



## Tasmanian Risk Management Fund



## Annual Report 2003 – 2004

Department of  
**Treasury and Finance**



Tasmania

Tasmanian Risk Management Fund

Annual Report 2003 – 2004

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



Tasmania

## Contents

Chairman's Report _____	3
The Tasmanian Risk Management Fund _____	4
Fund Structure _____	5
Performance of the Fund _____	7
Risk Management _____	8
Claims Management – Fund Administration Agent Report _____	10
Workers' Compensation _____	12
Property _____	13
Liability _____	14
Financial Statements _____	15
Contact Details _____	32

ANNUAL REPORT

**U**nder the direction of an inter-agency Steering Committee, the Tasmanian Risk Management Fund (TRMF) continues to provide an effective whole-of-government approach to the treatment of all 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 2003-04.

The broad coverage of the TRMF has not diminished and the Fund remains in a sound financial position. At 30 June 2004, the Fund had total assets of \$86.2 million and estimated liabilities of \$89.3 million, resulting in net liabilities of \$3.1 million. This result is largely as a result of a revised estimate by the TRMF's Actuary of outstanding medical liability. A net asset position of around \$6 million is forecast for 30 June 2005. 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 2003-04, including the delivery of a series of seminars and information sessions for agencies, development of *Motor Vehicle Fleet Purchase and Use Guidelines*, a review of medical liabilities and an assessment of potentially catastrophic risks that could impact on the Fund (termed an enterprise-wide risk assessment).

After playing a key role in the inception and development of the TRMF, Philip Mussared transferred to the position of Deputy Secretary at the Department of Health and Human Services in July 2004. I would like to thank Philip for his vision in establishing the TRMF as an effective whole-of-government risk management arrangement.

Looking forward, the TRMF will continue its role in promoting a culture of risk management across agencies through the development of a whole-of-government risk management policy and a consistent framework to assist agencies in the management of risks to which they are exposed.



Tony Ferrall

**Chairman**

Tasmanian Risk Management Fund  
Steering Committee



**T**he 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 which is administered by the TRMF Unit of the Department of Treasury and Finance.

Participating government agencies pay annual contributions to the TRMF to meet claims costs for all 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 property
- vehicle
- marine hull
- property – Housing Tasmania

#### **Liability**

- general liability
- medical liability

#### **Miscellaneous**

- travel
- government contingency

From 1 January 1999, the Fund progressively assumed responsibility from agencies for the management of risk through insurance. By 30 July 2004, 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:

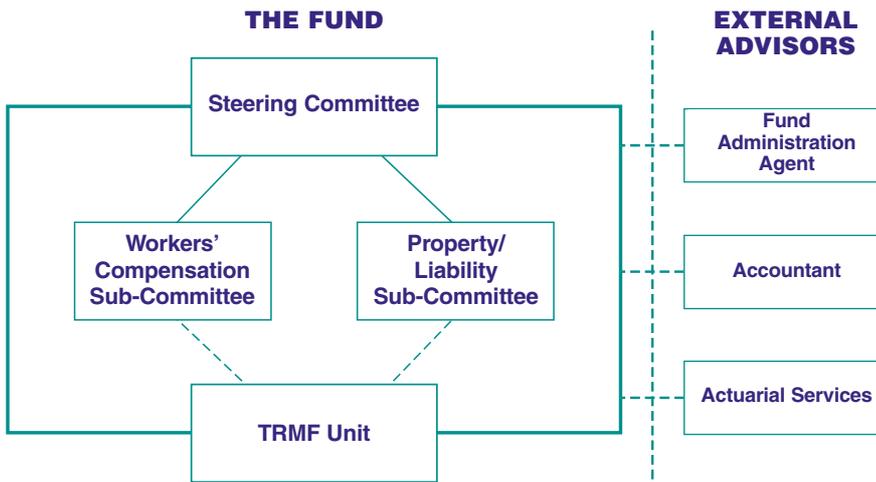
- a whole-of-government approach to risk management and insurance;
- minimising the cost of risk to agencies and government through an efficient self-insurance arrangement which meets costs associated with large and unexpected losses;
- avoiding the volatility experienced in the insurance market in recent 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 all agencies with minimal cross-subsidisation;
- stability in contributions over time; and
- incentives for risk management.

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

## Organisational Structure



## Steering Committee and Sub-Committees

The Fund is strategically managed by an inter-agency Steering Committee chaired by Treasury. The Steering Committee meets quarterly, with additional meetings held as required. 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 2004:

Agency	Representative
Treasury and Finance	Philip Mussared (Chair)
Treasury and Finance	Robert Cockerell
Education	Simon Barnsley
Health and Human Services	Dianne Smith
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



## **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. At its meeting in December 2003, the Steering Committee agreed to exercise an option to extend Marsh's contract for a further two-year period at the expiry of the current term in June 2004.

Since 1 July 2001, Marsh sub-contracted the claims management role to CGU (workers' compensation) and Lumley General (general claims). As from 1 July 2004 and 1 May 2004 respectively, Marsh took direct responsibility for providing these fund administration services.

