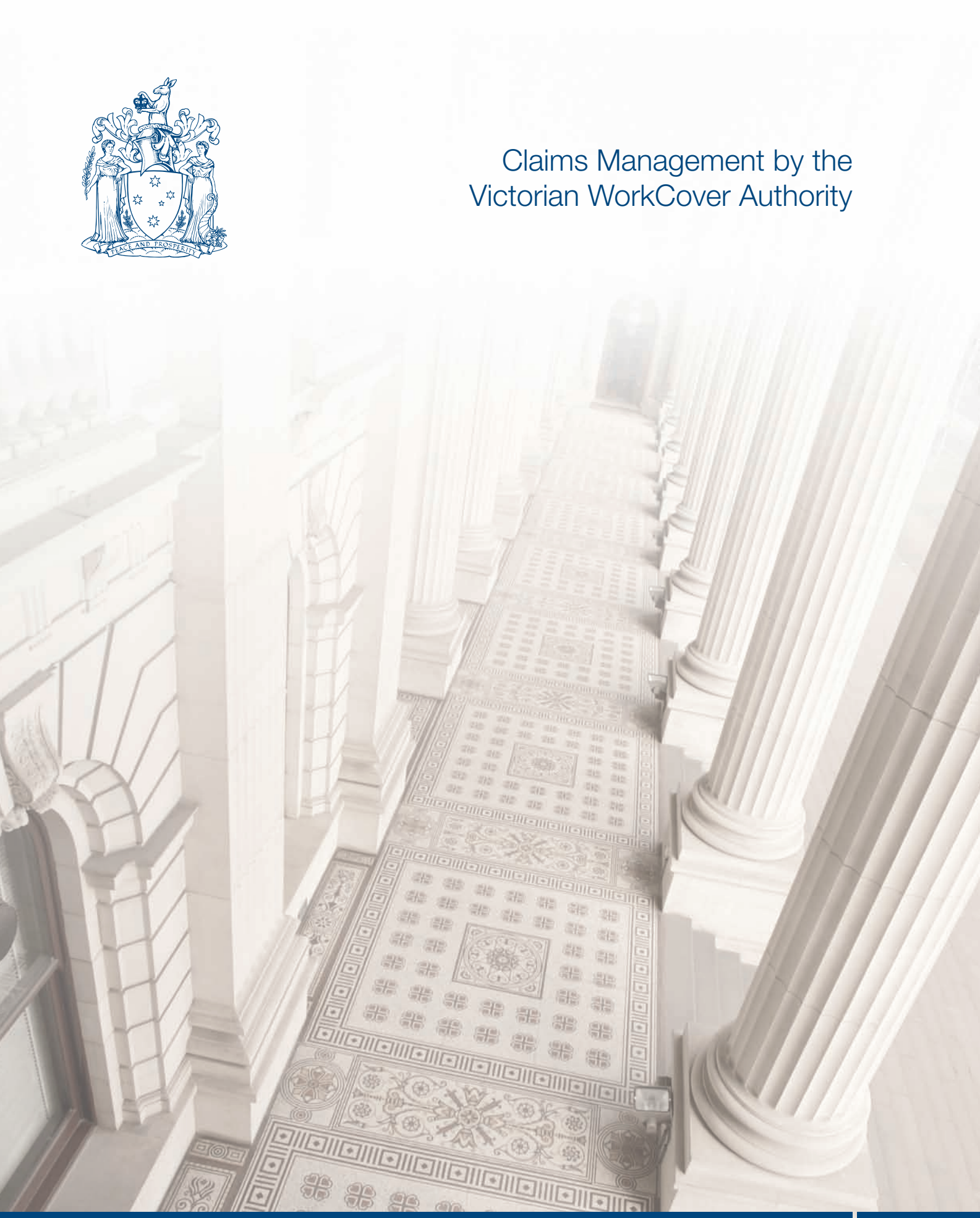
Claims Management by the Victorian WorkCover Authority



Victorian Auditor-General's Report June 2009 2008-09:25

VICTORIA

Victorian
Auditor-General

Claims Management by the Victorian WorkCover Authority

Ordered to be printed

VICTORIAN
GOVERNMENT PRINTER
June 2009

PP No 208, Session 2006–09

ISBN 978 1 921650 07 9

VAGO

Victorian Auditor-General's Office

Auditing in the Public Interest

The Hon. Robert Smith MLC
President
Legislative Council
Parliament House
Melbourne

The Hon. Jenny Lindell MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my performance report on *Claims Management by the Victorian WorkCover Authority.*

Yours faithfully

DR PETER FROST
Acting Auditor-General

3 June 2009

Foreword

Workplace accidents and diseases can profoundly impact the lives of Victorians. The WorkCover scheme plays a critical role in minimising these impacts by providing compensation and rehabilitation to workers injured during the course of their employment. The Victorian WorkCover Authority (VWA) administers the scheme through private agents who each year manage around 30 000 new claims for compensation in accordance with the *Accident Compensation Act 1985* and standards set by VWA.

Claims for workers compensation that involve complex injuries with the potential for lengthy time off work present a high risk to VWA. These claims can result in protracted periods of incapacity, poor outcomes for injured workers and employers and significant ongoing costs to the WorkCover scheme. It is important, therefore, that they are managed well.

In 2001 this office examined VWA's new claims management model. The new model aimed to reverse the worsening rate of return of work and financial performance of the scheme. That audit concluded that the effectiveness of the new model would depend on the quality of agents and operational arrangements, including pro-active oversight by VWA.

This audit has examined the impact of the new model. It has found that since 2002, VWA has significantly reduced its long-term claims costs and has substantially improved the scheme's financial position. These are significant achievements. Victoria's return to work performance, however, has not improved substantially since the model was introduced. The audit has also shown that considerable scope remains for further improving the quality of agents' case management practices.

VWA needs to develop a stronger focus on monitoring and improving the effectiveness of agents' case management. Additionally, longer-term strategies and actions are needed to address ongoing skills shortages and staff turnover within agents. VWA has already taken positive steps to address some of these issues.

DR PETER FROST
Acting Auditor-General

3 June 2009

Contents

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)**

2 Audit Act 1994 section 16 — submissions and comments

2.1 Introduction

In accordance with section 16(3) of the *Audit Act 1994* a copy of this report, or relevant extracts from the report, was provided to the Victorian WorkCover Authority for comments or submissions.

The comments and submissions provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for their accuracy, fairness and balance rests solely with the agency head.

2.2 Submissions and comments received

***RESPONSE* provided by Chief Executive, Victorian WorkCover Authority**

Introduction

Over the last five years we, in partnership with our Agents, have reformed the way services are provided to injured workers. These reforms have been reflected in significant improvements in satisfaction levels while at the same time the scheme's financial position has significantly improved.

We readily acknowledge there remains room for further improvement, and that the community will hold us to account for any new initiatives being consistent with our broader role of delivering a financially sound and competitive scheme for Victorian workers and their employers.

For the last 25 years day-to-day claims management has been outsourced to Agents who operate semi-autonomously from WorkSafe. While competition between agents using their different claims approaches was a hallmark of the original model, we have taken a more of a 'hands-on' role in recent years in a concerted effort to improve outcomes for injured workers.

Response to recommendations and findings

Case management

We are committed to the ongoing improvement of the quality of agents' 'return to work' case management practices and welcome the direction of the Auditor General's recommendations. These support our current direction to continue to maintain accountability for scheme outcomes and stronger central oversight and scrutiny over critical operational aspects of the scheme.

***RESPONSE* provided by Chief Executive, Victorian WorkCover Authority – continued**

Agent capability

Recognition of our recent initiatives and efforts to enhance the capabilities of claims management staff in Agents is appreciated. We recognise that without continuous improvement in agent capability we will only achieve incremental gains in return to work outcomes and service quality, and we remain committed to significant and ongoing investment with our agents to develop, train and attract staff.

Performance monitoring arrangements

We are pleased the Auditor General has noted that we have dynamic performance management and measurement arrangements for monitoring Agents activity on claims. We also acknowledge that the systems we use to apply performance monitoring initiatives need to be responsive to the changes in the broader economic landscape and we are confident they will continue to do so.

- ***Recommendation 4.1*** *- Accept in principle. We agree that there is a need to continually improve the capability of our Agents and the industry.*

  In partnership with the Personal Injury Education Foundation our Agents and ourselves we will continue to invest and build upon the range of existing programs to improve the industry profile, reduce turnover, attract and retain skilled personnel and ultimately improve case management. These include the nationally accredited education, training and accreditation programs and the award and recognition programs we run specifically for Agents involved with our scheme.

  We will continue to increase the scale of these programs and complement them with the introduction of scheme induction programs.

  While moving towards a mandatory standard training and/or qualification framework is consistent with the direction we have taken in recent years, careful consideration needs to be given to the magnitude of any costs and benefits that could be expected beyond those already generated by the existing initiatives.
- ***Recommendation 4.2*** *- Accepted. We will consider the Auditor General's specific suggestions on improvement opportunities in return to work case management practice and how they are best implemented to sustain the improvements in the scheme's financial performance and improve return to work outcomes.*

***RESPONSE* provided by Chief Executive, Victorian WorkCover Authority – continued**

- ***Recommendation 6.1*** *- Accepted in part. We agree that measuring and monitoring the performance of claims management within Agents, including the qualitative aspects of this work is consistent with improving outcomes for injured workers. Our existing performance monitoring framework is reviewed regularly with annual reviews to re-balance the focus of financial incentives (both reward and penalty) for service delivered by Agents. Throughout the year operational 'health checks' and compliance reviews of internal controls within Agents and special purpose audits ensure that best practice is maintained. While there exists scope to attach financial measures to Agents performance against quality measures for claims management, these need to be carefully balanced against other elements that also impact on a worker's experience.*

3 Background

3.1 Overview of Victoria's WorkCover scheme

3.1.1 The WorkCover scheme

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

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

3.1.2 Legislative framework

The WorkCover scheme and VWA are primarily governed by the *Accident Compensation Act 1985* and the *Accident Compensation (WorkCover Insurance) Act 1993*.

