

Tasmanian Risk Management Fund

Annual Report 2004 - 2005

Department of
Treasury and Finance



Tasmanian Risk Management Fund

Mission and Objectives

Mission

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

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.



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The Chairman's Report

Under the direction of the inter-agency Steering Committee, the Tasmanian Risk Management Fund (TRMF) continues to provide an effective whole-of-government approach to the treatment of risks to which agencies are exposed.

The value and benefits of the TRMF have been clearly demonstrated in recent years, as the Fund has proved very successful in avoiding the difficult financial environment and uncertainty experienced in the private insurance sector. Moderate increases and, in some classes of risk, reductions in contributions were again achieved in 2004-05.

At 30 June 2005, the Fund had total assets of \$96.8 million and estimated liabilities of \$102.1 million, resulting in net liabilities of \$5.3 million. A net asset position of around \$19.1 million is forecast for 30 June 2006. This will be assisted by additional contributions from the Consolidated Fund to meet outstanding medical liabilities.

The TRMF Unit has undertaken a number of risk management initiatives during 2004-05, including the delivery of a series of seminars and information sessions for agencies, a redevelopment of the TRMF Web site and attainment of in-principle approval from the Minister for Finance for a risk management policy position and the development of a supporting framework for the Tasmanian Government.

Looking forward, the TRMF will continue its role in promoting a culture of risk management across agencies. The TRMF Unit is also developing performance indicators to measure the degree to which the Fund and its service providers are meeting stated objectives.

A handwritten signature in blue ink that reads "Ferrall".

Tony Ferrall
Chairman
Tasmanian Risk Management Fund
Steering Committee

The Tasmanian Risk Management Fund

The Tasmanian Risk Management Fund (TRMF) is the Tasmanian Government's self-insurance fund. The TRMF was established on 1 January 1999 and is strategically managed by an inter-agency Steering Committee. Administration of the Fund is undertaken by the TRMF Unit of the Department of Treasury and Finance.

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

Liability

- general liability
- medical liability

Miscellaneous

- travel
- government contingency.



The Tasmanian Risk Management Fund

From 1 January 1999, the Fund progressively assumed responsibility from agencies for the management of insurable risk. Only marine hull and travel remain insured through the private sector. All other classes are self-insured by the Fund.

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.

Fund contributions are set to ensure adequate financial provision for the cost of risk now and in the future. The key outcomes the TRMF aims to achieve in setting fund contributions are:

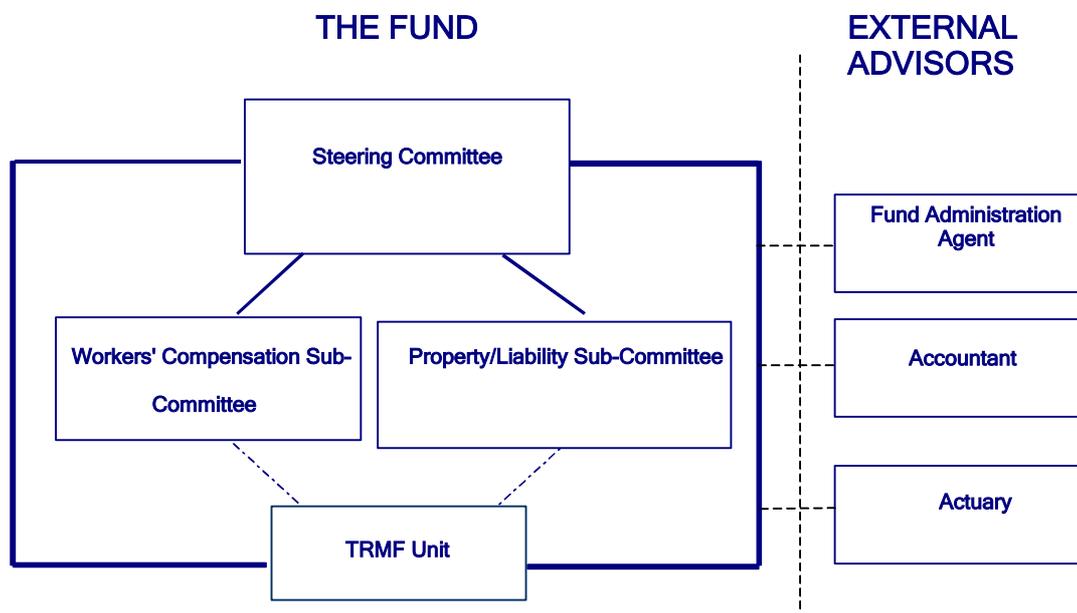
- the collection of sufficient moneys each year to fully fund claim costs and protect against major surprises;
- equity for user agencies with minimal cross-subsidisation;
- stability in contributions over time; and
- incentives for risk management, through recognition of claims experience.

The Fund operates on a cost-recovery basis and there is no profit component built into contributions.



Fund Structure

Organisational Structure



Steering Committee and Sub-Committees

The Fund is strategically managed by an inter-agency Steering Committee chaired by Treasury. Originally the Steering Committee established three sub-committees to deal with operational issues associated with workers' compensation, property and liability risk. At its meeting in October 2003, the Steering Committee endorsed the merger of the Property and Liability Sub-Committees.

Membership of the TRMF Steering Committee as at 30 June 2005:

Agency	Representative
Treasury and Finance	Tony Ferrall (Chair)
Treasury and Finance	Robert Cockerell
Education	Simon Barnsley
Health and Human Services	Philip Mussared
Infrastructure, Energy and Resources	Amanda Russell
Justice	Brian Smith
Police and Public Safety	Frank Ogle
Premier and Cabinet	Geoff Owen
Primary Industries, Water and Environment	Michele Moseley
Economic Development	Craig Watson
Tourism, Parks, Heritage and the Arts	David Hudson
Office of the Director of Public Prosecutions	Paul Turner

The agencies listed above, with the addition of TAFE, are also represented on the two Sub-Committees.

Fund Structure

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. The current term of the agreement expires on 30 June 2006. The Crown has discretion to extend the term for a further period of two (2) years.

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. A three-year contract, with an option to extend the contract for up to three years, was signed with Bendzulla Actuarial in September 2003.

Accountant

WHK Denison has been engaged to prepare the Financial Statements and Statement of Findings for the TRMF for the financial years 2003-04 to 2005-06, and the following two financial years if the Fund chooses to extend the contract. The main objectives of the Statement of Findings are 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.

