Service Delivery

The achievement of Government outcomes can be improved through the effective commissioning of the right mix of services, whether from the public, private or not-for-profit sectors. Commissioning involves the process by which agencies assess their needs, determine priorities, design and source appropriate services, and monitor and evaluate performance.

Service Delivery

2013-14 Audit Observations

WorkCover Scheme Service Delivery	• **Scheme agents' remuneration increased by 44 percent over the last five years** • **in 2013-14, scheme agents' remuneration was 19.6 percent (15.9 percent) of earned premiums** • **potential deterioration in workplace injury damages experience in claims valuation** • **the proposed increase in retirement age in the 2014 federal budget creates an upward pressure on claim liabilities.**
National Disability Insurance Scheme (NDIS) and National Injury Insurance Scheme (NIIS)	• **the impact of changes in the NDIS/ NIIS scheme is minimal for New South Wales.** • **the proposed funding for these schemes is not yet determined or agreed.**

NSW WorkCover Scheme Agent Expenses are Increasing

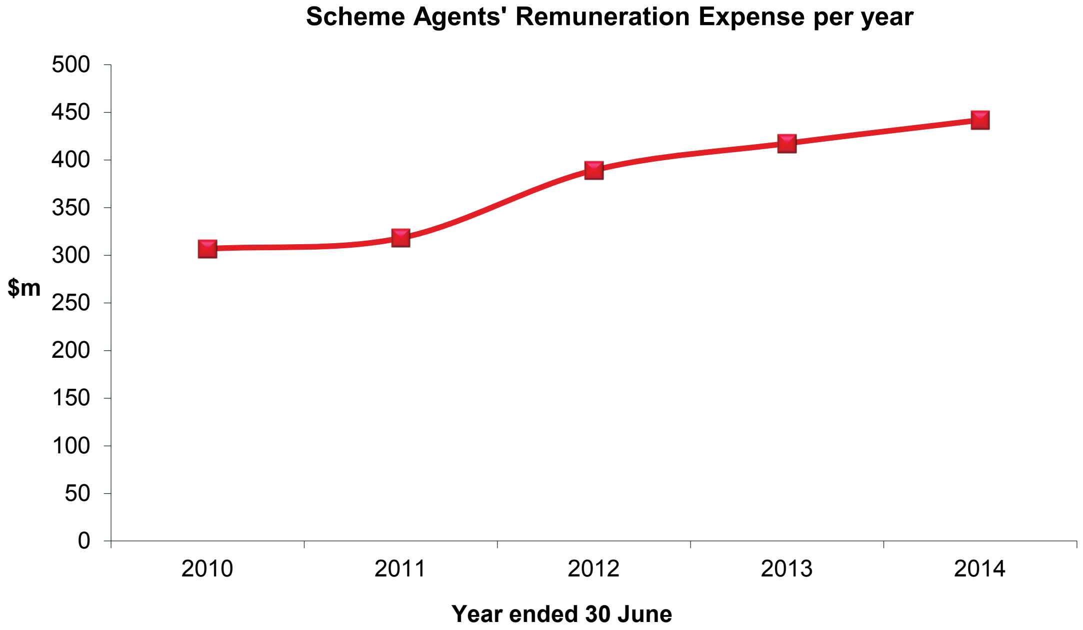
All NSW WorkCover Scheme activities relating to premium collection and claims management were performed by the following scheme agents in 2013-14:

- Allianz Australia Workers' Compensation (NSW) Limited
- CGU Workers' Compensation (NSW) Limited
- Employers Mutual NSW Limited
- Gallagher Bassett Services Pty Ltd
- GIO General Limited
- QBE Workers' Compensation (NSW) Limited
- Xchanging Integrated Services Australia Pty Ltd (trading as 'Xchanging').

