NSW Treasury

Operational expenditure review: Insurance and Care NSW (icare)

August 2024

Acknowledgement of Country

We acknowledge that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and the oldest continuing culture in human history.

We pay respect to Elders past and present and commit to respecting the lands we walk on, and the communities we walk with.

We celebrate the deep and enduring connection of Aboriginal and Torres Strait Islander peoples to Country and acknowledge their continuing custodianship of the land, seas and sky.

We acknowledge the ongoing stewardship of Aboriginal and Torres Strait Islander peoples, and the important contribution they make to our communities and economies.

We reflect on the continuing impact of government policies and practices, and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples, families and communities, towards improved economic, social and cultural outcomes.

Artwork:
Regeneration by Josie Rose

Regeneration

Josie Rose is a Gumbaynggirr woman who expresses her contemporary Gumbaynggirr cultural heritage through art. For Regeneration her chosen medium is acrylic paint on canvas and the design embodies both creative and cultural expression. The inspiration for her artworks comes from a deep place of spiritual connection to her family, community, culture and respect for Mother Earth. Gumbaynggirr Country is beautiful land with both freshwater and saltwater waterways which inspire her holistic connection to the Ancestors.

Josie Rose
Artist

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1.1 Key messages

Introduction

Insurance and Care NSW (icare) is the NSW Government statutory agency responsible for the provision of government-mandated insurance and care schemes.

As one of Australia's largest insurers, icare is responsible for managing approximately $50 billion in assets across its different insurance and care schemes. In 2022–23, the total direct cost arising from insurance and care schemes administered by icare amounted to approximately $7.1 billion in premiums paid by NSW businesses, homebuilders, drivers and government. Across this system, the single largest annual direct cost is associated with icare's claims handling expenses, which equalled $552 million in 2022–23 within the Nominal Insurer (NI) and the Treasury Managed Fund (TMF).

icare was established in 2015 as a public financial corporation (PFC) to harness the benefits of a commercial business model. Under the commercial business model, it was expected icare would operate as efficiently and effectively as a commercial insurer, and maximise investment income to support the financial sustainability of its insurance and care schemes over the long term.

However, icare's operations differs from a commercial insurer in profound ways. icare is a passive taker of risk on behalf of the community and of government, and has limited control regarding premiums or benefits. Growing its business through increased market share, acquisitions or reducing overheads through divestiture is not possible. Instead, the main levers available to icare to manage operational expenditures and drive efficiency and greater cost effectiveness are through its people and the technology it deploys, absent a change in the policy context or regulatory environment.

The review

In November 2023, the Minister for Work Health and Safety (the minister) instructed NSW Treasury to conduct an operational expenditure review of icare.

NSW Treasury has conducted a high-level review of the efficiency, effectiveness and appropriateness of icare's operational expenditure. The review focuses on icare's net cost of services (NCOS) – those controllable business costs incurred by icare to deliver its different insurance and care schemes on behalf of the community and government. icare's underlying commercial model and overall net expenses (including claims handling expenses incurred by its insurance and care schemes) were beyond the scope of this review.

From 2019–20 to 2022–23, icare's NCOS has risen broadly in line with inflation, assisted by a one-off saving measure of $100 million adopted in 2021–22. While recent incremental growth appears reasonable, icare's underlying commercial model and overall net expenses (including claims handling expenses incurred by its insurance and care schemes) were beyond the scope of this review.

icare's largest controllable expenses were employee and technology, and the Enterprise Program costs. Together, these accounted for 87 per cent of icare's NCOS in 2022–23, which equalled $564 million, rising to $618 million in 2023–24. In 2023–24, forecast total employee costs of $289 million will account for 44 per cent of icare's NCOS.

On balance, icare's operational expenditure has been managed responsibly over the recent past – recognising that reviews conducted by Hon Robert McDougall KC[1] and PriceWaterhouseCoopers[2] (McDougall and GAC Reviews) and changes to icare's board and executive leadership in 2021 represent a structural break in icare's recent history.

NSW Treasury analysis found icare's efficiency and effectiveness is broadly comparable to similar commercial and publicly owned insurers across Australia. Claims management performance was not considered due to the challenges associated with any such comparison, and acknowledgement that the ability to draw reliable conclusions is extremely limited.

The review has found an organisation in transition. icare is seeking to deal with and address a difficult legacy and change its future trajectory.

Evidence of this transition is seen across icare and accounts for a large part of its controllable cost base, especially its technology-related investments. The first phase of these investments from 2021–22 to 2023–24 form a direct response to the McDougall and GAC Reviews, intended to fix icare's foundations by addressing systemic gaps, including risk and governance and an accountability culture across the organisation. A second horizon is now planned to drive transformation and realise benefits made possible through increased automation, digitisation and leveraging its data assets to lift operational performance.

Tackling this challenge requires concentrated management effort and high-quality board leadership, but it also has brought forward and locked in elevated costs across a range of different business activities and functions.

The review has found that the scale, complexity and pace of this enterprise-wide transformation, in turn, presents its own challenges and makes it difficult to discern value-for-money outcomes. This is especially true in long-tail insurance and care schemes like those managed by icare, where evidence of successful change can take a long time to materialise and is hard to quantify.

A future focus is needed that supports icare to better communicate to its stakeholders, including government, the impact of its performance in fulfilling its statutory objectives to:

- maintain the affordability, efficiency and viability of the state insurance and care schemes
- promote early and appropriate treatment and care that optimises recovery and return to work
- promote efficiency, transparency and accountability in the conduct of icare's operations.

Employee costs

How icare manages and allocates its workforce is central to the efficiency and effectiveness of icare's operational expenditure. It encompasses three main dimensions relating to workforce size, structure and remuneration policy.

As a PFC, icare is managed by an independent board of directors. The board is responsible to the minister and Treasurer for the performance of icare's functions. This model is intended to provide a commercial focus and discipline to the performance of its statutory functions through the application of efficient business practices.

Consistent with this model, the board has a broad discretion regarding all employment matters and, in general terms, staff employed by icare are exempt from the operation of the *Government Sector Employment Act 2013* (the GSE Act).

icare's total full-time equivalent (FTE) workforce has more than doubled in size over the five years to 2022–2023. icare attributes much of this increase to scheme growth, the impact of government policy decisions, and responding to the McDougall and GAC Reviews – some of which have resulted in a permanent uplift to icare's cost base.

1 The Hon. Robert McDougall KC (2021) *icare and State Insurance and Care Governance Act 2015 Independent Review*.
2 PriceWaterhouseCoopers (2021) *Independent Review of icare governance, accountability and culture.*

From 2018–19 to 2022–23, icare workforce (excluding contingent and contractors) increased from 880 FTE to 1,718 FTE.

Much of this organisational growth has occurred in respect of icare staff employed under the Insurance and Care NSW Award 2022 (the icare award), more than doubling over the five years (from 618 FTE in 2018–19 to 1,279 FTE to 2022–23). In 2022–23, award staff made up around three-quarters of icare's total workforce. Reflecting this growth, associated employee costs for rose from $128.7 million to $258.8 million over the same period.

The growth in award staff is partly due to icare's strategy to insource capability and reduce reliance on contingent workers and contractors, especially in respect of business-as-usual activities. The review found that contingent workers and contractors are increasingly concentrated on transformation related projects requiring specialised skills on a time-limited basis.

This insourcing strategy has also led to increased employment of in-demand specialised skills in areas, such as risk and governance, on a permanent basis under individual employment agreements (IEA).

IEA employees are remunerated at a higher level in comparison to award staff. Nonetheless, the review found the use of IEAs provides icare's management with a more cost effective way to engage specialised skillsets, especially where a proactive approach to workforce management is adopted and integrated with icare's business strategy and projects pipeline.

At the same time, IEA employees add greater complexity to icare's organisational structure. This structure is characterised by many layers and a large degree of variability in its spans of control. icare's spans of control appear complex and bespoke, varying significantly between the schemes and non-scheme enabling areas, which includes finance, risk and governance, people and culture, strategy and customer.

A complex organisational structure can give rise to potential risk of duplication, overlapping accountabilities, grade inflation, poor communication and slower decision making, hampering staff productivity. This points to a potential opportunity for savings to be achieved addressing organisational structure and design to rationalise layers, streamline spans of control, reduce functional duplication and recalibrate people management responsibilities at executive levels.

Key determinants of icare's workforce composition and size are the structure and management of claims and business transformation projects. A focus on the schemes and how they are managed and structured, along with scheme expenses growth (driven in part by claims growth, the changing nature of claims, inflation and other macroeconomic drivers) is outside the scope of this review.

However, questions regarding how claims management services are structured, and the extent existing arrangements can realise benefits originally contemplated as part of the strategic rationale underpinning icare, could also be considered by the board. Focus areas could include workers compensation, where icare continues to play a dual role – managing a suite of outsourced service providers, while maintaining a resource-intensive insourced claims management function.

The recent consolidation of the two workers compensation schemes, the NI and TMF, may offer opportunities for efficient allocation of resources across the two schemes, especially as technology is deployed over the medium term. This consolidation will hopefully realise benefits originally contemplated as part of the strategic rationale underpinning icare.

Employee remuneration, and more particularly executive remuneration as a driver of operational expenditure, was a central focus for this review. The use of benchmarking to set executive remuneration (including all IEA employees) is a consequence of this strategic policy choice and allows icare to compete with the private sector to attract suitably qualified people. These benchmarks are set based on the general market, rather than financial services or ASX300 listed companies. The adoption of benchmarks that exclusively reference the financial services sector or ASX300 would result in a significant uplift in icare's expenditure on executive remuneration.

In practice, icare aims to offer salaries between public sector and comparable private sector organisations. The review considered that icare's use of a general market benchmark to compete with the private sector and attract financial sector skills appeared justified. The private sector is the primary market for sourcing icare executives – almost 80 per cent of icare's workforce are sourced from or exit to the private sector. This is consistent with the founding intent to concentrate specialised insurance and financial services expertise within icare sourced from the private sector.

Benchmarking of icare's CEO remuneration indicated that icare's executive remuneration is positioned towards the upper end when compared to some NSW Government-owned businesses and corporations, NSW Government agencies and state and territory government-owned insurers but is not a major outlier.

Conversely, icare's executive remuneration appears low, or on par, in comparison to some of the Commonwealth Government's most highly paid business executives, and around one-third to a half that paid to the CEOs of Australia's largest commercial insurers.

Based on a similar analytical exercise and considering the size and purpose of icare, the degree of complexity and risk associated with its business operations and its responsibilities, the McDougall Review concluded that icare's CEO executive remuneration sits appropriately within the range of other public and private sector organisations and was not excessive.

The review found that this conclusion continues to hold – provided there is continued acceptance of the strategic rationale underpinning icare's establishment as a government business and the potential benefits to be gained from a commercial model.

This question was beyond the scope of the review but would require extremely compelling evidence that the current model is deeply flawed and cannot fulfil its statutory objectives, or government preference for an alternative policy rationale.

Dismantling icare's business model would necessarily involve major costs, and risk significant disruption to its insurance and care schemes. Depending on the model chosen, it may also result in the NI's liabilities (estimated at $20.5 billion as at December 2023) moving onto the state's balance sheet.

The board's decision in 2022–23 to remove variable or incentive-based pay in response to public reviews and stakeholder feedback, and switch to wholly fixed pay, has the potential to result in a permanently higher level of executive remuneration. Reversing this policy now appears challenging. However, a potentially powerful lever linking remuneration to performance (in line with widespread private sector practice) is now foreclosed and may present future challenges to icare's ability to attract and retain high-performing staff.

The use of benchmarks to set remuneration at the CEO-2 level, and how performance is managed are two areas that may warrant continued scrutiny by the board to ensure value-for-money outcomes are being achieved.

Technology costs

icare is making significant investments in its technology, including through its Enterprise Program, to address historic gaps identified through the McDougall and GAC Reviews relating to risk, governance, procurement, culture, accountability and enterprise improvements, and performance in the NI. This $350 million investment from 2022–23 to 2024–25 accounts for most of icare's technology-related costs, as well as increased resourcing levels across the business.

The review has also found that icare's expenditure on business-as-usual related technology, including both systems and people is modest – significantly below those levels seen across commercial insurers globally.

The completion of the Enterprise Improvement Program and transition to the second horizon of icare's enterprise strategy raises potential questions for the board regarding the appropriate balance between business-as-usual and transformation-related resourcing, and whether resources are optimally allocated to support its business priorities as they evolve.

Looking ahead, technology-related investment in artificial intelligence and digitisation is likely to present some of the most meaningful opportunities for savings. Such investments must be supported by high-quality business cases, supported by transparent and robust assumptions, and clear accountability frameworks to track and report on benefits realised, savings made and other business impacts.

Quantification and measurement of benefits and realisation of anticipated savings also depends on a well-understood and documented baseline coupled with a strong focus on change management. In a services-oriented business such as icare, this should take the form of end-to-end mapping of business processes, resourcing levels and performance indicators. This mapping should also capture interfaces and touchpoints with outsourced service providers as appropriate.

This focus on benefits realisation could also extend to the customer experience, while consideration of the regulatory framework (and its application to claims management processes) would facilitate a wholistic assessment of claims management performance and system efficiency. Such an approach would support a targeted review of claims management practices recommended by the NSW Parliament's Legislative Council Standing Committee on Law and Justice (SCLJ) (the SCLJ review) and supported by the NSW Government.[3]

For icare, this work is essential so that the relationship between costs and benefits are well understood, and so that the board can test options, including counterfactual scenarios, and weigh opportunity costs before reaching a decision. icare's role in the expenditure of public monies means that such rigor is paramount to its decision making.

Improvements in the quality of icare's business cases were found through this review, with further opportunities identified for NSW Treasury to work more closely with icare so that board decision making is informed by evidence-based business cases developed in line with NSW Treasury guidance.

Continued investment in cyber security, in line with Cyber Security NSW policy, is also expected to be a significant cost driver over the short and medium term.

3 Legislative Council Standing Committee on Law and Justice (2024) 2023 *Review of the workers compensation scheme*, Parliament of NSW, Recommendation 18, p. 12.

Statutory levies

This review is narrowly focused on icare's operational expenditure. However, icare exists within a broader system which drive cost, system performance and outcomes.

A broader perspective is needed to assess whether the state insurance and care system (including its regulatory framework) is efficient and whether the regulatory framework and cost of compliance:

- is proportionate, risk-based and appropriately targeted to address the social costs of harm
- achieves value-for-money outcomes
- supports financial sustainability.

A further system cost driver is statutory levies, which support the broader regulatory framework encompassing:

- workplace safety and prevention – SafeWork NSW
- regulatory compliance and enforcement – State Insurance Regulatory Authority (SIRA)
- dispute resolution – Personal Injury Commission (PIC) and Independent Review Office (IRO).

In 2022–23, over $640 million in statutory levies were collected from NI, employers with workers compensation self-insurance licences (including the NSW Government through the TMF), specialised workers compensation insurers, motor vehicle owners and home owners contracting with builders.

The dispute resolution model is one of the largest drivers of expenditure growth for the workers compensation related statutory levies. In 2022–23, $88 million was distributed as legal grants and related disbursements through the Independent Legal Assistance and Review Scheme (ILARS) administered by the Independent Review Office (IRO).

A demand-driven system, the total cost of these legal grants is projected to be $106 million in 2023–24, an $18 million increase compared to the prior year and $35 million above the original budget. This growth raises questions regarding whether and to what extent value-for-money outcomes are being achieved in the expenditure of public monies. It also raises broader questions regarding system performance and cost shifting, as a large share of these legal grants relate to disputes regarding delays in the claims management process.

More generally, in reviewing the state insurance and care system, NSW Treasury noted that budgetary controls appear muted, in large part because these system costs are recovered on a user-pays basis allocated from a complex set of funds that sit outside the state Budget.

Accordingly, the review found it difficult to discern a system-wide perspective or ownership to drive shared accountability for system performance and outcomes, including efficiency and effectiveness outcomes on behalf of the community and government.

This points to an opportunity to strengthen the degree of independent oversight or scrutiny of expenditures across this system and accountability to ensure that expenditure related to statutory levies is efficient and effective, and the relationship between costs and benefits appropriately weighed in line with statutory objectives.

For government, this may include a greater focus and consistent application of NSW Treasury's *Major Projects Policy for Government Businesses (TPP18-05)* to facilitate oversight and accountability for major proposed investments driving icare's future operational expenditure. This could be coupled with annual reporting of icare's consolidated profit and loss statement, as included at Appendix D.

Reflecting the policy choices of former governments, NSW Treasury has had a limited financial oversight role within this system to date. There is a potential opportunity for NSW Treasury to take a greater system stewardship role, focused on performance outcomes and financial sustainability, combined with an economy-wide perspective and focus on greater budget discipline.

Performance

The complexity of icare's business model and operating context speak to the importance of a rigorous business discipline, focused upon the efficient management of costs and achieving economies of scope and scale. The model underscores the importance of highly experienced, senior leadership and sound judgment supported by robust data and systems to monitor performance, drive outcomes and benefits realisation.

Throughout this review, it was evident that icare is committed to improving its ways of working – this extended to icare's efforts to develop and refine its performance reporting and the tools that it uses.

The review found that a continued focus on improving the consistent presentation of key financial and non-financial performance data and analysis may aid greater understanding amongst stakeholders of the effectiveness, efficiency and ongoing viability of the state insurance and care schemes, and the quality of outcomes that icare delivers.

This speaks to a need for greater clarity and continuity, and a sharper focus on a selected set of indicators to help monitor, understand and contextualise trends over time, identify emerging risks and build a clear narrative to measure performance – particularly relating to icare's contribution to overall system performance and impacts on scheme financial sustainability.

In some instances, this reporting may mean measuring and reporting on the saved or avoided cost. It is these counterfactual or invisible costs that may best evidence the strategic rationale for icare and its commercial model as a government business.

Clearer narratives could help foster greater confidence for the community and government that icare and its board are meaningfully engaging with its statutory objectives and are being held to account for government priorities focused on:

- **Return-to-work performance.** Return-to-work outcomes are a key measure that icare is held to account encompasses multiple dimensions beyond icare's control, including the employer-employee relationship, workplace culture, the changing nature of work and injury, timely access to high-quality medical care and the regulatory framework. In this way, return-to-work outcomes serve as a broader indicator of system effectiveness as well as icare's performance.
- **Financial sustainability.** Robust, transparent and consistent indicators could be adopted to measure icare's contribution to the long-term financial sustainability of the state insurance and care system with a focus on icare's claims liabilities (supported by actuarial valuations), management of investment income in the NI and icare's care schemes and premiums.
- **Claims management performance and claims handling expenses**, including the implementation of and benefits realised through the implementation of icare's new claim service provider (CSP) model and strategy within the NI and TMF. The new model drives improved outcomes through increased competition and employer choice, the adoption of a new performance-based remuneration structure and improvements in professional standards, reduced caseloads and greater specialisation to provide targeted supports to workers with a psychological injury.
- **Accountability, transparency and an increased focus on fiscal discipline** to achieve value-for-money outcomes across the state insurance and care system supported by high-quality, evidence-based decision making and investments, and the realisation of measurable savings benefiting the community and assisting government to manage potential budget risks associated with its self-insurance liabilities.

NSW Treasury also has an increased role to play – working with icare to review its reporting requirements and guidance to ensure that it supports a greater alignment and clarity and is appropriately tailored to the unique nature of icare's business. This guidance is important to ensure that icare's reporting drives accountability, enabling government to understand and independently assess icare's performance in accordance with its statutory objectives.

Working with icare to address the evidentiary requirements needed to inform its investment decision making is a related priority.

Striking an optimal balance between icare adapting and responding to the priorities of the NSW Government while upholding its commercial model is dynamic and complex.

This review sets out a range of opportunities for icare and NSW Treasury to work together to continuously improve this balance and encompasses partnering with the state insurance regulator to foster an insurance and care system that is both efficient and effective and responsive to government's priorities and the needs and expectations of the broader community.

1.2 Findings

Through the course of undertaking this review, NSW Treasury has developed several findings that the Minister for Work Health and Safety may wish to request the icare board to consider.

Strategic context
1. NSW Treasury and icare to consider the possible adoption of a prudential standard taking into account potential benefits and costs.
Regulatory settings and statutory levies
2. The NSW Government could commission the following reviews into the state insurance and care schemes on: a. the economic efficiency and effectiveness of the regulatory framework b. demand-driven programs and grants to ensure the efficient allocation of resources, that costs and benefits are appropriately weighed and value-for-money outcomes achieved.
Employee costs
3. That board continue to prioritise opportunities to streamline icare's organisational structure and harmonise organisation layers and spans of control, eliminate duplication, and recalibrate people management responsibilities and reporting structures.
4. The board should continue to: a. monitor the level of remuneration and the use of market benchmarks to ensure remuneration supports efficient, value-for-money outcomes b. publicly report its group executive team's annual remuneration, consistent with enhanced transparency and disclosure requirements mandated by APRA from 1 January 2024.
5. The board could review: a. organisational policy on terminations and its application b. the use of performance assessments as an effective tool for performance management.
6. NSW Treasury will work with icare to examine opportunities that may exist across government to leverage icare's actuarial expertise to reduce reliance on consultant actuaries.

Technology and Enterprise Program costs

7. The board may wish to consider and keep under review:
   a. relative resourcing effort between business-as-usual and transformation is optimised
   b. workforce planning to ensure that the technology and enterprise resourcing mix is fit-for-purpose, efficient and aligned with its project pipeline
   c. focus on right sizing to achieve a lean organisational structure, especially in the context of increased transformation investment.

Performance and accountability

8. NSW Treasury and icare to develop reporting that supports consistent measurement of performance over time for the minister's and board's consideration. These metrics should encompass comparisons of forecast and actual performance, and analysis of key drivers and assumptions related to:
   a. operational expenditure and savings
   b. claims handling expenses and savings
   c. changes in forecast claim liabilities.

9. NSW Treasury to work with icare regarding the application of NSW Treasury's Commercial Policy Framework with a focus on business cases development and project evaluation.

10. icare to identify and quantify project and program level benefit and report on their progressive realisation to stakeholders against expected outcomes.

11. The NSW Government could consider appointment of a NSW Treasury official to the board.

12. NSW Treasury, icare and SIRA to work together on opportunities for a joined-up reporting framework that promotes greater accountability for system performance, including the efficient allocation of resources and value-for-money outcomes.

13. NSW Treasury to provide advice to government on system settings and payments from insurance and operational funds.

Benchmarking and comparative analysis

14. The board to undertake periodic benchmarking as agreed with NSW Treasury, including relevant comparators, timing and area of focus.

Terms of reference

2

2.1 Introduction

On 3 November 2023, the minister wrote to Mr John Robertson, chair of the board, to initiate an operational expenditure review of icare to be conducted by NSW Treasury (see Appendix B: Letter from Minister for Work Health and Safety). The purpose of the review was to understand:

- how icare is managing its cost base and drivers, and achieving efficiencies in its business performance to help moderate upward price pressure on premiums
- how icare's growing investment in its people and systems is leading to better outcomes.

Savings plan

In parallel, the minister requested the board to prepare a savings plan that would achieve a five per cent permanent reduction in icare's net cost of services (NCOS).

The board was requested to include this savings plan in its 2024–25 Statement of Business Intent (SBI). The savings profile associated with the plan were to be embedded in icare's budget by the end of 2025–26.

The board is responsible for delivering and reporting on anticipated savings and their realisation.

2.2 Terms of reference

Objective

The primary objective of the review is to examine the extent to which icare's operational expenditure supports its business objectives and delivers value-for-money outcomes.

The review

The review into icare's operational expenditure will focus on the following dimensions to assess appropriateness, effectiveness, efficiency and strategic alignment. Commerciality is a consistent theme that underpins this review.

1. Effectiveness
   - 1.1. What are icare's business cost drivers and how are they being managed?
   - 1.2. What frameworks does the board and executive use to oversee performance and are they effective in supporting the board to achieve desired outcomes?
2. Appropriateness
   - 2.1. The extent to which resources are appropriately allocated and avoid duplication?
   - 2.2. Is icare's remuneration framework appropriate?
   - 2.3. The extent to which operational expenses are appropriately allocated between each insurance and care scheme?
3. Efficiency
   - 3.1. The extent to which icare's business model is as efficient and cost effective as similar businesses?
   - 3.2. The extent to which consultants, contractors and contingent workers are used efficiently to deliver value-for-money outcomes and is their use cost effective?

4. Strategic alignment
   4.1. What are the expected benefits from investment in the Enterprise Program?
   4.2. What opportunities exist to achieve economies of scope and/or scale or other functional synergies between schemes?

Review report

NSW Treasury is responsible for the review report which will set out its analysis and findings and provide it to the minister.

NSW Treasury conducted confidential interviews with members of the icare board in May 2024 to help inform this review. Key themes and messages are summarised at Appendix C: icare board interviews. NSW Treasury also consulted with the SIRA board in May 2024 to inform development of the review.

2.3 Governance

A steering committee was established to oversee the review, and was responsible for:

- approval of the review terms of reference and recommendation for endorsement by the minister
- approval of framework methodology and approach
- provision of data and information
- review and testing of analysis and findings
- oversight of progress of the review
- coordination with development of icare's savings plan and engagement with the icare board.

The steering committee comprised:

- Sonya Campbell, Deputy Secretary, Commercial, NSW Treasury (chair)
- Stuart Farquharson, Chief Finance Officer, icare
- Richard Harding, Chief Executive Officer, icare
- Marina van der Walt, Deputy Secretary, Financial Management and Services, NSW Treasury.

2.4 Scope, definitions and limitations

The review scope is limited to icare as the responsible service entity and its NCOS.

2.4.1 icare service entity and its insurance and care schemes

icare and its functions are established under the State Insurance and Care Governance Act 2015 (the SICG Act). These functions include:

- acting for the Nominal Insurer (NI) in accordance with the Workers Compensation Act 1987
- providing services (including staff and accommodation) for those insurance and care schemes it administers
- entering into agreements to provide those services
- monitoring scheme performance.

In addition to the NI, icare administers schemes on behalf of:

- the Dust Diseases Authority (Workers Compensation (Dust Diseases) Act 1942)
- Lifetime Care and Support (Motor Accidents (Lifetime Care and Support) Act 2006)
- Sporting Injuries Compensation (Sporting Injuries Insurance Act 1978)
- the NSW Self Insurance Corporation (SICorp) (NSW Self Insurance Corporation Act 2004) includes:
  - the Self Insurance Fund (TMF)
  - Home Building Construction Fund (HBCF)
  - Construction Risk Insurance Fund (CRIF).

The primary focus of this review is upon icare, rather than the schemes it administers.

To the extent that it is relevant to the review's objectives, some aspects of these schemes may be considered with a primary focus on the NI, TMF (workers compensation and general lines insurance) and the HBCF.

This is intended to ensure that review objectives are addressed, balanced with the complexity associated with each scheme, its administration and performance, and benchmarking with other entities (including commercial insurance companies and other jurisdictions).

2.4.2 Net cost of services

The net cost of services (NCOS) comprises:

- expenses
- less revenues of:
  - sale of goods and services
  - investment revenue
  - retained taxes, fees and fines
  - grants and contributions
  - other revenue
- less: gain/(loss) on disposal
- less: other gains/(losses).[4]

The following are excluded from the scope of the review:

- scheme-related expenditures, including claims liabilities and claims handling expenses (including claims services provider (CSP) fees and contractual arrangements)
- procurement
- investment management and performance.

2.4.3 Data

The review is intended to take an evidence-based approach. NSW Treasury has requested data from 2018–19 to 2022–23 from icare to support trend and comparison-based analysis.

In some instances, icare has provided three years of data from 2020–21 to 2022–23. icare advises that this is due to factors arising from COVID-19, system and other organisational changes.

All 2023–24 data referenced throughout this report is forecast as at December 2023.

NSW Treasury has not independently verified icare-provided data.

2.4.4 Statutory levies

Whole-of-system costs have been considered at a high level only as part of this review. While this analysis falls outside the terms of reference, they are relevant to consider in the context of examining efficiency, effectiveness and value for money.

icare pays statutory levies on behalf of its insurance and care schemes. These levies represent a considerable operational cost to the state insurance and care system – comprising icare, the State Insurance Regulatory Authority (SIRA), SafeWork NSW, the Personal Injury Commission (PIC) and the Independent Review Office (IRO).

The review considers these levies as a driver of overall system costs and raises some questions, but does not assess the efficiency and effectiveness of these levies.

4 NSW Treasury (2012) *TC12-08 Budget Controls – Net Cost of Services*, NSW Treasury.

Context

3

3.1 Introduction

icare is responsible for managing and delivering the state insurance and care schemes on behalf of the NSW Government.

icare is a public financial corporation (PFC) and a NSW Government statutory agency. It was established as a government business intended to harness the financial expertise, efficiency and commercial acumen of the private sector to manage the state statutory insurance and care schemes.

As one of Australia's largest insurers, icare is responsible for managing approximately $50 billion in assets across its different insurance and care schemes. This is broadly matched with the liabilities icare manages on behalf of its policyholders – the largest of which includes the Nominal Insurer (NI) and the NSW Government.

It is vital that icare's stakeholders have confidence in its business performance. To ensure this confidence, icare's costs must be managed efficiently to moderate upward pressure on premiums, maintain the financial sustainability of its schemes, and deliver high-quality, value-for-money outcomes.

This review presents a timely opportunity to consider the efficiency and effectiveness of icare's business operations and examine whether costs are managed responsibly and growth in expenses is reasonable.

3.2 Strategic objectives

icare was established by the SICG Act in September 2015 to provide mandatory insurance, care and related services to NSW businesses, people, communities, and as a captive insurer for the NSW Government. Figure 1 sets out the entities serviced by icare and the schemes administered on their behalf.[5]

5 The Building Insurer's Guarantee Corporation ceased operation from 30 June 2022 and the residual $53 million in the Building Insurer's Guarantee Fund transferred to NSW Treasury.

Figure 1: icare insurance and care schemes

Insurance and Care NSW (icare)

Acts on behalf of (including procuring services for): Workers Compensation

Provides services to (including procuring services for): Sporting Injuries, Insurance for NSW, HBCF, BIG Corp, Dust Diseases Care, Lifetime Care CTP Care

icare brand	**Workers Compensation**	**Sporting Injuries**	**Insurance for NSW** **HBCF**	**BIG Corp**	**Dust Diseases Care**	**Lifetime Care CTP Care**
Statutory Body	Workers Compensation Nominal Insurer	Sporting Injuries Compensation Authority	NSW Self Insurance Corporation	Building Insurers' Guarantee Corporation	Workers Compensation (Dust Diseases) Authority	Lifetime Care and Support Authority of NSW
Fund(s) Scheme(s) operated by the statutory body	Workers Compensation Insurance Fund	Sporting Injuries Fund	Self Insurance Fund Treasury Managed Fund Closed funds (Pre-Managed Fund Reserve (pre-1989 liabilities). Government Workers Compensation Account, Electricity Transmission Ministerial Holding Corporation, Electricity Assets Ministerial Holding Corporation, Rail Schemes) Bush Fire Fighters Compensation Fund Construction Risks Insurance Fund Emergency and Rescue Workers Compensation Fund Home Building Compensation Fund Supplementary Sporting Injuries Fund Transport Accidents Compensation Fund	Building Insurers' Guarantee Fund	Workers Compensation (Dust Disease) Fund	Lifetime Care and Support Authority Fund Motor Accident Injuries Treatment and Care Benefits Fund
Legislation	*Workers Compensation Act 1987*	*Sporting Injuries Insurance Act 1978*	*NSW Self Insurance Corporation Act 2004 Workers Compensation (Bush Fire, Emergency and Rescue Services) Act 1987*	*Part 6A Home Building Act 1989*	*Workers Compensation (Dust Diseases) Act 1942*	*Motor Accidents (Lifetime Care and Support) Act 2006 Motor Accident Injuries Act 2017*

Source: NSW Treasury, July 2023.

3.2.1 Statutory objectives

In October 2023, the SICG Act was amended to explicitly set out icare's principal objectives in exercising its functions in section 9A. These are:

a. to maintain the affordability of insurance and the efficiency and viability of state insurance and care schemes established under Acts under which icare exercises functions consistent with any objectives of the schemes

b. to promote early and appropriate treatment and care for injury and illness that optimises the recovery and return-to-work or other activities of persons injured at work or in motor accidents

c. to promote efficiency, transparency and accountability in the conduct of icare's operations.

Each scheme has its own set of objectives, some of which are prescribed in legislation. Together they represent a complex and diverse mix encompassing social, economic and financial objectives to which the board must have regard in the performance of icare's functions.

3.2.2 Business objectives

In 2021–22, the board agreed icare's business objectives as part of its five-year enterprise strategy. Five enterprise imperatives were identified and formed the basis of icare's reporting to stakeholders. Progress against each imperative was reported in icare's 2022–23 Annual Report.[6]

icare's strategic imperatives, 2021–22

Simplify for those we serve: delivering experiences and technology through the lens of those icare serve

- Empower claims service providers (CSPs) to simplify interactions for employers and workers with injuries.
- Develop self-service tools for employers and workers to simplify their interactions.
- Streamline, digitise and automate our processes to reduce administrative burden.
- Enhance existing and develop new technology to give those we serve further clarity over our processes and decision making to promote transparency and fairness.
- Enhance integration with employers and CSP systems to improve automation and convenience.

Make information accessible: empowering those icare serves with transparent data and insights to facilitate choice and promote independence

- Provide transparent performance data on CSPs and icare to drive accountability and performance improvement.
- Give eligible employers the insights and information they need to choose the best CSP for them.
- Improve data quality and leverage insights in decision making to strengthen strategies (including strategic partnering and management of CSPs, prevention and mental health).
- Innovate and collaborate to identify risks and share learnings to support prevention at scale.

Support our schemes: deliver scheme sustainability through efficient delivery and scale

- Enhance icare's platform(s) to uplift utilisation, improve integration and drive process optimisation.
- Implement continuous improvement programs to drive productivity, encourage innovation and improve scheme sustainability.
- Embed claims and portfolio reporting to support better decision making.
- Embed a remuneration model that supports the new claims model and incentivises performance improvement.

6 icare, *2022–23 Annual Report*, pp. 30-38.

The board refreshed these imperatives in January 2024 with a priority on fair and empathetic service. They are summarised below.

- Deliver fair and empathetic interactions for those we serve.
- Enhance experiences using digital and data.
- Drive better performance through all our partnerships.
- Be efficient, effective and focus on what matters.
- Strengthen our culture of collaboration, growth, and achievement to support our schemes.

3.2.3 Commercial model and government oversight

icare is a PFC subject to the control of an independent board of directors. The board is responsible to the minister and Treasurer for the performance of its functions.

Under this construct, the board serves as an important intermediary between icare and the minister. The board provides stewardship, strategic leadership, governance and oversight of icare's business performance, while also bridging government policy making and operational implementation.

icare's establishment as a PFC is intended to provide a commercial focus for the performance of its statutory functions through the application of efficient commercial practices.

Where successful, these practices lower prices for consumers and improve their customer experience. It also reduces the need for government funding.

NSW Treasury's Commercial Policy Framework (CPF) is the suite of NSW Treasury policies that apply to government businesses. The commercial framework rests on the five policy principles:

- **Clear commercial objectives**, which provides for a clear focus and ensures that boards are accountable for performance. This may involve separating activities which conflict with commercial objectives, such as social or regulatory functions.
- **Managerial autonomy** such that key operating decisions are made by independent boards governing the business, with a strong incentive to achieve commercial and efficient outcomes (rather than allowing such decisions to be externally imposed).
- **Performance monitoring**, where the business is subjected to rigorous and independent monitoring and assessment of financial performance ensuring that the board and management are accountable.
- **Rewards and sanctions** for executives and other managers based on agreed performance targets that encourage and reward good performance, and discourage and penalise poor performance
- **Competitive neutrality** measures that ensure the business is not conferred any special advantage or disadvantage resulting from government ownership (for example, by requiring such businesses to pay tax equivalents), supporting the business to operate in a competitive environment.[7]

These principles underpin the legislative, regulatory and policy frameworks that define the NSW Government's state owned corporation (SOC) and PFC models. These principles along with the commercial framework set out those governance, reporting, financial stewardship and accountability arrangements relevant to icare.

They also support the minister to oversee icare and ensure that icare is managed in a way that:

- meets government's policy objectives effectively
- ensures the ongoing financial sustainability of the business
- utilises resources in an efficient, effective, economical and ethical manner
- balances management autonomy with regular reporting of performance and ministerial accountability
- demonstrates similar efficiency, transparency, and accountability as good practice private businesses.

7 NSW Treasury (2022) *TPG22-02 Ownership and Portfolio Expectations Policy*.

Strategic insurance review[8]

In May 2015, NSW Treasury led a Strategic Insurance Review to investigate, recommend and develop the structural and operational reforms necessary to optimise the NSW Government's policy, regulatory and enabling insurance and self-insurance functions.

A key focus for the review was to consider how insurance and self-insurance risks are managed across NSW and to identify opportunities for improved service delivery, management of liabilities and risk management in a sustainable manner.

The review noted that the combined value of the assets and liabilities of the state statutory and self-insurance schemes make it effectively the largest insurer in Australia. The review then considered whether the state should be managing the largest insurer in Australia and, if it continues to do so, that it must ensure the business is operating efficiently, effectively and successfully.

The review recognised that statutory insurance products have unique features when compared to non-statutory insurance products. There are legislative requirements governing the compulsory purchase of statutory insurance and acceptance of risk by the insurer(s). This is because the community and government have deemed that a minimum level of protection is required for the potential claimants, while at the same time ensuring individual policies are also affordable.

The review did not find a comparable or ideal model of statutory and self-insurance functions in other Australian jurisdictions that NSW could look to for improved outcomes, cost efficiencies and more effective management of liabilities.

The review found that a critical step to improving the performance of the insurance and self-insurance functions is to structurally separate operational and regulatory functions. It proposed the creation of a single, commercially oriented insurance operator and a strong single insurance regulator.

The review also determined that any insurance business should operate on sound insurance principles, where there is a cycle of continual performance monitoring and feeding that experience back into the business to improve outcomes.

If executed well, consolidating the insurance expertise of government in the one entity, would achieve better claims outcomes, assist whole-of-government risk management, and drive the commercial focus of the business from one place. This would provide lower costs for the state across its insurance and self-insurance businesses.

The review did not consider the design of the proposed insurance operator and regulator, and proposed dispute resolution structure. The review noted these areas require further work.

Government businesses must balance their position between public and private sector domains. While icare operates at arm's length from government, it remains subject to ministerial oversight and is subject to important public accountability and integrity frameworks.

Some of the relevant statutory frameworks include: the *Government Information (Public Access) Act 2009*, certain aspects of the *Government Sector Finance Act 2018, the Public Works, and Procurement Act 1912* (excluding those procurement activities related to the NI).

At the same time, icare retains significant flexibility with respect to its employment arrangements. It is exempt from some of the requirements generally applicable to NSW public agencies around recruitment and employment matters, and is not subject to the *Government Sector Employment Act 2013* (the GSE Act) and relevant provisions in the *Industrial Relations Act 1996*.

Together, these legislative, regulatory and policy frameworks create a complex authorising environment and operating context for icare. This complexity is relevant to any review into how its operating expenditures are managed.

8 NSW Treasury (2015) *Strategic Insurance Review*, pp. 1-2, 11-12.

3.3 NSW insurance regulation

The State Insurance Regulatory Authority (SIRA) was established by the SICG Act alongside icare – their shared genesis being the NSW WorkCover Authority, which located the insurance operator and regulator within the same entity.

Regulatory authority was conferred upon SIRA to oversee icare in relation to several of its schemes (including the NI) and other relevant self-insured entities – the most important being the TMF, which provides workers compensation to NSW Government public sector agencies.

SIRA's principal objectives are also outlined in the SICG Act, and are as follows:

- to promote the efficiency and viability of the insurance and care schemes for workers compensation, motor accidents, the scheme under the *Home Building Act 1989* and other relevant acts
- to minimise the cost to the community of workplace injuries and injuries arising from motor accidents and to minimise the risks associated with such injuries
- to promote workplace injury prevention, effective injury management and return-to-work measures and programs
- to ensure persons injured in the workplace or in motor accidents have access to treatment that will assist with their recovery
- to provide for the effective supervision of claims handling and disputes under the workers compensation and motor accidents legislation and the *Home Building Act 1989*
- to promote compliance with the workers compensation and motor accidents legislation and the *Home Building Act 1989*.

The GAC Review observed that there is complexity and some lack of certainty for icare over the regulatory standards with which icare must comply.[9]

Each insurance and care scheme managed by icare is unique and governed by different NSW legislation. To this end, SIRA publishes a range of guidelines for those schemes it regulates with which icare must comply, including areas such as premiums, claims management and complaints.

Some insurance and care schemes administered by icare are not subject to SIRA's oversight, for example, TMF general lines insurance and the CRIF.

SIRA's regulatory oversight powers do not extend to icare as the service entity.

3.3.1 Legislative Council Standing Committee on Law and Justice (SCLJ)

In accordance with section 27 of the SICG Act, the SCLJ is the designated committee responsible for supervising the operation of insurance and care schemes established by NSW workers compensation and motor accidents. This encompasses workers compensation, dust diseases and motor accidents, including Compulsory Third Party (CTP) Care insurance and Lifetime Care.

On 5 December 2023, the SCLJ tabled a report in the Legislative Council reviewing the state workers compensation scheme. The report made 18 recommendations proposing a significant program of improving the scheme to meets the needs of contemporary workplaces and provide appropriate support for workers with psychological injuries.

The SCLJ highlighted a significant increase in psychological injuries claims in recent years and explored perceived problems in claims management for these types of injuries. They questioned whether the current system is for dealing with these injuries. Consequently, the SCLJ recommended a targeted review of the entire workers compensation scheme to enhance claims management to meet the needs of workers with injuries and better reflects the nature of injuries occurring in modern workplaces.

In its response, the NSW Government welcomed the review and supported, or supported in principle, all recommendations, including a commitment to undertake a targeted review of workers compensation claims management, processes and practices.[10]
The NSW Government also committed to consider amending workers compensation legislation to address perceived issues relating to independent medical reviews, processes and thresholds used for assessing whole-person impairment, and to increase access to commutation settlements.

9 GAC Review, p. 14.
10 NSW Government (2024) *NSW Government Response – Report No 84 – Standing committee on law and Justice – 2023 Review of the workers compensation scheme.*

3.3.2 Prudential standards

The minister is vested with the power to create prudential standards or reporting and auditing requirements for icare's insurance and care schemes by an order issued pursuant to the SICG Act. To date, prudential standards or other reporting and auditing requirements have not been issued pursuant to the SICG Act.

icare is not regulated by the Australian Prudential Regulation Authority (APRA) and is not required to comply with APRA prudential standards applicable to Australian commercial insurers. icare has voluntarily, and progressively adopted relevant APRA standards on an 'if not, why not' basis from 2022, although this change is not transparent to icare's stakeholders.

NSW Treasury has issued risk guidelines for icare to follow as a NSW Government agency (*Internal Audit and Risk Management Standards for the General Government Sector, TPP20-08*). They require icare to establish a risk management system consistent with ISO 31000:2018. The GAC Review notes that this international standard is broad in nature and does not provide the level of guidance or specificity relevant to a complex insurance organisation.[11]

As a comparator, the Victorian Department of Treasury and Finance has in place a prudential supervision standard for Victorian government insurance agencies.[12] The standard is designed to:

- ensure that the assets held are sufficient to fund liabilities
- safeguard the interests of policyholders and claimants
- minimise the risk of any adverse impact on the state's financial position and on consumers.

The standard seeks to achieve these objectives relying upon a framework of legislation, policy and guidelines for public sector agencies to prudentially supervise agencies and ensure agencies:

- implement and maintain appropriate financial management practices
- achieve a consistent standard of accountability and financial reporting
- implement appropriate risk management practices
- maintain appropriate governance frameworks.

The explicit adoption of a prudential standard for icare offers some potential benefits. Used appropriately and proportionately, it could support icare by providing greater clarity and confidence to stakeholders through the application of an objective and measurable external standard transparently applied across the organisation. This standard could address governance, liability reserving, capital management, investment, pricing, reinsurance, actuarial review, breach reporting and risk management.

