C O R R E C T E D V E R S I O N

ECONOMIC DEVELOPMENT COMMITTEE

Inquiry into Workcover premiums for 2000–01

Melbourne – 9 April 2001

Members

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Mrs A. Coote
Mr G. R. Craige
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Witnesses

Mr J. MacKenzie, Chairman; and

Mr W. Mountford, Chief Executive, Victorian Workcover Authority.

The CHAIRMAN — The committee is an all-party investigatory committee of the Legislative Council and is hearing evidence today on its inquiry into Workcover premiums for 2000–01. I advise all present 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 by witnesses outside the committee's hearing are therefore not protected by parliamentary privilege.

I welcome to the hearing Mr James MacKenzie, chairman of the Victorian Workcover Authority, and for a second time Mr Bill Mountford, chief executive of the authority. I particularly welcome Mr MacKenzie as it is the first time he has been before the committee. The committee does not know if today will be the last hearing with the authority or not; it will depend on how much we can get through today. That decision will be made by the committee at the conclusion of the meeting or at its next meeting.

Mr MacKenzie, I understand you will make a verbal submission to the committee and then Mr Mountford will give a Powerpoint demonstration. The committee members may ask some questions after the presentation or as we proceed.

Mr MacKENZIE — The purpose of my introductory remarks is to provide some context as to where the authority is and how things may have changed since we last appeared before the committee. Mr Mountford will make a presentation dealing with the specific queries that arose from previous meetings.

By way of a brief introduction, I joined the board of the authority in February last year and was appointed chairman in February of this year, replacing Professor Bob Officer, who we are pleased to say is remaining on the board. To fill the committee in on other changes, a new board member, Mr Paul Barker, whom many of the committee members will know as the former head of Audit Victoria, has also joined this year. He replaces Catherine Walter.

I do not want to take up too much of the committee's time with general introductory comments. I appreciate that the focus of the committee's inquiry is the premiums level for 2000–01. However, before handing over to Mr Mountford, I will briefly outline the direction being taken by the newly constituted board of the authority.

In essence, we are embarking on a process of significant change, not change for change's sake, but change for necessity's sake. As a statutory authority, our chief responsibility is to administer relevant legislation of the Victorian Parliament and to do that in a way that is open, accountable, and inclusive of all our stakeholders in the Victorian community.

As the authority responsible for Victoria's occupational health and safety system, our primary objective is and must be the prevention of workplace injury, illness and death. We are also responsible for managing the scheme in a financially prudent manner, ensuring we have the necessary resources to meet our statutory obligations, our obligations to injured workers and our obligations to our stakeholders. In other words, the scheme has to pay its way. Unfortunately, the facts as they stand at the moment show that those objectives are not all being met.

In recent times there has been little reduction in the number of traumatic workplace injuries. Over the past 10 years there has been no significant reduction in work-related deaths and there has been little change in the rates of return to work after injury. Not surprisingly, the financial position of the scheme has been declining for at least the past five years.

In relaying that information I stress that the Victorian Workcover Authority is not alone in this regard and not alone in relation to other accident compensation schemes around Australia. Some of the committee members will remember that the Transport Accident Commission (TAC) found itself in an almost identical position back in 1994 where costs were super-inflating at a rate of more than 20 per cent per annum and common-law claim costs were out of control. Through a dedicated approach to managing those liabilities in the scheme, the TAC was turned around. It took three years to get some momentum build-up in turning it around, but the result is plain to see in the financial dynamics of that scheme today.

The point of my background information is that the situation we are confronted with at Workcover is not one with which we are unfamiliar. It is not uncommon for schemes of this type, and in Victoria we have relevant experience in turning these things around.

The first step in doing that is to make sure that the culture of the organisation is changed so that there is a belief in the organisation that the current position can be turned around. When operating in a position where perhaps we and

a lot of the compensation schemes have operated in Australia, it is appreciated that the lowest common denominator is not a benchmark that is worth striving for.

Under Mr Mountford's leadership we have embarked on a program of substantial change. The first step in that process was to recognise we were not meeting our primary objective and that there were several areas in need of significant improvement. If I could amend slightly the old advertising catchline, Workcover was not working as well as it could be.

To improve Workcover's performance, we have had to accept that we have to act as a catalyst to significantly reduce the incidence of workplace injury, illness and death. We have to make sure that we focus our activities around optimising the outcomes for our stakeholders and we have to ensure that the scheme is financially viable.

Firstly, we had to have a reality check. Before moving forward we needed to look at what had been done well in the past and, more importantly, what needed to be done differently and what had to be done better in the future. I am pleased to report to the committee that we have had that reality check. We are moving forward and we are relishing the challenge ahead of us in turning this scheme around. We have already taken a number of key steps, not the least of which is Strategy 2000, which has been developed under Bill Mountford's leadership, a document that presents a blueprint for substantial and lasting change and improvement to the Victorian workers compensation scheme.

It is a blueprint for change that will take several years rather than several months to fully realise, but it sets out that the organisation intends to move forward by focusing on the three key drivers of the scheme: increasing the emphasis on prevention; developing a more effective claims management model; and revitalising our organisation. Most importantly, from the point of view of a committee that will no doubt monitor our performance going forward, it presents us with measurable outcomes: reducing the incidence of workplace injury, disease and death; improving the return to work of injured workers; ensuring the financial integrity of the workers compensation system; most importantly at these early stages, building and maintaining the support of our many stakeholder groups; and developing and maintaining an innovative and adaptive culture within the organisation.

Many of the initiatives that Mr Mountford foreshadowed in Strategy 2000 have already been put in place. The most important of those is the reorganisation of the authority into two distinct business units: health and safety on the one hand, and rehabilitation and compensation on the other. We have also launched a series of new programs and initiatives to increase the emphasis on prevention. We are currently working very closely with employer stakeholders to refine and improve the premium system, and we look forward to exploring with the committee ways in which this system can be enhanced in the future.

A range of other initiatives will be implemented progressively as we continue the process of improvement and change over the next three years. It is a substantial and challenging program of reform, but one which we are committed to meeting in an open and accountable way and one which we are looking forward to pursuing in a bipartisan manner and with bipartisan support.

In conclusion I would like to place on record — probably in the light of our last appearance before you — the fact that both Mr Mountford and I acknowledge that within the authority there are a great many talented, committed and hardworking people. Without their support and continued hard work, and our support for them in return, none of us will be able to achieve the goals we have set. However, with their support and with the support of our stakeholders in the broader community I am confident that we will be able to turn the scheme around and that over the next three years Victorians will see real and measurable improvements in the key performance areas of, firstly, prevention; and most importantly, claims management; and the inevitable result of both of those in improved financial accountability and return to work for injured workers.

Thank you for the opportunity to explain our progress to you. I now propose to pass over to Mr Mountford, who will address the specific queries the committee has left us with.

The CHAIRMAN — Over to you, Mr Mountford.

Mr MOUNTFORD — Thank you, Mr Chairman; thank you, James

. **Mr MacKENZIE** — We have handed out hard copies of the slides we will be showing.

Mr MOUNTFORD — I will basically be talking to the exhibit. It will be up on the screen.

Slides shown.

Mr MOUNTFORD — Today I will provide you with the authority's responses to the questions. You asked a number of questions about industry rates and their movements. By way of background, previously — that is, before the 2000–01 round — two caps were applying — they were an industry rate cap, which restricted the number of movements per year in industry groupings to one; and a premium rate cap, which applied a maximum of 20 per cent per year increase on the premium rate for individual enterprises.

In 2000–01 the industry rate cap was removed. This had two basic purposes. One was to increase transparency so that companies could actually see the true risk rate involved with their activities — that is, the real costs of those activities; and the second was to provide an incentive to improve their safety. The 20 per cent cap on the premium rate increase ensures the gradual migration to the true risk rate. So only one of those caps was removed; the other remained in place.

I go to the impact of that in the current premium year. That meant that of the 518-odd industry groupings, 243 of these were unchanged or lower, 209 moved up by one category, and 56 moved up by two or more categories. In addition, last year 409 small businesses dropped two or more industry rates. There is no cap on the downward movement of industry rates; it is only on upward movement.

Another issue that was raised was remuneration estimates. As I am sure you are now well aware, deeming arrangements were changed last year — and I have outlined them in your exhibit. You asked about the impact of the change in deeming arrangements on reporting.

On page 5 of the exhibit you will see a table — a graph — which shows you the reporting or the provision of estimated remuneration; in other words, the percentage of employers who have actually provided us with an estimate of their remuneration as at 31 May over the years from 1994–95 through to last year, and what proportion of total remuneration those employers reflect. You can see that there was a significant increase in the reporting of estimated remuneration last year.

As James outlined, we have been reviewing the experience last year and our performance, and consulting with employers on that. One of the things that has come out of it clearly was the communication — which James has pointed to — and the fact that our communication in the last premium round, including this notification or estimation of remuneration, was poor and needed to be improved, and we have been working at that.