Accident Compensation Act 1985

The main objects of the *Accident Compensation Act 1985* (the AC Act) are to:

- reduce the incidence of workplace accidents and diseases
- provide effective occupational rehabilitation (OR) and return to work (RTW) for injured workers
- increase the provision of suitable employment for injured workers
- provide adequate and fair compensation for injured workers
- contain costs to minimise the impact on business
- establish and maintain a fully funded scheme
- reduce the social and economic costs of injury to the community.

The Act provides for:

- weekly compensation, periodic payments intended to replace income
- reasonable costs associated with treatment, rehabilitation and hospitalisation
- lump sum benefits for workers who suffer a permanent impairment to a body part or function
- compensation for dependents following a work-related death
- common law damages limited to workers who have suffered 'serious injury'.

Compensation for injured workers is payable only for injuries or diseases that are work related. While most work-related injuries come under the Act, for heart attack, stroke, disease, or a recurrence or aggravation of any pre-existing injury or disease, employment must have been a significant contributing factor.

Accident Compensation (WorkCover Insurance) Act 1993

The *Accident Compensation (WorkCover Insurance) Act 1993* (the ACWI Act) is the other important legislative component of the scheme. The function of the ACWI Act is to:

- impose liability to pay compensation under the AC Act on employers and to require employers to hold WorkCover insurance against that liability
- make VWA the only body that can issue or renew a WorkCover insurance policy
- provide for the levying and collection of premiums
- further improve the operation of the AC Act.

Each year, VWA determines the 'average insurance premium rate'. This is the percentage of Victorian employers' total payroll needed to meet the cost of claims for the year. Using the average premium rate, VWA sets the premium insurance rates for each industry group, and VWA's authorised agents determine the premium for individual workplaces based on the methods prescribed by the ACWI Act.

Section 7 of the ACWI Act, requires that employers have a WorkCover insurance policy for employees who work in Victoria if:

- their annual remuneration is, or is expected to be, more than $7 500, or
- they employ apprentices.

3.1.3 Roles and responsibilities of key players

VWA

VWA regulates Victoria's workplace occupational health and safety (OH&S) and RTW requirements, and also underwrites the WorkCover scheme.

VWA's statutory obligations are spelt out in several Acts of Parliament including the:

- *Occupational Health and Safety Act 2004*
- *Accident Compensation Act 1985*
- *Accident Compensation (WorkCover Insurance) Act 1993*
- *Dangerous Goods Act 1995*
- *Road Transport Reform (Dangerous Goods) Act 1995*
- *Equipment (Public Safety) Act 1994*.

The main objectives of VWA under the AC Act are to:

- manage the accident compensation scheme as effectively and efficiently and economically as possible
- assist employers and workers in achieving healthy and safe working environments
- promote the effective occupational rehabilitation of injured workers and their early return to work
- encourage the provision of suitable employment opportunities to workers who have been injured
- ensure that appropriate compensation is paid to injured workers in the most socially and economically appropriate manner and as expeditiously as possible.

Authorised agents

VWA administers the scheme through private sector service providers called agents. They are authorised to provide services to employers and injured workers in accordance with the legislation and the standards and procedures set by VWA. The terms and conditions of their appointment are set out in the agency agreement, which obliges them to contribute to and share responsibility for achieving the objectives of the scheme.

Agents:

- determine premiums for individual employers based on a set formula
- collect premiums
- manage claims in accordance with the WorkCover legislation, the agency agreement and policies, procedures and standards set by VWA
- provide claims management services to employers.

VWA pays agents a service fee, annual performance fees based on their success in achieving scheme objectives and a lump sum fee based on their management of liabilities. There are currently six agents.

Injured workers

The AC Act requires the injured worker to take part in reasonable rehabilitation and RTW programs and services and to:

- report injuries to their employer within prescribed timeframes
- make every reasonable effort to participate in an OR service or a RTW Plan
- make every reasonable effort to RTW in suitable employment
- participate in assessments to determine their capacity for work, rehabilitation progress and future employment prospects when required.

An injured worker's failure to meet these obligations may mean their benefits are reduced or cut off.

Employers

Under the AC Act employers must notify and manage claims and support injured workers' RTW. They must:

- keep a register of injuries in a form approved by VWA
- acknowledge the receipt of claims and notify VWA and/or agent within prescribed timeframes
- maintain an offer of suitable employment for the first 12 months after an injured worker starts weekly payments
- develop RTW plans, risk management and OR programs, and appoint coordinators in certain circumstances.

Research suggests that employers can play an important role in the RTW process by offering modified duties, engaging early, and maintaining cooperation with the injured worker and healthcare providers.

Healthcare providers

Healthcare professionals including doctors, OR providers and allied health professionals can play a pivotal role in managing workers' injuries and, where relevant, assist in rehabilitation and RTW. Workers can choose their own healthcare providers (with the exception of OR services which they must choose from at least three approved by VWA), and the scheme must pay the reasonable costs of such services if the worker is entitled to compensation.

3.2 VWA's approach to claims management

3.2.1 The new claims management model

In 2002 VWA introduced a new claims management model as part of a wider reform program to improve its core business performance. The new model aimed to improve RTW outcomes, achieve more cost-effective claims management, and to enhance the overall effectiveness of case management, injury and medical management.

In our 2001 report *Management of Claims by the Victorian WorkCover Authority*, we found that the model had the following good practice design features:

- claims are triaged and segmented, enabling low-risk claims to be handled quickly and high-risk claims to be actively managed
- the use of multidisciplinary teams (MDTs) to manage high-risk claims and assist workers with complex injuries to get timely, targeted support
- a focus on early notification of injuries by employers to achieve earlier and more appropriate intervention
- use of highly experienced claims handlers to review files and closer monitoring of agents.

The model is premised on claims management being most successful when resources are targeted to high-risk claims, which represent 25 per cent of all claims and account for around 90 per cent of liabilities. High-risk claims generally involve complex and/or serious work-related injuries where there is potential for long-term periods of incapacity. These claims require active management to minimise liabilities and maximise injured workers' RTW.

Low-risk claims usually involve less serious injuries, defined periods of incapacity and/or compensation, and where the worker is expected to RTW. VWA estimates that around 75 per cent of claims are low risk and they account for 10 per cent of liabilities. Under the VWA model, agents must constantly monitor claims and adjust their risk profile and associated management strategy to any changes in circumstances.

3.2.2 Composition of multidisciplinary teams

The VWA requires each agent to establish multidisciplinary teams (MDTs) comprising a case manager, technical manager and injury management advisor.

The MDT must work as a unit, using their skills to actively manage high-risk claims to maximise RTW outcomes and minimise liabilities. Figure 3A shows the functions and competencies of these roles.

Figure 3A
Summary of multidisciplinary team member roles

Title	Role
Case manager	Case managers lead the multidisciplinary team (MDT) and have ultimate accountability for the management of each claim. They are the primary contact for both the employer and the worker. They coordinate and monitor care, and ensure active communication with the injured worker, the employer and other involved parties. They develop the case management action plan (CMAP) in consultation with their MDT (the CMAP sets out the goals, strategies and actions to address the injured worker's barriers to RTW), and regularly review progress against the CMAP to achieve the desired outcomes (on a claim-by-claim basis). They must have two years experience in claims management in a statutory benefits system. Each case manager may be responsible for up to 80 active claims.
Technical manager	The technical manager guides and supports the case manager on technical and legal issues. The technical manager helps the case manager to understand and anticipate the technical and legal issues of the claim, and promptly deals with them in line with the AC Act. The minimum qualification/experience for a technical manager is any of: • a bachelor of laws degree (LLB) • three years experience in claims management, having reached the level of senior claims officer or equivalent • three years experience as a law clerk or paralegal in the statutory personal injury field. There must be one technical manager for every six case managers within each agent.
Injury management advisor	The injury management advisor develops and promotes strategies for early injury recovery and durable RTW. The injury management advisor coaches and advises the case manager about appropriate treatment, services and RTW issues for all high-risk claims. Other responsibilities include: • referring claims requiring expert medical advice or intervention in relation to diagnosis, prognosis, RTW prospects and ongoing treatment requirements to the medical advisor (see below) • liaising with the treating health practitioner (THP) and the employer in relation to the treatment regime, seeking input and advice from the medical advisor where appropriate. As a minimum, the injury management advisor must be qualified in a medical, health or related area with two years experience in workplace-based rehabilitation. There must be one injury management advisor for every six case managers within each agent

Source: Derived from information supplied by the Victorian WorkCover Authority.

Case managers may refer complex claims, that is, those with unresolved medical and treatment issues, to a medical advisor for advice. The medical advisor is not a member of the MDT, but will do clinical reviews and make recommendations to the case manager.

Agents must also employ a senior legal manager to develop the competencies of technical managers, and an impairment benefit specialist to manage impairment benefit claims.

3.3 Audit of claims management by VWA

3.3.1 Audit objective

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

3.3.2 Audit scope and method

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

The audit examined a representative sample of 150 high-risk claims across VWA's six authorised agents.

It was performed in accordance with the Australian auditing standards applicable to performance audits and included tests and procedures sufficient to enable audit conclusions to be reached.

Cost of the audit

The cost of the audit was $580 000. This includes staff time, overheads, expert advice and printing.

3.3.3 Structure of this report

The rest of this report is structured as follows:

- Part 4 assesses improvements in the management of claims since the introduction of the model in 2002 and whether it is maximising outcomes for injured workers.
- Part 5 examines the role that claims management plays in managing the cost and duration of claims. The financial performance of the scheme since 2002 is evaluated.
- Part 6 reviews VWA's arrangements for monitoring and improving the performance of claims management and whether they are effective.