A well-designed and carefully framed standard may also assist with the timely flow of information between icare and NSW Treasury to assist budget management and in respect of other potential financial and policy risks to government and the wider community.

Different models have been applied to support the adoption of prudential standards by various government insurers and other financial service bodies (such as superannuation) engaging directly with APRA, such as a memorandum of understanding or informal review, which could be further explored.

Consideration of such options would need to balance potential benefits and costs (including costs of compliance) before deciding what – if any – standard should be explicitly applied and the objective it intends to fulfil.

3.4 Addressing icare's legacy

Significant stakeholder concerns regarding icare's compliance and performance have resulted in several reviews of its operations, governance, stakeholder management and risk management frameworks. Two notable reviews were:

- The McDougall Review, which involved a 'root and branch' examination of icare. The McDougall Review was commissioned by the then Treasurer and the Minister for Customer Service as the responsible Minister at the time. The final report found that in part, icare's determination to effect speedy change contributed to procedural and cultural defects. This resulted in a disregard for robust governance, integrity and accountability practices and procedures. The report made 31 recommendations relevant to icare.

11 GAC Review, p. 14.
12 Victorian Department of Treasury and Finance (2015) *Prudential Insurance Standard for Victorian Government insurance agencies*, https://www.dtf.vic.gov.au/prudential-insurance-standard, accessed 12 May 2024.

- The GAC Review considered governance, accountability and culture across icare. Commissioned by icare, the final report identified the need for improvements in reporting particularly in customer outcomes, non-financial risk, root cause analysis, regulator engagement, management of material issues and scheme-based dashboards. The report made several findings, which included a lack of discipline in delivering timely and quality outcomes to customers, and the need for significant improvement in icare's risk and compliance reporting. The report made 76 recommendations relevant to icare.

3.4.1 Enterprise Improvement Program

The McDougall Review identified gaps across how icare records, manages and measures benefits delivered by projects, and recommended that icare:

- report publicly and in detail each year on its transformation expenditure and on the benefits being delivered from it (recommendation 28)
- develop and report against a new set of tracking measures that compares achievement of benefits against 2020–21 as the new baseline (recommendation 32).

icare has developed and implemented a significant work program of remediation and business transformation projects, which are collectively referred to as Enterprise Projects. These projects were originally focussed on addressing systemic gaps and uplifting capability, culture and governance across the organisation identified by the McDougall and GAC Reviews.

In 2021, icare established a multi-year Enterprise Improvement Program to address issues highlighted in the reviews. Many of these initiatives in the Enterprise Improvement Program were designed to improve corporate functions to support insurance and care schemes' performance. icare's improvement programs focused on three key areas:

- improving risk and governance to meet community and regulatory expectations
- driving an accountable culture
- improving performance, particularly by getting workers with injuries back to work sooner and reducing internal costs.

The Enterprise Improvement Program comprised of two sub-programs:

- Enterprise Improvement Sub-Program – governance, risk, procurement, customer, culture, accountability, enterprise sustainability
- NI Improvement Sub-Program with initiatives targeting the NI (return-to-work performance, claims model, claim service provider (CSP) procurement and performance, CSP transition, professional standards and capability).

Expected total recurrent and capital expenditure on the Enterprise Improvement Program is $98.9 million over 2021–22 to 2024–25. As of May 2024, icare's life to date expenditure on the Enterprise Improvement Program was $97.7 million and expected expenditure over 2023–24 to 2024–25 was $74.8 million.

At the time of conducting this review, the Enterprise Improvement Program was scheduled for completion in June 2024. Progress on the program is discussed further at 8.2.1 and the investment profile for this program is set out in Appendix E.

Promontory Australia's role

In November 2021, icare appointed Promontory Australia to provide independent assurance over the progress of the Enterprise Improvement Program. This includes:

- monitoring the status and progress of the program
- assessing both whether key phases have been completed in line with the relevant plan, and whether each recommendation has been addressed by a relevant initiative
- provide quarterly updates to report findings.

Promontory's quarterly reports are published by icare on their website.

icare's total expenditure on Promontory over the three years was $2.7 million in 2022–23 and $1.6 million in 2021–22, while 2023–24 is to be finalised. Promontory's role was due to end on 30 June 2024 upon the scheduled conclusion of the Enterprise Improvement Program.

Current status

Promontory's tenth quarterly update reported that as of 30 April 2024, 89 of 107 recommendations of the GAC and McDougall reviews were assessed as complete and effective.

Promontory identified 10 recommendations noted that were at risk of not closing by 30 June 2024. Three relate to work yet to be delivered in the Risk uplift stream, four relate to the Customer uplift stream, two relate to the Enterprise sustainability stream and one relates to the Claims model stream.[13] At the time of conducting this review, the board was yet to determine what, if any, role Promontory may play to assure remaining initiatives yet to be assessed as complete and effective from 1 July 2024.

Implementation of the program has led to changes in policies, processes, systems and culture. Many of these changes are ongoing and are now a permanent feature of the service entity, and thus its ongoing NCOS. Some practical examples include:

- new executive leadership structure intended to strengthen accountability for scheme performance, and additional group executive team (GET) appointments
- greater clarity on icare's values, and clearer accountabilities throughout the organisation with stronger links between performance and remuneration
- implementation of Risk Connect, an internal risk and compliance system to centralise and streamline incident identification, monitoring and management (including conflicts of interest, gifts and benefits)
- establishment of an independently managed Speak Up Hotline for employees to report suspected wrongdoing and grievance handling
- greater integrity of cost allocation of schemes, with consistent tracking and management of benefits realisation and greater transparency on financial sustainability and expense savings
- onboarding of six CSPs to the new workers compensation claims model, intended to enhance performance outcomes across the scheme through competitive tension
- appointment of a chief procurement officer supported by implementation of a centralised procurement system, procurement capability uplift and new practices and procedures
- appointment of a customer advocate supported by a new Stakeholder Accountability Strategy
- development and implementation of a new Customer Complaints Framework
- establishment of a new Board Risk Committee (alongside the separate Audit Committee) to drive a sharper focus on icare's risk culture and risk management framework.

Promontory's latest report provides some insight into how these changes are translating into high-level outcomes. For example, across the Governance and Procurement streams, Promontory has observed improvements relating to board composition and governance, procurement processes and project delivery.[14]

The review considers how the Enterprise Improvement Program and its other Enterprise Projects will continue to affect icare's operating expenditure into the future, and to a lesser extent, the efficiency and effectiveness of this investment at Chapter 8: Technology and Enterprise Program costs.

This is a challenging question affected by a range of complex factors and the ways they interact. Further, the long-tail nature of most of icare's insurance and care schemes means that real change (whether positive or adverse) can be slow to materialise, establishing a causal relationship difficult to prove and hard to measure.

At the same time, the use of public monies means it is important such questions are tested through exercises such as this review.

3.4.2 Audit Office of New South Wales report

In April 2024, the NSW Auditor-General tabled its performance audit into workers compensation claims management[15]. The audit assessed the effectiveness and economy of icare's management of workers compensation claims, and the effectiveness of SIRA's oversight of these claims.

To address this objective, the audit report considered whether icare's reforms to its workers compensation claims management models are effective and economical, and whether there is an effective performance and accountability framework for the NI and TMF.

13 Promontory Australia (2024) *Independent Review of icare's Improvement Program – Progress in Addressing the McDougall and GAC Recommendations, Tenth Quarterly Update*, p. 10, https://www.icare.nsw.gov.au/about-us/improvement-at-icare, accessed 19 July 2024
14 Promontory Australia *Tenth Quarterly Update*, pp. 11-12.
15 Audit Office of New South Wales (2024) *Workers Compensation Claims Management*, https://www.audit.nsw.gov.au/our-work/reports/workers-compensation-claims-management, accessed 19 July 2024.

Key findings of the audit report included:

- icare is implementing major reforms to its approach to workers compensation claims management – but it is yet to demonstrate if these changes are the most effective or economical way to improve outcomes.
- icare's planning and assurance processes for its reforms have not adequately assessed existing claims models or analysed other reform options.
- icare's reporting provided inadequate transparency about performance against key measures or the significant challenges facing workers compensation schemes.
- icare's activities have not focused enough on its core responsibilities of improving return to work and maintaining financial sustainability.

NSW Treasury's role in relation to workers compensation has been unclear, and more broadly their role overseeing icare is not clearly defined, which has limited its support for performance improvements in workers compensation.[16] The Audit Office recommended that icare should publish its annual SBI, including its plan for achieving legislative objectives of the workers compensation schemes with consistent and measurable targets to track progress.

icare has accepted the Audit Office's three recommendations and, accordingly, intends to publish their SBI and has committed to develop a monitoring and evaluation framework to assess the effectiveness of reforms to the NI and the TMF, noting that work to measure benefit realisation is already underway.

3.5 Non-financial performance

3.5.1 Return-to-work performance

icare is currently implementing reform in the NI through its claims management strategy and contractual model. This strategy also provides a template for planned reforms in the TMF.

The goal of the strategy is to create a competitive market for the provision of claims management services, which would provide greater choice to employers and incentives for CSPs to improve their performance. The reform strategy includes elements targeting improvements in return-to-work outcomes, such as the introduction of performance-based payments to CSPs.

The Audit Office has observed that this is more broadly indicative of icare taking accountability for implementing system changes, but not for the achievement of outcomes.[17]

Table 1 shows an overall decline in return-to-work performance for the NI and TMF from April 2020 to April 2024. The current NI four-week return-to-work performance is 58 per cent and TMF 55 per cent. Declines in the four-week return-to-work rate is predictive of 13, 26, 52 and 104-week rates.

Table 1 also shows that people with a psychological injury experience poorer work outcomes than those with a non-psychological injury. In April 2024, government employees within the TMF with a non psychological injury are more than twice as likely to be back at work by 13 weeks (86 per cent) compared to those with a psychological injury (42 per cent). For people managed by the NI, the rates are lower. For those with a non-psychological injury, 81 per cent had returned to work at 13-weeks, compared to 35 per cent for those with a psychological injury.

Declining return-to-work performance indicates that employee claims are remaining in the system for longer, which hinders the timely reintegration of injured employees into the workforce and their ability to contribute to the economy. Declining return-to-work performance can have adverse impacts to claimants' lifelong social and economic opportunities. Evidence confirms the longer a worker is off work the less likely they are to ever return.

It will be important for icare to demonstrate the impact the new claims management model and its return-to-work performance program has on these trends.

16 Audit report, p 8.
17 Audit report, p 6.

Table 1. Return-to-work performance – NI and TMF by nature of injury, 2020 to 2024

Weeks	Scheme	Injury	2020 (%)	2021 (%)	2022 (%)	2023 (%)	2024 (%)
4	NI	Psychological	21	21	21	21	17
		Non-psychological	70	68	66	69	61
		Total	**68**	**66**	**64**	**66**	**58**
	TMF	Psychological	34	34	23	32	20
		Non-psychological	80	77	76	76	69
		Total	**71**	**67**	**63**	**65**	**55**
13+	NI	Psychological	37	39	40	39	35
		Non-psychological	84	83	83	84	81
		Total	**81**	**81**	**81**	**81**	**77**
	TMF	Psychological	50	44	40	39	42
		Non-psychological	92	90	88	89	86
		Total	**84**	**80**	**77**	**75**	**74**

Source: SIRA, NSW Treasury received June 2024.

Table 1 excludes COVID-19 claims. COVID-19 claims were excluded to remove the temporary improvement that the pandemic had on return-to-work rates. At the height of the pandemic, COVID-19 claims were a quarter of the return-to-work cohort. COVID-19 claims tend to be of low severity and as a result, the return-to-work metrics (four and 13 weeks) saw a temporary improvement in 2022, before gradually declining to current levels.

3.5.2 Customer satisfaction

From 2022–23, icare has established customer satisfaction target (CSAT) as a metric across its insurance and care schemes, including the NI, TMF workers compensation, HBCF and Lifetime Care schemes. CSAT measures customer satisfaction with icare's products and services through customer feedback.

CSAT replaced the Net Promoter Score (NPS) as icare's primary indicator to measure customer satisfaction. This change was made in large part due to a recognition that the NPS has limited usefulness in icare's contract, as it seeks to measure customer loyalty.

Table 2 compares the satisfaction results of employers and workers with injuries with claims in the NI and the TMF for July 2022 and June 2023. In July 2022, the NI reported higher customer satisfaction scores for employers and workers with injuries compared to the TMF. The biggest difference in customer satisfaction was for workers with injuries – workers with injuries in the NI reported CSAT of 71 per cent while the TMF reported 49 per cent. Interestingly, though NI reported higher employer and injured worker customer satisfaction levels than the TMF, the NI reported lower satisfaction levels with the policy.

Over the 12-month period, differences in CSAT scores for the NI and TMF have narrowed. In the NI, employer and injured worker satisfaction remained relatively steady. Employer satisfaction levels remained the same and workers with injuries satisfaction levels fell by three per cent to 68 per cent.

In the TMF, employer and workers with injuries satisfaction levels improved. CSAT scores indicate overall high levels of employer satisfaction with the claims experience and policy, while injured worker's views of the claims experience improved from 49 per cent to 55 per cent.

At this early stage, icare attributes the CSAT scores to its broad suite of activities. As more data becomes available, icare will be able to draw data insights to refine its initiatives. The capability to identify what is working (in)effectively will support resource prioritisation and allocation.

The review has not focused on analysing icare's customer satisfaction performance under the former NPS reporting framework. While it may be possible to discern some trends, such analysis would provide limited insight in relation to icare's strategic objectives, which have been reset in response to the McDougall Review and evolving performance expectations.

Table 2. Customer satisfaction, July 2022 to June 2023

Customer	July 2022 (%)	June 23 (%)
NI		
Policy	80	86
Employer claims	63	63
Injured worker claims	71	68
TMF – workers compensation		
Policy	91	91
Employer claims	68	70
Injured worker claims	49	55

Source: icare, NSW Treasury received May 2024, icare 2022–23 Annual Report, pp.47, 62.

3.6 Findings

Findings

1. NSW Treasury and icare to consider the possible adoption of a prudential standard taking into account potential benefits and costs.

Organisational context

4

4.1 Introduction

4.1.1 Organisational structure

When icare was established in 2015, its operating model included decentralised schemes and support functions. Since then, it has evolved into a hybrid mix comprising some centralised and decentralised capabilities, corporate and enabling areas across the eight key functions as shown in Figure 2.

As of April 2024, the largest area by headcount is Workers Compensation, associated with management of the Nominal Insurer (NI). Teams that support the workers compensation portfolio include underwriting, policy design and prevention. Claims management for workers compensation is outsourced to third-party agents.

The second largest area is Lifetime Schemes, delivering frontline operations for the schemes.

The third largest area is Digital and Transformation, with this headcount reflecting significant investment and work by icare in these areas in in recent years.

4.1.2 Business areas

icare's workforce includes direct hires (employees engaged on a permanent, fixed-term or casual basis) and contingent workers and contractors who work on both projects and business-as-usual activities.

Table 3 shows that in February 2024, the size of icare's workforce 1,985 FTE comprising:

- core business functions: 1,705
- enterprise delivery: 263
- continuous improvement: 17.

Figure 2: Accountability map, April 2024

- **CEO and MD**
  - IfNSW & HBCF
    - Agency engagement
    - Transformation
    - Claims
    - Underwriting
    - Insurance Risk & Reinsurance
    - Strategic Delivery
  - Workers Compensation
    - Transformation
    - TMF Claims
    - Medical Office
    - Strategic Partnering and Performance
    - Service Operations
    - Claims
    - Customer Segments
    - Strategic Delivery
    - Business Risk
  - Lifetime Schemes
    - LTS Frontline
    - Service Development
    - CTP Care
    - Strategic Delivery
  - Digital & Transformation
    - Program Delivery
    - Straregic Projects & Change
    - Enterprise Agility
    - Enterprise Payments
    - IT Risk & Security
    - IT Strategy & Architecture
    - Chief Information Officer
  - Strategy & Customer
    - Stakeholder Relations
    - Strategy & Office of CEO
    - Customer & Brand
    - Innovation & Partnerships
  - Finance
    - Actuary
    - Financial Partnering
    - Financial Management and Treasury
    - Financial Performance and Analysis
    - Investment Strategy
    - Procurement
    - Strategic Delivery
  - People & Culture
    - Strategy & Risk
    - Employee Experience
    - Culture & Capability
    - People Communication
    - Workplace & Wellbeing
    - Partnering
  - Risk & Governance
    - Customer Advocate
    - Risk & Compliance
    - Internal Audit
    - Legal and Board Governance
    - Regulatory Affairs
    - Strategic Delivery and Operations

Source: icare, NSW Treasury received April 2024.

Table 3. FTE by business area, February 2024

Business area	FTE
CEO and MD	3
Insurance for NSW (IfNSW) and HBCF	154
Lifetime Schemes	348
Risk and Governance	89
Transformation Projects	2
Workers Compensation	575
People and Culture	82
Strategy and Customer	66
Finance	144
Digital and Transformation	242
Business-as-usual total	**1,705**
Enterprise Delivery Project resources	263
Continuous Improvement	17
Total	**1,985**

Source: icare, NSW Treasury received April 2024, icare's FTE breakdown by business unit – February 2024.

4.1.3 Employee engagement

In 2022–23, icare adopted a new metric to measure people engagement, named act2engage.

Given that this is a recently adopted measure, the review considered icare's annual People Matter Employee Survey results from 2019 to 2023 to help understand icare's organisational performance in leading its people. These results are set out in Table 4.

The significant decline in survey results from 2019 to 2021 were associated with a period of significant organisational uncertainty and change.

The improvement in survey results from 2021, especially the response rate, coincides with the implementation of icare's Enterprise Improvement Program to improve culture and governance in response to the McDougall and GAC Reviews. The results show a strong uplift in in employee engagement, strengthening of communication and change management, and senior managers building and sustaining increased confidence amongst their teams.

These results may also be correlated with staff attrition to gain a different perspective on how individuals regard icare as an employer. Figure 3 shows that icare's employee attrition has steadily fallen since 2022, with a seven per cent voluntary attrition rate by February 2024. This downward trend is evident from July 2022 despite a tight labour market, including for the financial and insurance services sector.[18]

In January 2024, icare launched a new offboarding process which proactively seeks feedback from exiting employees. While the cohort to date has been small and it is too soon to draw any deep conclusions, the top reasons for leaving icare were personal reasons and career progression.

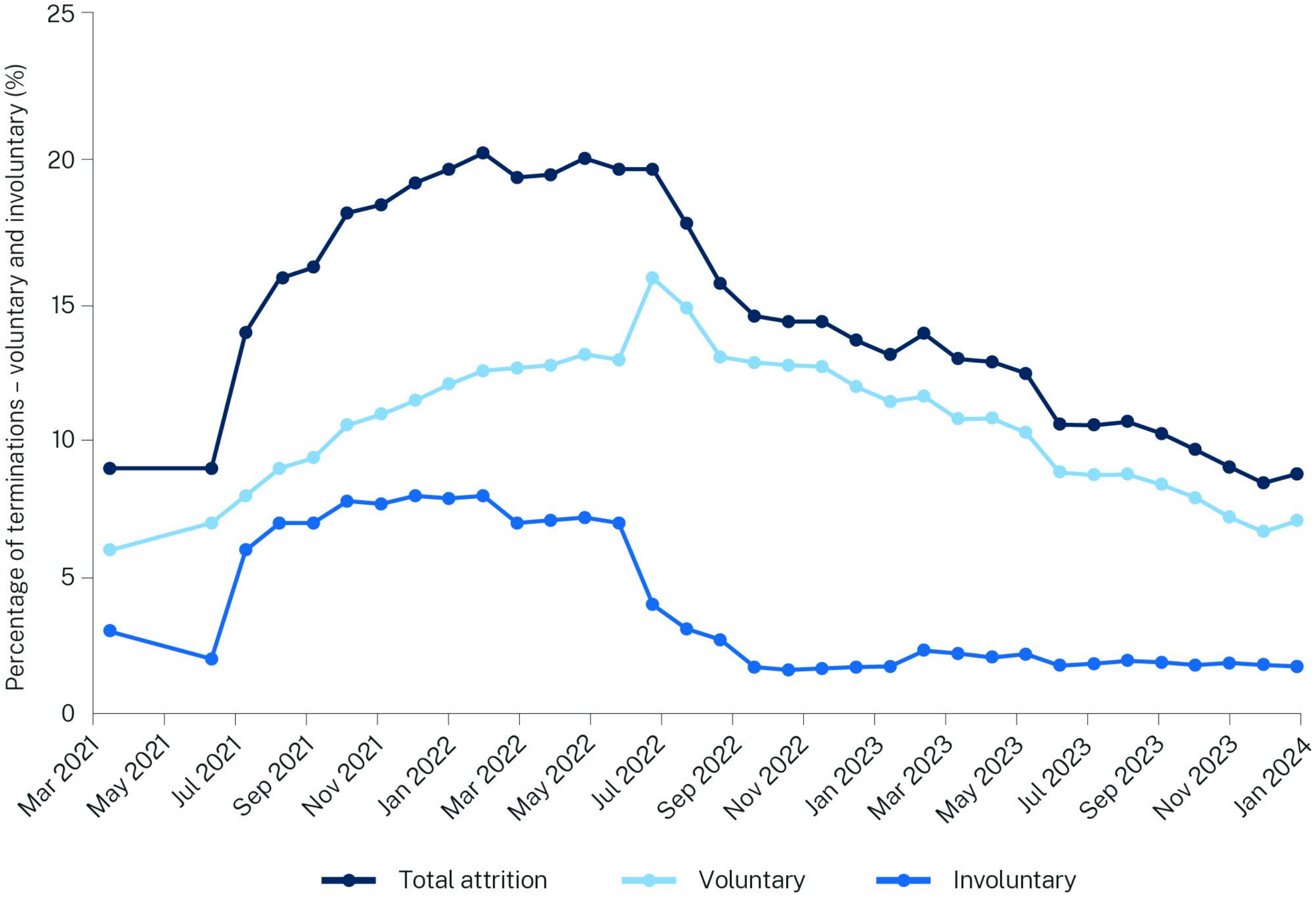
Table 4. People Matter Employee Survey, 2019 to 2023

	Response rate (%)	Employee engagement (%)	Communication & change management (%)	Senior managers (%)	Feedback & performance management (%)
2019	74	70	72	62	63
2020	69	62	66	61	70
2021	59	66	65	64	69
2022	57	68	66	64	70
2023	75	68	69	64	69

Source: icare, NSW Treasury received April 2024.

18 National Skills Commission (2022) Labour Market Update – June 2022 quarter, www.jobsandskill.gov.au, accessed 18 July 2024.

Figure 3: icare employee attrition, March 2021 to February 2024



Source: icare, received by NSW Treasury May 2024, Workshop – icare's three-year workforce trends story.

Financial context

5

5.1 Introduction

The SICG Act sets out that one of icare's statutory objectives outlined in section 9A is to maintain the viability of state insurance and care schemes. Implicit in this objective is that icare's insurance and care schemes are financially sustainable. This goal finds expression in icare's 2022–23 Annual Report which states: 'a core focus of icare is ensuring its schemes remain in a financially sound and sustainable position, holding sufficient assets to meet their future liabilities'.[19]

The key determinants of the financial sustainability of icare's schemes are shown in Figure 4.

The McDougall Review considered that the amount of premiums collected is probably the major determinant of long-term financial stability and is inextricably linked to the capital management policy in place for each icare scheme. The review concluded that management of claims costs and operational expenses within any insurance scheme are an important determinant of the financial sustainability of any scheme but are of secondary in importance relative to a focus on premiums and investments.[20]

In addition, statutory levies account for 35 per cent of icare's total annual expenses. These costs are, prima facie, outside the scope of this review but are considered as part of a broader analysis of whole-system costs to better understand how value-for-money outcomes are being across the state insurance and care system landscape, which encompasses the scheme operator, regulator and related entities.

Figure 4: How icare's schemes are funded

Source: icare, NSW Treasury received July 2023, Presentation – Townhall pack, 7 May 2023.

19 icare, *2022–23 Annual Report*, p 104.
20 McDougall Review, pp. 134-36.

5.2 Premiums

Premiums are the key source of income for icare and a key focus and driver of financial sustainability in the Nominal Insurer (NI) and HBCF. Responsibility for premium setting is shared between icare and SIRA.

icare's insurance and care schemes are mandatory, statutory schemes funded by premiums paid by employers, drivers and other policy holders. The financial risks of these schemes are managed across a longer-term horizon with a relatively predictable premium income and a long-period claims payment profile. That is, most insurance and care schemes managed by icare are long tail in nature – a type of liability where it may take a long period for the claims to be settled. TMF General Lines property and motor and CRIF are the main short-tail insurance schemes managed by icare.

Under the current regulatory arrangements and as part of the annual premium setting process, icare must submit a filing to SIRA documenting its proposed premium for the following financial year.

For example, in relation to the NI, the icare board is responsible for annually determining its capital funding requirement and has set a target economic insurance ratio of 130 per cent (the insurance ratio), informed by analysis provided by external actuaries, NSW Treasury Corporation (TCorp) and SIRA. This is informed by the board's risk appetite regarding the possibility of the scheme failing to meet its financial obligations.

In line with its role as the legislated independent regulator for the state workers compensation and HBCF schemes, SIRA conducts a detailed review relaying on internal assessments and actuarial inputs, different risk profiles and stress testing of variables applied by icare. SIRA is also required to consider some key principles:

- premiums are fair and reflective of risk
- balance between risk pooling and individual employer experience
- premiums should not be unreasonably volatile or excessive
- incentives for risk management and good claims outcomes
- the premium base is consistent with the insurer's capital requirements.

SIRA has a power to reject a premium filing which initiates a review and arbitration process. In addition, as demonstrated in April 2023, the responsible minister may direct the icare board to approve an alternative proposed premium.

The economic insurance ratio and accounting funding ratio

The insurance ratio measures the ratio of scheme assets to scheme liabilities discounted based on the expected earning rate on scheme assets (that is, considering expected investment performance).

In comparison, the accounting funding ratio (the funding ratio) is the ratio of assets to liabilities using a risk-free discount rate (that is, the government bond rate).

The McDougall Review considered that the insurance ratio supports a more realistic appraisal of scheme financial performance and sustainability.[21]

21 McDougall Review, p. 138.

5.2.1 Premium increases in the Nominal Insurer

In March 2021, the responsible minister limited premium increases to 2.9 per cent for 2021–22 due to COVID-19 and the impact of major floods on the community. The decision to forego premium increases for that year meant that premiums for that financial year would be loss making and contribute to a deterioration of the NI's financial strength.

This same cap was intended to apply for the next two years to 2023–24, causing SIRA to raise concerns as to the length of time it would take icare to reach the break-even point.[22]

The break-even point refers to when premiums are sufficient to cover the incurred cost of claims made during the period of premium coverage, including an allowance for claims handling costs. Where premiums are charged below break-even levels, there is a real risk of insolvency.

Despite this, in April 2021 the McDougall Review noted that while the return to the desired funding ratio and to break-even pricing would still take several years, that there was no basis for suggesting that the NI would be unable to meet its liabilities over 2020–21 to 2029–30.[23]

The impact of these decisions is evident in the NI claims ratio – the percentage of claims incurred in relation to premiums earned – forecast in icare's 2023–24 Statement of Business Intent.[24] The ratio was forecast to reach 115 per cent in 2022–23, falling to 107 per cent in 2023–24, then to 95 per cent in 2024–25, with a stable downward trajectory towards 80 per cent in 2027–28 before rising to 83 per cent by 2033–34.

The NI is currently projected to achieve an insurance ratio of 131 per cent by June 2032. This follows a direction issued by the minister in April 2023 in response to an icare board recommendation for NI premiums to increase on average by 22 per cent in 2023–24. The effect of the minister's direction was to cap rate increases at an average of eight per cent on employer premiums for three years from 2023–24 to 2025–26, seeking to balance scheme financial viability with cost-of-living pressures facing employers in NSW.

5.2.2 Current financial performance – Nominal Insurer

The forecast position for the NI in 2023–24 is an insurance ratio of 99 per cent in icare's 2023–24 SBI.[25] By 2033-34, this ratio is forecast to reach 149 per cent.

Under APRA prudential standards for private schemes, a 99.5 per cent probability of coverage is the target level, which implies a target funding ratio higher than 130 per cent.

A 130 per cent insurance ratio is equivalent to a 96.7 per cent probability of coverage. icare's capital management plan requires a return to the insurance ratio or above by 2032–33.

While direct comparisons are limited, the 130 per cent insurance ratio target does not appear inconsistent with other centrally funded or privately operated scheme.[26]

Case study: Victoria's experience

The experience of the Victorian workers compensation system is salutary, highlighting the real risks to scheme sustainability that can result from underpricing.

For over 20 years, the Victorian Government has held workers compensation average premiums at 1.3 per cent of payrolls, resulting in an average annual premium deficit of $1.1 billion.

In response, the Victorian Government contributed $1.3 billion over three years from 2019–20 to 2021–22 to help bolster the financial sustainability of its scheme.

As a further consequence, the Victorian Government lifted average annual premiums to 1.8 per cent of payrolls in July 2023, while enacting far-reaching legislative reforms to curtail access to workers compensation for mental stress and burnout claims.

22 SIRA (2021) Response to draft Parts A and B McDougall Review, www.sira.nsw.gov.au, page 16.
23 McDougall Review, p. 135.
24 icare, 2023–24 Statement of Business Intent, p. 63.
25 icare, 2023–24 SBI, p. 63.
26 Safe Work Australia, Comparative performance monitoring Report, 25th edition – Funding Ratios, https://data.safeworkaustralia.gov.au/report/cpm25, accessed 18 July 2024.

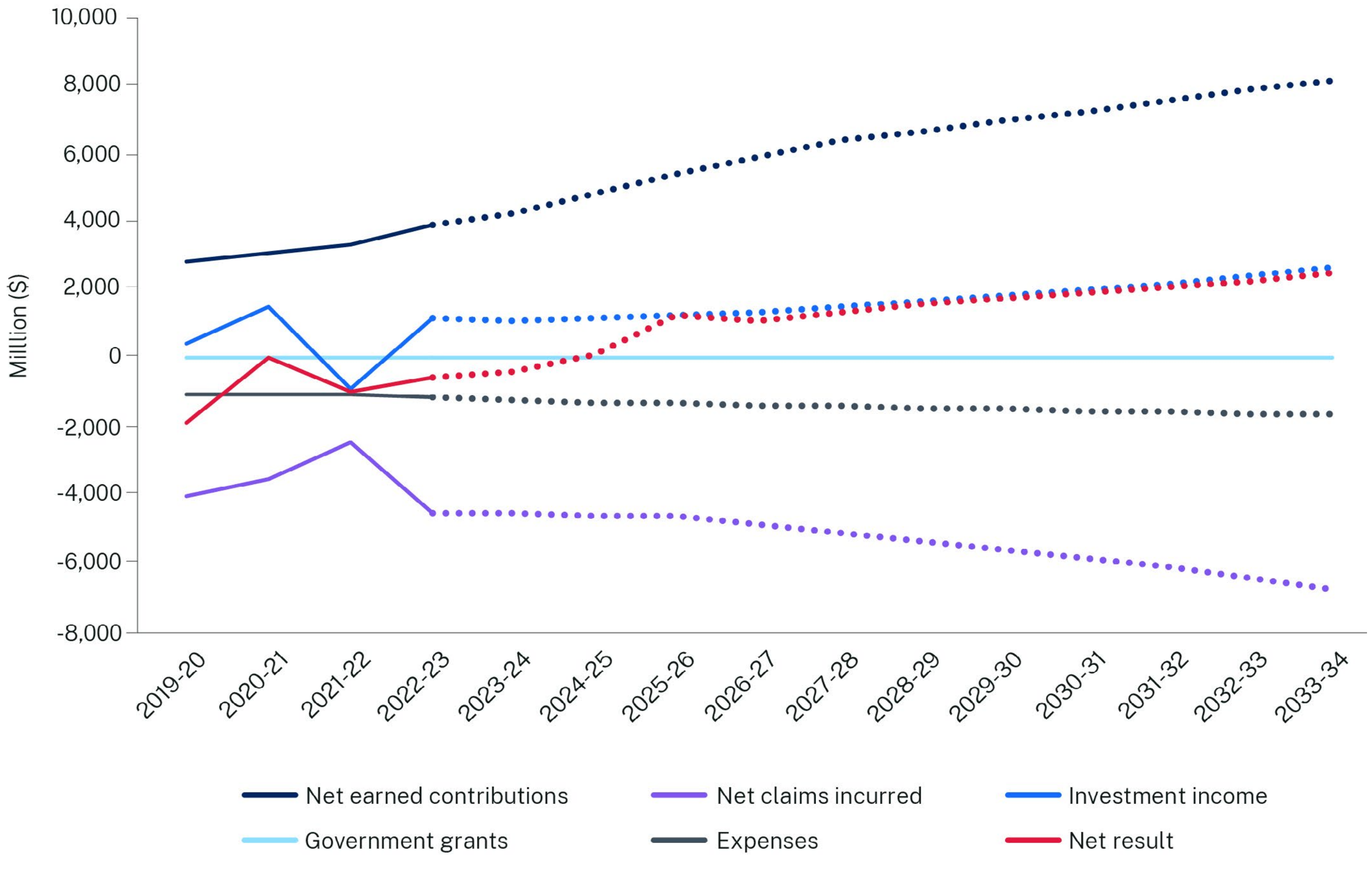
As shown in Figure 5, icare forecasts that over a 10-year period from 2024–25 to 2033–34, net earned premium and investment income will grow at a faster rate than an increase in claims incurred and expenses. Cumulatively, this leads to an improving net result trend with a surplus result first achieved in 2024–25. Importantly, phased premium growth (while capped at eight percent from 2023–24 to 2025–26 in line with a ministerial direction) means a break-even point is expected in 2026–27, with premiums close to covering claims costs and expenses and investment income funding a $288 million shortfall.

For icare this means its insurance ratio will move into its board-approved capital policy target operaing zone by 2030–31.

The financial management strategy underpinning the NI is predicated on two key drivers:

- a new claims model and performance-based incentive structure intended to achieve claims savings that more than offset increases in claim service provider (CSP) remuneration
- a longer-term investment strategy aligned with the insurance ratio. This features greater diversification and inflation sensitive assets resulting in higher expected investment returns with lower volatility.

Figure 5. Nominal Insurer projected and actual profit and loss, 2019–20 to 2033–34



Source: icare, NSW Treasury received August 2023, icare SBIs, 2021–22 to 2023–24.

SIRA's concerns

In April 2024, SIRA wrote to the Secretary, NSW Treasury raising concerns regarding the further deterioration in the financial position of the NI and broader risks to scheme financial sustainability. This was triggered in large part by a $2.9 billion deficit as at December 2023 – a variance of $780 million from the 2023–24 forecast arising from the latest actuarial valuation.

SIRA noted that on 27 February 2024, icare reported to SIRA a deterioration in the net financial position of the NI, and that monthly reporting to SIRA also reflects an insurance ratio in December 2023 of 96 per cent, below the forecast of 99 per cent and deteriorating further from icare's NI Capital Management Policy target range of above 130 per cent.

On 22 March 2024, icare provided SIRA with the December 2023 valuation report of the NI completed by Finity. In the June 2023 valuation report, icare and its actuaries had estimated the overall claims liabilities in December 2023 would be $19.9 billion. At the valuation in December 2023, the claims liabilities had increased to $20.6 billion, a negative variation of $693 million.[27]

SIRA noted that these increased liabilities are not currently being matched by a proportionate increase in NI assets, and that the gap between the target premium collection and the operational break-even premium continues, and this shortfall in premium collection has contributed to the increasing overall deficit.

By the end of March 2024, the insurance ratio improved to 97 per cent (a one per cent improvement on the previous month) and closer to the 2023–24 forecast of 99 per cent. SIRA assessed and did not reject the 2024–25 premium filing.

5.3 Investment returns on financial assets

icare's investment income provides an important source of revenue that supports icare's financial management and bolsters the financial sustainability of its schemes.

Consistent with findings and recommendations made in the McDougall Review for the adoption of an insurance ratio as a preferred measure of scheme financial sustainability, investment income plays a key role in icare's schemes. Its importance to the financial sustainability and solvency of icare's schemes highlights the strategic advantage presented by a government-owned insurance company able to pursue an aggressive investment strategy to help meet the gap that results from persistent underpricing of premium, backed by mandatory insurance products that guarantee future income.

icare's 2023–24 Annual Report shows five and 10-year actual investment returns substantially exceeding targets across the NI, TMF as well as Lifetime Care and Support and Workers Care, and Dust Diseases Care (not applicable to HBCF, CTP Care and Sporting Injuries).[28]

The significant role played by investment income within icare is demonstrated through comparison of investment income within icare and its various schemes and their financial performance, with the role of investment income to private insurers.

For example, there is a strong relationship between the NI's underwriting result and investment income and their combined impact on the scheme's net result over an actual and forecast five-year period extracted from icare's 2023–24 SBI as shown in Table 5.[29]

27 Finity Consulting Pty Ltd (2023) *Nominal Insurer Liability Valuation as at 30 June 2022*, https://www.icare.nsw.gov.au/-/media/icare/unique-media/about-us/annual-report/media-files/files/related-downloads/nominal-insurer-liability-valuation-as-at-30-june-2022-summary-v03.pdf, accessed 18 July 2024.

28 icare 2022–23 Annual Report, p. 105.

29 icare 2023–24 SBI, p. 63.

Table 5. NI projected and actual profit and loss, 2022–23 to 2026–27

	2022-23	2023-24	2024-25	2025-26	2026-27
	Actual ($m)		Forecast ($m)		
Underwriting result	(1,695)	(1,539)	(1,053)	(472)	(288)
Investment income	1,157	1,136	1,160	1,231	1,352
Net result	**(539)**	**(403)**	**107**	**759**	**1,064**

Source: icare, NSW Treasury received August 2023, icare 2023–24 SBI Business Plan.

In contrast, a review of APRA's quarterly performance to 30 June 2023 demonstrates the limited reliance placed on investment income in a commercial insurer – where investment income plays a supporting role to deliver industry profits and shareholder dividends, rather than an essential role in shoring up the financial viability of these private insurers.[30]

The NSW Government has established a whole-of-state fund (One Fund) intended to maximise potential investment returns for the state over the long term. Consistent with the captive insurance model underpinning the TMF, One Fund consolidates investment functions associated with the management of NSW Government funds reserved in the TMF to meet the state's insurance liabilities.

One consequence of this transfer of investment management to the NSW Treasury Corporation (TCorp) is a sharpening of focus for icare upon its claims performance and management of claims expenses within the TMF.

5.3.1 Current financial performance – Treasury Managed Fund

The forecast position for the TMF (encompassing workers compensation and general lines insurance) is a funding ratio of 106 per cent in icare's 2023–24 SBI.[31] As shown in Figure 6, by 2033–34, this ratio is forecast to reach 115 per cent.

Unlike the NI, an economic funding ratio (insurance ratio) is not used because of the role of government contributions under the Net Asset Holding Levelling Policy (NAHLP) which in iteslf serves as a financial reserve to the TMF.

A core feature of the TMF is the role of contributions. This is demonstrated through a 13 per cent contribution increase in 2022–23. This is directly correlated to the large increase in claims experienced in the same year.

A strategic reliance on investment income underpins the TMF. This is evidenced through a higher expected investment return over a 10-year period despite short-term returns lower the orignal result.

Under these forecasts, a surplus is realised from 2023–24 to 2032–33, and the accounting funding ratio exceeds 105 per cent from 2024–25 onwards.

30 APRA (August 2023) *Quarterly General Insurance Performance Statistics – highlights, June 2023*, https://www.apra.gov.au/quarterly-general-insurance-statistics, accessed 16 May 2024.

31 icare 2023–24 SBI, p. 49.

Figure 6: IfNSW projected and actual profit and loss, 2019–20 to 2033–34

Source: icare, NSW Treasury received August 2023, icare SBIs, 2019-20 to 2023–24.

Underpinning the TMF is a financial management strategy indended to ensure a stable net result, even though claims growth across the TMF portfolio continues. A new claims model and system modelled on the NI is also intended to uplift CSP performance, consistency and transparency.

5.3.2 Current financial performance – Home Building Compensation Fund

The financial position of the HBCF demonstrates the role played by premiums and investment income as determinants of the scheme's financial sustainability.

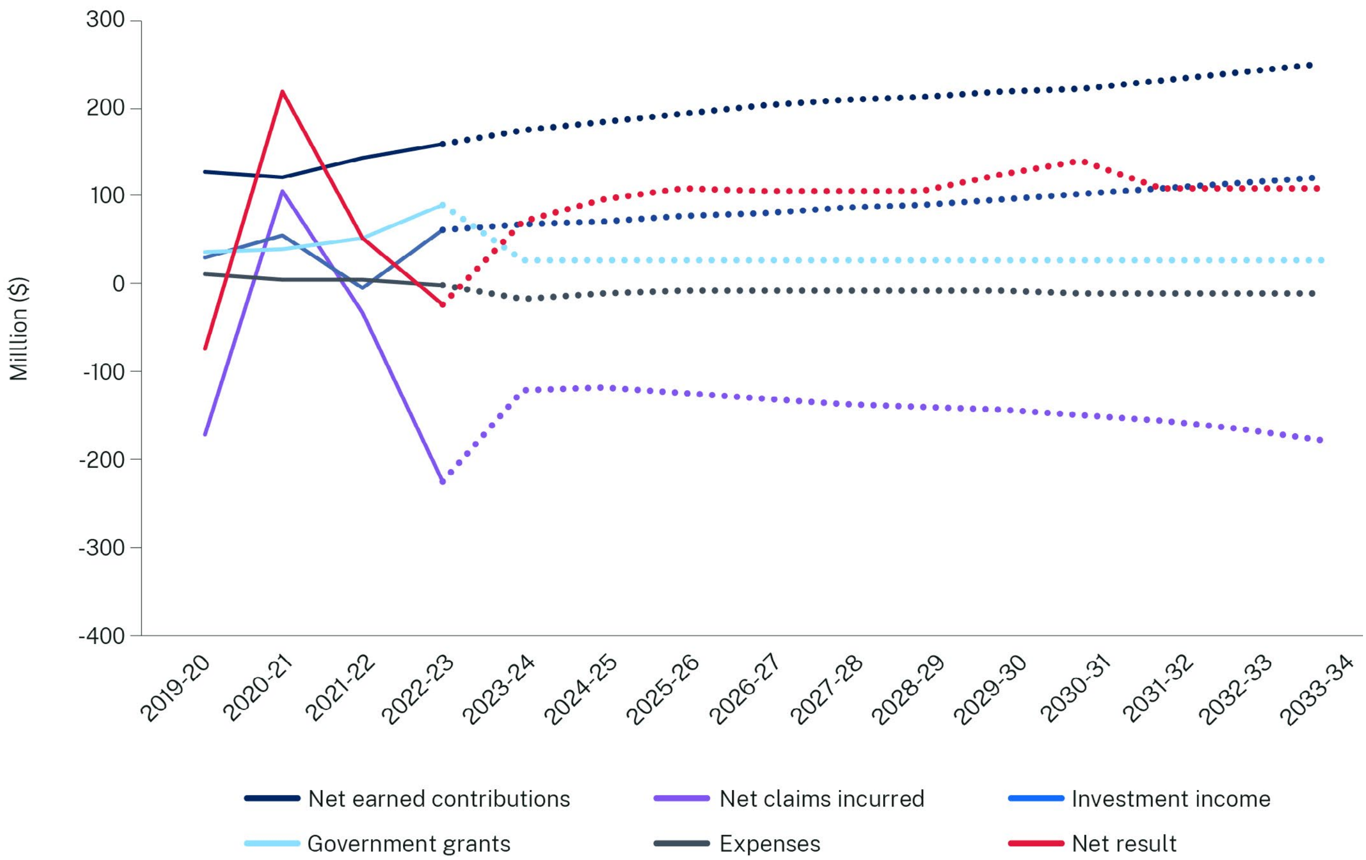
Over the 10-year period, net earned premiums and investment income are forecast to grow at a faster rate than the increse in claims incurred (see Figure 7).