The other thing that has happened is that the board has decided, for the coming financial year, on the basis of the submissions of employer organisations and discussions, to reduce that deeming rate from 20 per cent to 10 per cent.

Basically, we have listened to and heard the complaints that have been made, and we believe — and in fact we are confident — that with this change, with better communication to employers about the importance of estimation and helping them to actually make the estimation of their remuneration for the forthcoming year, the 10 per cent deeming will still enable us to hold that improved level of estimation that we achieved last year, but in a way which will not provide the penalty that was there for employers until they, as we indicated last year, inform us of what their actual remuneration is.

Ms DARVENIZA — So what you are saying is that to move up a category — —

Mr MOUNTFORD — No. Historically, over the years prior to last year, where an employer did not provide us with an estimation of what it thought its remuneration would be, we would basically automatically deem that remuneration to be last year's remuneration plus the CPI. Last year the authority changed that process so that rather than taking the last year's remuneration and factoring it up by the CPI, a 20 per cent factor was applied. That was done to do two things: to encourage them to provide an estimation, and also to ensure there was not a cross-subsidy from those who were not complying to those who were.

However, we recognise that frankly, in hindsight, it was not the year to do that, and indeed also that that 20 per cent could be a fairly stringent penalty for a small firm that does not understand its remuneration. So we have basically reduced that back to 10 per cent — halved it. We believe that with better communication we will achieve that.

I will go forward. What happened was that once we recognised the impact we communicated through the employer organisations to employers to say, 'If you have not provided us with an estimate and you have been hit with a 20 per cent deeming of your remuneration base, contact your agent and we will automatically adjust your premium

back to your actual estimate'. By the end of December more than 80 per cent of employers had taken up that option. So the vast majority of employers had basically provided us with that estimation of their remuneration.

Mrs COOTE — Did you just say then that it would be half of the 20 per cent?

Mr MOUNTFORD — Ten per cent. So where they do not provide us with an estimate, we will take last year's remuneration and increase it by 10 per cent.

Mrs COOTE — Thank you.

The CHAIRMAN — So originally the proposal from the VWA was to have a cap of 25 per cent, and that was — —

Mr MOUNTFORD — No, that was on the premium rate; this is on remuneration. This is on the payrolls. There are a number of factors here, but one of them is also that — we have to do two things. We have to try to discourage gaming, which some employers can do; and secondly, we have to ensure the financial integrity of the scheme. Unless we can really have a good understanding of the remuneration base — the risk, if you like, that we are ensuring against — we cannot ensure the financial integrity of the scheme. So it is very important to us to be able to get a clear and early estimate of what the remuneration base — the risks that we are insuring — is.

The CHAIRMAN — So it is 10 per cent from next year?

Mr MOUNTFORD — Correct.

Mrs COOTE — January, presumably?

Mr MOUNTFORD — July.

Mr CRAIGE — Who set the figure of 20 per cent?

Mr MOUNTFORD — That was basically — that was set within the authority.

Mr CRAIGE — You are telling me that the authority made the decision to increase it from CPI to 20 per cent?

Mr MacKENZIE — That is right.

Mr CRAIGE — Was that at a board meeting?

Mr MacKENZIE — That was a recommendation, Mr Craige, from the management of the authority to the board.

Mr CRAIGE — From the management of the authority?

Mr MacKENZIE — Yes.

Mr CRAIGE — Who would that be?

Mr MacKENZIE — I do not remember the name of the person who came up with the recommendation. I suppose that with any recommendation like this, that has been as spectacularly unsuccessful as this has been — —

Mr CRAIGE — It has been. I actually want to know from you now, here, today, at this moment who made that recommendation within the authority?

Mr MacKENZIE — We do not know the answer to that.

Mr CRAIGE — Why don't you know the answer? I mean, surely, where you went from a CPI increase to a 20 per cent penalty on employers, at least you would have needed to know how that got to the board.

Mr MacKENZIE — The decision made by the authority about deeming was off the back of a recommendation from the management of the authority to deal with the issue that Mr Mountford has just spoken about, to ensure that we had a proper understanding of the risks we were covering and to eliminate gaming from the way in which employers were submitting their information to the authority. Clearly, off the back of the way in which the authority has listened to the submissions that it sought from employers and industry groups since that

decision, it was not the correct thing to do. It was not the appropriate thing to do. Mr Mountford and I have assumed our responsibility subsequent to that.

Mr CRAIGE — But I am not interested in that. You were a board member at that stage, were you not?

Mr MacKENZIE — Yes.

Mr CRAIGE — Within one year you have recognised that that was an inappropriate change, it was a poor decision, and you are now telling me you have no idea how it came to you. It came via something somewhere that you would do it. It was a huge penalty on employers, was it not, and it was recognised as that?

Mr MacKENZIE — As Mr Mountford explained, it was a change that was designed to ensure that employers complied with the request that the authority gave them for remuneration levels so that the authority could correctly assess the risk that it was managing in the system. As Mr Mountford explained, in the past, without that incentive to disclose early being in the system, people were gaming the system, and therefore the authority did not have a realistic understanding of the risk that it was managing in the scheme.

Mr CRAIGE — I appreciate all that.

Mr MacKENZIE — As I understand from the briefings I have had subsequent to that decision being made, suggestions along those lines have been made at levels deep in the authority for some time. As Mr Mountford said, clearly the decision to introduce deeming at 20 per cent was, with the benefit of hindsight, not the best decision that could have been made. Mr Craige, since that decision was made — and remember Mr Mountford was not the chief executive of the authority at the time that the premium process — —

Mr CRAIGE — I will not accept that as any answer at all today. I will not accept that because you were not there you do not have an answer to questions that will be asked of you today. Other people may accept it, but I will not because clearly you have a responsibility to answer those questions about what happened. The question I specifically asked was that you are now saying to me that the 20 per cent provision came from within the VWA.

Mr MacKENZIE — I am.

Mr CRAIGE — Absolutely?

Mr MacKENZIE — I am.

Mr THEOPHANOUS — Was it one of a number of possibilities that came before the board and did the previous chairman recommend the acceptance by the board of this particular provision?

Mr MacKENZIE — Mr Theophanous, the process by which that deeming was introduced came from the organisation. It came from management deep down in the organisation dealing with the issue that Mr Mountford alluded to in his answer. It was not a decision that was led by any board member.

Mr MOUNTFORD — In relation to that I have two things to offer. One is in terms of the responsibility for this. This came from within the authority, from within the team who managed the premiums. A group of people are involved in that team. I think that team understands and has learnt from that experience. From my point of view it is important that we learn from it and we move forward.

The second point I would make in terms of the impact of this is that, as I said, it led to the fact that the vast majority of employers, more than 80 per cent of employers, contacted their agents about their premiums and then provided an estimate of what they would be, so that the 20 per cent was basically irrelevant for them because they paid on their estimated remuneration.

Ms DARVENIZA — Were you the chief executive officer (CEO) at the time when this decision was made?

Mr MOUNTFORD — No.

Mr THEOPHANOUS — Andrew Lindberg was the CEO at the time.

Mr MOUNTFORD — No, that was the period when the chairman — —

Mr THEOPHANOUS — Bob Officer was both the chairman of the board and the CEO; have I got that wrong?

Mr MacKENZIE — In fairness, the premium-setting process is virtually a dynamic process within the authority. It works all year round. So the process would have been started after the previous premium review and ideas would have been investigated as to how the authority would deal with its chronic need to have all the risk that it was managing on the table. Those sorts of calculations were done at the time.

Mr THEOPHANOUS — Mr MacKenzie, I understand what you are saying about the board and so forth, but it is important for the committee to know who was ultimately responsible at that time. Was the CEO at that time Bob Officer, who was also the chairman of the board? Was that the situation back then?

Mr MacKENZIE — That is right, Mr Theophanous, but in terms of accountability for that decision, that is accountability that the board of the authority takes.

Mr BEST — James, at the start of your submission you spoke highly about the people within the organisation and the integrity of the officers who work for the Victorian Workcover Authority, and I accept that. Can you run through the process under which this decision finally becomes a final determination and the minister signs off?

Mr MacKENZIE — Mr Best, Mr Mountford might be the best person to answer that because he is involved in running it on a day-to-day basis.

Mr BEST — So far as I am concerned, the board may make a recommendation, but the buck stops at the minister's door when he signs off.

Mr MacKENZIE — The board is accountable for the premium decision last year. That was a recommendation or determination that the board passed, as will be the decision this year. Certainly the brief that I have been given in terms of my position is that the authority is to be accountable for those things, so therefore the buck really stops with Mr Mountford and me.

The CHAIRMAN — While we are on the remuneration estimates, the chart on the board indicates the percentages at 31 May each year. In your original submission last November, you indicated that 61 per cent of employers representing 72 per cent of remuneration advised Workcover of their estimated remuneration. Do I assume that the difference between the figures on the chart and the figures in the submission is what happened in the last month?

Mr MOUNTFORD — It is timing. The chart is a constant, as at 31 May for each of those years, but clearly what happens during the course of the year is that that proportion of employers providing us with estimates of their remuneration grows from whatever the base is.