## **Actuarial Services**

Following an open tender process, Bendzulla Actuarial Pty Ltd was again contracted to undertake the calculation of the total contribution required from agencies for each self-insured risk on behalf of the Fund. A new three-year contract, with an option to extend the contract for up to three years, was signed with Bendzulla Actuarial in September 2003.

## **TRMF Strategy Group**

The TRMF Strategy Group was established in July 2003. Meetings are held on a regular basis with senior representatives from Treasury and local and national representatives from Marsh to provide a forum for discussion of high-level, strategic insurance and risk management issues relevant to the Fund. The enterprise-wide risk assessment arose as a result of discussions at this forum.

## **TRMF Unit**

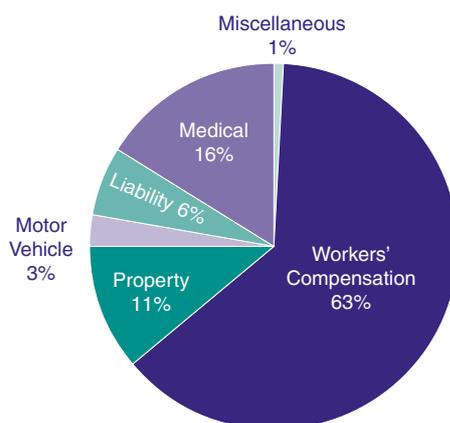
The TRMF Unit, comprising three full-time and two part-time employees, along with a Treasury cadet, provides secretariat and administrative support for the Steering Committee and for each of the sub-committees, which meet quarterly. In addition, the Unit administers the financial aspects of the Fund, 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 Fund Accountant.

## Contributions

In 2003-04 gross fund contributions totalled \$27.3 million. The percentage of contributions by class of risk is shown in Figure 1.

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, continued in 2003-04, in contrast to the substantial premium increases experienced in the private sector and problems associated with the availability of cover for some classes of risk.

**Figure 1: Tasmanian Risk Management Fund Contributions by Class**



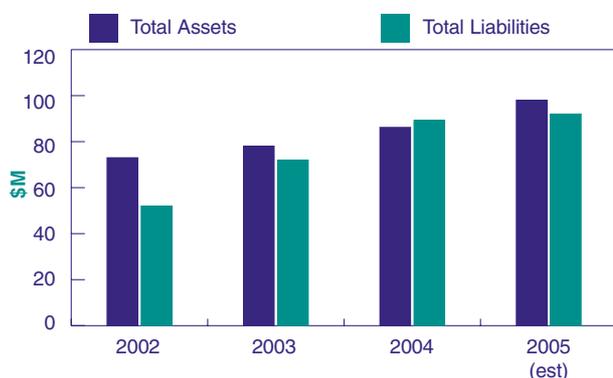
## Financial Position of the Fund

As at 30 June 2004, the Fund had total assets of \$86.2 million and estimated liabilities of \$89.3 million, resulting in net liabilities of \$3.1 million. The position of the Fund for the past three years is represented in Figure 2. The increase in liabilities over 2002-03 and 2003-04 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 and revised to \$25.4 million in 2004-05.

It is forecast that the Fund will be in a positive net asset position by 30 June 2005 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.

**Figure 2: Assets and Liabilities (as at 30 June)**





**T**he TRMF Unit has undertaken a range of projects to improve the management of risk across government. These have included projects to improve the Fund's understanding of its liabilities, providing advice and assistance to agencies and coordinating seminars and training to build skills and knowledge across agencies. Some key projects undertaken in 2003-04 are listed below.

### Enterprise-wide Risk

Marsh Pty Ltd was engaged in 2003-04 to undertake an enterprise-wide assessment of catastrophic risks that could potentially threaten the liquidity of the Tasmanian Risk Management Fund.

The project identified some potentially high-consequence risks and some areas where controls could be improved. Marsh has recommended that further refinement of the likelihood of some of the potential risks identified be undertaken before an informed assessment of the potential impact on the Fund's position can be made.

Consequently, actuarial advice on the likelihood and consequences of the potentially highest consequence risks will be sought in 2004-05 before a decision is made on the best way to manage the possible financial consequences of these risks.

### Medical Liability

The TRMF engaged KPMG Actuaries to advise on the State's medical malpractice liabilities. KPMG commenced fieldwork for this project in February 2004, conducting interviews with representatives from the major hospitals and other key stakeholders.

The project outcomes include an estimate of the potential gross liability of both claims reported and claims incurred but not yet reported and the required contribution for 2004-05 and each year thereafter to self-insure for medical liabilities. The consultant also provided recommendations on possible improvements to the monitoring, reporting and management of potential and existing medical malpractice claims.

In July 2004, the Steering Committee endorsed the revised contribution for medical liabilities. The Department of Health and Human Services has also agreed to implement a range of recommendations from the report.

### Seminars

The TRMF Unit, in conjunction with Marsh Pty Ltd, facilitated two information forums that focused on fraud during 2003-04.

