

1 Audit summary

1.1 Introduction

1.1.1 Background

The WorkCover scheme encompasses injury prevention and offers rehabilitation and compensation for workers suffering work-related injuries and illnesses. It is supported by a compulsory insurance system that covers employers for the cost of providing benefits to injured workers. These benefits cover both economic and non-economic losses and may continue for life.

Each Australian jurisdiction has its own particular compensation scheme. Victoria has a no-fault scheme where compensation and assistance is provided regardless of whether the employer or worker was at fault. It also allows injured workers to pursue common law damages if the injury is serious, and where the employer was at fault.

The scheme and Victorian WorkCover Authority (VWA) are primarily governed by the *Accident Compensation Act 1985* (the AC Act) and the *Accident Compensation (WorkCover Insurance) Act 1993* (the ACWI Act). The AC Act provides compensation to injured workers for injuries or diseases that are work related. The ACWI Act requires employers to pay compensation under the AC Act, and to hold WorkCover insurance against that liability.

VWA regulates Victoria's workplace occupational health and safety (OH&S) and return to work (RTW) requirements, and underwrites the scheme. VWA administers the scheme through six authorised private service providers, known as agents, who provide services to employers and injured workers consistent with the legislation and the standards and procedures set by VWA.

Agents determine and collect premiums from employers, and manage claims on behalf of VWA. For this agents are paid a service fee, an annual performance fee based on their success in achieving scheme objectives, and a lump sum fee based on their management of liabilities.

Healthcare professionals including doctors, occupational rehabilitation (OR) providers and allied health professionals manage workers' injuries, assist in identifying required services and in rehabilitation and RTW.

The AC Act requires employers to keep a register of injuries, to notify VWA of claims within prescribed timeframes, to maintain an offer of suitable employment for the first 12 months after an injured worker starts weekly payments, and to support injured workers' RTW.

The AC Act also requires an injured worker to take part in suitable rehabilitation and RTW programs and services. If the worker fails to do so, their benefit may be reduced or terminated.

1.1.2 Approach to claims management

In 2002 VWA introduced a new claims management model as part of a wider reform program to improve its performance in core business areas. The new model aimed to improve RTW outcomes, achieve cost-effective claims management, and to enhance the overall effectiveness of case, injury and medical management. Under the model, claims are triaged and segmented according to risk, where low-risk claims are handled quickly and high-risk claims are actively managed.

VWA requires each agent to establish multidisciplinary teams (MDTs) comprising a case manager, technical manager and injury management advisor to case manage high-risk claims.

The case manager leads the team, acts as the primary contact for employers/workers, and manages the claim. The technical manager provides expert legal and technical advice to the case manager. The injury management advisor is responsible for developing and promoting injury management strategies that focus on early recovery and durable RTW.

The MDT must work as a unit, combining their skills to actively manage high-risk claims and to maximise RTW outcomes and minimise liabilities.

1.1.3 Audit objective and scope

The objective of this audit was to assess the effectiveness and efficiency of claims management by VWA. The audit assessed whether:

- the management of claims is maximising both outcomes for injured workers and the financial sustainability of the scheme
- agents are managing high-risk claims in accordance with VWA's claims management model
- VWA's arrangements for monitoring and improving the performance of claims management are effective.

The audit examined the policies, procedures and activities of VWA and its six agents, with a particular emphasis on the arrangements for managing high risk claims. It did not examine self-insurers.

A representative sample of 150 high-risk claims across all agents was examined.

1.2 Overall conclusion

VWA's management of high-risk claims is maximising the financial sustainability of the scheme. Since 2002 claims management initiatives have contributed to a significant reduction in projected liabilities of \$2.9 billion, and the scheme has remained in a sound financial position over the last five years.

There is scope, however, to improve agents' case management practices in order to better maximise outcomes for injured workers. To achieve this, VWA will need to reduce industry turnover, strengthen the capability of its claims staff, and adopt a stronger focus on monitoring and improving the effectiveness of case management.