The CHAIRMAN — So there is a real lift-up in the last month?

Mr MOUNTFORD — No. There is always an increase, certainly, but that increase represents not an increase, if you like, of people moving along; that is a comparison of the proportion providing us with an estimate at that point of time last year compared with previous years.

The CHAIRMAN — What would the chart look like if it was at the end of June each year?

Mr MOUNTFORD — Basically, the chart would be similar. As a result of the change last year, we have had a significant lift of the proportion of employers providing us with their estimation.

Mr CRAIGE — I wonder why!

Mr MOUNTFORD — I have already responded to that.

The CHAIRMAN — The 61 per cent in the submission then, would that be as at June 2000?

Mr MOUNTFORD — I would have to come back to you on that.

The CHAIRMAN — If in June 2000 it was 61 per cent of employers, do I assume that approximately 20 per cent came in in one month?

Mr MOUNTFORD — That could well be the case. I do not have those figures.

The CHAIRMAN — Is that normally the case?

Mr MOUNTFORD — Again I do not have that number off the top of my head. As I said, we have had, as you would expect, an increase. I have just been given some additional figures. To answer your question then, as at 30 June in premium year 1999–2000, the percentage of employers who provided an estimate of remuneration was 43. In this current year, 2000–01, the percentage of employers providing us with an estimate of remuneration was 54 per cent.

The CHAIRMAN — Right. Where does that 61 per cent in the second-last paragraph of your submission at page 4 come from, - and again at the second-last paragraph on page 38?

Mr MacKENZIE — Can I suggest that we take that on notice for the time being — that Mr Mountford continues and I ask some of the guys behind me?

The CHAIRMAN — Will I assume the committee can assume that one of those figures is wrong?

Mr MacKENZIE — Not necessarily.

The CHAIRMAN — Okay. Mr Mountford, please continue and we will pick up an answer to it.

Mr THEOPHANOUS — Before you do, Mr Mountford, I want to ask one question about the previous issue. You said before — and I think both of you agreed — that the buck ultimately stops with the CEO and the chairman of the board. Is that correct?

Mr MOUNTFORD — With the authority — meaning the board and the chief executive, yes.

Mr THEOPHANOUS — I want to have it clear. At the time these decisions were made, both of those positions were held by Bob Officer; is that correct?

Mr MOUNTFORD — That is right.

The CHAIRMAN — Please continue.

Mr BEST — Character assassination, all right — —

The CHAIRMAN — Order; Mr Mountford has the floor.

Mr MOUNTFORD — You also asked about cross-subsidies in the system. As you know, the premium system is in fact a closed system. That is, the total premium required is set as a percentage of total remuneration — for the current premium year it is at 2.22 per cent. In that context the premium not recovered from one group must be obtained from the other. It is a zero sum gain in that respect.

The system is weighted to favour small business in a number of respects — the most important of these is the deductible remuneration of $15 500 and the cap on premium rate increases.

Since the beginning of the current arrangements in July 1993 there have been efforts to reduce the extent of the cross-subsidy from that which existed when the system began. As you can see, this exhibit compares for small business the proportion of total costs that are incurred by small business in the system — that is the top green line there. That is the proportion of the total costs in the system incurred by small business. The red line beneath that is the proportion of the total premium that small business pays in the system. The difference between those two is the unrecovered cost — it is the extent of the cross-subsidy. You can see that in 1993–94 that gap represented about $136.7 million, in premium terms, of unrecovered premium from small business.

The board basically narrowed that cross-subsidy. You can see that, really, since about 1995–96 or 1996–97 there has been a relatively constant level of cross-subsidy in the scheme. It expanded a little in 1998–99, was brought back a bit from that in 1999–2000, and was relatively unchanged last year. It is now sitting at around $73.3 million as the cross-subsidy from big business — from those whose premium is predominantly derived from their own claims experience, to small business — —

Mr McQUILTEN — When I look at that I see that in the Kennett government years big business was

favoured as opposed to small business, because they have got closer.

Mr BEST — The other way around.

The CHAIRMAN — The other way around, Mr McQuilten. Mr Mountford?

Mr McQUILTEN — I am sorry, but when I look at that it appears that under the Kennett years the VWA was favouring the larger end of town, because at the beginning it was $136 million and at the end it is only $73 million. So you are wrong over there. Is that correct?

Mr MOUNTFORD — Through those years of the scheme the cross-subsidy from large business to small business was reduced.

Mr McQUILTEN — Thank you. Sorry, gentlemen.

Ms DARVENIZA — If the cross-subsidy of large employers to small employers was to be removed, where would the shortfall come from?

Mr MOUNTFORD — As I said, it is a closed system. Basically, that would be reflected in an increase in the proportion of the premium paid by small business. That is the only way that it could be recovered — through an increase in the industry rates.

Mr THEOPHANOUS — Do you have the total numbers involved — in other words, how much is being paid by what you are defining as larger businesses and how much is being paid by smaller businesses?

Mr MOUNTFORD — In terms of the share of the total premium revenue?

Mr THEOPHANOUS — Yes.

Mr MOUNTFORD — Basically what that says is that small businesses would be about 94 or 95 per cent of total businesses in Victoria, and there you can see that they are paying around 25 per cent of total premium. So the balance would be — small business is paying 27 per cent of total premium, compared to their cost, which is 32 per cent.

The CHAIRMAN — What was the figure the previous year?

Mr MOUNTFORD — The previous year they were paying 26 per cent. So basically, as I said, if you take — —

Mr THEOPHANOUS — So in 1993–94 they were paying a bit over 20 per cent?

Mr MOUNTFORD — Twenty one per cent.

Mr THEOPHANOUS — Twenty one per cent of total premiums?

Mr MOUNTFORD — Correct.

Mr THEOPHANOUS — And today small business is paying 27 per cent of total premiums?

Mr MOUNTFORD — Correct.

Mr THEOPHANOUS — That is what happened under the Kennett years?

Mr MOUNTFORD — Correct.

The CHAIRMAN — Is it fair to say that government departments and statutory bodies are in the big business category rather than in the small business category?

Mr MOUNTFORD — Yes, that would be true, but you would need to be specific — —

Ms DARVENIZA — Sorry, Mr Chairman, what was the question? I did not hear your question.

The CHAIRMAN — Is it fair to say that government departments and statutory bodies would be in the

big business side rather than in the small business side?

Mr MOUNTFORD — The key point is that it is when they get to $10 million and $100 million in remuneration. So certainly the major departments and statutory authorities would be in the big business grouping.

Mr MacKENZIE — The police, the education department.

The CHAIRMAN — Would it also be fair to say, then, that in the past 12 months the increase in percentage of costs borne by small business has in effect reduced the burden of costs for government departments and statutory bodies?

Mr MOUNTFORD — Look, there has been very little change. You can see from the graph that there has been very little change in the cross-subsidy over the last few years. For example, it was 27 per cent in 1996–97, and it has moved to 26 and 28 per cent — it got up to 28 and 27 per cent. The actual extent of the cross-subsidy last year, in dollar terms, increased by $2 million. So it has not really moved very much at all, as that demonstrates, over the last few years. Certainly last year the actual quantity of the cross-subsidy increase was $2 million.

The CHAIRMAN — I assume the answer to my question is yes, then?

Mr MOUNTFORD — Well, sorry — —

Mr MacKENZIE — Sorry, Mr Chairman, your question was?

The CHAIRMAN — Have the government departments and statutory bodies, as a result of the past 12 months movement, borne a lesser burden than they did in the previous year in terms of the percentage of costs being borne by small business going up?

Mr MOUNTFORD — Basically, there was a 1 per cent increase in the percentage of premium borne by small business, so it is a 1 per cent increase but in dollar terms a $2 million decline in the cross-subsidy to small business. So in dollar terms they took $2 million. In dollar terms last year the larger employers actually paid a smaller cross-subsidy by $2 million than they did in the previous year, and in percentage terms of total remuneration there was a 1 per cent decline.

A question was asked about gap insurance — that is, the cost of gap insurance and the take-up of gap insurance. As the committee would be aware, in Victoria employers are responsible for paying the first 10 days of income loss and the first $500 of medical costs. Gap insurance, that is the buyout of this payment, is available to employers at a cost of 25 per cent of their premium. The number of small employers taking up this gap insurance has grown steadily.

The next exhibit shows the number of insurers in the system who are taking up gap insurance. From 1993–94 it can been seen that it has basically risen fairly significantly over the past few years from somewhere over 6000 to somewhere around 10 000 or 11 000. In terms of the proportion of businesses, it has gone from 4 per cent of employers to 6 per cent. Of the people taking out gap insurance, 98 per cent are small businesses. That is a constant proportion. The vast majority are small businesses. This year the total revenue that will be received as a result of the buyout of this gap is $5.1 million.

