



Tasmania

**TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME**

**ANNUAL REPORT
1999-00**

**PREPARED BY
THE TASMANIAN STATE SERVICE
WORKERS' COMPENSATION COMMITTEE**

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Mr D W Challen
Secretary
DEPARTMENT OF TREASURY AND FINANCE

TASMANIAN STATE SERVICE WORKERS' COMPENSATION SCHEME 1999-00 ANNUAL REPORT

I am pleased to submit to you the 1999-00 Annual Report of the Tasmanian State Service Workers' Compensation Scheme.

Although there is not a statutory requirement to prepare an Annual Report, the members of the Committee responsible for the operation of the Scheme consider it is appropriate to prepare a report that could be made available to participating agencies.

The Scheme was designed with the intention that it be fully funded. That is, the Scheme should have been building up reserves with which to meet the outstanding claims liabilities as they arose. However, as a result of consistently underestimating the cost of each accident year when settling agency contributions until 1995-96, this did not occur. The process of establishing sufficient reserves to obtain full funding commenced in 1995-96. As at 30 June 2000, for the first time since its implementation, the Scheme was fully funded. Total assets as at 30 June 2000 were \$59.25 million, offset by total liabilities of \$49.88 million, resulting in net assets of \$9.36 million.

Since 1995-96, a number of indicators contained in the accrual financial statements and the Actuary's reports have suggested that the financial situation of the Scheme was improving. The financial situation of the Scheme continued to improve in 1999-00. In particular:

- as at 30 June 2000, the Scheme had outstanding claims liabilities of \$48.92 million (including an allowance of \$3.62 million for future administrative expenses), and had \$58.47 million in the Trust Account. By comparison, as at 30 June 1999 the Scheme had outstanding claims liabilities of \$50.79 million (including an allowance of \$3.59 million for future administrative expenses) and \$46.75 million in the Trust Account;
- total estimated costs in respect of injuries occurring each year, after peaking at \$32.61 million in 1993-94, have declined to \$19.37 million in 1999-00;

- the estimated average cost of claims has stabilised. It is estimated that the average cost of claims in respect of injuries occurring in 1999-00 will be \$9 231, compared to \$8 669 in 1998-99 and \$9 776 in 1997-98;
- the number of claims continues to decrease. It is estimated by the Actuary that a total of 1 761 claims will be made in respect of injuries occurring in 1999-00, compared to 1 797 in 1998-99 and 1 905 in 1997-98; and
- weekly benefit payments have declined from \$6.55 million in 1998-99 to \$6.21 million in 1999-00 – a decrease of five per cent. As some inflationary increase in this component can be expected each year, the real improvement is even greater.

The Committee is actively working to ensure that the Scheme continues to operate in a financially responsible manner and that appropriate incentives and sanctions are in place to ensure that agencies effectively manage their workers' compensation responsibilities.

Philip Mussared
Chairman
Tasmanian State Service Workers' Compensation Committee

February 2001

**TASMANIAN STATE SERVICE
WORKERS' COMPENSATION SCHEME**

ANNUAL REPORT 1999-00

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TASMANIAN STATE SERVICE WORKERS' COMPENSATION SCHEME

1. MISSION

To ensure that employees of agencies participating in the Tasmanian State Service Workers' Compensation Scheme (TSSWCS) who suffer injury or illness out of and in the course of their employment are rehabilitated and compensated in accordance with the *Workers' Rehabilitation and Compensation Act 1988*.

2. BACKGROUND

The Scheme, which began operation on 1 July 1989, is an arrangement established within the Tasmanian State Service to meet the cost of workers' compensation and common law claims made by employees of Government agencies. The Scheme is intended to operate on a fully funded basis.

The agencies participating in the Scheme pay actuarially determined contributions. These contributions are paid into the Tasmanian State Service Workers' Compensation Account (T837) which forms part of the Special Deposits and Trust Fund. It is from this Account that all costs associated with the operation of the Scheme are met.

The Tasmanian State Service Workers' Compensation Committee, an inter-departmental committee with representatives from participating portfolio agencies, is responsible for the strategic management of the Scheme. Secretariat and administrative support for the Committee is provided by an Executive Officer funded by the Scheme. Financial matters are managed by the Department of Treasury and Finance.

A Fund Administration Agent is retained on a contract basis to assist agencies to manage claims made by employees. The Fund Administration Agent also provides information to agencies to assist in the formulation of appropriate rehabilitation and risk management policies as well as to the Committee to assist in the management of the Scheme. The Fund Administration Agent bears no insurance risk in performing these duties.

Finally, an Actuary is retained to provide advice to the Committee on contributions and associated matters.

3. OPERATION OF THE SCHEME

3.1 History of the Scheme

The Scheme was established following the enactment of the *Workers' Compensation Act 1988* (now known as the *Workers' Rehabilitation and Compensation Act 1988*). The Tasmanian Government Insurance Office (TGIO) was engaged as the first Fund Manager for the new Scheme from the inception of the Scheme until June 1992.

In 1991-92, it was decided to revise the arrangements under which the Scheme operated and put the fund management of the Scheme to public tender. Switzerland Insurance (which was subsequently taken over by MMI Insurance Group) was appointed Fund Manager for a three year period from 1 July 1992. The revised arrangements also involved each agency paying a deposit contribution based on claims experience in the previous year. If the deposit contribution was greater than the cost of claims to which the contribution related, there was provision for any surplus contribution to be returned to the agency. Conversely, if the cost of claims was greater than the contribution, the agency was required to make up any shortfall.

The revised arrangements came into effect from 1 July 1992, with the resultant "agency accounts" being operated for a number of agencies participating in the Scheme in the years 1992-93 to 1994-95. The final balance of the agency accounts was determined two years after the end of the year to which the contribution relates - eg the 1994-95 agency accounts were closed on 30 June 1997.

In 1994-95, a further review of the arrangements under which the Scheme operated was conducted. As a result, the Committee decided that agency accounts would not be opened in 1995-96. The 1993-94 and 1994-95 agency accounts, the final balances of which had yet to be determined, would remain open until they were due to be closed on 30 June 1996 and 30 June 1997 respectively. Agencies with deficits in their 1993-94 agency accounts as at 30 June 1996 were required to make up those deficits in 1996-97. Agencies with deficits in their 1994-95 agency accounts as at 30 June 1997 were required to make up those deficits in 1997-98.

In place of the agency accounts, the Committee decided in October 1995 that all agencies would be subject to a compulsory one week excess payable on weekly benefits on all claims in respect of injuries occurring from 1 July 1995. Agencies were not given a reduction in their 1995-96 contributions as a result of having to bear this portion of claims cost. In addition, agencies were given the option of being subject to a higher excess on weekly benefits, for which a reduction in contributions was given. Similar arrangements have applied in each year since 1995-96.

The contribution reductions to be offered in exchange for a voluntary excess on weekly benefits are reviewed annually by the Actuary. Appendix 1 shows the number of weeks excess selected by agencies in 1999-00 and the percentage discount that applied.

The Agreement with MMI Insurance to perform the functions of Fund Manager for the Scheme expired on 30 June 1998. In September 1997, the Government decided

that the fund management for the Scheme for the two years from 1 July 1998 would be determined through an open tender process.

As part of the tender process, it was decided that the term “Fund Administration Agent” more accurately reflected the functions to be performed than the existing term of “Fund Manager”. As a result of the tender process, FAI Insurance was appointed as Fund Administration Agent for the Tasmanian State Service Workers’ Compensation Scheme from 1 July 1998 to 30 June 2000. In January 1999, there was a merger between HIH Insurance and FAI Insurance.

