

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into Workcover premiums for 2000-01

Geelong – 12 December 2000

#### Members

Mr R. A. Best  
Mrs A. Coote  
Mr G. R. Craigie  
Ms K. Darveniza

Mr N. B. Lucas  
Mr J. M. McQuilten  
Mr T. C. Theophanous

Chairman: Mr N. B. Lucas  
Deputy Chairman: Mr T. C. Theophanous

#### Staff

Executive Officer: Mr R. Willis  
Research Officers: Mr M. Ryan and Ms K. Ellingford

#### Witness

Mr L. Miller, Executive Director, Geelong Chamber of Commerce.

**The CHAIRMAN** — I declare this hearing of the Economic Development Committee open. I advise all present at this hearing that all evidence taken by the committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act. Any comments made outside the hearing are not protected by parliamentary privilege. We welcome Mr Lawrie Miller, secretary of the Geelong Chamber of Commerce. The way we usually proceed is for you to make an opening statement and then for us to ask some questions.

**Mr MILLER** — I first must apologise for our president, Norm Lyons; he is managing director of Lyons Construction and intended to be here this morning but unfortunately he is engaged in very earnest matters to do with a dispute. He tenders his apology. I am in the position of representing the chamber.

At the outset, on behalf of the chamber and its members we thank the Economic Development Committee and the Victorian government for the opportunity to make this submission to the inquiry into Workcover premiums for 2000–01. I have prepared a written submission. I believe you have copies of that so I will only advert to parts of the submission as I proceed.

The chamber welcomes the inquiry and looks forward to changes and reductions in Workcover premiums which will restore business confidence and encourage and enable more businesses to be set up in Geelong and Victoria. The chamber first advises the inquiry that the chamber was extremely concerned to see the reinstatement of common-law access for seriously injured workers into the Victorian workers compensation system. The chamber still firmly believes there is not a place for common-law rights in a no-fault workers compensation scheme as it will add to the already high operational costs of the Workcover scheme. The chamber believes that has already been borne out by the need for the recent premium increases and the impact they have had on employers in Geelong and Victoria, which has prompted this inquiry by the Economic Development Committee. Those increases in the workers compensation system have caused the Victorian government to focus, inter alia, on the impact of the new premiums on economic activity and employment in the metropolitan region and rural Victoria. Obviously the chamber's concern is the impact the new Workcover premium has had and will continue to have on businesses operating in the Geelong region.

To reiterate, the chamber accepts the need to raise sufficient income through premiums to fund the operation of the workers compensation scheme. That is a given. The chamber accepts the need to address the rights of individual employees with respect to claims arising from injuries in the workplace. We have no problem with that. The chamber further accepts the development of an experience-based system to improve safety in the workplace, return-to-work provisions and the setting of appropriate premiums accordingly. However, the chamber does not accept the need to have common-law provisions running side by side with no-fault provisions in the workers compensation scheme. This is unnecessary and very costly. The chamber believes it is having two bites of the cherry. The chamber also does not accept the other increases brought about by unreasonable classification changes for a large number of businesses, industries and organisations.

The chamber believes and understands that the recent premium increases have been brought about mainly by the legislative changes that were an integral part of the Labor Party's platform in the 1999 Victorian elections. As a consequence, this must be accepted. A mandate was given to the Labor Party when it formed government to reintroduce common-law provisions. What the chamber does not accept is the dramatic increase in premiums. It was led to believe in the pre-election lead-up that the increases necessary as a consequence of common-law introduction would be kept to a maximum of 15 per cent. There is plenty of evidence on that. The chamber believes that this is the main reason for the huge outcry from Victorian and Geelong businesses when the true effects of the premium increases became known. However, the chamber believes that the economic health of Victoria and Victoria's businesses depends on regular reviews of all premiums and changes as the source of revenue for the Workcover scheme, and it commends the government on initiating this inquiry.

Item 2 in the submission relates to the chamber. We have been operating continuously since 1853; we are a non-profit business organisation and represent all business and industry sectors in Geelong. The chamber is non-political, it is funded solely by member subscription and is answerable only to its members — currently over 600 — who are drawn from a wide diversity of large, medium and small enterprises, some of which are listed in the submission.

Item 3 at the bottom of page 2 of the submission is headed 'Background comments'. The chamber accepted the Victorian government's resolve to address what it perceived to be unfairness and inequity in the Workcover workers compensation scheme. A major part of the new government's platform when in opposition was the reinstatement of common-law access for workers who were seriously injured pre-1997. Accompanying the Labor

Party's policy on reinstatement was the guarantee that the increases would not exceed 15 per cent and that as a consequence the premiums would still relate to the national average of 2.18 per cent so the Victorian businesses, particularly small businesses, did not have any unnecessary cost burdens beyond those of their counterparts around Australia. We accepted that in good faith.

We are also aware, based on information given to us and the community, that the Workcover scheme was performing well, particularly from the financial viewpoint, with premiums well covering operating and claims costs. While there had previously been a shortfall in premiums resulting in substantial shortfalls in the Workcover scheme funding, Victorian businesses were assured that the premiums operating at that time would eventually see the deficit reduced and Workcover fully funded in three or so years. What confronted Victorian businesses after the election and the reintroduction of common-law claims, reclassification of businesses and industries, and the GST was a huge range of premium increases, some a lot more than double the premiums levied in 1999. This took everyone by surprise and caused a lot of chagrin in the business community and particularly in Geelong.

Further — and this refers mainly to the classification of businesses — there have been a number of cases where risk managers for Workcover have not acquainted themselves with improvements in business practices in the workplace that should have translated to reductions in classification levels and a concomitant reduction in premiums apart from the general increase caused by common law and the GST. This aspect was brought to the chamber's attention by a chamber member company that specialises in insurance broking. That company advised the chamber that it has successfully renegotiated classifications and reductions in premiums for its clients through this and the re-examination of past claims of as much as \$50 000 for 2000, with reductions quite often in the \$5000 to \$15 000 category. The chamber does not believe that the Workcover risk managers did their work adequately in terms of classification by failing to view the various workplaces to see whether they warranted such high premiums.

Outside the scope of this inquiry is the chamber's concern about another unannounced consequence of the reinstated common-law provisions as advised by a chamber member. This is the huge impact on public liability policies held by businesses where premiums have been increased by massive percentages by the insurers as a consequence of the common-law reintroduction, which the chamber believes can result from a claim-back to injuries sustained previously that can be reopened under a liability issue. We certainly were not told about that but we are seeing it, as advised by a chamber member company that is an insurance broker. The chamber has been advised by the same member company that that company has seen public liability insurance premiums for its clients increase by as much as 400 per cent, with increases in hazardous industries averaging some 200 per cent. That is a consequence of the reinstatement of common law in the Workcover scheme.

To those concerns have been added the extra increase of 2 per cent to Workcover premiums to offset tax reform costs, a substantial delay, as members would be aware, in issuing premium notices, which impacted on employers' budgets, and a reduced time to pay up-front and receive the 5 per cent premium discount. The chamber is aware that all of this brought about difficulties for quite a number of employers in terms of making premium payments. The chamber understands that because of the considerable outcry from employers all around Victoria a number of concessions and adjustment measures have been agreed to by the Victorian government. These have helped ameliorate the situation to some degree in terms of payment by the due date. However, they have only provided temporary relief for those businesses — they still have to pay the new premium amount. The chamber believes with the changes and the resulting premium increases, the financial impact on businesses, particularly small businesses, has been dramatic. On that point, small to medium-sized businesses have felt the impact more — which is at odds with the Labor Party's policy of championing and taking care of small businesses, particularly in Victoria.

I will address the terms of reference. The first is the reasons for the level of those premiums. The chamber understands that the major increase in premiums has been attributed to the reinstatement of common-law provisions. This was expected to be no more than 15 per cent, as was first assured.

**The CHAIRMAN** — I am sorry to interrupt you, but we only have half an hour and we want to ask some questions. I am wondering if you could skim through your written submission rather than read every word, or we will run out of time.

**Mr MILLER** — I will take out that section on the reasons for the level of those increases. I will say that the chamber has been advised by a chamber director that a major client of his in a retail and wholesale business has had a premium increase from \$41 180 to \$71 385 with no real increase in staff numbers or impact from claims. The represents an increase of 73.3 per cent for 2000. A number of chamber directors have given anecdotal instances of

large premium increases told to them by chamber members and other business associates. Our chamber president, Norm Lyons, who would have been here this morning, has advised that his building firm, Lyons Construction, has had its premium increased by 31.5 per cent after staff increases were adjusted out. The increases have been quite massive, as you would appreciate.

As to how the premiums were determined, most of those comments relate to the terms of reference. As to the impact those premiums have had, there has been an impact as far as we can see. One chamber member, when I contacted him, said that the premium increases, on top of other increases his small manufacturing business was experiencing, were enough to make him close up shop and conclude his business. Thankfully he did not do that and is still operating.

Regional areas such as Geelong have their own imposts as a result of being remote from the main market and supply area, which is mainly metropolitan. Extra costs for fuel, freight and telephone calls are already experienced by these areas. We believe the Workcover premiums are a disincentive for new regional and rural development and will be in stark contrast to the Victorian government's push to economically grow these areas to ensure Victoria's future in the long term.

I refer to the impact these have had and are expected to have on the state budget. Obviously if employee numbers are reduced, the actual payments will not be made. A comment was made by one of the chamber members, 'Does the government really want to see employees retained or is it seeking that they be made redundant?'.

In terms of what changes could be made to the way Workcover premiums are determined in future, the chamber sees the whole exercise as having been a PR disaster for the Workcover scheme and the Victorian government. The chamber believes that no satisfactory explanations have been forthcoming and that the whole exercise was severely lacking in transparency. It is aware that the situation appeared to upset Premier Bracks significantly — to the point that he took over negotiations with the main parties. The chamber believes it is imperative that future deliberations around premium settings should be fully disclosed, along with some actuarial calculations as a clear guide, and that the process should be fully open to comment and debate. To do less than that will cause the same feeling of unfair handling and assessment among the employees and their respective organisations. In conclusion I thank the committee very much for making this opportunity available.

**The CHAIRMAN** — Thank you, Mr Miller. I ask members of the committee to keep their questions pretty short and sharp, given the timing situation.

**Mrs COOTE** — It was a very comprehensive submission and I thank you very much. Can I have some more specifics about Geelong itself? At point 3 you referred to a person who was going to close up shop and leave. Can you tell me of any other examples of how the premiums have impacted on your members in Geelong?

**Mr MILLER** — It is just another thing in addition to their rising costs. As I said, they have soaring costs of fuel and other costs that seem to be introduced in regional areas — increases in costs when compared to those in Melbourne areas — and they feel disadvantaged. We will have another cost increase as a result of the loss of network distribution and electricity tariffs. That will come to Geelong. They all add up, and people get to a point of almost despair and ask, 'Is it worth continuing? Why don't I just close up shop and go and work for a wage?'.

**Mrs COOTE** — Did the surprise element with this increase catch them unawares?

**Mr MILLER** — It certainly did, yes. It stunned them, in effect. When they started to get their premium notices they were ringing up and asking, 'What's happened?'. It was well beyond what we anticipated.

**Mr THEOPHANOUS** — Mr Miller, I have looked at your submission. The Victorian Workcover Authority has indicated to the committee that the average premium increase has been 15 per cent plus 2 per cent for the GST. All the other differences relate to the experience rating of a company — that is, whether or not they had accidents — and whether they failed to put in their estimate of remuneration for the year, in which case it would be charged 20 per cent, which would be put back once it identified that. Given those facts, did you ask all the people you are representing in this matter — and I notice you throw around some pretty amazing percentages in here, such as 400 per cent and 200 per cent —

**Mr MILLER** — That is not a matter for your committee. The 400 per cent and 200 per cent were for the public liability insurance for possible claim-backs.

**Mr THEOPHANOUS** — You thought you would throw that in anyway?

**Mr MILLER** — Yes, I threw it in, as an unannounced consequence.

**Mr THEOPHANOUS** — Right. Did you actually ask these companies whether they had failed to put in their remuneration returns and whether they had had any accidents occur during the course of the previous year? Were those sorts of questions asked of them? In answering that you might want to also indicate whether the chamber supports the idea of rating companies according to their experience?

**Mr MILLER** — To answer the first question, I asked the members I contacted whether there were any circumstances outside of the increases that would cause their premiums to increase — such as additional employees: in other words, through total remuneration; and their claims experience — whether they were going through a claims experience episode. In fact, one of the members I spoke to said their premiums had reduced by half a per cent, which came out of claims experience. I asked them whether there was anything that would otherwise put up the premiums. We are at a loss to explain why they were 31 per cent — MBAV said they were pretty well 40 per cent across the board for builders — when it was 15 per cent, plus 2 per cent GST, et cetera. We cannot explain the situation. We can only think it comes back to the reclassification.

**Mr THEOPHANOUS** — Did you ask the Workcover authority to explain it?

**Mr MILLER** — No, we have not asked the Workcover authority to explain it.

**Mr THEOPHANOUS** — Do you think that would have been a reasonable thing to do?

**Mr MILLER** — Yes, we certainly will do that.

**Mr THEOPHANOUS** — Do you support the experience rating system?

**Mr MILLER** — The chamber certainly supports that. It supports that there should be safe working places. It supports that where employers do not have safe working places, or where as a consequence of the industry accidents occur, employers should have to pay and should have to support the fund as a consequence. As I said, that was one of the givens that we accept: the whole package needs to be supported by all the people who actually use it.

**The CHAIRMAN** — Thank you.

**Mr CRAIGE** — Lawrie, I take it that the chamber put out literature that talked about the 15 per cent plus the 2 per cent GST?

**Mr MILLER** — Yes.

**Mr CRAIGE** — When did your organisation become aware that other significant increases were occurring?

**Mr MILLER** — We became more aware of it when our chamber council was addressed by an MP. That is when we became more aware of it.

**Mr CRAIGE** — Was that prior to the notices going out?

**Mr MILLER** — Yes. We were rather stunned by that revelation, and that was borne out by complaints we received when the notices were received by the businesses. We raised it at a number of our functions. We have functions about every five weeks where 200 to 300 members are in attendance. We would be deluged and besieged by people complaining about Workcover premiums.

**Mr CRAIGE** — I am trying to get it clear. An MP told you there would be other increases — —

**Mr MILLER** — Yes.

**Mr CRAIGE** — In respect to Workcover, other than the 15 per cent and the 2 per cent, which you were led to believe — —

**Mr MILLER** — As I stated in the submission, it appeared to us that they were picking up a bagful of other things that had been overlooked in terms of the operation of the fund. It was a sort of grab bag opportunity.

**Mr CRAIGE** — Your members were not aware of that?

**Mr MILLER** — No, they were not aware of that.

**Mr CRAIGE** — An MP told you it was going to — —

**Mr MILLER** — Yes, that it was likely to happen, yes.

**Mr CRAIGE** — Was it a local MP here?

**Mr MILLER** — No, it was not a local MP.

**Ms DARVENIZA** — Who was it?

**Mr THEOPHANOUS** — Who was the MP?

**Mr MILLER** — Robert Clark.

**Ms DARVENIZA** — On page 4 of your submission you talk about the chamber being advised about a major client, a wholesale business, that had a premium increase from \$41 180 to \$71 385 with no real increase in staff numbers, and that represented a 73.3 per cent increase. You talked about the staff numbers there. Can you tell us whether the client you have given some considerable details about failed to lodge the remuneration return?

**Mr MILLER** — The chamber director who gave us that information is a senior partner in a major accountancy firm in Geelong. That was one of his clients. He gave me those details, saying that in his opinion he could see no other reason to impose an increase of 73.3 per cent. As I said, there was no real increase in staff numbers or impact from claims, and he could not see why the increase was so high. That was the comment of the director, who is a partner in the accountancy firm.

**Ms DARVENIZA** — But you do not know for sure whether it failed to put in its return?

**Mr MILLER** — I have not spoken to that client and have not ascertained that. That was the information that was given to me.

**Ms DARVENIZA** — Can you find out for us whether that firm failed to put in its return?

**Mr MILLER** — I can have that checked, yes.

**Ms DARVENIZA** — Are you aware that the maximum increase is capped at 20 per cent?

**Mr MILLER** — Capped at 20 per cent for — — ?

**Ms DARVENIZA** — That there is a cap at 20 per cent?

**Mr MILLER** — In terms of premium increases in any event? But there can be reclassification episodes, and as a consequence, some have increased alarmingly.

**Mr THEOPHANOUS** — Even after reclassification it is capped at 20 per cent.

**Mr MILLER** — I cannot explain that.

**Mr BEST** — Mr Miller, firstly thank you very much for your submission; it is very comprehensive and useful for us. I would like to get a snapshot of the Geelong region. You have something like 600 members?

**Mr MILLER** — Yes.

**Mr BEST** — That covers a wide cross-section of the business community. What is the general state of the economy in Geelong?

**Mr MILLER** — It is good. Like all regional areas, it is performing well. Geelong is doing quite well, as we can see. All businesses are slightly concerned about a possible downturn that has been predicted by some economists for the next year, but generally Geelong is trading quite well. It suffers some of the regional impacts on areas that are dislocated from Melbourne centre with some of those other charges, but generally Geelong is performing quite well. There is no reason for Geelong businesses to feel depressed about their economic future, other than about what might be experienced by all businesses with a possible economic downturn.

**Mr BEST** — So there has been no severe impact by the implementation of the GST?

**Mr MILLER** — No — I should qualify that. When talking to some accountant members they have said that quite a lot of their clients have not yet filled in their business activity statements.

**Mr BEST** — That is something that will be followed up a bit later.

**Mr MILLER** — Yes. All sorts of problems are associated with that.

**The CHAIRMAN** — We are getting away from the terms of reference, unfortunately.

**Mr MILLER** — Geelong is travelling quite well — as well as any other areas.

**Mr BEST** — The question I want to get to is: the increase in Workcover premiums was unsuspected?

**Mr MILLER** — Unsuspected, and on top of everything that has happened, the businesses feel they have suffered quite an impact from government changes, both federal and state.

**Mr BEST** — So the Workcover premium increase has had a greater impact on the viability of businesses and — —

**Mr MILLER** — It has impacted on their cash flow and on their need to provide additional funds.

**Mr McQUILTEN** — Lawrie, are you aware of where the Workcover charges here fit in with all the others in Australia? Are they likely to be highest now? After what you have been telling us it sounds as if everyone will leave Geelong and go — —

**Mr MILLER** — Go elsewhere.

**Mr McQUILTEN** — I am wondering where they will go. Do you have any thoughts about where they might go?

**Mr MILLER** — That is the confusing side of it. We were told that the 15 per cent would not increase Workcover premiums beyond the 2.18 per cent average experienced around Australia. You have assured me that no premium went up by more than 20 per cent. We are at a loss to explain the information given to us by our members. We could not see why, if Workcover was managed correctly — and we believe it was being managed correctly — there would be such a dramatic premium increase that was different from other states.

**Mr McQUILTEN** — That is not my question. In this state we are currently paying 2.2 per cent. Do you know whether that is higher or lower than New South Wales or South Australia?

**Mr MILLER** — As I understand it, the median is 2.18 per cent around Australia for the states.

**Mr McQUILTEN** — Here is a graph that shows that we are the second-lowest in the nation and a lot lower than New South Wales and South Australia.

**Mr MILLER** — I can understand where you are coming from and if you do it on an average basis you might come up with that graph as you obviously have. However, if you do it on an individual case basis there have been instances where members' claims to us are that their premium increases have been dramatic.

**The CHAIRMAN** — Thank you for coming along today and for your detailed submission. We will have another look through the submission. We appreciate the time you have taken to talk to us. We will send the Hansard transcript to you in the next week or two for you to submit any corrections that you desire.

**Mr THEOPHANOUS** — Will you come back to us on that?

**Mr MILLER** — Yes, I will.

**Witness withdrew.**



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#### Witnesses

Mr F. Ruggeri, Manager, and  
Mr L. Copley, Workcover Manager, Brentwood Nursing Home.



**The CHAIRMAN** — We welcome Mr Frank Ruggeri, manager, and Mr Les Cropley, Workcover manager, from the Brentwood Nursing Home. All evidence taken by this committee is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act. I invite you to make an opening statement to us and when you have concluded that we will ask you some questions.

**Mr CROPLEY** — We heard about this committee and we felt that we had a case to put forward in the sense that Frank owns Brentwood, or Opeka Lodge, and last year we paid some \$63 000 in premiums to the Victorian Workcover Authority. We thought that was reasonable but this year when the new premium rates came out ours rose to \$119 000.

**Mr RUGGERI** — It was \$124 000.

**Mr CROPLEY** — No, it has ended up at that. The first account we got was \$119 000.

**Mr RUGGERI** — That is a 98 per cent increase and since I have been there we have employed health and safety measures and spent a fortune and we have not had 1 cent of claims. There was a previous claim and when we took over we were told not to worry about it because on 30 June our claim would drop and we would be in the clear. The insurer said we were paying \$63 000 last year because of the pending court case and the next year we would get less. There are another 10 nursing homes in Geelong. With \$63 000 and now \$124 000 it is impossible to operate because we are spending a lot of money on preventing accidents, on buying equipment and on OHS policy. We cannot operate. From 4 October to 30 November I paid \$75 000 to Workcover with an overdraft. The majority of nursing homes in the Geelong area are 30-bed nursing homes with no health and safety measures; they are badly run and they are paying between \$36 000 and \$71 000.

**Mr McQUILTEN** — How much is your total bill now?

**Mr RUGGERI** — It is \$124 000.

**Mr CROPLEY** — We thought that amount must be wrong so we made a submission. After our submission to QBE the company came back to us at one stage and said that it was wrong and it was \$99 000. We got that and made our first payment on that. Then the company came back and said it had another problem — it was \$124 000. It has now come back and said that in looking at last year's it found there was a bit of a problem with what was put down as our remuneration and we have to pay \$15 000 on last year. Not only have we paid this year's amount so far but also an extra \$15 000 on last year and now they have come back again and the \$119 000 has gone to \$124 000.

**Mr RUGGERI** — Apart from all of that, since 1 October last year our payments were done quarterly all the time. We have invoices from them and this year for no reason at all they fined me because the money was not there on the due date which was not the due date for quarterly payments — it was the due date if it was monthly — and we pay quarterly. We incurred a fine. We can prove that we have had 17 different accounts since September and none of them makes any sense: \$99 000, \$106 000, \$119 000, \$124 000, \$15 700. The problem is my first bill was dated 4 October 2000 for \$9900, and on 20 October it was \$19 000.

**Mr BEST** — On what basis are they reassessing it?

**Mr RUGGERI** — That is a question I would like to ask because nobody was able to give us information unless the bill was paid. They kept coming back. Believe me, 17 different accounts and none of them is working.

**Mr THEOPHANOUS** — Why did you not pay last year's accounts?

**Mr RUGGERI** — It was \$63 000 for the whole year.

**Mr THEOPHANOUS** — Why did you not pay the \$15 000? Why did you not pay last year's account?

**Mr CROPLEY** — We did pay last year's account. It was only in August this year that they sent us a letter and said there had been a problem with what remuneration was used last year and we had to pay an extra \$15 000 on last year's premium. It was already paid up; we had paid all of last year's.

**Mr THEOPHANOUS** — Would you have any problem with the committee asking the Workcover authority for details of all these assessments in relation to you?

**Mr CROPLEY** — We have no problems with that whatsoever; we would like to find out. In doing what we did do we actually went to QBE again because we changed from AMP from whom we could not get any answers. We went to QBE and it says the problem we have is Frank took over this nursing home in April 1999 and we have found that we are paying for the claims from the previous owners. I have written to Workcover through QBE because there is a clause in the Accident Compensation (Workcover Insurance) Act which says that the insurer and Workcover may not take into account the previous owners' liabilities if the new owner proves he has been doing the right thing. We wrote to them and at this stage we still have not had an answer to say if that can be waived.

**Ms DARVENIZA** — How many accidents have you had in the past three years? I am familiar with the health industry.

**Mr CROPLEY** — We have had two, and those two have been minor injuries.

**Ms DARVENIZA** — Only two in the past three years?

**Mr CROPLEY** — I should say since April 1999; we took over in April 1999.

**Ms DARVENIZA** — And prior to that?

**Mr CROPLEY** — They had a terrible lot of injuries, back injuries and those sorts of things.

**Ms DARVENIZA** — Would you be prepared to make available to the committee the details of injuries over the past three years even though you — —

**Mr RUGGERI** — For a start I do not think we can get it. We have been trying to do that.

**Mr CROPLEY** — We have been working on that.

**Ms DARVENIZA** — We can probably get it.

**Mr RUGGERI** — We were told by Workcover and by the insurer when we took over in April 1999 that the claim was three years old and would drop on 30 June 1999. We had have no claim since I have been there, which is 20 months.

**Ms DARVENIZA** — You say no claims and Mr Cropley says two claims.

**Mr CROPLEY** — I am saying minor claims.

**Mr RUGGERI** — They were \$200 to \$300. I do not think we had — —

**Mr CROPLEY** — You have to accept minor claims as claims.

**Mr RUGGERI** — We are talking \$200 or \$300.

**Mr CROPLEY** — We would be fooling the committee if we turned around and said we had no claims whatsoever because claims are if you put a claim in and we have put minor claims in.

**Mr THEOPHANOUS** — And there were substantial ones before you took over?

**Mr CROPLEY** — Yes, one claim which was going when we took over went back to about 1996. It was a back injury which was paid out just after we took over and that is what they were rating our stuff on then and we were told that was dropping because it was not our fault. In April 1999 we took on a nursing home with a bad record and we had Workcover coming in on periodic checks. After two months they wrote and said they were very happy with what was happening and felt that they did not have to have any more input into it because we were handling everything there and addressing other things.

**Ms DARVENIZA** — Who was it that came in?

**Mr CROPLEY** — Workcover inspectors. We have recently had an accreditation done for three years with aged care and they came in, took one look and I think they only made recommendations on two parts. Since April 1999 we have been busting a boiler to do the right thing and yet we have been penalised more than anybody else.

**Mr RUGGERI** — With the expense of \$20 000 to renew beds, install electrical blankets, strings, lifters and ramps at my cost because we want to prevent accidents. We have a program for the following year to improve by another \$15 000 to \$20 000 providing we can go back. With that premium amount not only can I not improve but I cannot carry on without making any improvements. For a nursing home with 30 beds and the standards we have today it is impossible to pay \$124 000 to Workcover with an excess of \$15 000 from last year which was not our fault — it was the insurer.

**Mr THEOPHANOUS** — Does that include the \$15 000?

**Mr CROPLEY** — That is on top of that.

**Mr RUGGERI** — It is \$124 000 for this year. As I said, from 4 October to 27 November I have paid — and with Christmas coming up — \$75 000. It is all recorded there. In actual fact it was \$74 977. That was in seven weeks.

**Mrs COOTE** — Mr Ruggeri, in its election campaign the ALP promised that common law would be reinstated. You said that you had had dealings with the Victorian Workcover Authority. In the time the officers and other people came for inspection and were involved with you, did they explain what the new process would be and what the implications would be for you with the Workcover changes?

**Mr RUGGERI** — Les is qualified and has years of experience with health and safety, so he can handle that.

**Mr CROPLEY** — The thing is that we changed insurers because we could not get any information out of our previous insurers. They would not give us any information whatsoever. The impact, as I believed it — from all the things I went to, being in the SIA and that type of thing — and understood it was that we would not go above 25 per cent.

**Mrs COOTE** — That was one thing that was implemented. So you were comfortable until the time you started — —

**Mr CROPLEY** — Yes, we expected that and we accept that, but not for the amount that has come up — for an employer who has been trying to go above best practice standards. That is really not fair.

**Mrs COOTE** — There was very little communication from them about what the implications and impacts would be for you?

**Mr CROPLEY** — Yes, because we rang the insurer when we got our first notice to say what we would do. I was just staggered. I tried to put through many calls, and all I was told was, 'That's it, like it or lump it'. I said, 'Hang on, that will send us to the wall', and I was basically told, 'If that's the case, then that's it'. So that is why we have now changed insurers.

**Mrs COOTE** — Is there a chance that this might send you to the wall?

**Mr CROPLEY** — Yes; I would say I would have to go. I would not believe that Frank could employ my services any longer. He will have to accept it. He employs extra staff. We have a waiting list of people wanting to get into this aged care thing in Geelong. We have the best waiting list of anybody around. We have people breaking their necks to get in. We have people wanting to work for us. We will now have to start looking at all those things. Probably I will be first, but anyway — —

**Mr RUGGERI** — A couple of days ago we went to a seminar to look at a new lifting machine. In the past 12 months we have got electrical beds. Our policy has changed to a no-lifting policy, we have installed ramps — and what else have we done?

**Mr CROPLEY** — We have even tried to put in hoists and all that for the linen and those types of things. We do not push trolleys and all those things around any more. There is just so much we are doing and we are planning to do. But if this price goes ahead, frankly we just would not be able to afford to — —

**Mr THEOPHANOUS** — Have you increased the number of staff?

**Mr CROPLEY** — Not since this has come out. We would like to put a couple more on.

**Mr THEOPHANOUS** — Before?

**Mr CROPLEY** — No.

**Mr RUGGERI** — Yes, we did before.

**Mr CROPLEY** — Sorry.

**Mr THEOPHANOUS** — How much by?

**Mr RUGGERI** — By having short shifts in the afternoons to make it a lot easier between half past three to half past seven, and having an extra person in the morning for personal care. So we have increased our wages — that is the other problem.

**Mr THEOPHANOUS** — So the remuneration went up?

**Mr RUGGERI** — Yes, the remuneration went up, but the remuneration on 3.6 per cent will not make a \$70 000 difference.

**Mr THEOPHANOUS** — I am not sure that it is that — I have just done some calculations. You said that last year you paid \$66 000?

**Mr RUGGERI** — It was \$63 000.

**Mr THEOPHANOUS** — And then about \$15 700.

**Mr RUGGERI** — Yes.

**Mr THEOPHANOUS** — Which was in addition because of, according to you, a miscalculation of wages.

**Mr RUGGERI** — No.

**Mr CROPLEY** — Of remuneration, yes, the amount put in — —

**Mr RUGGERI** — But not by us, by the insurer.

**Mr THEOPHANOUS** — Whoever it was by, that makes a total of \$78 000.

**Mr RUGGERI** — Yes.

**Mr THEOPHANOUS** — The increase, then, is from \$78 000 to \$124 000. You also said that in addition to that increase you had more staff put on. So some of that increase can be explained in terms of — —

**Mr RUGGERI** — It would make about a \$1200 difference.

**Mr THEOPHANOUS** — You also said that a number of accidents had to work their way through the pipeline.

**Mr RUGGERI** — Not from us.

**Mr THEOPHANOUS** — It does not matter whether they were from you or from the previous owners; they are there, and part of the system is meant to pay for accidents — that is what it is for. But it went from \$78 000 to \$124 000. I do not know how much of the extra \$124 000 is from extra remuneration, and you said some accidents occurred as well. It does not sound to me — —

**Mr RUGGERI** — No, we had no accidents. I am talking about three physiotherapists, and about \$120 has been recorded.

**Mr CROPLEY** — Minor claim injuries.

**Mr THEOPHANOUS** — But there was a back injury. Do you know how much the back injury cost?

**Mr CROPLEY** — Yes, but that was long before we took over as proprietors.

**Mr THEOPHANOUS** — But a business is a business. Do you know how much the back injury cost? Are you aware of what it cost Workcover to pay for the back injury — —

**Mr CROPLEY** — Yes, I am very much aware of what it cost, but at the end of the day Workcover itself says in here that if you can prove you are doing more you may be able to get some compensation for what you are doing to help carry on over a period. You refer to the extra shifts we put on, but those short shifts were done after we found during our assessment of what was going on in the nursing home that during periods when residents were having dinner, breakfast and so on there were times when they were falling out of chairs and that sort of thing. We put them on to try to help with that to give the residents a better lifestyle. Are we going to be criticised for that?