The committee also asked about a comparison of gap insurance in Victoria with other states. It is not relevant to all states, but we have provided data here to compare it with the three states of New South Wales, South Australia and Queensland where gap insurance is able to be bought out. New South Wales has identified the gap as the first $500 of weekly payments and it is available to those firms who have a premium payment of less than $3000. They can buy it out at 3 per cent of their premium. In South Australia they cover the first 10 days, and it can be bought out at 8 per cent of the annual levy in that state. There is a 5 per cent take-up in South Australia. We do not have the take-up data for New South Wales. Similarly for Queensland, it is for the first five days, which includes the date of injury, and the buyout is 8.5 per cent or $10, whichever is the greater. Fourteen per cent of enterprises or workplaces up there are taking it up.

Mr BEST — Just as you revisited the issue of remuneration information, or lodgment, given that the Victorian scheme is quite a costly scheme by comparison with the other states, are you looking at revisiting that issue?

Mr MOUNTFORD — That would be covered within the premium review that we are undertaking at the

moment. Basically, all the parameters within the scheme will be reviewed in the context of the current premium review.

The CHAIRMAN — Has that 25 per cent been the figure for quite some time?

Mr MOUNTFORD — I understand so, yes.

The CHAIRMAN — I notice there is a reduction in the number of businesses taking up the offer of gap insurance from 1999–2000 and 2000–01. Are you able to tell the committee how many employees that represents, and the reason you believe they have moved away slightly this year?

Mr McQUILTEN — It is cash flow due to the business activity statements. It is the GST.

Mr MOUNTFORD — I can give you the answer to the first part of the question; I cannot give you an answer to the second part of the question.

The CHAIRMAN — What is the answer to the first part?

Mr MOUNTFORD — The answer to the first part of the question is that the number of employers taking up insurance dropped from 11 834 in 1999–2000 to 11 110, so it was a drop of 700 firms.

The CHAIRMAN — We will leave the reason for that to conjecture.

Mr THEOPHANOUS — The first 10 days was an initiative of the previous Kennett government in introducing the scheme; prior to that it was the first five days. Are you aware of whether any gap insurance of this sort was taken up prior to the introduction of this scheme, which in fact was one of the ways the previous government hid the costs to employers of five days of payment, was it not?

Mr MacKENZIE — Neither of us is familiar with any analysis that has been done on that.

Mr THEOPHANOUS — However, it was five days?

Mr MacKENZIE — Correct.

Mr MOUNTFORD — Yes, it was.

Mr THEOPHANOUS — That represented an additional cost to employers.

Mr MacKENZIE — It would have.

Mr THEOPHANOUS — Is it also the case that the vast majority of Workcover claims are at the smaller end of the claims — that is, claims of the first month or two months are by far the greatest number of claims that come in? Is that a correct estimate, or can you give a distribution to the committee of where the claims are?

Mr MOUNTFORD — Basically, if you look at our liabilities, you can see the profile is that 25 per cent of liabilities essentially have a duration of two years or less; another 50 per cent of the liabilities have a duration between two and five years; and another 25 per cent of our liabilities are represented by claims that go beyond five.

Mrs COOTE — How is this gap communicated to small businesses? Are they all aware of it and are you confident they are all hearing about this?

Mr MOUNTFORD — The fact that the take-up has increased relative to South Australia suggests that it is basically being communicated adequately, but I am not sure exactly how it is communicated to employers.

Mrs COOTE — I would be interested to know.

Mr MacKENZIE — The fair point there is that in relation to communication with stakeholders generally — something I alluded to in the beginning — the authority at some times has left a little bit to be desired. Certainly in the premium determination round this year the level of communication with employers — and we have had positive feedback from industry groups in particular but also individual employers — has improved exponentially.

Mr MOUNTFORD — The committee also asked about premium options. As we indicated last time, we have a number of key requirements. On page 11 it can be seen that we have to achieve the premium yield of 2.22 per cent of remuneration and also ensure that there is equity in terms of the impact of the cross-subsidy. As we said last time, there are a limited number of options for the achievement of those. They are, as we set out here, the treatment of the cap — and two dimensions of that are: what level should the cap be; and should the cap on small business be retained at 20 per cent, or increased or decreased?

The other key option at that point is where you apply the cap. Do you apply the cap before the surcharge or after the surcharge? There are those two options. Thirdly, there is the option of applying the surcharge with the new common-law situation equally across all employers — and with the new common-law situation we do not know exactly who will be liable for it — or do we apply it on the basis of past experience with common law and say we expect the new common law to fall the way the old common law did?

Basically, we have outlined those options and in the original submission we outlined the original option. The next page shows that the actual recommended option was to maintain the cap at 20 per cent and to apply the cap to the 1999–2000 base.

The reason for that was that it provides continuity with the past, and secondly, that it retains the protection of small businesses while at the same time minimising the impact of the cross-subsidy.

It was then recommended to distribute the 17 per cent — the surcharge — equally to all employers, because essentially it provides clarity to industry and ensures initial equity in the distribution. Over time basically premium rates will adjust according to where the common law actually falls.

Similarly, you also asked about — —

Mr THEOPHANOUS — Up to what size business does the 20 per cent cap apply to?

Mr MOUNTFORD — The 20 per cent cap applies to or protects businesses of certainly up to $10 million in remuneration — completely — and it then gradually erodes. It protects about 95 per cent of all businesses in Victoria.

Mr THEOPHANOUS — So all small and medium-sized businesses would not have had an increase above 20 per cent as a result of this?

Mr MOUNTFORD — In their premium rate, that is correct. You also asked about the impact of the GST, which was also part of last year's changes in the premium.

The GST was introduced, as you know, from 1 July 2000. The impact of the GST is that it has increased the liabilities of the authority by $250 million: $57 million of this was identified in the June valuation and incorporated in the premium, and an additional $190 million has basically been identified in the most recent valuation. Also, the premium increase required was 11.9 per cent — that is, more than 10 per cent, because there were some costs that we could not cover — and that was similar to the experience in other states. This has contributed to delaying the time frame within which the scheme is expected to return to a fully funded basis.

The basis for this is that not all the costs imposed on the VWA are able to be recouped by us from changes in our prices — or effectively for us, the premium — because, in effect, we will be paying, for example, claims expenses such as legal costs and rehabilitation costs for claimants for whom we have already received the premium to cover that risk. In addition, the weekly benefits and common-law payments in relation to claimants are also affected by the impact on inflation and the average weekly earnings.

You can see from what we have shown on the next page how that change in liability which I referred to — the additional $190 million — occurred. You can see for each area the assumption underpinning our liability for death coverage, for medical payments and for other payments; these are the economic assumptions our actuaries determined. The white bar is the estimate based on the valuation that was done in June last year, and the shaded bar is the revised valuation as a result of the December review.

I will give you an example. The assumption underlying our liability for death coverage is that it will move with the CPI. In the June valuation they expected the impact of the GST on the CPI to be 2.2 per cent in 2000–01 and 4 per cent in 2001–02. In revisiting those assumptions in December the actuaries basically left the 2000-01 assumption unchanged, but revised the assumption for 2001–02 to 5.9 per cent, reflecting the, at that stage, unexpected spike in

inflation as a result of the GST.

The medical payments are based on a combination of 70 per cent for CPI and 30 per cent weighting for average weekly earnings. You can see there that those two assumptions have been revised. I should note that these economic assumptions are basically developed jointly by the actuaries and are based on advice from Treasury and economic forecasters in the community.

The CHAIRMAN — The figure for all of that was $190 million?

Mr MOUNTFORD — No, the figure that was in the June valuation and the premium was that our liabilities would increase by $57 million due to the impact of the GST.

The CHAIRMAN — Yes.

Mr MOUNTFORD — In the December valuation, basically — and I will come to this later on — the actuaries said that on the basis of reviewing the impact of the GST on the CPI and average weekly earnings they had revised our liabilities up another $190 million to cover the impact of that.

The CHAIRMAN — Right; that is the figure in here. I am happy with that.

Mr MOUNTFORD — Correct.

The CHAIRMAN — I want to make clear the difference between the $250 million — —

Mr MOUNTFORD — The $250 million is the $57 million that was estimated back in June last year.

The CHAIRMAN — The $190 million is additional to that?

Mr MOUNTFORD — Correct.

Ms DARVENIZA — What is the unfunded liability?

Mr MOUNTFORD — I will come to the unfunded liability shortly. In total it is $1 billion, but I will come to that and explain that to you shortly.

Mr McQUILTEN — So with this actual figure here we are talking about a 300 per cent or 400 per cent increase, with the impact of the GST on the Workcover authority?

Mr MOUNTFORD — That is right.

Mr McQUILTEN — Thank you.

Mr THEOPHANOUS — What is the actual reason for that? I mean, is it just the inflation figure?

Mr McQUILTEN — GST and other costs they have worked out.

Mr MOUNTFORD — Basically, as I said, there are two components on which we are to focus. One is on-costs we pay associated with claims, which may be medical costs, rehabilitation costs and legal costs, and another part of it is that about 35 per cent of our liabilities are in weekly payments. Those weekly payments are basically driven off movements in average weekly earnings. What happens is that when, as a result of this change, average weekly earnings go up, we are paying that out on claims for which we have already received the premium.