3.2 Contribution Calculation

In a fully funded self insurance arrangement, the aggregate contribution should be an amount sufficient to meet the cost of all claims in respect of injuries that will occur in the coming financial year, plus an allowance for administrative expenses. The cost of claims is determined by estimating the number of claims that is expected to occur during the year and their average cost. The aggregate contribution is then apportioned between the agencies participating in the Scheme based on an examination of both the claims history of each agency (ie the number and cost of claims) and the estimated size of the agency (expressed as estimated salaries) compared to the previous financial year. The contribution is then expressed as a product of a contribution rate (as a percentage of \$100 salary) and the agency's estimated salaries for the coming financial year. At the end of each accident year, the contribution is adjusted to take into account the actual size of the agency (expressed as actual salaries) for the financial year.

In 1999-00, the aggregate contribution was determined after consideration of the funding requirements of the Scheme for 1999-00. The Committee determined that the total contribution pool for 1999-00 should be \$32.5 million, comprised of \$22 million to meet the estimated cost of claims resulting from injuries occurring in 1999-00 and \$10.5 million to meet the unfunded outstanding cost of past claims. The aggregate contribution of \$32.5 million for 1999-00 was then apportioned between participating agencies on the same basis as described above.

The total contribution pool was set at \$32.5 million in order to continue to build reserves in the Trust Account. In earlier years, the Scheme had failed to accumulate the necessary reserves as the cost of claims had been consistently underestimated, with the result that the Trust Account only had a balance of \$20 395 as at 1 July 1996. However, the process of establishing reserves was commenced in 1995-96 and by 30 June 2000 the Scheme had achieved full funding. Appendix 2 contains a table showing contribution rates and total contributions of agencies participating in the Scheme for each of the years 1994-95 to 1999-00.

3.3 Catastrophe Insurance

In order to protect the Scheme from claim costs associated with a single catastrophic event, reinsurance is purchased annually by the Scheme. Quotes for catastrophe insurance for 1999-00 were provided by Marsh Pty Ltd. MMI was selected to provide catastrophe insurance cover for the scheme for 1999-00. The policy provides for

unlimited cover for any one event occurring during 1999-00, with an indexed excess of \$1.4 million at an annual cost of \$225 000.

Since 1992-93, the Scheme has purchased unindexed policies – ie the excess payable by the Scheme remains fixed. Under an indexed policy, the excess increases in proportion to the difference between the Average Weekly Earnings (AWE) at the inception of the policy and the AWE at the date when the excess payment level is actually reached. An unindexed policy is preferable to an indexed policy, but due to the considerable additional cost of an unindexed policy, an indexed policy was purchased.

Following the Port Arthur tragedy in April 1996, the Scheme formally notified MMI (the catastrophe insurer for 1995-96) of the occurrence of an event that was likely to lead to a claim under the catastrophe cover. During 1996-97, claims costs paid in respect of Port Arthur claims exceeded the \$1 million excess and, to 30 June 2000, total claim payments had exceeded \$6 million. Further details regarding the impact of the Port Arthur tragedy on the Scheme are contained in Section 4.5 below.

3.4 Role of the Fund Administration Agent

The responsibilities of the Fund Administration Agent are set out in a two year Agreement operating from 1 July 1998 to 30 June 2000 between the Crown and the FAI Insurance Group. The revised agreement emphasises that the Fund Administration Agent carries out its functions at the direction of agencies. The key responsibilities of the Fund Administration Agent are as follows:

- The primary task of the Fund Administration Agent is the administration of all workers' compensation and common law claims on behalf of and in accordance with the requests and directions of agencies. This involves file management, processing of payments and reimbursement of wages, collecting recoveries from third parties, investigating liability, and estimating the cost of claims. The Fund Administration Agent is also responsible for managing the claims disputation process on behalf of agencies.
- The Fund Administration Agent is responsible for maintaining a data base concerning all claims made by employees covered by the Scheme. Each claim is classified according to:
 - the division in the agency where the employee was working at the time of the injury took place; and
 - the year of accident - ie when the injury occurred, not when it was reported.

The data base includes not only information concerning the cost incurred to date, but also the estimated cost outstanding on each claim.

- The Fund Administration Agent is responsible for providing data to agencies to assist with risk management and rehabilitation. It is the responsibility of

agencies to interpret that data and act on it. For example, the Fund Administration Agent could be requested to provide an agency with data to assist that agency in identifying individual employees requiring rehabilitation - eg all those claims where the absence from work exceeded two weeks.

- The Fund Administration Agent reports periodically to the Tasmanian State Service Workers' Compensation Committee on the performance of the Scheme as a whole. Reports are made to Committee meetings at least once every quarter.
- The Fund Administration Agent is also responsible for meeting the reporting requirements of the Scheme under the *Workers' Rehabilitation and Compensation Act 1988*.

A total of \$601 030 was paid to HIH Insurance in 1999-00 for providing these services.

3.5 Role of the Actuary

The Actuary, Bendzulla Tasmania, provides the following services to the Scheme:

- Calculation of the portion of the total contribution required from each participating agency.
- Calculation of the breakdown of contributions to division level where requested by an agency.
- Provision of an annual report on the Scheme's performance as at 30 June each year.
- Provision of advice to the Committee on the effect on claims costs of reforms to workers' compensation legislation.
- Provision of reports on administrative arrangements for the Scheme, including the reduction in contributions for higher optional excesses.
- Provision of miscellaneous reports on the calculation of agency contributions.
- Attendance at meetings with agencies to discuss contributions where required.

A total of \$33 402 was paid to Bendzulla Tasmania in 1999-00 for providing these services.

3.6 Role of the Office of the Director of Public Prosecutions

The Office of the Director of Public Prosecutions (Office of the DPP) provides the following services:

- Legal advice to the Fund Administration Agent on individual claims files as part of the day to day administration of files.

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- Legal representation for agencies in the Workers' Compensation Commission.
 - Legal representation in the Supreme Court of Tasmania where employees bring common law actions for injuries suffered whilst at work. This is coordinated through the Fund Administration Agent.
 - Legal representation in the case of an appeal, whether that appeal results from a decision of the Workers' Compensation Commission or the Supreme Court. This is coordinated through the Fund Administration Agent.

The Office of the DPP is paid on a fee for service basis for providing legal advice and representation for the Scheme. A total of \$567 576 was paid to the Office of the DPP for providing those services in 1999-00. It should be noted that, in Appendix 3, the fees paid to the Office of the DPP for providing legal advice and representation to the Scheme are included in compensation payments.

4. SIGNIFICANT DEVELOPMENTS IN 1999-00

4.1 TSSWCS Trust Account

As mentioned in Section 2 of this Report, the Scheme operates through the Tasmanian State Service Workers' Compensation Scheme Trust Account (T837) which forms part of the Special Deposits and Trust Fund. All contributions made by agencies are paid into this account. Similarly, all costs associated with the operation of the Scheme are met from the Account. Appendix 3 contains a summary of transactions in the Account during 1999-00. The following points should be noted:

- The Trust Account had a balance of \$46.75 million as at 1 July 1999.
- Contributions made by agencies to the Scheme decreased from \$34.9 million in 1998-99 to \$29.96 million in 1999-00. Agencies whose staff made claims resulting from the Port Arthur tragedy made additional contributions of \$54 970.
- Total recoveries of \$1.31 million were made in 1999-00, relating to the Port Arthur tragedy and agencies withdrawing from the Scheme.
- Administrative expenses decreased from \$1.87 million in 1998-99 to \$1.62 million in 1999-00.
- Compensation payments increased from \$20.09 million in 1998-99 to \$20.97 million in 1999-00.
- The Trust Account had a balance of \$58.47 million as at 30 June 2000.