At the first forum on 2 September 2003, James Pasfield of the CGU Fraud Department in Sydney discussed strategies to identify and manage workers' compensation fraud. Denise Bouvaird from Marsh Risk Consulting New Zealand presented the second forum. This forum focused on the most common types of financial fraud in government agencies and discussed action plans for improving fraud control. The forums were attended by 58 officers from agencies and other government entities.

### Information Sharing

On 27 May 2004, 16 Occupational Health and Safety (OH&S) representatives from a number of agencies attended an information sharing session about the Department of Primary Industries, Water and Environment's OH&S management system known as SafetyNET. This was the first in a series of information sharing sessions to be presented by agency representatives.

### Survey of Agencies on Services Provided by the Fund Administration Agent

In order to assist the Steering Committee in considering the option to extend the Agreement with Marsh Pty Ltd for a further period of two years in November 2003, the TRMF Unit conducted a survey of agencies in relation to Marsh's performance. The survey resulted in a number of suggestions for improvement. By July 2004, Marsh had addressed all of the suggestions.



## **Survey of Agency Risk Management Practices**

The TRMF Unit conducted a survey of agencies during December 2003 in order to identify current risk management policies, procedures and practices in agencies with a view to sharing examples of good practice with other agencies.

The survey revealed that agencies consider information sharing between agencies to be a valuable strategy. A resource section will be created on the TRMF Web site to allow agencies access to risk management documentation prepared by other agencies, and the Unit will continue with its program of information-sharing sessions on particular areas of risk.

## **Motor Vehicle Fleet Purchase and Use Guidelines**

Comprehensive *Motor Vehicle Fleet Purchase and Use Guidelines* were developed to assist agencies to develop internal policies for motor vehicle fleet selection and use, consistent with their operational requirements.

The guidelines were developed in consultation with agencies and are based on research of contemporary vehicle safety features and best practice driver behaviour. They can be accessed under Latest Publications on the TRMF page of the Treasury Web site at [www.treasury.tas.gov.au](http://www.treasury.tas.gov.au)

## **Risk Exposure Questionnaire**

The most recent review to determine the exposure and range of risk areas experienced by agencies and covered by the Fund was undertaken in May 2004. Regular reviews facilitate the task of identifying current risks to which the Government is exposed, establish benchmarks to measure risk management performance in the future and form the basis for calculating agency contributions by the Actuary.

## **TRMF Web site and Procedures Manual**

The Fund's *Procedures Manual* is being updated and reorganised into a web-friendly format. The Web site is also being revamped to help government users to find the information they need quickly and easily. Agency-only access will be provided to some areas of the Web site to enable agencies to share risk management documentation and advice provided by the TRMF Unit.





The Tasmanian Risk Management Fund continues to respond to the insurable risks of its participating agencies. The Fund's development in the last 12 months has included some specific agency initiatives such as the Property Protection Scheme for the Department of Education and the introduction of the STARS database system as the data collection tool for medical indemnity claims.

The increasing focus and reliance on the Fund from within participating agencies has developed a need for a better understanding of the STARS technology and its capabilities. This resulted in an upgrade to STARS version 7 which in turn enabled the introduction of a web-based version for agencies and the introduction of STARS and STARS-web user groups. A further STARS version upgrade will be implemented in the near future.

The claims management function has been brought "in-house" following the assumption by Marsh of the roles previously subcontracted to Lumley General and CGU from 1 May 2004 and 1 July 2004 respectively.

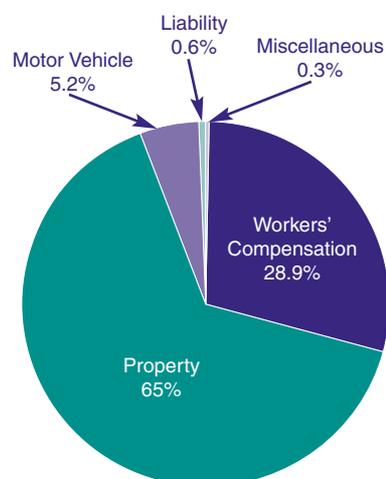
During the 2003-04 year, 4 928 claims for incidents which occurred during the period 1 July 2003 to 30 June 2004 were lodged.

These claims can be broken up as follows:

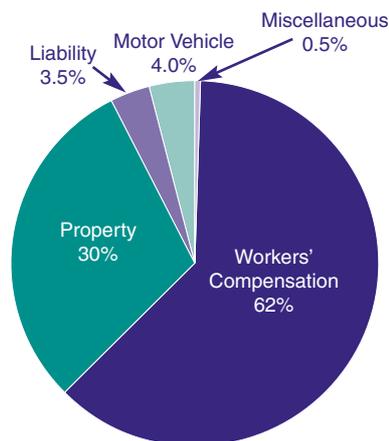
**Table 1: Claim Numbers and Incurred Cost as at 30 June 2004**

	Number	Incurred Cost (\$ million)
Workers' Compensation	1 423	8.633
Property	3 206	4.142
Motor Vehicle	257	0.602
Liability	28	0.553
Miscellaneous	14	0.030