Mr THEOPHANOUS — All right.

Mr MOUNTFORD — That is basically the way that unfolds, and it is that second part which has actually driven the increase in our liabilities.

Mr MacKENZIE — That is because the actuaries relied on original commonwealth Treasury models and obviously — —

Mr McQUILTEN — And they were stuffed?

Mr MacKENZIE — Yes.

Mr McQUILTEN — Will the increase of bankruptcies in Victoria and Australia due to the GST over the last number of months also impact on the Victorian Workcover Authority? With the number of businesses going under there could well be more unpaid — —

Mr MOUNTFORD — In terms of — —

Mr THEOPHANOUS — Premiums, I suppose?

Mr McQUILTEN — Yes, unpaid premiums?

Mr MOUNTFORD — I suppose the issue there for us is our exposure to liabilities, where we have not been able to recover the premium — where we have an outstanding claim for a premium which we are not able to receive. That could affect us. I do not know; at this stage I would not have a quantification of the impact of that on the scheme.

Mr McQUILTEN — I think the number of bankruptcies has increased in the past few months by something like 20 per cent.

The CHAIRMAN — Mr Mountford, on the impact of changes to benefits?

Mr MOUNTFORD — Yes, there were a number of other issues that you asked about. One of these was the impact of changes to benefits. Specifically that is the fact that average weekly earnings calculations were changed in the new benefits package to include regular overtime and site allowances for the first 26 weeks of weekly benefits.

The overall cost to the scheme of this change is minimal. It has been estimated at $14 million per annum, or .02 per cent of premium. The impact on individual employers actually depends on whether or not they are subject to make-up pay arrangements. As you would be aware, in the construction and manufacturing industry — in most of those industries there are make-up pay arrangements where employers are obliged to pay these site allowances and make up this regular pay over and above the statutory benefit or weekly benefit that we pay. For those employers, of course, what has happened is that that impost has now shifted to us. We pick that up where they would have been paying it. But as we said, overall it is a small issue in terms of total cost to the scheme.

Mr THEOPHANOUS — This is a saving to employers in these industries of, what, up to $14 million?

Mr MOUNTFORD — Yes, to the extent that that represents a shift, so that we are paying it rather than the employer, it represents a saving for them.

Mr THEOPHANOUS — Do you know how much of the $14 million that is?

Mr MOUNTFORD — No, I do not think we have enough information to be able to tell how much of that is going to be payments to people who would not otherwise be receiving that money or payments where the cost has been shifted from the employer to Workcover.

Mr CRAIGE — You are saying that if an employee who is employed in the construction and manufacturing industry injures himself, and he receives a regular overtime payment and a site allowance, there is a Workcover calculation done that includes that site allowance and regular overtime payment?

Mr MOUNTFORD — That is correct. The committee also asked about the actual and projected revenue for the last premium year 1999–2000. The total remuneration for that year was higher than expected as a result of higher than projected employment growth, and therefore the total premium was also above the original projection. Workcover in fact budgeted for a remuneration base for the state of $60.59 billion, and therefore a premium of $1.18 billion, with the average premium rate applying that year of 1.9 per cent. The budget was revised and as at December 2000 the remuneration base for that year turned out to be above that revision of $63.95 billion, implying a premium of $1.256 billion. The important point is that the average premium rate remains unchanged because essentially the risk we are covering is related directly to that remuneration base.

Mr CRAIGE — The difference between the revised budget and December 2000 means there has been a increase of $1.3 billion in remuneration?

Mr MOUNTFORD — Yes, that is right.

Mr CRAIGE — Is that because more employers have higher remunerations?

Mr MOUNTFORD — That is as a result of changes in remuneration through — —

Mr CRAIGE — That means more people are engaged and more salaries are being paid.

Mr MOUNTFORD — Correct, a combination of number of salaries and total employment.

Mr CRAIGE — So more people have been employed, which means they are paying more salaries and therefore there is an increase in the remuneration that you receive.

Mr MacKENZIE — Yes.

Mr MOUNTFORD — Another issue the committee has asked about and on which further information is available is the adequacy of the premium in the scheme. The committee would be aware that the most recent valuation of the scheme basically related to the position as at December 2000. As a result of that valuation, the actuaries have projected that the scheme will be fully funded by 2006 at the current premium rate on a sort of status quo basis. They also indicated that the current funding ratio is 81 per cent, but that is not a cause for alarm. It had deteriorated from the earlier June estimate, as the committee would be aware, which was something around 91 per cent.

Mrs COOTE — Alarm for who, you?

Mr MOUNTFORD — All of us, I think. Despite the increase in liabilities, the actuaries indicated that the current premium is appropriate, and both said the scheme would return to a fully funded basis by 2006 on a status quo basis.

In relation to the point you made about alarm, the next exhibit shows the comparison of funding ratios across schemes around the country — specifically, South Australia, Queensland, Victoria and New South Wales. The left side of the graph represents the percentage funding, so 100 per cent funding would be a line running across from the figure 100. The data goes back to 1990, and extends out, for Victoria and New South Wales, to the most current period. The blue line is the Victorian funding ratio, so it can be seen that before 1990 the funding ratio got down to below 20 per cent. Then it rose to achieve around the 100 per cent funding ratio in 1995, a position from which it has been gradually declining over the past few years.

The two points to make about this are firstly, that basically all the schemes are oscillating in a band around 80 to 100 per cent, so it is within the band in which the other schemes around the country are working. That is one reason we say it is not a cause for alarm. We are not being complacent, but we say it is not a cause for alarm. It is also very different to the position the scheme was in at the beginning of the decade.

Mr CRAIGE — It was not in the band back in the early 1990s.

Mr MOUNTFORD — It certainly was out of the band then. We say it is not a cause for alarm because it is still within the band now.

The CHAIRMAN — What would have happened if we had not had common law? My understanding is that the figures for 1999–2000 without common-law had sufficient in the premium to get it back to the 100 per cent. Is that your understanding?

Mr MOUNTFORD — There is still sufficient in the premium to get it back to 100 per cent.

The CHAIRMAN — Without common law?

Mr MOUNTFORD — With common law in it now.

The CHAIRMAN — No, my question was that prior to the introduction of common law, was there sufficient in the premium to get it back to 100 per cent? I think the plan was within three years.

Mr MacKENZIE — If you let Mr Mountford talk through the next couple of slides, the answer will be forthcoming.

The CHAIRMAN — He will give me an answer then, will he?

Mr MacKENZIE — If I am wrong we will come back to it, but it is self-evident from the next couple of slides.

Mr BEST — Do all the schemes have similar provisions within them so far as access to common law is concerned? Obviously Victoria and New South Wales are at the bottom end of the percentage scale compared with Queensland and South Australia.

Mr MacKENZIE — In answering that question we have to be careful not to give a glib answer because you are comparing apples, oranges and pineapples with a package of benefits at each end. The benefits in those schemes vary from state to state. Some states have tort-based liabilities in the form we have in Victoria; some have the benefits provided in a non-tort way, so giving a glib answer will not answer the question. We can provide information on that to the committee.

Mr BEST — I note that with the legislative changes a lot of the unfunded liability had been addressed by the mid-1990s, and now the trend, unfortunately, looks to be declining.

Mr MOUNTFORD — Interestingly, Queensland has common law and it is improving, so that is the point James was making. The fact is that it is very difficult to make those comparisons because of the different combination of benefits provided by the schemes.

Mr MacKENZIE — On that point, the comparisons are difficult, whether you control a scheme by legislation or you control a scheme by managing the liabilities, which I think we will come to now.

Mrs COOTE — If we were comparing, for example, the costs of the various premiums in New South Wales and Queensland, would that still be comparing apples with oranges?

Mr MacKENZIE — Yes.

Mrs COOTE — So it is invalid to say Victoria is the second cheapest because it has to be qualified more than you are able to do?

Mr MacKENZIE — It depends on the basis of the comparison. If you are talking about it in dollar costs, that is correct, but the comparison of the various schemes has to be looked at in terms of a whole lot of things not necessarily covered by the analysis that is presented.

Ms DARVENIZA — So when you look at it in terms of cost to a small business, or what it means for a small business, it does have some relevance?

Mr MacKENZIE — Of course in dollars out the door it has relevance. But these numbers and the way they have to be actuarially adjusted to deal with the various nuances of each scheme make it easy to mislead rather than actually make sure.

Mr CRAIGE — The bottom line is that you cannot compare them because you are comparing apples, oranges and pineapples, and it is difficult to do. Even though you can take individual areas out of it, the bottom line is that in the totality of the scheme it is difficult to do.

Mr MacKENZIE — No, I do not necessarily agree with that. The bottom line is that you are looking at, first of all, premium levels. That is the direct cost to the business community. Secondly, you are looking at whether the scheme is fully funded or to what extent the scheme is funded. These are not things that are done on a comparative basis; they are actually reportable. But I think that the drawing of all sorts of nuances on a state and territory comparison has to be adjusted to reflect the different schemes and the different benefits and the different legislation and all that sort of stuff.