TRMF Unit

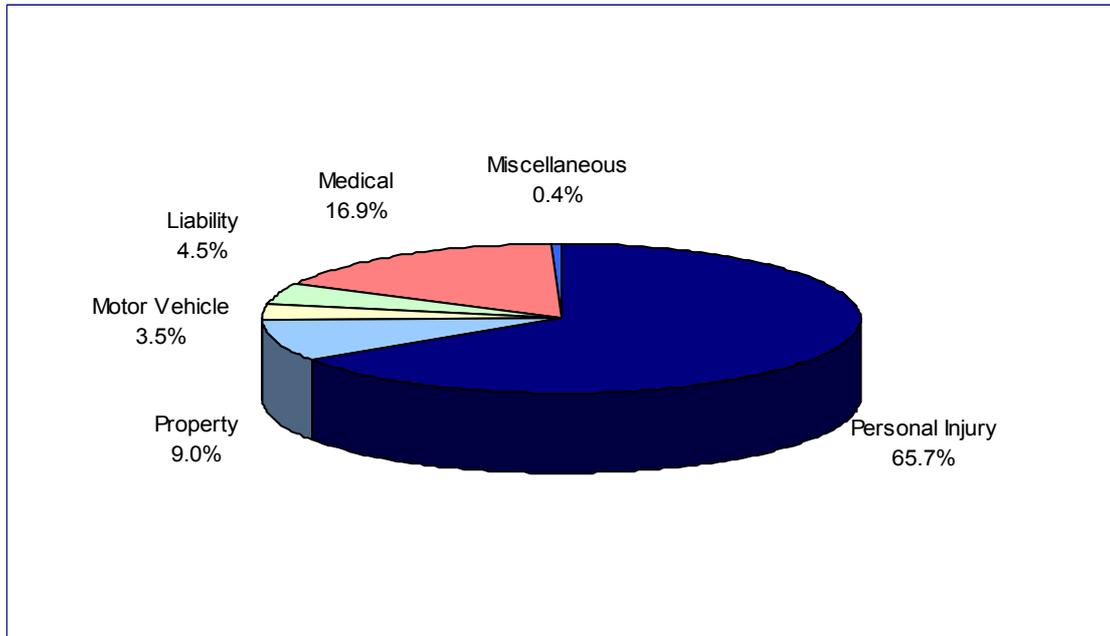
The TRMF Unit, comprising three full-time and two part-time employees, along with a Treasury cadet, provides secretariat and administrative support for the Steering Committee and for each of the sub-committees, which meet quarterly. In addition, the Unit administers the financial aspects of the Fund, provides risk management information and advice to agencies, produces a quarterly risk newsletter, facilitates training sessions for agency officers and undertakes projects to improve the management of risk across agencies. The Unit also manages the contracts with the Actuary, Fund Administration Agent and Accountant.

Performance of the Fund

Contributions

In 2004-05 gross fund contributions totalled \$27.3 million. The percentage of contributions by class of risk is shown in Figure 1.

Chart 1 – Tasmanian Risk Management Fund Contributions by Class



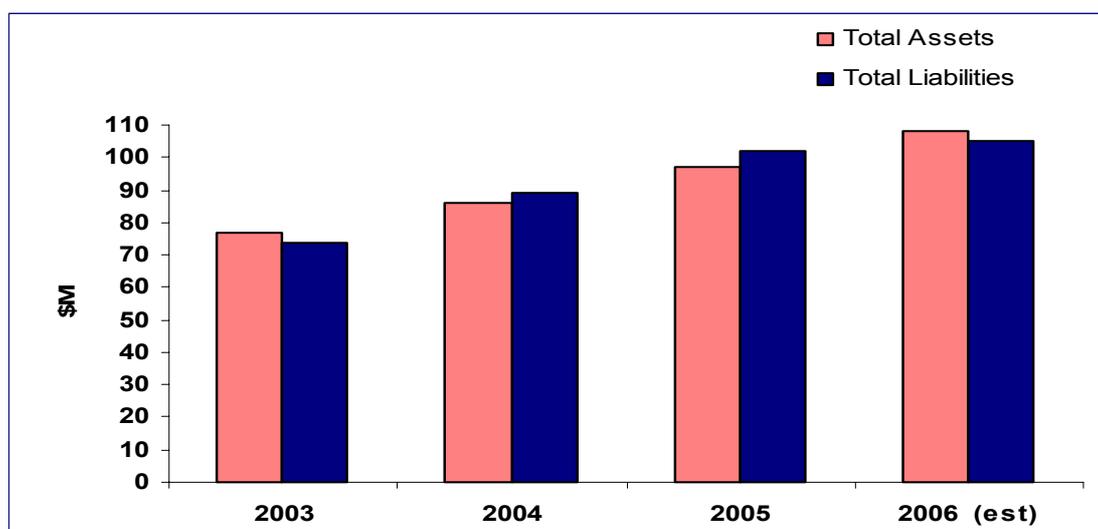
The Fund has proved very successful in avoiding the volatility experienced in the insurance market in recent years. The trend of minimal increases and, in some risk areas, reductions in contributions, was again achieved in 2004-05.

Performance of the Fund

Financial Position of the Fund

As at 30 June 2005, the Fund had total assets of \$96.8 million and estimated liabilities of \$102.1 million, resulting in net liabilities of \$5.3 million. The position of the Fund for the past three years is represented in Figure 2. The increase in liabilities over 2002-03, 2003-04 and 2004-05 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 2002-03 as being \$13.5 million, revised to \$25.4 million in 2003-04 and revised further to \$37.2 million as at 30 June 2005.

Chart 2 – Assets and Liabilities as at 30 June 2005



It is forecast that the Fund will be in a positive net asset position by 30 June 2006 and this 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.

Risk Management

The TRMF Unit has undertaken a range of projects to improve the management of risk across government. These have included a review of the TRMF Web site, the provision of advice and assistance to agencies and the coordination of seminars and training to build risk management skills and knowledge across agencies. Some key projects undertaken in 2004-05 are listed below.

Training and Information Sharing Sessions

Department of Tourism, Parks, Heritage and the Arts' Award-Winning Occupational Health and Safety Initiatives (24 February 2005)

Katrina Sage and Tess Harvey-Mount recounted the Department of Tourism, Parks, Heritage and the Arts' journey from an agency with no consistent integrated approach to health and safety to winning two awards in the 2004 Workplace Safe Awards for its OH&S training and management programs.

Recent Amendments to the *Workers Rehabilitation and Compensation Act 1988* (13 January 2005)

Paul Turner, Senior Crown Counsel at the Office of the Director of Public Prosecutions, outlined the significant amendments to the *Workers Rehabilitation and Compensation Act 1988* which received Royal Assent on 16 December 2004 as a result of the recommendations of the Rutherford Report.