**Figure 3: Claims lodged as at 30 June 2004**



**Figure 4: Total Incurred Cost as at 30 June 2004**



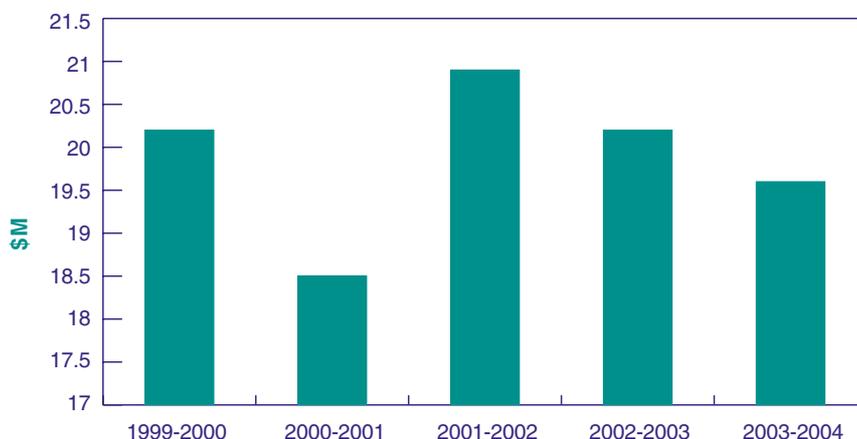
Note: Total incurred cost is the sum of total amount paid and the estimated outstanding reserve.

## Workers' Compensation

As at 30 June 2004, there were 1 423 claims made for incidents that occurred in 2003-04. This compares with 1 558 claims made in 2002-03, a decrease of 8.6 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.

Workers' compensation payments for all categories for 2003-04 totalled \$19.6m compared to \$20.2m for 2002-03, which is a reduction of 2.9 per cent.

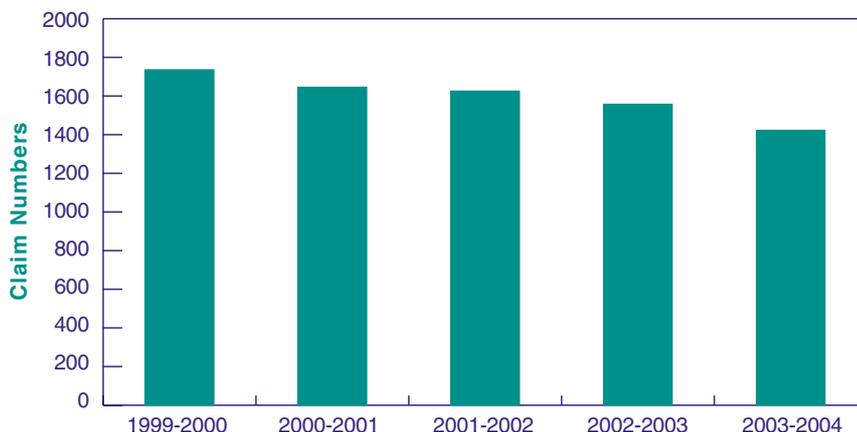
**Figure 5: Workers' Compensation Total Payments by Financial Year**



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

Year	\$M
1999-2000	20.2
2000-2001	18.5
2001-2002	20.9
2002-2003	20.2
2003-2004	19.6

**Figure 6: Workers' Compensation Claim Numbers by Year of Incident**



**Table 3: Workers' Compensation Claim Numbers by Year of Incident**

Year	Number of Claims
1999-2000	1 736
2000-2001	1 646
2001-2002	1 626
2002-2003	1 558
2003-2004	1 423

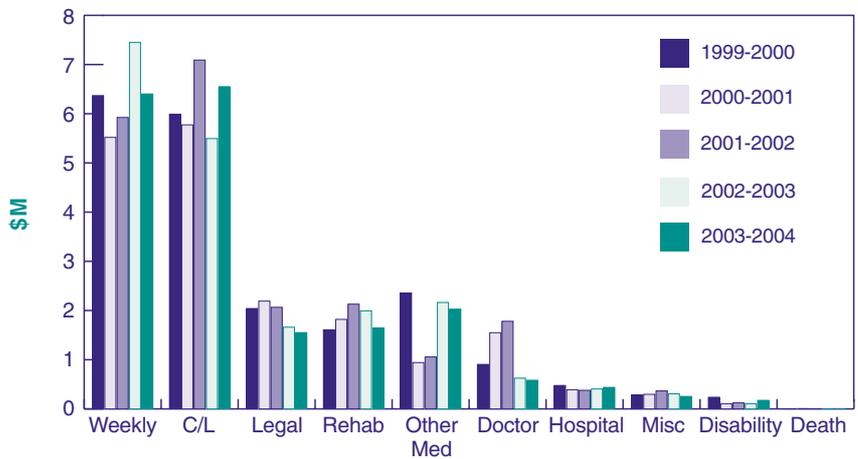


Payments for most risk categories for workers' compensation in 2003-04 were consistent with 2002-03.

The only exceptions were payments for common law, which increased by 19 per cent from \$5.5m in 2002-03 to \$6.6m in 2003-04 and weekly payments, which decreased by 14 per cent from \$7.5m in 2002-03 to \$6.4m in 2003-04.