Mrs COOTE — Thank you.

Mr THEOPHANOUS — But in terms of straight premium, there are valid comparisons that can be made across the states?

Mr MacKENZIE — In terms of dollars out the door, yes.

Mr THEOPHANOUS — So when we say that Victoria is the second cheapest in terms of premiums, that is a valid comparison, isn't it?

Mr MacKENZIE — Correct.

Mr THEOPHANOUS — I will ask you one question on the graph. I notice that the downward trend occurs from about 1995 onwards. To what extent is that downward trend in Victoria attributable to the precipitous reduction in premiums that took place under the previous government, when premiums were reduced by about 0.2 per cent? Is that a factor in that reduction? And, in hindsight, is that something that has now had to be readdressed by increasing the premiums?

Mr MacKENZIE — I think the answer to that question will be obvious from the next couple of slides, in that in reality the deterioration in the workers compensation scheme in Victoria in recent times has been predominantly a result of the old common-law scheme and the extent to which liabilities under that old common-law scheme have blowout. I think some data which Mr Mountford will speak to now graphically shows that.

Mr MOUNTFORD — When we are talking about the adequacy of the premium, clearly a key part of this is the scheme's liabilities.

As I indicated in answer to a question earlier, as of the December valuation the unfunded liabilities are now $1 billion, and this growth to $1 billion has been due to the poor management of old common-law claims as well as to the GST.

The major reason for the increase in liabilities has been the growth in old common-law claims. The most recent increase in common-law liabilities was a result of the surge of claims for workers injured pre-1997 that occurred last year. This surge added over 3000 claims to Workcover's liabilities, all relating to incidents which occurred between 1992 and 1997.

The good news is that the cut-off date for the old common-law claims has now passed. They are now in.

If we look at then and decompose what happened to the liabilities — and this was something that was an issue at our last discussion — we see that in effect at the June valuation of our liabilities it was estimated that they were standing at $4.8 billion. However, we found that that did not include the liabilities which applied for common law through that period and which became apparent through the course of the succeeding six months. So, in fact, the real base for our June estimate was about $5.2 billion. That was a $387 million increase, and that was all a result of that surge of claims, which basically were claims from the previous period that had not become apparent at that point.

From there are the other significant components of the increase. Our liabilities were increased by $67 million due to changed rehabilitation liabilities. Then there were other changes in the economic assumptions and financial assumptions underpinning the scheme, which amounted to another $277 million.

That was really the new part of the December valuation because, as you may recall, a valuation was done of the common-law liabilities after the surge, and the original estimate of that was basically consistent with what the December valuation's more detailed examination found. So essentially we knew from that early evaluation what the common-law liabilities were — before this December valuation. The new component in the December valuation was the $277 million for changes in economic assumptions, of which, as I have said, $190 million was the largest single component — and that was the GST. That has taken our liabilities now to $5.5 billion.

The CHAIRMAN — Just on that point, can you give me the two figures — the June estimate of the pre-1997 common-law situation and the December estimate of the pre-1997 common-law situation?

Mr MOUNTFORD — The difference in those is $4.8 billion and $5.2 billion, in effect — —

Mr MacKENZIE — It is $387 million.

Mr MOUNTFORD — So it is really — are you looking for the impact of the — —

The CHAIRMAN — Sorry; I will repeat the question. In June 2000 an estimate of pre–1997 common-law liabilities was undertaken.

Mr MOUNTFORD — Right.

The CHAIRMAN — And that was recalculated in December. I am interested in those two figures to clarify how much it went up.

Mr MOUNTFORD — In total it is the difference between those two numbers. You are talking about the actual difference in the specific common-law liability?

The CHAIRMAN — Pre 1997 — the estimate for pre–1997 in June and the estimate for pre–1997 in December.

Mr MacKENZIE — The estimate for pre–1997 — those are the contentious liabilities — is on the left-hand chimney on the slide there. It was $4.8 billion when those liabilities were estimated at 30 June, and when the actuaries came back and looked at those liabilities again — as shown on the next slide — as the inevitable conclusion of a common-law scheme, the spike in liabilities, which they had originally estimated to be that spike on the slide that I am pointing at there, in fact ended up being that spike there. That is what led these pre–1997 liabilities to be restated for what they were at 31 December — as Bill said: approximately, or for all intents and purposes, $5.2 billion.

Mr MOUNTFORD — In percentage terms they rose — common-law liabilities were about 21 per cent of our total liabilities, and they rose in the valuation to just over 25 per cent of liabilities.

Mr THEOPHANOUS — I think the confusion here is that this $4.8 billion is not only — —

Mr MOUNTFORD — No, it is total liabilities.

Mr THEOPHANOUS — It includes everything?

Mr MOUNTFORD — Yes, it is total liabilities.

Mr THEOPHANOUS — And on that the $387 million is the pre–1997 common-law liabilities?

Mr MOUNTFORD — It is the increment of pre–1997 common-law liabilities as a result of the pre–1997 common-law changes.

Mr THEOPHANOUS — So another increment comes in, which is not for only common law but also includes the GST, of, in my calculations, about another $300 million and something?

Mr MOUNTFORD — What happens too, though, is that when your common-law liability goes up — this is a net figure, so when your common-law liability goes up your liability for statutory benefits comes down. So there is some reduction in statutory benefit, because you basically either recover what has been paid, or people are being moved from one form of benefit to another. This figure represents the net effect of those.

The CHAIRMAN — What I was getting at in layman's language is the difference between the estimates of liability of June and December in relation to those common-law pre–1997 claims.

Mr MOUNTFORD — Yes. You mean, in terms of the total — —

The CHAIRMAN — I will read the *Hansard* to work out whether you have answered my question or not, frankly.

Mr MOUNTFORD — I think we have.

Mr MacKENZIE — We have. It is all summarised by those two — that slide and the slide before.

Ms DARVENIZA — How much of the unfunded liability is due to the new common law and how much of it is due to the previous government's common law?

Mr MacKENZIE — I think that is a hard question to answer and to actually allocate percentages to the unfunded liabilities we have at the moment. But I think it is pretty evident from the information that we are talking through at the moment that the major cause of the unfunded liabilities in the scheme at the moment is the way in which old common law has been managed.

Mr THEOPHANOUS — It would be the overwhelming amount, would it not?

Mr MacKENZIE — Yes.

Mr THEOPHANOUS — There would not be much for new common law?

Mr MOUNTFORD — There is not much for new common law in the liabilities because it is a new scheme. They allow for the fact that there will be some claims out there, but we have not actually received them yet. However, it is a small amount.

Mr CRAIGE — In June 2000 you did a valuation or an estimate of the old common-law liability. In June what was that in dollar terms?

Mr MacKENZIE — Off the top of my head I cannot give you that answer. That is detailed in the actuarial report that we have given the committee as part of the submission.

Mr CRAIGE — I will take it that the committee has that figure. In December 2000, what was it calculated at?

Mr MacKENZIE — It was $387 million.

Mr CRAIGE — More than it was — —

Mr MacKENZIE — Calculated at 30 June.

Mr CRAIGE — I am happy with that.

Mr MacKENZIE — We will refer to the old common-law scheme in a bit more detail.

Mr McQUILTEN — It seems to me the problem in those pre-1997 years was that the Kennett government was not charging enough on premiums.

Mr MacKENZIE — In terms of the issue and where the scheme is today, the problem has been the way in which old common-law liabilities were managed by the authority. At the end of Mr Mountford's presentation there are a couple of slides that specifically address the issues you raise.

Mr BEST — On your projected common-law claims, from the figures it appears that you thought there would be about 700, is that right, and you have actually received about 3000?

Mr MOUNTFORD — It is a bit higher than that. This is a monthly logging of claims, so it is received per month. The actuaries believed that we had seen the peak effectively in March when we received over 1000 claims.

Mr CRAIGE — Have you done some work on why that happened?

Mr MacKENZIE — At our February board meeting the board spoke to the actuaries because of its surprise as well. The actuaries rely on the rates at which claims are being lodged and experience in Victoria and in other states as to what happens in a scheme when you get to cut-off dates. The actuaries were of the view, clearly incorrect on the basis of where we are now, that that little hump that I pointed to before was what actuaries refer to as the surge. In reality the surge was the red line.

Mr CRAIGE — It was merely a pimple, not even a surge. So how did it happen? Have you done any work as to the cause of that in the marketplace?

Mr MOUNTFORD — There was in fact another cut-off of common law back in the early 1990s, in which the experience looks very similar to this. The question we were asking was if we saw this then why did we not foresee it this time? The answer the actuaries provided to us was that when that cut-off was made people were given three months, so it was a short time in which to lodge their claims — and I do not remember the exact period, but it was something like that. This time the cut-off was to be in three years, so the expectation of everybody was precisely that that process would be flattened out. That is why they saw that and said, 'Right, so we have done it'. When we pressed them, the actuaries themselves said they had not seen this. Right through those latter few years effectively the common-law side was out of control. Frankly, that was the final factor, that there was really not a control on the common law.