4 Claims management and injured workers' outcomes

At a glance

Background

Claims management is most successful when the focus is on managing high-risk claims effectively. These tend to be complex and serious work-related injuries where there is a likelihood of long-term incapacity and time off work. Their effective management depends on the quality of agents' case management practices, and the capability of multidisciplinary teams (MDTs).

Findings

- Case management practices are generally adequate however overall performance would be improved by broader adoption of better practice. Improved linking of goals to strategies and actions is required to enable outcomes to be evaluated.
- All agents have MDTs to manage high-risk claims. However, skills shortages and high industry turnover mean a substantial proportion of case managers do not have the minimum two years claims management experience.

Recommendations

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 MDT personnel.

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

- enhancing strategies and actions to better engage treating health professionals
- continuously reviewing assessment and risk identification
- strengthening existing case planning
- obtaining assurance that agents systematically evaluate injured worker's services
- reviewing and strengthening quality assurance.

4.1 Introduction

4.1.1 Background

Claims management aims to maximise both the rehabilitation and the return to work (RTW) for injured workers, and the financial sustainability of the WorkCover scheme.

It is a complex task that includes:

- receiving and assessing claims
- determining liability and eligibility for compensation
- making prompt and appropriate payments
- identifying, coordinating and reviewing services for injured workers to achieve an early, safe and sustainable RTW.

Claims management also involves ongoing assessment of a worker's entitlement to compensation, and taking action where appropriate to increase, reduce, suspend and/or terminate benefits as required by law.

The model introduced by VWA in 2002 was designed to improve the:

- overall effectiveness of case management for high-risk claims
- RTW rate
- cost of claims
- duration of claims.

This part of the report assesses improvements since 2002, including whether the management of claims is maximising outcomes for injured workers. Part 5 examines the impact of claims management on the cost and duration of claims.

4.1.2 Audit of case management practices

We examined a sample of 150 high-risk claims and assessed the quality of agents' case management practices against good practice standards that were identified in consultation with specialists and VWA. The sample represented the number and type of claims managed by each agent.

The standards were based on the widely accepted good practices in the VWA's Claims Manual, and on key principles within the 2008 Clinical Framework for the delivery of Health Services developed for health care professionals.[1] As such, they refer to claims management procedures already performed by agents.

[1] Victorian WorkCover Authority/Transport Accident Commission Health Services Group, C*linical Framework for the Delivery of Health Services,* 2008.

The audit has focused on examining the quality of these practices and opportunities for enhancing them. The standards were also informed by a review of practices in other systems, the *National Standards of Practice for Case Management* issued by the Case Management Society of Australia, and program standards of the International Disability Management Standards Council.

4.1.3 Good practice standards of case management

Good practice requires the active, cost-effective management of high-risk claims to optimise an injured worker's early, safe and sustainable RTW and community activities. Figure 4A shows the six areas of good practice that we identified and used to determine where agents could improve their performance.

Figure 4A
Standards of good practice case management

Source: Victorian Auditor-General's Office.

The audit assessed agents' claims management practices against these six standards.

4.2 Assessment of agents against good practice

4.2.1 Performance against the standards

Figure 4B summarises the results against good practice. It shows that, on average, there was good practice in 21 per cent of cases, adequate practice in 62.8 per cent, and practices were inadequate in 16.5 per cent of cases.

Figure 4B
Performance against good practice case management standards

Good practice standards in case management	Inadequate practice (%)	Adequate practice (%)	Good practice (%)	Total adequate or good (%)
Information, communication and relationships	6	62	32	94
Assessment and risk identification	34	53.3	12.7	66
Planning	15.4	72.5	12.1	84.6
Implementation	7.4	69.1	23.5	92.6
Monitoring and review	27.5	57.7	14.8	72.5
Dispute resolution	8.9	62.2	28.9	91.1
Average total	**16.5**	**62.8**	**20.7**	**83.5**

Note: Figures are based on audit sample of 150 cases.
Source: Victorian Auditor-General's Office.

Figure 4B shows that although overall performance was generally adequate, there is substantial scope for agents to improve and achieve 'good' practice.

The following sections detail the main findings for each standard.

4.2.2 Information, communication and relationships

Background

Good case managers form effective partnerships with all parties involved in the claim. They keep parties informed about the injured worker's progress, and establish ways to receive relevant and timely information.

Once a high-risk claim has been allocated for active case management, the case manager should contact the worker, employer and treating health professional (THP) (known as three-point contact) to set expectations and to clarify their obligations in the RTW process. This involves discussing, informing, understanding, setting future review dates, and seeking the most up-to-date information on such issues as:

- RTW barriers (physical and psychosocial) and opportunities
- availability of suitable employment and development of a RTW plan
- advice on rights and obligations for the worker and employer
- nature/status of injury, diagnosis, treatment regime and expected recovery
- results of assessments and reviews
- nature and extent of capacity and restrictions for work.

The initial three-point contact should occur within the first week of getting the claim. The rate of ongoing contact should tie in with planned review dates, and respond to emerging issues and risks. As a minimum, VWA recommends that agents confer with stakeholders at eight weekly intervals in the first 12 months of a high-risk claim.

We examined whether:

- initial three-point contact was timely after registration of the claim
- the frequency of contact was appropriate during the life of the claim
- injured workers and employers received relevant information tailored to their needs.

Findings

We found that agents usually tried three-point contact, but in 61 per cent of cases only succeeded with two-point contact with the injured worker and employer because of difficulty contacting THPs. While this is generally beyond the agent's control, it may mean the agent's assessment of the injured worker's claim and associated barriers to RTW lacks important medical information. VWA acknowledged the challenge for agents in engaging THPs. The medical advisor role was developed in response to these issues, including questionnaires for eliciting information from THPs in certain cases.

Agents' initial contact with stakeholders was usually timely, within one week. Ongoing contact with the injured worker and employer was also generally appropriate, mostly at reviews that were no more than eight weeks apart.

However, we observed that often the communication didn't elicit all relevant risks and barriers to the injured workers' RTW, thus impeding later assessments. For example, agents usually overlooked psychological and social issues that might affect an injured worker's RTW. There is no framework or checklists to guide the communications process. VWA advised that a new workflow tool for agents will, in time, help them to be more consistent, systematic and comprehensive in their initial interviews.

Agents usually gave injured workers and employers relevant information, particularly about their rights, obligations and responsibilities. However, they based written communication on standard templates that weren't always in plain English, and there was no evidence that they sent letters in languages other than English or that they used translators. VWA advised that standard letters have been revised, but acknowledged the need for ongoing review and improvements.

Conclusion

Agents generally had appropriate contact with injured workers and employers, and usually provided relevant information.

However, their performance would be improved by involving THPs more, and by enhancing the structure and quality of stakeholder communication.

4.2.3 Assessment and risk Identification

Background

Effective assessment and risk identification are essential to understand the physical and psychosocial barriers to RTW and the likely recovery time and duration of the claim. This involves assessing an injured worker's health status, needs, abilities, aspirations for recovery, and identifying potential risks and barriers to rehabilitation and RTW.

Assessments should consider both the extent of the physical injury and its impact, as well as psychosocial factors such as attitudes toward recovery, stress, anxiety, workplace issues, substance abuse, and family matters, etc.

Where relevant, agents should use results derived from standardised assessment tools administered by medical professionals to gauge the nature and extent of injury, and to set a baseline for monitoring the injured worker's progress. Such tools are described in the *Clinical Framework for the delivery of Health Services* developed by VWA and the Transport Accident Commission (TAC). The case manager and MDTs should use the assessments to develop strategies for the injured worker's situation.

We examined whether agents assessed the:

- worker's injury, abilities, needs and aspirations
- biomedical and potential psychosocial risks and barriers to the injured worker's rehabilitation and successful RTW.

Findings

Agents manage and segment claims according to risk, and have MDTs to actively manage high-risk claims in line with VWA requirements. They performed assessments and risk identification at the start of a claim. For five agents processes were not robust. A sixth agent had a 21-point checklist to systematically consider relevant risks and barriers to an injured worker's rehabilitation and RTW.

Audit also noted there was no evidence that standardised assessment tools had been used in 66 per cent of cases where it was relevant. Most agents had a subjective process that depended largely on the skill level and involvement of MDT personnel. In most cases they focused on the physical injury and its impact alone, and there was no evidence of systematic recording and detailed consideration of psychosocial factors, except in isolated cases.

VWA has started a pilot project to improve agents' initial screening and triage practices and to better guide agents on psychosocial factors. It has been using a triage tool incorporating a small number of psychosocial questions since February 2009. VWA will monitor the tool's use, and integrate it into its new 'Novus' workflow system over the next 12 months.

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 return to work
- 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.

Conclusion

Agents' risk assessments are not sufficiently comprehensive to provide assurance that case management strategies address all injured workers' issues, or optimise rehabilitation and RTW. The recent introduction of a triage tool for agents is a positive step in enhancing their assessments. However, VWA should periodically review the tool and agents' practices to ensure they are effective.

4.2.4 Planning

Background

The case manager and MDT develop a strategy to address an injured worker's barriers to a sustainable RTW. VWA calls this a case management action plan (CMAP).

The CMAP describes the treatments and services to be provided so the injured worker can RTW as soon as practicable. It should clearly identify the short, medium and/or long-term goals, the associated actions including time frames, and the team members responsible. The CMAP should also include a communications plan and periodic review of an injured worker's progress.

We examined whether:

- CMAPs were developed for each claim
- CMAPs contained clearly defined injury management/RTW goals, strategies and actions that addressed risks and barriers.

Findings

All agents prepared CMAPs, however, they were often unstructured and varied in quality. In most cases the relationship between goals, strategies and actions within CMAPs, including timeframes for their achievement was often unclear. There was also little alignment between the CMAP goals and the barriers to RTW.

In eighty per cent of cases examined CMAPs had goals which were often too vague (e.g. 'return to work') for meaningful monitoring and assessment. Similarly, in some cases, agents put actions into CMAPs that were low level, process oriented activities that did not directly relate to higher order rehabilitation/RTW goals (e.g. 'process payments'). We saw isolated cases of good planning that had clearly defined actions and which assigned responsibilities and timeframes.

