		(Outflows)	(Outflows)
Agency contributions		28 681	28 275
Recoveries		1 202	1 064
Other income		5 000	5 000
Interest received		7 487	6 208
Total cash inflows		42 370	40 547
Cash outflows			
Claims and expenses paid		(28 745)	(19 949)
Fund management fees		(1 817)	(1 913)
Underwriting expenses		(1 440)	(1 435)
General and administration expenses		(438)	(406)
Total cash outflows		(32 440)	(23 703)
Net cash from (used by) operating activities	10.2	9 930	16 844
Net increase (decrease) in cash held		9 930	16 844
Cash at the beginning of the reporting period		112 805	95 961
Cash at the end of the reporting period	10.1	122 735	112 805

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 2007

	Notes	2007 Actual \$'000	2006 Actual \$'000
Balance as at 1 July		(1 771)	(5 320)
Surplus/(deficit) attributable to the Fund		(4 161)	3 549
Transfers to and from reserves	
Sub total		(4 161)	3 549
Balance as at 30 June		(5 932)	(1 771)

This Statement of Recognised Income and Expense 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 funding and managing specific identified insurable liabilities of inner-Budget agencies. 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 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 have been drawn up as a general purpose financial report in accordance with Australian Accounting Standards, including Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board (AASB).

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 consistent with the previous 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 costs recovered from legally liable third parties and excess payments from agencies. 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 revenue received 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 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, unnotified 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), together with machinery breakdown, fidelity and fraud and transit risk, is measured using aggregate case estimates increased by 37.5 per cent (37.5 per cent in 2005-06) for expenses and 25 per cent (25 per cent in 2005-06) for incurred but not reported (IBNR) and incurred but not enough reported (IBNER) claims.

For the stop-loss insurance arrangement over the Department of Health and Human Services (DHHS) housing portfolio, the TRMF’s liability for outstanding claims is measured as the amount by which the expected total losses on the portfolio in each accident year exceeds the stop-loss level selected by DHHS (if any), plus an allowance for outstanding claims administration expenses. In 2006-07 the expected total loss for each accident year is measured as the sum of past payments plus the present value of 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 the purposes of estimating these factors, losses have been separated into “small” (up to \$10 000) and “large” (more than \$10 000). 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. The expected future payments are then discounted to a present value at the balance date using discounted rates based on yields currently available on Australian government bonds with durations similar to the terms of the liabilities. The details of rates applied are included in Note 7.4. In 2005-06, the outstanding claims for the DHHS housing portfolio were estimated based on case estimates, plus an IBNR/IBNER allowance of 20 per cent for claims in the most recent accident year.

In addition, the TRMF provides cover in respect to 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 plus allowances of 15 per cent for expenses and 35 per cent for IBNR and IBNER claims (15 per cent and 35 per cent respectively in 2005-06). 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 and increased by 10 per cent for expenses and 70 per cent for IBNR and IBNER claims (10 per cent and 35 per cent respectively in 2005-06). 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 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 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.

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 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 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 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 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 Administration Agent in consultation with the TRMF's Actuary. The method of determining the liability for outstanding claims is outlined in Note 1.4(a).

(c) Provision for Employee Entitlements

Liability for wages and salaries and annual leave are recognised when the employee becomes entitled to receive the 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 as at 30 June 2007, where the impact of discounting is material, and 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.

1.7 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 Cash Flow Statement on a net basis. Records of the Department of Treasury and Finance indicate that GST relating to income items amounted to \$2.794 million (\$2.754 million in 2005-06) and GST relating to expense items amounted to \$0.732 million (\$0.635 million in 2005-06).

1.8 Tax Status

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

1.9 Comparative Figures

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

Comparative figures have been restated for "Agency contributions and recoveries". In prior years "Agency contributions and recoveries" were shown as one income item in the Income Statement. This year these income items have been separated to improve accountability.