A step change is anticipated between 2028–29 and 2029–30 for both the accounting funding and insurance ratios when both ratios rise above 100 per cent. The specific reasons for this step change could potentially be attributed to:

- net earned contributions and investment income growing at a faster rate than the increase in claims incurred supported by risk-based premiums going forward
- a 12 per cent premium increase in 2023–24 from 2022–23, due in large part to increased policy volumes and values
- expenses remaining relatively flat and investment returns above inflation, supported by diversified growth assets with a long-term orientation which also reduce volatility
- adoption of an assumption to remove the volatility of government grants (reflecting historic government-mandated underpricing) leading to an underlying positive trend in the net result.

Importantly, government grants are still needed to meet losses incurred for policies issued through to 2021.

Figure 7: HBCF projected and actual profit and loss, 2019–20 to 2033–34



Source: icare, NSW Treasury received August 2023, icare 2022–23 SBI, p. 57.

5.4 Claims handling expenses

In 2022–23, the total direct cost arising from insurance and care schemes administered by icare amounted to $7.1 billion in gross written premiums and annual contributions paid by NSW businesses, homebuilders, drivers and government.

In 2022–23, NSW employers paid approximately $3,600 million in workers compensation premiums under the NI. Over this same period, the state paid approximately $2,800 million in premiums to insure public sector activities and assets through the TMF.

The estimated value of future insurance liabilities managed by icare for that year was approximately $43,600 million, equivalent to 5.8 per cent of forecast gross state product for 2022–23.

Within icare, most operational costs are incurred by its individual insurance and care schemes, with the icare service entity in turn charging a service fee to administer these schemes. The board endorses these costs which are, in turn, presented to the minister through icare's annual SBI.

These service fees are included as part of icare's annual operating expenses shown in Table 6, along with claims handling expenses.

Claims handling expenses includes claims handling, processing and administration costs, legal and other related fees associated with liability determinations and dispute resolution, and payments to CSPs for claims management services, primarily within the NI and TMF (including HBCF).

Claims payments includes benefits (including weekly and lump sum payments) or entitlements for care and other supports, including access to healthcare.

The spike in payments in 2020–21 and 2021–22 is primarily due to COVID-19 impacts for workers compensation across the NI and TMF, and the impact of natural disasters with the TMF general lines insurance coverage, including the Black Summer bushfires and Sydney floods in 2021.

Over the five years to 2022–23, icare's operating expenses shown below have grown almost 20 per cent while claims payments have risen by approximately 25 per cent, having fallen 15 per cent from a peak of $7,012 million in 2021–22 to $5,980 million in 2022–23. In 2018–19, 2019–20 and 2022–23, icare's operating expenses accounts for 22 to 23 per cent of expenditure, falling to around 18 per cent in 2020–21 and 2021–22 due to the impact of increased claims payments in these two years.

Within icare, claims management for the NI and TMF are delivered primarily through an outsourced model via the CSPs, with a small subset of claims managed in-house. Claims across the two schemes are currently managed through two contracts in place for each scheme.

Claims under the NI are currently managed by Allianz, DXC Technology, EML, Gallagher Bassett, GIO and QBE.

Claims relating to the TMF workers compensation scheme are currently managed via Allianz, EML and QBE. Some claims management functions are also undertaken internally and externally within the TMF General Lines insurance portfolio and for HBCF (Gallagher Bassett) while Dust Diseases and Lifetime Care are all managed internally.

The total cost of these externally contracted services equalled $562 million in 2022–23.

Claims expenses are directly influenced by the nature of the injury or claim made, its duration, and the volume of claims made and are discussed at sections 5.5 Expenses, 10.3. Comparison with other government insurers and 10.4. Scheme growth.

icare is implementing a new claims model intended to improve outcomes and claims benefits in the form of claims savings of $5,270 million over 10 years to 2032–33 in the NI (see Appendix E) by:

- creating competitive tension and enabling employer choice
- introducing performance-based incentives
- developing, growing and retaining case managers to improve injured worker experience
- greater claims management service provider transparency to inform worker and employer choice.

A similar strategy is planned for the TMF.

Some of icare's recent experiences points to a correlation existing between claims liabilities and claims expenses and point to the potential risk of unintended consequences.

From 2016–17 to 2019–20 there was a focus on managing claims agent remuneration in the NI and TMF which coincided with a deterioration in icare's claims liabilities.

This trend continued – from 2019–20 to 2021–22 when claims handling related expenses as a proportion of claims paid fell from 15.7 per cent to 12.0 per cent. Similarly, operating expenses as a percentage of icare's net earned premium fell from 8.8 per cent fell to 5.8 per cent. Over this same time, however, claims payments (as an indicator of underlying claims liabilities) grew by 45 per cent, outpacing growth in net earned premium of 41 per cent across icare's schemes.

This experience points to the critical importance of an integrated approach to financial and performance reporting to support wholistic perspectives, minimise the potential for cost shifting, and allow for the early identification of emerging risks.

Table 6. Operating expenses and claims payments, 2018–19 to 2022–23

Costs	2018–19 ($m)	2019–20 ($m)	2020–21 ($m)	2021–22 ($m)	2022–23 ($m)
Operating expenses (includes CSP payments, claims handling, statutory levies and related expenses)	1,449	1,614	1,498	1,529	1,722
Claims payments	4,725	5,379	6,526	7,012	5,980
Total	**6,174**	**6,993**	**8,024**	**8,541**	**7,702**

Source: icare, NSW Treasury received December 2023.

5.5 Expenses

5.5.1 Net cost of services

In 2022–23, icare's net cost of services (NCOS) was $564 million.

From 2015–16 to 2021–22, the level of growth in icare's NCOS was broadly in line with inflation. Over this time, icare's total cost base grew by approximately $151 million – an annual average growth rate of two per cent.

In 2019–20, larger expense growth was experienced due to:

- a $48 million increase in bad and doubtful debts
- a $44 million increase in depreciation
- an $11 million increase in grants expenses for innovation and partnerships.

The McDougall Review recommended that icare should undertake an expense savings program that is subject to external review.[32]

In response to this recommendation and as part of the Enterprise Sustainability – Expense Savings Program, actual savings of $88 million were realised over 2020–21 and 2021–22 from a 2019–20 baseline (verified by KPMG and Promontory).[33] This is partially visible in Figure 8, which shows a $51 million reduction from 2020–21 to 2021–22.

From 2021–22 (a low point due to the Expense Savings Program and implementation of Project One to simplify icare's operating model) to 2023–24, operating expenses grew by 25 per cent or $122 million, from $496 million to $618 million.

In 2021–22, icare's NCOS was $496 million (excluding statutory levies of $347 million and CSP payments of $467 million). In 2022–23, icare's NCOS grew to $564 million.

Analysis of icare's expenditure over this period highlights some key drivers impacting NCOS growth, including macroeconomic trends and policy decisions beyond icare's control. Analysis also supports the key cost drivers of NCOS growth identified by icare, including scheme growth (due to the increased volume, complexity and duration, and therefore cost of claims), inflation and increased investment in organisational capability to implement the Enterprise Program.

Claims volumes have grown at an average five per cent per annum from 2019–20 to 2022–23 across all insurance and care schemes. This ranges from a one per cent increase per annum for Dust Diseases Care to 26 per cent in HBCF because of major builder insolvencies.

On a consolidated level, a correlation exists between operating costs which experienced only 0.6 per cent growth and overall scheme growth, but this impact has been modest given the combined effects of five per cent scheme growth and wage cost inflation.

icare has also made some strategic investments from 2022–23 to 2024–25 totalling $350 million through its Enterprise Program. This included commencing implementation of a new claims model in the NI intended to realise savings of $5.3 billion in claims savings over ten years to 2032–33, as well as other technology and transformation efforts across the different schemes intended to optimise claims and operational processes.

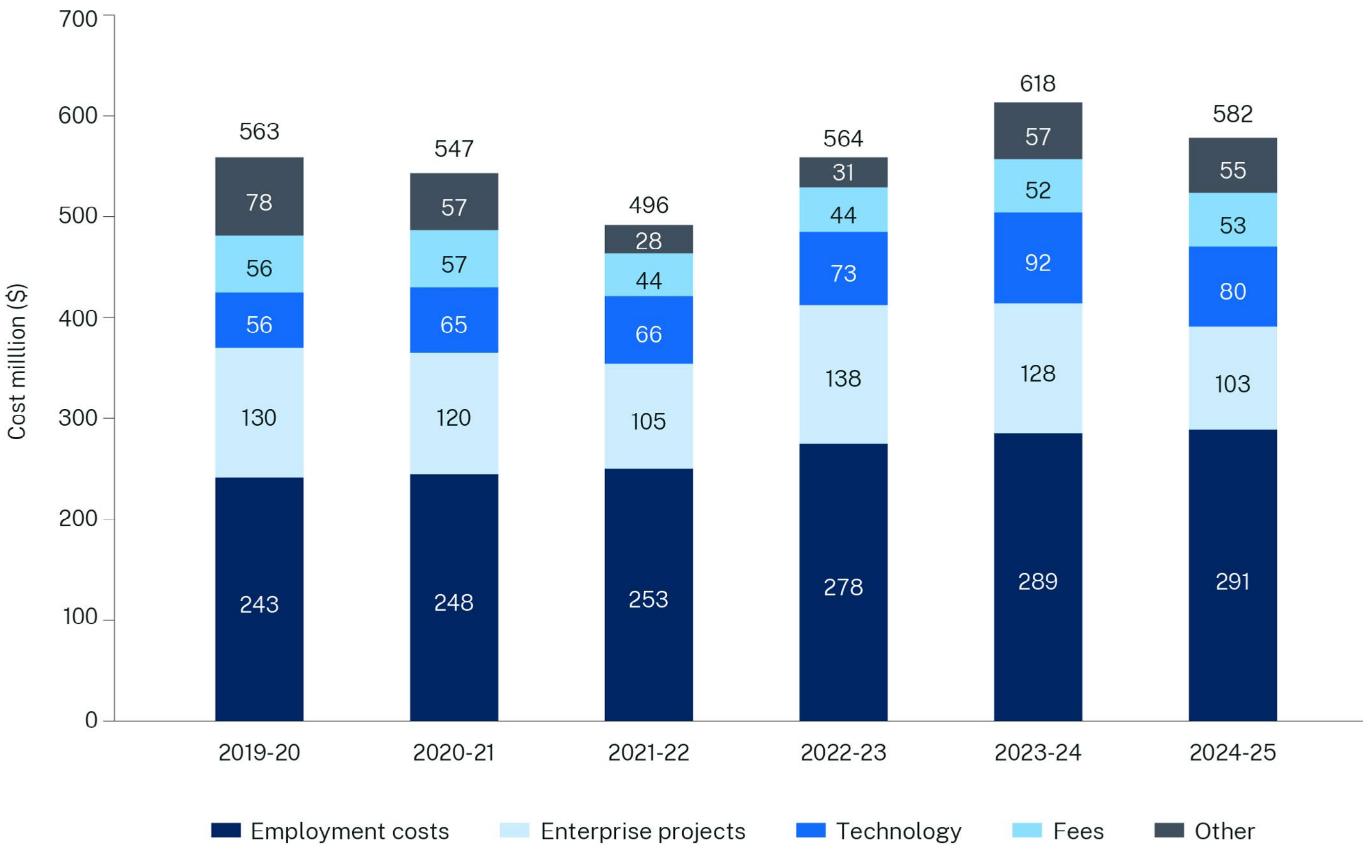
In addition, natural disasters, catastrophes, COVID-19 and social inflation have influenced claims liabilities and costs but have not demonstrated a material impact on icare's operating expenses during this period.

Changes in the broader operating environment including government decisions, regulatory and accounting decisions (such as the adoption of AASB17), premium and levy determinations and the actions of other agencies across the state insurance and care system (including SIRA, SafeWork, the PIC, the IRO) also continue to influence icare's operational expenses, but their impact is likely more indirect and difficult to quantify.

32 McDougall Review, p. 230.

33 Promontory Australia Tenth Quarterly Update, pp. 21, 35.

Figure 8: icare breakdown of core operating expenses, 2019–20 to 2024–25



(a) Strategic investment of $350 million from 2022–23 to 2024–25 and digital channel investment from 2023–24 onwards.
Note: data 2023–24 and 2024–25 are forecast costs
Source: icare, NSW Treasury received May 2024, Presentation – Treasury briefing – icare operational expenditure review.

5.5.2 Operating expenses

Employee costs, contingent workers and contractors, technology, the Enterprise Program and professional fees (which includes consultants and Service NSW fees) make up icare's four largest categories of expenditures. Together, these costs accounted for 87 per cent of core operating expenditure for 2022–23, which is shown in Figure 8.

These categories of expenditure are the focus of this review, though opportunities for efficiencies and savings are likely to exist across other operational expenses and thus warrant scrutiny. These include:

- employee related expenses: 25 per cent
- contractors: five per cent (plus a further three per cent for fees hosted contingent workers)
- software licences: five per cent (and a further two per cent for information and communications technology managed services)
- bad debts: five per cent
- consultants (including actuarial fees): two per cent.

NSW Government election commitments also speak to priorities being pursued across government to examine the use of consultants, legal fees, insourcing and other functional efficiencies being realised. Together these point to further savings opportunities meriting board consideration.

A simple consolidation of income statements set out in icare's 2022–23 Annual Report (eliminating service revenue and expenses) undertaken by NSW Treasury identifies the different weightings associated with icare's most significant operating expenses. This consolidated statement is set out at Appendix D.

Employee costs

Employee costs and related expenses have increased significantly, offsetting reductions in remuneration paid to icare's CSPs and scheme agents. Since 2017–18, there has been a general increase in employment costs to support broader transformational needs and capability enhancements (including those related to implementation of the Enterprise Program) as well as the establishment of a new claims team to support the new mandatory CTP Care scheme which started in December 2022.

Employee costs are expected to grow from $278 million in 2022–23 to $289 million in 2023–24, an increase of four per cent. Drivers of this increase include wage cost inflation rising to 4.5 per cent per annum and other service cost inflation in areas such as technology services.

Technology and Enterprise Program

Technology costs have increased by 12 per cent from $65 million 2020–21 to $73 million in 2022–23 and reaching an estimated $92 million in 2023–24 driven by inflation, a growing workforce and ongoing operating expenses from implemented projects. Additional spending on cyber security is expected across financial years.

Growth in technology costs between 2017–18 to 2019–20 was driven by a $191 million initial expenditure on the NI's technology platform.[34]

In 2022–23, the icare board approved a four-year investment totalling $95 million (with a $10 million contingency) to deploy a single platform with fully migrated claims data in the TMF intended to support a broader transformation program of the workers compensation claims management model.

Enterprise Project costs estimated at $117 million in 2023–24 represents a significant increase from $53 million in 2021–21, but averaged at around $88 million per year over the five years from 2017–18 to 2021–22. This increase has been driven in large part by a ramp-up in investment reaching $350 million for the Enterprise Program over three years commencing in 2022–23.

34 This cost was capitalised and depreciated over a five-year period; depreciation has been included as part of analysis relating to technology expenses.

Regulatory settings and statutory levies

6

6.1 Introduction

This review is narrowly focused on icare's operational expenditure. However, icare exists within a broader system which together drive cost, system performance and outcomes. A broader perspective is warranted to help assess whether the state insurance and care system (including its regulatory framework) is appropriate, efficient and cost effective. Questions regarding strategic alignment also apply – that is, whether:

- the regulatory framework and cost of compliance is proportionate, risk based and appropriately targeted to address the social costs of harm
- it achieves value-for-money outcomes
- it supports financial sustainability.

Within this system, a driver of cost are the statutory levies, which support the broader regulatory framework encompassing workplace safety, prevention, regulatory compliance and enforcement, and dispute resolution.

Statutory levies are passed onto policy holders via annual premiums. Statutory levies are paid by the Nominal Insurer (NI), employers with workers compensation self-insurance licences (including the NSW Government through the Treasury Managed Fund (TMF)), specialised workers compensation insurers, motor vehicle owners and home owners contracting with builders.

6.2 Regulatory settings

Entities established to give effect to the state insurance and care arrangements include icare, SIRA, SafeWork NSW and the dispute resolution model, comprising of the PIC and the IRO. Collectively, these entities comprise the system's regulatory architecture and framework for the state insurance and care arrangements.

These entities are funded by service fees charged by icare and statutory levies paid to SIRA. SIRA, IRO and PIC activities are wholly funded by statutory levies and interest revenue from operational funds. These levies provide approximately 80 per cent of SafeWork NSW's total annual revenue.

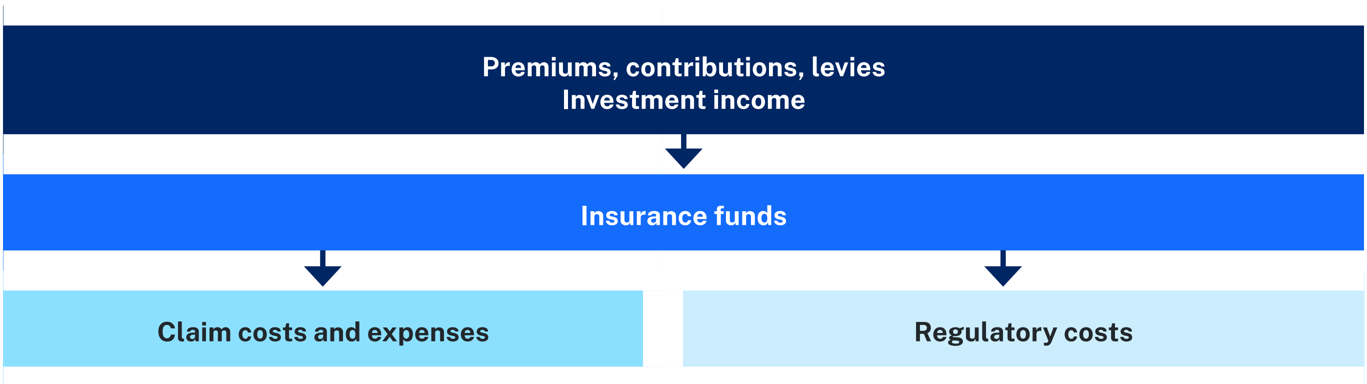
System costs are determined at arms' length from the NSW Government. Fees and statutory levies are set to cover the assessed costs to operate the system. These expenditure needs are determined with reference to those approved purposes prescribed in legislation for each entity.

In practice, ministerial oversight of expenditure tends to be largely informed by and reliant on each entity's self-assessment of its performance and budgetary requirements, informed by its own statutory objectives. In addition, NSW Treasury monitors the drawdown of statutory levies against historical expenditures.

These fragmented arrangements mean it is difficult to discern a system-wide, joined-up perspective and shared accountability for cost effectiveness and efficiency. This is correlated with a lack of an overarching or system-wide perspective that seeks to drive good quality outcomes on behalf of the community and government.

Annual contributions are credited to the relevant scheme fund. icare draws down on these funds to cover expenses to administer each scheme and, where applicable, collects statutory levies on behalf of SIRA which also acts as a pass-through entity for distributing levies to expenditure on those purposes allowed by legislation. Figure 9 and Figure 10 provide an overview of major funding flows for schemes administered by icare in 2022–23.

Figure 9. Simplified schematic of funding flows



6.2.1 Regulatory performance and efficiency

The regulatory framework underpinning the state insurance and care schemes directly influences system outcomes and scheme performance. This includes the role of the regulator, SIRA. This role differs for each of the state insurance and care schemes. Thus, SIRA has a significant regulatory role for the workers compensation and home building compensation schemes, and no role in TMF General Lines insurance and the CRIF. SIRA also regulates compulsory third-party motor accidents insurance, which is not administered by icare.

This regulatory framework can drive behaviours and influence the decision making and conduct of businesses, other organisations and consumers. Regulation minimises social harm, bringing economic and social benefits, but it comes with costs, which are embedded in the system. Costs include distortions in incentives for investment and innovation and higher costs for business compliance.

An efficient regulatory framework appropriately balances minimisation or avoidance of social harm from non-compliance against the cost of achieving the regulatory objective in line with community preferences. Best practice regulation supports economic activity and is adaptive, allowing for the desired level of social and economic outcomes for an efficient cost as economic structures and societal expectations evolve.

6.2.2 Workers compensation

Post-pandemic, the modern workplace and wellbeing of the population has undergone significant changes. There may be potentially significant benefits to be gained from an examination of the economic efficiency and effectiveness of the regulatory architecture and oversight arrangements governing the state insurance and care arrangements.

This assessment could include consideration of the appropriate balance and efficient level of investment in prevention and enforcement, scheme financial sustainability and what the role is for markets.

It may also offer a timely opportunity to review the stock of regulation to ensure that it remains relevant, establish arrangements to improve the scrutiny of new regulatory proposals and measure the impact on system outcomes.

An assessment of the efficiency of this regulatory landscape is a complex task. For workers compensation, it requires weighing up the costs of non-compliance and regulatory approach. Some of the costs of non-compliance include expenses to repair avoidable harm to injured people, and deterioration of trust and confidence in the system. Regulatory costs to avoid such risks include expenditure on prevention, early intervention, conduct supervision, compliance costs and payment of penalties.

The Independent Pricing and Regulatory Tribunal (IPART) may be well qualified to undertake this specialist assessment in its role as the independent agency charged with regulating key markets and government services to ensure effective social, environmental and economic outcomes. Other options also exist, including a NSW Treasury-led assessment undertaken with SIRA's support, or a government-commissioned independent review.

Consideration of the economic and social efficiency of this regulatory framework could also form part of the NSW Government's commitment to undertake a review of claims management for workers compensation, as part of the NSW Government response to the NSW Parliament's SCLJ review of workers compensation. Such work may also consider whether the existing framework strikes an appropriate balance principle, prescription and risk-based regulation to realise economically efficient outcomes.

Figure 10. NSW statutory insurance and care schemes – financial arrangements and funding flows 2022–23[35]

icare – scheme operator

Nominal Insurer	$m
Expense	788.8
Claims payments	3,198.6

TMF Workers Comp	$m
Expense	170.9
Claims payments	1,158.0

TMF General lines	$m
Expense	55.6
Claims payments	1,134.8

HBC	$m
Expense	33.2
Claims payments	124.1

Lifetime Schemes

Dust Diseases	$m
Expense	45.2
Claims payments	117.9

Lifetime Care and Motor Accident Injury	$m
Service fee	56.1
Scheme costs	1,046

Insurance funds

Nominal Insurer	$m
Premiums	3,582.8
Investment income	1,175.2

SICorp

TMF	$m
Agency contributions	**2,317.2**
• Workers compensation	1,464.1
• General lines	846.0
Investment income	1,372.7

Construction Risks Insurance (CRIF)	$m
Premiums	250.7
Investment income	12.1

Home Building Compensation (HBC)	$m
Premiums	192.9
Investment income	38.5

Dust Diseases Authority	$m
Premiums	78.8
Investment income	63.3

Lifetime Care and Motor Accident Injury Treatment and Care	$m
Levies and fees	729.4
Investment income	791.9

Regulator and dispute resolution

Workers Comp Operational Fund	$m
Levies collected (icare only)	278.9
Total payments	381.4

- SIRA
- IRO
- PIC
- SafeWork NSW

SIRA does not regulate TMF General Lines or the CRIF

Home Building Operational Fund	$m
Levies collected	5.1
Total payments	6.9

SIRA

SIRA's role in Lifetime Schemes is not regulatory in nature

Accountability

SICorp
Treasurer and Minister for Work Health and Safety

icare and Board
Minister for Work Health and Safety

SIRA
Minister for Customer Service and Digital Government

Statutory appointments

PIC – Personal Injury Commissioner

IRO – Independent Review Officer

35 For the Workers Compensation Operational Fund, the difference in levies collected and total payments is largely covered by levies collected from self and specialised insurers and revenue from penalties, fines and investment income.

6.3 Statutory levies

In 2022–23, over $630 million in statutory levies was collected. More than half was for workers compensation and 45 per cent for CTP care insurance (see Table 7). SIRA manages the insurance-related operational funds summarised in the table below, excluding the Mine and Petroleum Site Safety Fund.

The Mine and Petroleum Site Safety Fund is managed by the NSW Resources Regulator. The NI and Coal Services Pty Limited contribute to the Mine and Petroleum Site Safety Fund. The reported revenue in Table 7 is limited to contributions from the NI.

Other revenue mainly comprises of investment income, fees and fines. For the Motor Accidents Operational Fund, other revenue includes $178.8 million from SIRA's decisions to recoup excessive historical profits for 2018 and 2019 from CTP care insurers.

6.3.1 Statutory levies – trends

Statutory levies and other revenue managed by SIRA has risen from $536.9 million in 2018–19 to $637.3 million in 2022–23. This is summarised in Table 8. The fluctuations in annual revenue collected by the Motor Accidents Operational Fund are partly influenced by SIRA's past decisions to recoup excess profits from CTP Care insurers and pass this onto policy holders in the form of lower levies.

Table 7. Statutory levies collected in 2022–23 for insurance-related operational funds

Fund	Levy revenue ($m)	Other revenue ($m)	Total revenue ($m)
Workers Compensation Operational Fund	335.9	9.2	345.1
Motor Accidents Operational Fund	104.0	182.7	286.8
Mine and Petroleum Site Safety Fund* (NI component only)	8.0	0.0	8.0
Mine and Petroleum Site Safety Fund* (NI component only)	8.0	0.0	8.0
Total	**453.0**	**192.1**	**645.2**

Source: SIRA *2022–23 Annual Report*.

Table 8. SIRA managed operational funds – statutory levies and other revenue, 2018–19 to 2022–23

Operational fund	2018–19 ($m)	2019–20 ($m)	2020–21 ($m)	2021–22 ($m)	2022–23 ($m)
Workers Compensation Operational Fund	287.6	280.5	297.3	313.7	345.2
Motor Accidents Operational Fund	247.4	253.8	282.4	313.3	286.9
Home Building Operational Fund	4.6	4.6	4.4	3.8	5.3
Total	**539.6**	**539.0**	**584.0**	**630.8**	**637.3**

Source: SIRA Annual Reports for 2022–23, 2019–20 and 2018–19.

Workers Compensation Operational Fund – case study

The Workplace Injury Management and Workers Compensation Act 1998 requires SIRA to establish and maintain the Workers Compensational Operational Fund. Money contributed by the NI, self-insurers and specialised insurers (collectively referred to as insurers) and investment earnings are to be paid into the fund.

SIRA estimates the amounts that need to be paid from the fund to meet relevant costs incurred by SIRA, SafeWork NSW, the IRO (including the Independent Legal Assistance and Review Service (ILARS)), the Workers Compensation Division of the Personal Injury Commission (PIC) and various incidental costs paid to the NSW Civil and Administrative Tribunal and the Compensation Court.

SIRA is responsible for annually determining contributions to the fund that need to be made by specialised insurers and self-insurers including government agencies insured through the SICorp TMF, estimating the annual contribution to be paid by the NI (which must be approved by the Minister for Better Regulation and Fair Trading) and determining any provision that needs to be preserved for future expenditure. SIRA is also responsible for investing money in the fund.

Monies in the fund are used for prescribed purposes including remuneration, allowances and other associated costs of SIRA and SafeWork NSW, Workers Compensation Division of the PIC and the costs incurred by the IRO for functions under the workers compensation acts, most notably ILARS.

Annual contributions and distributions into the fund are informed by estimated expenditure needs of SIRA, SafeWork NSW, PIC and IRO. Each entity prepares its own estimate of expenditure needs.

Limited external scrutiny is provided on estimated expenditure needs. SIRA relies on information provided by those entities when estimating the expenditure needs of the entities and in setting its own budget. These expenditure estimates are not routinely subject to detailed external scrutiny by NSW Treasury or depend on parliamentary appropriation.

Over the five years to 2022–23, distributions from the fund have increased from $287.6 million to $345.2 million—an increase of 20 per cent or an average increase 4.7 per cent per year. The IRO and ILARS are responsible for 60 per cent of the increase. The average annual growth rates of the IRO and ILARS were 9.2 per cent and 11.3 per cent respectively. The average annual growth of SIRA's over the same period remained below inflation. Expenditure is summarised in Table 9.

The average growth in expenditure experienced by IRO and ILARS outpaces average growth rates in other parts of the system. In 2022–23, $88 million was distributed as legal grants and related disbursements through ILARS—approximately an $11 million increase compared to the year prior. The increase in ILARS expenses is driven by higher case numbers finalised. The IRO reported that 18,993 matters were finalised in 2022–23, a 15 per cent increase compared to the prior year and that average cost per matter increased by 1 per cent.

A demand-driven system, in 2023–24, the total cost of these legal grants is projected to be $106 million – $35 million higher than originally budgeted. This increase in the level of expenditure is expected to be permanent. The underlying drivers for the growth and whether it represents optimal allocation of resources within the system warrants investigation, particularly against the backdrop of stable expenditure in regulation associated with SIRA and prevention and early intervention through SafeWork NSW.

Table 9. Distributions from the Workers Compensation Operational Fund, 2018–19 to 2022–23

Entity[36]	2018-19 ($m)	2019-20 ($m)	2020-21 ($m)	2021-22 ($m)	2022-23 ($m)	Annual growth rate (%)
Safework NSW	132.9	128.0	128.9	144.5	151.7	3.4
SIRA	59.6	53.2	53.6	51.7	59.7	0.1
IRO	10.6	11.0	12.8	13.6	15.0	9.2
ILARS	57.4	63.1	73.6	77.2	88.0	11.3
PIC	27.2	25.3	28.4	26.7	30.7	3.1
Total	**287.6**	**280.5**	**297.3**	**313.7**	**345.2**	**4.7**

Source: SIRA, NSW Treasury received May 2024, SIRA Annual Reports for 2022–23, 2019–20 and 2018–19.

6.3.2 Benchmarking

All Australian jurisdictions have different arrangements in place comprising a mix of government ownership and private underwriting models for the provision of mandatory insurance and care and for the management of each government's own self-insurance risk.

However, there are three features that make NSW particularly unique:

- SIRA is the only separately established and independent regulator within Australia. For all other jurisdictions, the regulatory functions associated with workers compensation and other statutory insurances are combined with the operator.
- icare is the only fully integrated insurance provider responsible for delivering all NSW Government's statutory insurance and care schemes, as well as the NSW Government's own self-insurance liabilities.
- Other Australian governments locate the management of their own self-insurance risks and liabilities within its general government sector, typically within its treasury or finance function, rather than a government business, such as icare.

These differences mean that an inter-jurisdictional comparison of statutory levies and regulatory costs would be a complex exercise requiring information from other jurisdictions that is not publicly available. The analysis would also be constrained by the practical necessity to disentangle the impacts associated with different government policy choices regarding the scope of risks insured, entitlement design, benefit levels and duration and claims management systems.

Further discussion comparing icare's performance with other government insurers is at 10.2.2.

36 The PIC and IRO were established on 1 March 2021 to replace the former Workers Compensation Commission and Workers Compensation Independent Review Office respectively.

6.4 Findings

Findings

2. The NSW Government could commission the following reviews into the state insurance and care schemes on:
    a. the economic efficiency and effectiveness of the regulatory framework
    b. demand-driven programs and grants to ensure resources are allocated efficiently, costs and benefits are appropriately weighed, and value-for-money outcomes are achieved.

Employee costs

7

7.1 Introduction

Employee costs are the single largest component and driver for icare's NCOS. In 2022–23, employee costs comprised 46 per cent of total operating costs, and 18 per cent of icare's total consolidated expenses.

This section seeks to address the extent to which resources are appropriately allocated towards business process and employee costs efficiently managed. This includes consideration of the following questions raised:

- icare's organisational structure, roles and functions
- the extent to which resources are appropriately allocated and avoid duplication
- appropriateness of icare's remuneration framework
- the extent to which consultants, contractors and contingent workers are used efficiently to deliver value for money.

An assessment of employee costs within icare involves consideration of organisational size, structure and employee remuneration.

icare's workforce comprises permanent, full-time ongoing and fixed-term staff, as well as its temporary workforce. Within icare:

- **employees** refer to individuals employed on a continuous or fixed-term basis, receiving salary and benefits via icare payroll
- **contingent workers** refer to those individuals sourced though an external agency to work on a temporary basis, with employment conditions generally determined by the agency
- **contractors** refer to persons or organisations engaged under contract on a temporary basis to provide professional services and assist with the implementation of a decision taken by icare.

In accordance with the SICG Act, icare is exempt from those sections of the *Government Sector Employment Act 2013* relating to the employment of public service employees.

Section 15 of the SICG Act sets out that the icare board is responsible for setting icare's remuneration policy and it is empowered to employ staff as it requires to exercise its functions, and to fix salary, allowances and conditions of employment for its staff.

This exemption goes hand in hand with icare's status as a public financial corporation (PFC) and is a central tenet of NSW Treasury's Commercial Policy Framework, which establishes an accountability framework for the independent management and commercial autonomy of NSW Government businesses. It seeks to promote the efficient and effective operation of business activities and sound risk management at arm's length from government.

Table 10. Workforce expenditure by type, 2022–23 and 2023–24

Employee type	2022–23 Actual ($m)	2023–24 Forecast ($m)
Direct hire	251	286
Contingent workers	15	6
Contractors	3	7
Indirect	9	-10
Total	**278**	**289**

Source: icare, NSW Treasury received April 2024, Workshop – GET deep dive analysis workforce composition.

7.2 Current expenditure

In 2023–24, icare's total annual employment costs is forecast to be $289 million. This comprises icare's total workforce of 1,986 full-time equivalent staff, including permanent fixed-term and ongoing staff, contingent staff and contractors.

This information is shown in Table 10 which sets out total expenditure and resourcing levels by employment type. Indirect employee costs include workers compensation, overtime and other allowances, staff rewards and recognition, fringe benefits tax and employee termination payments.

7.2.1 Individual employment agreements and the icare award

A further key distinction that defines icare's workforce is the role of the icare award and IEAs as the basis for employment.

IEAs refer to individual contracts with remuneration determined by icare's remuneration framework. IEA remuneration is ordinarily set in accordance with those benchmarks as determined under the remuneration policy approved by the board and is subject to annual review.

The icare award is the key industrial agreement approved by the NSW Industrial Relations Commission which sets out all salaries, allowances and conditions of employment for those employed by icare.

The icare award automatically adopts all salaries, allowances and conditions of employment set out in the Crown Employees (Public Sector – Salaries) Award 2022 (Crown award). The icare award does not apply to executives or any person remunerated above the maximum grade 12 of the salary grade scale set out in the Crown award.

Any employee remunerated above the maximum icare award levels is employed under an IEA.

In 2022–23, there were 1,279 FTEs employed under the icare award and accounted for approximately three quarters of icare's total workforce. As shown in Table 11, those employed on IEAs include all members of the group executive team (GET) and senior leadership team.

In 2022–23, the average salary for an IEA employee was $234,026, while the average salary for an icare award employee was $122,499.

Looking across the organisation it is possible to identify those areas where IEA employees or icare Award employees predominate. This is show in Figure 11 below.

In 2022–23, Lifetime Schemes accounted for 22 per cent of icare's total workforce, but 17 per cent of total salaries. This indicates that there is a greater proportion of staff employed under the icare award at a lower average salary. This is consistent with icare's role to directly manage those individuals accessing lifetime care, and the employment of front-line case management staff to support this function.

In comparison, Risk and Compliance comprise five per cent of icare's total workforce but account for eight per cent of total salaries, and thus account for a greater share of icare's total salaries relative to workforce size, pointing to a greater reliance on IEA employees with higher average salaries compared with other parts of the business.

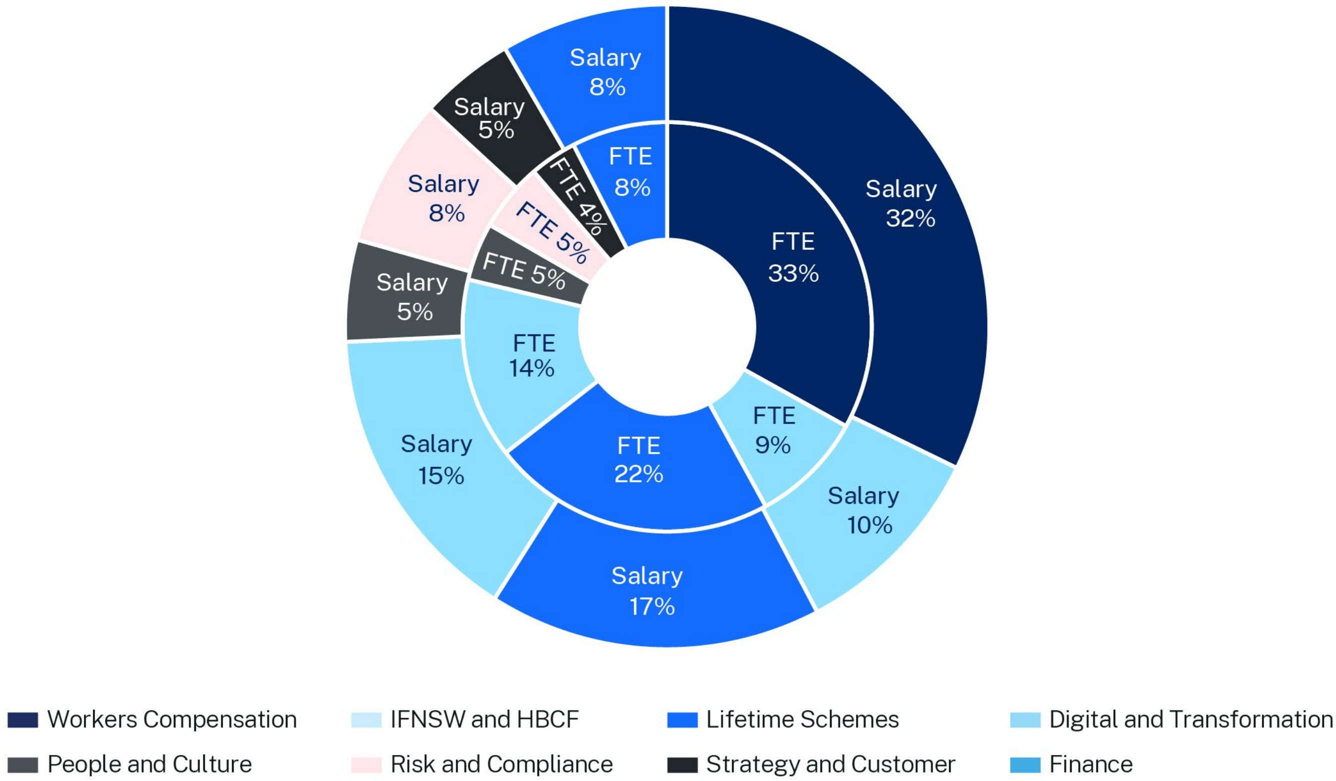
Across all other areas, the relationship between workforce size and salary share are broadly correlated – only modest gaps can be identified.

Table 11. Employment type and cost, including capitalised employee costs – IEAs and icare award, 2022–23

Employee type	FTE	Expenditure ($m)	Employee cost (%)
IEA	430	101.7	32
IEA – group executive team	9	5.0	2
icare award	1279	152.1	48
Contingent	224	59.3	19
Total	**1,942**	**318.1**	**100**

Source: icare, NSW Treasury received May 2024, HR date FTE May request.

Figure 11. Salaries and FTE by function, 2022–23



Source: icare, NSW Treasury received April 2024.

7.2.2 Contingent workers and contractors

icare's supplements its permanent workforce using contingent workers and third-party service providers, including contractors.

In 2022–23, contingent workers comprised 11.5 per cent of icare's total workforce – largely concentrated in technology design and development.

The use of contingent workers is intended to provide access to specialised skills necessary to undertake project-related work, although contingent workers are also used to support business-as-usual activities. This is shown in Table 12 which sets out contingent worker related expenditure on business-as-usual and project-related activities, where total project-related expenditure for both contingent workers and contractors accounted for almost 80 per cent of total expenditure in 2022–23.

In 2022–23, total expenditure on icare's contractor service providers equalled $61 million. This was almost half the amount spent on contractors in 2018–19 when total contractor related expenditure equalled $115 million. This expenditure comprises a mix of operating expenditure and capital expenditure – largely driven by investment in the Enterprise Program.

In 2022–23, nine service providers accounted for more than one third of this total expenditure

($22.8 million) and all but two were technology related.[37] A review of a longer list of contractors used by icare points to a similar predominance of technology-related services expenditure. This expenditure is considered in 8. Technology and Enterprise Program costs.

Internal analysis undertaken by icare in October 2023 determined that in 2022–23, the direct additional cost associated with the use of contingent workers, contractors and consultants amounted to $14.6 million.

While this points to some potential opportunities and savings to be made through conversion from contingent and contractor workers to direct hires, is not possible to safely conclude that icare could have reduced its total expenditure on contingent workers and contractors of $88.7 million in 2022–23. This is because this differential could be viewed as the potential value attached to flexible resourcing used to facilitate access to specialist skills needed on a short-term basis to support time-limited projects that is otherwise uneconomic to engage on an ongoing basis.

Actuarial services

Actuarial services represent the single largest annual consulting expense incurred by icare. In 2022–23, expenditure on consultant actuarial services amounted to $9 million. These services are needed to support the bi-annual independent valuation of scheme liabilities, as well as other actuarial valuation activities.

Significant expenditure on consultant actuarial services across NSW Government speaks to an opportunity for NSW Government to pursue a functional review of actuarial services – in line with NSW Government policy regarding the use of consultants and greater use of specialised networks of expertise across the public sector.

In 2023–24, icare commenced an insourcing strategy for actuarial services, starting with its Lifetime Care schemes.

Opportunities may exist across government to leverage icare's insourcing strategy which could see icare become a central source of actuarial expertise for the NSW Government. Different models are employed across Australian governments that could be assessed.

Table 12. Contingent worker expenditure, 2022–23

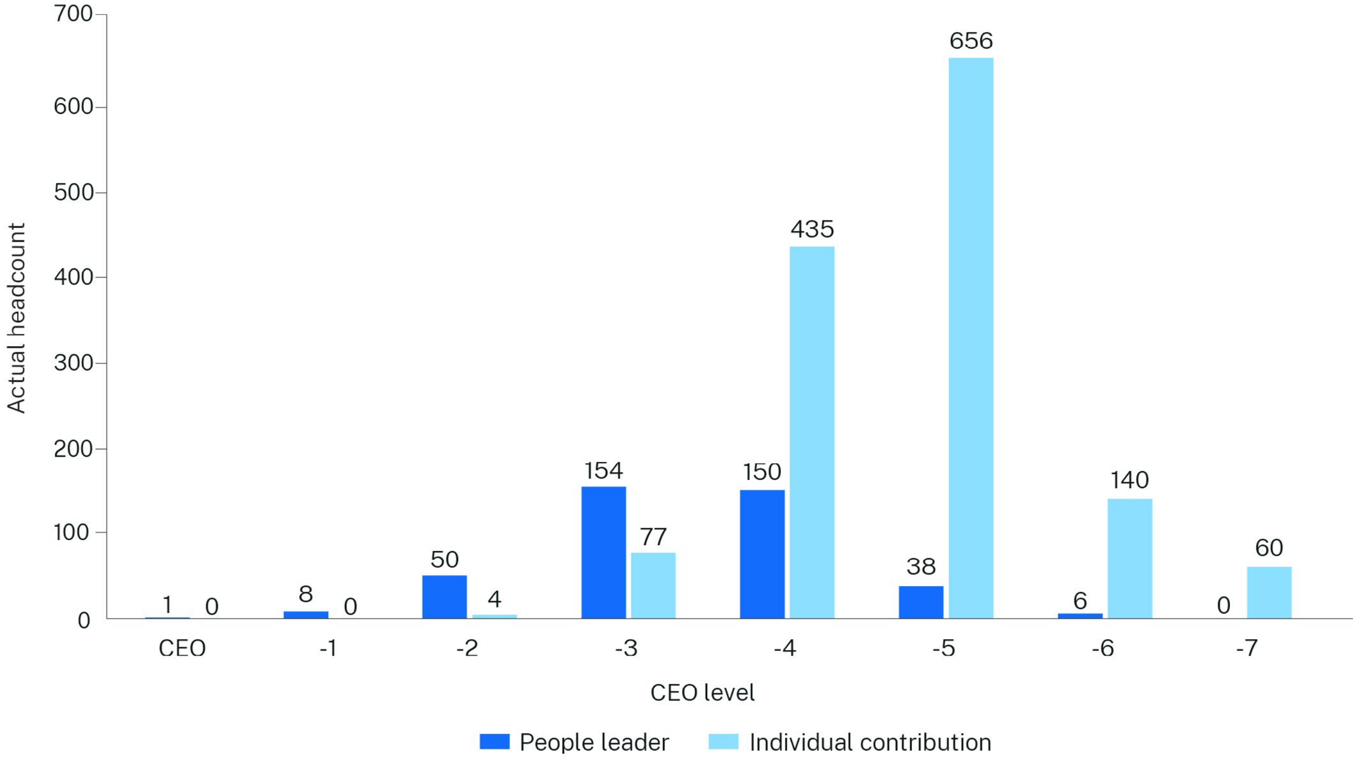
	Business-as-usual ($m)	Project ($m)	Total ($m)
Contingent workers	15.5	41.7	**57.2**

Note: reported expenditure may not correspond to Table 11 due to difference in expenditure classification in icare reports.