The increase in common law payments and associated reduction in weekly payments from 2002-03 to 2003-04 is significant and is attributable to the active management and closure of older claims. The reduction in rehabilitation costs is also attributable to the closure of these files.

**Figure 7: Workers' Compensation Payments by Category by Financial Year**





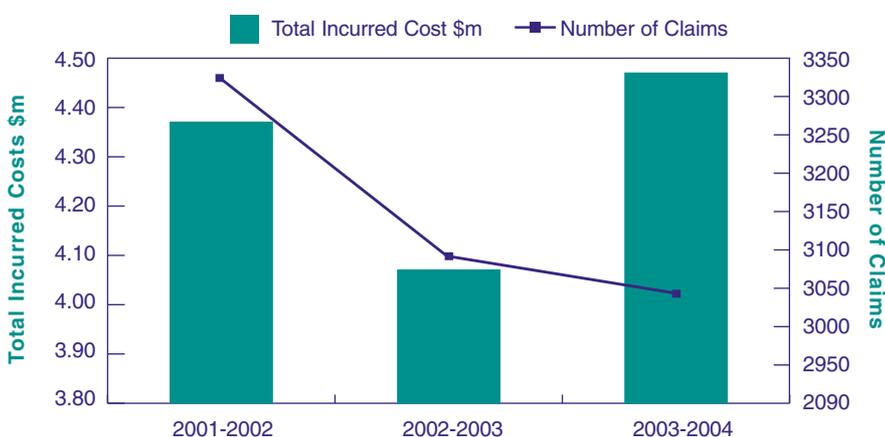
## Property

**Table 4: Property – Claim Numbers and Incurred Costs as at 30 June 2004**

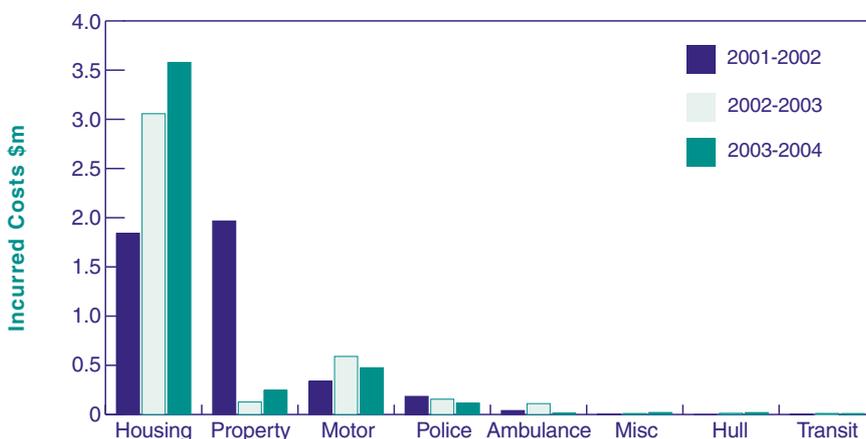
Year	Number of Claims	Total Incurred Cost
2001-2002	3 327	\$4.37m
2002-2003	3 092	\$4.07m
2003-2004	3 044	\$4.47m

While claim numbers reduced for the period 2002-03 to 2003-04, there was an increase in incurred and average claims costs of 9.9 per cent.

**Figure 8: Property – Claim Numbers and Claim Costs as at 30 June 2004**



**Figure 9: Property Incurred Costs by Category**



Housing Tasmania's incurred costs appear high. However, the Department meets the basic cost of claims up to an annual level of \$2.5m. The Fund provides an aggregate stop loss insurance cover for claims cost for property damage in excess of this level. Housing Tasmania and Light Motor Vehicle claims represent over 90 per cent of the claim numbers and costs to government for property risks for 2003-04.

The significant increase in claims costs relates to an increase in the number of large fire losses for Housing Tasmania and General Property. By comparison, the reduction in the incurred cost of claims for motor vehicles is attributable to a reduction in large losses.

There was a decrease in both claims and incurred cost in the Police Motor Vehicle category for 2003-04 when compared to 2002-03 and a substantial decrease in incurred costs for the Tasmanian Ambulance Service for the same period.

## Liability

Twenty-eight Public Liability claims were reported where the incident giving rise to the claim occurred during 2003-04. This represents a 33 per cent reduction in claim numbers compared to the 2002-03 period. No Professional Indemnity claims have been reported in the last 2 years.

It is expected that liability claims will arise and be reported in the future for incidents which occurred during 2003-04. Consequently, claim numbers and costs attributed to 2003-04 will increase over time.

**Table 5: Liability Claims Comparison by Year of Incident**

	2001-02	2002-03	2003-04	Difference as a % (2002-03 to 2003-04)	
Claim numbers	58	42	28	↓	33%
Total paid	\$56 589	\$17 128	\$13 103	↓	24%
Outstanding payments	\$1 442 433	\$780 315	\$540 614	↓	31%
Total incurred cost	\$1 499 022	\$797 443	\$553 717	↓	31%
Largest incurred claim	\$1 200 000	\$350 000	\$300 000	↓	14%

**Note:** The 2002-03 Tasmanian Risk Management Fund Annual Report showed a total paid figure for 2002-03 of \$46 244. It included a payment amount in relation to medical liability. The correct figure of \$17 128 shown above is the total paid not taking into account any payments for medical liability.