4.2 Trends in Claims

Appendix 4 shows the number and cost of claims from 1995-96 to 1999-00 by nature of injury. The figures for the number of claims represent the number of claims occurring in each period which were actually reported as at 30 June 2000. The estimated cost of claims represents the Fund Administration Agent's estimated cost of those claims that were reported and are calculated on a claim by claim basis. These figures may differ from those used in the Actuary's report in Section 6. The Actuary's figures are calculated using a statistical approach on the aggregated experience of the Scheme. Also, the Actuary's figures include claims which have incurred zero cost, whereas the Fund Administration Agent's figures exclude zero cost claims.

- Since the 1993-94 Annual Report, it has been reported that the number of claims appeared to be decreasing. This trend continued during 1999-00 during which 1 598 claims were made. It must be remembered that there were a number of injuries which occurred during the course of 1999-00, but which had yet to be reported at 30 June 2000. Based on past experience, there is a possibility of 10% more claims being reported for the 1999-00 period than was reported as at 30 June 1999. Accordingly, there may be as many as 1 758 claims in respect of 1999-00. This represents an improvement over both 1998-99 (1 789 claims) and 1997-98 (1 902 claims). The total number of claims has declined each year since 1990-91.
- It is difficult to draw any firm conclusions regarding the total cost of claims based on the case estimates of the Fund Administration Agent. In the past, the estimated cost of claims has been less for more recent years compared to earlier years. This is due to the fact that case estimates have tended to increase over time as more information is gathered concerning the likely total cost of each claim. This pattern is evident for the total cost of claims in respect of accidents occurring from 1995-96 (\$23.49 million) to 1999-00 (\$13.30 million) as shown in Appendix 4. However, it may also be the case that the total cost of claims is progressively decreasing, notwithstanding the effects of the Fund Administration Agent's estimate process.

4.3 Accrual Accounts

Prior to 1994-95, the Scheme reported its financial operations on a "cash" basis only - ie the Scheme reported only in terms of revenue and expenditure through the Trust Account. In 1994-95, the Committee decided to also report on an "accrual" basis - ie also report in terms of operating profit/loss and assets and liabilities. Financial statements on an "accrual" basis were again prepared for 1999-00. Those statements were compiled by Deloitte Touche Tohmatsu and were audited by the Tasmanian Audit Office.

The 1999-00 Accrual Accounts and the Audit Report are contained in Appendix 5. The main features are as follows:

- Agency contributions in 1999-00 were \$31.808 million (\$36.436 million in 1998-99), and investment revenue was \$3.093 million (\$1.875 million in 1998-99). Offsetting this, claims expenses (on an accrual basis) were \$19.786 million (\$17.765 million in 1998-99) and other expenses were

\$1.017 million (\$1.196 million in 1998-99), giving an operating profit of \$14.098 million. This compares to an operating profit of \$19.350 million in 1998-99;

- Total assets were \$59.246 million as at 30 June 2000 (\$46.929 million as at 30 June 1999), while total liabilities were \$49.883 million (\$51.664 million as at 30 June 1999), resulting in net assets of \$9.363 million. This compared with net liabilities of \$4.735 million as at 30 June 1999; and
- There was a net cash inflow to the Scheme of \$11.723 million (\$16.760 million in 1998-99), resulting in the Trust Account being in credit \$58.473 million as at 30 June 2000. This compared with the Trust Account being in credit \$46.750 million as at 30 June 1999.

4.4 Arrangements for the Scheme from 1 July 1996

In October 1995, the Committee decided that all agencies would be subject to a compulsory one week excess payable on weekly benefits on all claims in respect of injuries occurring from 1 July 1995. This arrangement is consistent with the August 1995 reforms to *Workers' Rehabilitation and Compensation Act 1988*. The Committee also determined that agencies would not be given a reduction in their contributions as a result of having to bear this portion of claims costs.

Agencies were also given the option of being subject to a higher excess on weekly benefits, for which a reduction in contributions would be given. Each agency would be given an opportunity to nominate whether it wished to be subject to a higher optional excess at the start of each financial year. The excess selected would apply to all claims in respect of injuries occurring in that financial year.

In June 1996, the Committee decided that the Scheme would operate under similar arrangements in 1996-97, with all agencies being given an opportunity to reconsider whether to be subject to a higher optional excess for all claims in respect of injuries from 1 July 1996. Further, the Committee decided that the percentage reductions in contributions for agencies opting to be subject to a higher excess in 1995-96 should apply again in 1996-97.

In the latter half of 1996, the Committee reviewed the future operation of the Scheme. The review resulted in the development of a draft Cabinet Minute. In March 1997, the then Government approved that:

- the Scheme continue to operate in its present form;
- the Scheme operate on a fully funded basis;
- all inner-Budget agencies and statutory authorities currently covered by the Scheme would be required to participate in the Scheme;

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- Government Business Enterprises would be permitted to withdraw from the Scheme on condition that they meet the unfunded outstanding cost of claims incurred by their staff on an emerging basis;
 - each agency participating in the Scheme pay a contribution based on three components:
 - a component to meet the estimated cost of claims resulting from injuries occurring in the coming financial year, and with such a component being based on the number and cost of claims previously made against each agency;
 - a component to meet the unfunded outstanding cost of past claims that are attributable to that agency; and
 - a component to meet the unfunded cost of claims that are not attributable to any particular agency.

Similar excess arrangements continued to apply in following years. At its meeting on 29 June 1999, the Committee gave consideration to the excess arrangements which would apply in 1999-00. The Committee decided that the Scheme would continue to operate under similar arrangements as in previous years, except that the percentage reductions offered in exchange for a higher excess on weekly benefits would be less than was the case in previous years. This was because weekly benefits represented a smaller percentage of total workers' compensation payments than the percentage which applied when the percentage reductions were last reviewed. The Committee determined that a compulsory one week excess on weekly benefits would continue to apply in 1999-00 - ie agencies would be responsible for meeting the first five days of weekly benefits paid to employees on claims in respect of accidents occurring during 1999-00. In addition, agencies would be given the option of being subject to a higher excess on weekly benefits. The Committee also decided that agencies would be offered the option of a 26 week excess in 1999-00. Up to and including 1998-99, the maximum period of excess offered to agencies was 13 weeks.

The following table shows the various levels of excess that have applied in recent years:

Period of Excess in Weeks	Reduction in Contributions 1995-96 & 1996-97 %	Reduction in Contributions 1997-98 & 1998-99 %	Reduction in Contributions 1999-00 %
2	2.3	1.8	1.6
4	5.7	4.5	3.9
6	8.2	6.5	5.7
8	10.4	8.3	7.3
13	15.0	12.0	10.6
26	n/a	n/a	17.1

4.5 The Port Arthur Tragedy

The circumstances surrounding the Port Arthur tragedy in April 1996 and its aftermath have had a significant impact, both in human and financial terms.

As mentioned in Section 3.3 above, the Scheme carries catastrophe insurance to limit the financial impact of such tragedies by meeting the cost of claims that result from one "event". The 1995-96 catastrophe policy was held with MMI and provides for unlimited cover with an excess of \$1 million - ie the Scheme must meet the first \$1 million in claims costs arising from an event, with any subsequent costs payable by the insurer.