Risk and Business Excellence (November 2004)

Peter Brass (2003 Association of Risk and Insurance Managers of Australasia Risk Manager of the Year) gave a presentation on developing a culture of risk management in an organisation. Peter highlighted the importance of raising awareness of risk management, building risk management into capabilities and performance, identifying risk champions and ownership of risk and linking business excellence and governance.

Reducing the Costs of Workplace Injury (28 October 2004)

Sally Bennett from Marsh Risk Consulting (Melbourne) and Martin Broad from Marsh (Hobart) took participants through important preventative pre-injury considerations and looked at the process involved when a workers' compensation claim arises.

Remote Area Risk Management (14 October 2004)

Staying Alive Survival Services, a Queensland-based training and consultancy company, presented a session on remote area operations and procedures and management of remote area emergencies.

Implementation of the Risk Management Process at the Department of Education (21 July 2004) and A Risk Assessment of the Department of Health and Human Services' Property Portfolio (26 October 2004)

These sessions provided an overview of the implementation of risk management in the Department of Education (DoE) and within property management at the Department of Health and Human and Services (DHHS). The sessions included a review of the pilot risk management project at Lindisfarne Primary School, DoE's Property Protection Scheme and a demonstration of the geographic asset management mapping system used by DHHS.

Risk Management

TRMF Web site and Procedures Manual

During 2004-05, the TRMF Unit completely redeveloped the TRMF Web site to provide clear and comprehensive information about incident management procedures, reporting requirements and risk management resources to assist agencies to further improve the management of risk.

Over 60 agency representatives attended a Web site and Procedures Manual Information Session on 1 December 2004. The presenters included Tim Johns from Marsh, Paul Turner from the Office of the Director of Public Prosecutions (DPP) and staff from the TRMF Unit. The session was designed to give an overview of the revised Web site and Procedures Manual, as well as a brief summary of the services provided by the Fund Administration Agent, Marsh, and the DPP.

Whole-of-government risk management policy position and framework

In March 2005, the Minister for Finance gave in-principle approval to a risk management policy position for the Tasmanian Government and the development of a supporting framework for the management of risk across government agencies based on *AS/NZS 4360:2004 Risk Management*. It is envisaged that the framework will involve development of tools, resources and training to assist agencies to incorporate risk management into business activities and systems. The TRMF Unit intends to consult all agencies in the development of the framework.

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

The TRMF Unit is developing guidelines to assist Government agencies to determine the types and levels of insurance that must be held by contractors that wish to provide goods and services to the Government. A workshop was held on 7 June 2005 for agencies to provide feedback on the draft guidelines. The TRMF Unit is currently working through this feedback with a view to releasing the final document during 2005-06.

Occupational Health and Safety Working Group

During 2004-05, the TRMF Unit identified a need for a regular forum where agency occupational health and safety (OH&S) practitioners have an opportunity to discuss common OH&S issues and to share information. The first of these forums, facilitated by the TRMF Unit, was held in February 2005 and forums have continued on a bimonthly basis.



Claims Management – Fund Administration Agent Report

Over the past 12 months, the increasing focus and reliance on the Fund by participating agencies has generated an increase in the number and variety of requests for claims data. STARS is the claims data base used by Marsh and a system upgrade in September 2004 helped meet the increased needs.

The bringing “in-house” of the previously sub-contracted claims management function by Marsh has significantly enhanced the efficiency of the claims management process. This also enabled documented policies and procedures to be implemented, which are now reviewed on an ongoing basis.

The Fund Administration Agent role now includes all payments as required for medical indemnity claims.

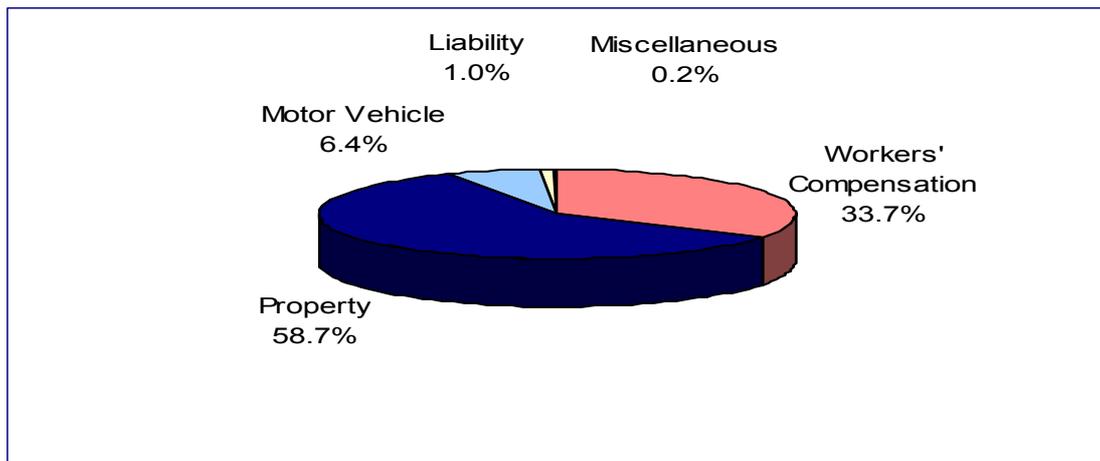
During the 2004-05 year, 4 180 claims were lodged for incidents which occurred during the period 1 July 2004 to 30 June 2005.

These claims can be broken up as follows:

Table 1 – Claim Numbers and Incurred Cost – Incidents Occurring in 2004-05

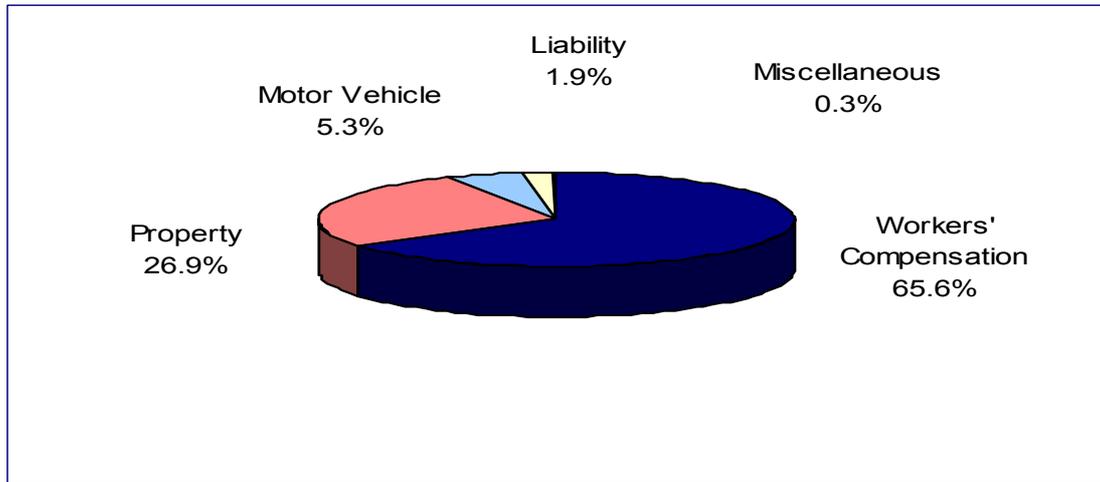
	Number	Incurred Cost (\$ Million)
Workers’ Compensation	1 408	8.8
Property	2 455	3.6
Motor Vehicle	267	0.7
Liability	41	0.3
Miscellaneous	9	0.0