Conclusion

While agents developed CMAPs as required, the rigour, sophistication and quality of case planning must improve if actions that arise from strategies for addressing injured workers' needs and barriers to RTW are to be effective.

4.2.5 Implementation

Background

During the implementation phase, the services and actions identified in the CMAP are delivered with a view to minimising any recurrence or aggravation of the worker's injury. Implementation must occur in a timely manner to maximise recovery and meet CMAP goals. Planned services should be approved within five working days.

We examined whether:

- services identified within CMAPs were approved and delivered promptly
- services were an appropriate mix and intensity for the injured worker.

Findings

Planned services identified in the CMAP were approved in 84 per cent and delivered in 88 per cent of cases in a timely manner, and were generally appropriate to injured workers' identified needs. There was no evidence of inappropriate treatment in terms of the intensity and mix of services.

However, VWA acknowledges that over-servicing does occur. To mitigate this, VWA undertakes clinical peer reviews of common treatments.

Conclusion

Agents generally approved and delivered services to injured workers promptly. However, weaknesses in case planning and assessment indicate that agents often make decisions without fully understanding the injured worker's needs or the barriers and risks to rehabilitation and RTW. The soundness and financial prudence of these decisions remains unclear.

4.2.6 Monitoring and review

Background

The CMAP must be monitored and reviewed to ensure there is progress and that the services are effective. This process also assists in identifying emerging barriers to recovery and RTW early in the life of the claim. Strategies and actions may need to be updated or adjusted to respond to emerging issues and/or changes in the injured worker's status.

Agents should review the CMAP on planned review dates, and in response to emerging issues and risks. As a minimum, VWA recommends agents hold stakeholder conferences every eight weeks within the first 12 months of a high-risk claim. Wherever possible the case manager should consult with stakeholders, the MDT and experts to address any emerging complex medical or legal issues.

We examined whether the case manager:

- monitored and reviewed the worker's progress against the CMAP in line with planned timeframes
- consulted stakeholders and experts where relevant
- reviewed the CMAP to assess the effectiveness of services
- updated the plan in line with changes, circumstances and decisions.

Findings

In 71 per cent of cases, CMAPs were promptly reviewed at pre-determined points usually no more than eight weeks apart. In 92 per cent of cases agents sought expert opinions and assessments where relevant from independent medical examiners and in 95 per cent of cases from injury management advisors and technical managers. There was evidence that periodic reviews had enabled agents to respond to emerging risks/events in some cases.

However, they did not systematically evaluate the effectiveness of services during reviews. Similarly, CMAPs were not systematically updated after review points, with changed circumstances and decisions. This leads to loss of critical corporate knowledge as staff changes occur, and impedes the agent's capacity to keep track of the claim history.

Conclusion

Agents progressively review CMAPs, consult with relevant stakeholders and seek expert advice when required. However, weaknesses in record keeping and the lack of a systematic approach to assessing the effectiveness of services to injured workers are significant barriers to achieving good practice. Although THP's have the primary duty of care for injured workers, agents should monitor the effectiveness of services to satisfy themselves that these are reasonable as required by the AC Act, to better inform future resource allocation decisions, and so demonstrate that scheme funds are spent wisely.

4.2.7 Dispute resolution

Background

When an agent makes an adverse decision such as to suspend, reduce or terminate benefits, it must tell the worker the reason and explain their rights to a review and/or conciliation through the Accident Compensation Conciliation Service (ACCS).

When a worker requests a review, the reviewing officer, who should not be the person who made the initial decision, must ensure the decision is technically sound and based on reasonable evidence. The reviewing officer can support, vary or withdraw the decision and must advise the worker of the outcome.

If a worker decides to refer an adverse decision directly to conciliation without review, the agent must automatically internally review the decision, taking into account any new information.

Poor decisions can affect injured workers' RTW and rehabilitation. Agents can avoid poor decision-making by consistently applying good quality claims assessment and management procedures and practices. They should complete a decision check list and maintain detailed file notes to ensure their decisions are sound.

We examined whether agents:

- informed workers of their right to review in the event of an adverse decision
- reviewed disputed decisions before going to conciliation.

Findings

There was an adverse decision or dispute in 30 per cent of the cases we examined. The injured worker requested a review in three of these cases which the agent did in each instance. Where the worker did not request a review and the matter went to conciliation, checklists indicated the agent had done an internal review, however, the details and outcome were not recorded. Information supplied by VWA indicates that the number of matters referred to conciliation across all agents has declined by around 27 per cent since 2005.

About one third of disputed decisions are varied at conciliation and there is often a substantial time lapse before the dispute is resolved (3.5 per cent within one month and 55 per cent within three months in 2005–06).[2] Poor quality assurance (QA) by agents over adverse decisions can therefore delay injured workers' benefits and affect their RTW outcomes.

The VWA acknowledges there is room to improve the quality of agents' decisions. It has established an internal team to enhance agents' performance in this area and will be introducing an incentive in the 2009–10 remuneration model to focus agents on improving the quality of their eligibility decisions, including timeliness, communications and the process of making the decision.

Conclusion

While agents are reviewing adverse decisions at the injured worker's request, they need to strengthen their internal QA so adverse decisions are transparent and sound and well documented on file. The introduction of incentives for agents to improve the quality of eligibility decisions is positive. This should be supported by a greater focus on the transparency and proper documentation of associated decisions by agents.

4.2.8 Outcomes of case management

Background

The case management process strives to meet the goals of the CMAP. Ideally, this should result in a worker returning to their pre-injury workplace and position. However, some workers may need modified duties and/or hours when they RTW. The case manager and MDT should also explore other employment options should the worker not be able to return to their former workplace.

[2] Hanks, P. Accident Compensation Act Review, Final Report, August 2008, p.347.

We examined:

- the extent to which CMAP goals and outcomes were achieved
- whether the results were adequate given the nature of the injury, the claims strategy and agent actions.

Findings

Seventy eight per cent of injured workers had positive results, successfully returning to work either with their pre-injury employer or a new employer.

However, given the previously noted deficiencies in the agents' case planning—in particular

- the absence of short, medium and long-term goals
- the lack of alignment between goals, strategies and actions and risks/barriers
- the generic nature of their plans, their vague goals, and the absence of timeframes

—we could not assess the cost-effectiveness and efficiency of the result, nor the extent to which it could be attributed to the agent. We were unable to determine whether the outcome was 'optimum' in the circumstances, or whether it was simply due to the natural recovery of the injured worker.

Conclusion

Agents need to improve the quality of goal setting, and clearly link RTW goals to soundly developed strategies and actions. This will allow VWA and agents to evaluate whether they are producing good results, continuously improving and meeting good practice.

4.3 Claims management and agent capability

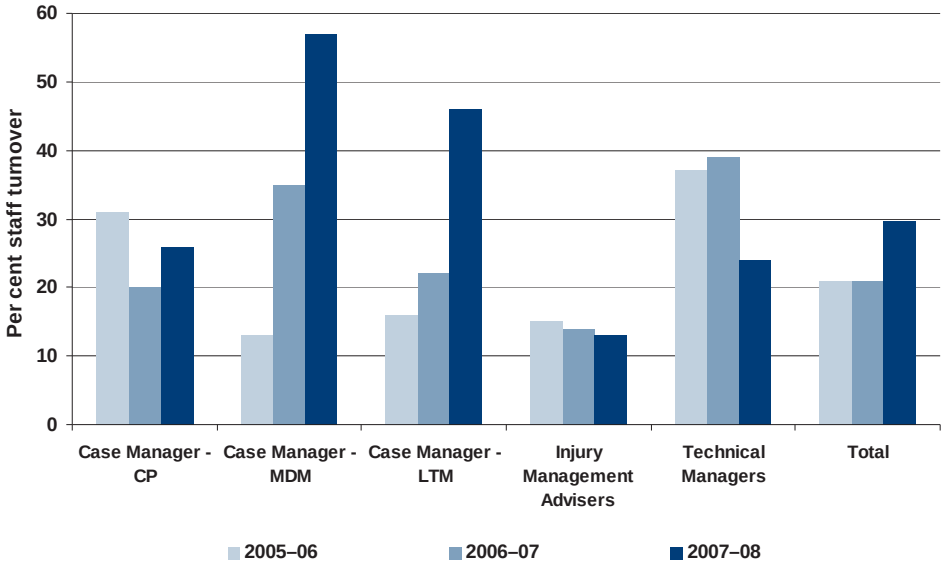
4.3.1 Background

Effective case management depends on the capacity and capability of MDTs. To assess agent capability and its effect on claims management we examined the qualifications and experience of MDT personnel against VWA's minimum requirements. We also examined the extent and effect of agent staff turnover.

4.3.2 Findings

Figure 4C shows that annual staff turnover rates are significant across both agents and MDT positions, pointing to a lack of stability and continuity within MDTs.

Figure 4C
Staff turnover rates for MDT positions, 2005–06 to 2007–08



Note: Claims Processing (CP) Case Managers manage low-risk claims, whereas Multidisciplinary Management (MDM) and Long Term Management (LTM) Case Managers manage high-risk claims.

Source: Victorian WorkCover Authority.

About half of all turnover is due to competition and to movement of staff between agents. The balance includes those leaving the industry to pursue better career prospects. Several agents said staff were dissatisfied with the lack of discretion to manage claims because VWA emphasised compliance with process, and that this was also a factor.

The effects of high turnover is reflected in the experience and qualifications of case managers. Figure 4D shows that 32 per cent of case managers did not have the minimum two years of claims management experience. This situation points to a substantial skills shortage across all agents. VWA advised that there are signs that turnover may be reducing due to changing economic and employment conditions.