Claims costs have exceeded the \$1 million excess. A method was devised to allocate the \$1 million cost that the Scheme had to bear under the catastrophe policy among agencies participating in the Scheme. The Committee agreed that only those agencies that had incurred claims as a result of the tragedy should meet the excess and that the amount of the \$1 million excess that each affected agency should pay would be equal to the proportion of total costs incurred by each agency as a result of the tragedy to the total costs incurred by the Scheme as a result of the tragedy.

It was further agreed that this amount would be paid over three financial years ie 1997-98 to 1999-00 - in addition to the contributions required of the agencies that incurred claims as a result of the tragedy.

The Department of Police and Public Safety and the Department of Health and Human Services made additional payments of \$41 770 and \$13 200 respectively in 1999-00. The Port Arthur Historic Site Management Authority had previously paid the full additional amount required.

At present, it is not possible to accurately predict the total cost of claims arising from the Port Arthur tragedy. The eventual total cost will not be known for a number of years. The vast majority of claims costs are likely to arise from claims made for stress-related conditions. At 30 June 2000, 82 workers' compensation claims had been lodged with the Scheme in respect of the Port Arthur tragedy and it is considered unlikely that there will be any further claims. At 30 June 2000, the estimated total

cost of these claims was \$6.867 million. The amount paid on these claims was \$6.033 million, with outstanding case estimates of \$845 118.

MMI, as catastrophe insurer, has denied coverage under the catastrophe cover for 31 of the 82 claims. The Solicitor-General has advised that, in his opinion, 16 of the 31 claims do not meet the requirements of the catastrophe cover (on the basis that the claimants were not directly exposed to the Port Arthur tragedy or its immediate aftermath). However, the Solicitor-General has advised that, in his opinion, the remaining 15 disputed claims meet the requirements of the catastrophe cover. As at 30 June 2000, discussions were continuing between MMI and the Scheme in order to resolve the matter.

4.6 Project for the Prevention and Management of Stress

In the 1995-96 Annual Report, it was reported that the Division of Employment Policy of the Department of Premier and Cabinet, would be implementing a research project into the causal factors of stress in the Tasmanian State Service and the relative merit of the interventions used to treat employees suffering from stress-related conditions. That research, which was conducted by the University of Tasmania, has now been completed.

The results of the Stage 1 research showed that the largest cause of stress in the State Service was conflict, followed by work overload, followed by lack of control and exposure to traumatic situations. In many cases, employees reported that their conditions were due to a number of these causes. The research showed that most causes of work-related stress were within the control of agency managers.

The research also showed that the disputation of claims had increased significantly since 1 July 1992. The more severe the stress, the more likely the claim was to be disputed. Although approximately two thirds of claims had been disputed, the vast majority had ultimately been accepted. The claims that were disputed for the longest period were associated with the poorest outcome (ie in terms of return to work).

The results of the research also showed that in relation to rehabilitation, those employees who were referred to rehabilitation providers at an early stage had a better outcome than those employees who were referred later.

The Reference Group developed an implementation plan for the 19 recommendations arising from Stage 1 of the Project. During 1997-98, progress was made in regard to a number of the recommendations with seven of the recommendations being finalised. In particular, Recommendation No. 3, the development of an Information Pack for workers lodging claims was finalised. Recommendation No. 7 which involved the development of a Resource Kit for agencies on prevention strategies was also finalised. The Resource Kit was provided to agency representatives for implementation. A number of the recommendations which involved the Fund Administration Agent were addressed by the Executive Officer as part of the transfer of Scheme administration from MMI to FAI with effect from 1 July 1998. The remaining recommendations were finalised during 1998-99.

A stress management training course, *Changing Styles*, coordinated by the Division of Employment Policy, was offered to agencies in 1999-00. The first course was well attended, but the Department of Police and Public Safety was the only agency to express further interest in the course. The course has been promoted through notices in the Gazette and by sending information directly to agencies. The course will continue to be promoted by the Division of Employment Policy to managers in a “top down” approach.

4.7 Appointment of Fund Administration Agent for the Scheme

The Agreement with MMI to provide fund management for the Tasmanian State Service Workers’ Compensation Scheme expired on 30 June 1998. In September 1997, the Government decided that the fund management for the Scheme for the two years from 1 July 1998 was to be determined through an open tender process. As a result of the tender process, FAI General Insurance was appointed as Fund Administration Agent for the Tasmanian State Service Workers’ Compensation Scheme from 1 July 1998 to 30 June 2000. In January 1999, there was a merger between FAI Insurance and HIH Insurance.

At its meeting on 19 April 2000, the Steering Committee agreed that Treasury should negotiate a new Agreement with HIH on the following basis:

- a two year term from 1 July 2000, with an option to terminate after 12 months; and
- a fee for service of \$1.025 million

Following a period of negotiation, a draft Agreement was finalised in consultation with the Crown Solicitor. The draft agreement was endorsed by the Steering Committee and has been approved by the Treasurer.

4.8 Implementation of Performance Standards for Self Insurers

The Workplace Safety Board has introduced comprehensive license conditions and performance standards for self insurers in Tasmania. Although self insuring against its potential workers’ compensation liabilities, the Tasmanian State Service Workers’ Compensation Scheme is not required to meet the license conditions and performance standards. However, at its meeting on 26 June 1997, the Committee agreed that the Scheme should comply with the performance standards. The only way in which compliance can be assessed is by agencies and the Fund Administration Agent meeting the performance standards.

At its meeting on 7 April 1998, the Committee endorsed the following approach to be adopted by PricewaterhouseCoopers to the assessment of the performance standards:

- the assessment should consist of an initial review audit and a full audit. PricewaterhouseCoopers would visit the Fund Administration Agent to perform as much of the work as possible and then visit a number of agencies to check the

residual performance standards. The purpose of the initial review audit would be to assess policies and procedures;

- two agencies would be visited for the initial review audit and four agencies would be visited for the full audit;
- the suggested levels of testing for each performance standard during the full audit were twenty claims for steps at the Fund Administration Agent level and ten claims for steps at the agency level; and
- PricewaterhouseCoopers would issue a report to the Scheme on the results of its work after both the initial review and the full audit. The Committee would then make a decision regarding the release of the results of the full audit to the Workplace Safety Board.

Initial review audits were conducted in March 1999, with full audits being conducted in November 1999 and a draft report was received in January 2000. A copy of the relevant sections of the draft report was provided for comment to HIH and the four agencies which were audited. Comments were received from HIH and all agencies, except the Department of Education, which did not wish to comment. These comments were sent to PricewaterhouseCoopers which then finalised the report.

Notwithstanding that the full audit was performed on only four agencies, it is considered that the value of the audit lies in highlighting possible ways in which claims management may be improved across the Scheme as a whole. In this respect, the key findings are as follows:

- the need for a written policy requiring HIH to be notified of new claims within three working days in order for HIH to report the new claim to the Workplace Safety Board within five working days;
- the need for a written policy in relation to contacting key parties within three working days of a serious claim and the need to maintain clear records of contacts;
- the need for case management plans to be consistently prepared, used and reviewed for all serious claims;
- the need to send letters notifying employees of reductions in weekly benefits after six weeks and 25 weeks;
- the need to review medical costs against AMA guidelines and report excessive fees to the Workplace Safety Board;
- the need to have appropriate levels and ranges of delegations concerning liability decisions and the need to document internal reviews of claims; and
- the need for HIH to have a separate policies and procedures manual for the administration of claims against the Scheme.

All agencies and HIH Insurance were advised of the key findings of the review. HIH Insurance was also requested to prepare a policies and procedures manual for the Scheme. In addition, the four agencies which participated in the full audit review were provided with a copy of their performance against each standard.