**Mr THEOPHANOUS** — I am just trying to explain why the increase might have come about.

**Mr RUGGERI** — But the increase is only 3 per cent on about \$40 000 in extra wages we may have paid. We are talking about \$40 000 to \$45 000 more. And another thing: why did the other nursing home, which this particular year — I have it documented — had \$9700 in costs for a previous accident, have as its premium — we have got it in writing — only \$79 000? Their wages are \$100 000 more than ours — they charged the organisation and they let the money go.

**Mr THEOPHANOUS** — Did you make your claim back for the GST input component?

**Mr RUGGERI** — It has not even been recorded through the account. It does not even have what the GST is — that is how the system works. This is the account that came to us. You would have to be the best lawyer in the world to find out what the GST is on this account, because it does not specify it.

**Mr THEOPHANOUS** — But you are aware that you can claim 10 per cent back?

**Mr RUGGERI** — I am due to pay, but 10 per cent on what figure? It does not say there. Who is going to work it out? Is it that by law when an account is sent it will have so much for GST? Would you like to see this? At the end of December I will make my claim for GST. But up until today, which is the 12th, I do not know what the GST is on that. It is 10 per cent on what figure? On last year's figures or on the June figures? It has not got it, I am sorry.

**Mr CRAIGE** — You were not aware of the size of the increase and I can tell — -

**Mr RUGGERI** — We were aware of 25 per cent.

**Mr CRAIGE** — But you were not aware of the actual size?

**Mr CROPLEY** — No, we budgeted for that.

**Mr CRAIGE** — I want you to go back and capture for me the issue where you said when you got your bill you rang your insurer. Who was your insurer then?

**Mr CROPLEY** — AMP-GIO.

**Mr CRAIGE** — You rang them and they told you they had worked it out and that was what it was?

**Mr CROPLEY** — Their just about exact words were, 'That is the account, that is what you have to pay, we can't do nothing about it.' I said if that was what it was we would go to the wall because we could not afford to pay it.

**Mr CRAIGE** — Did you ring the Victorian Workcover Authority at any stage?

**Mr CROPLEY** — Not at any stage.

**Mr CRAIGE** — Did the insurer give you any indication that those figures had been worked out in contact with Workcover?

**Mr CROPLEY** — Yes, they told me Workcover works them out, not them. They said that was what I had to pay and it was no good them going back any further because they would be told the same thing they were telling me.

**Mr CRAIGE** — Was it pretty clear that they were passing on stuff they got from Workcover?

**Mr CROPLEY** — Yes.

**Ms DARVENIZA** — But you did not contact them yourself?

**Mr CROPLEY** — No, I did not. At that stage I did not have a clue as to whom I could ring. That is why we went to QBE. After talking to them we found that even though we were not their client at that stage they at least took our claim and looked at it. They spoke to Workcover and came back and said there appeared to be some problem but they did not know what the problem was at that stage. We have since transferred to them and we now find out what our problem is. It goes back to when we took over the nursing home.

According to the section in here that I wrote the letter on - I have a copy of the letter here - it basically says that people who are in the situation of taking on nursing homes but demonstrate that they are putting in better practices may be taken back and the previous stuff not put in, but if you have an accident in the coming months it goes straight back in.

**Ms DARVENIZA** — If I can do a snapshot of what you are saying to us, it sounds like you took over a nursing home with a pretty poor track record on claims and what you have done as the new proprietor is seek accreditation. That accreditation is a very involved and lengthy process. It means that you have to meet some very high and exacting standards in the level of service you provide, the kind of equipment you have and your policies and training. That is what you have done since you have taken over the business but you are unsure of why the premium is at the level it is. It is very helpful that we will be able to have a look at the Workcover details.

**Mr RUGGERI** — I would like you to have a look at what we have done.

**Ms DARVENIZA** — You have told us that there have been two very small claims.

**Mr RUGGERI** — Which Workcover did not pay, it only recorded them.

**Ms DARVENIZA** — I understand that.

**Mr BEST** — What is the cost of the capital that you have put into the business to upgrade the facility in the form of lifters and beds and so forth?

**Mr RUGGERI** — It is hard to say off the top of my head, but for a start Les is on about \$17 000 to \$18 000, plus all the extra beds which may be four, five or six. There are myriad things which I have done myself, such as concrete ramps and gutters.

**Mr CROPLEY** — Accreditation alone cost us about \$25 000.

**Mr BEST** — Just as a snapshot — \$60 000, \$70 000 or \$80 000?

**Mr CROPLEY** — No, more like \$100 000 has been spent on these types of things.

**Mr BEST** — You have already spent \$100 000?

**Mr CROPLEY** — Yes, we had to service stuff which was there before but was never serviced, airconditioners and things for residents.

**The CHAIRMAN** — We have to finish up on that point. Thank you for coming along today. We appreciate the time you have given us.

**Mr RUGGERI** — Please take it as it is, as we operate it and not how it was operated before. If I have to pay this amount it does not give me an incentive to do any more improvement because of the financial outlay. It is impossible to do it.

**The CHAIRMAN** — We will send you a copy of what has been recorded for you to make any alterations. Thank you very much for your time.

**Witnesses withdrew.**

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into Workcover premiums for 2000-01

Geelong – 12 December 2000

#### Members

Mr R. A. Best  
Mrs A. Coote  
Mr G. R. Craige  
Ms K. Darveniza

Mr N. B. Lucas  
Mr J. M. McQuilten  
Mr T. C. Theophanous

Chairman: Mr N. B. Lucas  
Deputy Chairman: Mr T. C. Theophanous

#### Staff

Executive Officer: Mr R. Willis  
Research Officers: Mr M. Ryan and Ms K. Ellingford

#### Witness

Ms A. Lord, Risk Management Coordinator, Greater Geelong City Council.



**The CHAIRMAN** — I advise all present that the evidence taken by this committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act. Would you like to make an opening statement and then we might ask you some questions? We have 15 or 20 minutes to do that.

**Ms LORD** — I should preface what I am about to say by saying that I have only been with the City of Greater Geelong for two weeks.

**Mr CRAIGE** — What did you do before that?

**Ms LORD** — I was risk management coordinator with the City of Maribyrnong. I have worked with the Workcover and Workcare systems since 1985. My comments will be on the general application of the premium basically, and how it has affected me during that time.

I still have the book I received in 1993 when the present system was to be introduced. One of the objectives of the proposed premium system was that it would be easier to understand and administer. After seven years experience with it I have not found it easier to understand, follow or predict. If we are doing budgets and estimates, predicting what our premium will be in the following year is very difficult. I understand and can follow individual components of the premium and how it operates — the 'sizing' and 'experience' factors, all that is understandable — where we lose track is on high costs like common-law costs. We have about three claims capped at the maximum of \$150 000. My understanding of the premium system is that those costs will sit in the premium for perhaps another three years through the 'prior rate' component. However hard we are trying, it makes it really difficult for us to demonstrate occupational health and safety achievements, reduce injuries and so on. It is a real disincentive when you think you are not achieving anything.

One of our main concerns with the unpredictability is the 'F factors', which really relate to the insurers. It is their experience rating. I understand that the argument is that if they are not estimating claims as accurately as they should, it is a balancing factor, but I will give you an example. If we changed insurers and the F factors in our calculation changed from something like 2.3 to 4.5, our claims experience is suddenly doubled through nothing we have done. I am sure you have heard this from other people. The 'industry rates' are not a known factor. Local government industry rates tend to increase rather than decrease. All the uncontrollables that are in there for us always seem to be increasing. I think probably two or three of the industry rates for local government workplaces went down in this current premium period.

The sizing factor can again disadvantage us. Being a larger employer, the sizing factor is above the 0.5 level. If we have a small workplace that has a serious injury, that is weighted more to the employer's experience than to the industry rate, which has meant, for instance, that one serious injury in a small workplace with a \$45 000 remuneration for the year cost \$9600 complete and increased the premium for that workplace by around \$14 000. That is a straight calculation.

**Ms DARVENIZA** — For the one injury?

**Ms LORD** — Yes, and one injury in that workplace's history.

**Ms DARVENIZA** — What was the injury?

**Ms LORD** — It was a neck injury. The estimate was a lot higher but having a wonderful rehabilitation and return-to-work program we got the employee concerned was back fairly early, which presumably would reduce it at the next calculation, but in the initial calculation it was around \$14 000.

These are only one-offs, and I understand that, but they are things that have affected me. There was a recent really unfortunate accident in Geelong, and probably everyone here is aware of it, where a young man lost both legs in an accident. It is subject to litigation at the moment. We understand that this is a TAC claim, but the person was at work when it happened and therefore it is being paid through Workcover and will be dealt with as a recovery later — we will try to recover from the TAC. It is my understanding that that takes several years, so we will pay a premium on that claim for three years. It is a capped claim and we will try to recover from TAC down the track. I emphasise that that is just my understanding at this particular point in time.

Another concern is that when we talk about the actuarial estimates we never see the data that comprises the estimates. We are sort of expected to take in good faith the outcome of these calculations, and that includes the F factors — the claims as well and how they are calculated but particularly the F factors.

Since the changes in common law, several claims have been submitted for common law. Some of these claims have not been put back on the original claim as we expected and if you want to contest them — which would be a minority, I understand — a new claim is opened. Having paid three years premium on the original claim, you will pay another three years premium on the cost to dispute the common-law claim for the same injury.

My other main point is rehabilitation. I am a dedicated return-to-work and rehabilitation advocate. We automatically rehabilitate our workers and we go to extreme lengths to do so. The most unfortunate thing about that is some of the reaction that that causes in the workplace when you are really at an impasse in getting a person back to their original position and what you can do about getting them employment elsewhere particularly if they do not want to work elsewhere. It is a stalemate. They are going nowhere and we are going nowhere.

The estimates change from initial to confirmed, and the quantum in the changes can be huge. We are finding that the initial premium is not a good guide for budgetary purposes and that the confirmed premium is often completely different to what we had anticipated.

The most significant point to me in relation to the economic effects is the constant upheavals we have had in local government over the past five years.

**Ms DARVENIZA** — The ‘constant’?

**Ms LORD** — Upheavals, reorganisations, restructures — I am sure it applies in other businesses. It has left a lot of people needing a safety net and quite often Workcover has been that safety net.

**The CHAIRMAN** — Would you like to mention the premium situation for the City of Greater Geelong?

**Ms LORD** — I would rather not quote figures and I will tell you why. Last year — and this is what I mean about the system itself — we had eight or more initial premium calculations.

**Mr CRAIGE** — From when to when?

**Ms LORD** — The initial one was May 1999 and I think the most recent was 6 June.

**Ms DARVENIZA** — The first one was 6 June?

**Ms LORD** — No.

**The CHAIRMAN** — July last year to June this year?

**Ms LORD** — Yes.

**The CHAIRMAN** — Were those changes a result of remuneration of the council?

**Ms LORD** — Mainly workplace changes — we have about 68 workplaces and we are trying to rationalise that, but every time there is a change to a workplace, it triggers a recalculation of the premium.

**Mr THEOPHANOUS** — It is not the fault of Workcover, it is your restructure.

**Ms LORD** — I am not saying it is; it is a difficulty of the system.

**The CHAIRMAN** — What were the premiums last year and this year? Has there been an increase?

**Ms LORD** — Again, I would rather not - there has been an increase, yes. Without being specific about the figures, it was a huge increase from initial last year to confirmed this year.

**The CHAIRMAN** — What are the figures?

**Ms DARVENIZA** — Perhaps if you are — —

**Ms LORD** — I would rather not — —

**Ms DARVENIZA** — Not prepared to give us the figures — —

**The CHAIRMAN** — Hold on. You are saying you would prefer not to give us the premiums for the city?

**Ms LORD** — Yes.

**The CHAIRMAN** — Why is that?

**Ms LORD** — As I say, I have been here two weeks, and I have about eight calculations here and I would like to make sure I was giving out the right figures before I gave them.

**Ms DARVENIZA** — Would you be happy for the committee to get the information from Workcover, so we have it available to us?

**Ms LORD** — Absolutely. Yes.

**Ms DARVENIZA** — Thank you.

**Mr THEOPHANOUS** — Thank you for your submission. I am quite interested, especially in that bit about large and small employers. I noticed that you mentioned only a particular accident, and I was a bit confused by it. It was a very unfortunate one where somebody lost both legs.

**Ms LORD** — Yes.

**Mr THEOPHANOUS** — Presumably the person was working for the City of Greater Geelong?

**Ms LORD** — Yes.

**Mr THEOPHANOUS** — The person must have been in a car accident, but because it was at work — —

**Ms LORD** — A motor vehicle — a member of the public ran into the worker, yes, while he was performing his work.

**Mr THEOPHANOUS** — While he was performing his work?

**Ms LORD** — Yes.

**Mr THEOPHANOUS** — I see. So it is a Workcover claim, but there may be some capacity to get the money back from the Transport Accident Commission later, is that right?

**Ms LORD** — That is right, yes.

**Mr THEOPHANOUS** — Do you have some idea of what that claim might finish up costing?

**Ms LORD** — About \$1.6 million.

**Mr THEOPHANOUS** — If the council had to pay the \$1.6 million as opposed to the Workcover scheme paying it, that would have a much bigger impost on the council, would it not, than having to pay its Workcover insurance premium?

**Ms LORD** — Of course. That is what insurance is for, isn't it?

**Mrs COOTE** — Ms Lord, you spoke before about rehabilitation and how important it is.

**Ms LORD** — Yes.

**Mrs COOTE** — Do you think the new system that has been implemented enhances rehabilitation or increases dependency in comparison to what the previous system did?

**Ms LORD** — Personally I think it increases dependency.

**Mrs COOTE** — It increases dependency?

**Ms LORD** — Yes.

**Mrs COOTE** — Thank you.

**Mr THEOPHANOUS** — In what sense?

**Mr CRAIGE** — Excuse me, you have had your piece.

**Mrs COOTE** — Does it encourage people to go back to work? Does it encourage — —

**Ms LORD** — I think it encourages people to go back to work, but it does not facilitate the resolution of their situation.

**Mrs COOTE** — Therefore that will have some profound problems into the future?

**Ms LORD** — Yes.

**Mrs COOTE** — In comparison with the previous system, no matter what other problems — —

**Ms LORD** — I think the problems are fairly similar.

**Ms DARVENIZA** — The problems are fairly similar to?

**Ms LORD** — The difficulties in rehabilitating problem cases.

**Ms DARVENIZA** — There is no difference between the previous scheme and this scheme?

**Ms LORD** — I would not say it is no different, but the problems are similar. It is difficult — —

**Mr THEOPHANOUS** — What schemes are you comparing?

**Ms LORD** — Workcare and Workcover.

**Mr THEOPHANOUS** — Thank you.

**Mr CRAIGE** — Do most councils employ somebody who deals with Workcover or premium risk or risk management?

**Ms LORD** — Yes.

**Mr CRAIGE** — Most councils have an employee full time in that area?

**Ms LORD** — Yes.

**Mr CRAIGE** — I know it is difficult for you — I have forgotten; what did you do at the previous council you were at?

**Ms LORD** — I was risk management coordinator at the City of Maribyrnong.

**Mr CRAIGE** — That job had nothing to do with Workcover?

**Ms LORD** — Yes, it did.

**Mr CRAIGE** — I am having difficulty hearing, that is all. When you were at Maribyrnong working in that capacity you would have been fully aware of the government's promises about the increases to Workcover. When did you as an employee find out that your premium at the previous council had gone up?

**Ms LORD** — At the previous council it went down overall.

**Mr CRAIGE** — Went down?

**Ms LORD** — Yes.

**Mr CRAIGE** — Tell me by how much?

**Ms LORD** — Well — —

**Ms DARVENIZA** — It is a very good council, Maribyrnong.

**Ms LORD** - Yes.

**Mr CRAIGE** — So Geelong will go down too, will it?

**Ms LORD** — Hopefully. That is my job. Maribyrnong is a small council. It has fewer workplaces — only about 26. It is a lot easier to administer. It is a lot easier to — the communications are simpler. The geographical size is much smaller. Information is easier to push down. In a council this size in actually performing the same kinds of role, just the communications alone make it significantly more difficult. The number of workplaces, the sheer size of the calculations, the complexity — the variables that can happen are just magnified.

**Mr BEST** — You commented before that there was a claim in for three years.

**Ms LORD** — Yes?

**Mr BEST** — And that then common law came along — —

**Ms LORD** — Yes.

**Mr BEST** — And it had been extended for six years. Can you expand on that circumstance?

**Ms LORD** — The original claim had been closed, and then we got — sorry, I am not sure if it was common law. We got a legal claim in. To be able to contest that at all it had to be opened — this is the insurer's information, not ours — as a new claim. If we had put it on the original claim — and if you like, later I can find you the details of the claims, but to contest it it had to be reopened as a new claim. If it was accepted, then it would be added on to the original claim. But whatever costs were incurred in disputing the claim were then a claim in their own right. So then you have three years additional claim costs.

**Mr BEST** — So the impact on your premium has been what?

**Ms LORD** — To increase it.

**Mr BEST** — To increase, because it is — —

**Ms LORD** — Yes.

**Mr THEOPHANOUS** — In relation to the small and large businesses you mentioned earlier, you are aware that, as you said, being a large business it is much more sensitive to accidents?

**Ms LORD** — Yes.

**Mr THEOPHANOUS** — And your premiums go up and down much more, depending on your own experience. In general would you support that kind of approach or would you support an approach where experience was not as critical a factor?

**Ms LORD** — For a larger employer I think it is crucial that — —

**Mr THEOPHANOUS** — The premiums are reflected?

**Ms LORD** — Yes.

**Ms DARVENIZA** — I want to ask you about the inspectors. One of the outcomes of the recent Workcover changes is that the number of inspectors has increased.

**Ms LORD** — Yes.

**Ms DARVENIZA** — With your long history and involvement in Workcover and risk management, what sort of impact do you think that will have and what sort of benefits will come from it?

**Ms LORD** — At Maribyrnong I found that we had probably 8 or 10 different inspectors visit us during a 12 month period. Before that it would probably have been once or twice a year. Quite often it has been helpful, and quite often it has been extremely time consuming going over old ground. I find that some of the inspectors are fairly inexperienced. I presume that is because quite a lot of them are new to the job.

**Mrs COOTE** — Do you get the same inspectors every time?

**Mr THEOPHANOUS** — They got rid of the experienced ones.

**Ms LORD** — I actually do believe that.

**Mrs COOTE** — Do you get the same inspectors every time?

**Ms LORD** — No, that is one of the problems. In the end we rang the principal and dealt through her, because we were getting people turning up for anything and everything.

**Mr THEOPHANOUS** — You think they did get rid of all the experienced ones?

**Ms LORD** — Quite a few, yes.

**The CHAIRMAN** — That is not part of our terms of reference. Ms Lord, thank you for coming along today. We will send a copy of the Hansard record to you for corrections. We appreciate the time you have given us.

**Ms LORD** — Thank you.

**Witness withdrew.**

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into Workcover premiums for 2000-01

Geelong – 12 December 2000

#### Members

Mr R. A. Best  
Mrs A. Coote  
Mr G. R. Craige  
Ms K. Darveniza

Mr N. B. Lucas  
Mr J. M. McQuilten  
Mr T. C. Theophanous

Chairman: Mr N. B. Lucas  
Deputy Chairman: Mr T. C. Theophanous

#### Staff

Executive Officer: Mr R. Willis  
Research Officers: Mr M. Ryan and Ms K. Ellingford

#### Witnesses

Ms S. Patterson, Risk Management Officer; and  
Mr C. Knight, Occupational Health and Safety Consultant, Colac–Otway Shire Council.



**The CHAIRMAN** — I welcome Ms Samantha Patterson, risk management officer, and Mr Chris Knight, occupational health and safety consultant from the Colac–Otway Shire Council. All evidence taken at this hearing is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act. Please make an opening statement, after which we will ask you some questions.

**Mr KNIGHT** — Thank you for the opportunity to be here on behalf of the shire and talk about this issue. The first point I would like to make is that the Workcover legislation identifies one primary relationship — the employer and the employee. Frequently throughout the whole of the workings of Workcover all the participants in Workcover — whether they be the insurers, the agents or the rehabilitation providers — tend to ignore that prime relationship, with people supporting one side or the other and almost ignoring the primary relationship. So one of the things we are very concerned about is to reinforce that primary relationship, and that everything is driven through that employer–employee relationship.

In terms of the industry rates it has had no impact on the shire, because industry rates stayed the same in 1999–2000 and 2000–01. There are only two brief points I would like to make. One is that the industry rates are driven by what is called the industry groupings. The groupings, contained within the premium order, are based on what is called the ANZSIC code, or the Australia and New Zealand Standard Industry Classification code. That is a system of grouping employers together which was developed back in the early 1980s as a means of economic comparison between Australia and New Zealand. The grouping of the industries, which we use as our industry classification base, has absolutely no recognition of risk or grouping of like risk areas — it is purely a grouping of industries for economic comparison.

The second point is that the system tells us continually that the industry classification is given a base rate. The base rate is the average of the previous five years of claims costs divided by remuneration — per million dollars worth of remuneration within that group. For example, a rate of 4.78 reflects something like \$47 800 worth of claims costs per million dollars worth of wages within that group.

I will take as an example cleaning services. In 1999–2000 it had a base rate of 4.78 per cent; in 2000–01 that has gone to 7 per cent. For one year’s performance to move from 4.78 to 7 per cent requires something like a 300 per cent deterioration in the last year’s performance over the average of five years. Although it does not directly reflect on the shire, it certainly impacts on the industry rates.

The next point concerns the common-law loading. One of the things we have been continually told about Workcover is that the premium is based on experience. If you drew a logical conclusion it would be that if you have no claims you have no premium, but it is not quite as simple as that. All employers are incurring the 15 per cent loading for common law. What confuses us is that for there to be a common-law application or liability there must be a claim. The claim is either past, present or future. If it is present it is reflected in the estimates that go into the claims calculations each year. If it is past, after three years the claim would have been closed. But one of the things people seem to be ignoring is that, clause 1 of schedule 7 of the premium order provides for:

The insurer or the authority who on becoming aware of changes to any of the components of the premium calculation, may recalculate the premium.

This is widely used at present in the wage audit area. Wage auditors go out, discover that an employer is wrongly classified, and say the employer should have been this and not that. They will make it retrospective to 1 July 1993 and justify it by using that clause of the premium order, which gives them the authority to recalculate it. We have a concern about common law that if a claim has that liability it should be reflected in the estimate cost of that claim and not on the whole system or all the employers.

The next point I want to make is about the cost of claims. Within the premium calculation the cost of claims consists of two components: the actual costs, and the estimated costs of what the system believes will come in in terms of future cost.

The first thing we would say is on the analysis we have done, for every \$1 in claim cost that goes against the Shire of Colac–Otway, the shire incurs \$1.63 of additional premium. That causes the question to be asked, ‘When is insurance not insurance?’ because by definition it is supposed to be the sharing of risk and yet for most employers and certainly for the Shire of Colac–Otway the additional premium is greater than the claims cost.

The second component of the claims cost which concerns us is this estimated component. Twice a year the insurer or agent sits down and comes to a position of the costs they think are still to come on a particular claim. Quite often

that is arrived at without any proper discussion with the employer and frequently, from my experience with the Colac–Otway shire and others, that figure is extremely negotiable. The other part of the estimated claims cost — and this is the part that has a significant impact on Colac–Otway shire — is the Workcover scheme says that the insurers can never get that estimate right. To make it right they apply what is called the F factor — and there are various definitions of what that F stands for. An F factor is applied to claims cost. In 1999–2000 the average F factor for year 1 claims across the whole system — all insurers — was averaging 3.5 times. That means that in the calculation \$10 000-worth of claims costs for a 1999–2000 claim would be represented as \$35 000 not \$10 000. This year, 2000–01, the average across insurers is 4.5. Is the system saying to us that the performance of the insurer agents has deteriorated by 25 per cent in the past year in their guesstimates of what the open cost of claims is?

Another part of this issue that concerns us is that every year for three years this F factor is applied to the cost of those claims. What happens to the claim which is made in August where the person is off work for two weeks, has minimal medical costs and returns to work by mid-September? The claim is finished and nothing more is to happen with it except that for the next three years that is affected by the F factor. The system applies a factoring to claims because, as it says in the system, the insurers cannot guess that continued cost right. Even though the claim is closed and the person has been back at work for 7, 8, 9 or 10 months they still factor the cost of that claim. In last year's premium for Colac–Otway shire that factoring of closed claims added \$9300 to the premium; 9.8 per cent of the premium was caused by the factoring of the costs of closed claims. We have no difficulty with the view that an open claim should be factored but why do we factor up closed claims?

The second last point we would like to make is the issue of superannuation. In our declaration of remuneration we include superannuation as a definition of wages. The Colac–Otway shire paid a premium based on a wage base of \$10.4 million which included the 7 per cent superannuation payment. However, when determining the experience of the employer in the following year and looking back at the year, the superannuation is not included in the definition of remuneration for year 2. Although the shire paid \$10.4 million in wages in 1999–2000, in 2000–01 it only gets credit for \$9.7 million. Why do we include superannuation when the employers are paying premiums but deduct it when working out past years' performances? That adds about 1 per cent to the Shire of Colac–Otway's premium base. The other interesting part of that is when you look at what the average weekly earnings of an employee are, that does not include the 7 per cent — or 8 per cent this year — superannuation you have been paying premiums on.

The last issue of concern to the shire is that of succession. It is a real hotchpotch. In simplistic terms, for various reasons about 3.5 years ago the shire took over the ownership and management of the local abattoir. Because of the application of succession they started off with a premium rate of 18.42 per cent when the industry rate was 7 per cent; they were 11.42 per cent worse off by taking on this existing business. The shire objected and made lengthy submissions to Workcover which ultimately failed. As a result, the shire paid \$610 000 in workers compensation premium rather than \$231 000, an increase of 295 per cent. The problem has now been passed on because there is a new owner of the abattoir; the council got out of that as it is not a core business as such. The new owner takes up a premium starting point of 18.26 per cent rather than 8.4 per cent.

The other add-on point to this is, as a result of the abattoir's experience coming into the shire's Workcover premium, all the shire's other workplaces pay higher premiums because of the claims experience coming in. Over the past three years that has added up to just over \$38 000 of additional premium. The shire has paid that over and above the meatworks' premium. That has caused a domino effect with the local Cosworks, the shire's business entity for local government and associated works. It has an annual turnover of \$7 million and has been disadvantaged in tendering for work by the premium increase incurred because of the application of succession. In 2000–01 we have estimated that these issues of superannuation, the factoring of closed claims and common law have added 26 per cent to the shire's premium, or around \$25 000 of additional premium cost.

In conclusion, it is the shire's considered view that although the Victorian Workcover scheme is at least at good as, if not better than, any other workers compensation scheme operating in Australia, there are a number of areas where it can be improved. We believe the addressing of the above points in conjunction with a considerable improvement in insurance agent performance and clarification of the roles of the various Workcover agents would result in significant advancement of the scheme.

**Mr CRAIGE** — The fudge factor —

**Mr KNIGHT** — I did not say that.

**Mr CRAIGE** — But I did and that is one of the terms you would have quite often put to the F factor. You mentioned that it is so fluid that you can do anything you like with it.

**Mr KNIGHT** — No, the fudge factors are set by actuaries looking at the past performance of insurers and giving it an F factor rating. They apply it to the estimates of claims costs that the insurer believes are still to come. That is very, very fluid.

**Mr CRAIGE** — That is fluid. Is that just a person's guesstimate?

**Mr KNIGHT** — Yes. The system says that if the claim is still open at a given point in time, the insurer is required to imagine a worst-case scenario — to cost it to age 65 or whatever the balance of years might be.

**Mr CRAIGE** — Therefore, it could quite easily have a significant impact.

**Mr KNIGHT** — Yes. I have had examples where that has been \$300 000 and I have met with the insurer and it has been dropped to \$2500.

**Mr CRAIGE** — Are the agents willing to negotiate and discuss those factors? Do you get into a discussion with them and do they change?

**Mr KNIGHT** — Yes to both questions. What I always insist on — and we certainly do it at the shire — is ensuring that the agent is fully aware of all the facts of the case. Often they are sitting in the office in Geelong or Melbourne and setting the estimate and all they know about the claim is what is in the file in front of them. They do not always know that the person has met with us at the shire a week back from work or they have been in a return-to-work program for five weeks. Often the negotiable bit is ensuring the agent is aware of all the facts of the claim which result in a lower estimate. In addition, the agents always argue that they have to imagine a worst-case scenario whereas the claims administration manual says it is a worst-case scenario with due regard to the facts. I find it rather bizarre that if a case has gone to conciliation and been virtually thrown out by the conciliator and the person then lodges another application with the Magistrates Court or something, that the system disregards what it has already acted on and imagines a worst-case scenario. It puts all sorts of costs against it even though they had sufficient evidence a step before to disregard it.

**The CHAIRMAN** — Would you like to add to anything which has been said, Ms Patterson?

**Ms PATTERSON** — No I do not think so. Chris and I prepared this information together and he has pretty much covered it.

**Mr McQUILTEN** — Why did the council purchase the abattoir? I would have thought it was under great sufferance.

**Mr KNIGHT** — It was before my time but it was very much — —

**The CHAIRMAN** — Can you relate this to the reference?

**Mr McQUILTEN** — It was brought up as a major issue.

**Mr CRAIGE** — But from a Workcover point of view.

**The CHAIRMAN** — Do we assume that the shire took into account the Workcover premium when it made the decision to purchase the abattoir?

**Mr THEOPHANOUS** — They probably should have.

**Ms DARVENIZA** — Has the Colac–Otway shire had much contact with the Workcover office?

**Mr KNIGHT** — The inspectorate?

**Ms DARVENIZA** — The inspectorate and the office more generally.

**Mr KNIGHT** — In recent times there has been lots of contact with the inspectorate through issues arising at Apollo Bay. We have had lots of connection with them through that process. In terms of the Workcover office centrally, no, most of the contact has been with the local agent insurer.