1.3 Key findings

1.3.1 Claims management and injured workers' outcomes

The claims management model introduced in 2002 is a sound framework for managing high-risk claims. Although the practice of case management is now established within agents, issues with the model's implementation have adversely affected the achievement of some of its objectives. While the model has stopped the deterioration in RTW and successfully reduced the cost and duration of claims, it has not substantially improved RTW outcomes, or the effectiveness of agents' case management practices.

Victoria's return to work performance

The RTW rate in Victoria has improved marginally since the claims management model was introduced in 2002.

The 'durable' RTW rate measures the proportion of workers paid 10 or more days compensation and who RTW within seven to eight months after their claim. The rate is derived from an annual national survey of injured workers across Australia and New Zealand which includes about 600 Victorian workers. Victoria's durable RTW rate has been relatively stable since 2005 at around 76 per cent (on average), with a marginal improvement of around 1 per cent since 2002. Victoria's durable RTW rate has been consistent with the national average since 2005.

VWA's own annual survey of around 2 500 Victorian injured workers determines the 'sustainable' RTW rate. It measures the percentage of injured workers off work for more than 10 days and who RTW and stay working 14–19 months after injury. It shows a similar level of performance to the durable RTW rate in 2006 and 2007 (i.e., around 76 per cent). However, in 2008 the survey reported a rate of 78.4 per cent, a statistically significant but not substantial improvement in real terms.

Case management practices

Agents' case management practices, on average, were considered generally adequate, however, there is substantial scope for improving agents' performance. Adequate practice was observed in 62.8 per cent of cases, good practice in 21 per cent, and inadequate practice in 16.5 per cent of cases.

Agents did not systematically consider psychosocial barriers to RTW such as attitudes toward recovery, stress, anxiety, workplace issues, substance abuse, and family matters, when assessing the injured worker's status, needs and risks to recovery. In most cases assessments were narrowly focused on the physical injury and its impact. As a result, their assessments did not provide assurance that the case management strategies addressed all injured workers' issues or optimised effective rehabilitation and RTW.

VWA has started a pilot project to improve agents' initial screening and triage practices and to better guide agents on psychosocial factors. It has developed a triage tool incorporating a small number of psychosocial questions which it has used since February 2009. VWA will monitor use of the tool, and integrate it into its new 'Novus' workflow system over the next 12 months. While this is a positive step, VWA needs to periodically review the tool and agent practices for effectiveness.

In addition to the triage tool, VWA has developed a number of claims management initiatives in consultation with agents designed to improve RTW outcomes for injured workers. These include:

- new processes for more effective purchasing of OR services, including better monitoring and reporting on effectiveness of services via the use of incentives linked to clearly defined RTW outcomes
- initiatives to support long term injured workers' access to vocational training opportunities and RTW services
- the trialling of mediation services for injured workers where interpersonal conflict is the key barrier to RTW
- RTW support and guidance to small employers delivered in the workplace to improve their knowledge and capacity to manage RTW
- access to a panel of Medical Advisors who can assist the MDT undertake clinical reviews and medical practitioner contact where appropriate and as requested by the case manager.

In most cases agents approved and delivered planned services to injured workers in a timely manner. While there was no evidence of over-servicing among the cases we examined, in terms of the intensity and mix of services, VWA has acknowledged that this does occur which it mitigates with clinical peer reviews of common treatments.

In most cases agents promptly reviewed the injured worker's case at pre-determined points that were usually no more than eight weeks apart. However, they did not systematically assess how effective services were for injured workers during these reviews. This is important for evaluating the injured worker's progress, avoiding over-servicing, informing future resource allocation decisions, and for ensuring the scheme funds are spent wisely. The AC Act requires VWA and its agents to determine if a worker is entitled to receive compensation, and if the amount of compensation being sought is reasonable before making payments.

Similarly, agents did not systematically document changes in circumstances and decisions following review points. This can lead to loss of critical corporate knowledge if staff changes occur, and can impede the agent's capacity to keep track of the history of the claim.