The Department of Infrastructure, Energy and Resources was also provided with a copy of the full audit review because:

- all four agencies which participated in the full audit review achieved the minimum standard for obtaining a self-insurance permit of one year; and
- the Workplace Safety Board has acknowledged that the standards are prescriptive and are not focussed on outcomes and will be reviewed in the near future.

5. MEMBERSHIP OF THE TASMANIAN STATE SERVICE WORKERS' COMPENSATION COMMITTEE

The members of the Committee as at 30 June 2000 were:

Philip Mussared	Department of Treasury and Finance (Chairman)
Pauline Camm	Department of Infrastructure, Energy and Resources
Robert Cockerell	Department of Treasury and Finance
David Cookson	Department of Health and Human Services
Greg Glass	Department of Education
Brian Harvey	TAFE Tasmania
Richard Hughes	Department of Police and Public Safety
Paul Leitch	Department of State Development
Michelle Moseley	Department of Primary Industries, Water and Environment
Richard Moyer	Department of Premier and Cabinet
Geoff Owen	Division of Employment Policy, Department of Premier and Cabinet
Paul Turner	Office of the Director of Public Prosecutions
David Vickery	Department of Justice and Industrial Relations

The advisers to the Committee as at 30 June 2000 were:

Tom Saltmarsh	Department of Treasury and Finance
David Tadd	Department of Treasury and Finance

6. THE REPORT OF THE ACTUARY

In both the 1993-94 and 1994-95 Annual Reports, the Actuary's report drew attention to deterioration in the performance of the Scheme. However, since 1995-96, a number of indicators have suggested that the performance of the Scheme was improving. The Actuary has advised that the trends and outcomes for the 1999-00 year were very favourable, in particular:

- the present value of the outstanding claims liability was \$48.922 million as at 30 June 2000 compared with \$50.786 million as at 30 June 1999;
- the balance of the Trust Account increased from \$46.75 million as at 30 June 1999 to \$58.473 million as at 30 June 2000; and
- the Scheme was fully funded by 30 June 2000.

There are two factors which determine the total cost of claims made during a reporting period - the number of claims and the average cost of each claim. Since the Scheme commenced on 1 July 1989, the projected number of claims (claims reported plus an estimate of future claims in respect of the accident year) has trended down, but the average cost has more than doubled:

	Projected Number of Total Claims	Estimated Average Cost Per Claim \$
1989-90	3 457	3 649
1990-91	3 590	4 168
1991-92	3 396	6 053
1992-93	3 123	8 420
1993-94	3 119	10 367
1994-95	2 770	10 393
1995-96	2 459	9 176
1996-97	2 122	7 532
1997-98	1 905	10 161
1998-99	1 797	9 931
1999-00	1 761 ¹	10 594

1. The actual number of claims reported as at 30 June 2000 was only 1 598 (including zero cost claims) but, based on past claims experience, a provision has been included for claims that will be reported after 30 June 2000.

These figures are based on actuarial calculations and vary slightly from the figures used in Section 4.2 which are based on case estimates made by the Fund Administration Agent.

Table 1 in Appendix 6 shows that weekly benefit payments remain the most significant cost driver of the Scheme. The amount paid in weekly benefits decreased from \$6.55 million in 1998-99 to \$6.21 million in 1999-00. Efforts by agencies to

reduce this cost through the implementation of effective rehabilitation programs, amongst other things, offer the greatest scope to reduce the total cost of claims.

Table 1 in Appendix 6 also shows that common law payments have remained relatively constant, at 31 per cent of total payments in 1999-00, compared to 31 per cent in 1998-99 and 32 per cent in 1997-98. Common law payments contribute significantly to the cost of claims. The reason for the low amount of common law payments in the first three years of operation of the Scheme may be due to the fact that claims with a common law component take longer to settle than other claims. As a result, the final payments made in relation to common law claims in respect of injuries occurring in the period 1989-90 and 1990-91 were not made until later periods. The fact that common law payments contribute significantly to the overall costs of the Scheme highlights the need for agencies to robustly defend common law claims made by employees and to place a high priority on occupational health and safety to reduce the likelihood of such claims being made in the first place.

As noted above, estimated average claim size has risen significantly since the Scheme commenced operation on 1 July 1989 – ie comparing one year against the next year. In 1996-97 and 1997-98, the estimated average claims costs did not rise significantly when compared with the estimated average cost for the previous year. In 1999-00, the estimated average claim costs decreased slightly for the most recent accident years. Table 2 in Appendix 6 illustrates this point.

The total estimated amount outstanding on claims in respect of injuries occurring during each period, regardless of when the claims were reported, is as follows:

	Payments	Estimated Outstanding	Total Estimated Cost
	\$	\$	\$
1993-94	31 972 072	640 767	32 612 839
1994-95	27 428 117	1 462 507	28 890 624
1995-96	21 571 459	2 904 717	24 476 176
1996-97	11 973 031	4 846 842	16 819 873
1997-98	9 799 294	7 556 859	17 356 153
1998-99	7 838 815	11 247 650	19 086 465
1999-00	3 194 324	16 181 095	19 375 419

At 30 June 2000, the discounted value of the outstanding liabilities of the Scheme in regard to post 1 July 1993 claims is \$40.731 million.

The discounted value of outstanding liabilities in regard to pre 1 July 1993 claims (including the outstanding liabilities of the Scheme's predecessor, the Government Employers Workers' Compensation Scheme) at 30 June 2000 was \$4.566 million. Thus, the present value of the outstanding liabilities of the Scheme as at 30 June 2000 was \$45.298 million. This is the amount the Scheme would require to settle all outstanding claims costs as at 30 June 2000. In addition, there was an expense provision of \$3.623 million, giving the Scheme gross liabilities as at 30 June 2000 of \$48.921 million.

The Scheme was designed with the intention that it be fully funded. That is, the Scheme should have been building up reserves with which to meet the outstanding claims liabilities as they arose. However, as a result of consistently underestimating the cost of each accident year when settling agency contributions until 1995-96, this did not occur. The process of establishing sufficient reserves to obtain full funding commenced in 1995-96. In 1999-00, for the first time since its implementation, the Scheme was fully funded.

7. ACKNOWLEDGEMENTS

The Committee would like to take the opportunity to express its appreciation to those who have provided assistance with the management of the Scheme during 1999-00. They are:

Bendzulla Tasmania, the Scheme's Consulting Actuary:

- Brian Bendzulla, Director and staff

HIH Insurance Group, the Scheme's Fund Administration Agent:

- Greg Mathews, Manager, Workers' Compensation, Tasmania
- Greg Rowell, Claims Supervisor, Workers' Compensation, Tasmania, and staff

Deloitte Touche Tohmatsu, preparer of the Scheme's financial statements:

- David Spinks, Audit Manager, and staff

The Office of the Director of Public Prosecutions

The Tasmanian Audit Office

Marsh Limited

- Tim Johns, Principal, and staff

APPENDIX 1

EXCESSES SELECTED BY AGENCIES FOR 1999-00

Agency	Period of Excess	Reduction in Contribution %
Education	1 week	0
Health and Human Services	13 weeks	10.6
House of Assembly	13 weeks	10.6
Infrastructure, Energy and Resources	13 weeks	10.6
Inland Fisheries	1 week	0
Justice and Industrial Relations	13 weeks	10.6
Legislative Council	1 week	0
Legislature General	1 week	0
Police & Public Safety	13 weeks	10.6
Port Arthur Historic Site Management Authority	1 week	0
Premier and Cabinet	13 weeks	10.6
Primary Industries, Water and Environment	13 weeks	10.6
Private Forests Tasmania	1 week	0
Retirement Benefits Fund Board	1 week	0
Royal Tasmanian Botanical Gardens	1 week	0
State Development	13 weeks	10.6
TAFE Tasmania	13 weeks	10.6
Tasmanian Audit Office	1 week	0
Tasmanian Dairy Industry Authority	1 week	0
Tasmanian Racing Authority	1 week	0
Treasury and Finance	26 weeks	17.1