Figure 4D
Staff capability—management of high-risk claims

Staff role	VWA qualifications and experience requirements	Fully meet requirements
Case manager	Percentage with a minimum two years claims management experience in a statutory benefits system	68%[(a)]
Technical manager	Percentage who have: • a bachelor of laws degree (LLB) or • three years experience in claims management, having reached the level of senior claims officer or equivalent or • three years experience as a law clerk or paralegal in the statutory personal injury field.	97%
Injury management advisor	Percentage who: • hold qualifications in a medical or health or related area or • have two years experience in workplace based rehabilitation.	All 6 agents
Senior legal manager (SLM)	No. of agents where the SLM holds: • a bachelor of laws degree • a current legal practising certificate under the Legal Practice Act 1996 and • five years litigation experience in the personal injury field.	All 6 agents
Impairment benefits specialist (IBS)	No. of agents where the IBS has: • at least two years claims management experience • one year's experience reviewing and analysing whole person impairment assessments under the AMA4 and • completion of a comprehensive training program conducted by the VWA or the TAC.	5 out of 6 agents [(b)]

Note: (a) Estimate is based on data from four of the six agents only.

(b) One IBS was in the process of completing the training conducted by the VWA/Transport Accident Commission (TAC). The two remaining criteria have been met.

Source: Victorian Auditor-General's Office.

4.3.3 Initiatives to address capability issues

In an effort to improve capability, VWA and agents have developed nationally accredited qualifications in workers compensation and injury management, as well as the Industry Capability Program (ICP) to increase vocational training across the industry. The ICP is funded jointly by VWA and agent contributions. In 2008–09 the program funds training places for agent employees, and new starter training to improve understanding of the Victorian workers' compensation system. The ICP also aims to better promote the industry and career pathways through marketing and profiling events such as the Industry Support and Service Awards, which recognise the achievements of agent staff.

All agents have training and induction programs to address internal skills deficiencies. They also have job shadowing, individualised coaching systems, and traineeship schemes to fast track staff into case management roles.

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) to develop and implement national postgraduate qualifications in personal injury. The foundation wants leading educational programs focused on the needs of accident compensation industry staff, and offers a number of postgraduate and certification programs in injury management. In 2010 PIEF aims to deliver a national certification program to recognise the skills and competencies required to effectively manage compensation claims.

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 structures, roles, specialisations and career paths that would best improve the industry profile and cut staff turnover.

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

4.4 Claims management and return to work

4.4.1 Background

Victoria's RTW performance is tracked by a number of measures. The RTW Monitor is a national survey done for the Heads of Workers Compensations Authorities. It uses a sample of about 3 000 injured workers across Australia and New Zealand that have had 10 days or more of weekly payments (the Victorian sample size is about 600). The 'durable' RTW rate is the proportion of workers paid 10 or more days compensation, and who RTW within seven to eight months after their claim.

The VWA has commissioned its own survey of Victorian RTW outcomes (the RTW Sustainability Survey), which measures the percentage of injured workers off work for more than 10 days and who returned to work and remained working 14-19 months after injury. This is known as the sustainable RTW rate. The sample size is about 2 500.

4.4.2 Findings

The 'durable' RTW rate in Victoria, as measured by the RTW Monitor, has been relatively stable since 2005 at around 76 per cent (on average), with a marginal improvement of around 1 per cent since 2002. Figure 4E shows that Victoria's 'durable' RTW rate has been consistent with the national average since 2005.

Figure 4E
Return to work rates 2002–2008

	2002	2003	2004	2005	2006	2007	2008
Durable RTW rate							
Victoria	74%	70%	71%	75%	77%	76%	75%
Australia	73%	73%	76%	76%	80%	77%	75%
Sustainable RTW rate							
WorkCover Scheme					75.5%	75.9%	78.4%

Source: Victorian WorkCover Authority (Durable RTW rates are sourced from the Australian & New Zealand Return to Work Monitor; Campbell Research and Consulting; Heads of Workers' Compensation Authorities).

As shown in Figure 4E, results from the VWA's own RTW Sustainability Survey indicate a similar level of RTW performance in 2006 to 2007 compared to the Victorian durable RTW rate. However, in 2008 the VWA's survey reported a sustainable RTW rate of 78.4 per cent, a statistically significant but not substantial improvement compared to the previous year in real terms.

In 2001, the VWA acknowledged there had been little change in RTW in previous years and that there were indications that the duration of time off work as a result of injury was increasing. Figure 4E shows that while the VWA has arrested the deterioration in RTW in recent years, Victoria's RTW performance has not improved substantially since the claims management model was introduced in 2002.

4.5 Conclusion

There is substantial scope for improving the quality of agents' case management practices and RTW outcomes for injured workers.

All agents have MDTs to manage high-risk claims as required by VWA. However, skills shortages and high industry turnover mean a significant proportion of case managers do not have the minimum two years claims management experience.

VWA and agents have taken positive steps to enhance claims management staff capabilities with internal training programs and the Industry Capability Program. However, it will be some time before the results of these programs can be fully realised and assessed.

Recommendations

4.1 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.

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

- enhancing strategies and actions 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 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 risk 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.

5 Claims management and the financial sustainability of the scheme

At a glance

Background

The WorkCover scheme is primarily funded from insurance premiums paid by employers and investment returns. Establishing and maintaining a fully funded scheme is a key objective under the *Accident Compensation Act 1985* (the AC Act). Claims management supports the scheme's funding requirement by controlling claim costs.

Findings

- The financial performance of the WorkCover scheme has improved significantly since the claims management model was introduced in 2002. Consecutive reductions in projected claims liabilities linked to claims management initiatives during the past five years, have significantly reduced long-term claim costs and helped maintain a fully funded scheme.
- Improvements in projected claims liabilities total around $1.9 billion since 2003–04. When compared to projected liabilities originally estimated in 2002, the cumulative improvement is $2.9 billion when calculated on a 'back-to-base' method.
- Active management of high-risk claims, agent incentives and closer monitoring of their performance has achieved this reduction in the cost and duration of claims.
- Significant reductions in weekly compensation costs and long-term claims have not resulted in an equivalent improvement in return to work (RTW) during the same period. This reflects a stronger focus by agents on liability management, rather than the quality of case management practices.

5.1 Introduction

5.1.1 Background

The WorkCover scheme is primarily funded from insurance premiums paid by employers and investment returns. Establishing and maintaining a fully funded scheme is a key objective under the *Accident Compensation Act 1985* (the AC Act).

The Department of Treasury and Finance's (DTF) *Policy Framework for Capital, Pricing and Reserving for Statutory Insurance Agencies*, sets a benchmark funding ratio range of 90–110 per cent for the Victorian WorkCover Fund. Accordingly, the fund's assets should aim to cover 90–110 per cent of outstanding claim liabilities. The funding ratio is an indicator of the scheme's financial sustainability as it measures the extent to which the VWA's assets cover long-term claims costs.

VWA uses premium setting and claims management to manage the scheme's funding requirement. Investment strategies also play an important role, however, under the Victorian Government's centralised model implemented in July 2005, VWA sets its investment objectives and the Victorian Funds Management Corporation (VFMC) is responsible for developing strategies to achieve them.

The following sections outline how the functions of premium setting and claims management are used to manage VWA's funding requirement and, therefore, the financial sustainability of the scheme.

Premium setting

WorkCover insurance premiums are set under section 15 of the *Accident Compensation (WorkCover Insurance) Act 1993* (the ACWI Act). The average premium for the next financial year, expressed as the percentage of Victorian employers' payroll needed to meet the cost of claims for the policy year, is calculated annually based on the latest assessment of the scheme's financial position. VWA's Board reviews the calculation and recommends a rate to the government for the coming year.

When making its recommendation, VWA's aim is to make sure that the premiums collected can cover the cost of any anticipated liabilities during the next policy year. It must also assess whether premium cuts can be sustained in the future.

Using independent actuarial advice and scenario modelling, VWA considers a range of factors to determine the recommended average premium rate, including:

- the 'break-even' premium (BEP), which is the estimated projected cost of claims and administrative expenses for injuries during the next 12 months, expressed as a percentage of employer remuneration
- anticipated investment returns
- anticipated changes in outstanding claims liabilities
- expected impacts of changes in average premium on the forecast funding ratio and meeting DTF's benchmark range.

The average premium rate for 2008–09 was 1.387 per cent, which was the fifth successive annual reduction since 2003–04 (see Figure 5A).

Claims management

Claims management can assist in managing the scheme's funding requirement through initiatives designed to control claim costs. The scheme's external actuary can indicate the financial success of these initiatives by assessing the extent of any change in liabilities against actuarial estimations for the year. An 'actuarial release' is achieved when the actuary calculates a reduction in future claims costs (i.e., a write-down of projected outstanding claims liabilities).

Success in keeping claims costs down depends on the effectiveness of agents' claims management practices and their adherence to VWA's priorities. The agent remuneration model contains a number of performance-based incentives to focus their efforts (see Part 6 for further details).

VWA's financial sustainability indicators

VWA's five-year strategic plan, *Strategy 2012*, identifies the following measures of the scheme's financial sustainability:

- performance from insurance operation (PFIO). This is the most meaningful measure of the scheme's performance. It excludes the impact of external factors that are beyond the VWA's control, such as investment markets
- BEP
- reductions in outstanding claims liabilities (i.e., actuarial release).

Of these, reductions in outstanding claims liabilities is the most direct measure of the effectiveness of claims management in reducing claims costs, thereby maximising the financial sustainability of the scheme.

Establishing whether claims management improved the scheme's financial sustainability involved assessing its financial performance during the past five years and determining how much these initiatives strengthened its funding position.

5.2 The scheme's financial performance

The WorkCover scheme was in a strong financial position in 2007–08 against a backdrop of poorly performing equity markets. It had a record PFIO of $958 million. Figure 5A shows that since 2004–05 VWA has reduced its premium rates annually, reflecting improvements in long-term claim costs. The funding ratio has also exceeded the DTF benchmark range of 90–110 per cent, indicating that the scheme was fully funded during this period.

This shows that the scheme has been financially sound for the past five years.