Mr THEOPHANOUS — That spike to me represents the final surge of people putting in for common

law.

Mr MacKENZIE — Under the old scheme.

Mr THEOPHANOUS — Under the old scheme, yes. Irrespective of whatever policy changes might have occurred in terms of bringing back common law, this would have occurred anyway; is that a fair assumption?

Mr MacKENZIE — Absolutely.

Mr THEOPHANOUS — That therefore suggests to me that the funding, to take account of this, had not been planned under the previous government when it was removed.

Mr MacKENZIE — The simple answer is that the funding did not reflect the liabilities, and the liabilities could only be finally determined after the cut-off date. The cut-off date was during the period covered by the last actuarial valuation. As the committee will see from copies of the independent actuarial reports we have tabled today, that is where you draw the line. That is the end of the game so far as old common law is concerned, and that is where you know the extent of your old common-law liabilities.

Mr CRAIGE — The actuaries could not foresee that spike; the board could not see it; no-one saw it.

Mr MOUNTFORD — I think you will see the answer to that in some of the future slides.

Mr CRAIGE — Could I get an answer to that question? You did not see it?

Mr MacKENZIE — In reality we did not have any reasonable mechanisms in place within the authority to manage the old common-law scheme. As the committee will see, the independent actuarial valuations at 31 December 2000 describe the old common-law scheme as literally being out of control. In a common-law scheme that is — to use their words, not our words — literally out of control, the authority did not have an idea of the activity that was coming through the pipeline. It is not something that could have been reasonably anticipated. But if we had the proper systems in place it would have been.

The CHAIRMAN — Will the claims that have been made under the old common-law system be incorporated in the confirmed premiums for the current year?

Mr MacKENZIE — The premium-setting process that we are going through at the moment is a close-in function of the financial dynamics of the scheme as it is at the moment, so that includes the financial position of the scheme as determined by the actuaries at 31 December.

The CHAIRMAN — If I am an employer and 10 of my employees put in an old common-law hearing claim, when the calculation of the confirmed premium for this year comes up will I be — —

Mr MOUNTFORD — Your confirmed premium will simply contain the claims that have been paid out. Many of the claims involved with that surge are working through the system now. They have not been settled, so we do not know. We have an estimate of the cost but we do not know because we have to wait to see how many claims are rejected, how many are accepted, and the average cost of those. The actuaries have made estimates of those based on experience. Included with the confirmation of premiums this year would be old common-law claims that had been settled over the course of this financial year.

The CHAIRMAN — If I have quite a number of old common-law claims against me in respect of either current or former employees, when will that flow into my premiums?

Mr MOUNTFORD — When those claims are settled.

Mr MacKENZIE — And when those claims are admitted.

Mr CRAIGE — How many claims have been accepted between December and today and how many claims have been rejected, in respect of the old common-law claims?

Mr MacKENZIE — The answer is we do not have any data on that today. As we will explain towards the end of our submission, we have adopted a far more relevant strategy in terms of managing those schemes and putting in place the types of controls you would expect to find. So we would be confident as an authority that the liabilities attached to those old common-law claims, all of which are lodged now, will be as good as is possible.

Mr CRAIGE — That takes me to the issue of statements that you have both made about a reality check being open, accountable and inclusive and that you must get better at claims management — most importantly. Recently we heard that in one small country town in this state there have been seven claims for hearing loss by one firm of solicitors, Roth Warren, and a great whisper has gone out among the community about whether they were prior to the shut-off date. How are you managing?

The reason I asked the question about acceptance and rejection is that it appears that they are being accepted and that there is very little rejection. We got no advice about rejection. If you are going to talk about claims management, most importantly is this not part of claims management?

Mr MacKENZIE — I think there are issues that we both want to make in answering that question . The first thing is that from my experience I think a common misconception about the way in which these schemes should be managed is to blame the plaintiff lawyers, or lawyers acting for plaintiffs, for the problems that confront the schemes. In reality the lawyers who are acting for plaintiffs have a responsibility to the plaintiffs. It is incumbent on the authority — it might sound like a pretty simple statement, but I think that whenever an accident compensation scheme goes wrong or whenever there is pressure on an accident compensation scheme it is traditional to blame the plaintiff's lawyers.

In reality the people who are accountable when an accident compensation scheme goes wrong are the authorities who are there to administer the scheme. What we have done at the Victorian Workcover Authority over the past 12 months is to take from the best practice experience the Transport Accident Commission had in managing these types of claims. Andrew Pinder, a senior manager in the common-law unit, the in-house legal unit at the Transport Accident Commission, joined the authority in November last year and has set up a well-staffed unit which is — I use the word somewhat cautiously — aggressively managing these claims, and that is the way you get the optimum result for common-law liabilities. That type of practice and that type of process had been non-existent in the authority. That is why the independent actuaries told us at 31 December last year that we had a common-law scheme that was out of control.

Mr MOUNTFORD — I just want to say that I think you may know better than I do the way in which the common-law system was not managed at the authority before — where, for example, we paid the solicitors who were preparing the cases a fixed fee, irrespective of whether a case was worth $1000 or $100 million. It was the same fee across- the- board. We paid barristers; we went to the courts and basically said, 'We want the cheapest barrister', so we paid cheap barristers, and we wanted them at a deep discount — a 20 per cent discount to their normal fees — irrespective of whether the matter that they were defending on our behalf was worth $1000 or $100 million. I mean, there was no coordination, no focus. It does go directly to your point, because that is why we ended up with such a poor outcome. Now we are addressing that on the common-law side and I think in that respect we are starting — although it is very early days — to see the evidence of different results through that process.

Mr CRAIGE — We will look forward to that. May I say, then, that you have a communication problem? Employers, including small employers, out there do not know that you are doing this and their view is quite strong — it has been in all the submissions we have had around rural Victoria — that there is no rejection rate and that if you have a hearing on an old common-law case you get it accepted and that is the reality. Do you accept that that is so?

Mr MacKENZIE — I accept that; I think the point you make is valid. At the authority we recognise that our communication with all our stakeholder groups has left a lot to be desired. But I think you will see from speaking — especially in recent times — to employer groups and also to all our stakeholder groups that there has been a considerable improvement in the authority's strategic direction, and the way in which that strategic direction manifests itself in day-to-day initiatives.

But in terms of rejection and the way common-law claims are being managed, what Mr Mountford said is absolutely right, and the data that is emerging in terms of cases that are being won, cases that are being defended, and appeals that are being made, makes compelling reading to support that fact.

Mr CRAIGE — You had better tell the employers that.

The CHAIRMAN — We will have a 5–minute break and then continue for half an hour.

Hearing suspended.

The CHAIRMAN — We will resume now. Will estimates be made of the potential cost of those common-law claims and included in the employers' premium calculation at some stage, or will you wait until they have settled?

Mr MacKENZIE — I think in relation to — these are the now quarantined and all-in common-law claims under the old scheme?

The CHAIRMAN — Yes.

Mr MacKENZIE — We will progressively report our progress in managing those claims going forward.

The CHAIRMAN — If I am an employer, though, when will I start wearing something, and why?

Mr MOUNTFORD — In a sense with many of these you probably already have a claims cost in your experience, because they are probably people who are on statutory benefits. So there will be an estimate of the claims cost associated with that claim based on an assessment of that claim at the time.

The CHAIRMAN — At the time of what?

Mr MOUNTFORD — If it is a statutory benefit claim there will be an estimate associated with that claim, because you are already actually paying something; it is an incurred claims cost.

The CHAIRMAN — What if it is, say, a hearing loss claim? When will that translate into more premium, assuming that at some stage either an estimate will be made of its quantum, or it will be finalised, or it will be seen to be sort of — what is the right word? — vexatious?

Mr MacKENZIE — It is always dangerous to speak on a claim-by-claim basis. It would go to the extent of the hearing loss.

Mr MOUNTFORD — But it would depend on the agent accepting the claim. You see, if the agent has accepted the claim, it would appear as part of the experience in the claims costs for that year. If the agent has not accepted the claim, and it is contested, then to the extent that that is a discrete claims cost I do not think that would appear at that point, because you do not know what — —

The CHAIRMAN — Do we assume that if there is a spike in claims for pre 1997 there will be a spike in premiums?

Mr MOUNTFORD — No, because the actuaries basically have taken into account these claims in their latest estimation of the liabilities and they have said, 'Right, so we have incorporated these three' — —

The CHAIRMAN — Sorry to interrupt. You are talking about the overall situation; I am talking about the situation if I were an employer. Will that translate to increases in premium for individual employers, those whose employees or former employees have made a claim by the cut-off date and who are in that spike?

Mr MOUNTFORD — Under the current arrangements, as we are saying, the premium rate for 95 per cent of employers in the state is determined by the industry rate, not their own claims experience. So to that extent that will not be reflected directly to them. Their premium rate is determined by the broader experience in that group as a whole.