Note 2 Income

	2007 \$'000	2006 \$'000
Agency contributions	27 837	29 451
Recoveries	1 232	1 012
Investment income	7 581	6 322
Revenue from government	5 000	5 000
Other income	2	27
Total income	41 652	41 812

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

Note 3 Expenses

3.1 Individually Significant Expenses

Claims - personal injury	24 416	19 792
Claims - medical	11 712	10 031

3.2 Claims Expense

Claims paid	28 745	19 949
Claims accrued	(653)	764
Movement in outstanding claims (including medical liability)	13 983	13 777
Management expenses	1 978	1 912
	44 053	36 402

3.3 Other Underwriting Expenses

	2007 \$'000	2006 \$'000
Payment to WorkCover Tasmania Board and Nominal Insurer	1 440	1 435

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

Actuarial expenses	130	96
Accounting and audit fees	26	23
Salaries and on-costs	280	253
Other	(116)	54
	<u>320</u>	<u>426</u>

The TRMF had been in discussions with the previous agent of the Fund Administration Agent regarding the underpayment of management fees. The estimate of underpayment of \$0.107 million was recognised as a liability and expense in 2005-06. As the payment will not be required, the liability has been reversed in 2006-07 resulting in a negative administration expense.

Note 4 Underwriting Result

Agency contributions	27 837	29 451
Recoveries	1 232	1 012
Claims expense	(44 053)	(36 402)
Other underwriting expenses	(1 440)	(1 435)
	<u>(16 424)</u>	<u>(7 374)</u>

Note 5 Receivables

Accrued interest	635	542
Contributions receivable from agencies	689	1 533
Insurance recoveries	62	29
	<u>1 386</u>	<u>2 104</u>

Note 6 Payables

	2007 \$'000	2006 \$'000
Un-reimbursed claims	495	1 148
Other	214	167
	<u>709</u>	<u>1 315</u>

As described in Note 3.4, "Other" included an allowance for the underpayment of management fees to the previous agent of the Fund Administration Agent for \$0.107 million in 2005-06. This liability has been reversed in 2006-07.

Note 7 Outstanding Claims

7.1 Outstanding Claims Liabilities

Claims Liabilities

Personal injury	62 983	59 140
Property	4 300	4 080
Motor vehicle	370	50
General liability	6 410	5 470
Medical liability	55 220	46 560
Total	<u>129 283</u>	<u>115 300</u>
Due within 12 months	31 615	29 088
Due in more than 12 months	97 668	86 212
Total	<u>129 283</u>	<u>115 300</u>

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:

Workers' Compensation

The main reason for the increase in workers' compensation liability is the changed development pattern assumed as at 30 June 2007. The development pattern adopted assumes more of the claim payments will occur in the later development years, which tends to increase the disclosed liability. This increase has been partly offset by:

- an increase in the discount rate;

- a reduction in the assumption for the cost of claims handling expenses; and
- a reduction in outstanding liabilities for claims more than seven years old.

Medical Liability

For medical liability, the liability as at 30 June 2007 is based on the TRMF's own data, whereas previously the liabilities were based on the results of calculations incorporating parameters obtained from external sources. 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.

Motor Vehicle

The motor vehicle liability has increased mainly because the net recovery positions that were shown in the data for previous reports are not currently appearing.

7.2 Workers' Compensation

	2007 \$'000	2006 \$'000
The liability for outstanding workers' compensation claims is determined by the TRMF's Actuary.		
Expected future claims payments (undiscounted)	74 000	66 595
Less discounted to present values	(9397)	(6 350)
Less recoveries under excess	(1 658)	(1 184)
Total	62 945	59 061
Due within 12 months	20 945	19 292
Due in more than 12 months	42 000	39 769
Total	62 945	59 061
The weighted average expected term of settlement from the balance date is estimated at:	2.30 years	2.10 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	6.5%	5.5%

7.3 Medical Liability

2007 **2006**
\$'000 **\$'000**

The liability for outstanding medical liability claims is determined by the TRMF's Actuary.