APPENDIX 2

RATES AND CONTRIBUTIONS FOR AGENCIES PARTICIPATING IN THE TSSWCS FROM 1994-95 TO 1999-00

	1994-95		1995-96		1996-97		1997-98	
	Rate Per \$100	Contribution \$						
Audit	0.60	12 600	0.6000	10 752	0.85	147 120	0.70	12 397
Education	1.42	3 546 222	2.8500	7 200 468	3.76	10 133 509	3.808	10 709 010
Egg Marketing Board	1.30	2 600	0.9711	1 816	1.13	2 582	-	-
Environment and Land Management	0.95	420 000	2.100	607 362	2.32	589 113	2.529	681 110
Botanical Gardens	-	-	-	-	3.11	29 499	2.75	25 850
Inland Fisheries	-	-	-	-	2.12	23 580	1.69	20 534
Health								
Ambulance					10.78	823 322)	
Central	4.50	969 968	5.2000	1 035 788	2.73	451 288)	
North	2.60	1 943 786	3.8000	3 043 230	2.73	421 484) 6.006	17 559 021
North West	2.50	1 278 775	4.1500	1 697 890	5.28	2 216 239)	
South	3.30	4 870 605	4.6200	7 469 200	6.09	9 405 398)	
Hobart Regional Water Board	1.00	19 790	1.3000	26 520	-	-	-	-
House of Assembly	0.50	3310	1.3683	9 250	1.77	12 780	1.42	12 297
Justice	2.20	539 374	5.9715	1 522 605	9.00	2 348 737	7.143	1 984 683
Legislative Council	0.45	2 844	0.6329	3 810	0.85	6 052	0.70	5 194
Legislature General	0.85	9 350	3.0000	31 830	4.23	51 653	3.41	40 784
MAIB	0.40	4 400	0.6196	8 160	0.83	11 664	-	-
Metropolitan Transport Trust	3.50	488 110	5.4812	754 758	-	-	-	-

		1994-95		1995-96		1996-97		1997-98	
		Contribution \$	Rate Per \$100	Contribution \$	Rate Per \$100	Contribution \$	Rate Per \$100	Contribution \$	
Police	2.75	1 417 185	5.0579	2 727 202	7.85	4 442 348	7.704	4 304 764	
Port Arthur Historic Site Management Authority	1.65	23 463	1.3000	22 659	1.77	19 176	1.31	39 863	
Premier and Cabinet	0.45	48 619	0.7983	96 578	0.96	147 607	0.76	128 303	
Primary Industry and Fisheries	1.05	228 270	1.6503	377 715	1.88	401 743	1.30	269 295	
Private Forests			1.80	11 106	2.56	20 777	2.03	15 530	
Professional Services Group	1.93	29 160	-	-	-	-	-	-	
Public Trustee	1.38	23 000	2.6000	44 200	-	-	-	-	
Retirement Benefits Fund	0.74	10 894	2.0000	63 020	2.89	93 617	2.42	90 875	
SES	-	-	-	-	-	-	-	-	
Tasmanian Dairy Industry Authority	0.40	2 680	0.6425	4 446	0.80	6 134	0.70	5 712	
Tasmanian Racing Authority	2.90	38 164	2.2000	32 098	2.10	33 021	1.69	22 477	
Tasmania Development and Resources	1.50	112 965	1.7500	112 018	2.56	67 804	2.05	44 690	
Tourism Tasmania	0.85	82 529	1.9317	195 890	2.50	172 781	1.95	142 409	
Transport	1.05	184 603	2.7000	545 238	3.48	636 350	2.46	447 892	
Treasury and Finance	0.83	85 400	0.8718	84 280	1.02	129 173	0.86	114 604	
Vocational Education and Training	0.95	407 000	1.7594	766 399	1.93	811 105	2.624	1 133 857	
Workplace Standards Authority	-	-	-	-	2.74	160 644	3.44	197 422	
Works Tasmania	6.46	691 230	-	-	-	-	-	-	
Total		17 496 896		28 520 394		33 816 300		38 008 573	

Note: The 1997-98 contributions are gross contributions and do not take into account reductions due to the selection of a higher optional excess.

1998-99

1999-00

	Rate Per \$100	Contribution \$	Rate Per \$100	Contribution \$
Education	3.6059	11 169 816	3.1909	10 433 670
Health and Human Services	5.3122	16 681 158	4.7169	14 114 578
House of Assembly	1.0200	9 353	0.6000	5 634
Infrastructure, Energy and Resources	2.0700	535 695	1.5700	401 710
Inland Fisheries	1.4000	18 060	1.0000	14 160
Justice and Industrial Relations	6.1516	1 675 573	5.0719	1 601 645
Legislative Council	0.7000	5 502	0.6000	4 962
Legislature General	3.2700	40 221	2.4000	29 520
Police and Public Safety	7.3154	4 254 856	5.5592	3 521 006
Port Arthur Historic Site Management Authority	1.8000	55 854	1.9500	60 119
Premier and Cabinet	0.7500	122 648	0.6000	98 076
Primary Industries, Water and Environment	2.1241	1 146 717	1.6763	942 827
Private Forests Tasmania	1.4700	11 319	0.8000	5 760
Retirement Benefits Fund	2.3400	87 676	1.7500	74 865
Royal Tasmanian Botanical Gardens	3.0000	25 500	3.3000	38 280
State Development	1.4000	174 897	0.8000	100 672
TAFE Tasmania	2.1818	850 902	2.0956	911 274
Tasmanian Audit Office	0.7000	10 983	0.6000	9 786
Tasmanian Dairy Industry Authority	0.7000	5 705	0.6000	4 710
Tasmanian Racing Authority	1.2400	10 500	0.7000	8 617
Treasury and Finance	0.8500	107 545	0.8000	116 176
Total		37 000 480		32 498 047

Note: The above contributions are gross contributions and do not take into account reductions due to the selection of a higher optional excess.

APPENDIX 3

TASMANIAN STATE SERVICE WORKERS' COMPENSATION SCHEME TRUST ACCOUNT (T837)

Transactions for year ended 30 June 2000

	\$	\$
Opening Balance as at 1 July 1999		46 750 118.01
Receipts		
1999-00 Contributions	29 959 706.78	
Recoveries	1 307 637.63	
Port Arthur tragedy additional contributions	54 970.00	
Interest Received	2 984 932.64	
Total Receipts		34 307 247.05
Less Expenditure		
HIH - Fund Administration	601 030.00	
Catastrophe Insurance	252 224.97	
Benzulla Tasmania - Actuarial Services	33 402.00	
Workplace Safety Board - Levy	640 576.17	
Deloitte Touche Tohmatsu - Accounts	13 000.00	
Audit Fees	35 479.00	
Miscellaneous	1 018.40	
Salary & other related expenses- Executive Officer	39 294.31	
 Compensation Payments	 20 968 337.22	
Total Expenditure		22 584 362.07
Balance of Account T837 as at 30 June 2000		58 473 002.99