Figure 5A
Summary of VWA's operating performance, financial position and key sustainability indicators, 2003–04 to 2007–08

Item	2007–08	2006–07	2005–06	2004–05	2003–04
	Operating result (in $000)				
Revenue					
Premium	1 655 639	1 640 516	1 667 696	1 787 284	1 922 842
Investment	(943 970)	1 487 787	1 366 228	1 028 708	831 073
Others	107 770	86 332	88 664	126 935	175 357
Expenses					
Claims paid	1 314 749	1 310 595	1 115 325	1 041 802	1 009 890
Movement in outstanding claims liabilities	(78 063)	(169 547)	165 251	415 612	382 788
Other expenses	437 050	420 704	420 312	393 400	354 024
Net result	**(587 088)**	**1 170 404**	**1 002 948**	**775 287**	**1 222 447**
	Financial position (in $000)				
Assets					
Investments	9 534 562	10 806 624	9 607 694	8 210 359	6 783 711
Other tangible assets	91 024	69 335	65 236	120 432	142 050
Total tangible assets	**9 625 586**	**10 875 959**	**9 672 930**	**8 330 791**	**6 925 761**
Liabilities					
Net outstanding claims liabilities	7 824 937	7 720 775	7 896 820	7 118 800	6 738 888
Other liabilities	235 032	520 031	311 867	334 374	154 412
Total liabilities	**8 059 969**	**8 240 806**	**8 208 687**	**7 453 174**	**6 893 300**
Net tangible assets	**1 565 617**	**2 635 153**	**1 464 243**	**877 617**	**(108 334)**
	Key sustainability indicators				
Funding ratio (%)	120	134	119	113	101
PFIO ($ million)	958	729	476	747	718
Break-even premium (%)	1.27	1.38	1.49	1.62	1.68
Average premium rate (%)	1.46	1.62	1.80	1.998	2.22
Actuarial release ($ million)	511	394	260	439	316

Source: Derived from Victorian WorkCover Authority annual reports.

5.2.1 The impact of claims management initiatives

In recent years, VWA has reported significant reductions in outstanding claims liabilities linked to claims management initiatives. The sources and extent of these reductions between 2003–04 and 2007–08 are summarised in Figure 5B.

Figure 5B
Actuarial release listed by beneficiaries 2003–04 to 2007–08

Item	2007–08	2006–07	2005–06	2004–05	2003–04	5-year total [e]	
	$Mil	$Mil	$Mil	$Mil	$Mil	$Mil	(%)
Weekly compensation	380	233	84	112	171	980	51
Medical and like	4	78	36	213	102	434	23
Old common law [a]	(2)	(3)	(22)	(10)	(2)	(39)	(2)
New common law [b]	(16)	(22)	(1)	20	(1)	(20)	(1)
Common Law Legal	(40)	(52)	(79)	1	(24)	(194)	(10)
Impairment benefits/ maims	111	96	183	50	17	457	24
Legal and reports [c]	41	71	71	34	(72)	145	7
Others	34	(7)	(13)	19	125	158	8
Total [d, e]	**511**	**394**	**260**	**439**	**316**	**1 920**	**100**

Note: *(a)* Relates to common law claims with injury dates between 1 December 1992 and 11 November 1997 before removal of the right to seek common law damages.
(b) Claims with injury dates on or after 20 October 1999, following the restoration of access to common law.
(c) Relates to medical reports and statutory legal costs.
(d) For each year shown, the actuarial release is calculated based on an annually revised estimate of the total future projected claims costs. When calculated on a back-to-base method, the estimated reduction in the level of future liabilities compared with that estimated in 2002 is $2.9 billion.
(e) Some total figures may be affected by rounding.
Source: Victorian WorkCover Authority.

During the five years, VWA has achieved annual reductions in projected claims liabilities that 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.

Figure 5B shows the main sources of improvements in projected claims liabilities since 2003–04 have been weekly compensation (51 per cent), medical and like (23 per cent), and the impairment/maims benefit (24 per cent). Claims management initiatives, rather than adjustments in actuarial models or legislation, can be clearly linked to improvements in the weekly and medical benefit groups. These initiatives, which have contributed to annual improvements in liabilities of $1.4 billion since 2003–04, are outlined below.

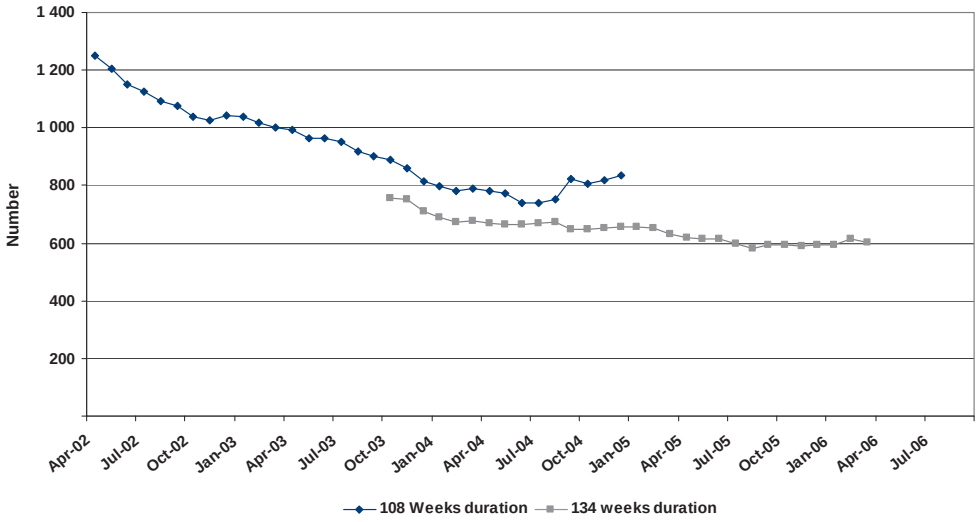
Weekly compensation

The weekly compensation category accounts for most of the annual actuarial releases for the five-year period ($980 million). There are three entitlement periods for weekly compensation:

- *First entitlement period*: this refers to the first 13 weeks when weekly compensation is paid.
- *Second entitlement period*: the length depends on when the agent received the claim:
  - before 1 January 2005, the second entitlement period is a maximum of 104 weeks
  - after 1 January 2005, the second entitlement period is a maximum of 130 weeks
- *After the second entitlement period*: a worker is not entitled to weekly payments unless they cannot work indefinitely, or have returned to work subject to strict criteria.

Since 2002, when the new claims management model was introduced, annual releases have occurred mainly because of the reduction in the number and duration of claims that receive more than one year's compensation. Figure 5C shows that the number of long-term claims reaching the second entitlement period has more than halved since 2002.

Figure 5C
Number of claims reaching 108/134 weeks



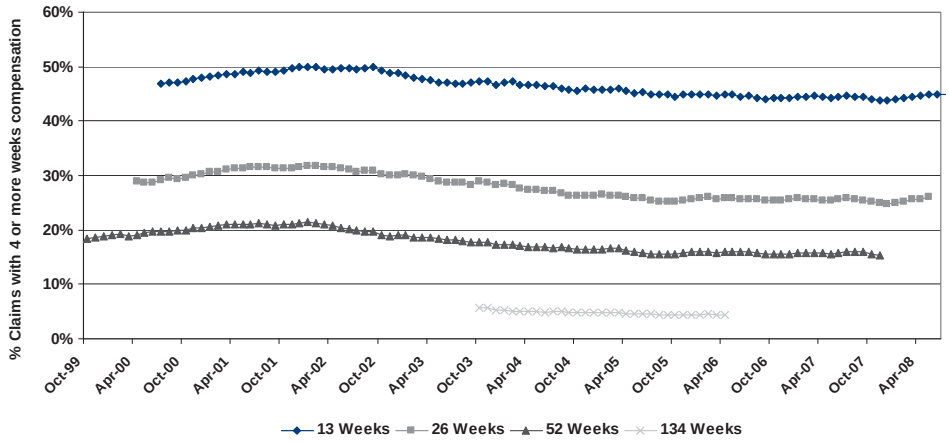
Note: As the data is lagged by one month, four weeks have been added to the second entitlement period depicted in the chart.
Source: Victorian WorkCover Authority.

Continuance rates primarily measure claim duration. They refer to the number of workers that have been paid weekly benefits for more than 13, 26, 52 and 130 weeks, expressed as a proportion of all claims that have received more than four weeks compensation.

Reductions in continuance rates, therefore, correspond to fewer workers receiving weekly benefits at a given point in time. This may be because a worker has returned to work, or because weekly benefits have stopped because the worker is no longer entitled to compensation under the Act. Many factors can affect continuance rates so they do not accurately indicate return to work (RTW).

The agent remuneration incentives comprise financial rewards and penalties linked to performance against target continuance rates. Figure 5D shows that continuance rates have gradually improved across all time frames since the claims management model was introduced.

Figure 5D
Continuance rates (13, 26, 52 and 134 weeks)



Source: Victorian WorkCover Authority.

Improvements in the 13, 26, and 52 week continuance rates have contributed to a reduction in claims reaching and exceeding 130 weeks. These improvements and the termination of weekly benefits after the second entitlement period, explain the decline in long-term claims and most of the improvement in weekly liabilities during the five-year period.

This change 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 meeting target duration levels and in actively reviewing workers' eligibility for weekly compensation.