Source: icare, NSW Treasury received May 2024, Workshop - GET deep dive workforce composition.

37 The two exceptions related to financial services and assurance associated with pre-injury average weekly earnings remediation and the NI contractual model and strategy.

Figure 12. Layer analysis, icare workforce, November 2023



Source: icare, NSW Treasury received April 2024, Workshop – People analytics, spans and layers and internal labour market flow analysis by GET Area, December 2023.

At the same time, any such consolidation cannot compromise the centrality and independence of actuarial frameworks and analysis which serves as a foundation for icare decision making and the conduct of its business operations and strategy. Any such functional review must carefully consider icare's business imperatives and core reliance on actuarial expertise balanced with value-for-money opportunities across government.

7.2.3 Organisational structure

A further driver of employee costs is organisational structure. That is, whether icare's workforce is structured in an efficient way which:

- supports performance and productivity improvements through enhanced role clarity and accountability
- avoid or minimise potential complexity and duplication of roles or functions.

A focus on organisational layers and spans can help understand organisational complexity and identify possible opportunities to improve organisational efficiency and effectiveness.[38]

- **Organisational layers** refer to the number of levels within an organisation that have supervisory responsibilities.
- **Organisational spans** refer to the number of people reporting directly to one individual.

There is no one ideal or perfect organisational structure or span of control. Managerial judgment is needed to determine the organisational structure which best aligns with business needs.

In December 2023, icare undertook a point in time analysis of its organisational structure. This analysis (see Figure 12 below) points to a potentially complex organisational structure with up to seven layers from CEO to CEO-7.

38 Deloitte (February 2020) *Spans and Layers for the Modern Organization*, https://www2.deloitte.com/content/dam/Deloitte/us/Documents/human-capital/us-spans-and-layers-for-the-modern-organization-2020.pdf, accessed 8 June 2024.

There is significant variance across the organisation and the layers in place within different business areas. For example, the different schemes tend to have more layers: Workers Compensation (seven), Lifetime Schemes (six) and IfNSW and HBCF (five). A greater number of layers tend to go together with the significant resourcing dedicated to case management and related customer-facing functions within the schemes.

In comparison, non-scheme corporate and enabling functions tend to be characterised be a fewer number of layers, usually a maximum of five, except Digital and Transformation (six layers). This tends to be consistent with the underlying resource profile which typically comprise higher-grade professional roles.

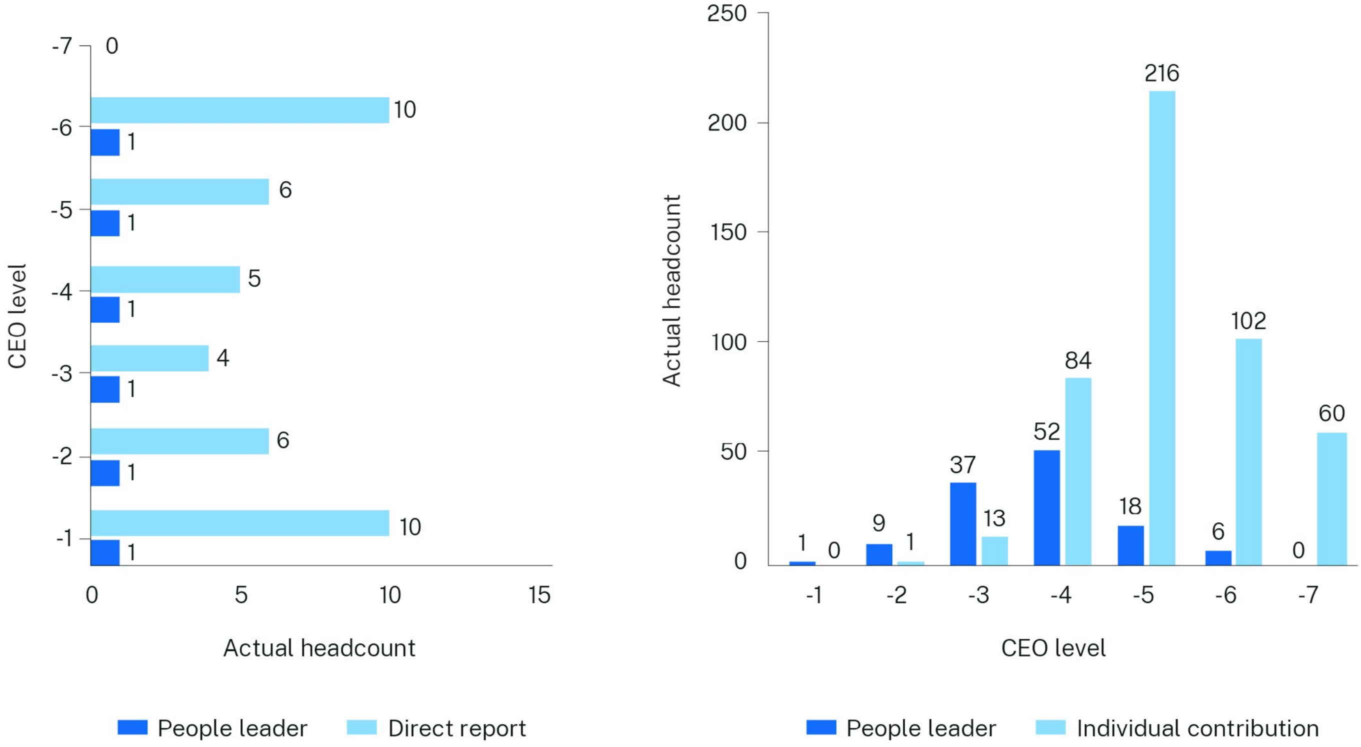
Spans and layers

The following figures provide a horizontal and vertical perspective of the spans of control in place across icare's scheme and non-scheme areas.

The Workers Compensation scheme shown in Figure 13 is the only scheme to have seven layers, tapering down to CEO-3 before widening again, with few people managers at CEO-5 and CEO-6. The complexity of the Workers Compensation spans and layers, with the highest number of layers and highest span ratios is notable when compared alongside the other schemes.

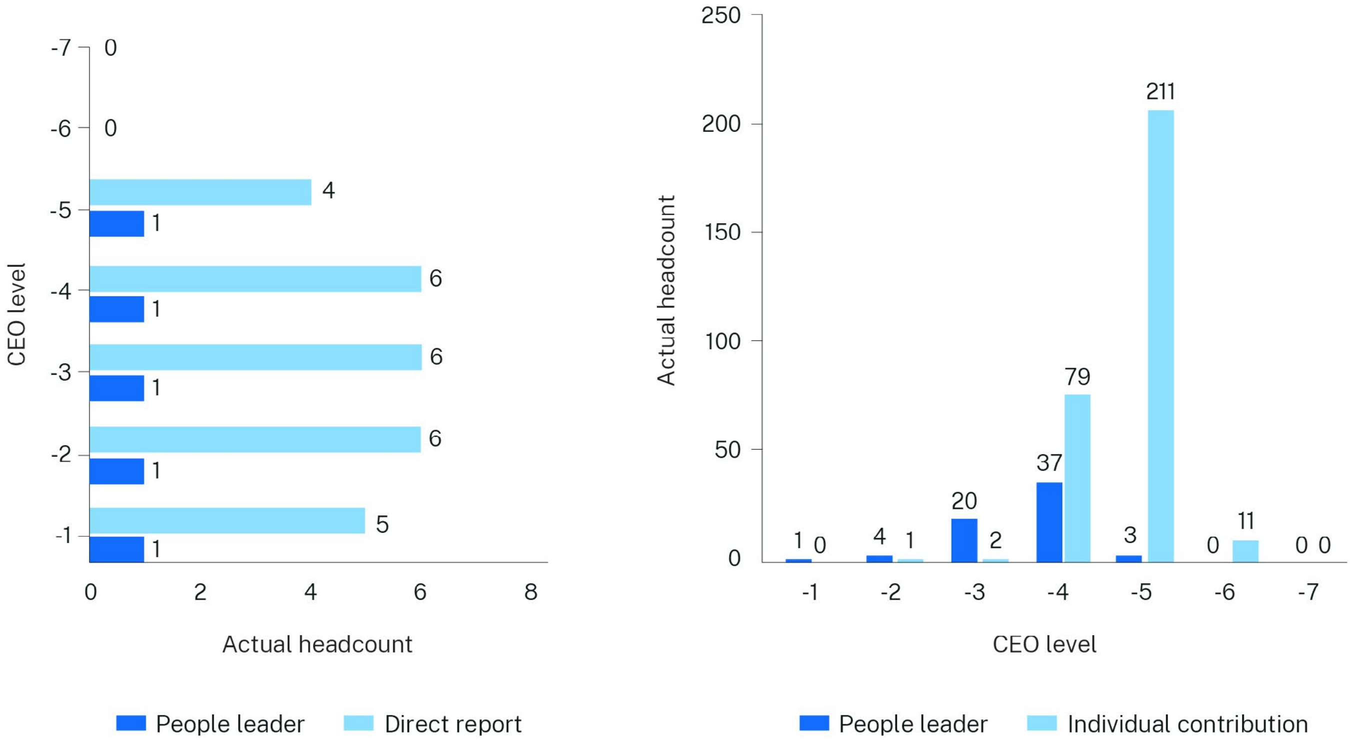
The workforce composition and organisational structure for Lifetime Schemes shown in Figure 14 is largely as expected, reflecting its focus on case management and 57 per cent of its workforce concentrated at the CEO-5 level.

Figure 13. Workers Compensation – spans and layers, 599 employees, November 2023



Source: icare, NSW Treasury received April 2024, People analytics, spans and layers and internal labour market flow analysis by GET Area, December 2023.

Figure 14. Lifetime Schemes – spans and layers, 369 employees, November 2023



Source: icare, NSW Treasury received April 2024, People analytics, spans and layers and internal labour market flow analysis by GET Area, December 2023.

Figure 15 shows that the IfNSW workforce has five layers to CEO-5 – the least number of layers for any of icare's schemes.

This may reflect, in part, that a large part of workers compensation case management functions (and associated resources) is embedded within NSW Government agencies, as well as the different nature of general insurance underwriting, claims management and other functions performed within IfNSW, alongside other potential historical or other factors.

By way of comparison, the non-scheme enabling areas tend to have a simpler organisational structure with generally wider spans at the top layers that taper down towards the bottom layer.

Most non-scheme employees are at, or above, the CEO-4 level with only 41 employees at the CEO-5 level. There are no people leaders at the CEO-5 level, and no employees at the CEO-6 or CEO-7 levels. There are only two employees at the CEO-5 level in People and Culture.

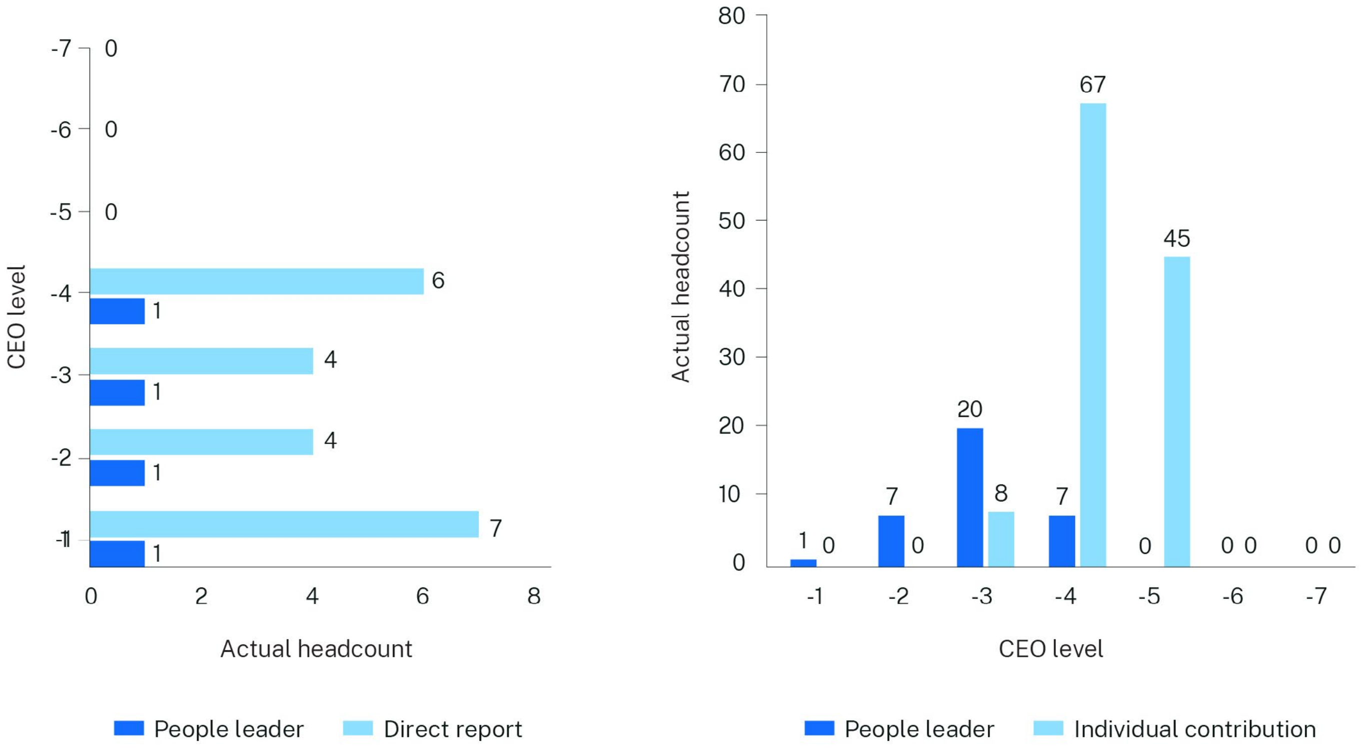
Overall, the following four figures show that the non-scheme workforce is more senior with lower span of control ratios relative to the schemes.

The highest span of control ratio in non-scheme functions is in People and Culture where the CEO-1 level has a 1:9 ratio (Figure 19), followed by Finance which has a 1:7 ratio at this same level (Figure 17), Risk and Governance at 1:5 (Figure 18) and Strategy and Customer at 1:4 (Figure 20).

In most other layers it is between a 1:3-1:5 ratio. However, Risk and Governance is an exception where the CEO-4 level has a 1:1 ratio of people leader to direct report.

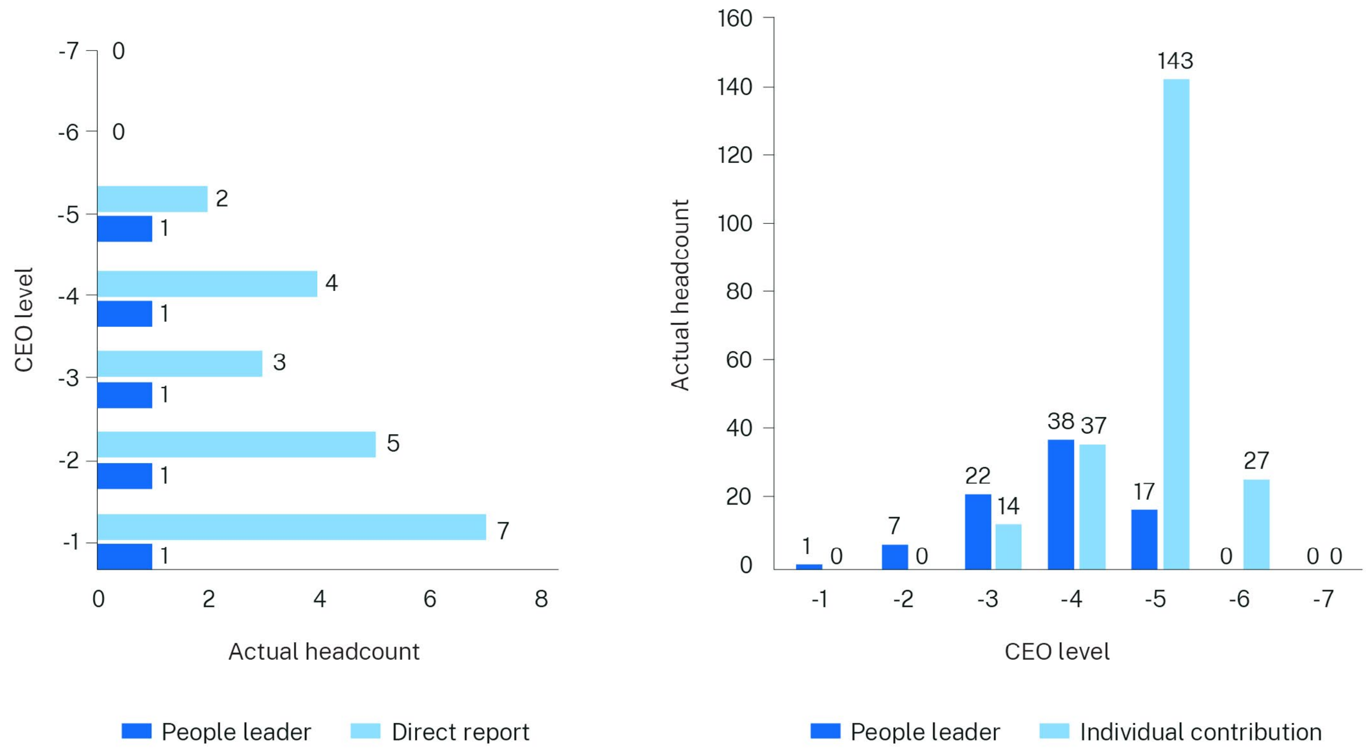
These ratios may imply some inefficient spans of control exist and that some overlap between the duties of the people leader and direct report. There may be value in examining the spans of control further to understand and ensure they are effective and efficient.

Figure 15. IfNSW and HBCF – spans and layers, 155 employees, November 2023



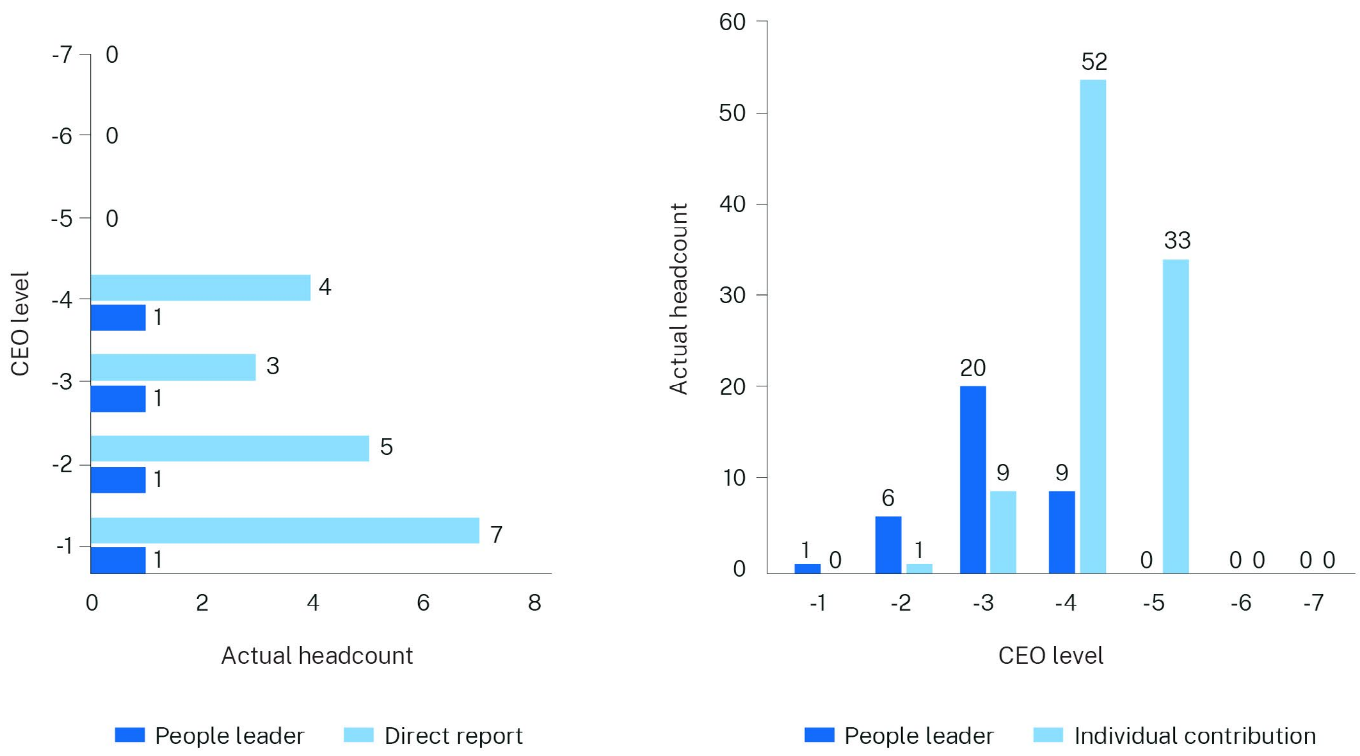
Source: icare, NSW Treasury received April 2024, People analytics, spans and layers and internal labour market flow analysis by GET Area, December 2023.

Figure 16. Digital and Transformation – spans and layers, 306 employees, November 2023



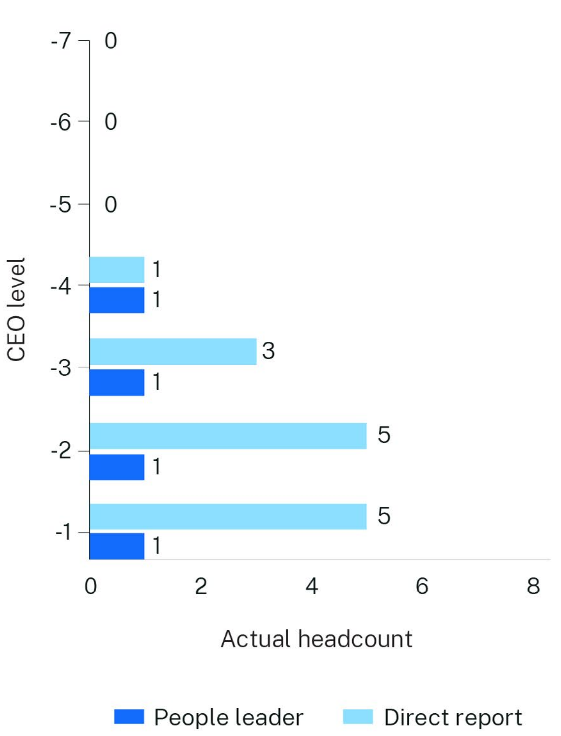
Source: icare, NSW Treasury received April 2024, People analytics, spans and layers and internal labour market flow analysis by GET Area, December 2023.

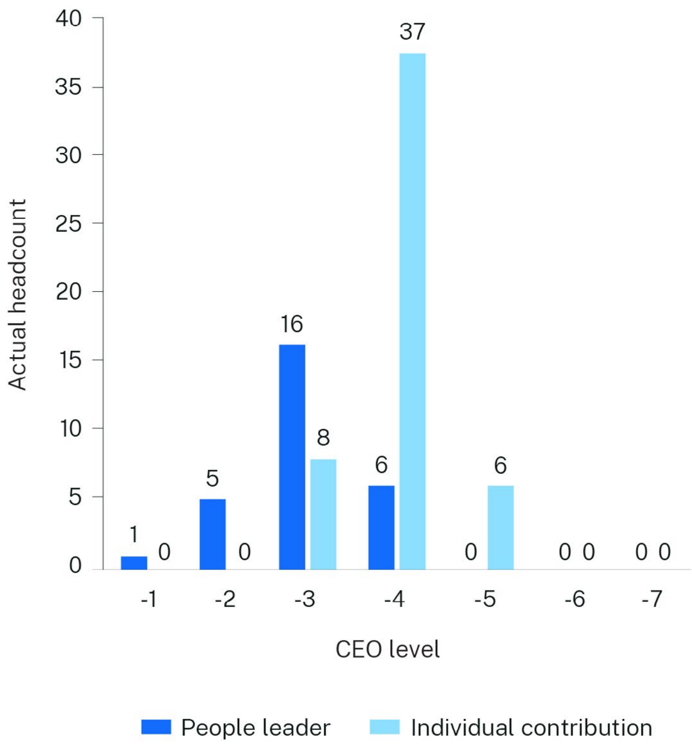
Figure 17. Finance – spans and layers, 131 employees, November 2023



Source: icare, NSW Treasury received April 2024, People analytics, spans and layers and internal labour market flow analysis by GET Area, December 2023.

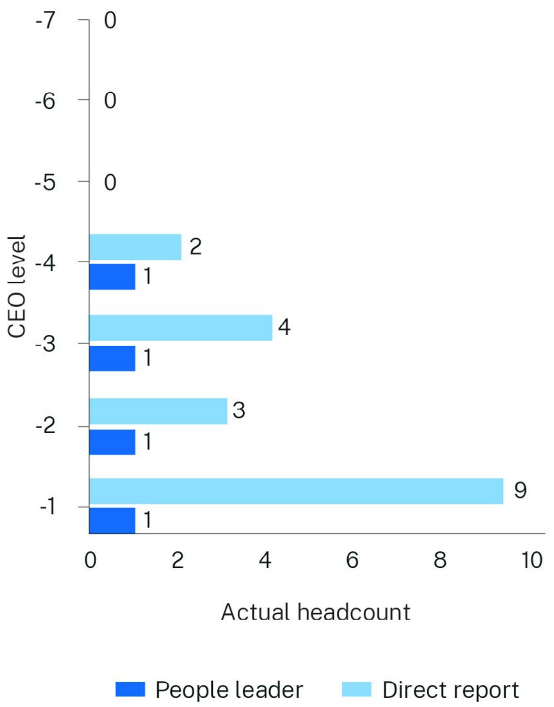
Figure 18. Risk and Governance – spans and layers, 79 employees, November 2023

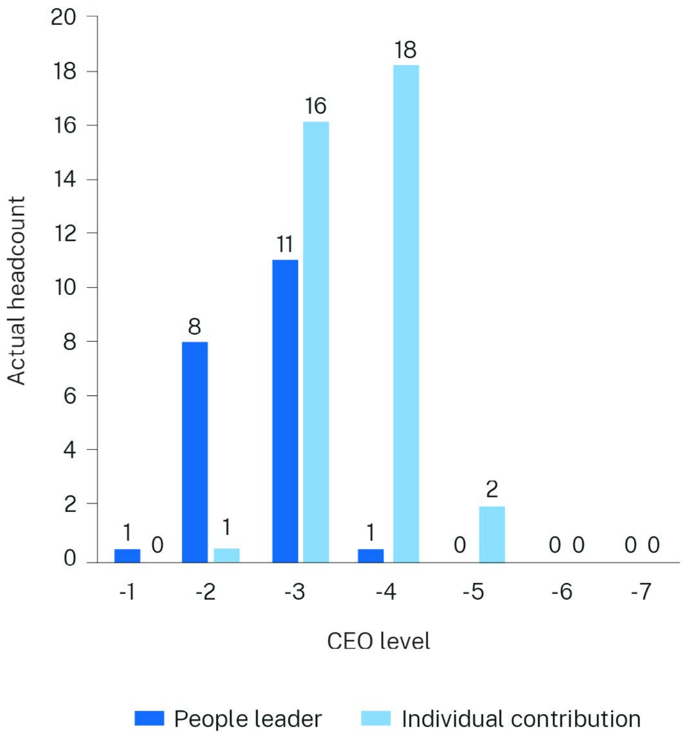




Source: icare, NSW Treasury received April 2024, People analytics, spans and layers and internal labour market flow analysis by GET Area, December 2023.

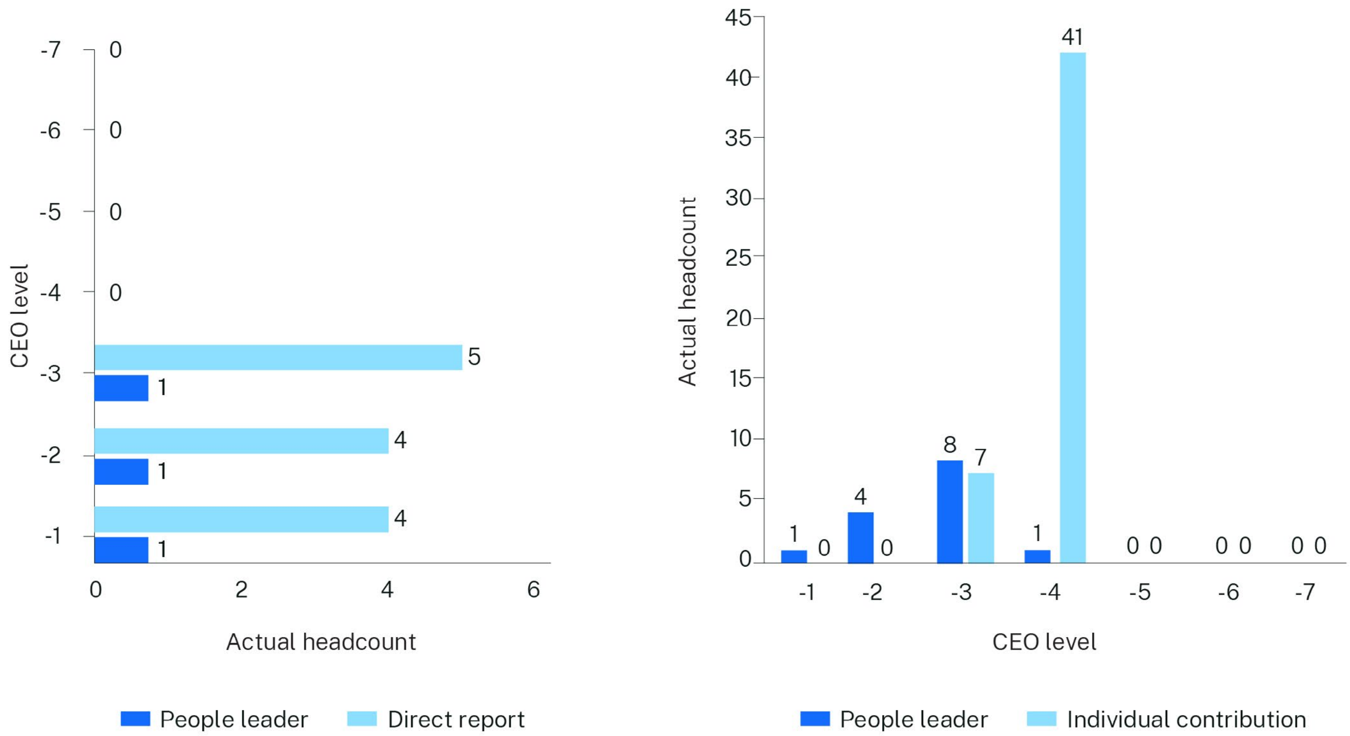
Figure 19. People and Culture – spans and layers, 78 employees, November 2023





Source: icare, NSW Treasury received April 2024, People analytics, spans and layers and internal labour market flow analysis by GET Area, December 2023.

Figure 20. Strategy and Customer – spans and layers, 61 employees, November 2023



Source: icare, NSW Treasury received April 2024, People analytics, spans and layers and internal labour market flow analysis by GET Area, December 2023.

7.2.4 Internal labour market flow

Internal labour market analysis is a tool used to understand the dynamic flow of labour within an organisation. It examines the flow of employees through its hiring, promotion and exit activities to garner insights regarding an organisations' capacity to attract, develop and retain skills and talent.

This analysis may be visually presented using an internal labour market map. The shape which emerges from such data visualisation can provide potentially useful insights into an organisation's structures and practices. The most common three shapes that tend to be found across organisations are pyramid, diamond and block.

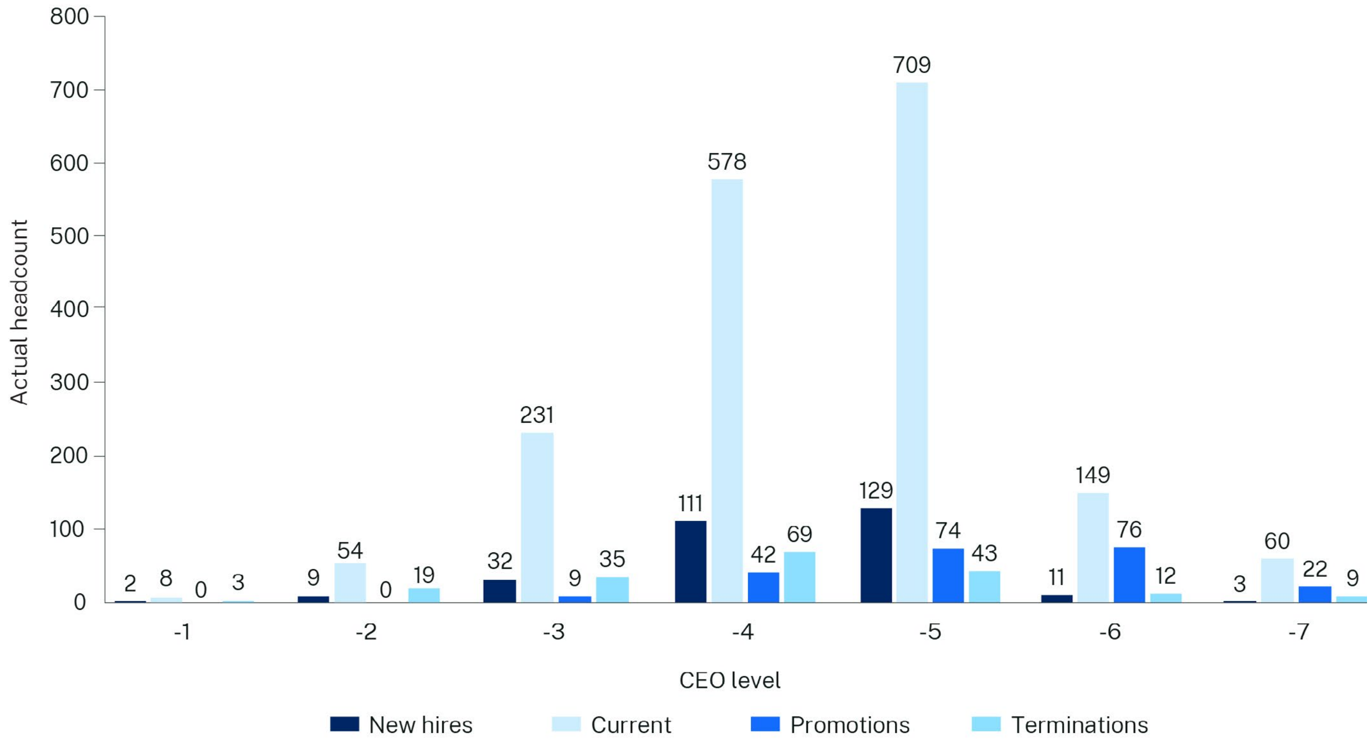
- A clear pyramid shape indicates a strong hierarchical arrangement.
- A diamond shape sees most employees clustered in the middle and often tends to be more homogenous in terms of occupation.
- A block shape means employees are spread relatively evenly across levels, and the senior-most levels continue to be actively involved in production or service delivery. This is more common in areas like professional services.[39]

Figure 21 below indicates that icare has a pronounced diamond shaped workforce and organisational structure in place, pointing to a hierarchical company.

icare tends to resemble a more traditional pyramid structure for higher levels from CEO-5 and above, with a large proportion of icare's workforce concentrated at the CEO-4 and CEO-5 levels. A pronounced reduction or drop off in employee levels is evident when looking at the CEO-6 and CEO-7 levels – likely attributable to lower-level employees located within the schemes.

39 Mercer (2003) *Understanding Your Internal Labor Market*, p. 91, www.mercer.com/content/dam/mercer-subdomains/workforce-analytics/attachements/01_Understanding%20Your%20ILM%20(from%20PTYS).pdf, accessed 18 July 2024.

Figure 21. Internal labour market flow, November 2023



Source: icare, NSW Treasury received April 2024, People analytics, spans and layers and internal labour market flow analysis by GET Area, December 2023.

Recruitment, promotion and exit

Figure 13 provides a snapshot capturing recruitment, exit and promotion activity from December 2022 to November 2023.

Over this period, there were slightly more external hires (17 per cent) than internal promotions (13 per cent). This may suggest a tendency to hire externally and may drive increased direct and indirect costs. It is also possible that this is due to a mix of different factors including organisational skills and capabilities required (such as project-based work) and the possible interaction between IEAs and the icare award.

More broadly, this map indicates that the most external hires and promotions occurred at the CEO-4 and CEO-5 level. This is in keeping with concentration of employees clustered around these levels.

It is possible to consider whether the larger volume of external hires points to a tendency to bring in capability, rather than build and promote from within. However, it is risky to draw any definitive conclusions based solely on this information and other explanations are possible.

Most exits were voluntary although some involuntary exits occurred at CEO-2 (seven), CEO-3 (eight) and CEO-4 (10). The relatively high proportion of involuntary exits at these levels raises some prima facie concerns regarding the incidence of involuntary exits as an overall proportion of the group executive team and senior executive leadership team and the degree of stability and impacts on business continuity, culture and staff morale.

This is further reinforced by the quantum expended in employee termination payments as of February 2024 amounting to $4.8 million, more than doubling from 2021–22 after elevated levels in 2020–21 associated with Project One restructuring to simplify icare's organisational structure.

The schemes (Workers Compensation, Lifetime Schemes and IfNSW and HBCF) are hiring more externally than promoting from within, particularly at the mid-range levels of CEO-4 and CEO-3. The schemes also experienced low overall exits except at lower levels where turnover ranges from around 25 to 40 per cent.

The non-scheme enabling areas experienced a greater share of exits relative to the broader organisation. This is most pronounced at senior levels, including CEO-2 where Strategy and Customer, Finance, People and Culture, and Risk and Governance all had exits above 22 per cent and as high as 43 per cent.

Most involuntary exits occurred in the non-scheme functional areas, Strategy and Customer (seven), Finance (one), People and Culture (five) and Risk and Governance (four).

The clustering of these exits in the non-scheme functions and at the more senior levels may be an area worth further consideration. Real questions exist regarding the level of leadership stability across the organisation at senior levels and whether any key themes or causal factors can be identified particularly regarding the use of redundancy payments and their impact on employee costs. At the same time, these involuntary exits may point to icare actively seeking to optimise its workforce structure. They may also indicate active management of performance or alignment with organisational values and capability needs.

The board could review the recent use of, and organisational policies relating to, terminations especially at more senior levels to understand risks and drivers, as well as review contractual conditions regarding termination and the quantum paid, including in relation to misconduct (if any).

7.3 Expenditure trend

icare's total FTE workforce has more than doubled from 880 FTE in June 2019 to 1,756 in June 2023. In line with this growth, total employee costs have risen from $127.3 million to $289 million.

icare attributes this growth to range of drivers including:

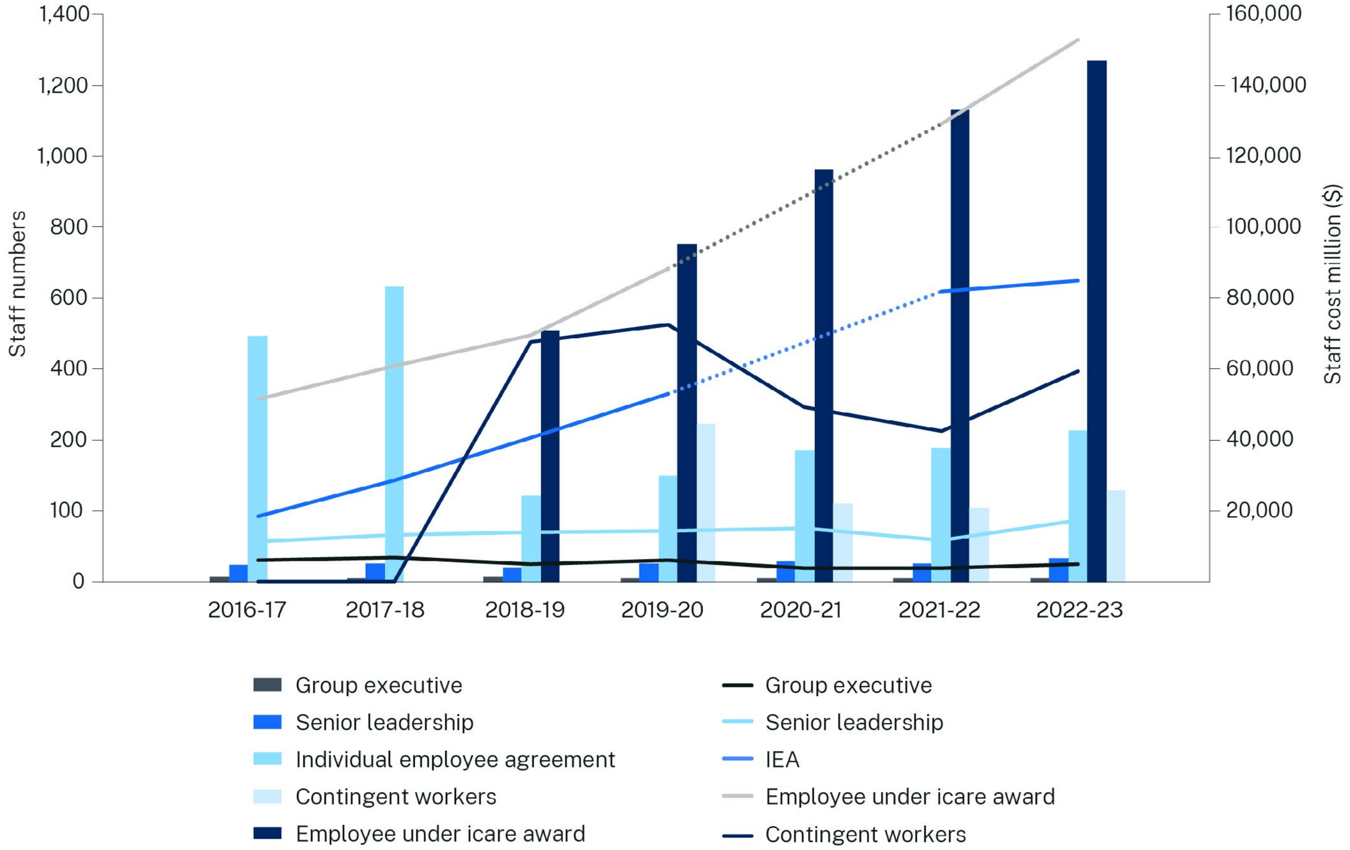
- responses to the McDougall and GAC Reviews through the Enterprise Improvement Program
- establishment of a new scheme – CTP Care
- management action to insource significant functions and capability across schemes
- scheme growth.