APPENDIX 4**NUMBER AND COST OF CLAIMS FROM 1995-96 TO 1999-00 BY NATURE OF INJURY AS AT 30 JUNE 2000**

	1995-96		1996-97		1997-98		1998-99		1999-00	
	No of Claims	Estimated Cost \$								
Industrial Deafness	0	0	0	0	4	33 037	3	24 021	1	38 000
Amputations	1	86	0	0	0	0	0	0	1	38 297
Multiple Injuries	4	23 490	0	0	4	5 545	3	20 733	9	78 466
Hernia	5	9 494	3	5 752	1	2 012	1	2 000	2	15 000
Dislocations	5	10 900	6	5 117	7	17 191	5	15 840	10	51 655
Internal Injuries	6	15 431	8	34 033	10	10 330	11	133 095	5	46 383
Respiratory Diseases	10	162 062	4	11 297	6	32 356	8	28 313	8	42 256
Dermatitis	23	12 352	12	4 025	5	3 411	19	90 407	3	18 002
Foreign Body	31	3 362	31	4 454	29	3 844	31	4 974	39	54 194
Burns	38	108 934	24	4 325	19	3 667	18	1 700	14	36 064
Poisoning	45	248 907	61	170 012	88	19 074	19	111 123	14	43 335
Muscle & Tendon Injury	46	379 543	37	354 227	33	223 825	26	276 652	42	427 711
Fractures	48	642 509	49	313 683	38	164 370	42	373 918	46	501 890
Other	68	1 380 917	45	307 757	37	196 370	83	1 329 839	72	405 433
Superficial Injury	119	352 889	136	201 740	94	66 545	201	299 773	155	285 545
Lacerations	198	101 888	134	68 734	136	34 659	62	215 627	84	241 773
Stress	220	7 282 989	178	4 509 128	156	4 101 035	132	2 615 048	128	3 689 942
Contusions	260	513 427	293	1 045 861	249	749 895	153	428 505	121	436 208
Sprains and Strains	1 323	12 239 941	1 099	8 059 177	986	7 584 884	972	7 573 308	844	6 850 882
Total	2 450	23 489 121	2 120	15 099 322	1 902	13 252 133	1 789	13 544 876	1 598	13 301 036

APPENDIX 5

**FINANCIAL STATEMENTS OF THE TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME FOR 1999-00**

**TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME**

Operating Statement

for the Year ended 30 June 2000

	Notes	2000 \$'000	1999 \$'000
Agency Contributions & Recoveries	2	31 808	36 436
Outwards Reinsurance Expense		<u>(252)</u>	<u>(233)</u>
		31 556	36 203
Claims Expense	3	(19 786)	(17 765)
Other Underwriting Expenses	4	<u>(641)</u>	<u>(840)</u>
UNDERWRITING RESULT		11 129	17 598
Investment Revenue	2, 5	3 093	1 875
General Administration Expenses	6	<u>(124)</u>	<u>(123)</u>
OPERATING RESULT		14 098	19 350
Retained surplus / (deficit) at beginning of the financial year		<u>(4 735)</u>	<u>(24 085)</u>
Retained surplus / (deficit) at the end of the financial year		<u><u>9 363</u></u>	<u><u>(4 735)</u></u>

**TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME**

Statement of Financial Position

as at 30 June 2000

	Notes	2000 \$'000	1999 \$'000
CURRENT ASSETS			
Trust Account	12	58 473	46 750
Receivables	7	<u>773</u>	<u>179</u>
		<u>59 246</u>	<u>46 929</u>
TOTAL ASSETS		<u>59 246</u>	<u>46 929</u>
CURRENT LIABILITIES			
Outstanding Claims	11	18 413	18 966
Creditors	8	958	875
Provisions	9	<u>3</u>	<u>3</u>
		<u>19 374</u>	<u>19 844</u>
NON-CURRENT LIABILITIES			
Outstanding Claims	11	<u>30 509</u>	<u>31 820</u>
		<u>30 509</u>	<u>31 820</u>
TOTAL LIABILITIES		<u>49 883</u>	<u>51 664</u>
Net Assets / (Liabilities)		<u>9 363</u>	<u>(4 735)</u>
EQUITY			
Retained Surplus / (Deficit)		<u>9 363</u>	<u>(4 735)</u>

**TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME**

Statement of Cash Flows

for the Year ended 30 June 2000

	Notes	2000 \$'000	1999 \$'000
Cash flows from operating activities			
Agency Contributions		31 322	36 897
Interest received		2 985	1 822
Payment of Outward reinsurance		(252)	(233)
Claims and Expenses paid		(20 968)	(20 087)
Fund Management Fees		(599)	(676)
Underwriting Expenses		(641)	(840)
General and Administration Expenses		<u>(124)</u>	<u>(123)</u>
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	12	<u>11 723</u>	<u>16 760</u>
NET INCREASE (DECREASE) IN CASH HELD		11 723	16 760
Cash at beginning of the Financial Year		46 750	29 990
CASH AT END OF THE FINANCIAL YEAR	12	<u><u>58 473</u></u>	<u><u>46 750</u></u>

**TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME**

Notes to and forming part of the Financial Statements

for the Year ended 30 June 2000

The Tasmanian State Service Workers Compensation Scheme (TSSWCS) is a self-insurance arrangement established within the Tasmanian State Service to meet workers compensation claims made by employees of agencies of the Government of the State of Tasmania. The Scheme was established on 1 July 1989 and is intended to operate on a fully funded basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Compliance with Accounting Standards and other requirements*

The financial statements have been drawn up in accordance with Approved Accounting Standards, Statements of Accounting Concepts and other relevant requirements.

(b) *Agency Contributions*

Agency contributions comprise amounts required to be paid by participating agencies of the TSSWCS to meet the cost of claims made by their employees. 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.

(c) *Outwards Reinsurance*

Contribution ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received.

(d) *Claims*

Claims incurred expense 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 11.

**TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME**

Notes to and forming part of the Financial Statements

for the Year ended 30 June 2000

	2000	1999
	\$'000	\$'000
2. OPERATING REVENUE		
Agency Contributions & Recoveries	31 808	36 436
Investment Revenue	3 093	1 875
	<u>34 901</u>	<u>38 311</u>
3. CLAIMS EXPENSE		
Claims Paid	19 458	18 045
Movement in Outstanding Claims	(272)	(932)
Management Expenses	600	652
	<u>19 786</u>	<u>17 765</u>
4. OTHER UNDERWRITING EXPENSES		
Payment to Workplace Safety Board	<u>641</u>	<u>840</u>
5. INVESTMENT REVENUE		
Interest on Trust Account	3 090	1 875
Interest Adjustment	3	-
	<u>3 093</u>	<u>1 875</u>
6. GENERAL ADMINISTRATION EXPENSES*		
Actuarial Expenses	35	43
Accounting and Audit Fees	49	24
Salaries	40	56
	<u>124</u>	<u>123</u>

* Administration support provided without charge to the Scheme during the year is estimated at \$19 267 (1999 - \$16 126)

**TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME**

Notes to and forming part of the Financial Statements

for the Year ended 30 June 2000

	2000	1999
	\$'000	\$'000
7. RECEIVABLES		
Accrued Interest	287	179
Contributions Receivable from Agencies	486	-
	<u>773</u>	<u>179</u>
8. CREDITORS		
Unreimbursed Claims	833	750
Other	125	125
	<u>958</u>	<u>875</u>
9. PROVISIONS		
Employee Entitlements	<u>3</u>	<u>3</u>

10. FINANCIAL INSTRUMENTS

Interest Rate Risk

Financial instruments for the purposes of the Scheme are limited to Receivables, Creditors and the Trust Account investment. Creditors and Receivables of the Scheme are not subject to any interest rate risk. The Trust Account investment is subject to a variable interest rate, which resulted in an average interest rate for the year ended 30 June 2000 of 5.82% (30 June 1999 of 4.75%).