**Ms DARVENIZA** — How have you found the inspectorate? One of the changes made to Workcover is a significant increase in the number of inspectors. Has this assisted?

**The CHAIRMAN** — Order! One of my problems is if we keep asking this question we will use up a lot of time and it is not really within our reference. I will have to rule that question out of order.

**Mrs COOTE** — I was going to ask about the Workcover authority and whether you had been given sufficient information about the premium changes and been kept in the consultation loop given that you have had a lot of experience in this area. Were you briefed on the implications of the premium changes?

**Mr KNIGHT** — No, the only information that was obtained was obtained by seeking it.

**Mrs COOTE** — It was not proffered?

**Mr KNIGHT** — No.

**Mr CRAIGE** — You did not hear it in the corridors? You would have heard whispers around the traps that there was going to be more than just the 15 per cent and the 2 per cent. You are in the game?

**Mr KNIGHT** — The information around was that there were going to be increases. The industry rate is always very difficult to predict. The almost complete disregard of the 20 per cent capping has caught a lot of people out — they are not aware of what is happening.

The other thing is it is almost impossible to obtain anything in writing from Workcover. For example, one of the classifications for corporate head office administration says you must have two or more workplaces in Australia with different classifications et cetera. The interpretation currently being applied by insurers under direction by Workcover is that means two or more workplaces in Australia and does not include Victoria. A client of mine has a head office in Melbourne and five processing plants around central Victoria and because the company does not have a workplace outside Victoria it is not entitled to claim corporate head office administration. That is the sort of confusion.

We referred in the submission to the roles of people. It does not apply to the Shire of Colac–Otway but a constant sore point of mine is the question of what costs are being incurred by employers fighting a dispute between two arms of Workcover? We apply for registration of Workcover for premium base and my experience tells me that 90 per cent of all employers are wrongly rated for Workcover.

**Mr CRAIGE** — How many?

**Mr KNIGHT** — Ninety per cent are wrong in their registration for Workcover, but that is given by the insurer. A wage auditor goes out to look at it and says, ‘That is not right, it should be this’, and it is up to the employer to try to work out which two arms of Workcover are fighting between themselves as to what the classification is.

**The CHAIRMAN** — Mr Theophanous, last question.

**Mr THEOPHANOUS** — Thank you, Mr Chairman. Mr Knight, I am a bit confused by your submission, because you finish it by saying that you think the Victorian Workcover scheme is at least as good as, if not better than, any other workers compensation scheme operating in Australia, yet at the same time in almost all your comments you seemed to criticise it.

I have also noticed that almost all the criticisms you have made, whether you were talking about industry rates, F factors, superannuation or the succession, have had nothing to do with any changes made in the last year since the new government has come into power but have been about part of the system that was introduced seven years ago. Is that correct?

**Mr KNIGHT** — Apart from the aspect of common law, yes.

**Mr THEOPHANOUS** — Every other criticism you made relates to the system as introduced by the previous government?

**Mr KNIGHT** — Yes.

**Mr THEOPHANOUS** — I will assure you that we will try to fix it up.

**Mr KNIGHT** — I will make two points on that. One is that the system it has produced, I think, justifies those comments about how it compares nationally. I have worked in all the jurisdictions and I find it structurally as good as, if not better than, those in any other state. My biggest concern is the way it is delivered; I find that appalling.

**The CHAIRMAN** — Mr Knight and Ms Patterson, thank you for coming along today. We will send you a copy of the Hansard record of our discussion to which you can submit any corrections you think appropriate. Thank you for your time.

**Witnesses withdrew.**

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into Workcover premiums for 2000-01

Geelong – 12 December 2000

#### Members

Mr R. A. Best  
Mrs A. Coote  
Mr G. R. Craige  
Ms K. Darveniza

Mr N. B. Lucas  
Mr J. M. McQuilten  
Mr T. C. Theophanous

Chairman: Mr N. B. Lucas  
Deputy Chairman: Mr T. C. Theophanous

#### Staff

Executive Officer: Mr R. Willis  
Research Officers: Mr M. Ryan and Ms K. Ellingford

#### Witness

Mr J. James, General Manager, Business Services, St Laurence Community Services.

**The CHAIRMAN** — I welcome Mr John James, general manager, business services, St Laurence Community Services. All evidence taken by this committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act. I invite you to make an opening submission, after which we will ask you some questions.

**Mr JAMES** — I will tell you just a little bit about St Laurence. We provide independent living units and residential aged care. At Lara, Geelong and Colac we have community care and disability services, and in Warrnambool, Colac and Geelong we have network employment services. We have about 400 staff. We have a wage bill of about \$9.5 million per year. Our Workcover premium went up by about 50 per cent from last year to this year. I guess there are several points of interest. One is that in the residential and nursing home the premium jumped by almost 50 per cent.

As you are probably all aware from reading about it in the press, the area of nursing homes and residential aged care is not a very good business to be in. I would say that if our premiums keep going up like this, instead of building a new 45-bed complex at Lara and spending the \$6 million we are spending, in three years time we will be closing the complex because we do not receive sufficient funding to continue. I would even go so far as to suggest that most stand-alone nursing homes and hostels are in big trouble, and Workcover is one of the reasons, I think.

Another point of interest is community care. I am not really being cynical, but the increase in premiums is fairly easily fixed. All you do is reduce the services to your clients, because that is the only way the government will fund them. We have zero budgeting in programs such as Community Care Packages Linkages and Disability Services. So Workcover goes up, and the money we have to spend on our clients goes down.

Another point is that we have been forced to pay about \$60 000 on a case we are defending that has not been heard. We do not believe the organisation is guilty of this one at all, but the insurer has built in an estimate of \$60 000. The incident occurred last January. We have had to pay this money up front, as a part of this year's premiums, which we feel is quite unfair.

I do not have a lot more to say, other than the fact that unless there is some reduction in premiums, employment will certainly be discouraged, there is no question about that, and there will also be, I think, a reduction in the services we provide; they will suffer. That is probably it.

**Ms DARVENIZA** — Mr James, you have given us a little bit of information about what has happened with your premiums and your claims. It would be helpful to the committee if we could look at what your circumstances are. Would you have any problem with us getting that information from Workcover?

**Mr JAMES** — None whatsoever; we would appreciate that.

**Ms DARVENIZA** — Thank you very much; that would be very helpful.

**Mr BEST** — When did you learn that your premiums would be increased to the extent that they were?

**Mr JAMES** — That was rather disappointing, because we had already done this year's budget. We got the good news in October.

**Mr BEST** — So you learnt, when, in August?

**Mr KNIGHT** — In October we got the good news.

**Mr BEST** — When did you do your budget?

**Mr JAMES** — Last May.

**Mr BEST** — What component of funding do you face as a shortfall?

**Mr JAMES** — Probably about \$80 000.

**Mr BEST** — How will you recover that?

**Mr JAMES** — In some cases the organisation will have to pay it out of surpluses, and in the case of community care programs, the programs will have to foot their own departmental bills.



**Ms DARVENIZA** — How does that happen? How does the department foot its own bills? What do you mean?

**Mr JAMES** — For example, we have a linkages program, which has about 170 clients and for which we receive about \$10 500 through HACC funding. Out of that we administer, pay case managers, and spend money on clients. Being a part of administration, the Workcover premium goes up, and therefore the money we have to spend on clients comes down and we still finish up with a zero budget at the end of the day.

**Mr BEST** — Where you charge clients for services, you may have to increase those charges?

**Mr JAMES** — Yes, but we do not charge most of our clients for services.

**Mrs COOTE** — Mr James, you referred to your additional pressures and said that the programs would be cut and that some of the services would probably be cut. What about the incentive to increase workplace safety? Will that be a pressure that will have to be looked at as well?

**Mr JAMES** — We have a very strong occupational health and safety committee. We work hard at it, and are pretty pleased about our record. So we do not see that we can do much more to reduce our premiums.

**Mrs COOTE** — But the pressures will be on for programs and for care?

**Mr JAMES** — Yes.

**Mrs COOTE** — Will that cause additional pressure, and will you be able to put on additional staff? Will that be one of the considerations you will have?

**Mr JAMES** — No, we will more likely put off staff we will not be putting on additional staff because we will not be able to afford it. But we will put pressure on the people, yes. There is also another problem peculiar to the nursing home industry — that is, that the staff are ageing and as they become older — —

**Mrs COOTE** — The staff are ageing?

**Mr JAMES** — Yes. Unfortunately, after a long period of employment in the industry many of them start to suffer from back problems and things like that. That is probably an issue outside this hearing, but I think it needs to be recognised.

**Mrs COOTE** — Thank you very much.

**Mr McQUILTEN** — I am wondering about the aged care industry in other states. It must be the same. Have you seen these figures? Victoria has the second-lowest Workcover charges in the country. After what you said about increases, I wonder how you would cope if you lived in New South Wales, South Australia or Western Australia. Do you have some comments to make about that?

**Mr JAMES** — We would not be in the aged care industry.

**Mr McQUILTEN** — I am sorry?

**Mr JAMES** — We would withdraw from the aged care industry.

**Mr McQUILTEN** — In other words, you would not be able to survive in those states, but at the moment you are surviving here?

**Mr JAMES** — Yes.

**Mr McQUILTEN** — That is interesting. I wonder how people in other states survive.

**Mrs COOTE** — If the premiums were to rise again, you would be right out?

**Mr JAMES** — Eventually, yes.

**Mr THEOPHANOUS** — I am trying to understand it. You said your premium went up by 50 per cent; is that right?

**Mr JAMES** — Yes.

**Mr THEOPHANOUS** — To understand that I have to ask you a number of questions, including: have you allowed for the 10 per cent you get back on the GST?

**Mr JAMES** — We certainly have.

**Mr THEOPHANOUS** — So that is 50 per cent, after you get back your 10 per cent on the GST?

**Mr JAMES** — Yes.

**Mr THEOPHANOUS** — Have you had increases in remuneration?

**Mr JAMES** — It is a weighted 50 per cent, taking that and staff increases into account.

**Mr THEOPHANOUS** — Did you put in a remuneration estimate?

**Mr JAMES** — Always — we have to.

**Mr THEOPHANOUS** — You put in a remuneration estimate?

**Mr JAMES** — Yes; each year we do.

**Mr THEOPHANOUS** — How many claims have you had over the past three years?

**Mr JAMES** — Not a lot, but two substantial claims, one of which we are denying is a valid claim.

**Mr THEOPHANOUS** — Roughly how much would you say the claims will finish up costing?

**Mr JAMES** — I really cannot answer that question with a degree of accuracy. I would prefer not to answer it — but a substantial amount.

**Mr THEOPHANOUS** — But in a general sense if you had to pay the claims rather than the Workcover authority you would probably be in a much worse financial position, would you not?

**Mr JAMES** — I would beg to differ. If we had to pay the claims and were self-insured we would have been in a better position over the past three years.

**Mr THEOPHANOUS** — So why has the industry not gone to self-insurance, if its option is to go to self-insurance?

**Mr JAMES** — One would never go to self-insurance, because we are a conservative body by nature. You can survive little claims when you have 400 staff and \$9 million in wages. However, if you have substantial claims — I think one of our claims was settled for \$120 000; you only need to have two or three bad claims, and I would say that a board that would not allow us to be self-insured — —

**Mr THEOPHANOUS** — How much were your premiums last year?

**Mr JAMES** — Last year our premiums were \$158 000; this year they are about \$280 000.

**Ms DARVENIZA** — You would have to admit that you are in an industry where across the board there are very high claims — —

**Mr JAMES** — Yes.

**Ms DARVENIZA** — And very significant claims very often?

**Mr JAMES** — Yes. Our insurance manager, HIH, tells us we are doing quite well in what we are paying in Workcover.

**The CHAIRMAN** — Mr James, thank you for coming along today and for giving evidence and answering our questions. We will send you a copy of the Hansard record of our discussions for any corrections you wish to make. Thank you for your time.

**Witness withdrew.**

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into Workcover premiums for 2000-01

Geelong – 12 December 2000

#### Members

Mr R. A. Best  
Mrs A. Coote  
Mr G. R. Craige  
Ms K. Darveniza

Mr N. B. Lucas  
Mr J. M. McQuilten  
Mr T. C. Theophanous

Chairman: Mr N. B. Lucas  
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#### Staff

Executive Officer: Mr R. Willis  
Research Officers: Mr M. Ryan and Ms K. Ellingford

#### Witness

Mr G. Esler, Regional Manager, Geelong Branch, Victorian Employers Chamber of Commerce and Industry.

**The CHAIRMAN** — We welcome to the hearing Mr Graeme Esler, regional manager of the Geelong branch of the Victorian Employers Chamber of Commerce and Industry. All evidence taken by this committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act. Would you like to make an opening statement and then we might ask some questions?

**Mr ESLER** — Firstly, thank you very much for coming to Geelong and allowing this hearing to take place. It is a very important subject to all our members in Geelong. As you possibly know, some 75 per cent of our members have fewer than 10 employees so we have a large small-business representation. When Richard Willis made contact with me and informed me that these hearings would be held in Geelong I felt that I should advise our members that this was on. I wrote to them and suggested they contact Richard if they wished to appear before you and there was time available, or make contact with me and I would be quite happy to take their comments forward. What I am about to present is, firstly, a brief picture of the economic impacts that small to medium-sized enterprises (SMEs) have suffered in the past few months and some of the comments I have received. These are not all the comments because I must have received 40 or 50 phone calls so I have condensed those views into half a dozen representative comments. I will then refer to some suggestions which our members believe would help to improve the Workcover system.

The economic impacts suffered and which are causing small business a lot of concern are fairly obvious. You have probably heard them all before but I will repeat them: five interest rates rises in the past 12 months; an increase in the superannuation guarantee charge from 7 per cent to 8 per cent from 1 July; business deterioration in some cases and added administration costs caused by the implementation of the GST; increases in state and federal wage rates by \$15 in recent months; and the proposal to alter the Victorian employee relations system, which will undoubtedly increase business costs. I would point out there that there are thousands of small businesses which have not worked under any award system but only under the current industrial relations system. Thus, the recent increases in Workcover premiums have only added to the above list of cost increases, making SMEs think a second time about their levels of employment and whether they will continue to operate their businesses. Many people out there are seriously thinking that it is almost too much and they will not keep going.

I have to say that the continual increases in the above business costs in recent months do not measure up to the state government's pre-election policy commitments of, 'Labor is committed to evening up the odds for small and medium businesses', 'Small business is where Victoria's best prospects for future jobs and prosperity lie. Labor understands that and is keen to back them all the way', and 'Labor will ensure affordable workers compensation premiums for small business'. I am afraid that has not occurred.

I will now give examples of the 30 or so phone calls I received after I wrote to our members. A group training scheme in this area had an increase of 61 per cent in its premiums. All the increases I will outline are ex-GST; they do not include GST additions. That increase for the group training scheme is far greater than its staff increases, which are around about 5 per cent, and its claims levels have been very stable. You would be aware that group training schemes only pay Workcover premiums on their administrative staff and not on the apprentices themselves.

A law practice in Warrnambool suffered a 34 per cent increase in premiums. It had never had any claims in the history of the practice and there have been no increases in staff numbers in the past year. I could not imagine a safer business, other than clients, than a law practice. That is proved by the fact that the firm has had no claims.

The owner of a small engineering shop rang me only a few days ago. That business has had a 51 per cent increase in its premiums and will not be increasing its staff as previously planned. It was going to put on a tradesman and possibly an apprentice, but this increase and the other cost increases have made it change its mind and it will, if anything, maybe look for reductions as and when it can.

A joinery shop that has been long-established in Geelong has given me some broader premium figures: since 1995–96 its premiums have moved from \$12 550 to \$35 600 ex-GST. From last year to this year they moved from \$24 500 to \$35 600, which is an increase of 45 per cent. The staff levels have dropped by one, and the shop's claims history is exactly the same for this year as it was last year. There is no real difference at all. The business was definitely intending to employ one extra tradesman and would have considered a trades assistant, but will now definitely be keeping staff levels the same.

The owner of a small takeaway food shop rang me. He has had no claims, his staff has been reduced by one and his Workcover premiums went up by 28 per cent. He said he rang his insurer thinking it had made a mistake and the insurer said that was correct — 28 per cent increase, with less staff and no claims.

**Mr THEOPHANOUS** — Did the insurer explain the reasons?

**Mr ESLER** — I do not think so. I think the answer was the insurer had checked the figures and they were correct. There was no explanation or detail given to the shop owner at all. He had four people working in his shop plus himself, and he now has three. Small businesspeople are often backward in coming forward and asking for explanations. They do not like to push the barrow too hard.

The last example I have is that of a medium-sized engineering shop whose staff is down slightly, although its claims history is comparatively unchanged. The business admits to one small extra claim in numbers from the previous year, and its premium went up 22 per cent. The shop has the smallest of the increase examples, and its owner was still quite upset.

It really did not need an increase in claims or staff levels when you look at those examples, and they are typical of the quite considerable premium increases being experienced. Many of those people and some others I have not quoted tell me they have made efforts to improve the safety of their workplaces. A couple of them have gone in for safety map, which is quite an expensive process, and others have made genuine efforts to make their workplaces safe and yet they are still paying high Workcover premiums.

The thing that concerns me in Geelong is that this factor and the other factors will seriously affect employment, and that is something Geelong cannot experience at the present moment. I received only late yesterday afternoon a letter from Cambrai Pty Ltd, which is a private nursing home. The home's management has given me the figures, and I have several copies I can leave with you. Its premium has risen from \$48 981 to a first estimate for this year of \$85 694. The percentage of the premium to its remuneration was 5.32 per cent in 1999–2000 and this year it will be 7.74 per cent. That is a big increase. The nursing home has gone to the trouble of assuming the remuneration was to remain at the 1999–2000 level, meaning the increase would be 45 per cent. It finishes by saying that:

In conclusion, our company directors believe this business cannot survive if premiums in 2001-02 remain at 2000-01 levels or are increased again in percentage terms.

That is fairly typical of the comments I have been receiving.

I have some proposals and suggestions from our members which they have asked me to pass on to you. One of them includes a bit of good news. It suggests that industry groups should be set up and get like industries together to improve the safety of the industry itself so that the base industry rate is reduced by lower claims. A perfect example of this came from the Gordon Institute of TAFE. Apparently TAFE institutes have gotten together. I can say with some pride that it started at Gordon, which was the first to put on a safety officer. The Gordon TAFE's premium went from \$155 000 last year down to \$113 000 this year. A reduction in the industry rate caused this, not just its good claims history, and it operates extensive OHS and claims management return-to-work programs through the whole TAFE system. It seems very obvious that if we could get industry groups together to improve the industry itself, it would have that beneficial effect. There seems to be no recognition in the premiums of employers' safety efforts and education and their attempts to bring about safe workplaces. They believe such efforts should be rewarded by no-claim bonuses or some sort of premium reduction.

We also had a somewhat different suggestion that occupational health and safety could become a subject at school to educate children in safe working practices and to provide them with a practical knowledge of their safety obligations before they enter the workplace. In talking to a couple of friends of mine who are schoolteachers I found they quite agree that this could be well worthwhile.

Something I have to say is pure hearsay, and it is that some of my members believe that overseas workers compensation is included in a wider community-type health scheme and is apparently community funded. I do not know about that, but they have suggested that it should be investigated as to whether that is the case and whether it is successful.

Following your question, Mr Theophanous, more detail should definitely be given to employers when they receive their premium calculations so they are in a position to check the calculation and find whether it is correct and accurate and so on rather than facing the time factor and the expense of going back to the insurer or the Workcover authority to get the figures checked and finding they are wrong, leading to delays and so on. The actual paperwork they receive should be far more detailed. We would suggest a variable excess for claims could be implemented so

employers could choose what excess they may undertake. If they chose a high premium excess because of fairly low claims history they would be able to get lower premium rates; as the excess went up the premium would come down.

Finally — and this has been a very common suggestion — different types of staff should be classified differently and given a different base rate even when they work in the same workplace but maybe in different rooms or areas of a factory. For instance, clerks, process workers, storemen and drivers all need to be classified separately. Why should clerks be classified the same as the process workers working in the more dangerous areas of the factory? I know of one member in Warrnambool who faced this situation, and the only way he could get the clerks separately classified was to physically move them into totally separate premises down the road. That is a retail-type operation where you would think both areas would be very safe.

I had a phone call only very late yesterday afternoon from Surf Coast shire. It wished to put in a submission, but was not able to get the time to do so or to give me the figures. So I will send that on to Richard as soon as it arrives within the next few days.

**The CHAIRMAN** — Thank you.

**Mrs COOTE** — Can you explain how far your region extends?

**Mr ESLER** — Yes, from the Bellarine Peninsula through Geelong to the Hamilton Highway, which is the north point, through to the South Australian border. So it is Portland, Warrnambool, Hamilton and all that area.

**Mrs COOTE** — Were you aware whether the Victorian Workcover Authority did any economic modelling before the increased premium rates came in about what the economic impact would be on your types of clients?

**Mr ESLER** — No, I was unaware of that, and I am unaware of whatever results it may have got.

**Mrs COOTE** — Did it let you know at any stage what the implications would be and what the premium increases might mean for you? Are you happy with the consultation programming?

**Mr ESLER** — It may have done it with our Melbourne office. You must realise that we are only a branch office of our head office in Melbourne — —

**Mrs COOTE** — Regions are supposed to be very important, yes — —

**Mr ESLER** — But that was not passed on to us.

**Mrs COOTE** — Okay. So you did not get a good consultation and communication at all?

**Mr ESLER** — Absolutely not.

**Mr THEOPHANOUS** — Graeme, thank you. I know you brought up some examples. The problem is that it is hard to focus on whether those particular companies were unjustly treated, because we need to know the answers to a whole range of questions — for instance: was there a remuneration increase? Did they put in their remuneration estimates beforehand? Did they have any claims over the past few years? Have they claimed back the 10 per cent GST; and have all these things been discounted out of the equation?

We have been told that if all those things, which I suppose are administrative things, are discounted, the increase should not be any more than 15 per cent for common-law claims and a further 2 per cent administrative cost for GST. Beyond that there is the 20 per cent cap that operates for small business. In that light, would you be able to assist us? It is easy to make these comparisons and put the figures up. But would you be prepared to go back to some of those people whom you have used as examples to try to identify whether there is in fact an unjust element in there beyond what we have talked about? Would you be able to do that?

**Mr ESLER** — I would be very happy to do that, yes.

**Mr THEOPHANOUS** — The second thing I want to ask you is: do you in general support the idea of an experience rating system, where employers who do not do the right thing pay more, and where there are accidents more is paid, and where there are not, the reverse occurs?

**Mr ESLER** — Absolutely.

**Mr THEOPHANOUS** — I thank you for your suggestions, especially about education in schools. They are very good suggestions, and the committee ought to take them into consideration. Thank you.

**Mr CRAIGE** — Graeme, were you aware at any stage prior to the notices going out to your members from the Workcover authority that the government had intentions of changing other areas in Workcover that would lead to changes other than the 15 per cent increase and the GST?

**Mr ESLER** — Again I say, no, I was totally unaware. Melbourne may have been, but I doubt it.

**Mr CRAIGE** — So down here there were no corridor discussions?

**Mr ESLER** — No.

**Mr CRAIGE** — The people from the Victorian Trades Hall Council down here did not come to see you and say, 'Listen, we are negotiating another outcome with the government'?

**Mr ESLER** — No.

**Mr CRAIGE** — They did not?

**Mr ESLER** — No.

**Mr CRAIGE** — No MPs told you down here?

**Mr ESLER** — No, no MPs.

**Ms DARVENIZA** — You gave us some good examples of businesses you had had conversations with that had had increases as a result of Workcover. You also gave us an example of an education model where there had been a decrease in the premium. What has your experience been of other businesses or industries that have had a decrease?

**Mr ESLER** — As I said, the six examples I gave you are fairly typical of the 30 to 40 who responded directly to the letter I sent them when Richard had been in touch with me. Since the increases occurred — I run a regional committee in Geelong and in Warrnambool, two semi-subregions — both of the committees have brought to me: A, their own experiences; and B, second-hand information they have been given. I take phone calls on industrial inquiries from our members and at the same time ask them other things — and of course the Workcover one was very common. I would say that the experiences with those six examples are very common — throughout my region, at any rate.

**Ms DARVENIZA** — Is that likely to be because you hear from people who are concerned about an increase, but those who have experienced a decrease are not likely to — — ?

**Mr ESLER** — The ones who have the increase are more likely to complain; as to the others — rarely do we hear the good news. But when you say to somebody — I take between 10 and 30 phone calls a day on wage rates and so on. Of those I would have asked half each day since this occurred, 'How have your Workcover premiums been affected and what has happened to you?'. I have only once been told of a decrease — that was by the Gordon TAFE. I have to say that I believe it is common.

**Mr BEST** — Confidence is a pretty fragile thing, particularly when there has been a range of impacts. Do you think the Workcover premium is the straw that might break the camel's back?

**Mr ESLER** — It is one of the factors, yes.

**Mr BEST** — Are your members in any way suggesting a reduction of employment?

**Mr ESLER** — Yes.

**Mr BEST** — Investment?

**Mr ESLER** — Yes.

**Mr BEST** — And a general downturn in attitude?



**Mr ESLER** — With the one that I reported, Cambrai Pty Ltd, if next year's premium is the same as this year's, or goes up, the directors will be very much inclined to close the nursing home.

**Mr BEST** — What size is that nursing home?

**Mr ESLER** — Its remuneration for this year is estimated to be \$1.1 million.

**Mr BEST** — You do not know how many beds that is?

**Mr ESLER** — No, I do not know how many beds that is.

**Mr McQUILTEN** — Graeme, you talked about the impact of Workcover but you also mentioned the GST and interest rates.

**Mr ESLER** — Yes.

**Mr McQUILTEN** — There are a whole range of issues.

**Mr ESLER** — Yes.

**Mr McQUILTEN** — In small business that is really the case, isn't it? There is one thing on another and on another until in the end everyone is tearing their hair out because of the red tape and extra charges.

**Mr ESLER** — Yes.

**Mr McQUILTEN** — One of the problems we have — I could have been told this — is that I think 38 per cent of small businesses have not returned their remuneration estimates and that therefore they were allocated, I think, 20 per cent extra as an estimate, as opposed to the old way with the CPI. What are your thoughts on that move this year?

**Mr ESLER** — I suppose I could believe they have not returned their estimates because they have been flooded with business activity statements and other tasks. You are probably talking about the typical small business, where someone is a damn good plumber; he has an apprentice and maybe one other employee, but he is not very much of a businessman. I have to admit that there are an awful lot of those tiny businesses out there. It would not surprise me that they were allocated that extra premium. But I think a 20 per cent increase from last year to this year, without that return, is a fairly high increase. I mean, business is not growing at that rate. Determination according to CPI or wage CPI would have been a fairer way of estimating it.

**The CHAIRMAN** — Mr Esler, thank you for coming along today. We will send you a copy of the Hansard record to which you can make any necessary alterations. Thank you for your time.

**Mr ESLER** — Thank you very much for listening to me.

**Witness withdrew.**

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into Workcover premiums for 2000-01

Geelong – 12 December 2000

#### Members

Mr R. A. Best  
Mrs A. Coote  
Mr G. R. Craige  
Ms K. Darveniza

Mr N. B. Lucas  
Mr J. M. McQuilten  
Mr T. C. Theophanous

Chairman: Mr N. B. Lucas  
Deputy Chairman: Mr T. C. Theophanous

#### Staff

Executive Officer: Mr R. Willis  
Research Officers: Mr M. Ryan and Ms K. Ellingford

#### Witness

Mr J. Kranz, Secretary, Geelong and Region Trades and Labour Council.

**The CHAIRMAN** — I welcome Mr John Kranz, the secretary of the Geelong and Region Trades and Labour Council. We appreciate your coming along today. All evidence taken by this committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act. I invite you to make an opening submission, after which we will ask some questions.

**Mr KRANZ** — Thank you for the invitation to come along today to put our views before this committee in regard to Workcover premiums.

The Geelong and Region Trades and Labour Council wrote to the committee in November. After a meeting of the trades hall of the Geelong unions we wrote to you and said that the Workcover premiums should not be below the national average and that a levy should be established to compensate those workers who had their common-law entitlements removed by Kennett from 1997 to October 1999. We also said that at this stage Victoria's premiums are significantly below the average of Workcover premiums in other states: namely, New South Wales — and I will not give you the premium rate because I think it is inscribed in your minds — South Australia and Western Australia. To say that Victoria is uncompetitive within a national context and at the expense of injured workers is ludicrous. That is our position straight down the line.

I will give you a bit of background. Our trades hall has campaigned against the reduction of those premiums that have come in. I think they went from 2.25 per cent right down to 1.7 per cent. We reckoned that Workcover would not have been able to be sustained at those levels. That was back in the middle 1990s. In fact, we were right. As benefits were cut it was more difficult for workers to get their entitlements, and so on and so forth.

Workers and unions have come to the trades hall prior to this and spoken to us about Workcover. We are fairly confident in the view we espouse, that it has to be fully funded. We certainly would not support a black hole. Basically we congratulate the Bracks government on revisiting the Workcover premium rates.

I will give you an example. Recently the mayor of the City of Greater Geelong, the chairman of the Geelong Development Board, I and others went on a study tour to Newcastle and Wollongong to look at regional development issues. We spoke to David Simmons, who is the CEO of the Newcastle Chamber of Commerce, and Jackie Zelinski, who is the CEO of the Illawarra-Wollongong chamber of commerce, and asked them what the issues are in their regions. Basically their issues are attracting investment, working with the state government, and so on.

I was expecting, given the fact that in New South Wales a higher premium is paid than the one in Victoria, that that would be an issue, but it was not. Even given the fact that in New South Wales the average premium rate is 2.86 per cent, it is not an issue in New South Wales, or those regions, because they would have told us if it was.

I also want to make the committee aware that just recently there have been three industrial deaths in Geelong. In fact, there was one last week. There was also one a few weeks ago, and there was one several weeks prior to that. One was at a grain handling facility; one was in the construction industry, where a crane driver lost his life; and the one last week involved a man of 31 years of age who got caught up in conveyor machinery in Geelong. That is three deaths too many. It is a real concern in our community that we still have industrial safety problems in this town. We would expect that the safety should be improved.

I agree with Graeme Esler from VECCI that more emphasis should be placed on education and on compliance. I note that the government has appointed extra workplace safety officers in our region. I want the committee to be aware of those recent deaths.