Existing contracts with the scheme agents expire on 31 December 2014, but have a one year option exercisable by the Nominal Insurer. WorkCover Authority has commenced a tender process to appoint scheme agents under new contracts from January 2015. The seven existing agents and one new potential provider were invited to submit tenders.

Under the current contracts, agent remuneration comprises a fixed amount plus incentive remuneration when KPI linked targets are met or exceeded. Scheme agents are also paid for additional activities not covered under the original contracts, including activities related to implementing the reforms to the Scheme.

Over the last five years, scheme agents' remuneration increased by 44 per cent to $442 million in 2013-14 from $307 million in 2009-10, as shown below.



Source: WorkCover Scheme audited financial statements 2009-2014.

A significant increase occurred in 2011-12 due to a one-off review of WorkCover scheme agents' contractual arrangements. The review was carried out to ensure agents recover the costs of operations to reduce the risk of poor claims management. Subsequently, the increases have been mainly due to additional contract work to implement the 2012 Workers' Compensation Reforms.

Scheme agent expenditure represents 19.6 per cent (15.9 per cent) of earned premiums reported by the Scheme and is the largest cost after claims incurred.

Amalgamation of Investment Operations

In March 2014, the Government announced it intends to amalgamate the funds management activities of New South Wales Treasury Corporation, SAS Trustee Corporation and Safety, Return to Work and Support.

Responsibility for the investment objectives, risk management and asset allocation within each entity will be retained by each entity's Board.

The new approach is expected to deliver long-term financial and non-financial benefits through increased scale and a common administration platform. It is also expected to deliver a 'whole of portfolio' view of the financial assets managed by each entity for the State.

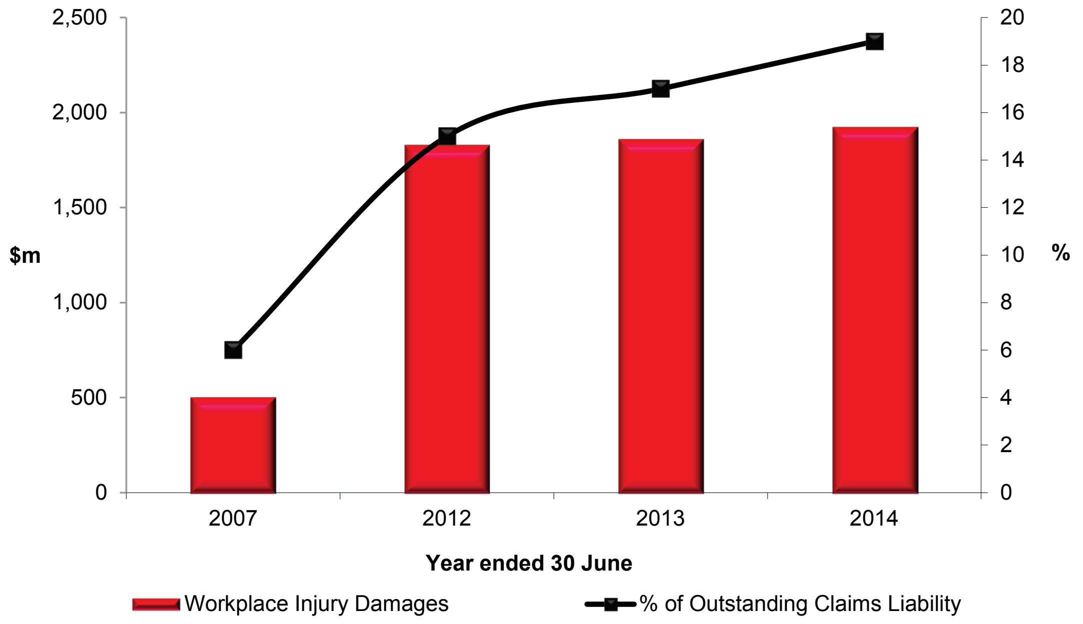
The NSW WorkCover Scheme is implementing the new arrangements and a working group has been established to facilitate the transition. The working group includes representatives from each entity mentioned above.