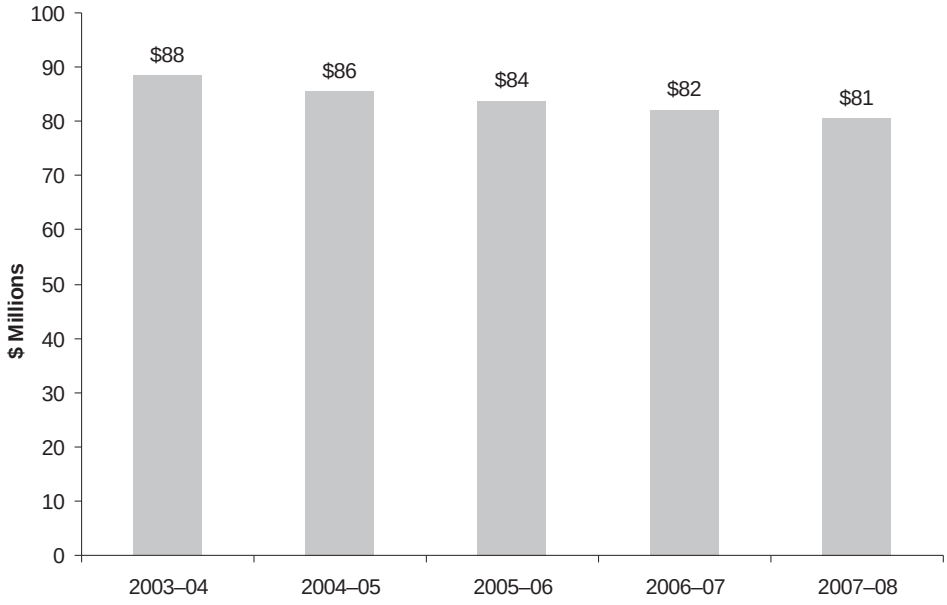
The significant reduction in long-term claims and weekly compensation costs since 2002 has not resulted in an equivalent improvement in RTW during the same period. This reflects a stronger focus by agents on the liability aspects of claims management driven by the VWA's remuneration model.

Compensation for medical and like costs

Since 2002, VWA and its agents have focused on controlling the growth of treatment costs, which were increasing at about 20 per cent annually. This has resulted in annual reduction in projected liabilities totalling around $434 million during the five-year period.

In 2003–04 VWA introduced a new medical measure in the agent remuneration model. This gave agents an incentive to slow the growth in treatment costs associated with long-term claims (i.e. one year after injury). Since then VWA advised that it has achieved a cost reduction in real terms (year on year). Figure 5E shows the annual treatment costs over this period.

Figure 5E
Summary of allied health treatment costs 2003–04 to 2007–08



Note: Figures shown have not been adjusted to reflect changes in the Consumer Price Index, and exclude doctor and hospital costs.

Source: Victorian WorkCover Authority.

A number of claims management initiatives have contributed to reducing long-term treatment and paramedical costs. They are summarised below.

Clinical panel reviews

VWA refers selected cases to a panel of experienced medical practitioners and healthcare professionals for review. The panel aims to offer peer to peer advice to treating health professionals (THPs) about appropriate treatment for injured workers. Reviews are guided by principles of clinical frameworks established by the VWA, and aim to ensure that treatment is goal oriented, clinically justified and focused on improving RTW and health outcomes. Each year the VWA refers about 3 000 cases for review. Reviews have helped to cut treatment costs since 2003 by ensuring benefits are better directed to evidence-based treatments.

Systematic reviews of worker's ongoing entitlements to medical and like benefits

A worker's ongoing entitlement to compensation under the Act is reviewed as part of the claims management process. In 2004 VWA introduced a high value work practice (HVWP) incentive to assist in curbing the growth of medical costs. The HVWP is a financial incentive for agents to assess a worker's eligibility for ongoing entitlements in a timely and rigorous way. Key practices include:

- initial desktop assessments of claims against the AC Act
- consultation with THPs and workers to elicit more information
- keeping accurate records
- holding case conferences
- following up with treaters
- determining ongoing entitlements within specified timeframes and standards.

These practices have played an important role in controlling the growth of paramedical costs since 2003, by helping to ensure that payments are only made for eligible services.

Pharmacy strategy

In 2003 spending on pharmaceutical items was growing at an average of 19 per cent annually. VWA determined that the cost growth was due to several factors, including:

- doctors prescribing fewer medications under the Pharmaceutical Benefits Scheme (PBS) compared to the Transport Accident Commission (TAC)
- doctors incorrectly prescribing PBS medications privately
- increasing numbers of prescriptions per worker
- pharmacists charging excessive mark-ups on private items.

VWA developed a pricing strategy to align pharmacy costs with PBS and approved price lists for private medications. By encouraging greater use of medications paid under the PBS and monitored by federal authorities, the strategy also aimed to ensure better prescribing for drugs of dependency. VWA supported the strategy with pharmacy payment teams set up within agents, the establishment of minimum invoicing requirements for pharmacists that include identifying non injury-related items. In 2006 VWA launched a pharmacy initiative to address cost growth. This included policies to encourage better use of PBS medications when clinically appropriate and available, as well as better management in the prescribing and funding of specific medications. Before approving payment, agents must now review the clinical rationale behind a medical practitioner's decision to prescribe certain medications.

Hearing aids

Hearing aid costs have increased substantially recently, and are a significant issue for the scheme. VWA has several initiatives to control the rise in costs. These include a VWA-Approved Hearing Device List that identifies a range of devices (and prices) available to injured workers. Agents with the support of the clinical panel must evaluate the clinical basis for a hearing aid before approving premium cost devices. VWA also has a revised consultation fee schedule for contracted and non-contracted service providers and is designing a service agreement with approved providers for hearing services in line with VWA's Approved Hearing Device List and new fee schedule.

5.3 Conclusion

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

These achievements, however, have not translated into a substantial improvement in RTW over the same period, indicating that they are mainly due to a focus by agents on the liabilities management aspects of claims management driven by incentives in the VWA's remuneration model.

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.

6 Measuring the performance of claims management

At a glance

Background

VWA needs effective ways to measure and monitor the performance of claims management so timely action is taken to address emerging issues, improve agent performance, and to meet the scheme's financial and social objectives.

VWA has a multidimensional framework to manage agent performance and claims management. Elements include financial incentives, comprehensive performance monitoring and reporting, such as targeted operational 'health checks' and reviews of internal controls.

Findings

- VWA actively monitors agents' performance. It uses a number of monthly and annual performance reports to monitor trends, identify issues and to encourage improvements in consultation with agents.
- There is a need to strengthen the current arrangements as:
  - VWA does not systematically evaluate 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.

Recommendations

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) which directly reward and/or penalise agents for their performance against good practice in case management.

6.1 Introduction

The Victorian WorkCover Authority (VWA) oversees agents who manage claims under the *Accident Compensation Act 1985* (the AC Act) and in line with VWA policies, procedures and standards.

VWA needs effective ways to measure and monitor the performance of claims management so it can take timely action on emerging issues, improve agent performance and ensure that the scheme's financial and social goals are met. These arrangements need information about the extent to which claims management has helped to minimise scheme liabilities (i.e., costs) and maximise rehabilitation and return to work (RTW).

This part of the report examines the effectiveness of VWA's arrangements for monitoring and improving the performance of claims management.

6.2 VWA's performance monitoring framework

VWA has a multidimensional framework to manage agent performance and claims management. Elements include:

- performance measures and incentives tied to agent remuneration
- performance monitoring, reporting and agent engagement
- targeted operational health checks and reviews of agents' internal controls.

The performance monitoring activities for each of the above is discussed in the following sections.

6.2.1 Performance measures tied to agent remuneration

The agent remuneration model is a central feature of VWA's performance monitoring framework. VWA pays agents an annual service fee, an annual performance adjustment (APA) for success in meeting scheme objectives, and a lump sum fee for managing liabilities. The lump sum fee and APA are the remuneration model's main performance components.

For services provided in 2007–08 VWA paid agents about $197 million, comprising $147 million in annual service fees, $32 million in lump sum fees and $18 million in APAs.

Annual service fee

The annual service fee covers the administration costs of managing claims and is the bulk of their payment. It comprises:

- *Premium fee*: A fixed percentage of the total employer premiums for employers managed by the agent.

- *Policy fee*: This is a fee for each employer that agents manage. It remunerates agents to balance portfolio differences, particularly agents who manage a large number of small employers with low premiums.
- *Direct payee fee*: Direct payees are injured workers who the agent pays directly rather than their employer (e.g. employers who have gone out of business).

Lump sum fee

The lump sum fee rewards agents for improving projected liabilities over four years. For the 2002–06 period, it could range from zero to 15.5 per cent of the premium fee. For the period 2006–10 the lump sum is 5 per cent of actuarial release calculated on a back-to-base method. Since 2002 VWA has had actuarial releases equivalent to a cumulative write-down of $2.9 billion in projected liabilities when calculated on a back-to-base method.

Annual performance adjustment

An annual performance adjustment (APA) is made to the premium fee and can be either a reward or penalty, depending on the agent's performance on incentive measures tied to scheme-wide priorities. Each performance measure is weighted for its possible effect on the premium fee.

Each year between February and May, VWA, in consultation with agents, reviews and, where necessary, refines the nature and/or weighting of these incentives. The latest actuarial valuation of projected liabilities guides this review. A key strength of this arrangement is that it allows VWA to respond flexibly to trends and to reprioritise or redesign initiatives in line with changing scheme priorities and agent performance.

The main APA measures and relative weightings for 2008–09 are summarised in Figure 6A which shows that in 2008–09, the APA may cut an agent's remuneration by as much as 31.5 per cent of the premium fee, or increase it by up to 38.5 per cent.