I also dispute the argument that Workcover is a huge issue with small business. I am the Trades Hall Council secretary, and there is a perception that the only people I talk to are workers, but I have a lot of friends who are in business. We also talk to the business community. The big issue for them is the GST. I would suggest that it is such a big issue for people in our region that you will probably find that the government that brought it in will be kicked out of office because of it. It is about the huge volume of paperwork, the business activity statements — —

**The CHAIRMAN** — I am sorry to interrupt Mr Esler, but our terms of reference are not to do with the GST — —

**Mr KRANZ** — My name is not Mr Esler.

**The CHAIRMAN** — I am sorry — Mr Kranz. We need to stick to the issue.

**Mr KRANZ** — That is exactly what I am doing. I am not a politician, so give me a break! I am trying to say that out in the community the marginal increase in the premium is not as big an issue as the whole GST debacle. By the way, I do not support roll-back, I support elimination.

The other issue is petrol prices. Petrol prices are a bigger, more immediate issue for small and medium-sized businesses, the transport industry and regional business generally than the whole issue of Workcover premiums. Also, in our experience many businesses in regional Victoria pay less in wages than employers in New South Wales, and this has been borne out. Yesterday I looked at the Australian Bureau of Statistics web site — —

**Mr BEST** — On a point of order, what have wages got to do with our terms of reference?

**The CHAIRMAN** — I think our witness is developing his case in terms of what is more and less important than Workcover premiums. If he is happy to do that quickly, I will allow him to do so.

**Mr KRANZ** — The web site shows that there are significantly lower wage rates in regional Victoria. This has been brought about because of schedule 1A, which we hope will be changed. It is my argument that business between a company in regional Victoria and one of the same size and industry in New South Wales is very competitive, and the figures bear that out.

I note that Leigh Hubbard from the Victorian Trades Hall Council placed a submission before the committee and went into quite a degree of technicality.

With regard to this whole issue of consultation, I am pre-empting a question, because the obvious question is: 'Has trades hall been consulted?' The Victorian Trades Hall Council made submissions to the Workcover authority and the government on the level of premiums on behalf of the regional trades and labour councils, including Geelong. From my memory of the meetings we had at trades hall, in framing that submission our argument was that, as was borne out by our own position in Geelong, there should have been a levy with a sunset clause to pick up those workers who missed out on their common-law entitlements. That was not to be, although we will pursue it. We would have argued that there should have been an extra cost to business to cover those workers who missed out.

I simply raise that; I will not go on and on about it. At trades hall we see some of those workers, and they are in diabolical strife. If they have a chance I urge members of the committee to speak to the workers who have missed out on their common-law entitlements. If members spend some time with them, they will explain their dilemmas. That is about all I would like to say.

**Mr McQUILTEN** — Could you give us one example of someone you know who missed out on common law? What happened to him or her?

**Mr KRANZ** — One example is — —

**The CHAIRMAN** — Can we make this quick?

**Mr KRANZ** — I will be quick. What happened to that worker is that, firstly, his marriage broke up, because there was undue strain on the marriage. He has children and he virtually lives from hand to mouth. Luckily the union he belonged to has done some fundraising for him. He has spoken to me on several occasions. He lives outside Geelong and finds it difficult to get into Geelong to talk to counsellors. He is in constant counselling. His whole life is a mess. He wants to move forward; he wants the matter settled and out of the system so he can get on with his life. It is a real tragedy, because he was injured through no fault of his own.

**Mr BEST** — Can you explain to me your understanding of the way in which Workcover premiums are calculated?

**Mr KRANZ** — No, I cannot explain that to you. I am a trade union official, I am not an insurance actuary. I would say that about 99.9 per cent of employers would not be able to answer that question. I think that is a ridiculous question to ask a trade union official. Basically, what we are on about is ensuring that there is enough money in the pot to actually compensate workers who are injured and to ensure that the system does not get into a position where it is unfunded, and so on. With all due respect, that sort of question should be directed to an insurance actuary, not a trade union official.

**Mr BEST** — It was based on the premise that those employers who are good employers should in actual fact be rewarded for their workplace safety and not be penalised because they are in an industry category. Do you

support the notion that people who are good employers should receive benefits and that those who are not good employers should be punished?

**Mr KRANZ** — Of course employers who consistently breach the Occupational Health and Safety Act and who put their workers in positions of danger where they are ultimately maimed should be penalised. That is why we support the legislation which will come up. I hope you will support that industrial manslaughter legislation.

With regard to rewards, there are a lot of good employers, and I certainly recognise that. Their rewards are that their workers are not injured and are able to come to work day after day and make a contribution to the workplace beyond the call of duty. A lot of workers do that. The reward is that there is confidence between the employee and the employer and that they have a robust relationship in terms of workplace issues, including workplace safety.

I agree with the suggestion that those employers who have a lousy record of workplace accidents and are a blight on the system should be penalised. The previous government did not do much about it and — it gives me great pleasure to tell you this — we had many rallies in front of the ex-Honourable Ann Henderson about lousy employers. I agree with you: I reckon you should take the axe to them.

**Ms DARVENIZA** — You mentioned that there had been three industrial deaths fairly recently, which is very tragic in a small community like Geelong. When talking about that you talked about the need for education, particularly occupational health and safety education. Can you tell us what effect you believe improved education and occupational health and safety measures in workplaces will have on the experience rating system and therefore on the employers and whether they are rated up or down depending on their claims?

**Mr KRANZ** — We have had experience with those good employers who actually invest in occupational health and safety. An example is the Ford Motor Company. It is a company that I consider to be a very good employer. It has an induction system for new employees and it has follow-up courses. From the management side it has health and safety officers; it also has occupational health and safety officers; and the company and the union, the vehicle employees union, co-jointly sponsor courses. They have a holistic approach.

There is a role for the Workcover authority in assisting employers who are flagged as bad risks. I worry about the whole issue of compliance and how often they receive visits from the inspectorate. I hope that will change with the number of new inspectors who have been put on. There is great merit in the Workcover authority putting aside some small funds to assist those employers and employees in getting trained in terms of occupational health and safety. At the end of the day it is between both parties. If there is a serious safety risk, the employer and employee need to recognise that and between them repair that safety risk, whatever it is.

**Mr CRAIGE** — In respect of the issue of those workers who missed out on common law and your pursuing a levy and not being successful this time but continuing to pursue it, have you had any estimates as to what level that levy should be?

**Mr KRANZ** — The percentage point is not huge at all. In the discussions we had at the Victorian Trades Hall, which were over a period of, I think, three to four years, it was somewhere around 1 or 2 percentage points, with a sunset clause. According to the Victorian Trades Hall, that would have fixed all those workers up.

**Mr THEOPHANOUS** — John, you and Graeme would agree at least on one thing — that the scheme should be fully funded?

**Mr KRANZ** — Yes.

**Mr THEOPHANOUS** — I noted that you made a comment about the reduction in the premiums under the previous government.

**Mr KRANZ** — Yes.

**Mr THEOPHANOUS** — It has come to light that that reduction probably cost the scheme about \$800 million.

**Mr KRANZ** — That is right.

**Mr THEOPHANOUS** — And that it is now in the red for that \$800 million. Do you think that reduction was irresponsible? And what is your view on the argument that if it had not been reduced by that amount there would not now have to be the increase?

**Mr KRANZ** — Absolutely. I recall when all that happened, and I recall the debate within the union movement — and in fact in some newspapers — in which it was said that a black hole would emerge from that. Yes, the unfunded liability is about \$780-something million — and someone has to pay. You cannot have a system that has an unfunded liability of that level. We complained when they dropped the levy from 2.23 per cent down to 1.7 per cent. We knew full on — Blind Freddy could have seen — that the only way forward for that particular government was to cut benefits. Our position is that — —

**Mr THEOPHANOUS** — But even with the cut in the benefits, there is still an \$800 million black hole.

**Mr KRANZ** — That is right, and it was economically irresponsible.

**Mrs COOTE** — Mr Kranz, you spoke about small businesses. You would be aware that this government has increased Workcover premiums quite significantly in many cases for small businesses. Today we have heard several examples of companies here in Geelong that will have to close because of the additional impact of the Workcover premiums. Given the fact that you have said that — —

**Mr KRANZ** — Hang on. I have not heard that businesses are going to close because of the increased Workcover premiums.

**Mr THEOPHANOUS** — You said they might close because of the BASs and the GST.

**Mr KRANZ** — Yes, that's right.

**Mrs COOTE** — We have heard that evidence this morning. In fact, I think you were here this morning when — and I think you would have heard — Mr Esler talked about Cambrai, a nursing home in Geelong that was facing difficulty because of Workcover premiums. Would your workers, given that — —

**Mr KRANZ** — Sorry?

**The CHAIRMAN** — We will just get the question.

**Mrs COOTE** — Given that you are interested in work in Geelong, would your workers be prepared to take a pay cut so that the employers could keep the companies going?

**Mr KRANZ** — We have; we have. What a silly question; we have. The Kennett government got rid of the industrial relations system, and we are in a situation where — it is a pity the vehicle builders union members are not here, because they would tell you what happened down at a major service station where workers were placed under schedule 1A of the Victorian act and took a pay cut. Certain employer organisations advised them how to do it.

**Mrs COOTE** — I am speaking about the increased premiums since the Bracks government has come in and about what will happen to protect jobs into the future. I am asking: in that situation how would your workers react to taking pay considerations — —

**Mr KRANZ** — I think that is the most ridiculous question I have ever heard from anyone at an inquiry. It is absolutely shocking. If that is the level of questioning we receive — in fact, you ought to march out, talk to the workers and say, 'Go and take a pay cut', when Geelong already has a low wage regime anyway. Small business in Geelong — most of it — is covered under schedule 1A. I have already said to you, if you have not listened — compare their wage rates to those of their counterparts in New South Wales; in New South Wales they get a higher wage.

**The CHAIRMAN** — Mr Kranz, we have run out of time. Thank you very much for coming along today.

**Mr KRANZ** — Thank you very much.

**The CHAIRMAN** — We will send you a copy of the Hansard record of our discussions to enable you to make corrections to anything that is wrong and send back to us. Thank you for your time today.

**Mr KRANZ** — Thank you very much.

**Witness withdrew.**

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into Workcover premiums for 2000-01

Geelong – 12 December 2000

#### Members

Mr R. A. Best  
Mrs A. Coote  
Mr G. R. Craige  
Ms K. Darveniza

Mr N. B. Lucas  
Mr J. M. McQuilten  
Mr T. C. Theophanous

Chairman: Mr N. B. Lucas  
Deputy Chairman: Mr T. C. Theophanous

#### Staff

Executive Officer: Mr R. Willis  
Research Officers: Mr M. Ryan and Ms K. Ellingford

#### Witness

Mr C. Herbert, Occupational Health and Safety Manager, and  
Mr P. Ansell, Manager, Legal Affairs, Godfrey Hirst Australia Pty Ltd.

**The CHAIRMAN** — I welcome Mr Craig Herbert, occupational health and safety manager; and Mr Peter Ansell, manager, legal affairs, with Godfrey Hirst Australia. All evidence taken by this committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act. I invite you to make an opening submission to us, after which we will ask you some questions.

**Mr ANSELL** — Certainly, Mr Chairman. I have handed up a paper, which I would like to talk to. I do not want to run through the paper verbatim, but I think it is important to outline to the committee what Godfrey Hirst does and where it does it, and the impacts it sees as having occurred to it as a result of Workcover increases. Then Craig will briefly touch on a number of issues relating directly to the calculation of premium. For those who are unaware, Godfrey Hirst is a manufacturer of tufted carpets.

**Mr McQUILTEN** — I have been there with the Premier on two occasions.

**Mr ANSELL** — It is a fully vertically integrated company in that it extrudes nylon as well as spinning and heat setting wool and nylon yarns. It employs approximately 1140 people in Geelong, Benalla and Melbourne, with the majority of those people being in the Geelong district. The total sales for the group exceed A\$200 million. As I said, its main manufacturing plant is in Geelong.

In relation to Workcover the situation at the present time is that in the 1995–96 year our premium was \$706 000. In 1999–2000 our confirmed premium was \$1 744 000. That is an increase of 146 per cent over that five-year period. In 2000–01 we are talking about an initial premium of \$1.8 million, and from our experience that premium will probably go to around the \$2 million mark at the end of the financial year when the figures are finally confirmed. All this increase has happened while the group has maintained or achieved a rating slightly below the industry rating. Our performance in regard to claims has improved, but our concern is that that has not been reflected in the premium.

One of the many issues that arise with the calculation of the premium relates to wage pressures and the fact that part of the premium is calculated on remuneration. So obviously as the company increases and additional people come on, those increases, et cetera, reflect back in the premium. Because of the structure of the premium, there is no market competition in it; we are told what we should be paying and there is no option — other than adopting a self-insurance situation. My understanding is that self-insurance is now becoming a viable alternative for more and more employers. That raises another concern for a company such as ours, in that we believe that if self-insurance continues to develop, a large number of the better employers with better work practices will leave the system, leaving the burden on a number of other manufacturers in there. We think that will again add pressure to the premium.

One of our other concerns is this: I have included a table on the first page which relates to the current total cost to Godfrey Hirst of an employee. Basically it tells us that the total cost of someone employed on the basic award rate of \$25 300 for a 38-hour week is \$40 000, because there are a number of substantial add-on costs.

We also have a manufacturing operation in New Zealand. I have included a table of costs at the back, which shows a comparative figure of \$13 000 or \$14 000 — there is obviously a bit of a margin there for exchange rate fluctuations. It is certainly cheaper to employ people in New Zealand doing virtually the same job. That tends to tell us that the cost of employment in Geelong — and in Australia, effectively — is making it harder for us to remain competitive. We have the situation where in 2005 tariffs will go down, so we are continually trying to ensure that our organisation remains world competitive. Issues such as the increase in Workcover premiums make that a little difficult.

Finally I would like to say that issues such as the Workcover premium issue probably impact harder on Geelong than on most other areas, simply because Geelong is an industrial town and a lot of people are employed in the manufacturing sector, and it seems that it is in an area where larger premiums have been paid for employees. As a company and in proper financial management there is no question that we have to consider on-costs of employing further people. That is, without doubt, a consideration we have to make. As on-costs continue to increase we have to consider the impact of that on our business.

That is probably enough from me. I will ask Craig to touch briefly on a number of issues regarding the premium determination.

**Mr HERBERT** — Thank you, Peter. In the paper I have written I have highlighted five issues, and they are there for the members to read. We have a couple of concerns — certainly with the question of the serious injury



definition and what is being interpreted by the courts. I have used an example there. I have tried to use actual examples of what has happened to our business in terms of the definition of serious injury.

I will not go through it, but there is an example there of a person who lost two to three weeks pay, who was paid, who continued to work for a period of about two and half years, and who went to a job share because it was a personal choice for family reasons. The person had probably around a 6 per cent to 8 per cent whole-body impairment. Employers were led to believe that serious injury was going to be something like a 30 per cent incapacity, yet those sorts of cases are getting up in court. We are looking at payments of somewhere around \$160 000 for settlement out of court for those sorts of injuries — where a person has basically lost no time and has continued to work.

The other issue I have raised is the question of succession. Godfrey Hirst has tried to expand over the past number of years. One of our problems is that — and I will give another example — we recently purchased a wool scanning company. As Peter mentioned, our premiums are certainly below what the industry rate is, so while we believe we can always improve, we believe we are reasonable in terms of our Workcover record.

We take on a company that is performing poorly, we change its management and most other people in there, and we bring in a lot of new work practices, but we are burdened with the succession of that industry. So we are now paying in that business — and we have only been in the business eight months — a premium of something like 12.5 per cent, which is a real concern to us in relation to how to invest more money in the business in terms of additional people. That is a problem we see. We recognise that it does go both ways, and we have also been involved in the acquisition of other companies that have good records. But it tends to be that the ones companies take over are the ones with poor records, and they are burdened with that immense cost. As I said, the business we have taken over is currently paying 12.5 per cent.

Following on from that, I refer to the issue of the estimation of the claims. One of the problems we have had with that situation is that when we have taken over a claim or a company has folded, the situation occurs where a claims agent estimates the claims to be exorbitant figures, which impacts on our ability to control our premium costs, and yet we have no control over the actual claims.

I have used the example of three claims. At the time we took over this business I think the claims had a total estimate of \$204 000. A month after we purchased the assets of the business those claims were estimated out to nearly \$3 million. Not only does that have a huge impact on our ability to try to control those costs over the premium-sensitive years, but it must also impact on the industry rates. That is an example of one company we are aware of. We are involved in the textile and manufacturing industries, and if that is happening across the board — if insurance agents are estimating claims out when companies fold because there is nobody trying to be proactive about the claims — it must be having a huge impact on the rates.

The second last issue I would like to talk about is the F factors. I am sure you have heard a lot about them. From an employer point of view, this is a very difficult concept to grab. In talking to our claims agents we were led to believe that the F factor is basically an evening out to ensure that they are estimating claims correctly and that it is a comparison between their claims estimates and the government actuary's claims estimates. In dealing with our agents this year, they say they believe their estimates were somewhere around 80 per cent to 85 per cent of the assessment of the claims, yet their F factor comes out at 3.1. That has a huge impact on our business and our claims costs. From our point of view, when you are trying to control your costs it is difficult to understand when there is a factor that nobody really understands, including what it is and how to deal with it.

The last issue I want to touch on — and it is something that I understand has been raised before — is the rounding off of industry rates. Employers find it very difficult. If there are things they can control or know the costs of, they can try to action them. It is something they can try to control. However, they cannot do that with issues such as the rounding off of rates. We are led to believe that when the rounding situation applies, if a company or industry comes in at an industry rate between one level and another there is a tendency to round those rates up.

From our point of view, our two major areas are yarns and wool — yarns and broad-woven fabrics and textile floor coverings — both of which have gone up this year from 4.78 to 5.78, a 20 per cent increase in our costs. It is an issue where you do not understand how those things are happening and you have no control over them. It is very frustrating. I have tried to touch on a few examples of things that have affected us directly.

**Mrs COOTE** — If premium costs were to rise again, would you seriously consider self-insurance?

**Mr HERBERT** — Peter can probably answer that, but we are seriously considering that now.

**Mr ANSELL** — Yes, we are.

**Mrs COOTE** — Are you seriously considering that within the next financial year?

**Mr ANSELL** — It would be in the next financial year. We have obtained actuarial reports that show that that is a viable alternative.

**Mrs COOTE** — In the textile industry here in Geelong do you know specifically of any other companies that are likely to be considering self-insurance because of the Workcover premiums?

**Mr ANSELL** — I am aware of a couple, but I have been told that the number of applications for self-insurance has increased. That is without giving specific names.

**Mr HERBERT** — I know of a number of companies that are investigating the possibility of doing it — not within our industry but within Geelong. I am aware of at least a couple of others.

**Mr THEOPHANOUS** — Self-insurance has always been available to you.

**Mr ANSELL** — That is not quite correct. Self-insurance has been available only with the change in the legislation to enable companies to do that. Previously self-insurance was available only to companies with assets in excess of \$250 million. The legislation has been changed in the past two years to allow other companies to do that.

**Mr THEOPHANOUS** — It was done during the course of the previous government, but that is not what I wanted to ask you about. I did some quick calculations based on the figures you have provided in your submission. I noticed the increase that you have suffered each year. In 1996 you had an increase of \$247 000; in 1997 you had an increase of \$242 000; in 1998 you had an increase of \$315 000; in 1999 you had an increase of \$234 000; and this year you have had an increase of \$57 000 on the original estimate — and if, as you say, the final premium is correct, the increase is about \$250 000.

Those figures seem to have been fairly consistent over a number of years. They do not seem to have anything to do with the changes that have occurred this year. In 1997–98 it went up by more than it has this year. That may be because of the industry, the way it has developed or whatever, or your company; I do not know. We need to identify whether something has changed over the past 12 months. Based on those figures it would seem to me that if anything your premiums have come down.

**Mr HERBERT** — Those figures can be a little bit misleading if you do not look at the total remuneration of the organisation. There had been some growth until last year. The initial estimates for 2000–01 are based on a reduction. We have just outsourced our maintenance and engineering company, which has reduced our remuneration by about \$2.5 million. We have also had a reduction in our Benalla plant from 12-hour shifts to five-day, 8-hour shifts. The 2000–01 figures reflect a reasonably significant drop in remuneration as well. Similarly, the ones that have led up to that have, in some cases, included an increase in remuneration with additional companies in the group.

**Mr THEOPHANOUS** — Have you discounted for the GST?

**Mr HERBERT** — Yes. Our premium figures would suggest that our initial cost, if we look just at the 17 per cent general increase that happened, is somewhere in the vicinity of about \$300 000, on initial calculations. The increase from the 4.78 to 5.78 industry rate is a bit hard to calculate because of the factors involved in it, but based on the 17 per cent we are looking at about \$300 000 over and above it. The reduction or lessening of the increase is due to the drop in remuneration.

**Mr BEST** — One of the things that I wanted to clarify is the appendix and the Australian and New Zealand comparison. The basic premise is this: at what stage do you get to a commercial decision that pushes you over the edge here and makes you look at relocating to New Zealand or offshore?

**Mr ANSELL** — We are not looking at relocating. Godfrey Hirst is committed to Geelong, it has been and will continue to be. Certainly, with regard to looking at other alternatives, any company that practises sensible financial management will continually look at different or other options. That is something that has always been considered if not on a daily then certainly on a monthly basis. There is no decision. I would like to emphasise again that we are not looking at relocating, but we are aware from our New Zealand operation that there is a big disparity between employing people here as opposed to New Zealand.

**Mr BEST** — The inference is that given the outsourcing you have done you will look at the way you operate given the associated on-costs.

**Mr ANSELL** — I do not think outsourcing itself is an option we are necessarily investigating. Outsourcing with regard to the maintenance department was an issue based purely on the fact that Godfrey Hirst is a carpet manufacturer. We had a maintenance division of 50-odd people, and we were unable to manage that effectively.

**Mr BEST** — Fifty people who are odd, or 50-odd people?

**Mr ANSELL** — No, 50-odd as in whether it is 52 or 53! That was more of a management decision because we did not have the management capability with regard to the mains division, so we sourced it to a professional maintenance provider.

**Mr BEST** — Stick to doing what you do well.

**Mr ANSELL** — Stick to making carpet.

**The CHAIRMAN** — With respect to common-law retrospectivity, have you had any potential common-law claims made against you that have affected your confirmed 1999–2000 premium?

**Mr HERBERT** — Very much so.

**The CHAIRMAN** — Do you have any anticipated common-law claims that have resulted in an increase in this year's premium?

**Mr HERBERT** — The deadline for the run-off from common-law claims that were 1997–98 claims was 31 August. Like everybody else we had a number of claims come in in that last week. The Godfrey Hirst group had seven common-law claims roll up on the desk in the week prior to the deadline. Two of those related to instances where we did not even have claims. But unfortunately, because of the timing the estimates were put on those claims and those claims affected our confirmed premium for 1999–2000. Where they have related to incidents they have now dropped out because they are 1997–98 — their three-year premium sensitivity has dropped out — but they had an impact on us for 1999–2000 and caused quite a substantial increase.

**Ms DARVENIZA** — You have given us a bit of information about the increases you have experienced in your premiums. It would be helpful to the committee if it were able to have some more information about your premium increases. Would you have any difficulty with us getting information from Workcover about that?

**Mr ANSELL** — No, not at all.

**Ms DARVENIZA** — That would be very helpful.

**Mr HERBERT** — We are quite happy to provide anything after this meeting. If there is any other information you would like from us, we are happy to provide that.

**Mr CRAIGE** — As a practitioner in the game you were aware that the government had clearly said that it would reintroduce common law, that there would be a 15 per cent increase to accommodate that, that the GST would be on top of that, and that a calculation would be made. Were you ever aware that there would be a rounding up and that the government would also approve industry classification changes before you got your notice in the mail?

**Mr HERBERT** — We had a knowledge that it was going to happen. As a large organisation we accept that claims play a major part in our thinking. It is something we need to control, and it is something we try very hard to control. The issues that are frustrating from an employer point of view are the ones we are unable to control. I am not prepared to say whether I think common law should be there. I do not have an objection to common law being in the system.

However, from a company point of view I object to the way it has been interpreted in the courts in terms of what is and is not a serious injury. Probably the thing that frustrates employers is that we were led to believe that a serious injury was a 30 per cent whole-person impairment. When you see a person with a 6 to 8 per cent whole-person impairment but the act has been interpreted so the person has a serious injury and gets a significant payout, that is frustrating. I certainly do not begrudge people who are seriously injured getting their common-law payouts.

**Mr CRAIGE** — Surely as a business it must have some impact when you and the accountants do your sums as to what it is likely to cost and find out that the government had already worked out that it was going to add in some other variables that you had not taken into consideration?

**Mr HERBERT** — I will give you an example. You talked about the impact of common-law claims on the 1999–2000 premium. We pay our initial premium up-front and in advance to pick up the 5 per cent discount. When we had our confirmed premium for 1999–2000 we got a bill for, off the top of my head, something like \$650 000, which took our initial premium from \$1.2 million to \$1.8 million. When those confirmed premiums came through we had to find that money within a couple of weeks. We made arrangements with our claims agents to pay that over three months, because it was not something we could finance off the top like that. That has had a huge impost on Godfrey Hirst.

**Mr McQUILTEN** — That was under the previous government?

**Mr HERBERT** — That was for 1999–2000 — confirmed, yes. I was asked a question before about the impact on common law claims. That is really what we saw as being a significant part of that figure.

**Mr CRAIGE** — Were you aware that the rounding up would occur in the classification?

**Mr HERBERT** — No.

**Mr THEOPHANOUS** — I am not clear, but I think I heard you say earlier that your premiums did not go up by any more than 15 per cent for the common-law component?

**Mr HERBERT** — Our premiums went up by 17 per cent if I remember rightly — 15 per cent for common law and 2 per cent for the GST administration cost. They also went up by somewhere in the midst of 20 per cent with an industry rate increase from 4.78 to 5.78. If that is calculated across it is 37 — and that is without the GST, which obviously is a balancing figure. That is by what we would expect them to be going up. Our estimates are based on that.

**Mr BEST** — At the same time there was a remuneration reduction?

**Mr HERBERT** — Yes, we have had a remuneration reduction in 2000–01. We have also had an increase in the components of remuneration. An increase in the superannuation levy from 7 per cent to 8 per cent for a company the size of Godfrey Hirst is significant; our superannuation bill is probably close to \$2 million. That is all rateable now as well. An increase in those components also impacts on it.

**Mr THEOPHANOUS** — That was another decision of the previous government.

**Mr HERBERT** — Sorry, I am just saying that from a company perspective; that was an added cost to us.

**Mr THEOPHANOUS** — I am trying to understand it. Why do you think your industry keeps edging up? Is it an inherently unsafe industry?

**Mr HERBERT** — I do not believe so. I touched on this before. I have a concern about it; the textile industry has certainly gone through significant shrinkage over the past number of years. As nobody is proactively looking at the claims, I have concerns about how the claims end up as companies fold. From our experience with the acquisition of the scouring company, if all claims agents going to companies that fold estimate their current claims out to 65, I have no doubt that the industry which has been shrinking over the past five or six years will go through the roof.

**The CHAIRMAN** — Mr Ansell and Mr Herbert, thank you for coming along today. We will send to you a copy of the Hansard record of our discussions. You may make alterations to it and send it back to us. Thank you for your time.

**Witnesses withdrew.**

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into Workcover premiums for 2000-01

Geelong – 12 December 2000

#### Members

Mr R. A. Best  
Mrs A. Coote  
Mr G. R. Craigie  
Ms K. Darveniza

Mr N. B. Lucas  
Mr J. M. McQuilten  
Mr T. C. Theophanous

Chairman: Mr N. B. Lucas  
Deputy Chairman: Mr T. C. Theophanous

#### Staff

Executive Officer: Mr R. Willis  
Research Officers: Mr M. Ryan and Ms K. Ellingford

#### Witnesses

Mr A. Spira, Managing Director; and  
Mr P. Walsh, Financial Controller, Geelong Wool Combing Ltd.

**The CHAIRMAN** — We welcome Mr Andrew Spira, managing director, and Mr Peter Walsh, financial controller, from Geelong Wool Combing Ltd. All evidence taken by this committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act. I invite you to make a submission to us, after which we will ask you some questions.

**Mr SPIRA** — Thank you for your time. Geelong Wool Combing really wanted to come here today. We have not prepared any detailed documentation, other than what you see in front of you. We certainly believe the change has had, or will have, an impact on Geelong Wool Combing. Our company was established in 1993. From 1993 to date has certainly been a very difficult period for our business. This year for the first time we will achieve profits. As I am sure you are all aware, not only ourselves but the wool industry as a whole has gone through some very difficult times in recent years, and all additional costs to our business, which is very marginal, certainly have an impact. This is one that I guess came as a surprise last year. It was something that we did not budget for last year, and it therefore contributes to an ever increasing burden of additional costs. On that basis we wanted to voice our concern.

**Mr WALSH** — I will work through the sheet you all have. As you can see, I have listed the rateable remuneration and the premium in dollar costs, and then the percentage of premium compared to remuneration. Also listed at the bottom are the claims costs, which have obviously impacted on the premium for the years basically since the inception of Geelong Wool Combing. The impact of the additional 15 per cent across-the-board on Geelong Wool Combing in dollar terms is around \$47 000 to \$50 000, looking at our 2000–01 premium. In terms of our claims costs, with some higher claims dropping off due to the three-year rolling of costs incorporated in the premium, we were essentially expecting almost a decrease in our Workcover premium. We want to make the point that obviously our premium percentage in terms of remuneration has essentially increased fourfold since the inception of the business.

**The CHAIRMAN** — I note that you are looking at a premium increase from \$180 000 to \$321 000?

**Mr WALSH** — Yes.

**The CHAIRMAN** — I also note, however, that your wages bill has gone up \$1.5 million, which is good; obviously the business is expanding. But as a result of that there is a penalty in terms of the premium.

**Mr WALSH** — That is correct; yes.

**The CHAIRMAN** — In spite of the fact that your claims costs have gone down?

**Mr WALSH** — Yes.

**Mr SPIRA** — Could I just add something, which I am not sure has specifically been covered in this review? In our case we are concerned about — and it is also a factor in the increase — our grouping as an industry. Certainly from GWC's perspective — and we have not done the figures — I am sure that our performance is far better than our industry average. We are disadvantaged in that regard, in that we are in a very large grouping. There is not a specific group of wool combers or top makers. We are in a group where, I suspect, a large number of companies have a far poorer performance with safety and injuries, and that of course drags us down and makes us more uncompetitive.

**The CHAIRMAN** — What other types of companies or businesses are in the group your company is in?

**Mr WALSH** — In the same group there are wool scourers and wool carbonisers. The carbonising process involves a lot more chemicals and is very much a chemical process. There are only four top makers or wool combers in the state, whereas we are grouped with wool scourers and carbonisers. On the most recent figures I saw we are grouped with 17 wool scourers and carbonisers, and then there are the four top makers on top of that.