The transition to the new investment arrangements is expected to occur in 2014-15.

Workplace Injury Damages Claims Remain a Key Focus Area

The estimated liability for Workplace Injury Damages has increased substantially over recent years to $1.9 billion at 30 June 2014 (2013: $1.8 billion), or 19 per cent of the total outstanding claims liabilities (16 per cent). In 2007, the liability was only $508 million or six per cent of the total liability. The growth in the liability has been steady over recent years, but significant when compared to 2007, when the Workers' Compensation Amendment (Transitional) Regulation 2007 came into effect. This allowed workers to claim certain compensation not previously allowed under the Workers' Compensation regulation 2003.

Growth in Workplace Injury Damages



While the increase in the Workplace Injury Damages liability over time appears justified by emerging experience, there is a risk the workplace injury damages experience may deteriorate due to the reforms to the NSW WorkCover Scheme. Tightening entitlements to weekly benefits and medical benefits for less-seriously injured workers may push claimants towards workplace injury damages to increase their claim size or ensure some form of compensation for the period beyond five years.

Similarly, the reduction in legal activity associated with 'Permanent Impairment' and 'Pain and Suffering' (also known as Statutory Non-Economic Loss benefits) may see legal firms target workplace injury damages more strongly.

The Scheme's actuary has not allowed for any potential future deterioration in workplace injury damages experience as there is no evidence of this at this stage. However, the actuary has identified unfavourable scenarios, any one of which may increase the claims liabilities by $200 million or more.

Attempts to Maximise Claims

The 2013 Report to Parliament commented that some savings achieved by the reforms were reversed due to a court ruling reinstating access to 'Permanent Impairment' and 'Pain and Suffering' benefits based on pre-reform entitlements.

The NSW WorkCover Scheme appealed the initial court decision in the High Court of Australia. On 16 May 2014, the High Court overturned the decision of the lower court resulting in a $297 million decrease in the outstanding claims liabilities for these benefits and associated legal costs at 30 June 2014.

While this matter was found in favour of the Scheme, there is a risk that unexpected legal outcomes relating to the interpretation of the legislative reforms may adversely impact the Scheme's liabilities and increase costs.

Savings from Work Capacity Tests are now reflected in Outstanding Claims Liabilities

Work Capacity Tests inform decisions about an injured workers' capacity to work and their entitlement to weekly benefit payments. Injured workers with some capacity to work must make a reasonable effort to do so or their weekly payments may be suspended or ceased.

The 2013 Report to Parliament commented that successful implementation of work capacity tests could significantly reduce the outstanding claims liability by lowering weekly and medical claim costs as workers, with some work capacity, become ineligible for benefits or only eligible for lower partial incapacity benefits. Last year, the Scheme's actuary estimated the potential impact of work capacity tests on the claims liability could range from a saving of $500 million to additional costs of $200 million.

The actuary's claims valuations in previous years did not allow for the possible impact of work capacity tests and the potential for these to lead to fewer people remaining on weekly benefits over time.

Work capacity tests are now part of the claims management process and appear to be contributing to the significantly better experience in weekly payments observed in 2013-14. The favourable experience has resulted in the actuary adjusting the valuation assumptions to take this into account.

Increases in the Eligibility Age for the Pension will Increase Outstanding Claims Liability

The eligibility age for the age pension will increase from 65 to 67 from 1 July 2017 to 1 July 2023. The 2014-15 Federal Budget proposed extending the eligibility age to 70 by 1 July 2035. The Scheme's outstanding claims liability at 30 June 2014 does not include any impact from the proposed changes because it has not yet been legislated.

If legislated, the increase in the retirement age will place upward pressure on the Scheme's liabilities, as some benefits are not paid until retirement. The Scheme's actuary has estimated a $350 million impact on the liability at 30 June 2014 due to the increased duration of weekly medical benefits and an increase in the size of work injury damages settlements.