## Medical Liability (not administered by the Fund Administration Agent)

Medical liability claims are managed internally by the Department of Health and Human Services. The TRMF covers the total cost of lump sum payments in excess of \$50 000 and will cover medical indemnity claims arising from incidents that occurred prior to 1 July 2001.

**Table 6: Medical Liability Claims by Year of Incident**

	2001-02	2002-03	2003-04	Difference as a % (2002-03 to 2003-04)	
Claim numbers	27	26	21	↓	19.2
Total paid	\$712 610	\$4 937 268*	\$1 400 555	↓	71.6

As at 30 June 2004, there were 86 current medical indemnity claims with a total estimated cost of \$13.0m.

\* The total paid figure for 2002-03 includes \$4.5m in damages awarded to a single claimant.

# Financial Statements

Tasmanian Risk Management Fund

ANNUAL REPORT

## TASMANIAN RISK MANAGEMENT FUND

### *Statement of Financial Performance*

for the year ended 30 June 2004

	Note	2004 \$'000	2003 \$'000
<b>Revenue from ordinary activities</b>			
Agency contributions and recoveries	2	26 881	26 850
Investment revenue	2	4 366	3 696
Other revenue	2	3 289	–
<b>Total revenue from ordinary activities</b>		<b>34 536</b>	<b>30 546</b>
<b>Expenses from ordinary activities</b>			
Claims expenses	3	(39 222)	(47 412)
Other underwriting expenses	3	(1 232)	(1 132)
General administration expenses	3	(496)	(376)
<b>Expenses from ordinary activities</b>		<b>(40 950)</b>	<b>(48 920)</b>
<b>Net operating surplus (deficit) from ordinary activities</b>	<b>9</b>	<b>(6 414)</b>	<b>(18 374)</b>

The Statement of Financial Performance is to be read in conjunction with the Notes to and forming part of the Financial Statements.

## TASMANIAN RISK MANAGEMENT FUND

### Statement of Financial Position

as at 30 June 2004

	Note	2004 \$'000	2003 \$'000
<b>Current Assets</b>			
Trust Account	10 (a)	85 773	76 052
Receivables	5	407	1 082
		<u>86 180</u>	<u>77 134</u>
<b>Total Assets</b>		<u>86 180</u>	<u>77 134</u>
<b>Current Liabilities</b>			
Outstanding claims	8	24 411	25 223
Payables	6	750	2 129
Provisions	7	72	38
		<u>25 233</u>	<u>27 390</u>
<b>Non-Current Liabilities</b>			
Outstanding claims	8	64 019	46 402
		<u>64 019</u>	<u>46 402</u>
<b>Total Liabilities</b>		<u>89 252</u>	<u>73 792</u>
<b>Net Assets / (Liabilities)</b>		<u>(3 072)</u>	<u>3 342</u>
<b>Equity</b>			
Accumulated (deficit)/surplus	9	<u>(3 072)</u>	<u>3 342</u>

The Statement of Financial Position is to be read in conjunction with the Notes to and forming part of the Financial Statements.

## TASMANIAN RISK MANAGEMENT FUND

### *Statement of Cash Flows*

for the year ended 30 June 2004

	Note	2004 \$'000	2003 \$'000
<b>Cash flows from operating activities</b>			
Agency contributions		27 750	26 284
Other revenue		3 289	–
Interest received		4 261	3 673
Claims and expenses paid		(22 151)	(24 233)
Fund management fees		(1 832)	(1 768)
Underwriting expenses		(1 232)	(1 132)
General and administration expenses		(364)	(375)
<b>Net cash inflow (outflow) from operating activities</b>	10 (b)	<b>9 721</b>	<b>2 449</b>
<b>Net increase (decrease) in cash held</b>		<b>9 721</b>	<b>2 449</b>
Cash at beginning of the financial year		76 052	73 603
<b>Cash at end of the financial year</b>	10 (a)	<b>85 773</b>	<b>76 052</b>

The Statement of Cash Flows is to be read in conjunction with the Notes to and forming part of the Financial Statements.

## TASMANIAN RISK MANAGEMENT FUND

*Notes to and forming part of the Financial Statements***for the year ended 30 June 2004**

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 are 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

## TASMANIAN RISK MANAGEMENT FUND

*Notes to and forming part of the Financial Statements*  
for the year ended 30 June 2004**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(c) Claims (continued)***Workers' compensation*

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 Manager in consultation with an independent actuary.

The liability for outstanding claims is measured as the present value of the expected future payments, reflecting the fact that all the claims do not have to be paid out in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and "super-imposed inflation". Super-imposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury. The expected future payments are then discounted to a present value at the balance date using discount rates based on investment opportunities available to the organisation on the amounts of funds sufficient to meet claims as they become payable. The details of rates applied are included in note 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 2003-04 case estimates for IBNR and IBNER claims. Claims outstanding have been assessed in consultation with an independent actuary.