Figure 6A
Annual performance adjustment (APA) measures and weightings 2008–09

Measure	Description	Adjustment range (percentage of premium fee)	
		Penalty	Reward
Continuance rates	The time taken before an injured worker stops receiving weekly payments. This is the proportion of claims that continue 13, 26, 52 and 134 weeks from the date the claim was registered for workers who have had at least 20 days off work. Agents are rewarded for reducing continuance rates below an agreed base rate and are penalised for rates that exceed this level.	–7.5	+11.0
Return to work sustainability survey	The proportion of injured workers back at work 14–19 months after the injury was reported that have had more than 10 days compensation. This is measured through the annual RTW sustainability survey, that independent consultants devise.	0.0	+2.0
Worker satisfaction survey	Injured workers rate their overall satisfaction with agent services. This is an independent survey of workers who have received weekly benefits for more than 20 days in the six months before the survey. Agents are rewarded for achieving a satisfaction score above an agreed base level and are penalised for scores below it.	–6.0	+8.5
Combined services measure	Four service measures: Timeliness of weekly payments to direct payees. Agents must pay within seven days. Timeliness of medical and like payments direct to injured workers. Agents must pay within 10 days of receiving a request. Time to advance a new impairment claim. Measures how quickly agents either arrange an independent impairment assessment (IIA) or reject or suspend a new impairment benefit claim following receipt. Notification of change of case manager. Measures how quickly the agent sends a letter to an injured worker following the first change of case manager for any claim between 13 and 52 weeks duration. Agents must meet the base performance on three of the four components to get the reward.	0.0	+2.0
Premium measures	Aim to improve agents' premium management by encouraging them to collect premiums quickly, certify employer premiums and calculate premiums correctly. A selection of files is examined for compliance. The agent's performance is expressed as a percentage of those files of the total audit selection that passed the review.	–4.0	+4.0

Figure 6A
Annual performance adjustment (APA) measures and weightings 2008–09 – *continued*

Measure	Description	Adjustment range (percentage of premium fee)	
		Penalty	Reward
Impairment benefits	Lump sum compensation for permanent impairment from work-related injuries. VWA sets targets for resolving impairment benefit (IB) claims and assesses total unresolved IB claims of more than nine months.	–2.0	+2.5
High value work practices (HVWPs)	Mandatory work practices aimed at improving scheme results. VWA periodically audits files and rewards or penalises agents for their alignment to work practices. It may introduce up to four HVWPs each year and must consult agents on compliance standards in each case.	–5.0	+5.0
Medical measure	To control paramedical treatment costs for claims more than 12 months after the injury (called long-tail claims). This rewards growth below three per cent and penalises growth above this.	–3.5	+3.5
Data integrity audit	To make sure agents enter accurate, current, consistent and complete information on VWA's computer system. A data integrity manual shows agents how they will be audited.	–3.0	0.0
File quality measure	To make sure agents maintain files appropriately	–0.5	0.0
Total		**–31.5**	**+38.5**

Source: Derived from information supplied by Victorian WorkCover Authority.

We found that the APA contains agent incentives to improve claim processing, worker satisfaction and RTW outcomes, and management of liabilities. The following sections detail APA measures.

Continuance rates

As noted in Part 5, financial incentives have helped to improve continuance rates across all time frames since 2002. Continuance rates measure how many workers get weekly benefits on a given date. Reductions in continuance rates, therefore, mean fewer workers are getting weekly benefits. This may be because a worker returns to work, or because a worker is no longer entitled to a benefit.

As many factors can influence continuance rates they cannot be seen as a reliable proxy indicator of RTW, but nevertheless are a useful tool for managing scheme liabilities.

Worker satisfaction survey

VWA has had a client satisfaction program since 2001. It surveys employers and injured workers about their satisfaction with agent services. Agents compete to attract and retain employers as clients. But there are no equivalent market forces for agents to improve services to workers. Recognising this, VWA has a worker satisfaction measure to encourage agents to improve their services.

The survey results show that satisfaction levels have improved over time. Employer satisfaction rose from 76.3 per cent in 2002 to 84.4 per cent in 2008. In the same period, injured worker satisfaction rose from 56.3 to 69.8 per cent. VWA hopes to reach a 90 per cent satisfaction level in worker and employer satisfaction by 2012.

Premium measure

The premium measure focuses on agent debt management. It also ensures they collect premiums quickly and accurately so there is little adverse financial effect on employers and/or the scheme.

High value work practices

HVWPs often focus on improving agents' liabilities management, as well as injured workers' rehabilitation and RTW. HVWPs can also complement and/or support other outcomes and incentives in the APA. However, they only reward or penalise agents for their compliance with the process, but not on whether the intended outcomes were achieved.

Impairment benefits measure

The impairment benefits (IB) measure aims to improve how quickly IB claims are resolved and the accuracy of IB assessments. Agents are rewarded or penalised for meeting or missing agreed targets.

Data integrity measure

The fields chosen for the data integrity audit include those most critical to the actuarial valuation and for determining agents' remuneration. This measure is mainly about ensuring the integrity of data relied upon for assessing scheme liabilities and agents performance in meeting remuneration targets. It encourages agents to have effective quality assurance procedures. VWA appoints an external firm to assess the accuracy of agents' data processing based on file samples.

Medical measure

The medical measure encourages agents to limit spending growth in paramedical services. As noted in Part 5, VWA and agents have effectively reversed growth in medical costs in recent years.

This measure encourages agents to manage liabilities more effectively, focusing on the effectiveness of the treatments that they fund. The measure rewards or penalises agents based on how much treatment costs are increasing. As such, it is mainly a liability measure that rewards agents for controlling cost growth. Although it is linked with other initiatives such as clinical panel reviews and systematic reviews of workers ongoing entitlements, it does not show how effective medical treatments are for the worker.

Return to work sustainability measure

The RTW sustainability survey shows RTW performance. As noted in Part 4, there was a statistically significant rise in RTW sustainability in 2008, but the overall rate in Victoria has not improved much since 2002.

VWA chose the measurement period of 14 to 19 months after injury for the RTW sustainability measure to show RTW performance beyond the minimum legal requirement, which is for the employer to take the worker back within 12 months. It is a useful indicator of RTW outcomes, however, additional supporting measures clearly linked to agent activities are needed to provide insights on how an agent might improve their performance against the outcome.

Agents were concerned that they had no influence over RTW outcomes 14 months after the injury if there was no longer a legal obligation for the employer to keep a suitable job open. Agents were also concerned about the RTW sustainability survey methodology, particularly how the random sampling and non-response rates might affect RTW estimate accuracy.

VWA has therefore developed a new RTW index, which it plans to apply through the APA in 2009–10. It will measure the proportion of injured workers returning to work six months after the agent receives the claim. It will use agents' management data rather than surveys of injured workers. VWA will use the data integrity measure and file reviews to make sure the index is based on accurate data. VWA believes the new RTW index will reflect agent's RTW performance better.

Enhancing existing performance measurement arrangements

Subject to data accuracy, the proposed RTW index should give more timely insights into agents' performance. However, as with the RTW sustainability measure, the index is an outcome measure. This means that in the absence of additional measures clearly linked to agents' claims management practices it can give only limited insight into how agents' can improve.

VWA should consider adding other performance measures to the APA to assess the effectiveness of agents' case management practices. Such measures, along with the RTW index, would allow VWA and agents to better diagnose and improve their RTW performance. They would also make sure that agents are rewarded and/or penalised for the quality and effectiveness of their claims management.

VWA could enhance its approach to performance monitoring if the APA focused more on the quality of agents' case management practices. This would also give agents more of an incentive to improve the claims management experience and outcomes for injured workers.

VWA has already seen the merits of having a greater focus on quality metrics within the APA. In 2009–10 it intends to introduce another APA incentive to improve the quality of agent decision-making about workers' eligibility for compensation. This is a positive step that should be supported through more quality measures for case management.

6.2.2 Monitoring the performance of agents and claims management

VWA actively monitors agents' performance in managing claims. It uses monthly, quarterly, six monthly and annual performance reports to monitor trends, identify emerging issues and to initiate improvements in consultation with agents. VWA examines:

- RTW-related statistics and measures
- trends in claims costs and duration
- customer service levels, including timeliness of payments
- performance against APA measures
- complaints management, worker satisfaction and service initiatives.

VWA meets with agent representatives monthly to review scheme trends and agent performance against these measures. If VWA identifies concerns, it may decide to audit specific agent activities to isolate and diagnose issues.

VWA also develops league tables of agents' performance which it sends to each agent's head office. This informs the organisation's leadership about agents' individual performance compared with others and harnesses the competitive tension between agents.

VWA publishes data on agent performance in its annual report, so employers, workers and the public can see how agents compare.

6.2.3 Health checks and reviews of agents' internal controls

VWA requires each agent to have internal controls that enable them to effectively perform their contractual and legislative obligations. The agency agreement outlines procedures for annual audits of agents' internal controls, providing assurance about their effectiveness and identifying ways to correct weaknesses.

VWA may identify up to eight 'areas of audit interest' through an internal risk review that considers emerging risks, future priorities, external assessments of agents' internal controls and the scheme's and agents' performance during the previous 12 months. An agent's external auditor must examine the areas of interest annually, using agreed methods and procedures.

VWA also does various health checks throughout the year on areas of interest. The health checks are targeted, in-depth assessments of specific claims management practices and are used to alert agents to the quality of their work in a priority area. Health checks can focus on a range of areas such as:

- the quality and timeliness of agent decision-making
- effectiveness of customer service and action on VWA initiatives
- effective administration of selected case management processes
- compliance with VWA requirements.

Health checks are an important way of responding to emerging issues and enhancing the quality of agent practices. However, the results are not formally linked to any specific financial reward and/or penalty in the APA. Also, while they can offer useful insights into the quality of particular aspects of claims management, they are not undertaken as part of a structured framework of audits designed to evaluate the overall effectiveness of agents' case management, and achievement of good practice.

VWA's existing RTW measures, continuance rates and satisfaction surveys provide insights into the outcomes of case management. However, additional quality measures are needed clearly linking these outcomes to agents' performance against good practice in case management, to provide better insights into how an agent might improve the outcomes. VWA does not currently have such measures, or a structured framework for evaluating agents' performance against these measures.

6.3 Conclusion

Existing performance monitoring is dynamic and allows VWA to measure and improve key aspects of claims management performance. There is evidence that the current arrangements have improved customer service as well as agents' management of liabilities and that they have 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.

Audit results on agents' case management practices indicate that VWA needs to develop such arrangements.

Recommendation

6.1 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) which directly reward and/or penalise agents on the basis of their performance against quality measures linked directly to good practice in case management.

Auditor-General's reports

Reports tabled during 2008–09

Report title	Date tabled
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