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Scheme. The Scheme has the policy of only dealing with creditworthy counterparties. Therefore, the company 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 Trust Account investment 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 Scheme.

**TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME**

Notes to and forming part of the Financial Statements

for the Year ended 30 June 2000

	2000	1999
	\$'000	\$'000
11. OUTSTANDING CLAIMS		
<p>The liability for outstanding claims is determined by the consulting independent actuary, Bendzulla Tasmania Pty Ltd.</p>		
Expected future claims payments (undiscounted)	53 359	54 756
Less Discounted to present values	(4,437)	(3 970)
Liability for outstanding claims	48 922	50 786
Current	18 413	18 966
Non-Current	30 509	31 820
	48 922	50 786

The above figures include an amount of \$834 886 (1999 \$706 372) in respect of liabilities outstanding for pre 1/7/1989 claims and for which the Scheme has received special contributions from the Consolidated Fund prior to 1/7/1994. Amounts of the claims and contributions received are as follows:

Amount of pre 1/7/89 claims paid and estimated	9 540	9 502
Consolidated Fund Contributions to pre 1/7/89 claims	9 200	9 200

(a) The weighted average expected term of settlement from the balance date is estimated to be 1.85 years (1999 1.765 years)

(b) The following average inflation (normal and superimposed) rates and discount rates were used in measuring the liability for outstanding claims:

Claims expected to be paid:

Not later than one year

Inflation rate	7.0%	6.0%
Discount rate	5.5%	5.0%

Later than one year

Inflation rate – years 2 & 3	7.0%	6.0%
Thereafter	4.0%	5.0%
Discount rate	5.5%	5.0%

**TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME**

Notes to and forming part of the Financial Statements

for the Year ended 30 June 2000

	2000	1999
	\$'000	\$'000
12. NOTES TO STATEMENT OF CASH FLOWS		
(1) 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	58 473	46 750
(2) Reconciliation of Net Cash provided by Operating Activities to Operating Surplus		
Operating Result	14 098	19 350
Depreciation		-
(Increase)/Decrease in Agency Contributions	(594)	408
Increase/(Decrease) in Creditors	83	(204)
Increase/(Decrease) in Prepaid Expenses	-	-
(Increase)/Decrease in Claims Payable	(1 864)	(2 794)
Net Cash Inflow/(Outflow) from Operating Activities	11 723	16 760

13. TAX STATUS

The activities of the scheme are exempt from taxation.

**TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME**

Notes to and forming part of the Financial Statements

for the Year ended 30 June 2000

14. CONTINGENT ASSET

As a result of the Port Arthur Tragedy the Scheme gave notice to its insurer (MMI) of its intention to claim under its Excess Workers' Compensation Insurance Policy. This policy provides cover when an event, such as a catastrophe, occurs that is likely to give rise to a claim in excess of the self-insured retention.

The total estimated costs incurred in respect of Port Arthur claims as at 30 June 2000 was \$6 867 369 (1999 \$6 781 659) and total amounts paid to that date were \$6 022 252 (1999 \$4 441 175) (less the \$1,000,000 paid by the Scheme as its excess) with the estimated balance outstanding, subject to reimbursement by the insurer, being \$845 117 (1999 \$2 340 484) subject to the outcomes of the matters described in the following paragraph.

The insurer and the Scheme are currently in dispute regarding whether a number of Port Arthur claims should be covered by the catastrophe insurance. As a result of this dispute, the need for further investigations regarding some claims and possible legal proceedings the exact amount of the balance of outstanding Port Arthur claims cannot be determined.

**TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME**

Financial Statements for the Year ended 30 June 2000

The accompanying financial statements of the Tasmanian State Service Workers' Compensation Scheme, have been prepared in compliance with the provisions of the Financial Management and Audit Act 1990 and are in agreement with the relevant accounts and records to present fairly the financial transactions for the year ended 30 June 2000 and the financial position as at 30 June 2000.

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:

APPENDIX 6**TABLES FROM THE REPORT OF THE ACTUARY****TABLE 1**

	Weekly Benefit Payments \$ million	Common Law Payments \$ million	Other Payments \$ million	Total Payments \$ million
1989-90	1.482	0.000	0.755	2.237
1990-91	3.612	0.000	2.269	5.881
1991-92	6.557	0.089	3.890	10.536
1992-93	7.389	0.364	5.909	13.662
1993-94	9.218	2.098	5.807	17.123
1994-95	12.014	6.191	6.323	24.528
1995-96	11.889	7.343	6.410	25.642
1996-97	9.786	8.056	8.148	25.990
1997-98	7.948	7.382	7.556	22.886
1998-99	6.541	5.815	6.607	18.963
1999-00	6.214	6.033	7.205	19.452

TABLE 2

	Actual Paid Per Claim as at 30.6.95 \$	Estimated Outstanding Per Claim as at 30.6.95 \$	Total Est Cost Per Claim as at 30.6.95 \$	Actual Paid Per Claim as at 30.6.96 \$	Estimated Outstanding Per Claim as at 30.6.96 \$	Total Est Cost Per Claim as at 30.6.96 \$	Actual Paid Per Claim as at 30.6.97 \$	Estimated Outstanding Per Claim as at 30.6.97 \$	Total Est Cost Per Claim as at 30.6.97 \$
1989-90	3 522	436	3 958	3 416	266	3 682	3 687	235	3 922
1990-91	3 558	886	4 444	3 737	463	4 200	3 948	198	4 146
1991-92	4 236	1 361	5 597	4 530	850	5 380	5 257	409	5 666
1992-93	5 056	2 282	7 338	6 090	1 348	7 438	6 990	832	7 822
1993-94	4 350	3 838	8 188	6 363	2 409	8 772	7 946	1 478	9 424
1994-95	1 561	3 995	5 556	4 650	4 334	8 984	6 850	2 956	9 806
1995-96	-	-	-	1 326	7 804	9 130	4 976	5 219	10 104
1996-97	-	-	-	-	-	-	1 390	8 810	10 200

	Actual Paid Per Claim as at 30.6.98 \$	Estimated Outstanding Per Claim as at 30.6.98 \$	Total Est Cost Per Claim as at 30.6.98 \$	Actual Paid Per Claim as at 30.6.99 \$	Estimated Outstanding Per Claim as at 30.6.99 \$	Total Est Cost Per Claim as at 30.6.99 \$	Actual Paid Per Claim as at 30.6.00 \$	Estimated Outstanding Per Claim as at 30.6.00 \$	Total Est Cost Per Claim as at 30.6.00 \$
1991-92	5 409	202	5 611	5 439	447	5 886	5 880	354	6 053
1992-93	7 405	418	7 823	7 786	194	7 981	7 939	568	8 420
1993-94	9 066	951	10 017	9 660	398	10 058	10 258	1 045	11 213
1994-95	8 250	2 022	10 272	9 211	999	10 209	9 913	1 479	11 355
1995-96	5 800	3 666	9 466	7 998	2 015	10 013	7 836	1 503	9 278
1996-97	3 042	6 120	9 162	4 789	3 661	8 450	5 248	1 855	7 089
1997-98	1 218	9 227	10 445	3 574	5 866	9 440	4 651	2 330	6 967
1998-99	-	-	-	1 736	8 560	10 296	3 710	3 872	7 571
1999-00	-	-	-	-	-	-	1 555	6 771	8 324

This table excludes excess payments and includes recoveries received so far.