*Liability*

The liability for outstanding claims in respect to public and products, professional, directors and officers is measured using aggregate case estimates increased by 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.

## TASMANIAN RISK MANAGEMENT FUND

*Notes to and forming part of the Financial Statements*

for the year ended 30 June 2004

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(c) Claims (continued)***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 negligence claims. The liability for outstanding claims is 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 TRMF's insurance policies have been included in this category. Claims outstanding have been assessed in consultation with an independent actuary.

In addition, the TRMF provides cover in respect to marine hull and travel. These risks are fully reinsured with external insurers so that TRMF carries no outstanding liability. The liability for fidelity/fraud, transit, volunteers, hirer and aviation charter risks has been included under the aforementioned categories.

**(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) Provisions 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.

## TASMANIAN RISK MANAGEMENT FUND

### *Notes to and forming part of the Financial Statements* for the year ended 30 June 2004

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

##### (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 \$2.645 million (2002-03: \$2.544 million) and GST relating to expense items amounted to \$0.592 million (2002-03: \$1.044 million).

##### (g) *Tax Status*

The activities of the Fund are exempt from taxation.

## TASMANIAN RISK MANAGEMENT FUND

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

for the year ended 30 June 2004

	2004	2003
	\$'000	\$'000
<b>2. REVENUE FROM ORDINARY ACTIVITIES</b>		
Agency contributions & recoveries	26 881	26 850
Investment revenue	4 366	3 696
Other revenue	3 289	–
<b>Total revenue from ordinary activities</b>	<b>34 536</b>	<b>30 546</b>

Other revenue includes an amount of \$289 000 which was funded through the Consolidated Fund to meet the costs of a specific liability claim that was made against a former agency that no longer exists. This was in addition to \$3 million dollars received from the Consolidated Fund for outstanding medical claims.

### 3. EXPENSES FROM ORDINARY ACTIVITIES

#### Individually significant expenses

Initial recognition of medical liability claims	–	13 235
Payment relating to individual medical negligence claim	–	4 100
Movement in the assessment of ongoing medical malpractice claims outstanding as determined by the Fund's Actuary	11 935	–

#### Claims expense

Claims paid	20 052	22 673
Claims accrued	533	2 099
Movement in outstanding claims	16 805	20 872
Management expenses	1 832	1 768
	<b>39 222</b>	<b>47 412</b>

#### Other Underwriting Expenses

Payment to Workcover Tasmania Board and Nominal Insurer	1 232	1 132
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As a result of the HIH collapse, and amendments to the *Workers Rehabilitation and Compensation Act 1988*, the Fund contributes 4 per cent of workers' compensation contributions to the Nominal Insurer.

## TASMANIAN RISK MANAGEMENT FUND

### *Notes to and forming part of the Financial Statements* for the year ended 30 June 2004

	2004 \$'000	2003 \$'000
<b>3. EXPENSES FROM ORDINARY ACTIVITIES (cont)</b>		
General Administration Expenses		
Actuarial expenses	84	81
Accounting and audit fees	25	20
Salaries and on costs	279	248
Other	108	27
	<u>496</u>	<u>376</u>
<b>4. UNDERWRITING RESULT</b>		
Agency contributions and recoveries	26 881	26 850
Claims expenses	(39 222)	(47 412)
Other underwriting expenses	(1 232)	(1 132)
	<u>(13 573)</u>	<u>(21 694)</u>
<b>5. RECEIVABLES</b>		
Accrued interest	394	290
Contributions receivable from agencies	–	734
Insurance recoveries	13	58
	<u>407</u>	<u>1 082</u>
<b>6. PAYABLES</b>		
Unreimbursed claims	533	2 099
Other	217	30
	<u>750</u>	<u>2 129</u>

In 2002-2003 the Fund included in unreimbursed claims an amount of \$1.029 million representing amounts payable to the Fund Administrator for claim payments made in July 2003. However, such payments are included in the Actuary's assessment of outstanding claims at 30 June 2004, and therefore no further allowance is required.

## TASMANIAN RISK MANAGEMENT FUND

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

for the year ended 30 June 2004

	2004	2003
	\$'000	\$'000
<b>7. PROVISIONS</b>		
Employee entitlements	72	38
	<hr/>	<hr/>
<b>8. OUTSTANDING CLAIMS</b>		
<b>Current</b>		
Workers' compensation	20 306	19 998
Property	789	1 473
Motor vehicle	380	392
Liability	439	2 834
Medical	2 200	235
Miscellaneous	297	291
	<hr/>	<hr/>
	24 411	25 223
	<hr/>	<hr/>
<b>Non-Current</b>		
Workers' compensation	36 866	33 167
Liability	3 948	-
Medical	23 205	13 235
	<hr/>	<hr/>
	64 019	46 402
	<hr/>	<hr/>

During the 2003-2004 year the Fund experienced a significant increase in outstanding claim liabilities.

This was largely a result of a revised estimate by the consulting independent actuary, Bendzulla Actuarial Pty Ltd of outstanding medical liability claims to \$25.4 million, an increase of \$11.9 million from 2002-2003.