Chart 3 – Claim Numbers – 2004-05 Claims



Claims Management – Fund Administration Agent Report

Chart 4 – Total Incurred Cost – 2004-05 Claims



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

Workers' Compensation

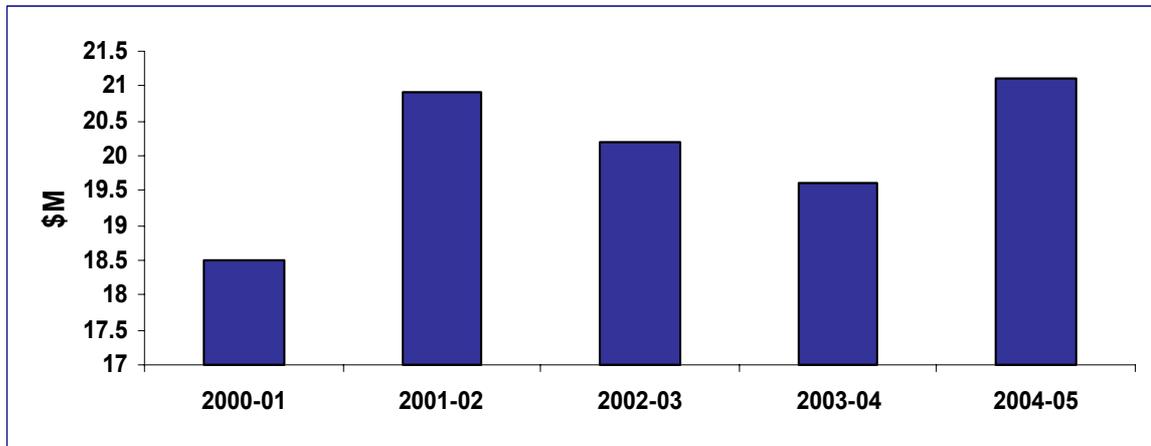
Workers' compensation payments for all categories for 2004-05 totalled \$21.1 million compared to \$19.6 million for 2003-04, which is an increase of 7.4 per cent. This is predominantly as a result of increased efforts to settle outstanding claims.

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

Year	\$M
2000-01	18.5
2001-02	20.9
2002-03	20.2
2003-04	19.6
2004-05	21.1

Claims Management – Fund Administration Agent Report

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



As at 30 June 2005, there were 1 408 claims made for incidents that occurred in 2004-05. This compares with 1 538 claims made in 2003-04, a decrease of 8.5 per cent in the number of claims. 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)
2000-01	1 645	\$15.8
2001-02	1 628	\$16.5
2002-03	1 559	\$12.5
2003-04	1 538	\$12.2
2004-05	1 408	\$8.8

Claims Management – Fund Administration Agent Report

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

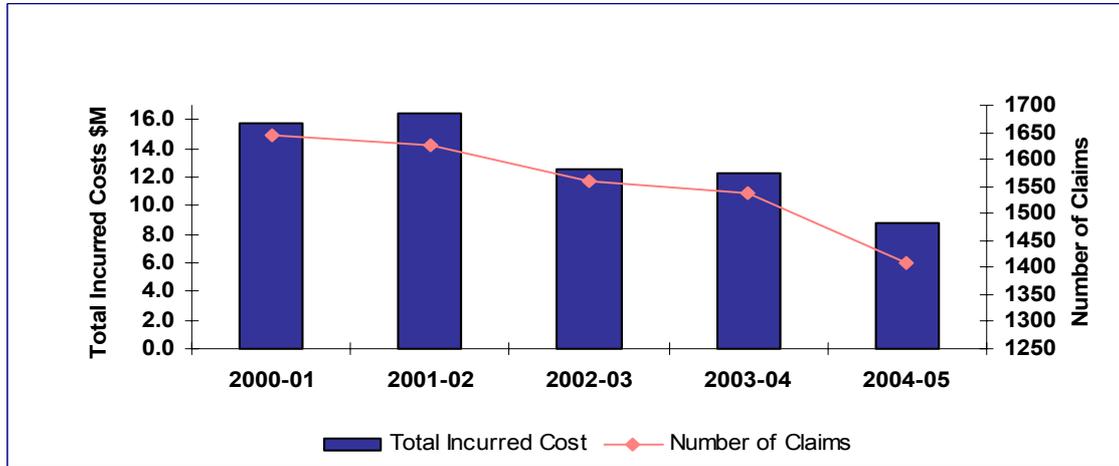
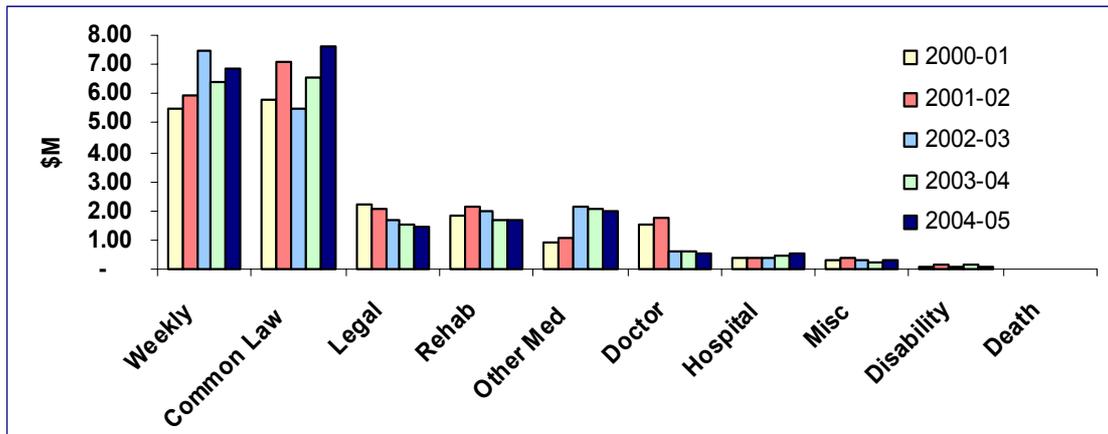


Chart 7 – Workers’ Compensation Payments by Category by Financial Year



Payments for most risk categories for workers’ compensation in 2004-05 were consistent with 2003-04.