**The CHAIRMAN** — What was the first notice you received that your premium was going up?

**Mr WALSH** — During June of this year.

**The CHAIRMAN** — Was it in the form of an account?

**Mr WALSH** — In the form of a letter, really, just advising us of the changes overall to the industry.

**The CHAIRMAN** — Right. That indicated the increase in the industry rate that you would be up for?

**Mr WALSH** — Yes, it did.

**The CHAIRMAN** — And information to do with the change in premium?

**Mr WALSH** — Yes.

**Mr BEST** — How will it affect your business?

**Mr SPIRA** — Our business is extremely cost sensitive. Our business operates on a commission basis. We do not purchase wool or sell wool ourselves; we offer a conversion process on a commission basis and per kilo to scour and comb wool. Our competitors are predominantly overseas — international — and a number of those are in low-labour-cost countries. So it is very marginal. Every cent that increases our cost per kilo to convert makes us less competitive to our competitors. We also have competition interstate. It is important that we offer a commission processing service, offering the highest value and obviously the lowest cost. We are very concerned about the cost increases — for a range of reasons. I certainly would not want to suggest that this is the major impact; there are numerous impacts of which this is one.

For example, in our wage negotiations we are currently going through an enterprise bargaining agreement (EBA). Particularly here in the Geelong region we are seeing wage increases of around 5 per cent to 6 per cent a year. That will be another major impact that will potentially make our business uncompetitive. It is not just one individual component — there are a number of components — and it is when a number of these components build up that a business turns from being a viable business to an non-viable business.

**Mr BEST** — When did you get notification of your premium increase?

**Mr SPIRA** — June?

**Mr WALSH** — Yes, I believe it was June or July.

**Mr BEST** — You actually knew in June or July so you could budget for the increases you would receive?

**Mr WALSH** — Unfortunately because of our European parentage we have a 31 December year end and so we do budgets in September or October for the year coming. It is difficult to budget for things that have an impact from 1 July onwards.

**Mr McQUILTEN** — Andrew, is your company owned by Bremer Wool Combing?

**Mr SPIRA** — Yes, Bremer Woll Kammerei.

**Mr McQUILTEN** — I wanted to check that out, because that was an arrangement I worked on some years ago with John Button, who was the minister at the time. A number of millions of dollars were involved to help you get here. I think Bremer had been looking at Australia for about 20 years. I am surprised you have not made a profit until now.

**Mr WALSH** — That is correct.

**The CHAIRMAN** — Can we get back to the terms — —

**Mr McQUILTEN** — I am interested in the profit. There are now problems, but there have been no problems in the past seven or eight years. I will ask one question which is relevant. Where is your interstate competition that you mentioned before?

**Mr SPIRA** — It is Adelaide based and in New South Wales.

**Mr McQUILTEN** — I have the figures here for those two places. I believe the Workcover costs would be much higher in those two places. Would you agree with that?

**Mr SPIRA** — My understanding is that the Workcover costs in New South Wales are higher. However, at the end of the day it is the total cost per kilo to convert. For example, I am aware that there are some substantial costs that we incur that for the plant in New South Wales are significantly lower — such as water, for example, which is a large contributor to our costs.



**Mrs COOTE** — I will ask a practical question about the impact of the Workcover premiums. In practical terms does that mean you will not put on new staff or will not hire casual or part-time staff? How will that directly impact on your company as far as staffing is concerned?

**Mr SPIRA** — In practical terms everything comes back to cents per kilo to convert. We have to do everything we can to offer the service that our customers expect at that lowest cost. That really boils down to what we have to achieve. We cannot afford to put on a single extra person who is not absolutely necessary; there is no leeway in that regard. Pending the outcome of our next EBA negotiations it may mean a reduction in the number of employees if we have to do that to maintain that cost per kilo.

**Mr THEOPHANOUS** — A couple of things strike me about some of the figures you have presented to the committee. One is that between 1995 and last year you went from roughly 1 per cent to 3 per cent, which is a 300 per cent increase in the premium; then you went to 4.27 per cent. It seems there is a long-term increase in the premium occurring in your industry. Is that because of the number of claims that are made in the industry?

**Mr WALSH** — The general industry rate increased from 1 July 1999. Our general industry rate was 4.78 per cent and that increased to 5.78 per cent. That impacted from that time. The number of claims is not a great deal in our circumstances but we have had a couple of very high claims.

**Mr THEOPHANOUS** — You have just made a statement which I would like to contest with the figures provided. If you add up the premium you have paid between 1994–95 and 1999–2000, according to my quick calculations you have paid a total premium of \$597 361. During the same period the cost of claims, which you have shown at the bottom as claims affecting premiums, works out at \$1 468 364. It seems to me that you have paid far less premium than the cost of the number of claims you have generated. Surely you would understand that the difference between that \$597 000 and the \$1.4 million must be paid by another business somewhere else if it is not paid by you.

**Mr WALSH** — I understand what you are saying, but I do not think it is right to add the claims cost cumulatively because those claims costs are basically the three years which have been grouped in calculating the premium.

**Mr THEOPHANOUS** — Do you have a problem with us getting those figures from the Workcover authority?

**Mr WALSH** — Not at all.

**Mr CRAIGE** — One of our terms of reference is the individual classification for employers. I notice you talked about how you are lumped in with 17 other businesses and there are only four like yours. What approaches have you made in respect of removing yourself from those other more unsafe companies? Clearly there are at least three levels in this industry. Have you made any representations to remove yourself from this classification?

**Mr WALSH** — We have not at this point in time but it is something we are likely to pursue in the near future as we develop relationships with the other wool combers in the state.

**Mr CRAIGE** — Do you fully understand the classification system and the way it works within Workcover?

**Mr SPIRA** — No.

**Mr WALSH** — Not really.

**Mr CRAIGE** — How many people do you employ?

**Mr WALSH** — Around 130.

**Mr CRAIGE** — Is it somewhat confusing to you when you receive a notice of an increase? Is it difficult to understand when the government agreed to round up classifications, to change the industry classifications and made commitments that with common law it would be a 15 per cent increase plus the 2 per cent for administration of GST? How much time do you spend trying to work out how all this came about?

**Mr SPIRA** — In this particular case we had to very quickly make ourselves aware of the reasons for the change and what was happening because it came out of left field. It was not something we were prepared for.



**Mr CRAIGE** — At all?

**Mr SPIRA** — No.

**Mr CRAIGE** — Of course you knew there was going to be the 15 per cent plus 2 per cent. That was common knowledge; the government said it would reintroduce common law so you would have known that. It said the premiums would go up and there was the GST, but you were not aware of any of the other moves which the government made?

**Mr SPIRA** — That is correct.

**Ms DARVENIZA** — Looking at the figures you have presented to the committee, particularly for 1998–99, the premium of \$127 819 and your claims cost which was in excess of \$513 000, don't you think it is reasonable that you had a premium increase given that your claim costs for that year were so great?

**Mr SPIRA** — I think there needs to be some clarification of the bottom figure of the claims cost.

**Mr WALSH** — The \$513 000 is made up of essentially three years' worth of claims cost. The year 1998–99 actually had zero claims cost but the two previous years are taken into account when calculating the premium. The two previous years were \$227 000 and \$286 000.

**Mr SPIRA** — These figures at the bottom are not the claims cost per year.

**Ms DARVENIZA** — So there were significant claims increases in the two previous years even though there was none in 1998–99 which affected your premium increase.

**Mr SPIRA** — That is correct.

**Ms DARVENIZA** — Would you agree that it is reasonable that your premium went up given that you have had a number of years where your claims have gone up?

**Mr SPIRA** — Absolutely.

**Ms DARVENIZA** — Do you support the experience rating system where those employers who have higher claims pay more and those with fewer claims pay less?

**Mr SPIRA** — Absolutely.

**The CHAIRMAN** — We will send you a copy of the Hansard record of today's hearing and if you wish to submit any alterations you are able to do so. Thank you for your time.

**Witnesses withdrew.**

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into Workcover premiums for 2000-01

Geelong – 12 December 2000

#### Members

Mr R. A. Best  
Mrs A. Coote  
Mr G. R. Craige  
Ms K. Darveniza

Mr N. B. Lucas  
Mr J. M. McQuilten  
Mr T. C. Theophanous

Chairman: Mr N. B. Lucas  
Deputy Chairman: Mr T. C. Theophanous

#### Staff

Executive Officer: Mr R. Willis  
Research Officers: Mr M. Ryan and Ms K. Ellingford

#### Witness

Mr T. Ridgewell, Administration Manager, Josie's Transport.

**The CHAIRMAN** — We welcome Mr Ridgewell, the administration manager of Josie's Transport. All evidence taken by the committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act. I invite you to make a submission and then we might asked some questions.

**Mr RIDGEWELL** — One of the areas which our transport industry finds difficult is the complicated method used in calculating premiums. It is very difficult for most industries to understand. We found that the 15 per cent increase due to the common-law claims had an impact. The way I calculate it, that 15 per cent seemed to be added to each component which made up the calculation of the premium. By doing that you have a cumulative effect of 15 per cent on an increase of 15 per cent on an increase of 15 per cent which overall made it a much greater increase than 15 per cent in the premium.

The other aspect of it in the transport industry concerns the impact claims that should be Transport Accident Commission claims have on our experience history. In our case we have had only one claim in the past few years and that was the result of someone running up the back of a parked van in a shopping centre. In normal cases you would think if someone ran into the back of another vehicle you would be looking at a TAC claim but because this was work related we have had to wear it as a Workcover claim. Why do we pay our third-party premiums on our registration if we have no recourse to make a claim on it when accidents happen in the workplace? We are virtually paying our premiums twice, once through Workcover and again through the TAC. I have been told that from time to time there is an adjustment between the TAC and Workcover to compensate for this type of claim but it is never passed back to the employers to subsequently reduce your experience history if you have one.

The other area that concerns me is the lumping of all employees into the industry rate. Most transport companies have a fairly substantial proportion of administrative and clerical employees. The transport rate is around 7.9 per cent or 8 per cent — it is one of the highest — yet the clerks who work in the industry are lumped in with this when a clerk in a transport office represents no more risk than a clerk in an insurance company. These are the main areas that I believe are of importance. The method of calculating the premium is unfair on our industry.

**The CHAIRMAN** — What was the percentage increase in your premium this year?

**Mr RIDGEWELL** — Around about 40 per cent.

**The CHAIRMAN** — When did you hear of that?

**Mr RIDGEWELL** — When we got our notice of the premium calculation.

**The CHAIRMAN** — Was it satisfactorily explained to you in that notice?

**Mr RIDGEWELL** — Not really. We raised an objection to it and got a reduction. I guess through sloth or laziness a lot of companies do not advise the Workcover authority in April or whenever it comes out what their estimated remuneration is for the year. This year for the first time they came up with an assumed increase in the remuneration that you paid to employees of 20 per cent. In previous years they had assumed the CPI which is quite reasonable. The 20 per cent was far too high. I lodged a claim stating our real estimate and we got a reduction in our premium.

**Mr THEOPHANOUS** — What was the final figure?

**Mr RIDGEWELL** — I think about 28 per cent. We have had only one claim in the past three years so we do not have a problem with a claims history.

**Mr THEOPHANOUS** — It was originally 40 per cent and you told them — —

**Mr RIDGEWELL** — Our remuneration was incorrectly calculated.

**Mr THEOPHANOUS** — You told them the 20 per cent they assumed was incorrect. Why did it not come back to 20 per cent if it was originally 40 per cent and you said they should not have put the 20 per cent on?

**Mr RIDGEWELL** — The increase would have been attributed to the 15 per cent increase in overall premiums because of the common law.

**Mr THEOPHANOUS** — I know, but you said that you had failed to put in your remuneration which meant there was a 20 per cent increase.

**Mr RIDGEWELL** — They assumed.

**Mr THEOPHANOUS** — Taking that into account your premiums went up by 40 per cent.

**Mr RIDGEWELL** — Around about 40 per cent.

**Mr THEOPHANOUS** — When you told them that, did they then not reduce it to 20 per cent?

**Mr RIDGEWELL** — No, it was because of the overall increase in the premium because of the common law. There was a marginal increase in remuneration and we assumed that with a CPI increase that is about what it would have been.

**Mr THEOPHANOUS** — Just taking into account what you are saying, everybody knew about the 15 per cent plus the 2 per cent for GST, so you were going to get 17 per cent. Even if you had no accidents you had to get the 15 per cent to cover common law and the 2 per cent for the GST.

**Mr RIDGEWELL** — I think I explained that when I mentioned the basis of adding the 15 per cent. It was added to the three components which make up your Workcover premium: your remuneration, your experience and the industry rate. Now 15 per cent was added to the experience, 15 per cent was added to the remuneration, and 15 per cent was added to the industry rate.

**Mr THEOPHANOUS** — I do not understand any of that.

**Mr McQUILTEN** — It is where you add it. If you add it at the end — —

**Mr RIDGEWELL** — Yes, if it was added at the end, it would have been a straight 15 per cent increase. But because they added — —

**Mr THEOPHANOUS** — Do you have a problem with us getting hold of and looking at the information from Workcover on the way your premium was calculated?

**Mr RIDGEWELL** — No; I have no problem at all.

**Mrs COOTE** — I notice Josie's Transport trucks going up and down the Geelong road a lot; they are always very well behaved and they look terrific. If the premiums were to increase again, how would that impact on you? Would it cause you to put off staff or to not have casual staff or drivers?

**Mr RIDGEWELL** — Well, we would have to consider a number of scenarios. The first one would be to shed staff. At the moment we have a policy of having owner-driver subcontractors employed. We are now insisting that they become incorporated and take out their own Workcover policies — which, in turn, means we are not responsible for it in that regard. To me this is something that has been forced on the industry and is probably not necessary. If we addressed it straight up front and employed them as company drivers we would not have to say, 'Hey, righto, you are subcontractors; you have to take out your own policies' — that is the way.

The other aspect of it would be to increase our rates to our clients to cover the cost. With all businesses, if their costs increase they have to increase the rates they charge to their clients. The impact of freight costs on all industry would have a flow-on effect right across the board to everyone, and they would have to charge higher rates.

**Mrs COOTE** — Thank you very much.

**Mr McQUILTEN** — Most businesses have a number of problems they look at, about which they say, 'That is the worst one, that is the second-worst one, and that is the third-worst one'. Where does Workcover come in all your problems, including the GST and the price of fuel? I would have thought that in the transport industry petrol would have been a major — —

**Mr RIDGEWELL** — Obviously at the moment the price of fuel is our major concern. Certainly Workcover and the GST would run second, as far as problems we are looking at are concerned.

**The CHAIRMAN** — Mr Ridgewell, thank you for coming along today. We will send you a copy of the Hansard transcript. If you wish to suggest any alterations, it is just a matter of sending them back to us. Thank you for taking the time to come to the hearing.

**Committee adjourned.**

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into Workcover premiums for 2000–01

Ballarat – 12 December 2000

#### Members

Mr R. A. Best  
Mrs A. Coote  
Mr G. R. Craige  
Ms K. Darveniza

Mr N. B. Lucas  
Mr J. M. McQuilten  
Mr T. C. Theophanous

Chairman: Mr N. B. Lucas  
Deputy Chairman: Mr T. C. Theophanous

#### Staff

Executive Officer: Mr R. Willis  
Research Officers: Mr M. Ryan and Ms K. Ellingford

#### Witnesses

Mr S. Stewart, Director; and  
Mrs D. Stewart, Director, Wendouree Cleaning Services.

**The CHAIRMAN** — I advise all present at this hearing that all evidence taken by this committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act. We welcome to the hearing Mr and Mrs Stewart. I invite you to make a submission to us and we will then ask some questions.

**Mrs STEWART** — Thank you very much for the opportunity to appear before the committee. I thank you for all coming. I have some points listed — I do not know whether you want to interrupt and ask questions. On a few points I am asking questions and I do not know whether you are able to answer questions. I would like it to be noted that we are asking questions about Workcover issues.

**The CHAIRMAN** — We are not here to enter into a debate but to take evidence. There is no problem if you make statements in the form of rhetorical questions, although obviously we will not be answering them.

**Mrs STEWART** — With our insurer we were able to get a large contract at the start of the year. We have always employed staff but they have mainly been casuals and because we were going to employ full-time staff we wanted to ensure that to the best of our power we did everything for our staff. I rang our insurer and was told they could not help us. I understood that and we were told to go to Workcover. We went to Workcover and asked for assistance, but Workcover told me that it only deals with large industries and not small industries like us — we are cleaning contractors. I was a bit disgruntled. We ended up going to our general practitioner and paying for a consultation in order to get some information.

**Ms DARVENIZA** — Who did you go to?

**Mrs STEWART** — We went to our local GP. We had to go to him to get the information we required to ensure that we did the right thing by our employees. I felt that was wrong. Workcover is there — why could it not help with what we wanted? After many phone calls and having gone to our GP and still not being happy that Workcover would not help, I rang many people in Workcover. Eventually I got on to somebody in Melbourne who was able to send me some information, but unfortunately they sent the information too late as we had already employed all our staff. That information will be helpful in the future, but it was mainly documents for when staff start et cetera. I am bewildered as to why we did not have access to this in the first place.

**The CHAIRMAN** — I took it that you said you needed some assistance which you could not get from one source so you went to your GP, meaning a medical doctor. What was the information you were looking for?

**Mrs STEWART** — All we were asking for was anything that we as employers could do to ensure that we were doing the right thing by our employees.

**The CHAIRMAN** — In terms of occupational health and safety issues?

**Mrs STEWART** — Simple things, but we could not get any information; we just got shoved around. As you can well understand, I do not have the time to go from one place to another to get information that I am told by Workcover and the ads on television that I am entitled to by law.

**Ms DARVENIZA** — But you got in touch with the Workcover office in Melbourne — —

**Mrs STEWART** — After all this had taken place.

**Ms DARVENIZA** — And they sent you information but you got it too late.

**Mrs STEWART** — That is right. The information was out there, but we were not given access to it when we needed it. I feel that is not at all acceptable.

**Ms DARVENIZA** — Who was the first Workcover person that you contacted?

**Mrs STEWART** — To be honest I could not tell you — I rang so many.

**Ms DARVENIZA** — Was it local?

**Mrs STEWART** — I went through local; I went through Melbourne and I got shifted wherever.

**Mr THEOPHANOUS** — What does this have to do with your premiums?

**Mrs STEWART** — In my opinion there needs to be a clean-up in Workcover; maybe the premiums are so high because Workcover is run so inefficiently. If the information is not out there for people to access, why are we paying such high premiums to people sitting in these positions in buildings who cannot give us the information we should have.

**Mr THEOPHANOUS** — Have you always had this problem with Workcover?

**Mrs STEWART** — Yes, we have. We have been in business for seven years, going on eight. We have not had to ring Workcover for much; we have never had a claim. It is only because we were employing more staff that we wanted to ensure that we were doing the right thing — as the ads tell us.

**Mrs COOTE** — Did your premiums eventually go up?

**Mrs STEWART** — Yes.

**Mrs COOTE** — You are getting to that bit?

**Mrs STEWART** — Yes.

**Mr McQUILTEN** — I was wondering whether we could get on to where you could have gone in Ballarat. I know we have what used to be called the Victorian business centre; did they help you there?

**Mrs STEWART** — No. We actually went in personally.

**Mr STEWART** — We could not get any satisfaction through our Ballarat office at all.

**Mr McQUILTEN** — Who did you see there?

**Mr STEWART** — Just the lady in charge there — I do not know if she is a secretary or what.

**Mrs STEWART** — We were told that they do not deal with small businesses like us; they are interested only in the big industries. In seven years of being in business we have always been in a credit situation at the end of the financial year. Last year we managed to get another contract which increased our remuneration over the amount we had estimated. I did the right thing. I contacted Workcover in the required time frame and I asked for a reply to acknowledge that they had received our new remuneration which they did. That was all fine. At the end of the year we had to fill in our certificate of rateable remuneration but it never arrived. I rang and rang and rang. I was given excuse after excuse as to why it was not sent. If I ran my business like that I would not be here today. We needed to know because I wanted to pay the extra money that we owed Workcover. We wanted to change our insurance company as I was not happy with our insurer. After making so many phone calls and getting our certificate late and sending it in on time as soon as I got it, they sent me a nasty letter saying they never received my certificate. I had to ring once again and tell them I was sorry but I had sent it and had a copy of what I had sent. I suggested they find it because I was not filling in another one. They obviously found it because we got our account. In the meantime, while we were changing from HIH to GIO the problems we encountered meant another week chasing up issues. I am trying to run a business; I should not have to be chasing up things through Workcover or through our insurer.

In the meantime — showing its inefficiency — Workcover sent out a brochure stating that it would increase GST by 12 per cent. I then rang the ACCC and was apparently one of the first people to ring and complain. As you would all probably be aware of now, a new leaflet has been sent out to rectify that mistake. In my opinion that once again shows Workcover's inefficiency to run things properly — and we are paying higher premiums because of that, are we? The other thing is I — —

**Mr THEOPHANOUS** — The GST is not Workcover's fault, is it?

**Mrs STEWART** — It is not, but it stated on the brochure that it would charge 12 per cent for GST, when GST is 10 per cent.

**Mr THEOPHANOUS** — Are you aware that there are two charges?

**Mrs STEWART** — I am. But the way they put it in the first brochure was totally wrong, as we all know, and they then had to put out another brochure. That is the first brochure.

**Mr THEOPHANOUS** — Are you aware that the GST is made up of 10 per cent — —

**Mrs STEWART** — Yes.

**Mr THEOPHANOUS** — Plus another 2 per cent, which is an administrative cost on Workcover?

**Mrs STEWART** — That is exactly right.

**Mr THEOPHANOUS** — In fact, it is 12 per cent, is it not?

**Mrs STEWART** — As I was saying, the brochure was false, which they well knew, after being — —

**Mr CRAIGE** — False.

**Mrs STEWART** — I am only stating facts here, and the difficulties we go through as a business. Why should I have to ring up the ACCC to complain about a Workcover mistake? That is all I am stating here.

**Mr THEOPHANOUS** — You might have done well to ring up the federal government to ask why it put on the GST in the first place.

**Mrs STEWART** — I would like to do that, but since we are here to discuss Workcover, I will not get into the GST. I would probably have 100 pages on GST — —

**Ms DARVENIZA** — We are coming back for GST.

**Mrs STEWART** — The other problem I have is from a personal point of view — that is, that I am not particularly impressed with the continual threats we seem to get on all the letters sent to us. Why do they have to threaten us? I pay my bills — I always have; I have never, ever, not paid a Workcover account on time. If I send out an invoice or an account to a client, do I put a threat on the bottom of the letter? No.

**Mr THEOPHANOUS** — Can you give us an example of the threat?

**Mrs STEWART** — It is just — I have not actually brought letters with me, no, but it is just continual — —

**Mr THEOPHANOUS** — Can you remember one?

**Mrs STEWART** — If you read the Workcover letters that are sent you will see that there is always some form of threat — ‘If you don’t pay’ by a certain date, or, ‘If you don’t do this’, or, ‘If you don’t do that’. Yet it would seem to me that it is okay for them to do things late — as we well know from the episode I mentioned previously. It is okay for them to run their business in a late fashion, yet I cannot do my things — not that I would, because I have never, ever, paid a bill late.

**Ms DARVENIZA** — What sorts of things? Can you give us an example?

**Mrs STEWART** — Of the threats?

**Ms DARVENIZA** — Yes.

**Mrs STEWART** — I am just saying that all the letters — in my opinion, yes, they need to let people know so they are aware of the fact that if they do not pay on time they will be penalised — I do not have a problem with that. But is it necessary to continually put it on every letter received? Personally I feel it is an unnecessary comment. I do the right thing; do I need to read that every time I open my account?

**Mr BEST** — It is not a direct threat; it is an implied threat.

**Mrs STEWART** — It is not, no; I realise it is not a personal vendetta against me, but it is not a nice thing to have to read every time. That is the way I feel. With all the other frustrations, I really don’t need that on top of it.

I don’t know if this is something to bring up here or not, but I will bring it up. With the insurer we had, which was HHH, the name Reg Shields, manager underwriter, was written on the bottom of all the letters. Now when I rang HHH and asked to speak to him I found that he does not actually exist. How can somebody’s name be put on the bottom of a letter when they don’t exist and you can’t speak to them? It sounded very suspicious to me. What is the point? If you write a letter, even if you write it on behalf of someone, you should be able to have access to somebody.



**The CHAIRMAN** — Mrs Stewart, the reference before us relates particularly to premiums — how they are set, whether they are too high or too low, how they impact on your business, and any changes to the manner in which premiums are determined in future. The committee can make recommendations in that area. I am particularly keen for you to concentrate on those issues to do with premiums, as we have now used up half the allocated time.

**Mrs STEWART** — All right. What I was getting at at the beginning of what I just stated is that I just feel there is obviously some lack of communication. Whether it is a cost thing in Workcover which is then put back onto us to make our premiums so high, I am unaware. But it seems very suspicious to me that things are not run according to the way they should be.

As far as the premiums go, we would like to know why we have to pay a premium on super, and why super is incorporated as part of our remuneration. Our company is a 90 per cent labour-intense type company. So we have to pay Workcover premiums on 90 per cent of our remuneration — which is a heck of a lot of Workcover, as you could well imagine. Being a fixed contract company, when there is an increase we have absolutely no way to redeem that money.

This year we had to take out an overdraft to ensure that we could pay our Workcover premiums on time. It cost \$1000 to take out an overdraft, on top of all the other increases, but if we don't and we can't pay our premiums, as you well know, we are penalised. What choice do we have? We either have to take the money that we have to pay extra out of our own wages, which is what we have done this year, or we have to put off a worker — which in these times is very sad.

**Mr STEWART** — Another thing, too, is that nearly all our work is through government contracts and is at schools. In my opinion, if there is a rise in Workcover or a rise in super there should be a clause to say that that increase is passed on — whatever it is — to the cleaner or whoever. The government obviously gives a school that increase when there is a rise in Workcover premiums in the budget; that should be automatically passed on to fixed contracts. That is one area that people like us, who are on fixed contracts, find difficult — especially when a Workcover rise comes in the middle of the year, when our period of negotiation with schools is at this time of year. We cannot project forward what will happen in June or July. That is one area that is difficult.

**Mr BEST** — I will get back to an original point. You were originally employed as a husband and wife team?

**Mrs STEWART** — We have seven staff.

**Mr STEWART** — We have seven employees who work for us; Dianne and I own the company.

**Mr BEST** — When you sought the information from Workcover how many extra employees were you considering putting on?

**Mr STEWART** — Four.

**Mr BEST** — To take it from 7 to 11?

**Mr STEWART** — No.

**Mr BEST** — From three to seven?

**Mr STEWART** — Yes.

**Mrs STEWART** — Yes.

**Mr STEWART** — We employ one full-timer and three casuals extra.

**Mr BEST** — Okay. Can you remember what your Workcover premium was when there were three of you?

**Mrs STEWART** — I think it was 3 point something per cent; now it has gone up to — well, that is another thing; to get the percentage was interesting — 5.64 or whatever, but the potential is there to go up to 7 per cent, which is what our rate or premium could be, because that is what the cleaning contract rate is at the moment.

When I rang Workcover the other day — I needed to find out exactly, because we were going in to renegotiate the contracts — I was told that Workcover premiums could go up again at the end of the financial year. But by how much, see? No-one could tell me. How can I go in and renegotiate a contract when I do not know how much Workcover will cost?

**The CHAIRMAN** — Who told you it would go up at the end of the year. Was it Workcover in Melbourne?

**Mrs STEWART** — Yes, I rang the Melbourne number and they told me that. The other issue is with the 7 per cent. I cannot understand why cleaning is just lumped in one category.

**The CHAIRMAN** — When they told you it was going up at the end of the year did you get the impression that the increase would be in the premium rate or that the cleaning percentage would go from 5 per cent, or whatever it is at the moment, up to 7 per cent?

**Mr BEST** — From three per cent to seven per cent.

**Mrs STEWART** — They did not actually say that. That was my issue: why the percentage is 7 per cent and why cleaning is lumped into one category, when cleaning can be so different in various areas. There are people cleaning high-rise buildings and others cleaning offices, yet there is only one classification. It seems very odd. It seems to me that we are paying premiums on Joe Blow down the road who may have had lots of claims. I ask and ask about the data and information and what it is that has made our percentage so high.

**The CHAIRMAN** — Have you finished your submission? We have some questions and we are running out of time. Have you covered all the issues you wanted to raise?

**Mrs STEWART** — We have, yes.

**Mr THEOPHANOUS** — I am trying to figure out what you are talking about with this industry rate. The cleaning industry rate is set at 7 per cent this year. What has happened over a period of years, as I understand it, is that all small businesses that were less than the industry rate have been gradually brought up to the level of the industry rate. Have you had a succession of increases over the past few years? Is that what has been happening?

**Mrs STEWART** — No, not at all. I thought that is what would happen but it would seem that while we have gone up other people are on 0.33 per cent. To me there is a variation in the industry rate from 0.33 per cent up to 8.40 per cent.

**Mr THEOPHANOUS** — What has happened with your premium over the years?

**Mrs STEWART** — It has gone up.

**Mr STEWART** — We have not made any claims but it has gone up every year.

**Mr THEOPHANOUS** — That is what I am getting at. Has it gone up every year?

**Mrs STEWART** — It has gone up naturally because we have more staff but the percentage has risen. It went down one year. The first year we — —

**Ms DARVENIZA** — What was the first year?

**Mrs STEWART** — To be honest I cannot remember, but it was fairly high.

**Ms DARVENIZA** — No, what year did you start the business?

**Mr STEWART** — 1992–93.

**Mr THEOPHANOUS** — What I am getting at is since 1992–93 it has progressively gone up.

**Mrs STEWART** — Yes. It went down the second year we were in business and from that point on it has progressively gone up to the high percentage it has now reached.

**Mr THEOPHANOUS** — It is now 5 per cent or something?

**Mrs STEWART** — We are paying 5.6498 per cent or whatever it is.

**Mr THEOPHANOUS** — You have been told that it will continue to rise until you get to the industry rate; is that right?

**Mrs STEWART** — I inquired because I needed to calculate it so we can work out the contracts and I was told that the potential for us to go up to 7 per cent is there, so I actually need to calculate 7 per cent when we go in for a contract. If I do not, we will find that we are running at a loss.

**Mr THEOPHANOUS** — Being a small business you get the industry rate. If you are a large business then your own experience is calculated much more. The trouble is if it was all done on your own experience it would be fine if you had no claims, but what if you had one \$3 million claim? What would that do to you?

**Mrs STEWART** — It would put us out of business. That is the other issue, when you have to pay for the excess. We have had to take out an overdraft. We have been lucky; we have had no claims and we try to ensure that we do not have claims, but you would be aware that it does not take much to have a claim.

**Mrs COOTE** — You said before that when you finally got on to Workcover in Melbourne they intimated that you may have an increase. That is the 7 per cent you have just been speaking about. What sort of increase would make you consider whether to put on staff or not? If you were to get a premium rate of a lot more that you have already had, how would that impact on you? Would that be a concern for you?