This growth in workforce size and employee expenditure is shown in Figure 22.

Over the last five years, icare's total FTEs has increased from 880 FTEs (icare award and IEA employees) in 2018–19 to 1,718 FTEs in 2022–23 (excluding contingent workers) – equating to an approximate 95 per cent increase in organisational size. Over this same period, the group executive team and senior leadership team have increased in size by 34 per cent, rising from 50 FTEs to 67 FTEs in 2023–24.

The contingent workforce has decreased from 387 to 224 over the four-year period from 2019–20 to 2022–23, a 43 per cent reduction, while expenditure reduced by almost 25 per cent, consistent with a rebalancing of contingent workers and how they are utilised across the organisation.[40]

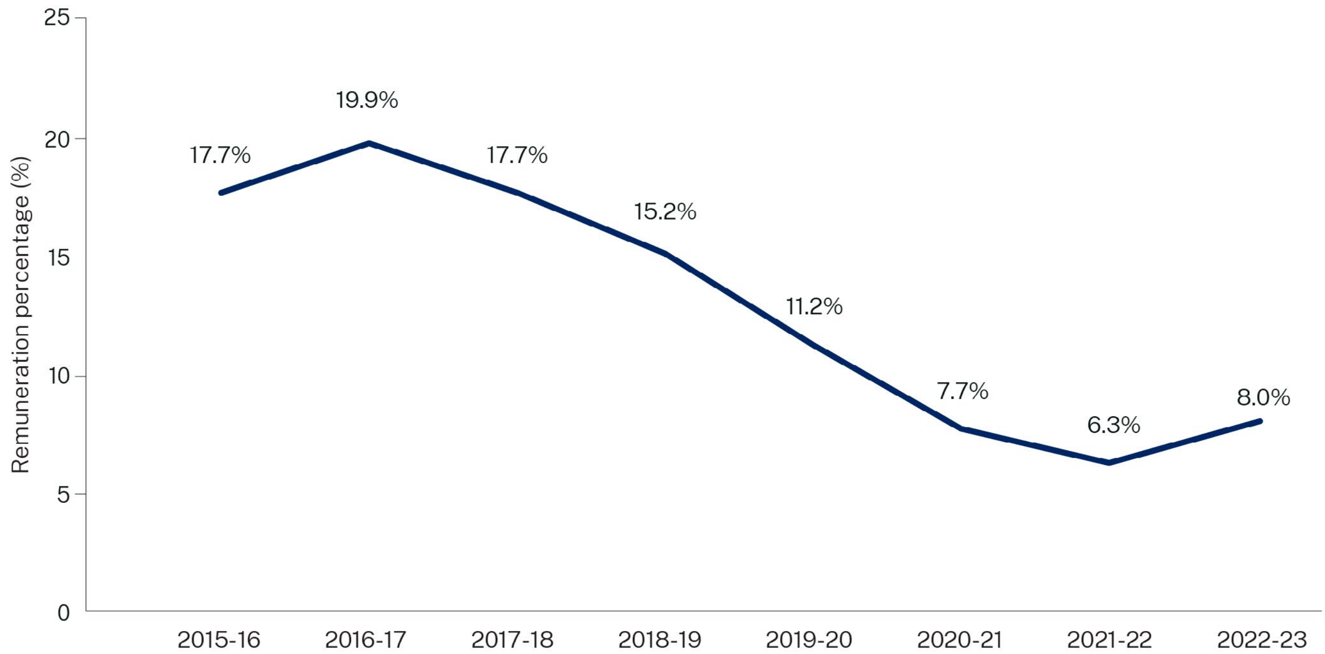
Figure 22. icare employee costs and FTE, 2016-17 to 2022–23



Source: icare, NSW Treasury received June 2024, icare annual reports, 2018–19 to 2022–23, McDougall Review, icare HR data request May 2024.

40 Data from 2018-2021 was not available to NSW Treasury as icare was operating on a HR system that is now decommissioned.

Figure 23. Senior executive remuneration as a percentage of employee costs, 2018–19 to 2022–23



Source: icare, NSW Treasury received June 2024, icare annual reports, 2018–19 to 2022–23.

7.3.1 Senior executive employees

icare's senior executives comprise the CEO, general executive team (GET) and senior leadership team (SLT) (including SES band 2 equivalents and above).

In 2018–19, senior executive salaries amounted to $19.4 million and accounted for 15.2 per cent of total employee-related wage costs with 50 senior executives accounting for 5.7 per cent of total FTEs at year-end.

By 2022–23, senior executive salaries amounted to $22.2 million but accounted for 8.1 per cent of total employee-related wage costs with 52 senior executive FTEs at 30 June 2023 – a function of organisation-wide growth and increased FTEs. Senior executives accounted for 3.2 per cent of FTE equivalent employees at year end, a slight decrease from four per cent in the preceding year.

This represented a modest increase from 7.4 per cent to total employee-related wage costs – which was possibly due to a decision of the board to end variable remuneration in the preceding year.

These trends are seen in Figure 23 below showing senior executive remuneration as a percentage of total staff costs.

Prima facie the above analysis leads to an inference that executive remuneration has experienced negative growth relative to the organisation over this period. In practice, it is likely that this analysis is heavily influenced by the increasing insourcing of capability within icare.

In addition, this overlaps with a period characterised by a high reliance on contingent workers provided by Comensura. Almost 1,500 roles were filled during this period using higher cost contingent workers, including claims specialists, communications officers and customer experience staff, data, strategy and business analysts, risk professionals and various support functions such as human resources, accounting, payroll, facilities managers and graphic designers.[41]

The McDougall Review notes that in 2018–19, there were 45 senior executives in the equivalent of the public sector band 2 or above with an average remuneration of $302,517.10 As of 30 June 2023, there were 50 senior executives employed by icare with an average remuneration of $411,161.[42]

41 Allens Linklaters (April 2021) External Report – Insurance and Care NSW – Comensura PTY LTD, p. 9, https://www.icare.nsw.gov.au/-/media/icare/unique-media/about-us/publications/files/icare-comensura-report.pdf, accessed 18 July 2024.

42 icare *2022–23 Annual Report*, p. 128.

A key factor that largely explains and drives this $50,000 difference between June 2022 and June 2023 is a decision of the board to remove performance incentives from all reward arrangements at icare. The board made this decision taking into consideration a reset of icare's strategy, public reviews, and stakeholder feedback. This led to an adjustment to the level of fixed pay for key management personnel impacted, decided with reference to external market benchmarks.[43]

Prior to this, icare's remuneration model for eligible IEA employees (that is, members of the group executive team) included fixed pay and at-risk incentives. icare offered up to 40 per cent of fixed pay for senior executives and up to 50 per cent of fixed pay for the CEO for an at-risk incentive.

For 2020–21 and 2021–22, the board determined that no incentive payments should be made due to organisational and financial performance targets not being met and COVID-19.[44]

In accordance with its exemption from the GSE Act, icare does not use public service senior executive bands, but instead has a board-endorsed remuneration policy in place. However, usefully for the purpose of this review, and in line with its annual reporting requirements, icare reports on that portion of its senior executive (defined as its senior leadership team and above) with remuneration packages aligned with the GSE Act range amounts.

7.3.2 Award employees

Annual average icare award salaries have risen 10.3 per cent from $118,567 in 2021–22 to $130,755 in 2023–24. The increase is a function of both mandated award increases but mix of employees at different grades to perform roles. Over the same time, annual average IEA salaries have increased by almost $20,000 from $218,675 to $238,174, amounting to an 8.9 per cent increase.

This reflects broader trends in average weekly earnings, with public sector wages growing 18 per cent over the last five years, with financial services experiencing slower wages growth of 10 per cent from 2018–19 to 2022–23.[45]

The icare award has increased in line with the NSW Government's Wages Policy which provided for a 2.53 per cent increase in 2021–22 and four per cent in 2022–23 and 2023–24.

Over the last two financial years, grade 12 remuneration under the icare award has outpaced growth in IEA employee wages and has resulted in some additional salary adjustments to maintain a gap between the icare award and IEA remuneration.

Out of cycle adjustments are by exception only, with 12 approved in 2022–23 in comparison to 26 approved in 2021–22. This may point to an improved remuneration framework to ensure salaries are in line with market with increased discipline limiting their use to address retention risk for selected critical roles.

7.3.3 Contingent workers

Over the last three years from 2020–21 to 2022–23, icare has embarked on a deliberate policy to convert contingent workers to permanent ongoing or fixed-term roles where appropriate.

The impact of this policy on icare's annual employment costs over this time is shown in Table 13.

The reduced reliance on contingent workers is clear with expenditure falling 65 per cent from $44 million to $15 million, with a further reduction planned in 2023–24 to $6 million, while expenditure on third-party service provider contractors falls by almost 90 per cent over the same timeframe, albeit an increase in expenditure is expected in 2023–24.

The modest annual change in total employee expenditure from 2019–20 to 2021–22 of two per cent demonstrates the degree of substitution that has occurred between direct and contingent employees.

A key part of icare's strategy to reduce its reliance on contingent workers to lower costs as well as build and retain workforce knowledge, skills and continuity is also evident in the changing ways in which it uses contingent workers.

43 icare 2022–23 Annual Report, p. 128.

44 icare (December 2022) *2021–22 Annual Report*, p. 162; icare December 2021, p. 110.

45 Australian Bureau of Statistics (February 2024) *Average Weekly Earnings*, Table 10h – average weekly earnings – persons, full time adult total earnings, https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/average-weekly-earnings-australia/nov-2023#data-downloads, accessed 18 July 2024.

Table 13. Employment cost by employee type, 2019–20 to 2024–25

Employee type	2019–20 Actual ($m)	2020–21 Actual ($m)	2021–22 Actual ($m)	2022–23 Actual ($m)	2023–24 Forecast ($m)	2024–25 Forecast ($m)
Permanent and fixed term	165	195	225	250	286	278
Contingent	44	26	22	15	6	6
Contractors	28	14	11	3	7	4
Indirect employment[46] costs	5	13	-4	9	-10	0
Total	**243**	**248**	**253**	**278**	**289**	**288**
Annual change (%)		2	2	10	4	0

Source: icare, NSW Treasury received April 2024, NSW Treasury expense summary.

Until 2020–21, contingent workers were used extensively throughout the organisation to support a mix of project-based as well as business-as-usual activities. This approach has now changed with icare seeking to achieve greater value for money by targeting the use of contingent workers to support specific initiatives and project-based work, which tend to require specialised skills on a time-limited basis.

This shift in practice is shown in Figure 24 and Figure 25 below which compare changes in use the contingent workers to support business-as-usual activities in comparison to projects. The increased level of investment in 2022–23 is primarily driven by the Enterprise Program.

7.3.4 Indirect costs

The review considered trends in indirect employee costs, including use of overtime, accommodation, technology and incidentals and recruitment costs.

Overtime expenses is the main expenditure trend to demonstrate continued upward growth from approximately $400,000 in 2020–21 to over $1.2 million in 2023–24. However, this trend is primarily driven by icare award employee allowances associated with icare's (newer) Lifetime Care scheme case management role, as well as insourcing some more specialised technology-related roles requiring after-hours work for testing and other development activities which cannot be implemented during business hours.

icare underutilises office accommodation based on mandatory standards in the *NSW Government Workplace Design Principles*. Mandatory standards require accommodation should provide enough desks for 60 to 80 per cent of FTE.[47] Recent point-in-time analysis by Property and Development NSW found icare's office occupancy allowance was equivalent to 90 per cent of FTE.

To achieve a 60 per cent occupancy allowance, it was estimated icare would need to reduce its floor space by approximately 7,000 square metres across offices in Sydney CBD, Parramatta, Newcastle, Gosford and Wollongong. The estimate is likely of the upper bound as it excludes occupancy allowances for third-party vendors, the Dust Diseases Care Health Screening Clinic and service partner and project resources, who occupy work points within icare's tenancy on a regular basis.

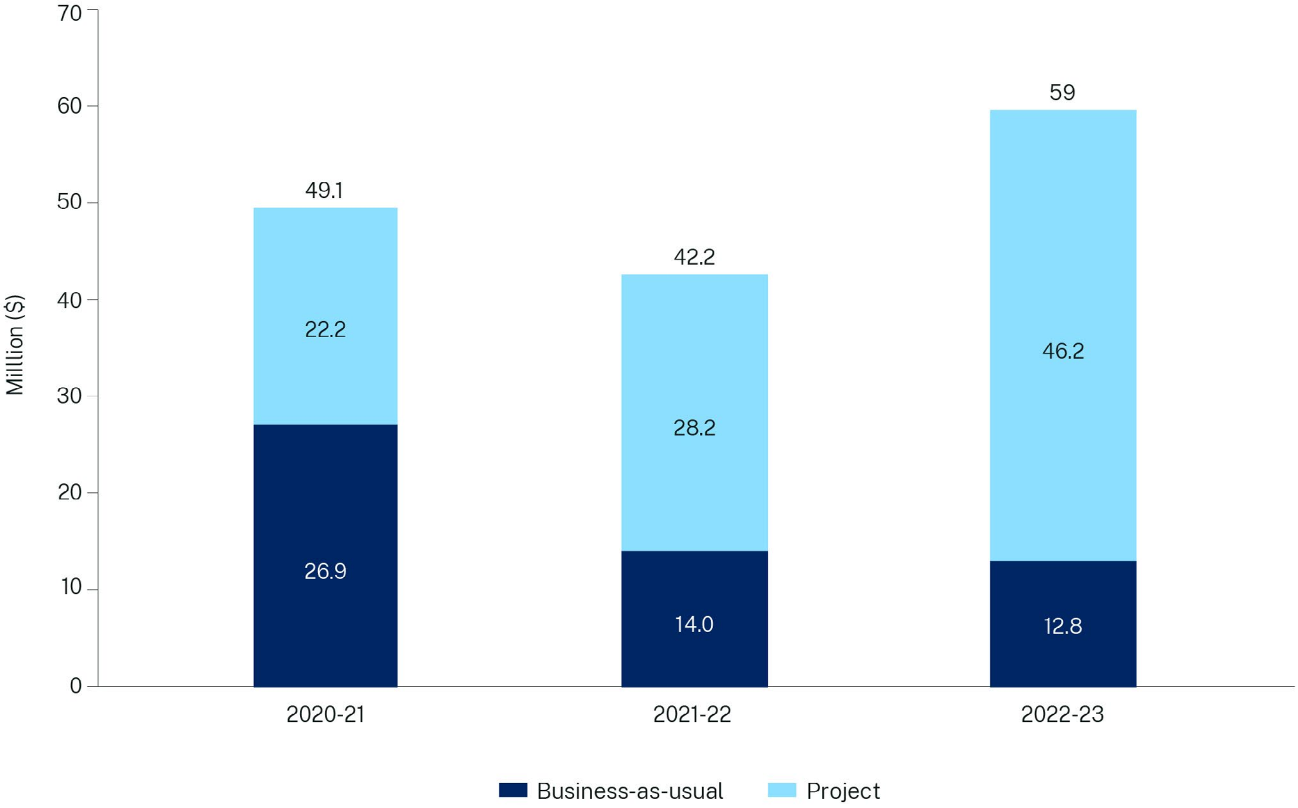
icare is actively managing occupancy allowances in line with business needs and an evolving workforce management strategy, which includes expected workforce increases for CTP Care. Steps to address underutilisation include relinquishing a floor in icare's Sydney CBD office and lifting office attendance rates.

External recruitment costs, training and accommodation all present possible opportunities for savings to be explored (amongst others) but appear relatively modest overall as a percentage of total employee expenditure.

46 Negative indirect employee costs in 2020–21 are due to the release of an accrual for incentive payments, and in 2023–24 application of a centrally applied, top-down savings target.

47 NSW Government, *NSW Government Office Accommodation Workplace Design Principles*, p. 7, https://www.dpie.nsw.gov.au/__data/assets/pdf_file/0008/338282/200821-NSW-Workplace-Design-Principles-August-2020-V2.2-ENDORSED.pdf, accessed 22 August 2024.

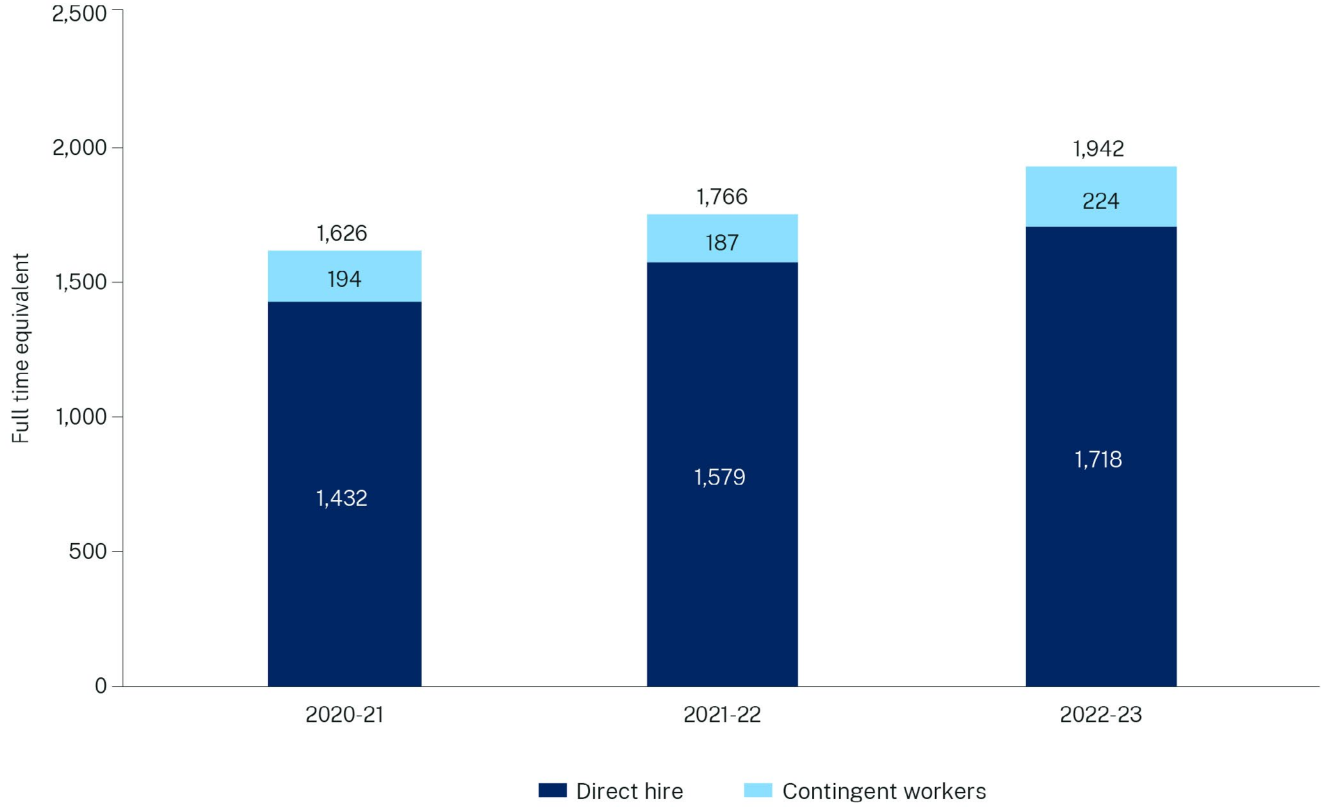
Figure 24. Contingent worker recurrent and capital expenditure by business-as-usual and project activity, 2020–21 to 2022–23



* Project related expenditure is excluded from annual employment costs.

Source: icare, NSW Treasury received April 2024, GET Deep dive analysis workforce composition.

Figure 25. Direct hire and contingent worker FTE trend, 2020–21 to 2022–23



Source: icare, NSW Treasury received April 2024, GET Deep dive analysis workforce composition.

7.4 Benchmarking

7.4.1 CEO remuneration

A comparison of the icare CEO's annual remuneration with commercial insurers and the public sector, including NSW Government departments, Commonwealth and NSW Government businesses as well as other state and territory government insurers yields several insights. These insights are shown in Figure 26 and Figure 27.

icare CEO's remuneration is in the upper range of NSW Government entities, including government agencies with the general government sector and selected state owned corporations (SOCs). This difference may be quite narrow in respect of some SOCs and PFCs, who report CEO remuneration as part of a broader average or band, including Treasury Corporation (TCorp) (not shown). Variable remuneration is also a feature of remuneration for some NSW Government businesses which may also impede like-for-like comparisons.

In 2022–23, average remuneration for TCorp's eight most senior executives (SES Band 3 and 4) was $663,350[48]; in comparison, average remuneration for icare's eight most senior executives in this same year equalled 648,828.[49] This supports a hypothesis that CEO remuneration across the two PFCs are probably broadly on par, although TCorp's is likely moderately higher but also includes an at-risk component.

icare CEO's remuneration is less than half some Commonwealth government entities, including the National Broadband Network Co, Australia Post and Snowy Hydro – although these are at the uppermost level of CEO pay across Australia for a government business, and more broadly in line with or just above a range of others, including the Australian Rail Track Corporation and the Reserve Bank of Australia, while more than double that of entities such as Australian Reinsurance Pool Corporation, National Housing Finance and Investment Corporation and ComCare.

icare CEO's remuneration is substantially higher any CEO employed by a state or territory government insurer. The next closest is the CEO of the Victorian WorkCover Authority on $610,000 per annum, which like icare, is exempt from the Victorian GSE Act equivalent (*Public Sector Management and Employment Act 1998*). However, it is worth noting that in terms of organisational risk and complexity, the scope of this role is approximately half that of the icare CEO as the Victorian WorkCover Authority only covers private and public sector workers compensation whereas workers compensation accounts for around half of icare's business.

After Victoria's WorkCover, the next closest amongst the states and territories is the CEO of WorkCover Queensland on $566,000 per annum. The CEO of the Victorian Managed Insurance Authority which is most closely akin to SICorp (excluding public sector workers compensation) receives $480,000 per annum and, like the ComCare CEO, is employed as a public servant.

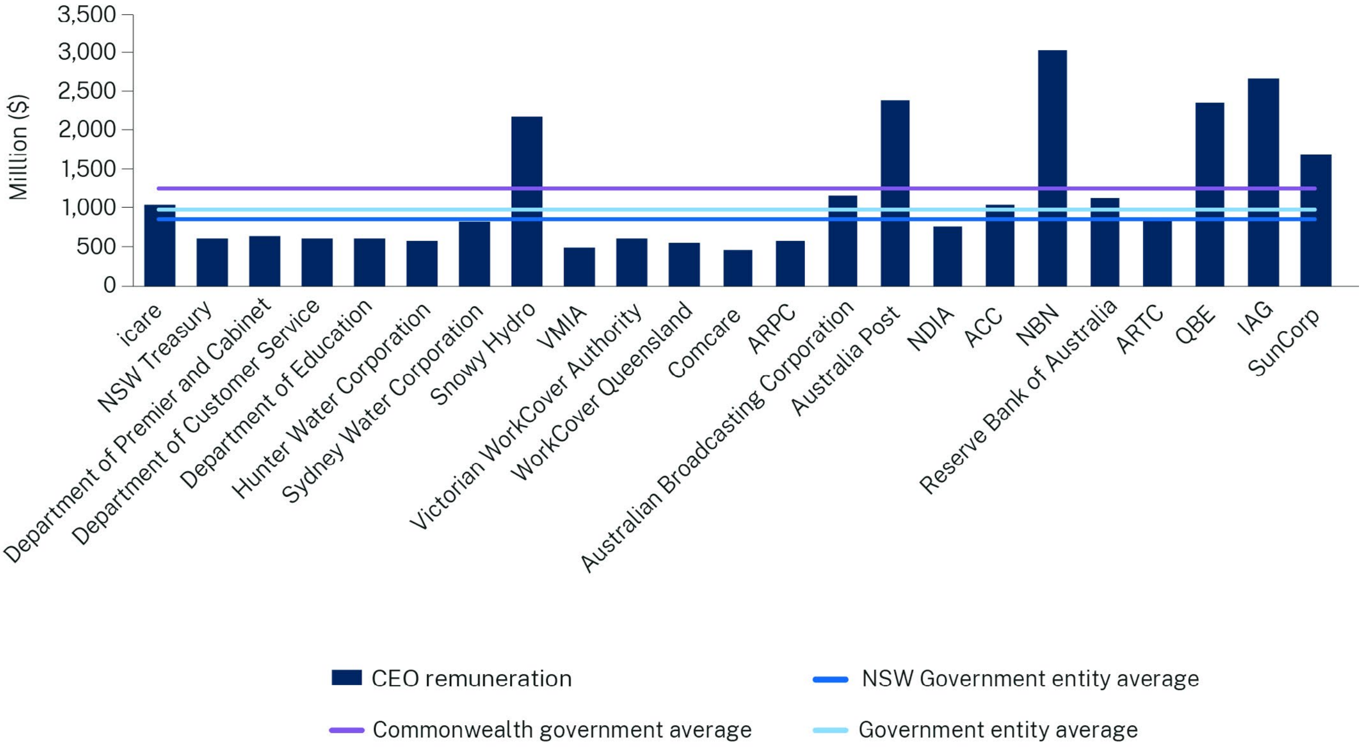
icare CEO's remuneration is less than half to almost one-third (or less) of the annual remuneration for the CEOs of Australia's largest private insurers including QBE, IAG, Allianz, SunCorp and Zurich (not shown).

The Figure 26 compares CEO annual remuneration of selected public and private sector organisations. Consistent with the above commentary, this shows that the icare CEO's remuneration is moderately above the average for those NSW Government entities shown, broadly on par with government entities across all jurisdictions, and somewhat below Commonwealth Government entities show.

48 TCorp *2022–23 Annual Report*, pp. 66-67. Note TCorp's CEO remuneration includes a variable component. The 2021–22 variable component is included in determining TCorp's 2022–23 average annual remuneration.

49 icare *2022–23 Annual Report*, p. 129.

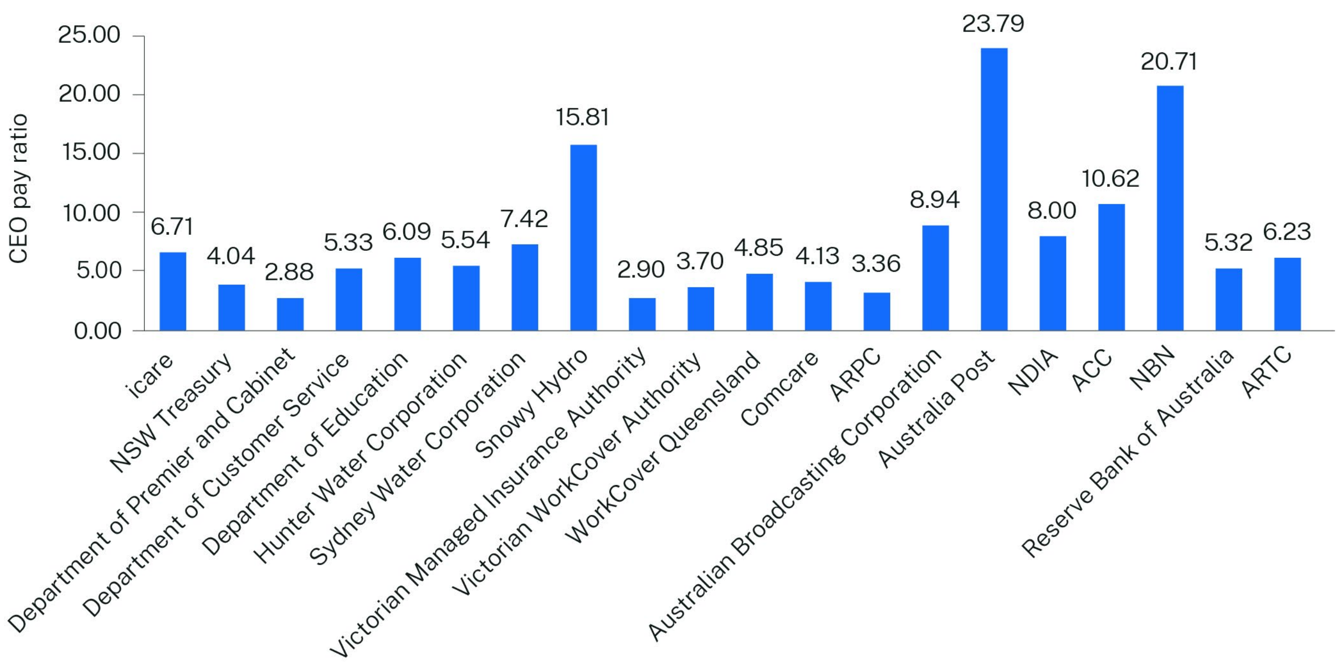
Figure 26. CEO annual remuneration – selected public and private sector organisations, 2022–23



Source: NSW Treasury June 2024, organisations 2023–24 annual reports.

Similar patterns are evident below in Figure 27 which shows CEO annual remuneration as a ratio of average employee-related expenditure.

Figure 27. Ratio of actual CEO remuneration to average employee-related expenditure, 2022–23



Source: NSW Treasury June 2024, organisations 2023–24 annual reports.

7.4.2 IEA remuneration

Over the last three years from 2021–22 to 2023–24, IEA employees have accounted for approximately one quarter of icare's total FTEs, and 36 to 37 per cent of employee expenditure. This is shown in Figure 28 below.

Remuneration for IEA employees are determined with reference to industry benchmarks.

Under icare's board-endorsed remuneration policy, each IEA role is matched to a position in the benchmarking source and appointed at the mid-range of the benchmark salary range. This exercise is undertaken as part of an employment offer, as well as during annual reviews.

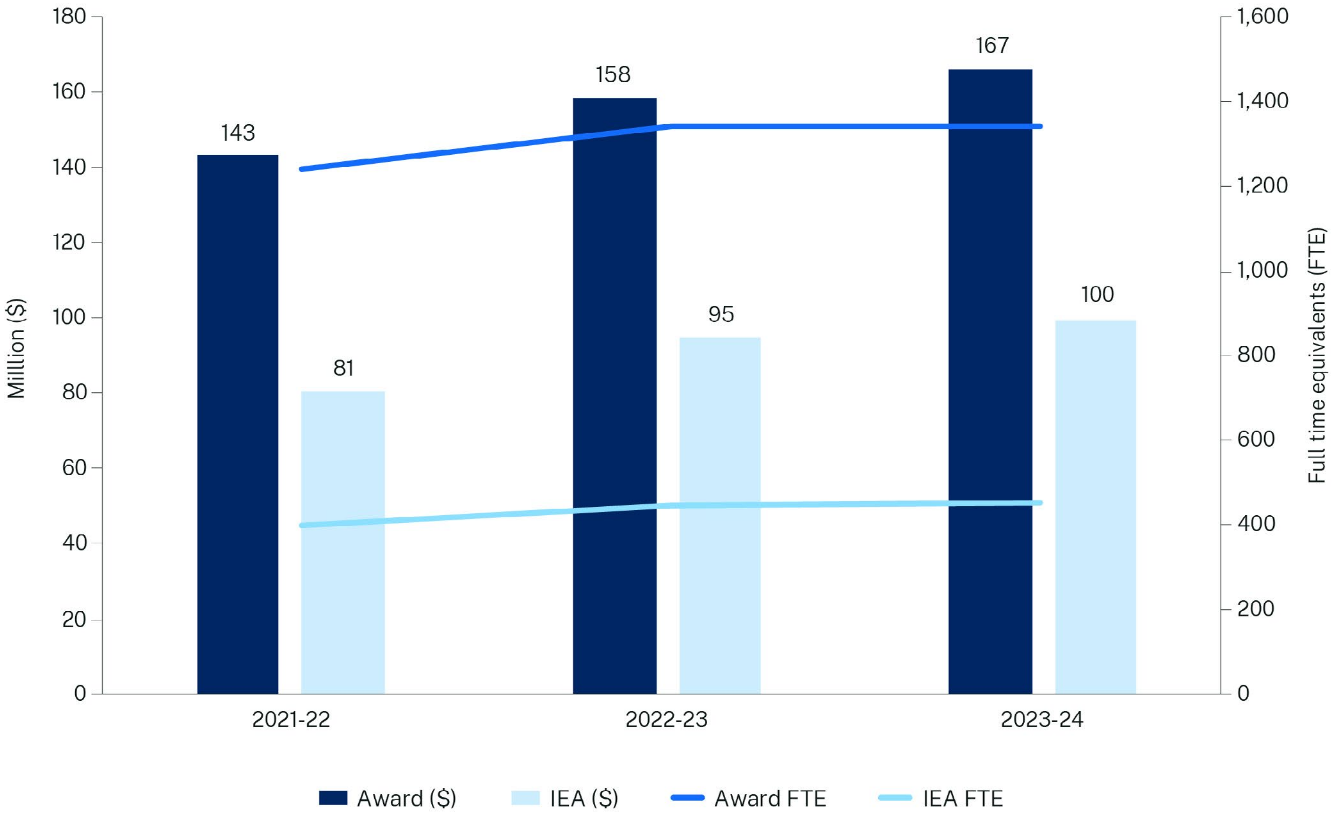
The primary remuneration survey used by icare to benchmark IEA employee remuneration is the AON General Industry Survey. This is supplemented by the following:

- AON Corporate IT
- Mercer Actuarial
- AON general insurance surveys (these surveys use targeted participant lists consistent with those specialised skills employed by icare).

Within these surveys, icare benchmarks its salaries against businesses with an annual revenue of $1.5 billion to $9 billion to better reflect the size, risk and complexity associated with icare and its business performance. This supported by a conclusion that the scope of icare's operations suggest that a similar competency level to the private sector is needed.

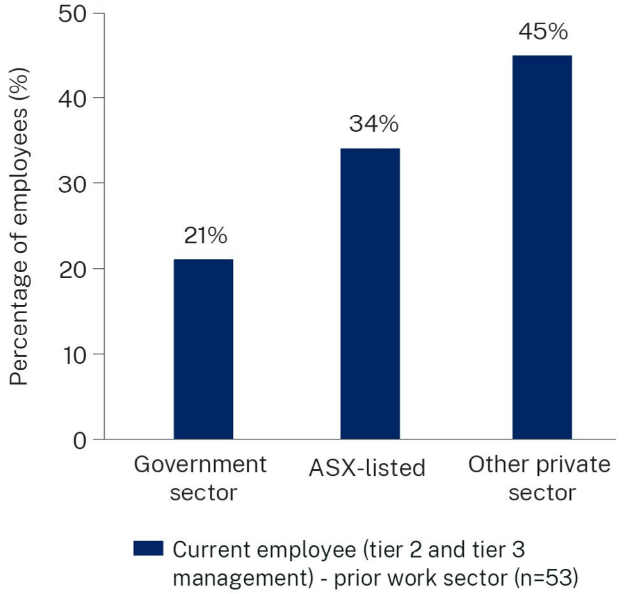
Figure 29 below shows that, in total, 79 per cent of icare executives at the CEO-2 (tier 2) and CEO-3 (tier 3) level were sourced from the private sector, and that 78 per cent of icare executives are lost to the private sector.

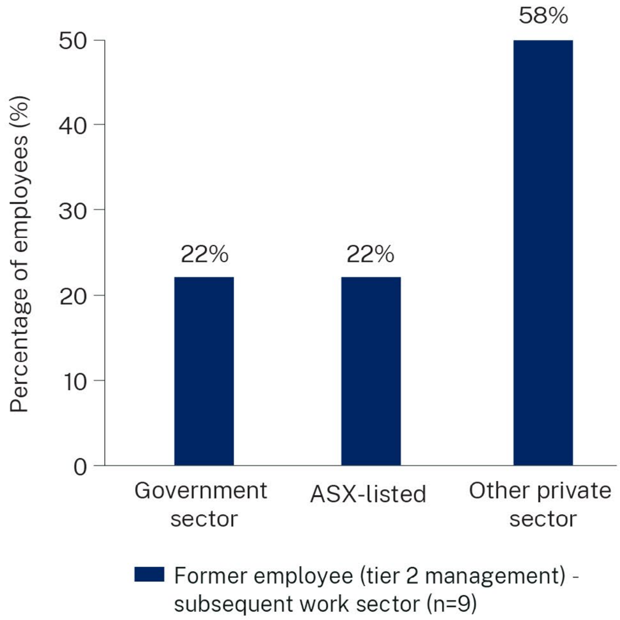
Figure 28. Comparison of IEA and icare award employees – employee costs and FTE, 2021–22 to 2023–24



Source: icare, NSW Treasury received April 2024, Presentation - Comparison of IEA vs Award salary and FTE trends - 2021–22 to 2023–24.

Figure 29. icare talent pool – CEO-2 and CEO-3, prior and subsequent work sector





Source: NSW Treasury June 2024.

In addition to data gathered by icare using recruitment and exit survey insights, icare separately validated its source talent market via the use of a LinkedIn insights report.

This data was used to better understand where icare's new employees were previously employed, and the new employers of its departing employees.

Approximately 1,300 employees were captured (from approximately 1,800) although the reliability of this survey depends on the accuracy of each person's LinkedIn profile. Nonetheless, this survey showed that private insurers, including QBE, IAG and Allianz, compete with icare for suitably qualified and skilled employees.

It was on this basis that external remuneration advisors, Guerdon Associates concluded that the private sector is the primary market for sourcing icare management and is the appropriate, primary benchmark used to set remuneration for icare executives. Relatedly, Guerdon Associates also considered that icare possesses attributes in terms of complex stakeholder considerations and comparative performance potential that is in keeping with private sector companies.[50]

Within this context, Guerdon Associates explicitly tested whether ASX listed entities should serve as the relevant benchmark index but concluded that these entities – reflecting the high standards of scrutiny and governance, tend to provide for higher remuneration (including the use of at-risk incentives).

At the same time, Guerdon Associates noted that ASX listed companies did not comprise most private sector organisations that icare employees were sourced from or lost to. Significantly too, they go on to note that benchmarking against ASX listed entities would only show a significant shortfall in icare remuneration.[51]

While concluding that a general industry private sector benchmark is warranted, Guerdon Associates differentiated between CEO-2 and CEO-3 levels. This supported a conclusion that:

- the median (50th percentile) private sector remuneration level, with a revenue cut applied, is the most appropriate primary benchmark policy for CEO-2 positions
- remuneration at the CEO-3 level is less variable, relative to CEO-2, and that these positions are generally paid at a going rate which means that a revenue cut is unnecessary and the median (50th percentile) private sector remuneration level is appropriate for CEO-3 level IEA employees.[52]

50 Guerdon Associates (May 2022) *Insurance and Care NSW – icare, Proposed Total Reward Framework Review*, p. 6.

51 Guerdon Associates, p. 6.

52 Guerdon Associates p. 7.

Further reinforcing this conclusion with respect to CEO-3 level remuneration benchmark, Guerdon Associates concluded that this level does not have a direct line of sight on overall business performance.

In line with these board-endorsed conclusions, icare utilises comparison ratios (compa-ratio) to compare an individual's salary to the median compensation level for similar positions in the market.

The ratio is calculated with reference to an employee's current salary divided by the current market rate (which is defined by the organisation). Compa-ratios are role specific, and each role has a salary range which includes a minimum, midpoint and maximum. These values represent industry averages for that role. Thus, a compa-ratio of 1.00 or 100 per cent means that the employee is paid the same as the industry average and is the salary midpoint. A 0.75 ratio means an employee is paid 25 per cent below the industry average and vice versa above 1.00.

Within icare, compa-ratios are used as a market benchmarking tool which is subject to market fluctuations and demand. These ratios are subject to change due to a range of possible factors, such as promotions, remuneration increases, job changes, performance review outcomes, as well as broader shifts in the relevant labour market.

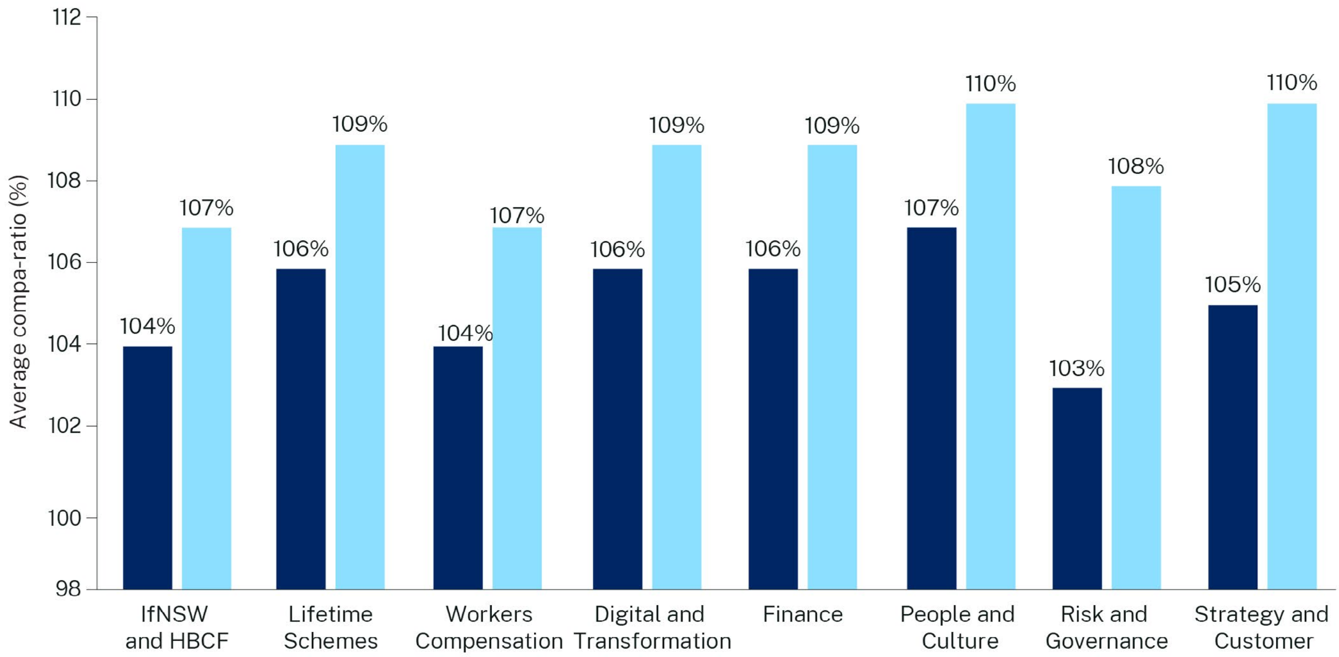
A compa-ratio between 85 per cent and 115 per cent is generally considered to represent the market rate.

As shown in Figure 30 below, icare's IEA remuneration levels are set at or above the target benchmark. This holds across its scheme and non-scheme areas including Finance, People and Culture and Strategy and Customer, with midpoints set from 104 to 107 per cent across the organisation. However, Figure 30 demonstrates that a substantial proportion of employees (GET, SLT and IEAs) receive remuneration at or above 115 per cent of the compa-ratio, especially the senior leadership team.

This indicates that icare's average remuneration levels are being set in the upper range of the general market band – with Strategy and Customer and People and Culture teams seeking to compete most closely with the private sector market with a 110 per cent compa-ratio.

A review of icare's IEA employees indicates that most of this group are paid at the market rate or above, and no one is paid below the market rate (that is, below an 85 per cent compa-ratio).