The only exceptions were payments for common law (including negotiable settlements), which increased by 15 per cent from \$6.6m in 2003-04 to \$7.6m in 2004-05 and weekly payments, which increased by 6 per cent from \$6.4m in 2003-04 to \$6.8m in 2004-05.

The significant increase in common law payments from 2003-04 to 2004-05 is attributable to the active management and closure of older claims. The increase in weekly payments was anticipated due to higher wages in 2004-05.

Claims Management – Fund Administration Agent Report

Property (excluding motor vehicle claims)

Overall, while claim numbers continued to reduce in the 2004-05 period, there was once again an increase in incurred and average claims costs of 2 per cent and 16 per cent respectively.

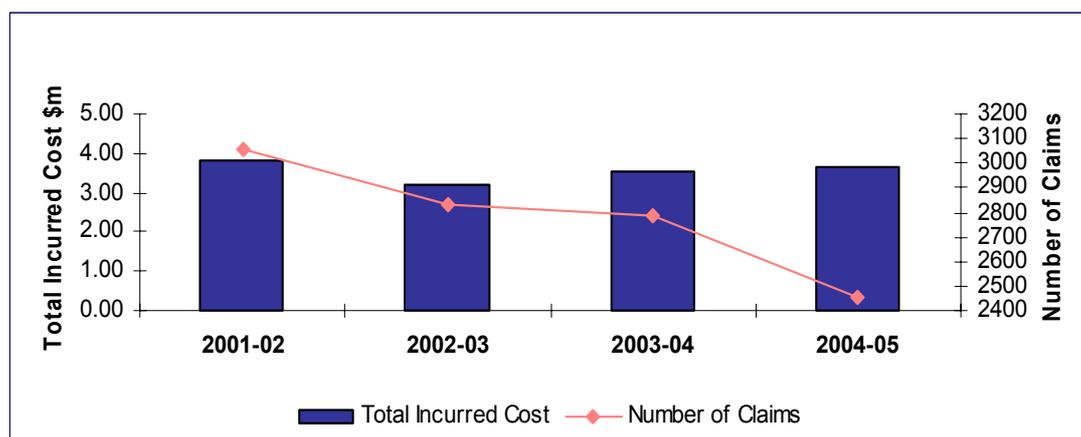
These increases are attributable not only to the number of total losses of properties due to fire, but also to a rise in the cost of repairing damaged properties.

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	2 455	\$3.6

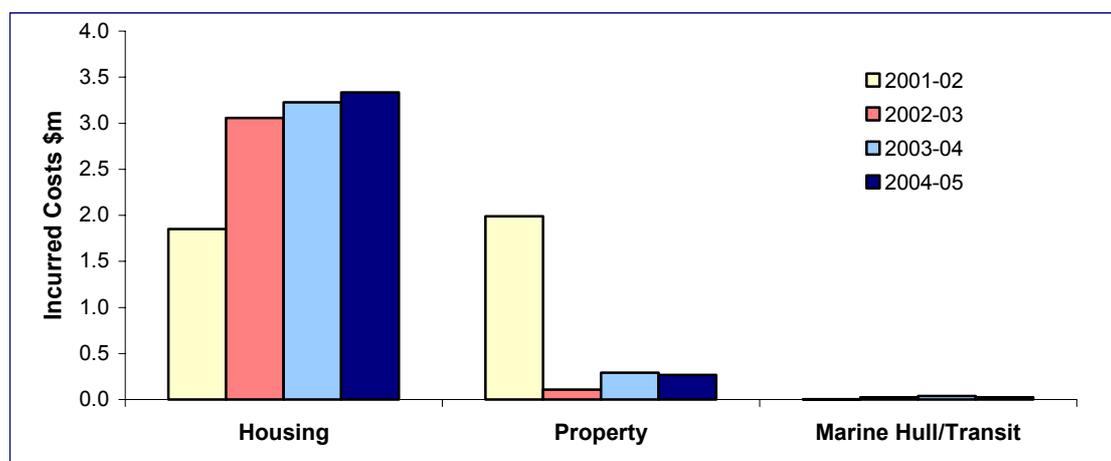
The above figures do not include claim numbers and incurred costs for the Property Protection Scheme. These were included in the 2003-04 TRMF Annual Report.

Chart 8 – Property – Claim Numbers and Incurred Costs as at 30 June



Claims Management – Fund Administration Agent Report

Chart 9 – Property Incurred Costs by Category as at 30 June



The majority of the incurred cost for property relates to damage to Housing Tasmania’s assets. In 2004-05 the Department met the basic cost of claims up to an annual level of \$2.8m. The Fund provides an aggregate stop loss insurance cover for claims cost for property damage in excess of this level.

Motor Vehicle

In 2004-05, motor vehicle claim numbers were down on the 2003-04 figures. An increase for the 2004-05 year in both total incurred costs and average claims costs is attributable both to a rise in the number of total losses and an increase in the cost of motor vehicle parts.

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

Year	Number of Claims	Total Incurred Cost
2001-02	276	\$555 160
2002-03	257	\$828 550
2003-04	298	\$559 130
2004-05	267	\$714 030