**Mrs STEWART** — To be honest, if it goes up at all we cannot put anybody on. As it stands now, we will have to consider putting staff off next year because when we asked for a negotiation about our contract we were told there was no money in their budget to give us an increase. At this point in time it is looking like we will not get an increase on our contract. If we do not, we will be out of pocket from last year and we cannot carry that over for another year. We will have to put off a staff member.

**Ms DARVENIZA** — You have told us a little bit about your most recent experience with premium rises and your experience over the years you have been in business. It would be helpful to us if we were able to look at your situation and what it has been. Would you have any difficulty in making available to the committee, through Workcover, the information about your present rating and past experiences?

**Mrs STEWART** — So that you can contact Workcover?

**Ms DARVENIZA** — Yes.

**Mrs STEWART** — No.

**Ms DARVENIZA** — That would be very helpful to us.

**Mr BEST** — Could you give us an indication of the length of time it has taken you to get an understanding of the increases you have incurred and the information you have been seeking from Workcover?

**Mrs STEWART** — The information on the increases did not take me long to work out at all; that does not take long. It is the information I need to ensure that I do the right thing by my staff, so I do not have a claim that takes me the time to get.

**Mr STEWART** — One of the things we want to know is: in the cleaning industry what do people make claims on most of the time? Is it back, arms, shoulder? That was some of the information we wanted to get from Workcover so we could go to our employees and say, 'Don't do that, do it this way'. We could not get that information.

**Mr BEST** — You were trying to be a responsible employer.

**Mr STEWART** — Exactly.

**Mrs STEWART** — I know you do not want to go to that but that was my other issue. When I rang up and asked for that I was told that I was odd and they did not know of anybody who would ring and bother to ask those questions. The man was very nice on the phone, he was not nasty at all but he basically made me feel like I was stupid for asking. I am sorry, but I do not care if I bang my head against a brick wall, I will do the right thing by our

staff. I always have and always will. If it means that it comes out of our pocket, it will. The unfortunate thing is if we do not get an increase in our amounts for next year for the contracts we will have to put off one staff member.

**Mr BEST** — As a bit of advice, I suggest you try to get that book.

**Mrs STEWART** — We have that book but it does not help.

**Mr BEST** — The industry rate will be 7 per cent which means that if you are on 5 per cent now you will receive a 20 per cent increase in your premium.

**Mrs STEWART** — He told me that that book would change. When I rang up to double check that industry rate so I could do my budgets ready to take in for the contracts I was told that that book would possibly be changed.

**Mr BEST** — And that they would increase?

**Mrs STEWART** — Yes.

**Mr BEST** — So the rate here of 7 per cent — —

**Mrs STEWART** — I am left in Limbo land.

**Mr BEST** — You do not know whether it is 7 per cent or it is going to be 10 per cent?

**Mrs STEWART** — No. I have calculated 7 per cent but in my own mind I am very worried that it go up higher. I cannot go to someone we are trying to get more money out of and say that I think it could go up to 10 per cent. They certainly will not cover the cost of that when they can pick up that book and see it is 7 per cent.

**Mr THEOPHANOUS** — Are you aware that for small businesses like yourselves it cannot go up by more than 20 per cent? It is capped at that.

**Mrs STEWART** — Yes.

**Mr THEOPHANOUS** — So you can plan on that basis.

**Mrs STEWART** — You can but then we were told that that book might be superseded within 12 months because the government could be looking at putting Workcover up.

**Mr CRAIGE** — You are aware that the Bracks Labor government made it very clear that it would reintroduce common law into Workcover so you knew there would be an increase. Were you ever aware that the Labor government in Victoria would also increase the other areas in respect of Workcover like the industry classification, rounding up and all of that?

**Mrs STEWART** — Yes, we were through VECCI.

**Mr CRAIGE** — Did they let you know after it happened?

**Mrs STEWART** — Nothing was actually clear as far as I knew. The last lot of information that I can remember we got from VECCI did not state a lot of the facts clearly. I might have missed the document but I usually read their newsletters.

**Mr CRAIGE** — Would you accept the fact that they did not know that these other things were going to go up until after it happened?

**Mr STEWART** — That could be so.

**The CHAIRMAN** — Thank you very much for coming along today. We will send you a transcript of what has been said so you can correct anything if we have it wrong. Thank you for your time.

**Mrs STEWART** — I would just like to say that we certainly do not have any objection to paying Workcover as long as it is a hassle-free situation and it helps our employees. I do not have a problem with it but it needs to be fair.

**Witnesses withdrew.**

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into Workcover premiums for 2000-01

Ballarat – 12 December 2000

#### Members

Mr R. A. Best  
Mrs A. Coote  
Mr G. R. Craige  
Ms K. Darveniza

Mr N. B. Lucas  
Mr J. M. McQuilten  
Mr T. C. Theophanous

Chairman: Mr N. B. Lucas  
Deputy Chairman: Mr T. C. Theophanous

#### Staff

Executive Officer: Mr R. Willis  
Research Officers: Mr M. Ryan and Ms K. Ellingford

#### Witness

Mr G. Shearer, Secretary, Ballarat Regional Trades and Labour Council.

**The CHAIRMAN** — We welcome to the hearing Mr Graeme Shearer, secretary of the Ballarat Regional Trades and Labor Council. All evidence taken by this committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act. We welcome you and thank you for coming along. I invite you to make a submission to us, after which we will ask you some questions.

**Mr SHEARER** — No problem. I am pleased about the parliamentary privilege. My comrade from Geelong gave me a call earlier and said that he may have required it after his delivery to the panel.

From the outset, from where I sit as a representative of the workers I must say that the major thing for me is the delivery of benefits to workers who are unfortunately injured in the workplace. We need to have adequate premiums; I do not think they are excessive at the moment; and we need a system that is sustainable. They are the three key factors that I see.

One of the things that annoys me from time to time when workers are injured is that people imagine they do not lose monetarily when they go off from work. The fact is that, as you know, over a period their benefits are reduced. I have always believed we should have a system that allows people to be paid benefits equivalent to what they would have earned in the workplace had they not sustained injuries.

You would be aware that the trade union movement lobbied pretty extensively to have the 2.22 per cent made about 2.3 per cent to allow for those workers who unfortunately missed out on common-law rights between November 1997 and October 1999. Naturally I am a believer that should have been in place and that the premiums should have been higher.

It goes without saying that when you are the third cab off the rank — I understand that Leigh Hubbard from the Victorian Trades Hall Council has addressed the committee, as has John Kranz from Geelong — there is a bit of a problem in that you may repeat the same things again. If it does not matter, I will go ahead and do that.

**Mr THEOPHANOUS** — You could not repeat what Kranzy said, anyway.

**Mr SHEARER** — No; he said he had a bit of fun, actually. He was looking forward to the day, and he really enjoyed himself.

I do not believe that at 2.22 per cent the premium is excessive. My information is that in 1994 it was 2.3 per cent, and that the Kennett government pulled it back to 1.7 per cent during its reign. I think the Kennett government has a lot to answer for, because I am told there is an unfunded liability of some hundreds of millions of dollars — some millions of dollars — and that really is as a direct result of the Kennett government's action in pulling back the premiums to a really ridiculous level of 1.7 per cent.

We have a situation where our levy at the moment of 2.2 per cent is about even or lower than those of most states in Australia. I do not believe the current premium level impacts on employment in any way. I would like to relate that the last two people who came to see me before I came across here made clear indications to me — not from any conversation piece of my own. I have not heard one person complain about the premium levels — not one person. What people are complaining about, as I will convey to you, are things like the GST. That is exactly what the last person I came across before talked about: the impact of the GST; not Workcover.

**Mr THEOPHANOUS** — You have been speaking to him.

**Mr SHEARER** — No, the reality is — there is a problem when you go around the state — —

**Mr McQUILTEN** — Have you been talking to Josie's Transport as well?

**Mr SHEARER** — Seriously, I think that lower premiums deliver an inferior system. I will tell you quite truthfully that the trade union movement will be lobbying the government during its term to try to have the benefits to workers lifted. We were grateful to have the restoration of common-law rights; they should never have been taken away. We will look for additional benefits for workers to see that they are not detrimentally affected financially as a result of sustaining workplace injuries.

Under the Kennett government a frightening system was in place. People were not even prepared to proceed with claims. I had people in my office from time to time who, because the system terrorised them so much and created such enormous losses to them, were not prepared to proceed with claims they had for justified workplace injuries that were sustained in the workplace. I do not want to see a return to that.

I have looked at the guidelines and the reasons for the levels of the premiums. I would suggest, as I have said, the key factors are that there are fair and just benefits to workers and that they are not financially affected as a result of sustaining workplace injuries, that premiums are adequate — the moment they are probably at the bottom level; I would like to see them slightly higher — and that the system is sustainable. One would hope with time we will see if the system is sustainable, given the current level of premiums.

Let me also say how I think it should be attacked — I know this has been said to you before, because I have read some of the submissions. The reality is that we must look at reducing premiums through attacking the problem at the core or coalface. That is to ensure that we address the issue of workplace safety. Self-regulation does not work. We have gone back to a regulatory system, and I am pleased to see that the current state government is about to put in place 60 or 70 more workplace inspectors.

I use the word 'inspectors' because they are very important. People who go out there just as advisers to people in the workplace and who have no powers to act to ensure that employers live up to their obligations and that their employees work in a safe and healthy working environment have no teeth. I think that was quite evident during the term of the Kennett government, when there was a massive relaxation of occupational health and safety standards in workplaces. We all know there have been many deaths over a long period. We cannot continue to tolerate that. If we can attack the problem in the workplaces with joint efforts from employers and employees to ensure that occupational health and safety standards lift, we will ultimately see premiums wound back.

Primarily that is about what I have to say at this point. As I said, I do not believe any businesses are about to close down. This has probably been said to you before, but if you went around to 99 per cent of small businesses at the moment and asked them, 'Do you think petrol is too high?', they would say yes, and, 'Do you think gas is too high?', they would say yes, and, 'Do you think Workcover premiums are too high?', they would all say yes to every one of those things. I think it is a bit of a Dorothy Dix asking people in small business, 'Do you think Workcover premiums are too high?', because they would probably say yes in the hope they might take off a bit.

Another thing which is important and which I know has been related to you is that in 1993 the Kennett government abolished the state award system. Over the past six or seven years there has been a massive drop in the cost of running small business as far as labour costs go. The Fair Employment Bill that we are pursuing at this point in time — the upper house is causing some problems. I sincerely hope its members come to their senses between now and next March — —

**Mr BEST** — We are all upper house members.

**Mr SHEARER** — No, that side is all right; it is this side that is struggling. The reality is that the Fair Employment Bill would be of concern to some small businesses; I do not see the arguments they have. But to suggest that Workcare premiums will cause businesses to fall over is a fallacy. That is about — —

**Mr McQUILTEN** — I think he has answered all of my questions without taking a breath.

**Mr THEOPHANOUS** — Graeme, thanks for that; it was comprehensive. You mentioned the amount of the premiums. You would be aware — I think you mentioned this — that, even with the increase, the average Victorian premiums are still the second lowest in Australia.

**Mr SHEARER** — They are.

**Mr THEOPHANOUS** — The real issue is: who pays? With this inquiry we are largely talking about the distribution — that is, whether if one company pays more another company will pay less. But overall the amount being paid will still be — —

**Mr SHEARER** — It will be 2.22 per cent.

**Mr THEOPHANOUS** — Yes. Many of the complaints we get are to do with individual companies. Some of us are concerned that this will turn out to be a set of hearings for companies to come to to have a bit of a whinge about premiums that have gone up. Do you know companies whose premiums have risen and others whose premiums have come down? Is that what comes back to you?

**Mr SHEARER** — I am not totally conversant with the manner in which it is done right across the industries. My understanding is that when Workcover and the premiums were first introduced they were gauged on the potential for accidents to occur. The performances were gauged at a later stage and that determined the level of the premium for particular industry sectors. As I understand it at this point in time, the significant increase which



occurred in some areas is attributable to two or three things, one of which is the 17 per cent across-the-board increase because of the restoration of the common-law rights, and the GST — and the GST is payable and retrievable.

In addition, because some employers were not putting in their correct remuneration figures Workcover said it would give them a bit of a jerk in the arm by upping their premiums by 20 per cent. Some people did not respond to that and found they had an inflated increase in their premiums.

I have not had employers come to me complaining about the Workcover levy. I have to be quite honest with you and say not one has come to me and complained about the Workcover levy. Let me say quite seriously that I have a lot of contact with small business. If you go out around the town visiting you are talking to them from time to time about a wide range of things. I might say in relation to small business for members on that side, quite honestly we now field all the questions in relation to terms and conditions, as substandard as they are in the industry sector, for many employers because they cannot gain that information anywhere else because the Kennett government removed all the services. We have a lot of contact, and Workcover is not an issue. I think it has been blown out of the water and is not an issue at all. The Workcover levy is an issue that has been trumped up. We should always be looking at how we can make it a fairer system, but if industries are not performing and some particular employers are not fulfilling their obligations to have a safe and healthy work environment, then they should be subjected to penalties.

**Mr THEOPHANOUS** — I want to come back to that in relation to small business. Some of the figures we have been given suggest that there is still at least a \$50 million cross-subsidy from large businesses to small businesses in Workcover. Does your organisation have any view about whether that cross-subsidy from large to small businesses should remain in place?

**Mr SHEARER** — No, and I personally do not have a problem with it. My understanding is that on the first \$15 500 you do not attract a levy at all and your premium starts to be calculated from there on, based on the total wages bill. I would have suggested that that was a great benefit to small businesses.

**Mr THEOPHANOUS** — It is — about \$50 million.

**Mr SHEARER** — It is a substantial benefit to them and one I believe they should be extremely grateful for.

**Mr CRAIGE** — In your opening remarks you referred to the reintroduction of common-law rights and said that you were seeking additional benefits. We heard this morning that you are pursuing other areas and that in fact the trade union movement is looking for some levy to go on top of the current scheme to cover people who were not able to access common-law rights while they were abolished. Do you support that principle here in Ballarat?

**Mr SHEARER** — Let me say from the outset that that was a campaign that took place up to and including the time the new legislation was introduced. We lobbied the government very strongly to have it at 2.3 per cent instead of 2.22 per cent. That would have allowed a fund to be established to compensate those people who through no fault of their own but through the stupidity of the Kennett government lost their rights to access common law when they were injured in the workplace and the employer was negligent. The reality is we believed those people had been unfairly dealt with and we would have liked to see the levy go up for a period of time until some sort of mechanism could be put in place to give them some access to compensation. I would say to you very sincerely that I support that. However, that is not a major thrust for us at the moment and it is not what I was alluding to.

What I was alluding to in relation to workers compensation is that it is a fallacy to believe that workers who sustain injuries in the workplace do not lose out. I always find this with Workcover — if you are not injured, you do not give a stuff about the person who is. The reality is that time and again I have seen people ruined financially as a result of experiencing the adverse effects of a workplace injury. I do not believe that after X amount of time your benefits should be reduced. I believe if you are not fit for work or if there is no return-to-work program, whether it be for 13 weeks or 33 weeks, you should still receive 95 per cent or 100 per cent of your previous earnings. That is what I was alluding to.

**Mr CRAIGE** — Is that what you meant by initial benefits?

**Mr SHEARER** — Yes.



**Mr CRAIGE** — Are they the sorts of things like run-out period, that it is 100 per cent — —

**Mr SHEARER** — No, I am not advocating that there be no run-out period. What I am saying is if you looked at the time that most people who sustain workplace injuries miss work, you would be able to gauge a time that recovery from those injuries takes. I believe people should be adequately compensated during that time of incapacity.

**Mr CRAIGE** — Does it matter if premiums go up much?

**Mr SHEARER** — A lot of people disagree, but I would like to see a health system in Australia where we all paid adequately in additional taxes to ensure people can access health care if they need it. I believe the situation with workers compensation is very similar. I am probably being a bit fanciful in relation to it, a bit utopian, but I come from the abattoir sector: I spent 25 years working in the meat industry. I have seen many bad injuries and seen people lose out big time financially as a result of those injuries. It is a deplorable situation and one that needs to be addressed. Mind you, that is an individual opinion of Graeme Shearer and I do not want you to get off on a tangent thinking that anyone else in the trade union movement is pursuing that. However, it is something I will be raising in the future.

**Ms DARVENIZA** — Do you support an experience-rated system? If so, what do you think are the advantages of having those employers who have more injuries occur in their workplaces pay more money and those with fewer injuries pay less?

**Mr SHEARER** — You have asked me a question that I must answer honestly, and I do believe that the experience-rated system is all right. I think it has certain benefits — that is, it makes sure that employers in those areas have to lift their game and if they do not, they will receive significantly higher premiums. Those employers who do get out there and work hard in their workplaces in conjunction with their employees to make it a safe environment should be rewarded. It is a system which is all right. I do not have a problem with it.

**Mrs COOTE** — This is probably elaborating on the answer you gave Mr Craig, but why is it that the trade union movement supports the common-law system, given that both the Cain and Hawke governments severely restricted it? Could you give me an understanding of why it is that the trade union movement specifically wants to support the common-law system?

**Mr SHEARER** — We have a common-law system in place.

**Mrs COOTE** — We do now. Could you explain to me why it is exactly?

**Mr SHEARER** — Can we start by asking why was it removed? Why did the Kennett government get rid of it?

**Mrs COOTE** — I am asking you.

**Mr SHEARER** — I believe that if an employee sustains an injury in the workplace and there is negligence on the part of the employer, that employee should have every right to resort to the common law. It is a fundamental right which I believe workers should have.

**The CHAIRMAN** — I think we are getting a bit off the terms of reference with that question.

**Mr McQUILTEN** — This morning we heard from VECCI in Geelong that a number of people in that area have a view that they would like to have occupational health and safety taught in schools. I thought that was a good idea. What do you think about that concept?

**Mr SHEARER** — I do not have a problem with it whatsoever. I have always felt that occupational health and safety is not only the obligation of the employer, but also the obligation of the employee. It is a joint thing. It is in the interests of everyone to ensure that workplaces are safe. I think if we can introduce younger people to occupational health and safety and the need to look at doing things safely, doing it has to be positive.

**The CHAIRMAN** — Thank you very much for coming along today. We will send you a copy of the Hansard report for any corrections you may wish to submit to us. Thank you for your time.

**Witness withdrew.**

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into Workcover premiums for 2000–01

Ballarat – 12 December 2000

#### Members

Mr R. A. Best  
Mrs A. Coote  
Mr G. R. Craige  
Ms K. Darveniza

Mr N. B. Lucas  
Mr J. M. McQuilten  
Mr T. C. Theophanous

Chairman: Mr N. B. Lucas  
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#### Staff

Executive Officer: Mr R. Willis  
Research Officers: Mr M. Ryan and Ms K. Ellingford

#### Witness

Ms T. Browne, Group Manager, Health Safety & Environment, Bendix Mintex Pty Ltd.

**The CHAIRMAN** — We welcome Ms Tracey Browne, group manager, health safety and environment manager at Bendix Mintex. All evidence taken by this committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act. Would you like to make an opening statement and then we might ask some questions?

**Ms BROWNE** — I was asked to give an overview of our business and the size of the organisation we are talking about. Bendix Mintex manufactures friction material for the automotive industry. Our headquarters and main manufacturing site are located in Ballarat and have been for almost 50 years. Within Australia we employ in excess of 800 people in Ballarat, and salespeople at state offices, with our largest grouping being in Melbourne.

Bendix is an organisation that is committed to improving the health and safety performance within its sites. We employ and engage experienced health and safety professionals, and support our employees when they want to do some additional training to assist with that. Each year we spend large amounts of capital to upgrade equipment and processes to minimise the risk of injuries. We do have some issues that we are needing to deal with. Where our employees are injured, they are definitely entitled to compensation and assistance with return to work, and we recognise that it is our responsibility to fund that.

When talking about the premium — and definitely all I will focus on will be the initial premium for 2000–01 — I will focus on just one workplace, because it accounts for 85 per cent of our remuneration and 99 per cent of our premium — that is, the manufacturing site in Ballarat, which is registered under motor vehicle parts manufacturing (not elsewhere classified). There are a couple of other things in relation to what I will talk about. Because the GST is redeemable or claimable, any increases I will talk about exclude GST, and to overcome any changes due to movements in remuneration I will talk about movements in the percentage that we pay rather than in actual dollar figures.

I will give a bit of background. I have been involved with workers compensation premiums across a broad range of industries since 1989, so I have been involved with both Workcare and Workcover. The most frustrating part of the Workcare system was that premiums — or levies, as they were then called were unpredictable. Because of the relative nature of levy calculations, you could have significant improvement in your performance from a claims point of view and still end up with a much higher levy because everybody else in the industry also improved; the bonuses and penalties were based on where you sat in the industry, not where your pure performance was.

One of the major selling points of Workcover, when it was first introduced, was that the premium calculation would not be based on relative performance, it would be a pure experience-rated system, and employers would be able to be confident that if their claims experience improved, their premiums would also improve. Unfortunately experiences at Bendix in recent years have shown that that has not necessarily been the case. Our premiums are no more predictable now than they were back in 1992–93.

I have done an illustration of the movement of our premium since the Workcover system first came in. I have tried to show the comparisons between the movement in our claims experience and the movement in our premium. Because this information is confidential, for the public hearing I am presenting it without labels on the table or on the chart, but we are quite happy to provide to the committee the information on the actual rates being paid as a commercial-in-confidence document.

You will notice that I have graphed the claims–remuneration ratio, the line across the bottom, which shows the pure relationship between our claims costs, including estimates, and our remuneration before any of the factors that are used with the premium are taken into account. Although we definitely had some increases early on in the scheme, we have managed to maintain a reasonably even keel over more recent years, and in the past couple of years we have seen a reduction in our claims costs — at last.

The dark blue line at the top shows our experience factor as it has been calculated once the F factors have been applied to the premium. That shows a similar level of movement to our claims costs. That has enabled us to at least maintain our level of premium, although the reduced claims costs have not led to a reduction in the actual premium paid. The reason for that is the increase in F factors and the increase in the industry rate. On the right-hand side you will see that this year the industry rate went from 3.95 per cent to 4.78 per cent and that in 1998–99 it was 3.26 per cent, so we have had an increase each year. The F factors have also gone up from those that were applied last year.

The dark red line on the chart shows the premium rate that we are paying from year to year. The dotted line on the left-hand side and the straight line that goes to the highest point show the premium calculated without surcharges. Most of you would recall that there were surcharges on the system when it was first introduced. The other dotted

line shows where our premium would have been this year if the 1999–2000 industry rate and F factors had been used instead of the increased F factors. Because we are an industry and a fairly large organisation that understands the premium calculation and recognises what we can do to influence that, as the year progresses we do a fair amount of estimating to get a feel for whether we will have an increase or a decrease when a confirmed premium comes, and what sort of initial premium we can expect to receive each year.

For that reason we do calculations, based on the estimates that our insurer provides us and using the industry rates and the F factors that were applied the previous year, to which we add a bit — because we always expect it will go up and there is nothing worse than telling the financial controller that we think we will get a refund and then find we have to pay extra. We were obviously aware of the 17 per cent that was being discussed to fund common law and GST, so we factored that in as well. We received advice from our insurer of what the industry rate and the F factors would be, and the premium we calculated was around 16 per cent higher than our experience would have indicated — using the industry rate and F factors from the year before. We thought, ‘Yes, that sounds around about right; this higher rate has been talked about’. So once again we will have a situation where decreased claims costs have not given us a decreased premium — but at least it has not gone up.

Unfortunately when we got advice of our premium it had another 17 per cent on top of what we calculated. Given that I have been calculating the premium every time it has come out for the past however many years the system has been in place it seemed strange to me that for once my spreadsheet could not calculate the premium correctly. It was only through digging back through the booklet that indicates the premium calculation that I discovered the 17 per cent, which I call a surcharge although I do not know what other people may call it, where it talks about calculating the Workcover premium and multiplying everything by 1.17 or a lower number, if determined by Workcover. Effectively we ended up with an increase of around 34 per cent, not over and above what our premium was last year but over and above what our premium would have been based on our reduced claims costs using the same factors as we used last year.

Looking towards the future, as I mentioned the booklet talks about the premium being multiplied by 1.17, and it also states that the increase ensures that the costs associated with the change in legislation are covered. Given that claims estimates used for the calculation of the confirmed premium will include actual or estimated common-law costs associated with claims in the period — and presumably by then we will have an understanding of the impact of the GST, where it is not reclaimable — it seems to us that there can be no justification for applying to the confirmed premium the 17 per cent surcharge that has been applied on the initial premium.

We recognise that workers compensation systems are not insurance systems in the pure sense, and it should not be possible for an employer to insure against the injuries that they cause their employees. Premium systems should be designed to drive improved health and safety performance through a structured process of predictable incentives and penalties. However, it has been our experience over recent years that changes to F factors and industry rates have meant that a decrease in claims costs has not been reflected in a decrease in premium. For us this is in spite of significant resources being allocated to prevention, improvement in our workplaces, improvement in our processes and the management of claims when they do occur, and really making serious attempts at helping people to return not just to work, but also to their normal lifestyle.

The difficult thing for us is that we cannot illustrate that an improvement in claims costs is leading to an improvement in premium. Each year we have to illustrate to our executives what our premium would have been if we had not reduced our claims costs. For us it has remained the same, so I have to do a whole lot of illustrations for them and say, ‘Yes, it has not gone down this year, but this is where it would have been if we had not reduced our claims costs from where they were last year’. I request that the committee recognise that the Workcover premium system must deliver. It must help to improve health and safety performance and claims management by providing a system where employers know that if they invest in improvements in health and safety they will have improvements in their premium.

The initial premium for 2000–01 did not deliver that for Bendix. We have reduced claims costs but, unlike previous years, we did not get a decreased premium — in fact, we had an increased premium. As I said, the 2000–01 confirmed premium will include real claims costs and estimates based on the expectation of common law. For that reason we believe the application of the 17 per cent surcharge on the confirmed premium cannot be justified.

**Mr BEST** — Can you give me an indication in dollar terms of the difference between the top red line and the bottom dotted red line?

**Ms BROWNE** — I can. It is around \$600 000.

**Mr BEST** — About \$600 000?

**Ms BROWNE** — Yes.

**Mr BEST** — What impact will that have on your company?

**Ms BROWNE** — I suppose we are lucky, we are a big business and for us it obviously has an impact on the bottom line. It certainly does not lead us to a situation of thinking, 'Is this the time to be moving out of Victoria?', or anything like that. We are committed to Victoria and to Ballarat, but as a business it has an impact on the bottom line. From the perspective of using Workcover premiums as a way to help drive safety improvements, it starts to lose its credibility over a period of time.

**Mr BEST** — What money have you invested over the past three to five years in occupational health and safety measures?

**Ms BROWNE** — In capital directly, each year probably around between \$0.5 million and \$1 million directly on health and safety improvements only, but we have had some major capital projects in the multimillion dollars — in fact, I would hate to even anticipate what they were — in which we have always incorporated our health and safety improvements as well. Our justification for those projects is based on productivity improvements, cost savings and health and safety improvements.

**Mr BEST** — So when inspectors turn up at your site, as unquestionably they will, what improvements are you expecting them to demand of your company?

**Ms BROWNE** — From a health and safety perspective the local field officers recognise what we are doing. They have a reasonable amount of involvement in our site because of our size and see the change from year to year, and from the start of the year to the end of the year, so they recognise that those changes are occurring. I suppose they could always find something they want to ask us to change straightaway, but I believe they are fairly comfortable that we are committed and are making the changes — —

**Mr BEST** — I suppose my point is that on paper you look to be a responsible company tackling occupational health and safety issues, but there is little incentive when you get a \$600 000 increase in Workcover costs.

**Ms BROWNE** — That is where I am very lucky as a safety manager at Bendix Mintex that the company is committed to improving health and safety irrespective of the Workcover dollars. For me that is a justification process that I would have to explain. A lot of businesses do not have that level of focus — and I have worked in them myself — and the only way they can justify health and safety improvements is through an improved premium. If I were relying on that in Bendix I would be having difficulties.

**Mr BEST** — Is there a consideration for you to self-insure, given the investment?

**Ms BROWNE** — It is something to be considered. It is not something we are pursuing at this stage.

**Mr THEOPHANOUS** — How much is the total wages bill?

**Ms BROWNE** — It is \$35 million.

**Mr THEOPHANOUS** — So it is \$600 000 in \$35 million. You made a statement earlier and essentially you said that the 17 per cent could not be justified, or words to that effect. When you say the 17 per cent surcharge, are you referring to the 15 per cent for common-law claims plus the 2 per cent for the GST?

**Ms BROWNE** — I am referring to the 1.17 that you multiply the premium by once it has been calculated. If that is part of it, then yes.

**Mr THEOPHANOUS** — When it was elected the government had a very clear policy to return common-law rights. There was a calculation that that would cost 15 per cent. That was stated up-front; companies were notified about that. There was an additional issue outside of the control of the Victorian government, which was the 2 per cent for the GST, but those charges were well-known well in advance. I do not follow your argument in saying that it could not be justified. You might not agree with bringing back common-law rights, but that is a different issue.

**Ms BROWNE** — That is not what I am saying. What I am saying is we have an experience-rated system which takes into account claims costs incurred and estimates of costs. We have the claims costs in the system and we then multiply them by F factors to get an actuarial analysis and calculate the premium from that. If we have history which shows what our common-law costs are going to be and we have estimates of common-law claims, then the people who should be bearing the costs of those common-law claims are the employers who are likely to have them.

**Mr THEOPHANOUS** — The problem is we have not had common-law claims for three years, so it is hard to have a history. That is why the decision was made to make a 15 per cent across-the-board increase to cover the prospective claims. It was estimated that the common-law aspect for the whole of Victoria was going to cost 15 per cent, but it is a bit hard to determine how much to charge each company based on history when there is no history.

**Ms BROWNE** — If that is the case, if you have an employer who has common-law claims anticipated and the cost of that is included in the estimate, they will wear that 15 per cent twice because they have common-law claims and an extra 15 per cent on top of that.

**Mr THEOPHANOUS** — There was a three-year period when there were no common-law claims. The experience rating you are talking about concerns the previous government's common-law claims until a certain point in 1997 when that part of the system was abolished. It is true that the claims in that period have been structured into your experience rating, but there was no experience in common-law claims between 1997 and 2000 to base anything on. I do not want to get into an argument about it; I am just pointing out that it was pretty hard to have an experience rating when there was no experience.

**The CHAIRMAN** — We are running out of time. Do you have a quick question?

**Mr THEOPHANOUS** — My quick question is it seems to me that except for this issue of common-law claims the graph more or less traces your experience as an industry. If you look at the blue line and the red line you see that as your blue line goes up the red line starts to go up and it follows it to a very significant extent except for last year, which is a common-law issue. I would say to you that if you have a good track record over the next few years on common-law claims, you will see it start to track in the same way as it has in the past.