Expected future claims payments (undiscounted)	84 410	70 370
Less discounted to present values	(27 690)	(22 000)
Less recoveries under excess	(1 500)	(1 810)
Total	55 220	46 560
Due within 12 months	5 000	4 666
Due in more than 12 months	50 220	41 894
Total	55 220	46 560

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	6.25%	5.5%

7.4 Department of Health and Human Services - Housing Portfolio

The weighted average expected term of settlement from the balance date is estimated at:

2.1
months n/a

In measuring the liability for outstanding claims, the following rates were used:

- Inflation	4.0%	n/a
- Discount rate	6.25%	n/a

The TRMF's Actuary has adopted a different approach for assessing the outstanding claims liability as at 30 June 2007 compared to previous years. This approach allows the weighted average term of the liabilities to be estimated whereas the previous approach did not produce an equivalent figure.

Note 8 Provision for Employee Entitlements

	2007 \$'000	2006 \$'000
Annual leave	15	16
Long service leave	46	49
Total	61	65
Due within 12 months	15	16
Due in more than 12 months	46	49
Total	61	65

Note 9 Contingent Assets

Quantifiable contingent assets and liabilities are those claims or obligations where the amount is certain but it is uncertain as to whether a transaction will occur.

Quantifiable Contingent Assets

Claims Management Account	370	...
Total quantifiable contingent assets	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

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	122 735	112 805
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10.2 Reconciliation of Net Cash provided by Operating Activities to Operating Surplus

	2007	2006
	\$'000	\$'000
Operating surplus (deficit)	(4 161)	3 549
(Increase)/decrease in interest receivable	(93)	(114)
(Increase)/decrease in agency contributions receivable	843	(1 176)
(Increase)/decrease in insurance recoveries receivable	(31)	23
Increase/(decrease) in creditors	(606)	785
Increase/(decrease) in provisions	(5)	...
Increase/(decrease) in claims payable	13 983	13 777
Net cash inflow/(outflow) from operating activities	9 930	16 844

Note 11 Financial Instruments

11.1 Financial Risk Management

The TRMF's financial instruments consist 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 as at 30 June 2007.

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 2007 of 6.29 per cent (5.82 per cent for the year ended 30 June 2006).

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 invoiced to the TRMF.

Tasmanian Risk Management Fund

Certification of Financial Statements for the year ended 30 June 2007

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 2007 and the financial position as at 30 June 2007.

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.


A handwritten signature in black ink, appearing to read 'D W Challen', with a horizontal line underneath.

D W Challen
SECRETARY

Department of Treasury and Finance

Date: 21 September 2007

Independent audit report



Tasmanian Audit Office

INDEPENDENT AUDIT REPORT

To Members of the Parliament of Tasmania

TASMANIAN RISK MANAGEMENT FUND

Financial Statements for the Year Ended 30 June 2007

Matters Relating to the Electronic Presentation of the Audited Financial Statements

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 2007. 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, which 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 report in the Tasmanian Risk Management Fund's annual report.

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 2007, the income statement, statement of recognised income and expense, 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

Accountability on Your Behalf

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 directors/those charged with governance, 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 2007, 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



G R Morffew
ASSISTANT DIRECTOR
Delegate of the AUDITOR-GENERAL

HOBART
24 October 2007

Contact details

The members of the Tasmanian Risk Management Fund Unit of the Department of Treasury and Finance as at 30 June 2007 are:

[Alison Lyne](#)
Principal Policy Analyst

[Di Hope](#)
Senior Policy Analyst

[Penny Macintyre](#)
Principal Policy Analyst

[Jan Wilson](#)
Senior Policy Analyst

[Adrian Lockley](#)
Assistant Research Officer

All queries for the Tasmanian Risk Management Fund should be directed to:

TRMF Unit
Procurement and Property Branch
Department of Treasury and Finance
21 Murray Street
Hobart TAS 7000

Or

GPO Box 147
Hobart TAS 7001

Phone: 03 6233 3677
Fax: 03 6233 8834
Web site: www.treasury.tas.gov.au/trmf
e-mail: trmf@treasury.tas.gov.au