As a result of this increase the Fund received \$3 million through the Consolidated Fund in 2003-2004, and will receive \$5 million in 2004-2005 and onwards until the medical liabilities are fully funded.

## TASMANIAN RISK MANAGEMENT FUND

### Notes to and forming part of the Financial Statements for the year ended 30 June 2004

	2004	2003
	\$'000	\$'000
<b>8. OUTSTANDING CLAIMS (continued)</b>		
<i>Workers' compensation</i>		
The liability for outstanding workers' compensation claims is determined by the consulting independent actuary, Bendzulla Actuarial Pty Ltd.		
Expected future claims payments (undiscounted)	64 241	59 900
Less discounted to present values	(5 888)	(5 524)
Less recoveries under excess	(1 181)	(1 211)
	<hr/>	<hr/>
Liability for outstanding claims	57 172	53 165
	<hr/>	<hr/>
Current	20 306	19 998
Non-Current	36 866	33 167
	<hr/>	<hr/>
	57 172	53 165
	<hr/>	<hr/>
(a) The weighted average expected term of settlement from the balance date is estimated at:	2.20 years	2.05 years
(b) In measuring the liability for outstanding claims, the following rates were used:		
– Inflation rate (years 1 – 3)	5.5%	6.0%
– Inflation rate (years 4 onward)	5.5%	5.0%
– Discount rate	5.0%	5.0%
<b>9. RETAINED SURPLUS</b>		
Accumulated surplus/(deficit) at the beginning of the year	3 342	21 716
Current year net surplus/(deficit)	(6 414)	(18 374)
	<hr/>	<hr/>
Accumulated surplus/(deficit) at the end of the year	(3 072)	3 342
	<hr/>	<hr/>

## TASMANIAN RISK MANAGEMENT FUND

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

for the year ended 30 June 2004

	2004	2003
	\$'000	\$'000

#### 10. NOTES TO STATEMENT OF CASH FLOWS

##### (a) Reconciliation of Cash

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

Trust Account	85 773	76 052
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##### (b) Reconciliation of Net Cash provided by Operating Activities to Operating Surplus

Operating surplus (deficit)	(6 414)	(18 374)
(Increase)/Decrease in interest receivable	(105)	(23)
(Increase)/Decrease in agency contributions	734	(508)
(Increase)/Decrease in insurance recoveries	46	(58)
Increase/(Decrease) in creditors	(1 378)	537
Increase/(Decrease) in provisions	34	3
Increase/(Decrease) in claims payable	16 804	20 872
Net cash inflow/(outflow) from operating activities	9 721	2 449

#### 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 Accounts. 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 2004 of 5.58 per cent (30 June 2003 4.73 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.

## TASMANIAN RISK MANAGEMENT FUND

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

for the year ended 30 June 2004

#### 11. FINANCIAL INSTRUMENTS (continued)

##### *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.

#### 12. CONTINGENT LIABILITIES

The TRMF is currently in discussions with the previous agent of the Fund Administrator in order to establish and quantify any under reimbursement of claim payments made on their behalf for prior year workers' compensation financial transactions. The current estimate of a potential liability is approximately \$0.179 million.

#### 13. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Fund is managing the transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) 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 AIFRS and the changes from the current AAS;
- determining new AIFRS 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.

## TASMANIAN RISK MANAGEMENT FUND

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

**for the year ended 30 June 2004**

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#### **13. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

The Fund's accounting policies may also be affected by a proposed standard to harmonise accounting standards with Government Finance Statistics (GFS). However, the standard is yet to be finalised and the impact cannot be assessed with certainty until the standard is issued.

The adoption of AIFRS has not resulted in changes in accounting policies or had a material impact on the TRMF's 2003-04 financial report.

### *Certification of Financial Statements*

**for the year ended 30 June 2004**

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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 2004 and the financial position as at 30 June 2004.

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: 12 August 2004



## **INDEPENDENT AUDIT REPORT**

**To the Members of the Parliament of Tasmania**

### **TASMANIAN RISK MANAGEMENT FUND**

Financial Report for the Year Ended 30 June 2004

#### **Scope**

*The financial report and the Secretary's 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 Certification of Financial Statements for the Tasmanian Risk Management Fund for the year ended 30 June 2004.

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 Fund's 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 by the Secretary.

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

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

### **Independence**

In conducting my audit, I followed 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 Fund as at 30 June 2004, 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 professional reporting requirements in Australia.

TASMANIAN AUDIT OFFICE



C M Tamayo  
**Director**

**Delegate of the AUDITOR-GENERAL**

12 November 2004  
HOBART

The members of the Tasmanian Risk Management Fund Unit of the Department of Treasury and Finance as at 30 June 2004 are:

**Amelia Jones**

Principal Policy Analyst

**Alison Lyne**

Senior Policy Analyst

**Di Hope**

Senior Policy Analyst

**Jan Wilson**

Senior Policy Analyst

**Penny Macintyre**

Principal Policy Analyst

**Sarah Wilson**

Assistant Research Officer

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

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