Information supplied by VWA indicates that the number of matters referred to the Accident Compensation Conciliation Service (ACCS) across all agents has declined by around 27 per cent since 2005. Agents generally reviewed adverse decisions about eligibility when requested by injured workers. However, where the worker did not request a review and referred the matter directly to the ACCS, there was little documented evidence of the agent's internal review. Although in most of the cases audit examined the files indicated there had been reviews as required, the details and outcomes were not recorded.

VWA acknowledges that there is an opportunity to improve the quality of agents' decisions. To address this, the VWA has established an internal team to enhance agents' performance in this area and will introduce an incentive in the agent remuneration model in 2009–10 to further focus agents on improving the quality and timeliness of eligibility decisions.

Audit identified other weaknesses such as the vagueness of RTW goals within most case management strategies developed by agents, including the absence of timeframes for their achievement. There was also little alignment between these goals and the identified barriers to RTW, including strategies and actions for addressing them.

In 78 per cent of cases examined, injured workers returned to work at a level appropriate to their extent of incapacity. However, given the weaknesses identified in practice we were unable to assess the cost-effectiveness and efficiency of the outcome in each case, nor the extent to which it was due to the actions of the agent. As a result, it is not possible to distinguish whether the outcome was 'optimum' in the circumstances, or whether it was simply due to the natural recovery of the injured worker.

Agents need to improve the quality of goal setting and clearly link RTW goals to soundly developed strategies and actions. This will allow evaluations of the adequacy of outcomes, and facilitate continuous improvement and the achievement of good practice.

Agent capability

Effective case management under VWA's claims management model depends on the capacity and capability of MDTs. However, there are significant annual staff turnover rates across both agents and MDT positions (around 29 per cent overall in 2007–08). This lack of stability and continuity within MDTs is reflected in the experience and qualifications of case managers. Thirty two per cent of case managers do not have the minimum two years of claims management experience. This points to a substantial skills shortage that needs to be addressed.

In an effort to address capability shortfalls, VWA and agents have developed nationally accredited qualifications in workers compensation and injury management as well as the Industry Capability Program, which aims to increase the uptake of accredited training and build technical and leadership capability in staff. In 2006 VWA, the Transport Accident Commission (TAC), and the personal injury and workers compensation industry of Australia and New Zealand set up an independent Personal Injury Education Foundation (PIEF) that also offers a number of postgraduate and certification programs in injury management.

While these are positive developments, they are unlikely to have a significant effect on skills shortages in the short to medium term. The high staff turnover suggests that VWA should review and identify the industry roles, specialisations and career paths that would best attract and retain qualified staff. VWA advised that there are early signs to suggest that turnover may be reducing due to the changing economic conditions.

Although VWA has developed a number of accredited industry-specific qualifications, there is presently no mandatory qualification for case management, which is needed to support good practice.

1.3.2 Claims management and the financial sustainability of the scheme

The financial performance of the WorkCover scheme has improved significantly since the current claims management model was introduced in 2002. Consecutive reductions in long-term claim costs over the past five years linked to claims management initiatives have directly contributed to maintaining a fully funded scheme.

The scheme was in a strong financial position in 2007–08, with a record level of performance from insurance operations (PFIO) of \$958 million. PFIO measures profit before tax, and excludes the impacts of factors beyond VWA's control, such as investment markets and interest rate movements.

The scheme's funding ratio is an indicator of its financial sustainability. It is a measure of the extent to which VWA's assets cover long-term claims costs. Since 2004–05 it has stayed above the Department of Treasury and Finance's benchmark range of 90–110 per cent, indicating that the scheme has been fully funded over this period. During this time, VWA has also reduced its premium rates each year, reflecting the improvements in long-term claim costs, reduced injuries and reduced durations.

Claims management can support the scheme's sustainability with initiatives that control specific claim costs affecting its funding position. The financial success of these initiatives is demonstrated when the scheme's external actuary calculates a reduction in projected long-term claim costs.