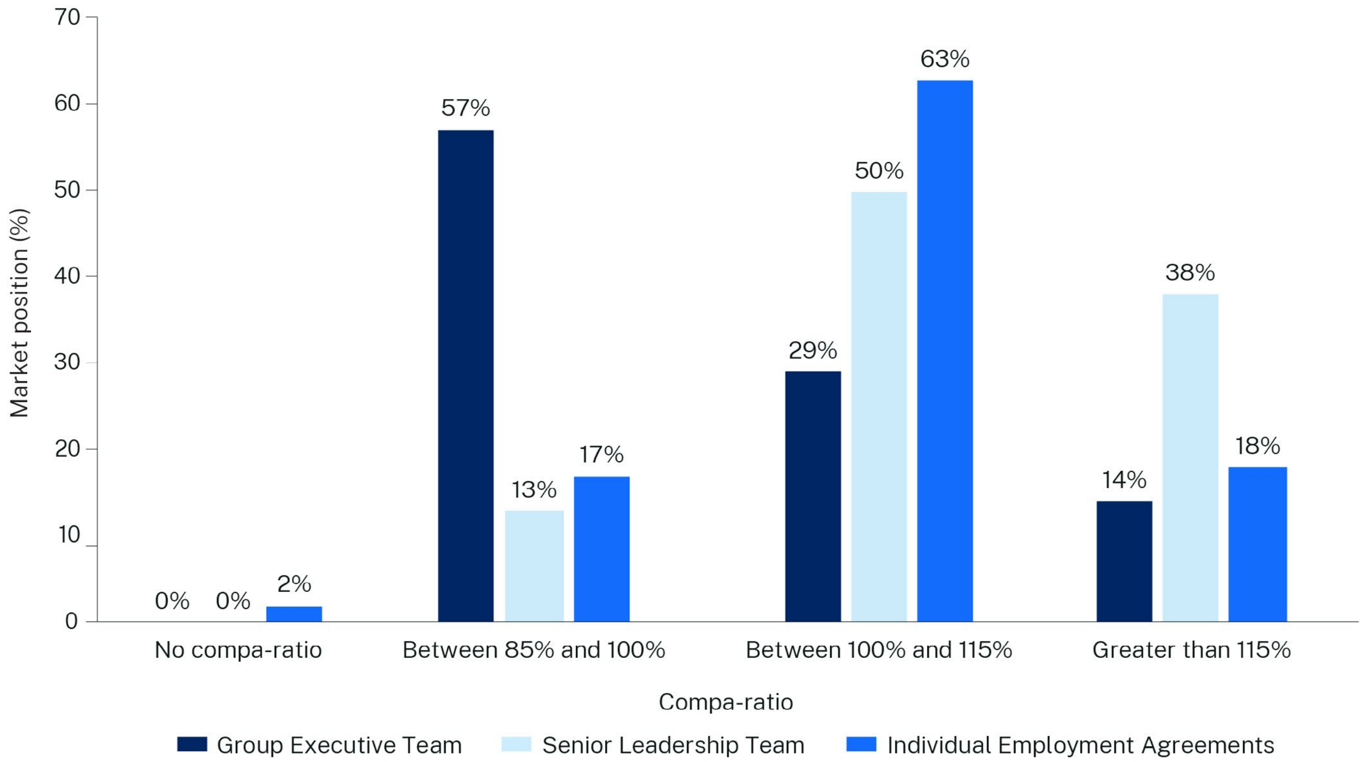
Figure 30. Average compa-ratios by scheme and non-scheme areas, 2023–24



Source: icare, NSW Treasury received April 2024, icare 2023–24 Remuneration Review Outcomes Summary.

icare's senior leadership team has the largest proportion of individual employees (21) paid above market – that is above a 115 per cent compa-ratio. This is shown in Figure 31. This team comprises group executives and general managers and comprises 52 senior executives (including those at or above the NSW Government's senior executive band 1 equivalent). Notably, however, remuneration of the group executive team is set between 85 and 100 per cent compa-ratio.

Figure 31. Senior leadership team remuneration and compa-ratio, 2023–24



Source: icare, NSW Treasury received April 2024, Presentation – Remuneration review outcomes summary 2023–24.

7.4.3 Performance management

Remuneration is subject to annual review. Through this process IEA employee remuneration is subject to adjustment to align with the board-endorsed remuneration principles and guidelines and ensure that their remuneration is competitive. This includes consideration of comparable market salaries and the employee's performance. Higher average increases are allocated to those whose performance is more highly rated, with modifications as needed to ensure pay parity.

icare accepts a natural distribution in performance ratings and does not use a stack ranking approach to force distribution. Control mechanisms such as guidelines, performance calibration and unconscious bias checks are intended to ensure fairness.

The distribution of performance ratings in 2022–23 was predominantly weighted to 'meets expectations' at 59 per cent, one-third of all IEA employees were assessed as 'exceeding expectations' (31 per cent) or 'exceptional'.

While a large concentration of employees across the mid-range is to be expected, accounting for almost 60 per cent of the organisation, the level of under and high performance across the organisation appears anomalous and raises real questions warranting further board scrutiny. Based on the data shown in Table 14, it appears that less than three per cent of employees are under-performing while around one-third of employees are rated as exceeding expectations or exceptional.

The use of forced stack ranking in performance management attracts significant criticism.[53] Nonetheless the absence of a process that broadly creates a more natural distribution of performance across the rating spectrum raises possible questions regarding how performance is managed and assessed.

This may indicate that icare has a very high-performing workforce with less than three per cent of employees assessed as underperforming, and that the performance expectations across all other ratings are low relative to salary.

However, icare's position is that it proactively manages poor performance through its continuous performance framework implemented in response to the McDougall Review. The consequence of this framework, encompassing coaching and use of separations, is that unsatisfactory ratings at year end are reduced.

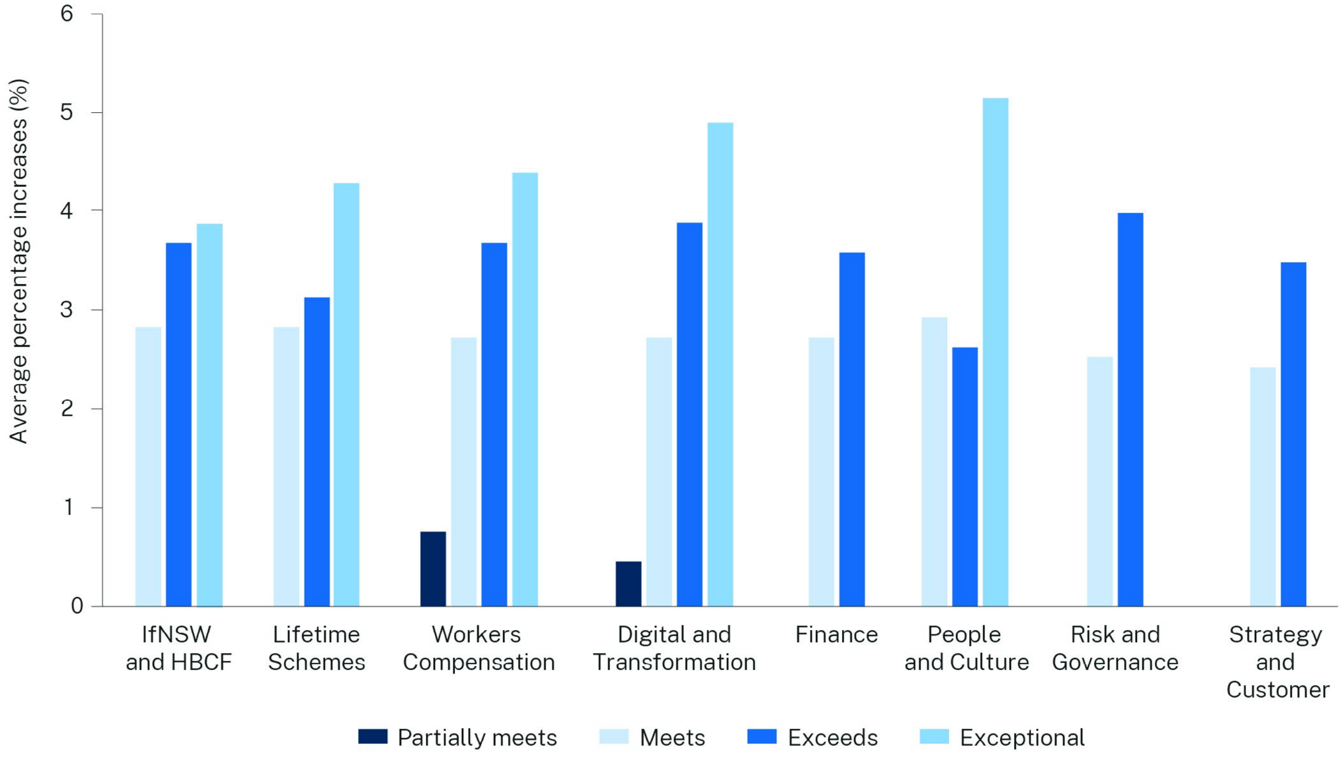
Table 14. Distribution performance ratings, 2023–24

Rating	(%)
Unsatisfactory	<1
Partially meets expectations	2
Meets expectations	59
Exceeds expectations	31
Exceptional	3
No rating/new employee	5

Source: icare, NSW Treasury received April 2024, Presentation – icare workshop 2.

53 ErnstYoung (July 2020) *The balancing act of People Performance Management*, https://assets.ey.com/content/dam/ey-sites/ey-com/nl_nl/topics/assurance/inform/people-performance-management/ey-people-performance-management-research.pdf, accessed 18 July 2024.

Figure 32. Average increases in 2023–24 annual remuneration review by rating and function



Source: icare, NSW Treasury received April 2024, icare 2023–24 Remuneration review outcomes summary.

The consequences of these performance ratings have implications for remuneration, and therefore overall employment costs. Average salary increases by function vary depending on an individual's performance and assigned increase based on performance ratings.

Remuneration increases for employees who meet expectations are between 2.5 per cent and 3.0 per cent, while those employees rated as exceptional received increases between 4.0 per cent and 5.3 per cent.

Figure 32 shows the average increase by function following the most recent, 2023–24 remuneration review. These ratings may indicate some inconsistencies in how they are applied between functional areas. Some variability is evident regarding the uppermost ratings of exceeds expectations and exceptional, indicating that board scrutiny regarding annual performance management ratings and their assessment across the organisation may be appropriate.

7.5 Findings

The McDougall Review observed that 'there is a clear tension between the policy decision to allow icare to operate outside of the constraints of the public sector and the circumstances that it administers public benefit schemes and is funded entirely through a combination of premiums from government-mandated insurance … and general taxation (in the TMF, provided indirectly through agency contributions.)'

The review highlights that this tension continues and presents practical challenges requiring the board to exercise judgment to appropriately recognise:

- that icare operates a complex business model with competing stakeholder demands
- it tends to source management from, and lose its management to, the private sector
- it is a statutory agency with a government monopoly
- its performance can be, partially, benchmarked against other similar organisations and their performance.

It was upon this basis, informed by a range of similar benchmarking analyses, that the McDougall Review determined that icare's executive remuneration is not excessive.

It is difficult to significantly depart from this same conclusion today, provided there is continued acceptance of the strategic rationale underpinning icare's establishment and the benefits presented by a commercial model to manage the state insurance and care schemes and act as the NSW Government's captive insurer.

It is only by overturning these fundamental decisions and removing the exemption from the GSE Act that current executive remuneration levels could be unwound.

Such questions are beyond the scope of this operational expenditure review but would require extremely compelling evidence that the current model is deeply flawed and cannot fulfil its statutory objectives, or government prefers an alternative policy rationale.

Dismantling or overturning icare's current business model would necessarily involve major costs, and risk significant disruption to its insurance and care schemes. Depending on the model chosen, it may also result in the NI's liabilities shifting onto the state's balance sheet.

The use of benchmarking to set executive remuneration (including all IEA employees) is a consequence of this strategic policy choice.

This analysis highlights that remuneration benchmarks are consistently set at the higher end of the market for CEO-2, including for the group executive. In part, the strategy to benchmark remuneration bands in the upper limit of market rates for senior executive positions is a product of the board's decision to remove performance incentives in 2022. In lieu of no longer including performance incentive opportunities as part of total remuneration, executive salaries were calibrated to compensate and remain market competitive. This points to an area that warrants continued, close scrutiny by the board to ensure that value-for-money outcomes are being achieved through its recruitment and remuneration decision making.

At the same time, the benchmarking of CEO remuneration indicates that icare's executive remuneration is positioned towards the upper end of the market when compared with government-owned businesses and corporations across NSW, and in comparison with NSW Government agencies and state and territory government-owned insurers.

Conversely, icare's executive remuneration appears low in comparison to some of the Commonwealth government's most highly paid business executives, and in comparison with Australia's largest commercial insurers.

As noted by the McDougall Review, since 2019 icare continues to publish the individual remuneration of its group executive team members as part of its annual report. This transparency measure is notable when reviewing remuneration reporting practices across Commonwealth, NSW Government and other state and territory government-businesses and corporations.

icare is one of the few to publicly report this information and such transparency appropriately recognises icare's unique role and status. Further such public scrutiny is a powerful check on executive remuneration at the senior-most levels within the organisation.

This approach is consistent with TPP17-11 Commercial Policy and Guidelines, CEO Appointment Guidelines for Government Businesses which recommends that boards make additional disclosures about executive remuneration. This approach is intended encourage boards to adopt those reporting practices which more closely reflect standard practice for listed companies and foster confidence that executive remuneration is in line with community expectations.

It is also consistent with strengthened transparency and disclosure standards mandated by APRA from 1 January 2024 for all insurers, banks and superannuation funds.[54]

Looking ahead, it appears that real pressures may emerge regarding IEA employee remuneration across the organisation, especially for the group executive team and senior leadership team.

54 APRA (August 2022) *Prudential Standard CPS 511 – Remuneration Disclosure Requirements*, https://www.apra.gov.au/sites/default/files/2021-08/Final%20Prudential%20Standard%20CPS%20511%20Remuneration%20-%20clean_0.pdf, accessed 18 July 2024.

This is due to the removal of incentive-based pay. The move towards fixed remuneration in response to public reviews and other stakeholder pressure may lock-in in a permanently higher remuneration structure and cost base for this cohort.

This decision means that icare's IEA remuneration structure diverges significantly from standard remuneration practices in those markets in which icare competes for staff. There is a real possibility that to continue to attract and retain appropriately skilled staff from the private sector, icare must now match prospective employee incentive remuneration with additional, locked-in, fixed remuneration.

At the same time, this decision means icare has now foregone a potentially useful tool which links remuneration to performance. Flexible remuneration and the use of incentive-based pay, consistent with a highly commercial operating model and NSW Treasury's Commercial Policy Framework (CPF), was one of the rationales for de-coupling icare from the GSE Act.[55]

Reversing this decision now appears challenging, risky and potentially costly.

Going forward, it will also be important for the board to continue monitoring the use of IEAs and their utilisation to engage specialised skills. This is especially relevant at the CEO-3 level where remuneration benchmarks are set to meet the market, and pressure to maintain a meaningful gap above band 12 on the icare award is likely to increase with future possible public sector wage increases.

At the same time, the reliance on IEAs in areas such as Risk and Governance, Finance and other enabling areas is pre-determined by the decision to adopt a commercial model for icare's business equipped to compete with private sector peers to attract financial sector skills and harness market discipline in its operations.

As long as this model remains in place, and icare remains committed to uplifting skills and capability in Risk and Governance and related areas in response to the McDougall and GAC Reviews, it is a price taker in a sector that continues to invest heavily in its risk and related skillsets, initially in response to the 2018 Banking Royal Commission[56], and now with the adoption of the Fair Accountability Regime (FAR) by APRA and Australian Securities and Investments Commission (ASIC) in September 2023. The FAR replaces the Banking Executive Accountability Regime (BEAR) which commenced in 2018 and applies to the banking (from March 2024) and insurance and superannuation (September 2025) industries.

Similar pressures are also likely to emerge in areas such as Digital and Transformation, Strategy and Customer and other enabling areas – where continued demand for highly specialised skillsets in areas such as cybersecurity and artificial intelligence across financial services and the private sector more broadly can be expected.

Nonetheless, the use of IEAs is a useful counterpoint, and potentially more cost-effective way, to engage specialised skillsets rather than continued, widespread reliance on contingent workers and contractors where appropriate. This should continue to be a central tenet of icare's workforce management, closely integrated with its business strategy and technology projects pipeline.

Some potential opportunities for increased efficiency and cost effectiveness do exist especially regarding optimal resourcing levels, efficient organisational structures and how technology is deployed over the next two- to three-year business cycle.

Resourcing levels and business choices regarding the conduct and structuring of claims management services within icare's schemes is one such area, especially in workers compensation where icare continues to play a dual role managing a suite of outsourced service providers while maintaining an insourced claims management function.

55 NSW Treasury Strategic Insurance Review, pp. 83- 93.

56 Commonwealth Bank Australia (CBA) (8 November 2021) *CBA Action on Royal Commission Recommendations*, https://www.commbank.com.au/guidance/newsroom/cba-action-on-royal-commission-recommendations-201911.html [media release] CBA, accessed 18 July 2024 and CBA (12 October 2021) *Completion of Prudential Inquiry Remedial Action Plan* [media release] https://www.commbank.com.au/articles/newsroom/2021/10/prudential-inquiry-update-13th-report.html, accessed 9 June 2024.

A focus on the schemes and how they are managed and structured, along with scheme expenses is outside the scope of this operational expense review. However, this remains a potentially fruitful area of investigation alongside implementation of the NI and TMF workers compensation claim service provider (CSP) models and the consolidation of workers compensation across the NI and TMF within one functional area.

This consolidation of the two workers compensation schemes offers potentially valuable opportunities for increased efficiencies and synergistic improvements in ways of working across the two schemes – and represents an important (albeit long-delayed) change originally identified as a key benefit for icare's establishment by the 2015 Strategic Insurance Review.

A continued focus on right sizing should remain a priority for the board, and the optimal level of resourcing for corporate and enabling functions remains an open question, particularly as icare continues to invest in automation and its CSP model.

icare has a complex organisational structure with many layers, and a large degree of variability regarding its spans of control. icare's spans of control are often complex and bespoke, varying significantly between the schemes and non-scheme functional areas.

This structure also increases the risk of duplicated functions, which can build up over time – often in areas such as data analytics, communications and other enabling functions. In other organisations, this can sometimes occur in those teams or areas which start as a one-off, time-limited, discreet project which then becomes embedded as business-as-usual activities without revisiting ongoing resourcing needs within a broader organisational context.

The optimal structure for any organisation will strike an appropriate balance between the spans of control and organisational layers. Where a span is too wide, management can be disconnected from day-to-day issues and be burdened with an excessive workload. Where a span is too narrow, managers can overlap with their direct reports, creating inefficiencies and high costs with few benefits.

These risks can be further compounded by too many layers which can result in functional duplication, accountability overlaps, grade inflation and uneven pathways for staff development and career progression within the organisation, poor communication, slow-down decision making and disempower staff, hampering productivity.[57]

This points to a potentially valuable opportunity, which icare is now pursuing, to drive greater cost effectiveness and efficiency through a focus on organisational structure and design.

Findings

3. That board continue to prioritise opportunities to streamline icare's organisational structure and harmonise organisation layers and spans of control, eliminate duplication, and recalibrate people management responsibilities and reporting structures.
4. The board should continue to:
    a. monitor the level of remuneration and the use of market benchmarks to ensure remuneration supports efficient, value-for-money outcomes
    b. publicly report its group executive team's annual remuneration, consistent with enhanced transparency and disclosure requirements mandated by APRA from 1 January 2024.
5. The board could review:
    a. organisational policy on terminations and its application
    b. the use of performance assessments as an effective tool for performance management.
6. NSW Treasury will work with icare to examine opportunities that may exist across government to leverage icare's actuarial expertise to reduce reliance on consultant actuaries.

57 Deloitte (2020) *Spans and Layers for the Modern Organization*, us-spans-and-layers-for-the-modern-organization-2020.pdf (deloitte.com), accessed 8 June 2024.

Technology and the Enterprise Program

8

8.1 Introduction

Technology and the Enterprise Program together are a significant cost driver for icare's NCOS and strategic priority for the icare board.

This section seeks to address three questions considered through this review.

- **Effectiveness.** What are the cost drivers in icare's business and how are they being managed?
- **Efficiency.** To what extent is icare's business model as efficient and cost effective as similar business models and what future opportunities for business process improvement exist?
- **Strategic alignment.** What are the expected benefits from investment in the Enterprise Program?

In this section:

- **Enterprise Projects** is a cost category which captures all costs relating to enterprise transformation projects and the Enterprise Improvement Program and is a key cost driver of icare's NCOS.
- **Enterprise Program** (or the program) refers primarily to the suite of transformation projects that form part of a $350 million investment over three years from 2022–23 to 2024–25. This program was initiated by the board as part of its multi-year transformation journey.
- **Enterprise Improvement Program** is a subset of the Enterprise Program and includes the necessary improvements made across the business in response to the McDougall and GAC review and remediation work necessary in readiness for the three-year transformation journey.

This section is focussed on expenditure related to technology, including significant investment in the Enterprise Program. In some instances, there is not clear delineation between each category, with some business-as-usual activities supported by Enterprise Program investments, while investment in the Enterprise Program may also include related expenditures supporting organisational change broader than technology, systems, and capability and culture processes.

In the following analysis, some values relating to expenditure trends and benchmarking are presented in US dollars (USD), as the benchmarking of icare's technology-related expenditure references the Gartner Insurance Industry Report by icare where relevant insurance industry metrics are presented in USD to support comparison of local and international insurance industry data.[58]

58 Gartner Asia/Pacific (December 2023) *IT Key Metrics Data 2024: End-User Services Measures*.

8.2 Current expenditure

In 2022–23, icare's expenditure on technology equalled $73 million. This expenditure included:

- business-as-usual run costs, accounting for 43 per cent of expenditure
- investment in transformation projects, intended to drive performance uplift and scheme sustainability, accounting for 41 per cent of expenditure
- expenditure in response to and supporting scheme growth, accounting for 16 per cent of expenditure.
- In 2022–23, as part of the Enterprise Program of $350 million, icare commissioned 20 technology projects: five in enhancing capabilities, three in integrating systems, four in developing core applications, four in remediations and four in platform upgrades.

8.2.1 Enterprise Program

In 2022–23, 29 projects were underway as part of the Enterprise Program, with a total cost of $117 million. Significant projects included:

- Nominal Insurer (NI) improvements: $43 million
- Enterprise Improvements: $18 million
- Treasury Managed Fund (TMF) workers compensation transformation system platform: $15 million
- digital and transformation: $14 million
- core business platform uplifts: $9 million
- data migration: $12 million.

The data migration project commenced in 2019–20 with completion planned for 2022–23 and a total cost of $44 million. This project was paused in 2022–23 due to a business decision to focus on design and implementation of the NI claims model. The project has now recommenced following implementation of the new NI claims model.

icare's 2023–24 SBI identifies 89 per cent of the planned milestones having been achieved in that year. The larger suite of programs, of which they are part, are planned for delivery in 2024–25 and are intended to deliver significant organisational benefits.

This program, combined with a new contractual model and strategy for claim service providers (CSPs) and claims management for the NI and TMF to be progressively implemented over the next 10 years to 2032–33, is expected to provide the foundations for a significant financial dividend. These benefits are expected to be realised over the same 10-year period, including:

- claims payments: expense savings estimated at $5,270 million
- operating expenses: savings estimated at $572 million
- non-financial benefits: three audit findings are addressed, leaving no additional audit findings on icare's financial statements in 2023–24.

Enterprise Program – three-year roadmap

The Enterprise Program is a $350 million suite of projects to be undertaken over a three-year timeframe and is the foundation for a detailed roadmap as shown in Appendix E. The most significant investments include the:

- TMF workers compensation transformation platform: $88 million
- technology enhancements in the NI: $74 million
- digital and transformation: $60 million
- Dust Diseases Care transformation to fully transition to a new claims model and operation supporting multiple CSPs on a single platform: $41 million (not commenced)
- Enterprise Improvement Program finalisation to close and embed remaining McDougall and GAC Review recommendations, support assurance processes and embed and sustain change across risk, governance, customer and culture workstreams: $28 million
- merge HBCF onto a single platform: $14 million.

8.3 Expenditure trend

The uplift in icare's expenditure on technology and transformation projects as a response to the McDougall and GAC Reviews is pronounced and is aligned with the first stage of icare's strategic journey to 'fix the foundations' and transition to the second horizon in icare's enterprise strategy to 'increase our focus on those we serve.'[59]

This is reflected in the Enterprise Program investment profile with Enterprise Project related expenditure growing by 46 per cent from $80 million to $117 million from 2021–22 to 2022–23. As shown in Table 15, in 2022–23, this expenditure was divided between operating expenditure of $94 million and capital expenditure of $23 million.

Overall, the investments in technology across Enterprise Projects and business-as-usual technology costs such as licences and software have grown by 24 per cent, from $135 million in 2019–20 to $168 million in 2022–23. This $168 million includes $73 million of technology costs and $95 million relating to Enterprise Projects. This is shown in Table 16 which compares planned to actual technology and Enterprise Projects expenditure from 2019–20 to 2022–23 performed against business plans – highlighting an annual discrepancy up to $21 million whether below or above planned expenditure levels. This table also points to future planned expenditure in 2023–24 and 2024-45 with planned expenditure tapering slightly to $164 million in 2023–24 and then $150 million in 2024–25.

Table 15 Enterprise Project expenditure – operating expenditure and capital expenditure, 2018–19 to 2022–23

Expenditure	2018–19	2019–20	2020–21	2021–22	2022–23
Operational expenditure	92	82	46	63	94
Capital expenditure	13	37	20	17	23
Total	**104**	**119**	**66**	**80**	**117**

Source: icare, NSW Treasury received April 2024, Workshop – Digital and transformation delivery, FTE and cost.

Table 16. Technology, Enterprise Programs and depreciation and amortisation expenses, 2019–20 to 2024–25

Expenses	2019–20		2020–21		2021–22		2022–23		2023–24	2024–25
	SBI ($m)	Actual ($m)	SBI ($m)	Actual ($m)	SBI ($m)	Actual ($m)	SBI ($m)	Actual ($m)	SBI ($m)	SBI ($m)
Technology	56	56	65	65	82	66	72	73	85	80
Enterprise Projects	60	79	44	70	54	49	80	95	79	70
Sub-total	**116**	**135**	**109**	**135**	**136**	**115**	**152**	**168**	**164**	**150**
Depreciation/ amortisation	70	70	53	58	76	59	54	53	42	40

Source: icare, NSW Treasury received May 2024, icare SBIs for 2021–22, 2022–23 and 2023–24 and icare data requests May 2024.

59 icare 2023–24 SBI, pp. 10-11.

As icare's future technology investment plans and projected plans are confirmed, additional commitments to address cyber security risks are expected, which will drive future technology-related investments, alongside a focus on digitisation and automation over the current and future financial years.

The consequence of this increased investment in the Enterprise Program is that technology-related expenditure per employee has grown by 71 per cent from 2021–22 to 2023–24. This is further analysed in Table 18 and benchmarked against industry data.

A further impact of this short-term increase in technology-related investment is also seen in relation to icare's workforce. This means in 2022–23:

- icare's contractor workforce accounted for 68 per cent of the technology-related workforce compared to an average of 28 per cent for commercial insurers internationally.
- icare's permanent (and relatively stable) technology-related workforce was less than half that of commercial insurers globally, at 32 per cent compared to 72 per cent.

These impacts are shown below in Table 18 which benchmark's icare's technology-related expenditure in comparison to commercial insurers globally.

The impact of icare's broader organisational strategy on its technology functions and resourcing decisions is clear. The impact of the Enterprise Sustainability – Expense Saving Program to achieve organisational savings of $88 million in 2020–21 and 2021–22 and Project One meant that icare was wholly reliant on an outsourced workforce to support its technology-related investments.

The McDougall and GAC Reviews and the Enterprise Program served as a catalyst which prompted icare to invest in in-housing of expertise in technology and transformation with its permanent resourcing levels growing to 37 FTE in 2022–23 rising to 44 FTE in 2023–24.

In 2023–24, icare's reliance on outsourced workers is expected to be 395 workers which accounts for 90 per cent of its total Enterprise Project delivery workforce (rising from 85 per cent in 2021–22 to 89 per cent in 2022–23). This is shown in Table 17.

The use of a mix of insourced and outsourced resources appears appropriate albeit very high. It allows icare to:

- sustainably manage a temporary surge in sourcing needs to support transformation that will decline from 2024–25 onwards
- access a wider talent pool of experts to support project delivery within the three-year program timeframe.

Table 17. Use of insourced and outsourced for Enterprise Project delivery, 2021–22 to 2023–24

	2021–22	2022–23	YoY growth (%)	2023–24	YoY growth (%)
Expenditure ($m)	37.6	58.8	56	73.3	25
Insource, headcount	37	41	11	44	7
Outsource, headcount	218	332	52	395	19
Total headcount	**255**	**373**	**46**	**439**	**18**

Source: icare, NSW Treasury received April 2024, Workshop – Digital and transformation delivery, FTE and costs.

8.4 Benchmarking

Benchmarking technology-related investment between icare and industry counterparts across Australia and internationally is a challenging exercise. Prima facie, benchmarking supports a point in time comparison using a series of metrics that will not always acknowledge the business context for an organisation or the different lifecycles of an insurer and its business strategy.

This is highlighted through the following analysis which points to the transformative impact of the McDougall and GAC Reviews which continue to drive icare's technology-related investment profile, business expenditures and resourcing profile, and over which icare has limited discretion to adjust.

That said, icare's increased investment in technology through the Enterprise Program is consistent with broader insurance industry trends globally which has seen an increase in expenditure from 2021–22 to 2023–24.[60]

icare subscribes to Gartner's insurance industry report to benchmark technology-related investment and resourcing against international insurers. Some of the outcomes of its analysis are set out in the following table which highlights that in the most recently available industry study of 2023–24:

- icare's technology related expenditure as a portion of revenue was 2.5 per cent, substantially below the industry median at 3.3 per cent.
- Technology-related expenditure as a portion of expenses was 1.7 per cent and below the industry average of 3.9 per cent.
- Technology-related expenditure per employee, at US$34.30, is higher than the median of US$57.70 for international insurers comparable in size and scale to icare (though these results may be affected by the different nature of icare's workforce composition compared to global insurance industry practices).
- icare's investment in technology-related business transformation is 39 per cent of its total annual technology expenditure compared to an industry average of 12 per cent.

Table 18. icare and industry benchmark metrics, 2021–22 to 2023–24 (2023–24 forecast)

	2021–22		2022–23		2023–24	
	icare Actual	Industry median	icare Actual	Industry median	icare Forecast	Industry median
Technology expenditure (% of revenue)	1.7	3.0	2.6	3.0	2.5	3.3
Technology expenditure (% of expense)	1.3	3.4	2.4	3.7	1.7	3.9
Technology expenditure per employee (USD)	33.70	33.80	50.70	35.20	57.70	34.30
Run (% of technology expenditure)	52	65	43	68	44	68
Grow (% of technology expenditure)	15	21	16	20	16	20
Transform (% of technology expenditure)	33	14	41	12	39	12
Insourced (% of technology-related resources)	25	74	32	72	39	72
Contractor (% of technology-related resources)	75	26	68	28	61	28

Source: icare, NSW Treasury received April 2024, icare 2021–22 SBI and Gartner Asia/Pacific (December 2023) IT Key Metrics Data 2024: End-User Services Measures.

60 Gartner Asia/Pacific (December 2023) *IT Key Metrics Data 2024: End-User Services Measures.*

The benchmark metrics presented in Table 18 show how resources are allocated across icare. For example:

- Resourcing levels to support icare's business-as-usual activities are lower than industry norms across all years, but this may be consistent with a technology investment strategy intended to lower business-as-usual operating costs over time.
- Resourcing levels to support operational growth is stable over the three-year period, and around 20 to 25 per lower than the insurance industry median.
- icare's resourcing effort allocated towards transformation is significantly above the industry median and growing rapidly to be more than two-thirds greater by 2023–24.
- icare's use of insourcing is substantially lower than the insurance industry globally for each of the three years, but has gradually increased over the period from 2021–22 to 2023–24.
- icare's reliance on contractors is more than double the insurance industry median for each of the three years, but has fallen over the three-year period.
- Transformation projects across enterprise operations and technology systems and platforms bring about significant challenges and changes to business-as-usual functions. The disruption due to changes, user acceptance testing, and consequent modification can present further costs and other operational impacts.
- icare could consider whether the current composition of workforce and in-house capabilities are suitable to effectively manage the scale of change and meet future requirements. While icare has project governance reporting processes to manage ongoing change impacts, this does not appear to focus on future resourcing needs, or address whether the current workforce structure is optimal to manage such change.

8.5 Findings

icare's technology-related expenditure and focus through the Enterprise Program is consistent with the broader focus and strategy adopted by the board – with the first two years focused on stabilising and fixing foundations defining a long-term strategic aspiration, and now transitioning to a second horizon over years three to five to 'increase our focus on those we serve.'

Based on a high-level assessment, the Enterprise Program appears to reflect this goal. Increasing use of customer insights to drive better experiences, products and services, enabled by a significant uplift in technology and increased systems and data capability and functionality, helps icare to keep pace with emerging trends.

The Enterprise Program and its directions also appear consistent with industry trends prevailing across the Australian commercial insurance sector.

Operational expenditure intended to lift business performance has the capacity, positively and negatively, to affect claims management performance and therefore claims liabilities. In practice, this relationship can be difficult to measure and quantify. This points to the importance of rigorous business cases to appropriately balance costs and benefits and inform investment decisions.

However, striking an appropriate balance and pace of change of resource allocation across areas of recurrent expenditure – affecting the size and capability levels in an individual business unit or corporate function, and indirectly affecting the efficiency and effectiveness of claims management performance, and thus claims liabilities – requires deep management experience and judgement.

The focus on transformation appears strategic and well aligned with prevailing trends and emerging opportunities. It is also clearly a direct and significant response to a wide array of issues identified and recommendations made through the McDougall and GAC Reviews.

The above analysis highlights two potential questions that the board may wish to consider.

- Whether relative resourcing effort between business-as-usual and growth are appropriately balanced given icare's organisational priorities addressing scheme performance, including return-to-work outcomes.
- Whether the current balance between inhouse and outsourced resources is appropriate, and as medium-term technology plans are determined and skill needs identified allowing for future workforce planning, whether the resourcing mix is fit for purpose, cost effective and efficient.

SKPMG's top emerging trends[61]

In 2023, KPMG identified 10 top trends that will shape and influence the insurance industry for the remainder of 2023 and beyond and which KPMG considers Australian general insurers should consider to build resilience.

These trends were informed by KPMG's 2022 Insurance CEO Outlook that drew on the insights and perspectives of 1,325 global CEOs. This section highlights current and emerging trends, which Australian general insurers should consider to building resilience in these changing times.

Technology modernisation

Insurers should evaluate whether their current technology platforms and architecture are fit for purpose and make changes to better align for future needs.

Simplification and cost optimisation

Insurers need to continue to focus on digitisation, simplification, productivity, automation and operating model adjustments across all aspects of the value chain to drive efficiency and cost reductions.

Changing customer expectations

Customers are increasingly looking for personalised, value-driven digital solutions and they want experiences that allow them to be in control of the process as well as having ongoing visibility of their status.

Cyber

With an exponential increase in cyber attacks, there is heightened awareness of the cyber risks facing insurers (as corporates). In addition to focusing on their cyber defences, insurers are currently reviewing the data they hold, determining what should be retained, and purging excess data that being held. Consumer trust is low, and organisations are more exposed to security risk than ever before on how they prepare for and respond to a breach.

Data

Organisations should be planning for delivery and capability enhancements to support larger business transformation to develop an insights-led organisation, enabled by strategic data and technology architecture.

Findings

7. The board may wish to consider and keep under review:
   a. relative resourcing effort between business-as-usual and transformation is optimised
   b. workforce planning to ensure that the technology and enterprise resourcing mix is fit for purpose, efficient and aligned with its project pipeline
   c. focus on right sizing to achieve a lean organisational structure, especially in the context of increased transformation investment.

61 KPMG (2023) *Resilience in times of change General Insurance Industry Review*, https://kpmg.com/au/en/home/insights/2023/03/general-insurance-industry-review-2023.html, accessed 18 July 2024.

Performance and accountability

9

9.1 Introduction

A rising expectation is evident across the public and private sector requiring commercial and government businesses to provide performance and financial reporting that is accessible to the broader community and framed to speak directly to the priorities and values of the broader community.

How icare reports on its performance to the community and government is a key focus for this review which can help answer questions regarding:

- effectiveness, that is, the extent to which icare's business and operational objectives and intended outcomes are being achieved
- strategic alignment to assess the extent to which icare's investments, including its enterprise improvement initiatives are realising expected benefits.

To help answer these questions, the review considered those reporting frameworks and accountability tools that the icare board uses to oversee performance and monitor how expected benefits measured and monitored, including potential impacts on claims liabilities.

In some instances, this reporting may mean measuring and reporting on the saved or avoided cost. It is these counterfactual or invisible costs which may best evidence the strategic rationale for icare and its commercial model as a government business.

A robust performance reporting framework and transparency regarding the realisation of anticipated benefits from icare's technology-related investments are necessary so that icare can be properly held to account for the performance of its statutory objectives by the community and government.

icare has continuously sought to improve its performance and financial reporting framework, with a focus on implementing recommendations of the McDougall and GAC Reviews.

A challenge for icare is keeping up to date with the latest best practice and increasing community expectations on transparency and accountability. Together with this challenge is the role icare's performance reporting plays in fostering confidence amongst community and government stakeholders that icare is fulfilling its legislative objectives to support workers with injuries and maintain the financial sustainability of its insurance and care schemes.

9.2 Performance reporting

icare is subject to legislative reporting requirements and NSW Treasury policies and guidelines for government business performance reporting and monitoring, business annual reporting and assurance of major projects.

Overall, opportunities exist for icare to change its reporting to address what NSW Government cares about, demonstrate to government it is pursing commercial discipline and value for money, and enable government to hold icare to account for progress on projects and financial performance.

This review has identified opportunities to improve icare's reporting in relation to:

- business cases for major projects
- performance reporting that clearly conveys change over time and roll out of initiatives
- transparency of financial forecasting for the Nominal Insurer (NI) and the Treasury Managed Fund (TMF)

Reporting requirements and icare's current reporting tools and frameworks are summarised at Appendix F.

9.2.1 Business cases

icare presents business cases to the board to demonstrate proposed project initiatives are a sound investment. For the purposes of this review, NSW Treasury assessed some of icare's business cases against NSW Treasury best practice.

Overall, business cases were non-compliant with NSW Treasury guidance. The depth of analysis in the business cases did not reflect the complexity and materiality of the proposals.

Business cases reviewed provided no benefit-cost ratio or where a net benefit was provided, did not include an appropriate level of detail identifying or explaining the benefit estimates and calculations, key assumptions, or sensitivity, distributional and discounting analysis.

Looking ahead, a greater focus and consistent application of the Major Projects Policy in future will strengthen government oversight and icare's accountability for significant investments affecting icare's operational expenditure.

While icare's role may be considered that of a statutory monopoly, the light-touch approach set out in the Major Projects Policy appears proportionate – especially in comparison with the intensive regulatory oversight which publicly and privately owned natural monopoly businesses are subject to in the management of their asset bases. This is well suited to icare as their investments primarily relate to recurrent expenditure for the provision of claims management services, rather than long-lived capital-intensive infrastructure.

9.2.2 Performance reporting

Statement of Business Intent

The SBI documents the objectives, strategies and obligations by which the business will operate over the next 12 months and the following years. It sets financial targets and sets clear limits on the scope of activities the business may undertake.

icare measures much of its performance primarily using qualitative measures.

icare's past SBI reporting does not easily support an understanding of annual organisational performance targets, and the achievement of easily and consistently measured yearly milestones or outcomes. There is also limited integration between icare's SBI and its regular performance reporting to government through the year – making measurement of actual performance against targets a complex task that dilutes icare's transparency and accountability to government and its stakeholders.

icare had previously agreed to work with NSW Treasury to develop reporting against key metrics each financial year, including operating expenses savings, savings for claims-related operating expenses and reductions in future claims liabilities (via actuarial claims releases).[62] Through the course of this review, NSW Treasury considers this reporting should be reinstated as part of its SBI.

62 McDougall Review, p. 240.

Monitoring performance over time

icare has revised performance metrics in response to McDougall and GAC Reviews and to comply with changes in regulatory requirements.

Some of these changes have made it difficult to observe changes in icare's performance and scheme performance over time.

A review of the last five SBIs provided by icare from 2018–19 to 2022–23 highlights similar challenges in monitoring financial metrics, such as changes in forecast and actual claims liabilities, with total liabilities and claims incurred variously reported for the NI.

For some non-financial metrics, there was no consistent trend data available, including customer satisfaction targets. For example, return-to-work performance in the NI and TMF is now measured at 13 weeks, rather than the 26-week metric used in icare's 2021–22 Annual Report (that measured performance in the NI alone).

Where performance targets and other metrics are included, icare could enhance transparency and accountability by explaining how targets are set, the degree of ambition involved, the rationale for changes to targets and consistent presentation. For example, the Audit Office noted icare's return-to-work rate targets for the NI have changed in each of the last four financial years.[63] These changes were not supported by explanation of how new performance targets were influenced by significant recent trends.

9.2.3 Benchmarking

As part of this review, NSW Treasury compared icare's reporting against guidance on performance reporting used by commercial insurers and publicly available reporting in select jurisdictions.

A review of literature and private sector advocacy on performance management for commercial insurers placed emphasis on comprehensive, consistent, and timely reporting, with development of relevant key performance indicators.

Victoria and Western Australia's annual reporting for their workers compensation agencies (WorkSafe Vic and WorkCover WA) included key indicators of performance, historical five-year trend data, indicators of effectiveness and efficiency, and analysis including an explanation of how objectives will be achieved and an assessment of progress.

On balance, the review found that such guidance and practices align with NSW Government best practice for consistent use and presentation of key metrics that is meaningful to stakeholders, assist with decision making and benefit realisation.

These findings are considered further in Appendix F.

63 The audit report, p 6.

9.3 Relationship between forecast and actual financial performance

icare actively manages and reports on the financial performance of its schemes, and financial plans are in place for each scheme addressing capital management, risk appetite and investment strategy.

icare's financial reporting could be improved to assist with the early identification of budget risks to government. For example, icare could separate out TMF GL and Workers Compensation to assist government to better understand the drivers of each, improve risk management practices within the public sector activities, the impact of past policy decisions and the state insurance liabilities and support risk-informed policy decision making.

NSW Treasury analysis identified a sustained (albeit narrowing) gap between forecast and actual performance for the NI and the TMF. The assumptions adopted by icare to account for NSW Government policy choices in its forecasts has contributed to the widening gap between actual and forecast performance.

High-quality forecasts are essential for well-informed decision making. icare should provide NSW Treasury comparison of forecast and actual performance, and analysis of key drivers and assumptions related to changes in forecast claim liabilities.

9.3.1 Nominal Insurer

A report commissioned from Ms Janet Dore to support the work of the McDougall Review delivered in March 2021 noted that while the financial sustainability of the scheme will be considered in a separate review commissioned as part of the McDougall Review, the NI 2020–21 business plan submitted by icare to SIRA (which includes 10-year projections) 'appear indicative of a precarious and somewhat optimistic outlook'.[64] Consequently, the McDougall Review recommended that SIRA and NSW Treasury should stress test the assumptions in icare's NI 2020–21 business plan to assess their veracity.

While this recommendation was acted upon at the time, Figure 33 suggests that the issue remains and warrants close consideration by the board.

The gap between SBI forecast and actual performance for 2018–19, 2019–20, 2020–21 and 2021–22 is largely driven by icare's modelling assumptions. icare's annual forecasts appeared to be premised on being able to increase premiums and rapidly unwind the NSW Government's decision to cap average premiums increases. From 2012–13 to 2020–2021, the NSW Government froze NI worker compensation premiums, and capped average premium increases at 2.9 per cent in 2021–22 and 2022–23.

The challenges confronting the NI are complex and multi-dimensional. However, Figure 33 highlights the deep and significant risks to the NI and its longer-term financial sustainability – with a sharp, linear downward trend line in the relationship between the NI's total assets and its liabilities.