Claims Management – Fund Administration Agent Report

Chart 10 – Motor Vehicle – Claim Numbers and Incurred Costs as at 30 June

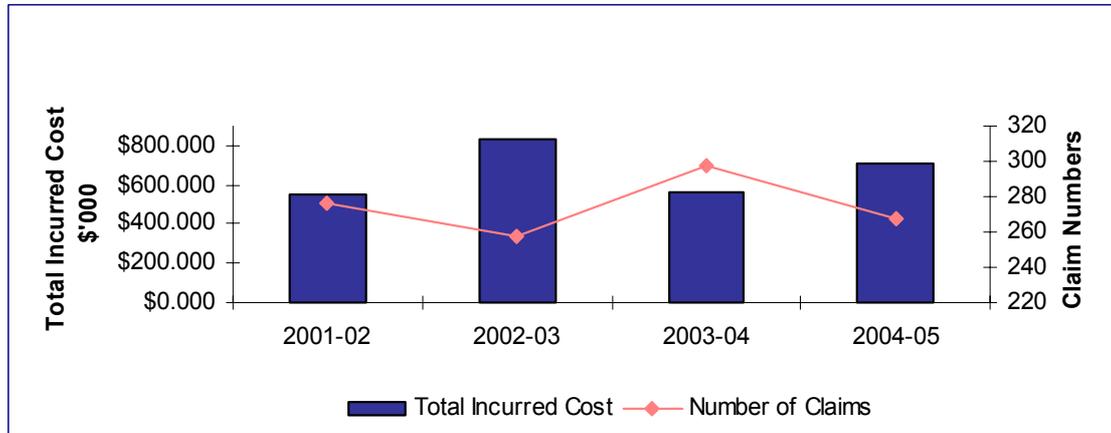
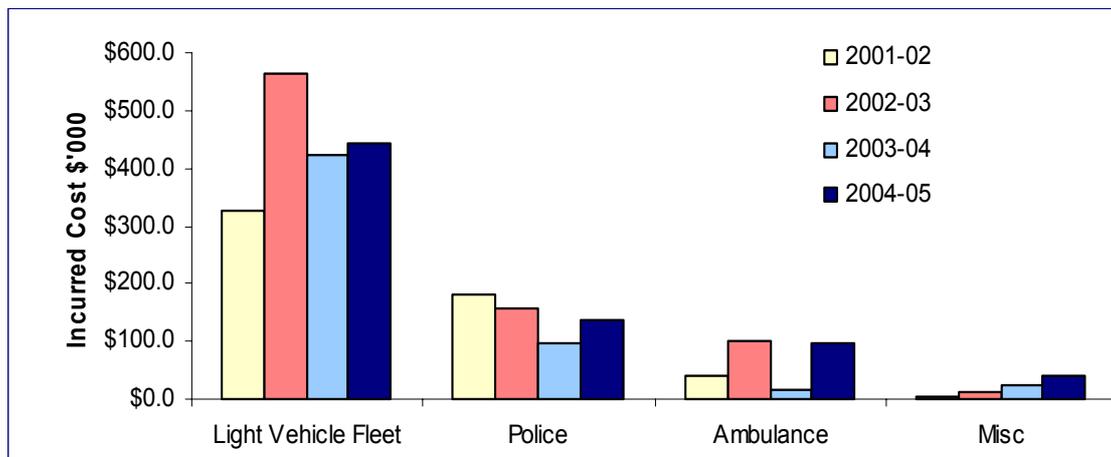


Chart 11: Motor Vehicle Incurred Costs by Category as at 30 June



Claims Management – Fund Administration Agent Report

Liability

Forty-one Public Liability claims were reported where the incident giving rise to the claim occurred during 2004-05. This represents a 7 per cent reduction in claim numbers compared to the 2003-04 period. No Professional Indemnity claims have been reported in the last 3 years.

It is expected that liability claims will arise and be reported in the future for incidents that occurred during 2004-05. Consequently, claim numbers and costs attributed to 2004-05 are expected to increase over time.

Table 6 – Liability Claims Comparison by Year of Incident

	2001-02	2002-03	2003-04	2004-05	Difference as a % (2003-04 to 2004-05)	
Claim Numbers	62	43	44	41	↓	7 %
Total Paid	\$38 378	\$19 128	\$95 982	\$1 619	↓	98%
Outstanding Payments	\$1 434 310	\$547 825	\$505 351	\$256 119	↓	49%
Total Incurred Cost	\$1 472 688	\$566 953	\$601 332	\$257 739	↓	57%
Largest Incurred Claim	\$1 200 000	\$350 000	\$315 434	\$45 000	↓	85%

Medical Liability

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

The TRMF covers the total cost of lump sum payments in excess of \$50 000 for all medical liability claims.

Claims Management – Fund Administration Agent Report

Table 7 – Medical Liability Claims by Year of Incident

	2001-02	2002-03	2003-04	2004-05	Difference as a % (2003-04 to 2004-05)	
Claim Numbers	27	26	21	21	-	0%
Total paid	\$712 610	\$4 937 268	\$1 400 555	\$3 949 000	↑	181%

As at 30 June 2005, there were 96 current medical liability claims with a total estimated cost of \$22.316 million, of which \$8.636 million has been paid and \$13.680 million remains outstanding.



Financial Statements

TASMANIAN RISK MANAGEMENT FUND

Statement of Financial Performance for the year ended 30 June 2005

	Note	2005 \$'000	2004 \$'000
Revenue from ordinary activities			
Agency Contributions & Recoveries	2	29 285	26 881
Investment Revenue	2	5 069	4 366
Other revenue	2	5 021	3 289
Total revenue from ordinary activities		39 375	34 536
Expenses from ordinary activities			
Claims Expense	3	39 636	39 222
Other Underwriting Expenses	3	1 343	1 232
General Administration Expenses	3	644	496
Expenses from ordinary activities		41 623	40 950
Net operating surplus (deficit) from ordinary activities	9	(2 248)	(6 414)

The Statement of Financial Performance is to be read in conjunction with the notes to and forming part of the financial statements.

Financial Statements

TASMANIAN RISK MANAGEMENT FUND

Statement of Financial Position

as at 30 June 2005

	Note	2005 \$'000	2004 \$'000
Current Assets			
Cash and Deposits	10 (a)	95 961	85 773
Receivables	5	839	407
		<u>96 800</u>	<u>86 180</u>
Total Assets		<u>96 800</u>	<u>86 180</u>
Current Liabilities			
Outstanding Claims	8	28 350	24 411
Payables	6	531	750
Provisions	7	66	72
		<u>28 947</u>	<u>25 233</u>
Non-Current Liabilities			
Outstanding Claims	8	73 173	64 019
		<u>73 173</u>	<u>64 019</u>
Total Liabilities		<u>102 120</u>	<u>89 252</u>
Net Assets / (Liabilities)		<u>(5 320)</u>	<u>(3 072)</u>
Equity			
Accumulated (Deficit)/Surplus	9	<u>(5 320)</u>	<u>(3 072)</u>

The Statement of Financial Position is to be read in conjunction with the notes to and forming part of the financial statements.

Financial Statements

TASMANIAN RISK MANAGEMENT FUND

Statement of Cash Flows *for the year ended 30 June 2005*

	Note	2005 \$'000	2004 \$'000
Cash flows from operating activities			
Agency Contributions		28 851	27 750
Other revenue		5 021	3 289
Interest received		5 035	4 261
Claims and Expenses paid		(24 880)	(22 151)
Fund Management Fees		(1 865)	(1 832)
Underwriting Expenses		(1 343)	(1 232)
General and Administration Expenses		(631)	(364)
Net cash inflow (outflow) from operating activities	10 (b)	10 188	9 721
Net increase (decrease) in cash held		10 188	9 721
Cash at beginning of the Financial Year		85 773	76 052
Cash at end of the Financial Year	10 (a)	95 961	85 773

The Statement of Cash Flows is to be read in conjunction with the notes to and forming part of the financial statements.