In recent years, VWA has linked its claims management initiatives to the significant reductions in long-term claims costs it has reported. Since 2003–04, annual reductions in projected claims liabilities total around \$1.9 billion. This is based on annually revised estimates of the total future projected claims costs relative to the previous year only. When compared to projected liabilities originally estimated in 2002, the cumulative improvement in outstanding claims liabilities equates to \$2.9 billion when calculated on a 'back-to-base' method.

The major sources of improvements in projected claims liabilities since 2003–04 have been the weekly compensation (51 per cent), medical and like (23 per cent), and the impairment/maims benefit (24 per cent) groups. Improvements in weekly and medical benefits liabilities are directly linked to claims management practices.

Reductions in the number and duration of long-term claims have driven the improvement in weekly liabilities since 2003–04 (approximately \$980 million). This has been achieved through the active management of high-risk claims under VWA's claims management model, the use of incentives for agents and closer monitoring of their performance in achieving target claims duration levels, and in actively reviewing workers' eligibility for weekly compensation.

The improvement in medical liabilities is mainly due to VWA initiatives directed at slowing the growth of treatment costs for long-term claims, supported by incentives for agents. This has resulted in successive annual reductions in projected medical liabilities totalling \$434 million since 2003–04.

VWA faces a rapidly changing and uncertain economic landscape. Deteriorating economic conditions impacting on investment returns, will present significant challenges to VWA in maintaining a fully funded scheme.

1.3.3 Monitoring and improving claims management performance

Existing performance monitoring is dynamic enabling VWA to measure and improve aspects of claims management. It uses incentives linked to agents' remuneration, comprehensive performance monitoring and reporting including targeted operational 'health checks', and reviews of agents' internal controls.

VWA uses a comprehensive range of monthly, quarterly, six monthly and annual performance reports to monitor trends, identify emerging issues, and to drive improvement initiatives in consultation with agents.

There is evidence that its current system has improved customer service levels and agents' management of liabilities, and that this has directly contributed to strengthening the financial sustainability of the scheme.

However, there is a need to strengthen the current arrangements as:

- VWA does not have a structured framework for systematically evaluating and reporting on the overall effectiveness of agents' case management, and achievement of good practice
- agents are not remunerated on the basis of their performance against quality measures linked directly to good practice in case management.

The results of our audit of agents' case management practices indicate that VWA needs to develop such arrangements.

1.4 Recommendations

Case management practice

VWA, in consultation with agents, should improve the quality of case management practice by:

- enhancing strategies to better engage treating health practitioners in the case management process
- establishing methods of obtaining assurance that sufficient medical input has been obtained by agents to assess each claim
- reviewing stakeholder communication so that there is a thorough and systematic assessment of all barriers to an injured worker's return to work (RTW)
- continuously reviewing assessment and risk identification processes to identify best practice, and use a framework to identify all risks and barriers to rehabilitation and RTW

- strengthening existing case planning so that:
 - case management action plan (CMAP) goals are specific, measurable, achievable, relevant and timed (i.e. SMART); they distinguish between short, medium and long-term objectives, and are clearly linked to strategies that address risks and barriers to RTW
 - CMAPs enable meaningful monitoring and assessment of the claim's progress, and the effectiveness and efficiency of strategies and actions
- obtaining assurance that agents systematically evaluate injured workers' services during reviews, and that CMAPs are then accurately updated
- reviewing and strengthening quality assurance to give a reasonable level of assurance that adverse decisions are transparent and sound and well documented.
(Recommendation 4.2)

Agent capability

The VWA should enhance agent capability by:

- reviewing and identifying the industry roles, specialisations and career paths that would best improve the industry profile and attract and retain qualified staff
- introducing a mandatory standard training framework and/or qualification for good practice case management for all multidisciplinary team (MDT) personnel.
(Recommendation 4.1)

Performance monitoring arrangements

The VWA, in consultation with agents, should:

- develop a structured framework for systematically evaluating and reporting on the overall effectiveness of agents' case management, and achievement of good practice
 - introduce measures in the Annual Performance Adjustment (APA) that directly reward and/or penalise agents on the basis of their performance against quality measures linked directly to good practice in case management.
(Recommendation 6.1)
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