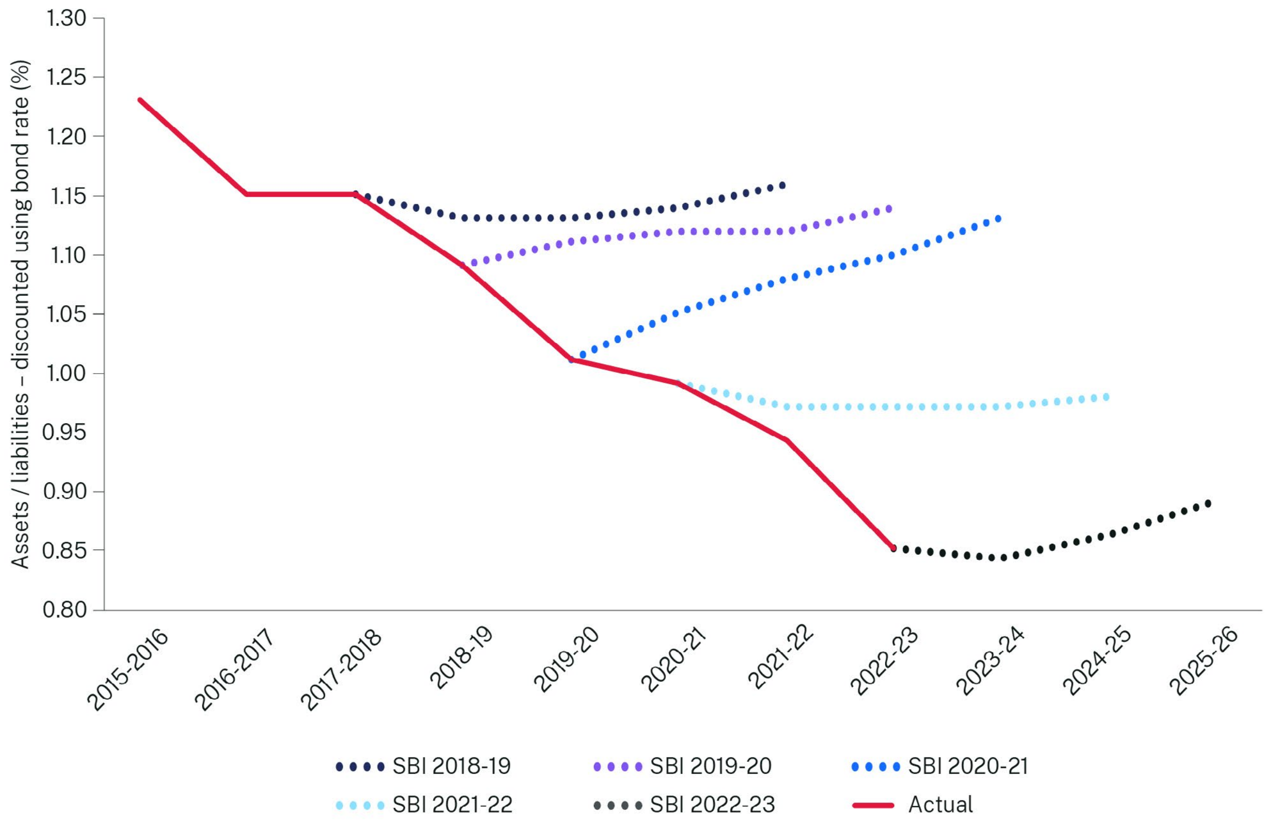
9.3.2 Treasury Managed Fund

Like the NI, Figure 34 highlights the challenges presented by the forecasting and managing government's insurable risk, with actual performance from 2019–20 to 2021–22 greatly impacted by bushfires, floods and COVID-19.

The downward trajectory of the trend line is also strongly driven by the rapid increase in psychological injuries in the TMF, which continue to rise more greatly, at higher cost than anticipated. This trend is further exacerbated through reforms to the NSW civil liability laws in response to the Royal Commission into Institutional Responses to Child Sexual Abuse, which has resulted in liabilities rising from around $1 billion to over $3 billion from 2021–22 to 2023–24 and is the fastest growing liability in the TMF's general lines portfolio.

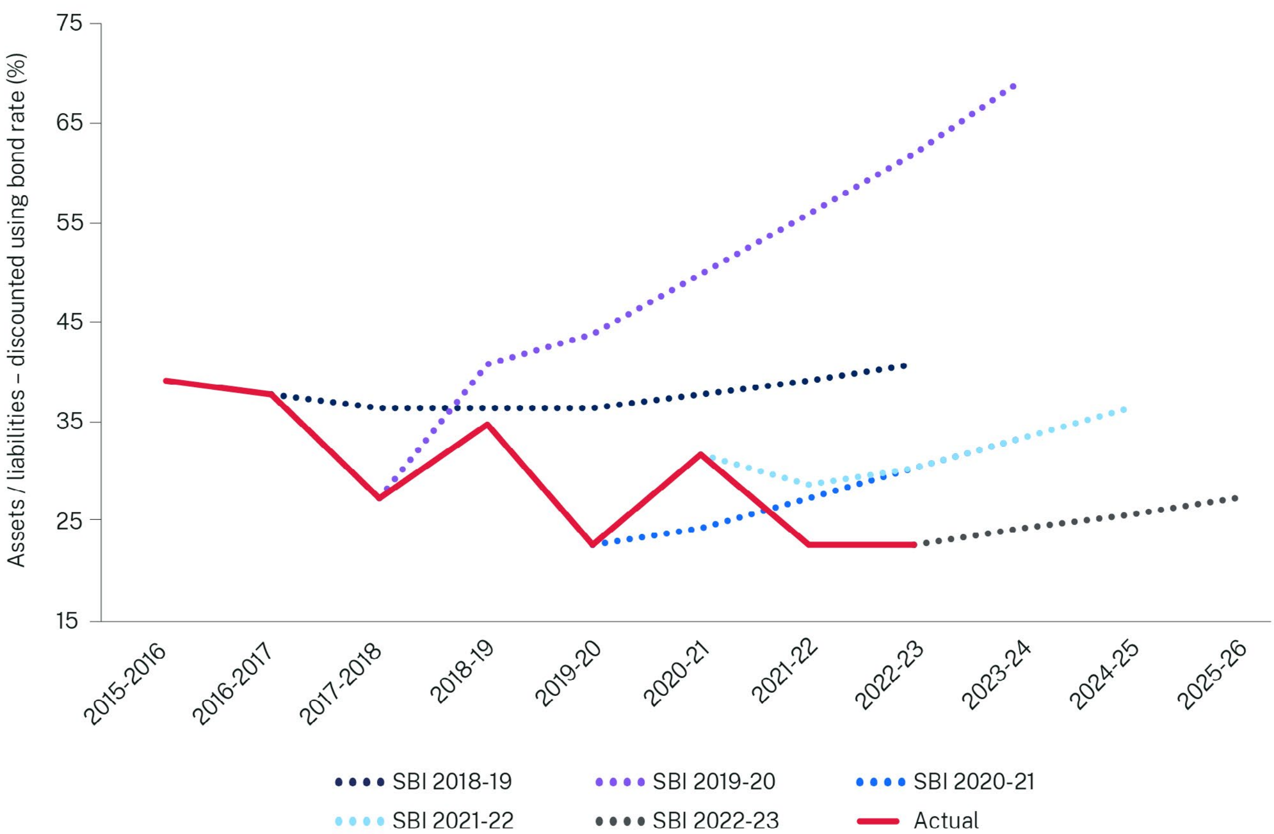
64 Ms Janet Dore (March 2021) Operational review of Insurance and Care and delivery of recommendations of the Dore Report, https://www.nsw.gov.au/sites/default/files/2021-04/Janet-Dore-Review-of-icare%27s-claims-management-and-related-matters.pdf, p. 25

Figure 33. Relationship between forecast and actual performance – NI funding ratio, 2018–19 to 2025–26



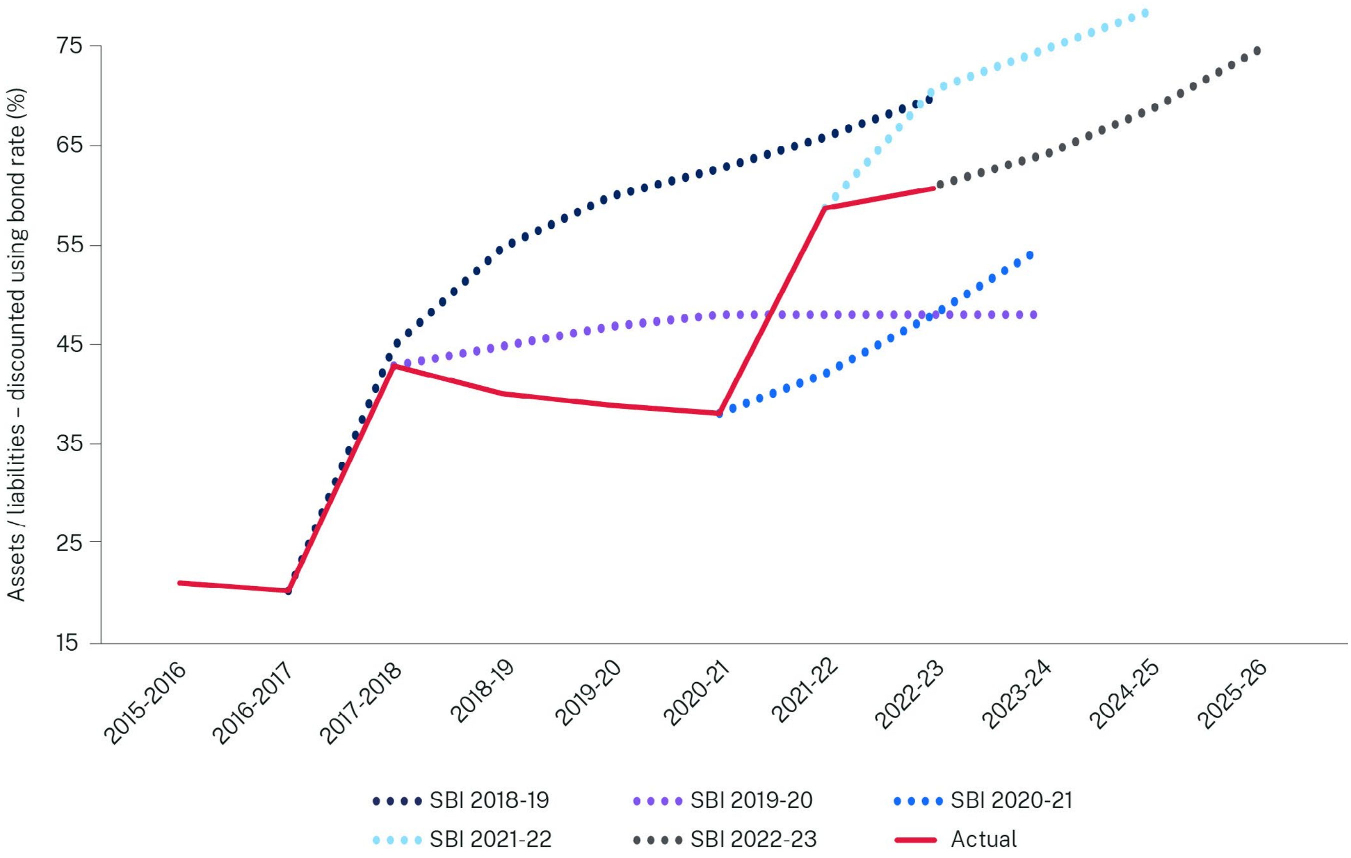
Source: icare, NSW Treasury received August 2023 and icare, SBIs 2015-16 to 2023–24.

Figure 34. Relationship between forecast and actual performance – TMF funding ratio, 2015-16 to 2025–26



Source: icare, NSW Treasury received August 2023 and icare SBIs 2016-17 to 2023–24.

Figure 35. Relationship between forecast and actual performance – HBCF funding ratio, 2015–16 to 2025–26



Source: icare, NSW Treasury received August 2023 and icare SBIs 2016–17 to 2023–24.

9.3.3 Home Building Compensation Fund

The relationship between forecast and actual performance in HBCF is counter to that prevailing in the NI and HBCF, with actual and forecast performance broadly converging in a consistently upward trend as premiums move in line with claim liabilities and the fund's capital position improves over time. Figure 35 shows that the forecast position for the HBCF is an insurance ratio of 65 per cent in icare's 2023–24 SBI, and forecast to reach 125 per cent in 2033–34.[65]

9.4 System accountability

icare has a lead role in the performance and financial sustainability of the individual schemes it administers, and through that the state insurance and care system more broadly. This focus on accountability could be expanded to better reflect an integrated accountability framework on a system-wide level that also encompasses the regulatory framework and role of the regulator in realising scheme outcomes.

Articulating those aspects of system performance for which icare and SIRA are responsible, alongside other system drivers (including the dispute resolution model and healthcare) may assist accountability and transparency to the community and to government.

To date, the state insurance and care system has operated with limited scrutiny into the cost effectiveness and growth in activities and alignment between investment approaches and long-term system goals. No formal process exists that considers options to prioritise and distribute resources across the system to improve system efficiency and productivity and maintain alignment between system outcomes and incentives.

65 icare 2023–24 SBI, p. 56.

Recent reviews into the system indicate significant scope for improvement in system efficiency, the need for greater joined up accountability and coordination of investment into the system, and an absence of ownership for system outcomes. Both the Auditor-General and the SCLJ recommended greater engagement and leadership from government.

The need for active state ownership is consistent with the Organisation for Economic Co-operation and Development's Guidelines on Corporate Governance of State Owned Enterprises (the guidelines) and NSW Treasury's Commercial Policy Framework (CPF).

Part of active ownership is setting expectations on how the system should give effect to principal objectives, including affordability, viability and optimising the recovery and return to work of workers with injuries. Under the guidelines, active ownership includes setting and monitoring the implementation of broad mandates and objectives, including financial targets, capital structure objectives and risk tolerance levels. The guidelines recommend government refrain from intervening in day-to-day management.

A system-wide perspective could enable government to improve coordination to support the efficient allocation of resources within the system and align system settings and incentives to achieve desired outcomes, including to pivot the system towards prevention and early intervention of risk. Examples of system settings and incentives include funding models, efficient pricing and enabling better information sharing and the creation of feedback loops across government.

NSW Treasury advice on whole-of-system costs, allocation of resources and performance could support active NSW Government oversight and engagement. As part of the 2024–25 Budget, the NSW Government funded NSW Treasury ($7.7 million over the four years to 2027–28) to strengthen fiscal discipline and management of risks insured by the state. The aim is to stabilise the state's liabilities, moderate upward price pressure on premiums and to ensure the state insurance and care arrangements can adapt to support economic growth.

As part of its new role, NSW Treasury should help fostered a shared understanding of how the different parts of the system and settings work towards desired outcomes. NSW Treasury could provide independent advice in the lead up to key decision making system settings and costs, including operational costs funded by premiums and agency contributions, capital management planning and premium filing.

Consistent with an enhanced financial oversight role for NSW Treasury recommended by the NSW Audit Office, there is a potential role for NSW Treasury to work with icare and SIRA to develop an agreed approach to measuring scheme financial sustainability, including key metrics and indicators.

Such action would also address, in part, criticisms levelled at NSW Treasury regarding a lack of action historically to address issues regarding icare's financial and operational performance despite identifying and advising the responsible minister and Treasurer of such issues regarding financial sustainability, forecasting and operational performance.

Nonetheless, any such action must acknowledge the primary role of SIRA and its regulatory authority and the importance of preserving a healthy tension between the system regulator and scheme operator.

9.5 Findings

icare reports a breadth of information and data to the public and to government, with additional more detailed data reported to the board and management to inform decision making. icare's focus on improving icare's business and ways of operating were evident throughout the review. An ongoing challenge for icare is to align its performance reporting framework with the latest best practice and rising community expectations for greater transparency and accountability.

NSW Treasury has identified opportunities to foster closer alignment between icare's performance reporting and community expectations for accountability and transparency.

A continued focus on improving the consistent presentation of key performance data and analysis across reporting formats such as the SBI, may aid greater understanding for the community and government of the effectiveness, efficiency, and ongoing viability of the state insurance and care schemes and their key investments.

Some specific opportunities to further improve the quality of data reporting and analysis include providing clarity on the setting of targets, establishing key performance indicators which encompass outcome and benefits metrics alongside input and output indicators, presenting trends over time and tracking savings and avoided costs from investments.

Going forward, icare is implementing a benefits realisation monitoring framework which should support improved project benefits identification, and progressive benefits realisation reporting as part of its annual reporting and annual business planning cycle to stakeholders and government.

More generally, there is an opportunity for icare to focus on greater clarity and continuity and a selected set of indicators to help monitor, understand and contextualise trends over time, identify emerging risks and build a clear narrative (based on data) to measure performance – particularly around icare's impact on scheme outcomes.

Clearer narratives could help foster greater confidence for the community and government that icare and its board are meaningfully engaging with its statutory objectives and are being held to account for government priorities focused on:

- **Return-to-work performance**. Return-to-work outcomes are a key measure that icare is held to account encompasses multiple dimensions beyond icare's control, including the employer-employee relationship, workplace culture, the changing nature of work and injury, timely access to high-quality medical care and the regulatory framework. In this way, return-to-work outcomes serve as a broader indicator of system effectiveness as well as icare's performance.
- **Financial sustainability**. Robust, transparent, and consistent indicators could be adopted to measure icare's contribution to financial sustainability of the state insurance and care system with a focus on icare's claims liabilities (supported by actuarial valuations), management of investment income in the NI and icare's Lifetime Care schemes, and premiums.
- **Claims management performance and claims handling expenses**, including the implementation of (and benefits realised through) icare's new CSP model and strategy within the NI and TMF to drive improved outcomes through increased competition and employer choice, the adoption of a new performance-based remuneration structure and improvements in professional standards, reduced caseloads and greater specialisation to provide targeted supports to workers with a psychological injury.
- **Accountability, transparency and increased focus on fiscal discipline** to achieve value-for-money outcomes across the state insurance and care system supported by high-quality, evidence-based decision making and investments, and the realisation of measurable savings benefiting the community and assisting government to manage potential budget risks associated with its self-insurance liabilities.

In some instances, this reporting may mean measuring and reporting on the saved or avoided cost. It is these counterfactual or invisible costs which may best evidence the strategic rationale for icare and its commercial model as a government business.

There is also potential value in NSW Treasury reviewing and tailoring its reporting requirements and guidance for icare, as appropriate, to acknowledge the unique nature of icare's business and the information required by government to understand icare's performance, including in meeting its statutory objectives.

As the state's insurance and care provider, icare's performance reporting needs to align with and be responsive to evolving government expectations and priorities and community values. The NSW Government could further support the board in this regard by appointing a NSW Treasury official as an *ex officio* director to the board, like arrangements for TCorp, the other NSW Government public financial corporation (PFC).

An *ex officio* NSW Treasury director could facilitate an improved understanding between government and the board. A NSW Treasury director could provide early guidance and insights into the government operating context to the board. For NSW Treasury, board membership could build a deeper understanding within government of icare's business, its strategic direction, board decision making and broader operating context. At the same time, this must be carefully considered taking into account potential risks associated with the NI and its claims liabilities being transferred onto the state's balance sheet.

Striking an optimal balance between icare adapting and responding to the priorities of the NSW Government while upholding its commercial model is dynamic and complex.

This review sets out a range of opportunities for icare and NSW Treasury to work together to continuously improve this balance and encompasses partnering with the state insurance regulator to foster an insurance and care system that is both efficient and effective and responsive to the priorities of government and the needs and expectations of the broader community.

Findings

8. NSW Treasury and icare to develop reporting that supports consistent measurement of performance over time for the minister's and board's consideration. These metrics should encompass comparisons of forecast and actual performance, and analysis of key drivers and assumptions related to:
    a. operational expenditure and savings
    b. claims handling expenses and savings
    c. changes in forecast claim liabilities.
9. NSW Treasury to work with icare regarding the application of the CPF with a focus on business cases development and project evaluation.
10. icare to identify and quantify project and program level benefit and report on their progressive realisation to stakeholders against expected outcomes. The NSW Government could consider appointment of a Treasury official to the board.
11. The NSW Government could consider appointment of a Treasury official to the board.
12. NSW Treasury, icare and SIRA to work together on opportunities for a joined-up reporting framework that promotes greater accountability for system performance, including the efficient allocation of resources and value-for-money outcomes.
13. NSW Treasury to provide advice to government on system settings and annual operational costs of the state insurance and care system.

Benchmarking and comparative analysis

10

10.1 Introduction

A key question for consideration of this review is efficiency – the extent to which icare's business model is as efficient and cost effective as similar businesses.

Benchmarking provides a useful framework to help address this question, with comparison against commercial businesses and public sector counterparts providing insights into icare's business performance.

At the same time, benchmarking is an imperfect exercise requiring judgment. icare is unique due to its ownership and funding structures as well as the breadth of statutory insurance and care schemes that it administers on behalf of the government.

Challenges with comparability means that this section largely focuses on icare as a consolidated entity (all insurance and care schemes) and the Nominal Insurer (NI).

This also means it is not possible to address questions of efficiency and effectiveness relying on a single benchmark. Most benchmarking exercises involve some limitations, and their findings used judiciously. However, using different benchmarks can still yield useful insights that aid broader understanding and support conclusions.

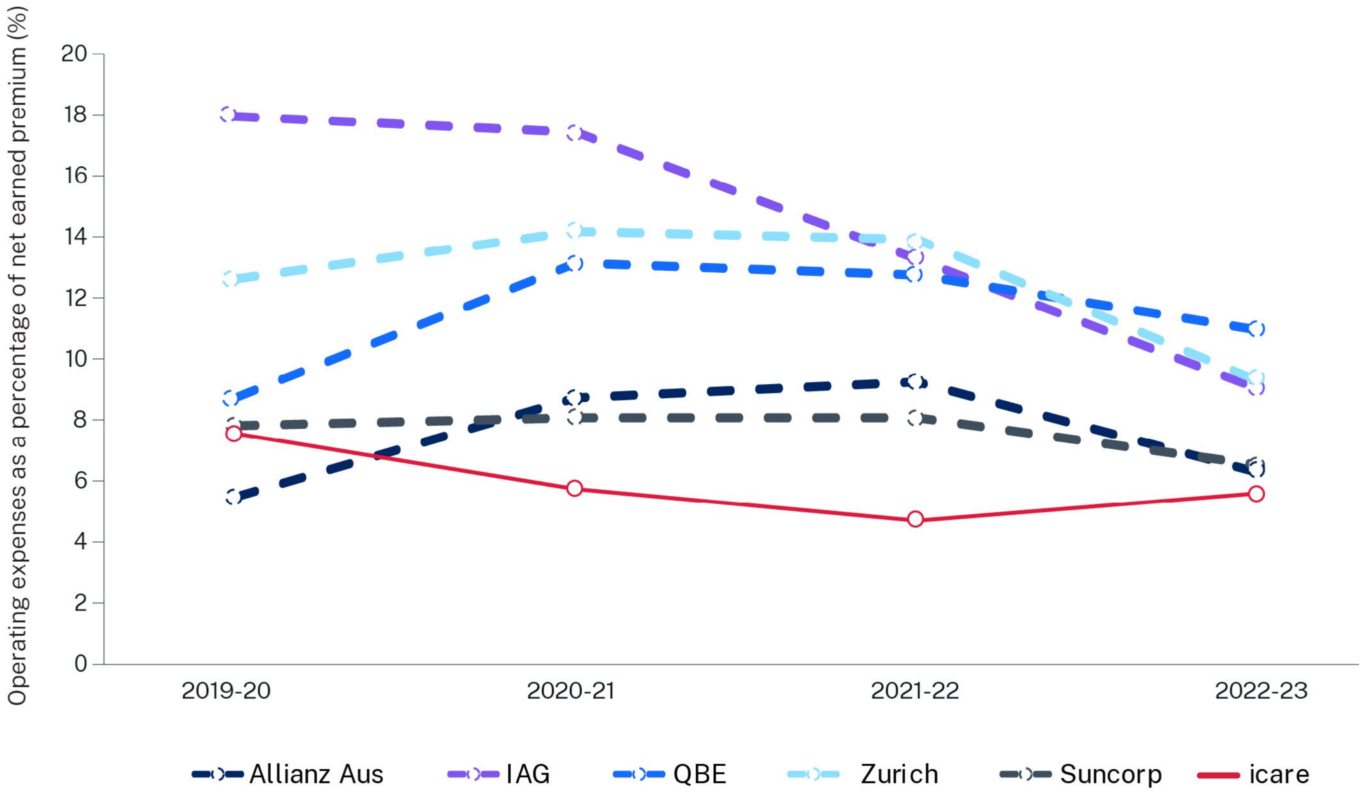
In early 2023, icare conducted a one-off benchmarking exercise to assess its performance against relevant private and public sector businesses. icare updated this work to support this review.

NSW Treasury understands that the regular use of benchmarking (except for employee renumeration) does not form part of the suite of management reporting provided to the board to support monitoring and oversight of icare's business operations and executive performance.

Financial insurance ratios – definitions

- Gross loss ratio: gross incurred claims (current and prior years) divided by gross earned premiums
- Net loss ratio: net incurred claims (current and prior years) divided by net earned premiums
- Expense ratio (excluding commissions): divides expenses (acquisition costs, underwring and servicing premiums) by net earned premiums
- Expense ratio (excluding levies): divides expenses (acquisition costs, underwriting and servicing premiums) by net earned premiums
- Combined ratio: adds the expense ratio with the underwriting loss ratio to measure the profitability of an insurance company

Figure 36: icare's operating expense ratio (excluding CHE & levies) and other commercial insurers, 2019–20 to 2022–23



Source: Treasury analysis of icare data, APRA (August 2023) Quarterly general insurance performance statistics December 2002 to June 2023, Quarterly general insurance statistics, https://www.apra.gov.au/quarterly-general-insurance-statistics, accessed 18 July 2024 and KPMG (June 2023) General Insurance Insights Product Level Dashboard, https://public.tableau.com/views/KPMGGIInsightsDashboard-ProductLevel/KPMGGIInsightsDashboard-ProductLevel, accessed 18 July 2024.

10.2 Comparing icare with private insurers

10.2.1 Operating expense ratio

The operating expense ratio refers to the percentage of premiums that an insurance company uses to pay its operating expenses. It is calculcated by dividing expenses (acquisition costs, underwring and servicing premiums) by net earned premiums.

Figure 36 shows that icare performs favourably against Australia's leading general insurers (including IAG, QBE, SunCorp, Allianz and Zurich) based on a three-year comparison from 2019–20 to 2022–23. This suggests that icare's expenses as a percentage premium share are at least half those of IAG, Zurich and QBE.

However, the explanatory power of this benchmark is affected by a range of factors. For instance:

- icare's underwriting activity differs significantly from commercial insurers. As a statutory insurer, icare has no discretion regarding the level of risk it accepts for its statutory insurance schemes, and there is no underwriting associated with some of its schemes (notably dust diseases). This means icare faces significantly lower costs across a significant part of its business in comparison to general insurers.
- Acquisition and commissions together, on average, account for around 19 per cent of a commercial insurer's operating expenses. These expenses have been removed for the purpose of this analysis to support comparison as icare, as a statutory provider of mandatory insurance, does not have such costs.
- Claims handling expenses have been excluded from icare's operating expenses. However, a lack of transparency regarding data means that they remain within the quantum of operating expenses assessed for the commercial insurers (reflecting their importance to insurer competitiveness).

Table 19. Financial performance benchmark comparison, 2022–23

Ratio	Industry (%)	icare (%)
Gross loss ratio	69.6	155.1
Net loss ratio	61.8	142.2
Expense ratio	23.4	22.4
Expense ratio (excluding commissions)	14.2	22.4
Expense ratio (excluding commissions and levies)	14.2	17.1
Combined ratio	85.3	164.6

Source: APRA (August 2023) Quarterly general insurance performance statistics December 2002 to June 2023 and icare *2022–23 Annual Report*.

The very different characteristics of each state and territory's workers compensation scheme is also relevant – with NSW being one of the more generous schemes offering up to five years of income support to claimants. Other jurisdictions such as Queensland have a shorter – up to two years – maximum claims duration for most claimants.

Accordingly, while commercial insurers such as QBE may provide workers compensation in some jurisdictions (ACT, Northern Territory, Tasmania, Western Australia), the potential degree of risk exposure is much smaller and greater discretion exists.

10.2.2 Consolidated and normalised expense ratios

An alternate approach is to compare icare's consolidated results with industry-level performance. This provides a very different perspective as seen in Table 19 which indicates that there is a considerable disparity in icare's performance relative to commercial insurers across key ratios.

The benchmarking results shown in Table 19 have been calculated focussing on entities of a roughly comparable size (relying on gross written premium and net earned premium as indicative proxies) at a consolidated level, that offer a diverse mix of long and short tail insurance lines in Australian markets.

However, this comparison is affected by some fundamental differences and practical difficulties Table 19 that arise when seeking to compare icare with commercial insurers as well as the key features and defining characteristics of their respective businesses, including jurisdictional differences in regulatory settings.

This means adjustments are needed to derive ratios that support a meaningful like-for-like comparison.

The ratios shown in Table 19 highlights the difference in operational expenses for icare relative to industry, but do not account for the differences in premium levels for icare relative to industry. This matters because premiums are the common denominator in calculating the expense ratios.[66]

Table 20 compares the difference in performance for icare relative to industry once the difference in premium levels is taken into account. This includes the impact of premium setting at the break-even point, investment income and profit margins.

Once these adjustments are made, icare's expense ratios are broadly comparable to commercial insurers. This is seen in Table 20 where icare's expense ratio of 14.4 per cent after adjusting premiums for investment risk and profit margins is below commercial insurers' expense ratio of 14.2 per cent which excludes their commission costs.

That said, the loss ratios remain very different in nature due to the long-tail nature of the schemes in comparison to a predominantly short tail portfolio more typical of commercial insurers.

66 Calculation of this adjustment requires three steps. The first step is an upward adjustment for icare's premiums to the break-even point. The second step is an adjustment to reflect the role of investment income for icare where a relatively aggressive investment strategy is used (relative to commercial insurers) to achieve capital management targets and sustain operational losses. Adoption of standard market risk-free rate or the government bond rate would increase icare's premiums, in part due to an increase in the break-even point. The final step is a proxy adjustment to add a commercial profit margin to icare's premiums in line with commercial insurers. No adjustment has been made for icare's lifetime care schemes as these are non-commercial products and HSBC because its premiums already have an inbuilt margin for uncertainty and a commercial return.

Table 20. Financial performance benchmark comparison with icare premiums adjusted, 2022–23

Ratio	Industry (%)	icare (%)	Premium adjusted	
			Investment subsidies (%)	Profit margin (%)
Gross loss ratio	69.6	155.1	138.10	128.0
Net loss ratio	61.8	142.2	129.40	119.9
Expense ratio	23.4	22.4	20.40	18.9
Expense ratio (excluding commissions)	14.2	22.4	20.40	18.9
Expense ratio (excluding commissions and levies)	14.2	17.1	15.60	14.4
Combined ratio	85.3	164.6	149.70	138.8

Source: APRA (August 2023) Quarterly general insurance statistics highlights – June 2023, and icare *2022–23 Annual Report*.

Expense ratio

The expense ratio provides an insight into the efficiency of an insurer and, for a commercial insurer, how well it is using its resources to drive growth.

A simple comparison of expense ratios suggests that icare's expenses as a percentage of net earned premium is 1.6 per cent lower than industry – suggesting that icare has a lower expense base relative to industry.

However, industry expenses include commissions as part of its underwriting costs (as well as emergency services levies), this being a business expense that icare does not have. When commissions are excluded to achieve a more proximate like-for-like comparison, the industry expense ratio falls by 9.2 per cent from 23.4 to 14.2 per cent in comparison to icare's expense ratio of 22.4 per cent.[67]

Regulatory levies also form a cost of doing business for all insurers – private and public alike – and are embedded in the expense ratio. However, these costs are a significant part of icare's operating expenses as a standalone entity (around 9.0 per cent of net earned premium) and much greater than that of a commercial insurer. Removing these levies from icare's business expenses also reduces icare's expense ratio by 5.3 per cent to 17.1 per cent.

The industry expense ratio calculation would likely fall by a further modest amount if industry data was available on regulatory expenses.

The outcome of this analysis indicates that commercial insurers have a lower expense base in comparison to icare – which equates to an average annual operating expenses saving of around $170.5 million for commercial insurers as compared to icare for 2022–23. This represents 2.0 per cent of icare's total net earned premium of $7,412 million.

Gross loss, net loss and combined ratios

The gross and net loss ratios highlight the relationship between premiums and claims liabilities. These ratios highlight the fundamental differences that underpin icare's role compared to commercial insurers.

These different ratios help commercial insurers measure profitability and understand how well they manage their daily operations. For this reason, measuring trends across these different loss ratios provides an important indicator of performance over time.

67 KPMG (2023) *Resilience in times of change General Insurance Industry Review.*

The combined ratio measures the money being paid out by an insurance company in the form of dividends, expenses and losses.

For a commercial insurer, losses indicate the level of discipline applied to their underwriting activities – a discretion not available to icare. A combined ratio below 100 per cent indicates that the company (or industry) is making an underwriting profit. A combined ratio above 100 per cent means, like icare, that it is paying out more money in claims and expenses than it receives in premiums.

This ratio does not include investment income which is also a key part of icare's business model.

For icare these ratios show, on a consolidated level which includes all its insurance and care schemes, the very sizeable imbalance between premiums and liabilities.

NI gross loss and underwriting expense ratios

icare's insurance and care schemes are a diverse mix – some schemes like workers compensation and TMF general lines insurance can be compared with commercial insurers along product lines, while its care schemes are more unique.

Consistent with the prominence of the NI within icare's business, if the NI is to be compared with commercial insurers, it would tell a broadly comparable story as the consolidated analysis above.

This is because the losses incurred in the NI are influenced by a range of scheme-specific factors that present long-term risks to the financial sustainability of the NI and point to structural and systemic changes required to the NSW workers compensation system. These include:

- Premiums are underpriced relative to claims liabilities. While premiums will increase by a further 8.0 per cent of average annual premiums in 2024–25 and 2025–26, the gross loss ratio will remain above 125 per cent (135 per cent in 2022–23).
- Claims cost continues to rise, driven by the changing nature of work and workplace injury (which in turn is increasing the duration, complexity and cost of claims), as well as the impact of healthcare inflation in driving rapid increases in the cost of attendant care and related services.

A further differentiator is that the NSW workers compensation scheme and its entitlements (including duration of benefits) tend to be longer and more generous than some other Australian jurisdictions, further driving the long-tail nature of the scheme.

Accordingly, icare's claims ratio for the NI is double that of commercial insurers. This points to a potential area for consideration by the board, including attention to underlying drivers. This gap may also narrow because of changes to the business model for actuarial services.

The underwriting result for Australian commercial insurer's employer's liability was:

- $489 million in 2021–22 (net earned premium of $2,146 million)
- $236 million in 2022–23 (with net earned premium of $2,482 million).[68]

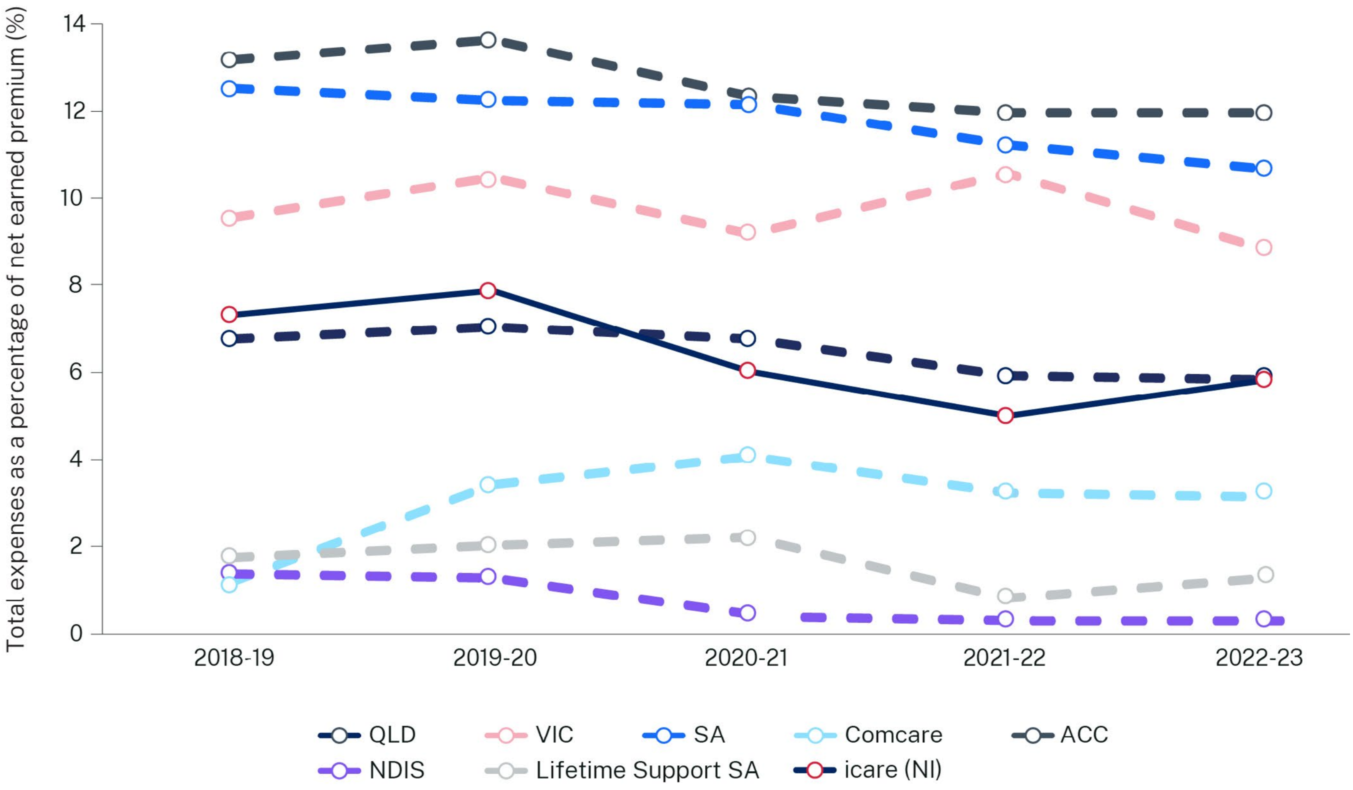
In comparison, the NI's underwriting result was:

- -$101 million in 2021–22 (with net earned premium of $3,354)
- -$1,695 million in 2022–23 (with net earned premium of $3,914).[69]

The drivers for this difference in performance outcomes may be largely attributed to the long-term financial position of the NI and its premium levels, however it remains a useful metric to monitor over time.

67 KPMG (2023) General Insurance Insights Product Level Dashboard
68 icare 2023–24 SBI, p. 63.

Figure 37. Comparison of scheme performance benchmarks, icare and selected jurisdictions, 2018–19 to 2022–23



Source: icare, NSW Treasury received May 2024.

10.3 Comparison with other government insurers

Alongside a comparison of icare to commercial insurers, it is also useful to assess icare's performance relative to government-owned insurers in other jurisdictions. Similar to the benchmarking exercise above, this exercise also has some limitations.

Notably, icare is the only government-owned insurer that:

- delivers a range of statutory insurance and care schemes, including workers compensation, HBCF and care schemes (including dust diseases and lifetime care for CTP Care, workers and sporting injuries)
- acts as a captive insurer for the NSW Government covering workers compensation and general.

For example, the Commonwealth and Victoria have a dedicated workers compensation insurance agency (ComCare and WorkSafe Victoria) and a captive insurer to provide cover for insurable risks (ComCover and the Victorian Managed Insurance Authority).

However, ComCare is the Commonwealth Government's workers compensation regulator, insurer, claims manager and administrator responsible for the provision of workers compensation for Commonwealth employees. In comparison, WorkSafe provides workers compensation across the private and public sector acting as both insurer and regulator.

By comparison, Western Australia has a privately underwritten workers compensation system subject to regulation and administered by WorkCover WA which is a government-owned entity. The Western Australian Insurance Commission manages the state Government's insurable risks.

The Accident Compensation Commission of New Zealand (ACC) provides no fault personal injury accident insurance across the country.

This reinforces the importance of clearly understanding what is being included and compared in benchmarking of operating expense ratios.

Operating expense ratios

The expense comparisons presented in Figure 37 suggest that as a consolidated entity, icare's operating expenses as a proportion of its premiums are in the mid-range – around half those of the ACC, substantially lower than South Australia and Victoria, and broadly in line with Queensland. Claims handline expenses and regulatory levies are excluded from Figure 37.

The National Disability Insurance Scheme, Lifetime Support SA and ComCare, by comparison are lower again – placing icare mid-range in comparison to these other government-owned insurers.

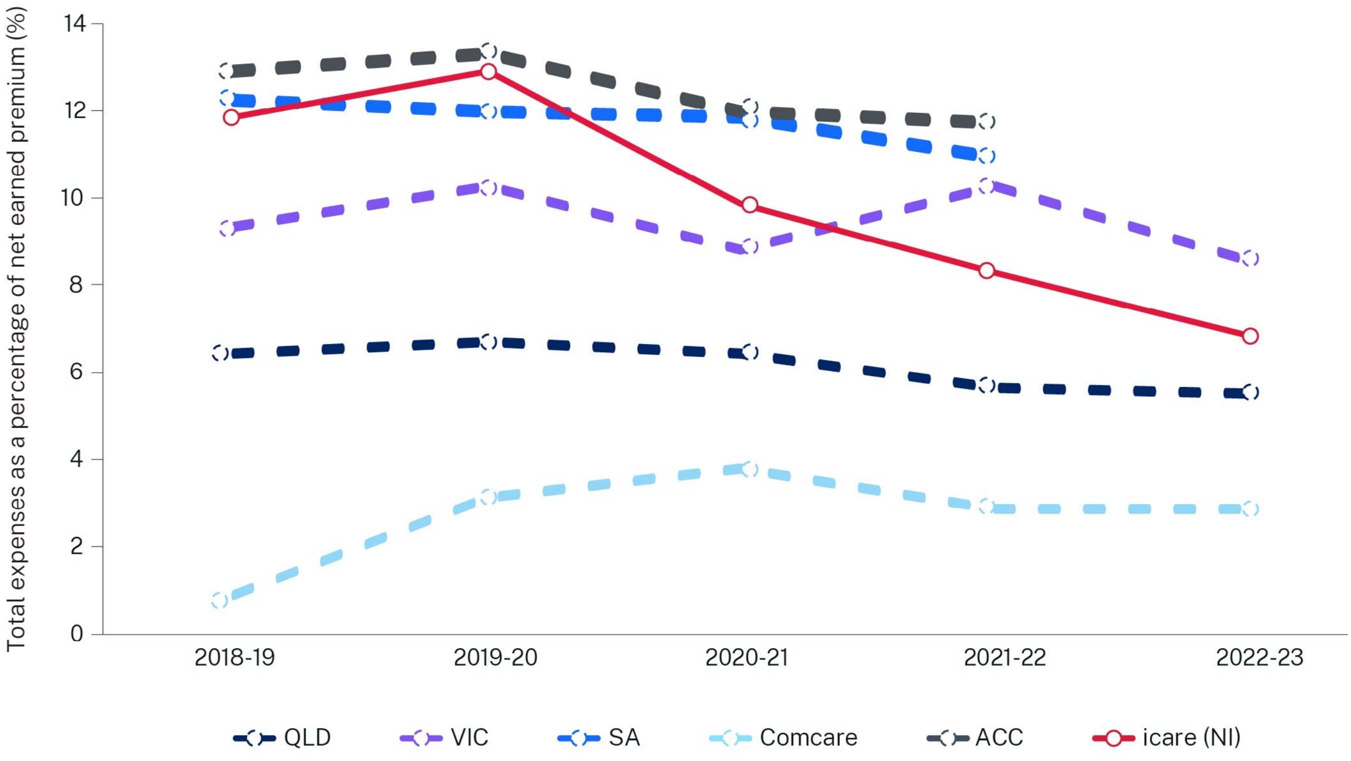
This analysis is reinforced by the trends shown in Figure 38 which also excludes claims handling expenses and regulatory levies.