Financial Statements

TASMANIAN RISK MANAGEMENT FUND

Notes to and forming part of the Financial Statements for the year ended 30 June 2005

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of preparation*

The financial statements have been drawn up as a general purpose financial report in accordance with Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board.

Except where stated, the financial statements have been prepared on the basis of historical costs. The accounting policies have been consistently applied and are consistent with the previous year.

(b) *Revenue recognition*

Agency Contributions

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

Investment revenue

Interest is recognised as it accrues.

(c) *Claims*

The TRMF commenced providing cover as follows:

- | | |
|-------------------------|---|
| - Workers' compensation | - from 1 July 2001 (formerly covered under TSSWCS) |
| - Property | - from 1 July 2001 |
| - Motor vehicle | - from 1 July 1999 |
| - Liability | - from 1 July 1999 |
| - Medical Malpractice | - post 1 July 2001 claims - from 1 July 2001
- pre 1 July 2001 claims - from 1 July 2002 |
| - Miscellaneous | - from 1 July 1999 |

Financial Statements

TASMANIAN RISK MANAGEMENT FUND

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2005*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) *Claims (continued)*

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

Workers' compensation

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 8.

Property

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

Motor vehicle

The liability for outstanding claims in respect to vehicles is measured using aggregate case estimates increased by 15 per cent for expenses and 25 per cent of 2004-05 case estimates for IBNR and IBNER claims. Claims outstanding have been assessed in consultation with an independent actuary.

Financial Statements

TASMANIAN RISK MANAGEMENT FUND

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2005*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) *Claims (continued)*

Liability

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

Medical liability

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

In the current period, 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 8.

In the prior period the liability for outstanding claims was measured using case estimates in consultation with an independent actuary.

Miscellaneous

Liabilities for claims arising as a result of the Port Arthur Tragedy, which are not recoverable under the TRMF's insurance policies have been included in this category. Claims outstanding have been assessed in consultation with the Fund's actuary.

In addition, the TRMF provides cover in respect to marine hull and travel. These risks are fully insured with external insurers so that the TRMF carries no outstanding liability.

Financial Statements

TASMANIAN RISK MANAGEMENT FUND

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2005*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) *Payables*

Payables are recognised when the Fund 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.

(e) *Provision for employee benefits*

Liabilities 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.

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

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

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

Similarly, cash flows are included in the Statement of Cash Flows on a net basis. Records of the Department of Treasury and Finance indicate that GST relating to revenue items amounted to \$2.734 million (2003-04: \$2.645 million) and GST relating to expense items amounted to \$0.607 million (2003-04: \$0.592 million).

(g) *Tax Status*

The activities of the Fund are exempt from taxation.

Financial Statements

TASMANIAN RISK MANAGEMENT FUND

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2005*

	2005	2004
	\$'000	\$'000
2. REVENUE FROM ORDINARY ACTIVITIES		
Agency Contributions & Recoveries	29 285	26 881
Investment Revenue	5 069	4 366
Other revenue	5 021	3 289
Total revenue from ordinary activities	39 375	34 536

Other revenue includes a recurring appropriation 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.

3. EXPENSES FROM ORDINARY ACTIVITIES

Individually significant expenses

Movement in the assessment of ongoing medical liability claims outstanding as determined by the Fund's Actuary

	11 785	11 935
Claims expense		
Claims Paid	23 997	20 052
Claims Accrued	384	533
Movement in Outstanding Claims (incl. medical liability)	13 390	16 805
Management Expenses	1 865	1 832
	39 636	39 222

Other Underwriting Expenses

Payment to WorkCover Board and Nominal Insurer	1 343	1 232
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As a result of the HIH collapse, and amendments to the *Workers Rehabilitation and Compensation Act*, the Fund contributes 4 per cent of workers' compensation contributions to the Nominal Insurer.

Financial Statements

TASMANIAN RISK MANAGEMENT FUND

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2005*

	2005	2004
	\$'000	\$'000
3. EXPENSES FROM ORDINARY ACTIVITIES (cont).		
General Administration Expenses		
Actuarial Expenses	130	84
Accounting and Audit Fees	21	25
Salaries and On Costs	255	279
Other	238	108
	644	496
<p>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 has been recognised as other expenditure accordingly.</p>		
4. UNDERWRITING RESULT		
Agency Contributions & Recoveries	29 285	26 881
Claims Expense	(39 636)	(39 222)
Other Underwriting Expenses	(1 343)	(1 232)
	(11 694)	(13 573)
5. RECEIVABLES		
Accrued Interest	429	394
Contributions Receivable from Agencies	357	-
Insurance recoveries	53	13
	839	407
6. PAYABLES		
Unreimbursed Claims	384	533
Other	147	217
	531	750
7. PROVISIONS		
Employee Entitlements	66	72

As described in Note 3, other creditors includes an allowance for the underpayment of management fees to the previous agent of the Fund Administrator for \$0.107 million.

Financial Statements

TASMANIAN RISK MANAGEMENT FUND

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2005*

	2005	2004
	\$'000	\$'000
8. OUTSTANDING CLAIMS		
Current		
Workers' compensation	20 000	20 306
Property	2 890	789
Motor Vehicle	140	380
Liability	1 000	439
Medical	4 320	2 200
Miscellaneous	-	297
	28 350	24 411
Non-Current		
Workers' compensation	36 843	36 866
Liability	3 460	3 948
Medical	32 870	23 205
	73 173	64 019

As in the prior year, the Fund experienced a significant increase in outstanding claim liabilities during 2004-05. This was largely a result of a revised estimate by the independent consulting actuary, Bendzulla Actuarial Pty Ltd of outstanding medical liability claims to \$37.1 million, an increase of \$11.8 million from 2003-04. The magnitude of the increase was a result of the adoption of a different method of determining the provision. The new method makes allowances for:

- amounts in addition to the current case estimates (an "incurred but not enough reported" provision); and
- future inflation in claim amounts between the balance date and the assumed date of settlement of the claims.

As a result of this increase the Fund received \$5 million appropriated from the Consolidated Fund in 2004-05, and will receive \$5 million in future periods until the medical liabilities are fully funded.