National Disability Insurance Scheme (NDIS) and National Injury Insurance Scheme (NIIS)

In August 2011, the Productivity Commission recommended the establishment of the NDIS and NIIS schemes. The Commission recommended separate schemes to:

- reduce the cost of the NDIS through a fully funded insurance accident scheme
- use existing institutions and expertise of accident compensation schemes
- deter risky behaviour and reduce local risks that contribute to accidents
- cover a broader range of health costs associated with catastrophic injuries, such as acute care and rehabilitation services.

A key objective of both schemes is to improve care and support for those with a significant and permanent disability. They are not expected to entirely replace current systems, but rather to sit alongside the accident compensation systems and mainstream services in each state.

The main elements of the schemes are shown below.

NDIS

Purpose

National scheme to deliver support services for people with significant and permanent disability.

Eligibility

Tier 1: All Australian residents

Tier 2: People with disability and carers

Tier 3: People who require a high level of care or are in targeted early intervention groups

NIIS

Purpose

State-based schemes providing no fault coverage for long term care and support for 'catastrophic' injuries.

Eligibility

New catastrophic injuries caused by:

- Motor vehicle accidents
- Workplace accidents
- Medical accidents
- General accidents (occurring in the home or community)

Eligibility into the scheme will be defined by minimum benchmarks that each jurisdiction must meet.

National Injury Insurance Scheme

The scheme will provide no-fault insurance coverage for all victims of catastrophic injury resulting from motor vehicle, workplace, medical and other accidents. Eligibility into the scheme is defined by minimum benchmarks, which each jurisdiction must meet. Where jurisdiction benchmarks do not meet the national standard, the jurisdiction will have to fund the NDIS costs for some catastrophically injured participants once the NDIS commences from 1 July 2015.

The Australian Government is working with states and territories to develop the NIIS as a federated model of separate, state-based no-fault schemes that provide lifetime care and support for people who have sustained a catastrophic injury. The NIIS will build on existing state and territory accident compensation schemes to complement NDIS (previously DisabilityCare Australia). The current implementation status is as follows:

Injury type	Current implementation status
Motor vehicle accidents	Minimum benchmarks have been developed. The commencement date for a NIIS for motor vehicle accidents aligns with the commencement of DisabilityCare Australia in each jurisdiction.
Workplace accidents, medical accidents and general accidents	The Australian Government is continuing to work with states and territories on a NIIS for individuals who are catastrophically injured in these types of accidents.

The NSW Government is working with other states and territories to develop a comprehensive scheme for catastrophic injuries to ensure the positive design of the Lifetime Care and Support Authority scheme is maintained.

Each state's compliance with the national motor vehicles accident benchmark is shown below.

State	Currently meets the NIIS national benchmark – motor vehicle accidents
New South Wales	Yes
Victoria	Yes
Queensland [1]	No
South Australia	Yes
Western Australia [2]	No
Tasmania [3]	No
Australian Capital Territory	Yes
Northern Territory [4]	No

1 Still reviewing policy and cost of implementing the minimum benchmarks.

2 Has not agreed to the minimum benchmarks, but has committed to consider them.

3 Current no-fault motor vehicles scheme, which excludes serious offences and therefore does not fully meet the minimum benchmarks. The Tasmanian scheme will not be expanded to remove the exclusion of claimants injured while committing a serious traffic offense and meet the minimum benchmarks, so will fund NIIS support costs.

4 Currently a Bill is before the Parliament for this scheme to be amended to meet the minimum benchmarks.

Source: PricewaterhouseCoopers' Report on the National Injury Insurance Scheme: Motor Vehicle Accidents (April 2014).

The NIIS is proposed to be funded through additional premiums on top of relevant insurance policies through increased CTP premiums. This has not yet been agreed. As the New South Wales benchmark meets the minimal national standard, any impact would be minimal.