**Ms BROWNE** — I am sure that the system will claim to have enough background and history to put estimates on any claims that are likely to have a common-law basis. If there is enough history to do that, it would seem reasonable that that history should also be able to be applied so that people with common-law claims do not get hit by it twice.

**Mrs COOTE** — Briefly, could you give me your understanding of what the F factor is and how it is calculated?

**Ms BROWNE** — My understanding is that at the end of the year when all the claims costs, estimates and remuneration are in the system, a sophisticated computer program is run which applies actuarial data and works out what is needed to fund the system to determine what F factors need to be applied to the claims of the organisations and the insurers within the system.

**Mrs COOTE** — In your opinion, could you have different actuaries saying different things?

**Ms BROWNE** — Yes.

**Mr CRAIGE** — In respect of the well-known fact of common-law rates going up, were you, as a practitioner in the field, aware that there would be rounding up occurring and that the industry classifications were going to change as well?

**Ms BROWNE** — Industry rates change on a regular basis. I expected the industry rates and the F factors would be the way the 17 per cent would be funded.

**Mr CRAIGE** — Is 15 per cent going to be enough to cover for common-law claims, seeing we have had this lack of experience over the past three years?

**Ms BROWNE** — I have no idea.

**Ms DARVENIZA** — You have given us some information about your premiums and how they have increased recently and in the past. It would be helpful to the committee if we were able to get some more information from Workcover about your company. Do you have any problem with us getting that information?

**Ms BROWNE** — As long as it is not on the public record, that is fine.

**The CHAIRMAN** — Thank you very much for coming along today and giving evidence to us. We will have a transcript from Hansard which we will make available to you as soon as we can. If we have anything wrong you can let us know. Thank you for coming along.

**Witness withdrew.**

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into Workcover premiums for 2000–01

Ballarat – 12 December 2000

#### Members

Mr R. A. Best  
Mrs A. Coote  
Mr G. R. Craige  
Ms K. Darveniza

Mr N. B. Lucas  
Mr J. M. McQuilten  
Mr T. C. Theophanous

Chairman: Mr N. B. Lucas  
Deputy Chairman: Mr T. C. Theophanous

#### Staff

Executive Officer: Mr R. Willis  
Research Officers: Mr M. Ryan and Ms K. Ellingford

#### Witness

Mr P. O'Brien, Manager, Employee Services, Ballarat City Council.



**The CHAIRMAN** — I welcome Mr Peter O'Brien, the manager of employee services with the Ballarat City Council. All evidence taken by this committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act. Would you like to make a brief submission and then we might ask some questions?

**Mr O'BRIEN** — It is probably appropriate to give an outline of the Ballarat City Council. We have just under 800 staff: we have a full-time equivalent work force of about 500. That covers full-time, part-time and casual staff, of which we have large numbers. From an occupational health and safety perspective, it is very diverse. We have people working in all sorts of categories with all sorts of risks. That diversity ranges from the normal maintenance construction groups through to home care. I am sure you would appreciate that with home care, occupational health and safety is a bit more difficult when people are working in other people's homes. There is quite a diversity of work.

Two years ago we realised that our Workcover premiums were quite high and as an organisation we wanted to do something tangible to change that. At that stage we had some grand visions of being able to do that over something like a three-year cycle. I can assure you that that was optimistic, to say the least. We set up a strategic plan, and I would like to spend a couple of minutes illustrating that to show that as an organisation we are committed to that change, and that might explain some of my responses as we go through.

We set out a strategic plan working from the grassroots up. We based that plan on the safety map concept and went about putting resources into our organisation to see if we could raise the profile of occupational health and safety, as it just was not there. We went through training of all our supervisors and occupational health and safety people together. We put something like 50 people through a five-day course. We hired an occupational safety and health coordinator, which is a terrific advantage for us. We established structures in our business units and appointed safety representative groups at the business unit level and a peak committee for the council to oversee occupational health and safety. We put all our line managers through training. We aspired to and achieved the first level of safety map last year, and we had an increased focus on return to work. We had a genuine commitment to saying we wanted to provide a safe working environment; that is where we are coming from.

Our journey has been fairly turbulent. Having listened to the previous speaker, I agree that trying to estimate premiums is a trick in itself. I have had stabs at that over the past four or five years and I am lucky to get close to it. We have spent a lot of time over the past few months having a much better appreciation of modelling and trying to get behind the figures and get an understanding of them. From a practical viewpoint we are fairly disillusioned. I will speak to you about that later.

To give you some perspective, our confirmed premium for 1997-98 was \$500 000-odd. In 1998-99 it was \$737 000, and in 1999-2000 it was \$848 000. There are reasons behind that. Some of our early figures had cappings in them so we were not performing as we thought we were. Our 1999-2000 figure of \$840 000 was on an annual remuneration of about \$19 million. That was uncapped, so we were obviously seeing some progress by getting under that capping, for a start.

When we got our initial budget in early July we had anticipated in the budgeting process adding about \$160 000 to our bill. If you ask me on what scientific basis we did that, it was probably more a flip of a coin because I have spent a lot of time trying to estimate that and it is extremely difficult. It is something we have to focus on. For Ballarat we put \$1 million into our budget process, which is a substantial sum of money. That is despite our efforts of the past two years in trying to move in the right direction. I will talk about some of the signs where we think in terms of claims costs but it is not reflected in the premium.

When our insurers advised us in July that our initial premium for this year was \$1.5 million, that had to be discounted through the GST premium and discounts for early payments. After getting over the shock of that, as an organisation we had to find \$284 000. We did that not by reducing services but by putting in a revised budget and doing all that goes with that, such as explaining to ratepayers why we need to increase the budget. To give you some idea of the breakdown of the initial cost put to us by the insurers, 17 per cent of that is \$202 000, GST was \$139 000, the increase due to remuneration — and this is a particular concern of ours because we are a recruiting organisation — was \$194 000, the industry rate increase was \$53 000 and the claims experience part was \$94 000.

Within our council we have something like 20 designated workplaces and we traverse about 12 industry classifications. We are pretty much aware of where we need to improve. One of our workplaces is Arrandale House. To give you some idea of the costs of providing a home-care service, of that figure I mentioned before, that particular workplace equates to about \$718 000. We have 200 home-care workers managed from that workplace,

so that becomes the designated workplace. We are spending a lot of time and energy in trying to understand and reduce injuries in that area of home care.

From a budgeting point of view, if you have a look at that cost, you see that comes out at an initial calculated cost of 14 per cent. That 14 per cent on a remuneration of \$5.127 million is fairly considerable. We have put a lot of energy into trying to understand and improve it. I should point out that Arrandale House is not just home care; we have a lot of office and family day-care staff in that building; it is wrong to say it is exclusively home care, even though they do take a fair portion of it. When we looked at our costs for this year, which were \$103 527, we viewed that as our claims costs coming down. This is the dilemma we have. We appear, from a practical sense, to be improving and reducing our costs, but our premiums are not coming down.

If you logically examine the \$103 000 figure you will see that it really costs seven times as much as the Workcover premium — it costs seven times more than the claims. That in itself is fairly enlightening. To illustrate that, in 1998–99 our claims costs in Arrandale House were \$162 000, and for 1999–2000 they were \$103 000. We realise there is more to it than that, but the occupational health and safety committee has spent many hours trying to understand why we appear to be doing the right thing and yet cop quite a substantial increase. We are still musing over that.

We spent many hours visiting other councils of similar sizes to try to get some understanding of how people can reduce their premiums. On many nights I have sat at home feeling that the only way we can reduce our premiums is to probably take radical surgery — to get out of the complicated premium Workcover formulas that are implemented.

In relation to the F factors — I refer to them as fudge factors; I hope I do not upset anybody — each year we try to get an understanding as we try to predict the premiums that the F factors have changed. It is very hard in the work force to understand and to sell that concept — where the bucket, if you like, is amended and the F factors are increased. We are still trying to get a better understanding of the industry classifications.

From our point of view we need to improve our modelling and our understanding. As I said before, we can probably do much more of an analysis of that — and we should — but I have a feeling that we have been frustrated by the Workcover experience in the past three or four years trying to understand that concept, that if you really do improve there should be some sort of reduction in premium.

The issues that are confronting in the latest rounds are: the unexpected size of the increase; the lateness of the announcement — even though we tried to add some of the money into the budget estimates, we were pretty much well out; the shortness of notice of the 5 per cent discounts — which we did take up, but it was short notice; and the effects on the budget. As I illustrated before, it really came at the end of our budgetary process. So we had to issue a revised budget, which had to go back out to the public, and we had to explain why we needed to find the additional \$285 000. The decision taken then was certainly not to cut the service, but we do have to find the extra income — and that is obviously an increase in rates.

**The CHAIRMAN** — We will have to get on to some questions. Have you nearly finished?

**Mr O'BRIEN** — I can wind up. The last one was the impact on employment in terms of the rateable remuneration. We have an increased demand, especially in our home care area, and that certainly causes issues for us with the multiplier effect it has on our Workcover premiums in that area.

**Mr BEST** — The common theme that has come through so far in the evidence we have taken is that, particularly with aged care facilities and nursing home services, while claims experiences are reducing, premiums are going up. To me it appears odd that one particular component of the industry seems to be copping such a uniform increase, when individuals are doing well. I cannot yet understand where all the bad people in the industry are.

**Mr O'BRIEN** — In my experience we have looked at things like the number of people who are injured — and they are not large numbers and they vary in terms of injury. It might be assumed that if you have a very high premium you would have a fairly horrific track record. But when we look at the data it does not seem to match. We are a bit perplexed by that question.

**Mr BEST** — I can understand it. You said that you would have to increase municipal rates to assist in offsetting the impact of the Workcover premiums. What sorts of increase is the council looking at?

**Mr O'BRIEN** — That increase was in the vicinity of the \$284 000 that was unbudgeted.

**Mr BEST** — I suppose my point is: what is that in percentage terms?

**Mr O'BRIEN** — I have not worked it out in percentage terms.

**Mr McQUILTEN** — How much has the GST cost the council in relation to the cost of Workcover?

**Mr O'BRIEN** — We were told it was around \$138 000 in the breakdown we were given. In that original figure, where I mentioned 1.5, because we did a budget for an amount, it was \$139 000.

**Mrs COOTE** — You spoke about wanting to improve your modelling and feeling there was a need for it.

**Mr O'BRIEN** — Yes.

**Mrs COOTE** — Did Workcover give you any indication of any economic modelling it may have done for your area or the local government sector before it announced the increases? Did it give you any help and assistance with what the impact would have been, and is it continuing to do so?

**Mr O'BRIEN** — We are certainly getting much better support from our insurers, and we are getting a better understanding of all the modelling. That is certainly a great help; there is no doubt that that is very helpful.

**Mrs COOTE** — How was it at the beginning?

**Mr O'BRIEN** — I would say that in our case it was more or less halfway through. We tended to get a lot of modelling around June. The advice at that stage was that what we were estimating — I should point out that we were also estimating this in February, when we were doing our budgeting. We were trying to best-estimate — and that is a pretty raw form of estimating, so we need to finetune that significantly. Certainly in my role of providing advice on the budgeting process — you have to be much closer than what we — —

**Mrs COOTE** — Is what they predicted and their modelling very different from what you are experiencing?

**Mr O'BRIEN** — As we got a better understanding and better communication with our insurers I found that their modelling was much better.

**Mr THEOPHANOUS** — Mr O'Brien, thank you for coming along. I am trying to get a grip on exactly how the council has been affected. You say the increase was around \$200 000?

**Mr O'BRIEN** — Yes.

**Mr THEOPHANOUS** — What is that as a percentage? What did your premiums go up by?

**Mr O'BRIEN** — If it is \$284 000, as distinct from — if I used as an example our previous confirmed premium I would need to check, but I have a feeling it is about point 1 something per cent.

**Mr THEOPHANOUS** — Point 1?

**Mr O'BRIEN** — Yes, but I would need to check that. That would be working on a labour budget of around \$20 million, or \$21 million, I think it would be.

**Mr THEOPHANOUS** — But you would have been aware in advance that there was to be a 15 per cent increase?

**Mr O'BRIEN** — Yes.

**Mr THEOPHANOUS** — Plus 2 per cent for the GST — you knew that?

**Mr O'BRIEN** — Yes.

**Mr THEOPHANOUS** — You also knew there would be a 10 per cent GST on top of that, which would be refundable. All those things would have been known to you?

**Mr O'BRIEN** — At the time we were certainly aware of around about the 15 per cent we were budgeting for. That was the real figure I was aware of in February when we were doing that.

**Mr THEOPHANOUS** — I am not sure if we are talking the same language; when you say 1 per cent I think you are talking about the percentage of wages. Other than the 15 per cent and the GST increases has there been any other increase; and if there has, is it related to a poorer performance record from the council?

**Mr O'BRIEN** — That is where we have been trying to get an understanding of the breakdown costs I referred to. We were told that the very fact that we had increased our rateable remuneration — —

**Ms DARVENIZA** — Sorry, you increased your — —

**Mr O'BRIEN** — We increased our rateable remuneration; that added around \$194 000 to that premium.

**Mr THEOPHANOUS** — You put on enough people so there was \$194 000 of increased — —

**Mr O'BRIEN** — Yes.

**Mr THEOPHANOUS** — That explains \$194 000 out of the \$230 000?

**Mr O'BRIEN** — Yes.

**Mr THEOPHANOUS** — So really the increase has been minimal, has it not?

**Mr O'BRIEN** — The industry rate increases were 53 and the claims experience was credited at 94.

**Mr THEOPHANOUS** — I suggest to you that really what has happened is that you have increased your work force and your remuneration and that as a result you would expect to pay a bit more in Workcover premiums. It sounds to me as though you have done all right — not quite as good as the Maribyrnong council, which we heard this morning reduced its premium by about \$50 000 or something.

**Mr O'BRIEN** — I am aware that councils of similar size to ours certainly pay less than ours does, and we are doing some work now to find out what it is they do that we do not. But as I mentioned before, rateable increases, especially in home care, as we are continuing to employ people, that is what I am not sure of. If we were to maintain our existing status quo, yes, we would pay more. What we do not know is what a corresponding claims decrease really does. We are now trying to get our minds around, in a practical sense, that if we are employing people, then yes, our rate of remuneration will go higher.

**Mr THEOPHANOUS** — It seems to me that you are not really unhappy with the premium-setting structure but that you would like some more assistance with how to get your organisation's premiums in a shape that they would be reduced. Is that a reasonable — —

**Mr O'BRIEN** — We would certainly not knock back any assistance. But as I said, by trying to understand it, one of the issues we are focusing on are claims, F factors, industry rates and trying to get a better estimate into our budgeting process. They are the key issues.

**The CHAIRMAN** — Mr O'Brien, thank you for coming along today. We will send to you a copy of the Hansard record of our discussions to which you may make suggestions or alterations. Thank you for your time.

**Witness withdrew.**

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into Workcover premiums for 2000-01

Ballarat – 12 December 2000

#### Members

Mr R. A. Best  
Mrs A. Coote  
Mr G. R. Craige  
Ms K. Darveniza

Mr N. B. Lucas  
Mr J. M. McQuilten  
Mr T. C. Theophanous

Chairman: Mr N. B. Lucas  
Deputy Chairman: Mr T. C. Theophanous

#### Staff

Executive Officer: Mr R. Willis  
Research Officers: Mr M. Ryan and Ms K. Ellingford

#### Witness

Mr T. Ryan, Owner–Proprietor, Designer Commercial Furniture.

**The CHAIRMAN** — We welcome Mr Trevor Ryan, who is a designer of commercial furniture. Is that the right description?

**Mr RYAN** — Yes, that will do.

**The CHAIRMAN** — All evidence taken by this committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act. I invite you to make an opening submission, after which we will ask you some questions.

**Mr RYAN** — Thank you for your time and welcome to sunny Ballarat. I will give a brief overview. We are a microbusiness with only six persons, including myself and a part-timer. The business was formed in 1983 and I bought it in 1995. In that 17 years we have had one workers compensation claim. The previous owner assured me it previously did not have any, and we had one in 1996.

I do not want to focus purely on the latest increase, which for us is of 50 per cent, which is pretty high, but more on the overall scheme of things. I have some figures, which I can leave. I know you are getting saturated with the statistics, but in 1995–96, when I purchased the business, the total premium was \$3000. We have had one claim — in 1996, as I said — but our premium is now \$13 500, which is well over a 300 per cent increase in five years.

**Mr McQUILTEN** — How much was the claim actually?

**Mr RYAN** — The claim was just settled a couple of months ago for \$240 000.

**Ms DARVENIZA** — Over how many years?

**Mr RYAN** — Five years: in 1995 it was \$3000 and it is now \$13 500.

**Mr THEOPHANOUS** — But you have had an increase in remuneration, presumably?

**Mr RYAN** — Our remuneration in 1995 was \$123 000; this year it is \$150 000.

**Mr THEOPHANOUS** — That is not much, is it?

**Mr RYAN** — It is not much of an increase in remuneration for more than a 300 per cent increase in premium.

**Mr THEOPHANOUS** — That has steadily gone up every year?

**Mr RYAN** — In 1996–97, before we even had the claim, our premium went up 62 per cent. So it has —

**Mr CRAIGE** — It has gone up more this year, though?

**Mr THEOPHANOUS** — I do not know about that — —

**The CHAIRMAN** — Let us allow the witness to make his statement, and then we will ask some questions.

**Mr RYAN** — Basically I suppose we find that even though we are a very small business, it is very time consuming and costly each month or year for us to review it, check it, look at the paperwork we get from Workcover and make telephone inquiries to our insurer trying to be sure that we are doing everything right and we understand what is going on. Obviously you are here to look at the whole box and dice and not just one aspect of it. We get forms and on the form it says, 'Column A plus column B less column C equals this' and it never does. You do not know what is going on. For years we did not know what our industry rate was and we did not know what our personal rate was. Since the claim and the latest changes we now know far more about it. We have put an effort into finding out, writing letters and asking for explanations. To me it is indicative of a too cumbersome process.

Talking about the City of Ballarat and Peter there, his paperwork would be enormous. This pile is our paperwork for one year and that pile is our insurance for other stuff, which is a couple of pages. I cannot see why it cannot be as simple as looking at the situation and negotiating a premium for the year instead of fiddling with it, adjusting it, and not knowing who is doing what. You do not seem to have any control over it. When we had the claim I felt that I was totally separate from what was going on. I was asked for a statement but other than that I had no involvement

with it: a settlement was made which I was told about later on. I was not told how it would affect the premium. We are still trying to get written responses about what our premium is likely to be in the future. A few years ago our rate was 4.02 per cent. It is now 7.8 per cent and apparently that is as high as it is going to go, but they cannot tell me what will happen to it next year, whether it will go down and if so by how much and over what period it will go down. The insurer just says it does not know. Although it is small bikkies compared with some industries and businesses it is still something we want to know so we can budget for it.

Basically the simple message for me is it needs to be simplified. It is impossible to understand. You get advice and you have to ask for explanations. On one occasion we asked for advice and got photocopies of computer print-outs. We then had to ask what it meant because it was full of codes and did not mean much.

**Mr BEST** — What industry description category do you fall under?

**Mr RYAN** — I have that in one of the forms. I think it is furniture manufacturing — not steel or something; furniture, excluding sheet metal manufacturing, re-upholstery, French polishing, shopfitting manufacturing.

**Mr BEST** — Is the rate 4.78 per cent?

**Mr RYAN** — I do not know, it does not say that.

**Mr BEST** — That is the current industry rate. It says that your industry rate for 2000–01 is 4.78 per cent. What did you say you were paying?

**Mr RYAN** — We are paying 7.8 per cent.

**Mr BEST** — How are you paying above the industry rate? Is it because of that one claim?

**Mr RYAN** — They said it was because of the claim.

**Mr BEST** — How many years ago was that?

**Mr RYAN** — It was 1996.

**Mr McQUILTEN** — It was only four years ago but it was a \$240 000 claim.

**Mr BEST** — Isn't it the last three years' experience?

**Mr THEOPHANOUS** — Yes. When was the claim?

**Mr BEST** — In 1996.

**Mr RYAN** — You can only be guided by your insurers, especially when it is all new and you have never had a claim before, but in 1996 we were told that the claim cost was expected to be \$88 000 and then they settled for \$240 000. We wondered where that came from. You have no input; you do not know where it comes from.

**Mr BEST** — Did you want to contest the injury or the evidence at any stage?

**Mr RYAN** — I suppose you have to accept that the buck stops with me; I am the employer. I could go into how I took things out of his hands to stop him trying to do things, but he was one of these blokes who had to prove he could do it anyway. There is only so much supervision you can do, but I will not go into it.

**Mr BEST** — I have had people discuss the issue with me and they are disappointed that they do not get the opportunity of having their day in court. The insurance company does a deal, signs off and gets on with it, but there is a point where the employer would like an opportunity of putting his side of the case.

**Mr RYAN** — It has been a good education for me. My background was helping people with disabilities get back into the work force. I thought I had some idea of what the system was about but I had almost no knowledge when it came to this sort of thing. It has been a good learning experience. We now have policy manuals, and we have an OHS committee and have put all sorts of things into place to try and improve the work environment.



**Mrs COOTE** — You gave an indication that the communication about the premium increases et cetera was less than good in your instance and continues to be less than good. Someone else who talked to us today explained that they had had a great deal of trouble here in Ballarat. Do you deal with the Ballarat Workcover Authority branch or with Melbourne specifically?

**Mr RYAN** — We mainly deal through the insurer HIH.

**Mrs COOTE** — Do you have any problem getting the sort of information that you need?

**Mr RYAN** — Yes.

**Mrs COOTE** — You do. Could you give me some understanding of what you think the F factors are?

**Mr RYAN** — The F factors?

**Mr CRAIGE** — Do you know what they are?

**Mr RYAN** — I do not understand the terminology.

**Mrs COOTE** — Okay.

**Mr THEOPHANOUS** — I am not certain about your industry classification. Unless it is written down there we need to check it.

**Mr RYAN** — The industry rate is 4.78 per cent.

**Mr THEOPHANOUS** — Do you mind if we ask the Victorian Workcover Authority for information about how they calculated your claims to assist our inquiry?

**Mr RYAN** — I got a response from the minister's office because I put in a query about it. The letter is from Bob Cameron, MP. His letter is where I first found out what our industry rate was and what our own rate was. That was in November.

**Mr THEOPHANOUS** — Do you mind us having a look at it?

**Mr RYAN** — Of course not.

**Mr THEOPHANOUS** — Are you aware that there was a policy under the previous government of increasing the premium rate for small businesses like yours by 20 per cent every year until they reached the industry rate? Are you aware of that policy?

**Mr RYAN** — No, but I am also not aware of what our rate was in comparison with the industry rate in bygone years.

**Mr THEOPHANOUS** — You said it went up progressively over a number of years?

**Mr RYAN** — The number of dollars we paid each year did, but how that related to our rate or the industry rate, I do not know.

**The CHAIRMAN** — Thank you very much for coming today. We will send you a copy of the Hansard record of our discussion. Thank you very much for your time.

**Witness withdrew.**

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Ballarat – 12 December 2000

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Chairman: Mr N. B. Lucas  
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#### Staff

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Research Officers: Mr M. Ryan and Ms K. Ellingford

#### Witnesses

Mr I. Manton, Managing Director; and  
Mr G. Harvey, Finance Director, Valcor Australia Sales Pty Ltd.

**The CHAIRMAN** — I declare the hearing reopened. I welcome Mr Ian Manton, managing director, and Mr Grant Harvey, finance director, of Valcor Australia Sales Pty Ltd. Firstly, I thank you for coming earlier than originally planned; the committee very much appreciates it. All evidence taken by this committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act. I hand it over to either of you to make an opening statement, after which we will ask some questions. We have about 15 minutes in which to do all that.

**Mr HARVEY** — We have prepared some information. I did not realise so many people would be involved and have only two copies. We will hand them to the research officer.

**The CHAIRMAN** — Thank you; we will look at that.

**Mr HARVEY** — The main reason we want to make a submission to the committee is the level of increase in our Workcover premium. Over the past year it has gone up 54 per cent, and in the documentation I have handed out is a table that shows the increase. A point to also note is that the wages the increase is against have not gone up very much at all. We are looking at basically the same level of wages but with a 54 per cent increase in premium, so the increase in premium is not the result of an increase in our wages. They are basically static from one year to the next. That is the first point to note.

The other point is that our safety record has been very good. We have not had a Workcover claim in over five years. We take health and safety very seriously at Valcor, and really our contention is that we should be getting a decrease in premium, not an increase. There should be some sort of no-claim bonus here because we try pretty hard and we spend a lot of money on health and safety.

**Mr McQUILTEN** — How big is your payroll, roughly?

**Mr HARVEY** — Our payroll is around \$2.5 million. That is the total, and the Victorian content is probably not quite as much as that.

**Mr MANTON** — It is \$1.5 million in Victoria.

**Mr HARVEY** — Yes, we operate Australia wide. The Victorian content is around \$1.9 million — or actually just on \$2 million.

**The CHAIRMAN** — Your concern is that the premium went up 54 per cent this year?

**Mr HARVEY** — Yes.

**The CHAIRMAN** — Your remuneration has not gone up, and you have had an excellent claims record?

**Mr HARVEY** — Yes.

**The CHAIRMAN** — What did you do as a result of getting that increase?

**Mr HARVEY** — We contacted our agent, HIH. It thought there may have been a problem in that we have changed our company name as a result of a restructuring and it referred me directly to Workcover to try to sort that out. But I must admit that I have not had much success there. I finally talked to someone there, who said they were about four months behind in answering queries, from clients, I suppose.

**The CHAIRMAN** — Do you think the 54 per cent increase may have resulted from your industry rate — your business going to a higher figure?

**Mr HARVEY** — No, we certainly have not changed the way we do things or what we manufacture or anything like that. The business is identical. There should not — —

**Mr McQUILTEN** — Is the 54 per cent inclusive of the GST or not?

**Mr HARVEY** — No, we have eliminated the GST right out of it. All the figures I have given to the committee are exclusive of the GST.

**The CHAIRMAN** — What effect will the increase have on your business?

**Mr HARVEY** — Like any business we have to marry our revenue with our expenses — it is simple economics. We have to control our costs, and we have found that we basically cannot employ any more people. We should have; we have enough work to employ more people but we are making do. We are trying to control the costs of the business.

**The CHAIRMAN** — If you put more employees on, could you not produce more and generate more income?

**Mr HARVEY** — We are trying to get it through productivity; we are trying to overcome our problems by working harder.

**The CHAIRMAN** — Management has made a decision not to put more staff on because of the Workcover problem?

**Mr HARVEY** — Yes — well, we have to control our costs. Overall we look at our costs and we have to control them. This represents a \$20 000-odd increase in costs and we have to pick it up somewhere.

**Mr MANTON** — For example, if we had to put on an apprentice we would seriously consider holding back on the appointment of the apprentice now. The apprentice program costs something in the order of \$20 000 per apprentice. This is a real concern for us because we need young people coming into our organisation. This would certainly have an impost on our business and hold us back on making an appointment. I would like to add that we invest a lot of money on a health and safety system and procedures. We have people trained, and I am surprised that we have not had any recognition for the investment we have made with regard to the prevention of injury and of illness within our organisation. This is also a real concern to us.

**Ms DARVENIZA** — What have your premiums been like over the past five years? Have they been increasing?

**Mr HARVEY** — They have been fairly static — a slight increase.

**Ms DARVENIZA** — There have been slight increases each year over the past five years?

**Mr HARVEY** — Yes — —

**Ms DARVENIZA** — Would that be right?

**Mr HARVEY** — For instance, for the Ballarat manufacturing facility the premium in 1998–99 was \$22 657 and in 1999–2000 it was \$26 568, and the estimated premium — or the initial premium, to keep the jargon right — this year is \$40 906.

**Mr BEST** — You have had a very limited claims experience?

**Mr HARVEY** — Yes. One of the documents I have handed out is a computer screen-print from HHH, our agent. That shows we have had no claims since 1995.

**Mr BEST** — No claims whatever?

**Mr HARVEY** — No claims at all. Richard, you have a copy of that in one of those — —

**Mr McQUILTEN** — I have a problem here, Grant. You have said there is a 54 per cent increase without the GST?

**Mr HARVEY** — Yes.

**Mr McQUILTEN** — In 1999 the premium was \$26 500. I would have thought that if the increase is 54 per cent, the premium is about \$41 000?

**Mr HARVEY** — Right, from \$26 000 to \$41 000.

**Mr McQUILTEN** — We know what the percentage of that is. Apart from the return to common law, you do not know of any other reason?

**Mr HARVEY** — No. We heard through press releases and so on that we should have expected about a 15 per cent increase, that was the increase bandied around that we would suffer as a result of the return to common law.

**Ms DARVENIZA** — It would be helpful to the committee if we were able to look at the information Workcover has about your organisation. Do you have any problem with Workcover making that information available?

**Mr HARVEY** — No. We have actually given you copies — well, a screen-print, anyway.

**Mr CRAIGE** — So you have had no satisfactory answer or clear explanation about the increase this year? You understand there is the common-law factor — —

**Mr HARVEY** — Yes.

**Mr CRAIGE** — But you have not been able to get any answer to this stage on where the other increases occurred?

**Mr HARVEY** — No. I wrote a letter to Workcover basically saying that HIH directed us to them and to please look at a particular factor — which I just cannot remember. It was a very technical factor — a succession rate or something like that — because that may be the reason why there is an increase.

**Mr CRAIGE** — You indicated before that you had changed your business name or something?

**Mr HARVEY** — Right.

**Mr CRAIGE** — Can you give us a bit of detail, without being too specific, about what happened there?

**Mr HARVEY** — It was a restructuring within the group, just a division or a splitting of the company into two companies. That is basically what it was. All the employees went across to another company — from the company named Valcor Australia Pty Limited to Valcor Australia Sales Pty Limited. It was just a — —

**Mr CRAIGE** — Did you get a new ABN and so on?

**Mr HARVEY** — Yes.

**Mr CRAIGE** — That could be a part of it?

**Mr HARVEY** — It could possibly be one of the reasons. That is what HIH picked up and why it said, 'Please get Workcover to check this succession. It may be that the history has not gone through'.

**Mr CRAIGE** — But I think with succession, if you go into another business which has a pre-existing record you actually get that. But if it is new there is nothing there because you are not going into anything. I mean, there is no liability — —

**Mr McQUILTEN** — Was it a shelf company? If it was a shelf company it may have a history.

**Mr HARVEY** — I do not know.

**Mr CRAIGE** — That could be part of the explanation?

**Mr HARVEY** — It could be, but we cannot get an explanation out of Workcover.

**Mr THEOPHANOUS** — Do you know if your industry rate went up?

**Mr HARVEY** — No, all the industry things were exactly the same. We were given the same — —

**Mr BEST** — Classification?

**Mr HARVEY** — Classification.

**Mr THEOPHANOUS** — Do you know which industry you were classified under?

**Mr HARVEY** — One of the metal categories.

**Mr MANTON** — I am not sure.

**Mr HARVEY** — No, I am not sure what it is. It would be on the HIH screen-print probably.

**Mr THEOPHANOUS** — Under the industry rates, dies and saw blades is one, but — —

**Mr HARVEY** — There is another one.

**Mr THEOPHANOUS** — Another one is machinery, parts and metal-working equipment — —

**Mr MANTON** — Yes, that is the one. One is the main manufacturing plant here in Ballarat. The other is our sales offices.