Financial Statements

TASMANIAN RISK MANAGEMENT FUND

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2005*

	2005	2004
	\$'000	\$'000
8. OUTSTANDING CLAIMS (continued)		
<i>Workers' Compensation</i>		
The liability for outstanding workers' compensation claims is determined by the independent consulting actuary, Bendzulla Actuarial Pty Ltd.		
Expected future claims payments (undiscounted)	63 633	64 241
Less Discounted to present values	(5 775)	(5 888)
Less recoveries under excess	(1 015)	(1 181)
Liability for outstanding claims	56 843	57 172
Current	20 000	20 306
Non-Current	36 843	36 866
	56 843	57 172
(a) The weighted average expected term of settlement from the balance date is estimated at:	2.22 years	2.20 years
(b) In measuring the liability for outstanding claims, the following rates were used:		
- Inflation rate (years 1 – 3)	5.5%	6.5%
- Inflation rate (years 4 onward)	5.5%	6.5%
- Discount rate	5.0%	5.0%
<i>Medical Liability</i>		
The liability for outstanding medical liability claims is determined by the independent consulting actuary, Bendzulla Actuarial Pty Ltd.		
Expected future claims payments (undiscounted)	55 000	25 405
Less Discounted to present values	(15 910)	-
Less recoveries under excess	(1 900)	-
Liability for outstanding claims	37 190	25 405
Current	4 320	2 200
Non-Current	32 870	23 205
	37 190	25 405

Financial Statements

TASMANIAN RISK MANAGEMENT FUND

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2005*

	2005 \$'000	2004 \$'000
8. OUTSTANDING CLAIMS (continued)		
<i>Medical Liability (continued)</i>		
(c) The weighted average expected term of settlement from the balance date is estimated at:	7 years	n/a
(d) In measuring the liability for outstanding claims, the following rates were used:		
- Inflation rate (years 1 – 3)	8.0%	n/a
- Inflation rate (years 4 onward)	8.0%	n/a
- Discount rate	5.0%	n/a
9. EQUITY		
Accumulated (deficit)/surplus at the beginning of the year	(3 072)	3 342
Current year net (deficit)/surplus	(2 248)	(6 414)
Accumulated (deficit)/surplus at the end of the year	(5 320)	(3 072)
10. NOTES TO STATEMENT OF CASH FLOWS		
<i>(a) Reconciliation of Cash</i>		
Cash at the end of the financial year as shown on the Statement of Cash Flows is reconciled to the related item in the Statement of Financial Position as follows:		
Cash and Deposits	95 961	85 773
<i>(b) Reconciliation of Net Cash provided by Operating Activities to Operating Surplus</i>		
Operating surplus (deficit)	(2 248)	(6 414)
(Increase)/Decrease in Interest Receivable	(34)	(105)
(Increase)/Decrease in Agency Contributions	(357)	734
(Increase)/Decrease in Insurance Recoveries	(40)	46
Increase/(Decrease) in Creditors	(220)	(1 378)
Increase/(Decrease) in Provisions	(6)	34
Increase/(Decrease) in Claims Payable	13 093	16 804
Net Cash Inflow/(Outflow) from Operating Activities	10 188	9 721

Financial Statements

TASMANIAN RISK MANAGEMENT FUND

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2005*

11. FINANCIAL INSTRUMENTS

Interest Rate Risk

Financial instruments for the purposes of the Fund are limited to Receivables, Creditors and Cash in the TRMF Account in the Special Deposits and Trust Fund. Creditors and Receivables of the Fund 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 2005 of 5.44 per cent (30 June 2004: 5.58 per cent).

Credit Risk

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

Net Fair Value

The carrying amount of the 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 Fund.

Financial Statements

TASMANIAN RISK MANAGEMENT FUND

*Notes to and forming part of the Financial Statements
for the year ended 30 June 2005*

12. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Fund is managing the transition to Australian Equivalents to International Financial Reporting Standards (AEIFRS) by analysing pending standards, Urgent Issues Group Abstracts and changes to Treasurer's Instructions to identify key areas regarding policies, procedures, systems and financial impacts affected by the transition.

The Department of Treasury and Finance will take a key role in assisting the Fund to manage the transition. Key strategies for managing the transition are:

- analysis of AEIFRS and the changes from the current AAS;
- determining new AEIFRS policies, including mandating policies where appropriate;
- development of new or revised Treasurer's Instructions, including mandatory accounting policies and model financial statements; and
- providing information for agencies and encouraging attendance at training seminars.

Once changes to accounting policies and standards have been identified, the Department will determine the extent of system impacts and will develop a strategy for implementing any necessary changes to financial systems. Strategies for training staff and informing stakeholders of major changes will then be implemented.

As the TRMF has a 30 June year end, it is required to prepare an opening Balance Sheet in accordance with the AEIFRS at 1 July 2004. This will form the basis of the future accounting for AEIFRS when the TRMF prepares its first fully AEIFRS compliant financial report for the year ended 30 June 2006.

During the current period an assessment was undertaken on the opening balances of the Statement of Financial Position. The assessment did not identify any material changes or financial impacts to the Statement of Financial Position of the TRMF as it was reported in the 2004 financial report. 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.

Financial Statements

TASMANIAN RISK MANAGEMENT FUND

Certification of Financial Statements for the year ended 30 June 2005

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 2005 and the financial position as at 30 June 2005.

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



D W Challen
SECRETARY

Department of Treasury and Finance

Date: 15 August 2005

Independent Audit Report



Tasmanian Audit Office

INDEPENDENT AUDIT REPORT

To the Members of the Parliament of Tasmania

TASMANIAN RISK MANAGEMENT FUND

Financial Report for the Year Ended 30 June 2005

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 Tasmanian Risk Management Fund for the year ended 30 June 2005. 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 report and the Directors' responsibilities

The financial report comprises the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes to the financial statements, and the statement from the Secretary for the year ended 30 June 2005.

The Secretary is responsible for the preparation and true and fair presentation of the financial report. 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 report.

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 report is 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 report presents fairly, in accordance with 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

Independent Audit Report

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

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 report, and
- Assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made.

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

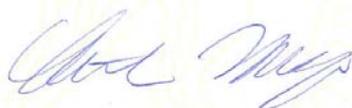
In conducting my audit, I have met applicable independence requirements of Australian professional ethical pronouncements.

Audit Opinion

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

- a) Presents fairly the financial position of the Tasmanian Risk Management Fund as at 30 June 2005, and the results of its operations and its cash flows for the year then ended; and
- b) Is in accordance with applicable Accounting Standards and other mandatory financial reporting requirements in Australia.

TASMANIAN AUDIT OFFICE



C M Tamayo
DIRECTOR
Delegate of the AUDITOR-GENERAL

HOBART
17 October 2005

Accountability on Your Behalf

Contact Details

The members of the Tasmanian Risk Management Fund Unit of the Department of Treasury and Finance as at 30 June 2005 were:

Alison Lyne

A/Principal Policy Analyst

Di Hope

Senior Policy Analyst

Jan Wilson

Senior Policy Analyst

Penny Macintyre

Principal Policy Analyst

Linda Voumard

Assistant Research Officer

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

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