Comparison of operating expense ratios, as shown in Figure 38 for the NI (excluding CHE and levies) from 2018–19 to 2022–23, also places the NI and its operating expenses in the upper mid-range of other government-owned insurers. The comparison with Victoria's WorkSafe is affected by $1,300 million in Victorian Government contributions to their workers compensation scheme over three years from 2020–21 to 2022–23 which, if counted as part of net earned premiums, would serve to lower the Victorian ratio.

The NI has higher operating expenses relative to icare as a consolidated entity, as highlighted in Figure 38.

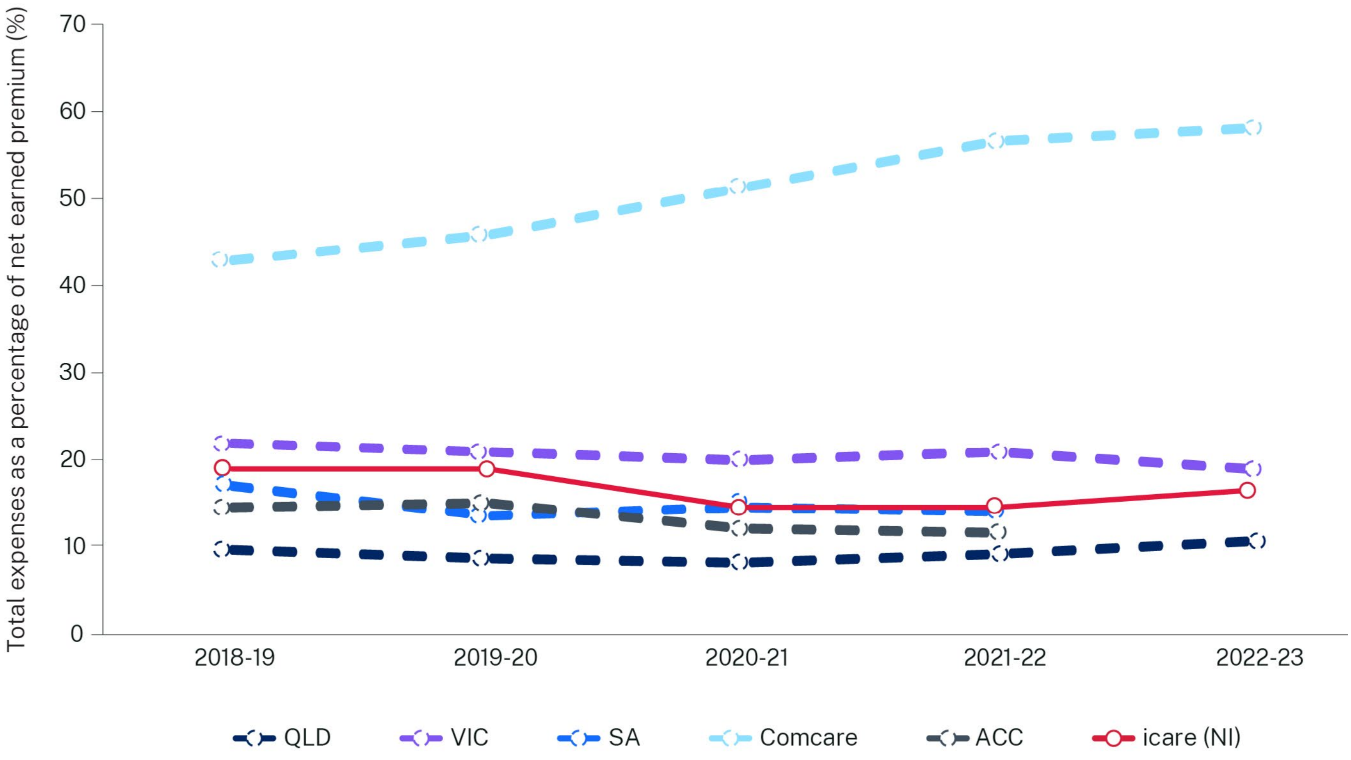
Taken together, the two charts suggest that icare's management of its workers compensation operating expenses are broadly in line with expected levels of efficiency as government-owned workers compensation and personal injury insurers in other jurisdictions.

Figure 38. Operating expense ratio comparison – NI (excluding CHE and levies) and selected jurisdictions, 2018–19 to 2022–23



Source: icare, NSW Treasury received May 2024.

Figure 39. Claims handling expense ratio – NI and selected jurisdictions, 2018–19 to 2022–23



Source: icare, NSW Treasury received May 2024.

Claims handling expense ratio

Claims handling expenses for icare as a consolidated entity for all icare's schemes are at least as efficient as other jurisdictions, while Comcare's claims handling expenses are substantially greater than any other jurisdiction, as shown in Figure 39.

There is significant difference in claims handling expenses as a proportion of claims payments between icare and Victoria. If the same trend carries through to 2022–23, it may be appropriate to infer that icare's claims handling expenses are almost half those of Victoria.

In the same year, we also know that CSP payments for the NI represented 13.7 per cent of net earned premium, Victoria's WorkSafe CSP payments accounted for 10.3 per cent of net earned premium.

This suggests that Victoria's scheme agent arrangements and contracts are managed more efficiently. This may be wholly or partially correct and warrants further consideration. However, Victorian Government grants are omitted from Victoria's net earned premiums – which would otherwise lower this ratio. Further, the absence of an external regulator may mean that the cost of some compliance-related activities may also be included in the calculation of this ratio.

Of course, these conclusions may be correct, indicating that icare's management of claims handling expenses is more efficient than Victoria's. Regardless, such analysis illustrates the potential risk that may arise from reliance on a single benchmark.

Claims handling efficiency

The effective management of claims handling expenses forms part of icare's business strategy intended to support scheme sustainability and improve outcomes for workers with injuries and employers. These expenses also form part of icare's controllable cost base impacting operational efficiency.

This focus on improving claims management processes and investing in claims operations to control expenses and deliver quality services is reflected in icare's strategic imperatives (outlined above at 3.2.2).

In 2022–23, icare continued to make further changes to its claims model in the NI. These changes included a reset in its claims operations and implementation of a new contract model and strategy with the engagement of up to six CSPs to provide claims management services, and related initiatives intended to improve CSP performance.

The introduction of specialist support for psychological injuries is one such change and is a key element of the new model, which includes:

- four of the six providers are specialists in managing psychological injuries claims and have case managers with specific training and experience in these types of complex cases
- the rollout of a professional standards framework across the CSPs is intended to uplift claims manager capability.

Implementation of this same model is planned for the TMF workers compensation scheme.

These initiatives form part of icare's response to the McDougall Review and related $350 million investment over 2021–22 to 2023–24 through its Enterprise Improvement Program to drive organisation-wide improvements (as discussed at 8.2.1 above), of which the NI Improvement Sub-Program is part and includes a focus on:

- return-to-work performance
- claims model improvements
- CSP procurement and performance review
- CSP transition
- professional standards and capability implementation.

To understand icare's claims handling efficiency, NSW Treasury compared icare's claims handling expense ratio over 2018–19 to 2022–23 with other comparable state jurisdictions for the NI and at an aggregate level.

The claims handling expense ratio represents claims handling expenses incurred, spread over the claims payments made by the insurer. This metric shows how efficiently an organisation is managing its claims with a lower ratio indicating that claims are managed with minimal costs incurred in internal operations.

However, there are some challenges in making this comparison because:

- state jurisdictions run a combination of long-tail and short-tail classes which involve complex claims that meet broader public policy and government objectives beyond meeting commercial outcomes
- there are legislative, functional and administrative differences between the schemes which can drive significant differences in costs
- state insurers play different roles relating to scheme operation, administration and oversight, claims management, underwriting and regulation which can drive significant variation in costs.

In 2022–23, icare's claims handling expense ratio for the NI was 16 per cent, as a function of $3,199 million in claims payments and $514 million in claims handling expenses, while Queensland's was 10 per cent and Victoria's 19 per cent. At an aggregate level, icare's claims handling expense ratio was 15.3 per cent as a function of $5,980 million in claims payments and $913 million in claims handling expenses.

This indicates that icare's claims handling expense are performing broadline in line with other state jurisdictions – where information is readily available for the year 2022–23 – noting that NSW, Queensland and Victoria are among the larger state jurisdictions for the purposes of a like-for-like comparison at scale.

As shown in Figure 39, over a five-year period from 2018–19 to 2022–23, the claims handling expense performance for icare has maintained a similar trend with other state insurance schemes. On average, icare's NI maintained 16.3 per cent over the five-year period, with the lowest ratio of 14 per cent in 2020–21. icare incurred total claims handling expenses of $435 million and claims payments of $2,696 million on average each year over the same period.

This metric performed more efficiently than WorkSafe Victoria over the same five-year period and based on available data, appears broadly in line with other states such as South Australia, Queensland and New Zealand's ACC. This is demonstrated by the trend presented in Figure 39.

icare's claims handling expense ratio is not an outlier or performing beyond or below expectations when compared with other state jurisdictions. However, given the unique arrangements in place in each jurisdiction and acknowledging the challenges over each state insurance scheme, there is potential for a process level review of the claim management operations to capture the variations in complex claims, their significance to costs and whether there are further improvement opportunities available to drive system level efficiencies without negatively impacting claims costs.

Furthermore, with icare's significant planned investments to improve claims performance over the next 10 years to 2033–34, further improvement should be expected in icare's claims handling expense ratio and performance. This should continue to be monitored by the board, including in comparison with other Australian jurisdictions, to support continued confidence in the efficiency and effectiveness of icare's claims management.

Table 21. Scheme expense and gross written premium growth for selected schemes, 2021–22 to 2023–24

Scheme	Scheme expenses					Gross written premium				
	21-22 ($m)	22-23 ($m)	Growth (%)	23-24 ($m)	Growth (%)	21-22 ($m)	22-23 ($m)	Growth (%)	23-24 ($m)	Growth (%)
NI	1,015	1,149	13	1,241	8	3,110	3,582	15	4,366	22
TMF	285	336	18	284	-15	1,984	2502	26	2,995	20
HBCF	25	31	24	52	68	216	193	-11	165	-15
Lifetime Care	53	58	9	74	28	606	729	20	780	7
Dust Diseases	38	55	45	61	11	73	79	8	73	-8
Sporting Injuries	-	-	-	-	-	0.8	0.9	13	0	-100
Total	**1,416**	**1,629**	**15**	**1,712**	**5**	**5,990**	**7,086**	**18**	**8,379**	**18**

Source: icare, NSW Treasury received May 2024, icare 2023–24 SBI and icare *2022–23 Annual Report*.

10.4 Scheme growth

A further means to understand the efficiency of icare's management of expenses is to consider the relationship between expense growth across its schemes and growth in the schemes themselves. Examining this relationship can help us understand whether the level of growth in icare's scheme expenses is reasonable and in line with the growth experienced across these schemes.

In 2022–23, icare's overall scheme expenses grew more slowly than the level of growth in gross written premium – 15 per cent compared to 18 per cent, as shown in Table 21.

For individual schemes however, there are real divergences, with 8.0 per cent growth in the NI's scheme expenses in 2023–24 compared to material increases in gross written premium of 22 per cent. The divergence is even greater in the TMF with negative growth in scheme expenses of -15 per cent compared to a 20 per cent increase in gross written premium for the same year.

The trend is opposite for HBCF and Dust Diseases, which both saw large scheme expense growth of 68 per cent and 11 per cent respectively in comparison to negative growth of -15 per cent and -8.0 per cent respectively in gross written premium.

Growth in Lifetime Scheme expenses also significantly outpaced growth in gross written premium, though it is possible that a key driver of this trend may be attributed to inflationary pressures in the care workforce as well as icare increasing its resourcing levels as the scheme matures.

The above analysis provides a useful top-down insight into emerging expense and scheme growth trends across the organisation and may provide the board with useful insights into the relationship between these two business drivers.

As an indicator to assess reasonableness of expense growth, the above does not point to significant outliers or gaps in relation to expense growth across icare relative to the growth experienced by individual schemes. However, the changing trends in scheme expense growth relative to gross written premium in the NI is of material interest at a time when the new claims management contractual model and strategy is being implemented. Such analysis may be useful in helping understand and inform resource allocation, prioritisation and risk management within the organisation over time.

10.5 Findings

Findings

14. The board to undertake periodic benchmarking as agreed with NSW Treasury, including relevant comparators, timing and area of focus.

Appendices

Appendix A: Abbreviations

Acronym	Definition
ACC	Accident Compensation Commission of New Zealand
AFR	Accounting Funding Ratio
APRA	Australian Prudential Regulatory Authority
ASIC	Australian Securities and Investments Commission
ASIC	Australian Securities and Investments Commission
Audit Report	NSW Auditor-General’s Report to Parliament, *Workers Compensation Claims Management*, April 2024
BEP	Break-even Premium
CPF	NSW Treasury’s Commercial Policy Framework
CRIF	Construction Risk Insurance Fund
CSAT	Customer Satisfaction Target
CSP	Claims Service Provider
CTP	Compulsory Third Party
EIR	Economic Insurance Ratio
FTE	Full Time Equivalent
GAC	PriceWaterhouse Coopers *Independent Review of icare governance, accountability, and culture*, 2021
GET	Group Executive Team
HBCF	Home Building Construction Fund
icare	Insurance and Care NSW
ICT	information and communications technology
IEAs	Individual Employment Agreements
IPART	Independent Pricing and Regulatory Tribunal
IRO	Independent Review Office
McDougall	icare and State Insurance and Care Governance Act 2015 Independent Review, April 2021

Acronym	Definition
NAHLP	Net Asset Holding Levelling Policy
NCOS	Net Cost of Services
NI	The Nominal Insurer
NPS	Net Promoter Score
PFC	Public Financial Corporation
PSC	Public Service Commission
review	Operational Expenditure Review of icare
SBI	Statement of Business Intent
SCLJ	Legislative Council Standing Committee on Law and Justice
SES	Senior Executive Service
SICorp	NSW Self Insurance Corporation
SICorp Act	*NSW Self Insurance Corporation Act 2004*
SIR	Strategic Insurance Review
SIRA	State Insurance Regulation Authority
SLT	Senior Leadership Team
SOORT	Statutory and Other Offices Remuneration Tribunal
TCorp	NSW Treasury Corporation
the Minister	Minister for Work Health and Safety
SICG Act	*State Insurance and Care Governance Act 2015*
TMF	Treasury Managed Fund
USD	United States Dollar

Appendix B: Letter from Minister for Work Health and Safety

The Hon Sophie Cotsis MP
Minister for Industrial Relations
Minister for Work Health and Safety

NSW GOVERNMENT

Our Ref: TA23/1146

Mr John Robertson
Chair
icare
321 Kent Street
SYDNEY NSW 2001

Re: **icare operational expense and cost review**

Dear Mr Robertson

As set out in the 2023-24 NSW Budget, the Treasurer and Minister for Finance have completed the first stage of a Comprehensive Expenditure Review to help with budget repair and achieve a sustainable operating and debt position.

As the NSW Government's social insurer, icare plays a key role in creating strong social and economic outcomes across our community. In this context, it is vital that both government and the wider community can have confidence in the efficiency and effectiveness of icare's business operations, and that value for money is being achieved in the performance of its functions, and the delivery of services across icare's different insurance and care schemes.

In 2023-24, icare's expenses are budgeted at $1.2 billion. These costs are borne by individuals and businesses across New South Wales, as well as taxpayers, through the premiums paid to icare's insurance and care schemes. I am keen to understand:

- how icare is managing its cost base and drivers, and achieving efficiencies in its business performance to help moderate upward price pressure on premiums, and
- how icare's growing investment in its people and systems is leading to better outcomes.

Review objectives and scope

I have requested Treasury to work in collaboration with your team to conduct a review with the following objectives to:

- examine the relationship, including historical and forecast trends, between icare's operational expenditure and claims management performance (including return to work performance and claims costs) and whether expected benefits have been realised
- undertake relevant cross-jurisdictional and industry comparative analysis to benchmark icare's operational expenses to assess whether value for money outcomes are being achieved
- review icare's organisational structure, resourcing, and remuneration to ensure resources are appropriately allocated and reflects business priorities (this may include consideration of contingency workers and their future role)
- what further opportunities may exist for icare to realise economies of scope and/or scale
- review the robustness of business planning and forecasting against actual performance, including those opportunities which may exist to improve forecasting reliability

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- analyse the different expense ratios for each insurance and care scheme, including management expenses drawn from the Workers Compensation Insurance Fund and other scheme funds.

It is not the intention of the Treasury-led review to duplicate the work of the NSW Audit Office, currently underway, to assess the effectiveness and economy of icare's management of workers compensation claims, or that of State Insurance Regulatory Authority (SIRA), also currently underway, to undertake an integrated compliance audit and performance review of Treasury Managed Fund Government agencies' workers compensation claims. However, Treasury may draw on findings from these reviews as needed.

Review outcomes, timeframes and savings plan

The review is intended to assist in the identification and adoption of operational improvements and efficiencies across icare to achieve a five per cent permanent reduction in icare's net cost of service (excluding contracted claims service provider fees).

These savings are to be permanently embedded in icare's core, business-as-usual budgets from 1 July 2024 onwards. The savings plan should be reflected in icare's 2024-25 Statement of Business Intent and business plan, with icare's 2022-23 financial year results serving as a baseline.

icare is requested to provide a board-endorsed savings plan to me by 1 March 2024.

I have asked Treasury to report to me in February 2024, but it will be the board's responsibility, under your leadership, to take forward the outcomes from this review and deliver these savings.

I encourage icare to work in close cooperation with the Treasury team and provide every assistance. I am keen for the review's findings to be of value to the icare board, and can usefully inform the development of icare's savings plan, and that savings measures proposed in this plan are well-targeted and measurable.

Further, I trust that these savings measures will be implemented in a pragmatic manner that does not detract from the levels of service and care currently delivered by icare or its improvement program.

I consider that this work is an important step to better align icare's strategic direction with the Government's priorities while maintaining icare's independence of operations in a commercial manner. Looking ahead to the following year, I expect to see this greater alignment reflected in icare's Statement of Business Intent for 2024-25 and related business planning processes into the future.

Thank you in advance for your support of this important work.

Sincerely

Sophie Cotsis

Sophie Cotsis MP
Minister for Industrial Relations
Minister for Work Health and Safety

Date: 3.11.23

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Appendix C: icare board interviews

NSW Treasury conducted a series of confidential interviews with icare board members on 30 and 31 May 2024. The following briefly summarises some key themes and messages identified by at least two or more directors.

icare is operating in a system that is not in balance.

Directors expressed a shared view that icare is operating in a system or ecosystem that is out of balance, and that there is an opportunity for much greater alignment across this system.

There was a common perception that there was no coordinated or agreed view on what should be the overarching objectives or agreed way to assess performance across the whole of the state insurance and care system, and to what extent this is reflected in each organisation's statutory objectives.

icare is a passive taker of risk which drives its cost of doing business, and the TMF retrospectively prices the policy decisions of government.

As a passive taker of risk, icare needs to be very careful and focussed on what it can and cannot control. icare is one part of a broader system.

There are a range of stakeholders whose actions also impact system costs, including employer and employee behaviours and workplace culture, the role of SafeWork as the safety regulator, medical and allied health practitioners, legal practitioners, and judicial and regulatory decision makers. The significance of these risks and the way in which they interact means, however, that icare cannot adopt a narrow focus towards risk within the workers compensation and other insurance and care schemes it administers on behalf of government.

Formalisation of a feedback channel or mechanism between icare to government provides an opportunity for icare's business insights (drawn from its data and operational experience) to better inform government policy making and could point to a potentially broader role for icare as a risk advisor to government.

icare can only focus on its controllable costs – people and technology.

icare differs from a commercial insurer, which has few options to manage its business and strengthen its financial performance. Levers such as acquisitions, divestment, improving its underwriting result, adjusting pricing or benefits are not available.

To this end, icare an only focus on its controllable costs through people and technology. Directors conveyed a sense of an organisation on the cusp of change – that it is progressing its plan but is still in catch-up mode.

Investment in technology platforms at scale and artificial intelligence offer some of the most significant and impactful opportunities to achieve a more sustainable, cost effective and efficient footing for its business operations and avoid performance trade-offs.

Directors also noted the breadth and complexity of icare's business and the challenges this can present in balancing different priorities and perspectives within the organisation. This in turn led to an awareness of the importance of realising efficiencies across the organisation to ensure that its strengths were deployed, and that icare continues to 'make sense' for government as a single, integrated entity (unique amongst Australian jurisdictions) responsible for the state statutory insurance and care schemes and self-insurance functions.

There is real and demonstrable evidence of continuous improvement across the organisation and how the board is supported to do its job.

Continuous improvement is evident across several dimensions and continues to evolve. This is evident in the changing focus for the board as its moves beyond responding to the McDougall review towards a sharper focus on scheme performance and risk.

Changes in management reporting to support the board and the adoption of customer satisfaction targets (CSATs) away from net promoter score (NPS) were highlighted as important changes that better equip the board to understand and interrogate performance and risk.

Directors noted some unevenness across the organisation, but the collective experience of the board was that management were curious and engaged, and open to improving their ways of working and business processes.

Looking ahead, a priority for the board will be to deepen its understanding of risk and strengthen its future focus and 'foresight' lens. Directors agreed this needs to be supported by consistent indicators to measure performance over time.
At a management level, greater clarity of narrative and business documentation is a priority that will support the board to interrogate expert advice and underlying assumptions.

The introduction of statutory objectives for icare, as well as the possible adoption of external standards – judiciously applied – offer the potential to strengthen board governance. They may offer some objective measures which the board could choose to reference when performing its responsibilities, including in the provision of advice to government, overseeing and guiding icare's strategic direction, and upholding organisational and executive accountability.

Appendix D: icare consolidated profit and loss statement, 2023–24

$m	FY20 Actual	FY21 Actual	FY22 Actual	FY23 Actual	FY24 HYR	FY25 SBI
Employment Costs	**243**	**248**	**253**	**278**	**289**	**288**
Permanent / fixed term	165	195	225	250	286	278
Contingent	44	26	22	15	6	6
Contractors	28	14	11	3	7	4
Indirect Employment costs	5	13	(4)	9	(10)	0
Technology	**56**	**65**	**66**	**73**	**85**	**80**
Enterprise Projects	**79**	**70**	**49**	**95**	**105**	**70**
Consulting	**6**	**3**	**3**	**4**	**4**	**5**
Travel & Entertainment	**2**	**0**	**0**	**1**	**3**	**3**
Fees	**56**	**57**	**44**	**44**	**52**	**53**
Actuarial fees	9	10	8	8	8	8
Audit fees	8	8	8	10	12	12
Debt collection fees	5	5	-		0	0
Legal fees	9	12	6	5	6	6
Other fees	6	6	5	6	9	9
Service NSW fees	18	17	16	15	18	18
Office Accommodation	**7**	**7**	**7**	**9**	**7**	**7**
Other Expenses	**25**	**19**	**2**	**(9)**	**10**	**8**
Advertising & Promotions	1	0	0	0	1	1
Printing & Publications	4	4	3	3	3	3
Sponsorships	1	1	0	1	1	1
Sundry Expenses	17	11	(1)	(2)	2	0
Sundry Income	(0)	2	(2)	(14)	(1)	(1)
Training	2	2	1	2	3	3
TOTAL CONTROLLABLE	**472**	**470**	**424**	**497**	**555**	**514**
Bad and Doubtful Debts	**68**	**40**	**41**	**46**	**53**	**61**
Innovation and partnership initiatives	**20**	**20**	**13**	**15**	**21**	**22**
Lease & Other Amortisation, Depreciation	**70**	**58**	**59**	**53**	**42**	**40**
Levies Expense	**65**	**64**	**70**	**77**	**74**	**75**
TOTAL NON-CONTROLLABLE	**222**	**182**	**183**	**191**	**190**	**198**
TOTAL EXPENSES (excl SAR & SIRA Levy)	**695**	**652**	**607**	**688**	**745**	**712**
Scheme Agent Remuneration	**466**	**415**	**467**	**552**	**707**	**718**
SIRA Levy	**261**	**272**	**276**	**308**	**328**	**336**
TOTAL EXPENSES	**1,421**	**1,338**	**1,350**	**1,548**	**1,780**	**1,766**
Exclude:						
Bad and Doubtful Debts	**68**	**40**	**41**	**46**	**53**	**61**
Levies Expense	**326**	**336**	**347**	**385**	**402**	**411**
Scheme specific charges & settlements	**244**	**48**	**19**	**6**	**11**	**(4)**
TOTAL EXCLUDED EXPENSES	**637**	**424**	**406**	**437**	**466**	**468**
icare service entity	**784**	**915**	**944**	**1,111**	**1,314**	**1,298**

Appendix E: Enterprise Program, 2022-23 to 2032-33

Schemes	Projects	Expenditure ($m)					Benefit ($m)					
		2022-23	2023-24	2024-25	Total		2022-23	2023-24	2024-25	2025-26	2026-33	Total
Worker's compensation	NI Improvement program	34.7	13.6	—	48.3	Claims^	695	120	351	474	3,575	5,215
	Core platform uplift	8.6	8.4	8.8	25.8							
	Data migration	12	—	—	12	Expense savings	3	1	15	20	208	247
	Data modernisation	—	—	9	9							
	Subtotal	*55.3*	*22*	*17.8*	*95.1*	Gross benefits	698	121	366	494	3,783	5,462
IfNSW & HBCF	IfNSW	15	33.5	39.9	88.4	Claims	—	—	—	6	49	55
	HBCF	3.3	7.9	2.6	13.8	Expense savings	—	—	—	35	260	295
	Subtotal	*18.3*	*41.4*	*42.5*	*102.2*	Gross benefits	—	—	—	41	309	350
Lifetime schemes	DDC	4.2	30.4	6.7	41.3	Claims	—	—	—	—	—	—
	CTP	5.6	—	—	5.6	Expense savings	—	—	2	2	15	19
	Subtotal	*9.8*	*30.4*	*6.7*	*46.9*	Gross benefits	—	—	2	2	15	19
Digital & transformation		14	18.9	27	59.9	Expense savings	3	—	1	1	6	11
Enterprise improvement		17.9	10.2	—	28.1	Expense savings	—	—	—	—	—	—
Finance		1.7	10.8	1	13.5	Expense savings	—	—	—	—	—	—
Risk		—	3	—	3	Expense savings	—	—	—	—	—	—
Portfolio overlay		—	—	1.5	1.5	Expense savings	—	—	—	—	—	—
						Claims	695	120	351	480	3,624	5,270
						Expense savings	6	1	18	58	489	572
Total		**117**	**136.7**	**96.5**	**350.2**	Gross benefits	701	121	369	538	4,113	5,842
						BAU OPEX		-3	-9	-8	-57	-77
						Net benefits	701	118	360	530	4,056	5,765

Appendix F: Reporting requirements and standards

NSW Government business entity reporting requirements

icare is subject to legislative reporting requirements and NSW Treasury policies and guidelines for government business performance reporting and monitoring, business annual reporting and assurance of major projects.

Reporting requirements include:

- the SICG Act requirement for icare to prepare an annual Statement of Business Intent (SBI). icare is also required to provide performance reports on behalf of the Nominal Insurer (NI) to SIRA, consistent with requirements under workers compensation legislation.
- NSW Treasury policies and guidelines for government businesses, including reporting performance against corporate and statutory objectives as a service provider under *TPP18-02 Performance Reporting and Monitoring Policy for Government Businesses* and *TPG23-10 NSW Treasury Policy and Guidelines: Annual Reporting Requirements*. Consistent with these guidelines, icare monitors the performance of the schemes that it services consistent with its function under section 10 of the SIGC Act and reporting as icare considers necessary.
- NSW Treasury standards for planning and performance reporting related to major projects in Major Projects Policy
- NSW Treasury standards and guidance for building evidence across a project life cycle including in business case development, cost-benefit analysis, and monitoring and evaluation planning including benefits realisation management
- extensive internal reporting of data and analysis to management and the icare board. icare has identified a breadth of reporting materials that it regularly provides to the icare board and management.

Business planning

NSW Government *TPP18-02 Commercial Policy Framework: Performance Reporting and Monitoring Policy for Government Businesses*

The NSW Government *TPP18-02 Commercial Policy Framework: Performance Reporting and Monitoring Policy for Government Businesses* sets out performance reporting and monitoring practices in line with government policy and reflecting applicable best practice corporate governance standards. This framework is due to be updated. Under the current framework, each government business that comes within the scope of this policy is expected to:

- develop an annual Statement of Business Intent (SBI), including a description of objectives, business activities and strategic directions, with agreed financial and non-financial targets developed in consultation between the government business, NSW Treasury and other relevant stakeholders
- prepare a business plan that supports the SBI, with additional key performance indicators as relevant, and includes an explanation of how selected key performance indicators relate to the plan
- specify up to 10 relevant key performance indicators which reflect outcomes that the business can influence and key business metrics such as compliance and which are useful in demonstrating performance
- provide quarterly performance reports to NSW Treasury which assess and report performance against performance measures and targets
- promptly report to NSW Treasury and relevant ministers any material information that may affect the business.

Key performance indicators should be:

- relevant for the government business
- useful in demonstrating whether performance is in line with shareholder or responsible minister expectations
- reflect outcomes the government business can influence
- reflective of other key business metrics, such as safety, cost-of-living impacts or compliance requirements.

The policy seeks to:

- strengthen accountability for the management and commercial autonomy of government businesses by providing clarity in commercial performance reporting requirements
- enhance the value of government businesses by promoting efficient and effective operation of business activities, as well as sound risk management
- ensure that government businesses provide accurate and timely financial and performance reporting information to NSW Treasury to support government decision making
- ensure that the Treasurer can discharge their responsibilities for financial oversight of entities outside the direct scope of Budget control and funding arrangements
- promote openness, cooperation and collaboration in the sharing of information between government businesses and NSW Treasury.

NSW Treasury uses these reports to analyse and assess businesses' performance outcomes.

The SBI should reflect best practice business planning and strategic analysis.

Each government business's board and their executive should give thought to tools that might add depth and context to the business plan.

TPG23-10 Annual Reporting Requirements and Guidelines

Statutory requirements for annual reporting were incorporated in the GSE Act from 1 July 2023. Those provisions require reporting in accordance with guidance issued by NSW Treasury. That guidance is set out in *TPG23-10 Annual Reporting Requirements and Guidelines*.

The guiding principles include:

1. Supports accountability and transparency: the annual reporting information supports the agency's accountability and transparency about its decision making, resource use and performance.
2. Material: the annual reporting information reflects the agency's significant matters that affect the agency's ability to achieve its outcomes or objectives. The materiality of a matter can be quantitative or qualitative, and the matters can be material either individually or in the aggregate.
3. Concise: the annual reporting information presents a concise account of the agency's resource allocation, program and project delivery, and realisation of outcomes or objectives. When annual reporting information is taken as a whole, it is material, balanced and complete.
4. Clear: the annual reporting information is easily understood by thoughtfully organising the content and using clear design, tables, graphs, diagrams, charts and plain English.
5. Accessible: the annual reporting information is publicly available and easily accessible for all stakeholders and citizens.
6. Consistent: the annual reporting information is consistent over time allowing information to be identified easily and compared on a year-on-year basis.

The plan should include key agency strategic objectives including outcomes, and current and future strategic plans to accomplish objectives including outcomes.

Requirements related to performance information include reporting against the agency's strategic outcome objectives, as set out in the relevant corporate plan.

Major project investment framework

NSW Treasury has established standards for planning and performance reporting related to major projects.

In addition, NSW Treasury publishes policies and guidelines that are relevant to icare as a government business that establish standards for building evidence across a project (initiative or investment) life cycle including in business case development, cost-benefit analysis, and monitoring and evaluation planning.

TPP18-05 Major Projects Policy for Government Businesses

The Major Projects Policy forms part of the NSW Government's Commercial Policy Framework and outlines the Cabinet approval requirements for major projects being undertaken by government businesses (involving both capital and operational expenditures), as well the requirement for government businesses to register major capital projects for assurance by Infrastructure NSW, and major technology projects for assurance by Department of Customer Service.

The Major Projects Policy sets thresholds for government businesses to:

- notify NSW Treasury of proposed infrastructure and technology projects with an estimated value of $10 million or more, and recurrent projects with an estimated value of $100 million by including information in the SBI and business plans
- provide status reports on these projects in quarterly reports providing:
  - comparison of project cost estimates with actual expenditure to date and reasons to support any variances
  - a planned schedule to track the delivery of milestones
  - an updated risk profile identifying any new risks or changes to existing risk assessments
- register these projects with the relevant assurance framework under the NSW Gateway Policy and participate in project reviews as determined in accordance with that policy
- seek approval by the Cabinet Expenditure Review Committee (ERC) of infrastructure and technology projects with an estimated value of $100 million or more, or $20 million or more if they meet high-risk classification criteria.

Investment framework

In addition, NSW Treasury publishes policies and guidelines that are relevant to icare as a government business that establish standards for building evidence across a project (initiative or investment) life cycle. The investment framework comprises:

- Business Case Policy and Guidelines
- Cost Benefit Analysis Policy and Guidelines
- Evaluation Policy and Guidelines
- Benefits Realisation Management Framework
- Guidelines for Pricing of User Charges

The investment framework aligns with other NSW Government policies and frameworks designed to support delivery of government's objectives, including NSW Gateway Policy.

From these documents, best-practice standards can be identified that are applicable across whole-of-business planning and performance reporting, and project assessment, monitoring and evaluation, with key standards identified in Table 1. Note: these standards have not been specifically applied by NSW Treasury to icare to date or tailored to icare's business characteristics.

Table 1. NSW Government: example performance reporting best practice

Whole-of-business planning and performance reporting		
Recommendation	**Characteristics**	**Purpose**
Identify and report on a selection of key performance indicators (KPIs) to provide a comprehensive overview of performance, including clear measures of: • inputs • activities or outputs • outcomes • benefits.	The suite of KPIs should: • be SMART (specific, measurable, achievable, relevant, time-bound) • include measures of effectiveness and efficiency • include outcomes and benefits that are relevant to stakeholders.	Use KPIs to clearly demonstrate progress over time, including: • consistent presentation of time series data to clearly indicate trends and ensure transparency of both positive and negative changes • comparison with relevant benchmarks • explanation of change, including both internal and external factors • statement of any relevant responses and corrective actions.
Select targets that matter to stakeholders and customers, as well as to business operation. Be transparent in reporting against targets.	Be clear on how the target is selected. Identify if achievement of the target will be achieved under business-as-usual or the result of organisational change or increased investment (and what the expected trend would be without the intervention).	Present targets with analysis that supports understanding of progress, including: • for forecasts, identify internal and external factors that may support or inhibit achievement of targets • for results, analyse performance, including noting any internal or external factors that have influenced results (negatively or positively).
Project assessment, monitoring and evaluation		
Recommendation	**Characteristics**	**Purpose**
Provide business cases, including cost benefit analysis (CBA), for significant investments and organisational change.	The business case should: • establish the base case • identify options • incorporate CBA that identifies the breadth of impacts of all options (including benefits and dis-benefits). Include planning for monitoring and reporting on project implementation, outcomes and benefits.	Use the business case and CBA to: • identify the option that maximises the achievement of benefits • support decision making regarding the net benefit of the investment (as compared to a business-as-usual scenario) and allocation of resources between competing demands.
Provide monitoring and reporting information against significant investments and organisational change.	Monitoring and reporting should include: • results against forecasts • identification of what change is attributable to the initiative (as compared to a business-as-usual scenario).	Use monitoring and reporting to: • inform ongoing decision making regarding the project, including any adjustments as necessary • support transparency and accountability • provide data for ex-post evaluation.

Source: NSW Treasury, 2024.

NSW Budget 'performance of service' reporting

The focus on transparency and accountability is being further enhanced by the NSW Government in relation to its own across-government performance reporting, with enhanced budget reporting including performance and expense information against key service delivery areas. This includes presentation of trends over time, analysis of outcomes and comparisons with other Australian jurisdictions.

This approach represents a move away from reporting on achievement against internal business targets to reporting on outcomes relevant to NSW residents.

icare's performance reporting

Performance information is also included across icare's reporting formats.

- The icare 2022–23 Annual Report includes some presentation of dashboard-type data (for example, schemes coverage and costs data), and some shorter-term trend information (for example, return-to-work outcomes since May 2021, customer experience ratings since July 2022 and workforce diversity trends since 2021). The quantitative data presented is primarily cost or output related.
- icare's website includes icare workers compensation claims service provider (CSP) quarterly performance data and workers insurance industry insights data. The CSP quarterly performance data tracks a series of performance measures across workers compensation claims, including return-to-work rates and satisfaction metrics, to support employers in choosing service providers. The workers insurance industry insights data tool currently reports industry insights for businesses with an icare policy and claims reported during the 2022–23 financial year, to be updated annually with the data from the previous financial year.

Under requirements established in the SICG Act and aligned with under broader reporting requirements and guidelines for government businesses, icare:

- publishes its annual report and data insights dashboard information (icare website). It also releases the Promontory updates on icare's progress in addressing the McDougall and GAC Review recommendations
- provides an annual SBI and business plan, and *CEO Monthly* report, to the minister and NSW Treasury
- reports financial data to NSW Treasury (Prime)
- The icare 2022–23 Annual Report presents an 'icare at a glance' narrative, and their enterprise performance scorecard, which includes key performance indicators across six key result areas with financial and non-financial performance metrics, targets and results. A scorecard result table is provided for the year, with targets assessed as 'met' or 'not met,' and brief commentary providing some context to results.
- The SBI is designed to provide in-depth insights into various facets of the organisation's operations and priorities and includes a breadth of data. It presents the enterprise performance scorecard key performance indicators across six key result areas against focus areas, and includes the 2022–23 target, the 2022–23 actual and the 2023–24 target. Lifetime Care schemes financial data is presented for 2021–22 actual, 2022–23 actual and forecast for 2023–24 to 2033–34.

Internal reporting

The CEO Monthly report to the board and to NSW Treasury includes upfront summary of customer and financial performance, highlighting concerns and key focus areas. As determined as relevant to the reporting month, for schemes such NI and TMF workers compensation, the report presents tracking of year-to-date financial metrics and results against targets, in areas such as customer satisfaction and return-to-work rates. For selected reporting area, results are compared to targets, including examination of variances.

In addition, icare provides extensive internal reporting of data and analysis to management and the icare board. icare has identified a breadth of reporting materials that it regularly provides to the icare board and management. This includes:

- financial condition report (annual, including all financial valuations)
- audited annual financial statements
- board approved budgets and half-year reviews
- quarterly performance review
- biannual CFO reports, including financial results for approval
- CEO scorecard reporting
- actuarial monitoring reports
- investment reports
- monthly CFO reports.

Financial reporting

Through its annual SBI and monthly CEO reporting, icare uses a range of indicators and metrics to monitor the financial sustainability of its schemes, including:

- gross written and net earned premium, net claims incurred, claims expenses, underwriting result, investment income and net result
- accounting funding and economic (insurance) ratios, claims expense and scheme expense ratios.

Each indicator and metric provide different information relevant to understand the financial position of each scheme.

In addition, icare is required to regularly report financial data to NSW Treasury in accordance with *Treasurer's Direction on Mandatory Annual Returns (TD21-02)*. The data submitted must include up-to-date actual and projections data, plus projections for the forward estimates period and planning years. icare is required to ensure that the submitted data provides a sufficient level of detail at the sub-account level to support broader reporting and analysis requirements.

icare initiatives to improve performance reporting

icare has continuously sought to improve its performance and financial reporting framework, with a focus on implementing recommendations of the McDougall and GAC Reviews.

A challenge for icare is keeping up to date with the latest best practice and increasing community expectations on transparency and accountability. Together with this challenge is the role icare's performance reporting plays in fostering confidence amongst community and government stakeholders that icare is fulfilling its legislative objectives to support workers with injuries and maintain the financial sustainability of its insurance and care schemes.

Updated annual reporting and performance metrics

In line with its business strategy to fix the foundations, improve performance and setting the organisation for success, icare has overhauled the performance scorecard in its annual report with updated metrics and targets.

This includes an 'icare at a glance' narrative, enterprise performance scorecard and dashboard-type data on schemes coverage and costs data, and some shorter-term trend information (for example, return-to-work outcomes since May 2021, customer experience ratings since July 2022 and workforce diversity trends since 2021).

Publication of CSP performance data

icare's website includes icare workers compensation CSP quarterly performance data and workers insurance industry insights data. The CSP quarterly performance data tracks a series of performance measures across workers compensation claims, return-to-work rates and satisfaction metrics, to support employers in choosing service providers. The workers insurance industry insights data tool currently reports industry insights for businesses with an icare policy and claims reported during the 2022–23, to be updated annually with data from the previous financial year.

Customer satisfaction

From 2022–23, icare has established a CSAT to measure customer satisfaction with icare's products and services across its schemes including the NI, TMF workers compensation, HBCF and lifetime schemes. CSAT is based on real-time customer feedback.

Use of the CSAT going forward presents opportunities for icare to use more qualitative customer satisfaction-based data to determine those parts of a claim management end-to-end process where customers experience greater difficulty, for whatever reason, and can help the business to better identify and understand opportunities for process or system improvements.

Benchmarking

Commercial insurers

EY's *Why insurers must reimagine planning and performance management* sets out the importance of effective planning and performance management for insurers.[70] It describes effective planning and performance reporting as comprehensive, timely and dynamic.

EY recommends use of multi-scenario forecasts across both economic and non-economic scenarios (adverse and favourable), transparency on forecast changes and drivers, and review of results against targets. Performance reporting should be relevant to both corporate and business stakeholders, with consistent use of key performance indicators to assist decision makers.

Improving Management Reporting in the Insurance Industry[71] addresses questions of how to establish meaningful summary information from large masses of business data to inform decision making. Effective management reporting should be dynamic (allowing for investigation of results), allow for trend and volatility analysis, offer data segmentation, allow flexibility, produce dynamic data visualisation dashboards (and allow for 'what if' analysis), and provide relevant key performance indicators.

Government insurers

NSW Treasury considered Victoria's and Western Australia's performance reporting for workers compensation contained in annual reports.

- Victoria manages employees for worker compensation centrally by setting up agreements with WorkSafe Vic.
- Western Australia manages 1.3 million employees under private insurers through WorkCover WA.

Victoria's and Western Australia's annual reporting included clear dashboard presentation of key indicators of performance, historical five-year trend data, indicators of effectiveness and efficiency, and analysis including an explanation of how objectives will be achieved and an assessment of progress.

70 EY (2022) Why insurers must reimagine planning and performance management https://www.ey.com/en_gl/insights/insurance/why-insurers-must-reimagine-planning-and-performance-management#:~:text=Instead%20of%20FP%26A%20functions%20serving,producing%20a%20persuasive%20business%20story, accessed 19 June 2024.

71 *The Financial Reporter*, September 2019, Issue 119.

WorkSafe Victoria

The WorkSafe Victoria 2022–23 Annual Report provides an overview of its organisational performance and initiatives aimed at reducing workplace harm, improving outcomes for workers with injuries and ensuring financial sustainability.

The annual report includes key metrics such as the number of workplaces covered, new claims, claims per million hours worked, and the number of workers with injuries supported with treatment and benefits.

Financial sustainability is addressed through summaries of financial results, five-year trend analysis data, operational expenditure breakdowns and management of insurance costs.

WorkSafe WA

The WorkSafe WA 2022–23 Annual Report assesses performance through a comprehensive set of indicators, focusing both on efficiency and effectiveness. The financial snapshot, includes a summary of total revenue and expenditure, including breakdowns of main expenses and revenue streams. The performance snapshot reports include scorecards and key performance indicators to measure effectiveness and efficiency in achieving outcomes.

Effectiveness indicators track key metrics such as the number of non-compliance events because of claims on the general account, the timeliness of conciliation completions within eight weeks and the resolution of disputes within a six-month timeframe.

The efficiency indicators include the average costs per employer compliance activity, the expenditure per approved and monitored service provider, and the cost per client contact for providing information and advice. Operational efficiency is also assessed through analysis of processes including conciliation, arbitration and the processing of memorandums of agreement.

For each key performance measure, the annual report gives a detailed analysis of a five-year trend of performance, comparison to prior year data and actuals vs target results, internal or external factors contributing to the performance and outcomes as well as discussing the strategies to mitigate the impact of these factors.

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