**Mr THEOPHANOUS** — According to the documentation it stayed the same.

**Mr HARVEY** — Yes.

**Mr THEOPHANOUS** — If that is the case I do not know how it could be explained. You would have to have a 15 per cent increase and a 2 per cent increase. It is possible that in certain circumstances you had a further 20 per cent increase to get to the industry rate if you were well below the industry rate, for historical reasons, but I do not know whether that is the case. Other than that I cannot offer you an explanation.

**The CHAIRMAN** — Did you put in your remuneration return as expected?

**Mr HARVEY** — Yes.

**The CHAIRMAN** — On time?

**Mr HARVEY** — Yes, absolutely.

**Mrs COOTE** — Given that you had this 54 per cent increase which you obviously were not expecting, how difficult was it for you to pay it? It must have been extremely difficult.

**Mr CRAIGE** — Has he paid it yet?

**Mr HARVEY** — Yes, we have. We paid it okay.

**Mrs COOTE** — You were able to budget for it. If there were to be another increase next year, how would that impact on you?

**Mr MANTON** — It would be no different to any expense which would be charged. We cannot accept it. We cannot pass these things onto our customers.

**Mr HARVEY** — That is another point that I had forgotten to tell the committee. About 40 per cent of our business is to the auto companies. I do not know if everyone is aware of the way auto companies carry on, but they are after cost decreases each year.

**Mr McQUILTEN** — I know Ford.

**Mr HARVEY** — We will not name any names. I have included copies of agreements in the handout. I have blanked out the names so I am not giving our customers' names away, but in each of the three agreements I have copied they are asking for cost downs — reductions — per annum. It ranges between 3 per cent and 8 per cent per annum.

**Mr McQUILTEN** — I have one question but it is not to the witnesses; it is to Workcover, because I cannot understand this. A lot of the others are understandable but this one is really beyond me.

**Mr HARVEY** — We agree with you.

**The CHAIRMAN** — We will see how we go. Thank you very much for coming along. We will send you a copy of the Hansard record of our discussion. If there is anything you want to change, send it in to us. Thank you for coming.

**Witnesses withdrew.**

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into Workcover premiums for 2000–01

Ballarat – 12 December 2000

#### Members

Mr R. A. Best  
Mrs A. Coote  
Mr G. R. Craige  
Ms K. Darveniza

Mr N. B. Lucas  
Mr J. M. McQuilten  
Mr T. C. Theophanous

Chairman: Mr N. B. Lucas  
Deputy Chairman: Mr T. C. Theophanous

#### Staff

Executive Officer: Mr R. Willis  
Research Officers: Mr M. Ryan and Ms K. Ellingford

#### Witness

Mr B. Hughes, Manager–Proprietor, Ausworkforce Pty Ltd and Vic Brand Road Surfacing Pty Ltd.



**The CHAIRMAN** — We welcome Mr Brian Hughes, the manager and proprietor of Ausworkforce and Vic Brand Road Surfacing. Thank you for coming along today; we have 15 minutes for our discussion. Before I invite you to make an opening statement to us I advise all present that all evidence taken by this committee is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act.

**Mr HUGHES** — My main concern is the way our Workcover premium has gone up from \$65 000 to \$106 000. It works out to about \$9000 a month. It is a lot of money for to us find. Whether we have six working or four working we still have to pay that \$9000 a month.

We had an incident with the Stawell Gold Mines in 1996 where a chap got hurt. It was not our responsibility because we are not allowed down the mine to inspect where they were working. When the time came to pay out, HHH folded. I rang and asked why and they said it was a civil matter and my problem, not theirs. We had to sit there and cop it. It has cost us \$50 000 for lawyers so far and we have not finished yet. The solicitor told me that HHH had channelled the money through us down to the Stawell Gold Mines; they did not go for the Stawell Gold Mines, they went for us instead because they are bigger meat than we are. If it keeps going, we will put all these people off as we will not be able to afford to employ them. They will have to go.

**Mrs COOTE** — Could you tell us what you do in the mines? I gather that is something to do with the Ausworkforce part of your business.

**Mr HARVEY** — I beg your pardon?

**Mrs COOTE** — I gather that under the Ausworkforce part of your business you have something to do with the mines. Could you explain exactly what that is?

**Mr HUGHES** — We hire personnel to install goldmines. They ask us for personnel. They run through us for three months, and if they are any good, the mines keep them. If they are not, they leave them on our books and we keep replacing the ones they take. This Higgins and Sultana were both supposed to start work on 1 August 1996. They both went to work and told the boss at the time that they had not signed the papers. He said not to worry about it, they would sign them in the morning when the men knocked off. That night Bernie Higgins was crushed by a wall. The boss came in the next day and the occupational health and safety bloke said there had been an accident and Higgins was crushed. They said the boss said, 'Oh, bugger it, don't worry about that. Whack him back to Gundie Hughes; he will fix all of this up'. That is how I came to cop it, yet on that day they put Sultana on when he had not signed any papers but they would not have anything to do with Higgins. They wiped him and left him with me. That is what this is all about.

**Mr BEST** — Is it actually a legal matter over a contract of employment?

**Mr HUGHES** — Yes, that is what it is.

**Mr CRAIGE** — Can you explain to me exactly what Ausworkforce and Vic Brand Road Surfacing actually do?

**Mr HUGHES** — Ausworkforce is a labour hire company. We hire personnel to various companies in the construction area — to Vicroads to Sprayline, to Pioneer, various councils and all those places. We also hire out clerical staff to various councils.

**Mr CRAIGE** — How many people would you have on your books in that company?

**Mr HUGHES** — On the books, about 1500.

**Mr CRAIGE** — Is it Victoria-wide or Australia-wide?

**Mr HUGHES** — Ausworkforce?

**Mr CRAIGE** — Yes.

**Mr HUGHES** — It is Australia-wide.

**Mr CRAIGE** — How many here in Victoria?

**Mr HUGHES** — About 1500 here and I think there are about 50 or 60 in New South Wales and the same in South Australia.

**Mr CRAIGE** — What about Vic Brand Road Surfacing?

**Mr HUGHES** — We go everywhere.

**Mr CRAIGE** — Do you have plant and equipment?

**Mr HUGHES** — Yes, we have bitumen sprayers and we hire the rest. We hire private trucks and supply all the personnel. We hire the truck drivers and we hire the plant from A. H. Plant.

**The CHAIRMAN** — We need to get back onto the Workcover. Can we continue with your comments? Have you finished your submission?

**Mr HUGHES** — We never got anything from HIH except a whopping great big bill. We challenged them and they said it was right. We challenged them again and they got it down to \$90 000, but that is not much better, really.

**The CHAIRMAN** — You have gone from \$65 000 to \$106 000 and back to \$90 000. Is that for both companies?

**Mr HUGHES** — Yes.

**The CHAIRMAN** — Have you been able to find out why it has gone up so much?

**Mr HUGHES** — No, they just push us aside.

**Mr THEOPHANOUS** — By the sounds of it you have had a few accidents.

**Mr HUGHES** — One major one, the big one they blamed us for and small stuff like busted fingers.

**Mr McQUILTEN** — Was the bloke killed in the big one?

**Mr HUGHES** — No, it never went that far. All the accidents we have had have been at the Stawell Gold Mines.

**Ms DARVENIZA** — When was the big accident?

**Mr HUGHES** — It was 1996.

**Mr THEOPHANOUS** — You have had a few since then but not as big?

**Mr HUGHES** — No, just busted fingers, stitches, blokes with crook backs. One bloke has a crook back because we told him we would have to put him off work in a fortnight so he got a crook back real quick.

**Mr THEOPHANOUS** — You have had a few claims, by the sounds of it.

**Mr HUGHES** — Only little ones, no significant claims.

**Mr THEOPHANOUS** — They all add up.

**Mr HUGHES** — Yes, they all add up.

**The CHAIRMAN** — Who did you go to to try to find out why it went up so much?

**Mr HUGHES** — I would have to think of his name.

**The CHAIRMAN** — Was it HIH? Did they refer to you on to Workcover or have you only spoken to HIH?

**Mr HUGHES** — Only to HIH.

**Mr BEST** — When you hire your labour out are you responsible for the Workcover and insurance premiums?

**Mr HUGHES** — We are. On the conditions we hire them out we pay Workcover, superannuation and all related costs to the worker but the form we have — it is a legal document — says the hirer will be responsible for all workplace safety. If they have an accident and it is their fault, it is their responsibility and they should pay up. They sign it.

**Mr BEST** — So your legal action against Stawell Gold Mines is to recover the costs that your company has incurred in paying Mr Higgins?

**Mr HUGHES** — Yes. HIH and Workcover sued the Stawell Gold Mines to recover the money and in turn the Stawell Gold Mines sued me to get the money out of me. That is how I came to be involved. I should not have been there in the first place.

**The CHAIRMAN** — Thank you for coming along today. We appreciate the time you have given us. We will send you a copy of the Hansard record of our discussion so you can alter anything we have got wrong.

**Ms DARVENIZA** — You have given us some information about your premiums. Would you have any difficulty with the committee getting some information from Workcover about your current situation and the rise in your premium?

**Mr HUGHES** — None whatsoever. Go for your life.

**The CHAIRMAN** — Thank you very much.

**Witness withdrew.**

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into Workcover premiums for 2000–01

Ballarat – 12 December 2000

#### Members

Mr R. A. Best  
Mrs A. Coote  
Mr G. R. Craige  
Ms K. Darveniza

Mr N. B. Lucas  
Mr J. M. McQuilten  
Mr T. C. Theophanous

Chairman: Mr N. B. Lucas  
Deputy Chairman: Mr T. C. Theophanous

#### Staff

Executive Officer: Mr R. Willis  
Research Officers: Mr M. Ryan and Ms K. Ellingford

#### Witnesses

Mr A. Wibberley, General Manager, Manufacturing; and  
Ms K. Muir, Group HR Manager, Maxitrans Australia Pty Ltd.

**The CHAIRMAN** — I welcome Mr Andrew Wibberley and Ms Kate Muir from Maxitrans Australia. All evidence taken by this committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act. We will allow you to make an opening statement and we might then ask some questions.

**Mr WIBBERLEY** — Thank you very much for having us. On behalf of the management and employees of Maxitrans Australia I would like to thank the Economic Development Committee for the opportunity to present a submission on the effects the changes to the Workcover premiums have had on manufacturing with particular reference to our organisation, Maxitrans Australia.

The changes introduced have impacted significantly on our business and are hindering our ability to grow and develop our manufacturing operations. It is hoped that this submission will assist you in understanding the confusion and anger that has been directed at the government since the introduction of this legislation and how it is hindering the ability of organisations to grow within the manufacturing sector in regional Victoria.

It should be stated quite clearly and up front that Maxitrans views safety and the management of injured workers as a core fundamental of our business operation. We will always place the safety of our workers above any other operating requirement or financial gain. However, we believe that the legislation introduced is working against this philosophy and is making it more and more difficult for industry to adopt this approach.

To give you an organisational overview, Maxitrans Australia is a market leader in the manufacture of semitrailers and refrigerated vans and employs more than 500 employees in Victoria. Subsidiaries of our organisation are situated in Queensland and New Zealand. Our major manufacturing facilities are located in Ballarat and Hallam, with the Ballarat site employing some 350 employees and Hallam employing some 50 employees. Maxitrans Australia was formed and listed as a public company around three years ago as a result of a merger between Freighter Australia and Maxicube. The organisation has seen steady growth over the past three years in the difficult climate in which we have had to operate.

The introduction and implementation of the GST had an adverse impact on the company and the industry in general throughout this past year, with customers deferring activity in the first quarter until the financial impact became clear, followed by discounting pressure to facilitate buying, and then the buyers' strike in the fourth quarter of the year. This, combined with the unexpected and disproportionate increase in the Workcover premium, has certainly impacted heavily on our ability to operate and grow our business. In fact, we are now seriously reconsidering our planned upgrade and expansion in our manufacturing operations within Victoria.

I refer to the major issues with the premium calculation and the legislation. Our industry is labour intensive, and the risks can be high. There is a lot of material and a lot of manual handling. Over the past three years we have concentrated heavily on our safety management systems. We have invested heavily in areas such as hazard identification, hazard elimination, work redesign, manual handling and management of injured workers. In fact, during this time we have seen a significant decline in our injuries and increased success with the return to work of injured workers. Major claims were significantly reduced and our claims history dramatically improved. The indications were those of a decrease in our premium, given the cumulative effect of the three previous years. This was prior to the new legislation being introduced.

While there are several issues within the legislation that are of concern, I would like to concentrate on two main areas that have impacted on our organisation as a result of the legislative changes. Firstly, the changes introduced by the state government with respect to the calculation of the premiums and the reintroduction of common law seem to have ignored individual performance and claims management and categorised all employers as being equal. This is grossly unfair and inequitable.

Whether you have the best or worst performance in your industry classification seems to have become irrelevant. Those organisations that have committed time and resources to improving their performance are now having to wear the costs of the non-performers in their industry classification. Incentive to commit resources to the improvement of safety management has been removed.

Given the policies previously adopted by Workcover in encouraging organisations to improve work systems and the management of injured workers, the approach used in the calculation of premiums, particularly the increase in industry rates, appears to be contradictory. Employers must now seriously question whether to invest in such programs and participate in the rehabilitation of workers, as the incentive to do so, apart from the moral obligation, has been removed with the new legislation. In fact, in some cases it is now cheaper to leave an injured worker at home than to risk exposure to both a common-law claim and an increase in premium. This is surely not the intent

of the government and will achieve nothing other than increasing a reliance on the welfare system and lining the pockets of the legal profession.

The second area I would like to comment on is the single industry classification within a workplace. This has impacted heavily on our organisation, particularly with our premium calculation. The act allows for only one industry rate classification to be applied to those employees employed at the same address — that is, there is no ability to differentiate between functions.

This year Maxitrans Ballarat had all its office personnel, such as accounts, reception and sales personnel, et cetera, reclassified from ‘administration’ to ‘motor vehicle bodies, trailer and caravan manufacturing’. This has resulted in an increase in this area of over \$150 000. Investigation of the huge increase in this area has revealed that because the office in which these personnel are situated is physically attached to the main manufacturing building, all are deemed to come under the same classification as those operating in the production environment. That is because the roof line of the administration office is joined to the manufacturing building. The act states that all persons employed under the roof line and at that address must be classified under one category.

It is acknowledged by our claims agent that the risk in our administration environment is substantially reduced and that our claims history in this area is minimal. However, due to the idiosyncrasy in the definition of ‘workplace’, we have been forced to pay a higher premium for this area. No account is taken of the duties and tasks performed by the personnel in the area, the risk involved, and the fact that many of them never enter the manufacturing facility.

In fact, we are now investigating the option of either moving some administration personnel off site or physically knocking down walls to meet the requirements of the act to assist in reducing our premium. We do not see this as a value-adding activity but as a time waster that will certainly not promote the manufacturing improvements we would like to make in the area, both at Hallam and at Ballarat. It will be pursued purely to meet the definition of the legislation and is one of the only means we can see of reducing our Workcover costs. The time wasted on that activity would much better be spent on improving plant and equipment and continuously improving our manufacturing capabilities to compete against local opposition and competitors with imports.

In terms of how it affects us, the calculated rate previously applied to the administration function was 0.5 per cent of payroll, whereas it is now calculated at 7.41 per cent of payroll. That, combined with an industry rate increase from 3.95 to 4.78, the 17 per cent general increase levied across all industries due to the expected increase in costs as a result of the reintroduction of common law, and an F factor of over 3, has resulted in an increase of over \$300 000 for our organisation for a single 12-month period. This has come at a time when our operation could least afford it and leaves us questioning our future in this state.

I refer to the impact on Maxitrans. What has the impact been on our organisation, and what do we see as the potential cost? As a result of the additional costs incurred due to the changes in the Workcover legislation, a number of major projects within our organisation have been put on hold or delayed. This obviously impacts on employment growth and stability and long-term viability.

As a means of reducing costs, we are seriously considering sourcing components from outside Australia and downsizing some internal functions. This is highly feasible, given that we have a joint venture already established in China, where costs are significantly lower and where we are able to be provided with a quality product at a competitive price. Previously we would not have considered this option.

Other competitors and opposition are already bringing in trailers and road transport equipment, which is severely curtailing our ability to grow and has certainly cut into our market share. If Maxitrans cannot continue to compete, it will have to look at other options rather than manufacturing locally. If the rumoured further 20 per cent increase in Workcover premiums eventuates in the next year, our management team would seriously question further investment in our Victorian operations, particularly in manufacturing. This would have a significant impact on Ballarat, Hallam and Victoria generally, given the significant downturn in manufacturing already being felt due to several significant plant closures.

We strongly encourage the government to review the changes to the legislation, to recognise individual performance in the management of safety and Workcover, and to encourage organisations such as ours to continue to invest and grow in regional Victoria. Thank you for giving me the time and the opportunity to talk to you.

**The CHAIRMAN** — By what percentage did your Workcover premium for this year increase?

**Mr WIBBERLEY** — It is 30, 35 per cent.

**The CHAIRMAN** — It went up 30 to 35 per cent?

**Mr WIBBERLEY** — Yes.

**Mr THEOPHANOUS** — Your premium went up 30 to 35 per cent, 17 per cent of which is explainable, as you said, by common law and the GST. Is the rest of it an increase in the industry rate or an increase as a result of your experience?

**Mr WIBBERLEY** — An industry rate increase — Kate — —

**Ms MUIR** — And also the — —

**The CHAIRMAN** — Could you please come to the table?

**Mr THEOPHANOUS** — You will need to give your name first.

**Ms MUIR** — Kate Muir.

**The CHAIRMAN** — Your position is group HR manager.

**Ms MUIR** — That is correct. It is a combination of both a change and an increase in the industry rate and the reclassification of our office personnel. That made a significant impact on the actual premium, because they went from being 0.5 per cent of payroll to 7.412 per cent of payroll. That also made a significant change.

**Mr THEOPHANOUS** — What about your own experience? Have you had some claims yourselves?

**Ms MUIR** — We have had some claims — but it was reducing. Our rate is certainly higher than we would like, but it was not significantly in that area.

**Mr THEOPHANOUS** — Mr Wibberley, you indicated that the increase of 30 per cent might affect your competitiveness, and you talked about investment in this state — in Ballarat and so forth. Are you aware that the Workcover premiums in this state, even with the increase that has occurred due to common law, are still the second lowest in the land, and that if you wanted to relocate to New South Wales or to South Australia you would be paying about 40 per cent or 50 per cent more than what you currently pay? In that context, why is this having any greater impact than, say, the GST, the paperwork you are doing on the business activity statements, the petrol price increases and those sort of things?

**Mr WIBBERLEY** — There is a significant increase across the board with a number of issues, which we as an organisation need to address. We are not saying we will move to Queensland, the Northern Territory or South Australia. We are looking at our ability to compete against imports and at whether we see that as an alternative to manufacturing within Australia — regardless of whether it is Victoria, South Australia, or wherever. It is a decision we need to seriously consider, given all the functions. This is just another one of a number of issues that have impacted on our business. We have committed to claims management, we have committed to safety, and we have committed to HR activities. We would have expected a decline from previous years, and in the experience of our professional writers we would have had some decline in our premium before the change in legislation. That was important to our business for its survival, and it was also important to our business for it to reinvest in plant and equipment.

**Mr THEOPHANOUS** — But your industry has gone up. Other people in your industry are not doing as well as you are.

**Mr WIBBERLEY** — Absolutely. That is clearly what I stated in my paper. We believe we are a better performer and we are being penalised for our industry — and we think that is unfair.

**Mrs COOTE** — Did you say a moment ago that before this change in legislation your premium rates were going down?

**Ms MUIR** — It had not come to that, but it was indicative from what was being fed back from our claims management agents that we would have expected a decrease this time because we did not have any major claims on our books and had managed the program quite well. They said to us, ‘You should feel a decrease next year because of the three-year cumulative effect’. After going through with them where we are now and why we have such a



large increase, we found it was really the industry rate changes plus the reclassification of our office personnel that impacted heavily.

**Ms DARVENIZA** — What have your premium rates been like over the past five years? Have they been increasing each year, have they been up and down, or have they been decreasing?

**Ms MUIR** — They have been relatively coming down. We have grown massively during that time, too, in terms of our employee numbers, but if you comparatively divided it out we certainly have not been going up over the past three years. We have been coming down. Proportionate to the number of employees, we have had a decrease.

**Ms DARVENIZA** — Would part of that 30 to 35 per cent increase be due to an increase in the number of employees?

**Ms MUIR** — No, because we have still looked at where, with the number of employees that comes out proportionally. We have actually done the calculations and said, 'Given that this is the movement we have had, what would we have expected purely as a result of payroll versus — —

**Mr WIBBERLEY** — The remuneration has been heavily affected by administration and sales people coming into the calculation. Previously they were not involved in the calculation; now they are in — —

**Mr BEST** — How much is the — —

**The CHAIRMAN** — Hold on. Have you finished?

**Ms DARVENIZA** — There is one final matter. It would be helpful to the committee if it could get information from Workcover about your premiums and about what has been happening. Would you have any difficulty with the committee having access to that information?

**Mr WIBBERLEY** — No.

**Mr BEST** — It is the reclassification issue that I would like to pursue. With the increase in your staff numbers, can you give us a breakdown of the profile of your work force? The point I am trying to get at with the reclassification is whether extra sales or administrative people have been employed but are being rated at the higher factory rate.

**Ms MUIR** — There really has not been a significant increase in what we call our staff numbers. The administrative function we are talking about has been reduced. Where the numbers have increased has been on the factory floor. Our payroll is around \$11 million and \$3 million of that would be on salaried staff; \$3 million out of that has been reclassified, which is why it has hit us so hard.

**Mr BEST** — When was that done?

**Ms MUIR** — As part of this premium.

**Mr BEST** — So for the very first time this \$3 million — —

**Ms MUIR** — Has gone into this new classification.

**Mr CRAIGE** — In respect of that, I take it that the legislation previously allowed you to have those administrative people in a different classification for the work they perform.

**Ms MUIR** — Yes.

**Mr CRAIGE** — There was a change this time around which meant that no longer could those people doing administrative tasks be classified as clerical workers; and they had to go into your major industry classification?

**Ms MUIR** — That is right.

**Mr CRAIGE** — Has that happened to all the other businesses?

**Ms MUIR** — There is a definition in the act that basically says that it is the principal activity carried at an address. Obviously when you have 300 people working on a factory floor and 50 working in an office the principal activity is manufacturing, so it throws everyone into the same classification. It will not let you acknowledge that those 50 people do a separate function. If they are employed under the one roofline as per the definition and they share facilities such as car parking and a canteen — it is very specific — they have to come under one industry rate and you cannot separate the functions out.

**Mr McQUILTEN** — Is that under the new act?

**Ms MUIR** — It is in the act now.

**Mr McQUILTEN** — Was it in the act before?

**Ms MUIR** — This is the first time it has been brought to our attention and that our insurer has reclassified us.

**Mr McQUILTEN** — So you are not sure when this — —

**Ms MUIR** — They have told us that it is part of the new legislation. We are acting on the advice of our claims manager.

**Mr McQUILTEN** — How much of the \$300 000 or the increase is related to these 50 office workers?

**Mr BEST** — They said \$3 million of \$11 million.

**Mr McQUILTEN** — It is about half of your whole increase.

**Mr WIBBERLEY** — We are now pursuing opportunities to split that up.

**Ms DARVENIZA** — To physically relocate them somewhere else?

**Ms MUIR** — Yes, if we put them in a factory off site, they can be reclassified.

**Mr BEST** — The only problem is you may have to wait three years to get that benefit.

**Mr McQUILTEN** — I would like to hear from Workcover how long that has been the case.

**The CHAIRMAN** — We will check that out. We have run out of time. We will send you a copy of the Hansard record of the discussion for you to check and get back to us with any alterations. Thank you very much for the time you have given us.

**Witnesses withdrew.**

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into Workcover premiums for 2000–01

Ballarat – 12 December 2000

#### Members

Mr R. A. Best  
Mrs A. Coote  
Mr G. R. Craige  
Ms K. Darveniza

Mr N. B. Lucas  
Mr J. M. McQuilten  
Mr T. C. Theophanous

Chairman: Mr N. B. Lucas  
Deputy Chairman: Mr T. C. Theophanous

#### Staff

Executive Officer: Mr R. Willis  
Research Officers: Mr M. Ryan and Ms K. Ellingford

#### Witness

Mr G. Cann, Manager, Australian Valve and Engineering.

**The CHAIRMAN** — I advise that all evidence taken by this committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act. Would you like to make an opening statement? We will then ask you some questions.

**Mr CANN** — I am the manager of Australian Valve and Engineering, a company which has been going for 10 years and is involved in the manufacture of industrial valves. We employ 10 people and reside at 11 Martin Drive in Ballarat.

With regard to our Workcover premium, we had an increase of 76 per cent for 2000–01. I have written to our insurer about that but I have not yet had a response as to why there has been such an increase. When you consider that 5 of the 10 people are involved in clerical duties and the other 5 are involved in assembly and/or machinery duties, I find it difficult to understand how our premium could increase so much. More disturbing is the fact that we have not had any response to our letter inquiring about the sharp increase.

**The CHAIRMAN** — When did you send the letter?

**Mr CANN** — The letter was sent on 18 August.

**The CHAIRMAN** — Have you had any response?

**Mr CANN** — I have had no response.

**The CHAIRMAN** — Did you send it to the Melbourne office?

**Mr CANN** — I sent it to the Melbourne office with a copy to the Ballarat office of our insurer.

**Mr BEST** — Have you contacted any of your local members?

**Mr CANN** — No, I have not.

**Mr McQUILTEN** — You have now.

**The CHAIRMAN** — So your letter went to the insurance company.

**Mr CANN** — A copy also went to Marsha Thomson, the Minister for Small Business.

**The CHAIRMAN** — Have you had a response from the minister?

**Mr CANN** — I have had a response from the minister, not in as much as there is something that she can do but that the government is looking into it.

**Ms DARVENIZA** — You wrote to your insurer?

**Mr CANN** — Yes.

**Mr McQUILTEN** — Who is your insurer?

**Mr CANN** — HIH.

**Ms DARVENIZA** — You did not write to Workcover?

**Mr CANN** — No.

**The CHAIRMAN** — Please continue.

**Ms MUIR** — That was my main concern, the fact that we could not get a response as to why there was such an increase. We had a claim back in 1997 which is still unresolved. Our advice up to September this year was that the estimated cost of that claim was \$34 391. With the advice in September the claim went to \$175 000. I could not understand why a substantial increase of \$150 000 could be sent to us when there has been no hearing or determination made on the case.

**Ms DARVENIZA** — Is it a big claim?

**Mr CANN** — It was a broken bone in the guy's hand. He has been rehabilitated and he is back working.

**Mr BEST** — For you?

**Mr CANN** — No. He worked for us for some time and then decided not to after some discussion. I wrote to them to find out how such a substantial increase could come about but there has still been no response.

**The CHAIRMAN** — Has your remuneration remained steady?

**Mr CANN** — Within about 5 per cent.

**The CHAIRMAN** — And the only claim is the one you referred to?

**Mr CANN** — Back in 1997.

**Ms DARVENIZA** — You have had no other claims since then?

**Mr CANN** — No other claims since then.

**Mr BEST** — I want to follow up on a point raised by the last witness. Have all your staff been categorised in one industry rate or have you had a clerical rate and a machinery rate prior to this assessment?

**Mr CANN** — Probably three or four years ago I wrote to the insurer about the duties of each of the people involved in our operation and at that time we received a reduction in our premium. They did reclassify our industry, but that was three or four years ago. I think it was \$5000 then and now it is up to \$11 000.

**Mr BEST** — Have you noticed since the new premium came out whether they have reclassified all your employees into one industry rate?

**Mr CANN** — I do not know.

**Mr BEST** — I am interested as you have 10 employees, 5 and 5 in each category; I wonder what they interpret as being your major employment activity.

**Mr CANN** — I do not know; I am not sure.

**Mr BEST** — I would be interested in finding out.

**Mr THEOPHANOUS** — Do you mind if we get information from Workcover about your case so we can follow this up?

**Mr CANN** — I would appreciate that.

**Mr THEOPHANOUS** — My question concerns the 76 per cent increase. You are a small business with 10 employees and would be aware that a cap operates for small businesses. In principle you should have received an increase of no more than 15 per cent for the reintroduction of common law, 2 per cent for the GST and a possible 20 per cent capped for small business which makes 37 per cent. You say you received an increase of 76 per cent. I am trying to understand the difference between that 37 per cent and the 76 per cent and I will put these things to you and see if any of it makes any sense. Did you put in an estimate of your remuneration to Workcover before you received your bill?

**Mr CANN** — Yes.

**Mr THEOPHANOUS** — You did. Therefore, you did not get that 20 per cent on top. Businesses that did not identify what their remuneration would be for the coming year got an automatic increase of 20 per cent on top. You are saying you are not one of those businesses.

**Mr CANN** — I am fairly confident that I did respond to that paperwork.

**Mr THEOPHANOUS** — We will have a look because I am trying to understand. In the 76 per cent there is another 10 per cent which is redeemable back in GST; are you including that?

**Mr CANN** — Yes, I am referring to the bottom line.

**Mr THEOPHANOUS** — We can explain 10 per cent of it on GST but we still have a gap between 27 per cent and 66 per cent and the only way that I can explain that is either reclassification of your employees or you failed to put in your remuneration on time. They are the only two explanations I have for that. Can you shed any further light?

**Mr CANN** — No, I cannot.

**Mrs COOTE** — Could you tell me how this impacted on your business? What has this premium increase done to your business? Has it made you look at those staff and potential staffing? What impact has it had?

**Mr CANN** — We are a small company with the intention to develop. We are investing in machinery and things like that. This will not stop us but it sets you back. If it is 76 per cent this year, it makes you wonder what will it do when we get more employees and increase our wage bill and things like that. It just slows us down.

**Mr McQUILTEN** — Someone talked about having heard it was going up another 20 per cent. Did you say that?

**Mr CANN** — No, I did not.

**The CHAIRMAN** — Thank you very much for coming along today and speaking with us. We have taken a Hansard record of what has been said and we will send you a copy of that and you can give us any corrections that you think are appropriate. Thank you for making the time to come in today.

**Committee adjourned.**