The answer to your question is no, it will not necessarily apply because of the fact that 95 per cent have their premiums determined by the industry rate, which is more generalised. On that basis the actuaries have said that the current premium rate is sufficient to cover those liabilities and bring the scheme back to full funding by 2006. They have done that in the absence of taking account of the sorts of initiatives we have established, such as the common-law unit and the claims management review we have initiated to improve the performance of the scheme. That is on a status quo basis with no change in the management of the scheme and the outcomes achieved by that.

The CHAIRMAN — You have indicated under the heading 'Scheme liabilities' that the Workcover unfunded liability is $1 billion due to poor management as well as the GST. If the investment income of Workcover had not dropped by in the order of $230 million over the same period to the end of December 2000 compared with the end of December 1999, that further income of $230 million would have reduced the current underfunding by almost a quarter?

Mr MacKENZIE — Mr Lucas, the answer to that will be clear from the actuaries' reports we have given the committee. The actuaries' model investment returns are on mean investment returns over time rather than on peaks and troughs during the normal cycles that a stock market goes through. The way in which both liabilities are modelled and funding ratios are determined is on the basis of actuarial assumptions of investment returns over time and not on a year-by-year basis.

The CHAIRMAN — If you make a year-by-year basis statement to do with old common law and GST, is it only fair to mention that investment income in those same terms?

Mr MacKENZIE — Not in relation to either of those because we have come to the end of road for the time of lodgment of old common-law liability claims. As an authority, based on the review that the independent actuaries have conducted, we know what the liabilities of that scheme are, so that has to be booked. The GST was a change to the whole economic assumptions on which that modelling took place. It was a change in terms of the costs associated with the economic environment in which average weekly earnings were determined and a change in the way in which the costs that the authority incurs in managing the scheme arose.

The CHAIRMAN — I accept your answer. Would you accept that your investment income from December 1999 to December 2000 reduced, according to page 13 of your annual report, by around $230 million?

Mr MacKENZIE — That is not a comparison with the previous year?

The CHAIRMAN — Yes.

Mr MacKENZIE — If that is what the number says, that is right.

Mr MOUNTFORD — Before proceeding further, I want to clarify what we are doing to accelerate the recovery scheme and the issue raised by the Chairman about the remuneration estimates and the proportion of employers who provide us with an estimate of their remuneration, and reconciling the data in exhibit 5.

The CHAIRMAN — Is this the 61 per cent?

Mr MOUNTFORD — Correct. Essentially, this data is a snapshot at 31 May that has been taken because it is after the initial calculation of the premium run. At 31 May, as the exhibit suggests, 49 per cent of employers had provided us with an estimate. Also, as I have said, that number rises through the course of the year as more and more people provide us with an estimate. The figure of 61 per cent, which is in the submission, basically relates to late August and was a figure that was available at the time of the submission. That is another point at which this data is extracted because that is the date on which those people who want to pay their premium on an annual-in-advance basis will actually give us an estimate of their remuneration together with their annual-in-advance payment of premium. There is consistency. But the 61 per cent is as of the payment of their annual-in-advance premium, which is due in late August.

Similarly, if you look at what was at that time the equivalent proportion that provided us with that estimate, it was about 49 per cent the previous year. Again, the gap between the proportion of employers who gave us an estimate and those who did not has remained consistent. The proportion of employers who provided us with an estimate last year has improved by about 10 percentage points on the year before.

The CHAIRMAN — Is what you said at page 38 of your submission in November correct, that 61 per cent of employers, accounting for 72 per cent of state remuneration, provided estimates of remuneration prior to June 2000? You just said it was August and that 61 per cent of those people were a particular proportion of employers and not of the total. Can you comment on that?

Mr MOUNTFORD — Yes, I can. That statement prior to June is incorrect. I apologise for that.

The CHAIRMAN — Should that 'June' read 'August'?

Mr MOUNTFORD — 'June' should read 'prior to the end of August'.

The CHAIRMAN — Should that statement be qualified in any way? The way I read it, it is 61 per cent of all employers.

Mr MOUNTFORD — That is right, 61 per cent of all employers. The problem in the statement is that it

says 'prior to June'. It should say 'prior to the end of August'.

The CHAIRMAN — If we could just go back a step: who were the 61 per cent you just described to me?

Mr MOUNTFORD — They are people who provided us with an estimate.

The CHAIRMAN — No, they were a particular category of employers.

Mr MOUNTFORD — No, the relevance of that is that at each point when people are needing to make a payment we tend to get their estimation. We ask them for a prior estimation in March and we get a level of compliance with that. When people are actually making a payment, that is when a significantly higher proportion actually provide us with the estimate, at the same time as their payment.

The CHAIRMAN — To save time I will check the transcript on that.

Mr MOUNTFORD — If I could continue, the reason the end of August is relevant is simply that that is a point at which all those employers who want to pay their premium annual in advance, which tends to be the smaller employers, make their payment and at the same time provide us with an estimation of their remuneration for the year they are making the payment.

Mr THEOPHANOUS — I suggest you write to the committee and explain that.

The CHAIRMAN — Is it 61 per cent of the annual-in-advance employers?

Mr MOUNTFORD — It is 61 per cent of all employers.

As I said, while the actuaries are saying that the scheme will return to full funding at the current premium on a status quo basis, we are certainly not complacent about that; and indeed, as James has outlined, we are implementing a comprehensive turnaround strategy to accelerate that recovery. I will quickly go to the next slide to outline some of the key initiatives we are implementing around two of the critical themes here, which are: to increase the focus on prevention — that is, to eliminate claims at source, if you like — and to improve claims management. We have initiated the Targeted Industries program, where we are basically focusing our efforts on improvement around those industries or subsectors of industry that have the worst claims experience, with a view to seeking to get the stakeholders together to improve the performance of those industries.

Mr CRAIGE — Name them, please?

Mr MOUNTFORD — They are in the Strategy 2000 document.

Mr CRAIGE — I am just asking you to name them.

Mr MOUNTFORD — The four broad industry groupings are: building and construction, manufacturing, transport and storage, and community services.

Mr CRAIGE — Thank you.

Mr MOUNTFORD — And within each of those are subsectors that we are working at we also have a program which we are initiating. That program, the Targeted Industries program, began in February. The Focus 100 program is basically rolling out this month and between now and the end of June we will contact directly the chief executives of the 100 companies that are in our sights on the basis of criteria that relate to their worse-than industry claims performance and the fact that they have had a number of recent industry claims. These are, if you like, those employers where we think there is the most significant scope for improving performance.

We are also initiating a campaign on sprains and strains which, as you may understand, accounts for something like 60 per cent of our liabilities. We have initiated the Safety Development Fund, where we are bringing together joint employer and union initiatives and are co-investing with them to fund innovative and best practice ways to improve health and safety. We expect to provide the first round of funding under that program in May.

Mrs COOTE — I presume you have accountability built into all of these, because James made a statement at the beginning that accountability was a very big part of it? That is locked into all of those?

Mr MOUNTFORD — Absolutely, and accountability in several respects. One is accountability — —

Mrs COOTE — And claims offset — —

Mr MOUNTFORD — Yes, that is right. In the other area of claims management, we have talked about the common-law strategy and the fact that from October a unit we have built up modelled on the TAC experience will manage not the individual files but the panel of law firms to handle our files to ensure that we are focusing on those files that are the most potentially damaging to us. I think the point you made before, Mr Craige, was about actually challenging and rejecting claims we should be rejecting and accepting those we should accept, to make sure that there is consistency and appropriateness in those decision points.

Mr BEST — I would like your comment on this. There is no initiative here to look at the relationship between the employer and the insurance company. One of the consistent issues that has been raised in evidence we have heard is that there is a Tattslotto type of mentality in common law and throughout the industry. Often employers complained that they did not even get their opportunity to have their day in court. They would have liked to have contested a lot of the claims but there was an inability for them to actually contest a claim because the insurance company was more prepared to pay it out, to get it of the books, and the impact adversely affected the employer. I would be interested in your comments.

Mr MacKENZIE — I can answer that, Mr Best. As Strategy 2000 highlights, and as is obvious to most stakeholders in the scheme, there are some flaws in the model on which the workers compensation scheme in Victoria works. One of the major initiatives that the authority is undertaking this year is a review of that model. Mr Mountford and his team are going back and looking at that in terms of dealing with those types of issues, because we will never have an effective claims management system operating, especially for statutory benefits, unless those sorts of issues are addressed. That is on the table, and I think we are probably about two or three weeks into that major review at the moment.

Mr MOUNTFORD — That brings me to the final point on that page in terms of initiatives — that is, the premium review phase 3, which will begin in June, through which we will take up a number of issues that you and employers have raised about the deficiencies in the premium system with a view to addressing those in the future. We have addressed those that we could address quickly, if you like, and implement within the context of this financial year, but we recognise that there are other issues that we need to address.

Mr Chairman, I would like to hand you back to my chairman to talk specifically about controlling the common-law liability at this point.

The CHAIRMAN — Right.

Mr MacKENZIE — Thank you, Bill. In terms of controlling common law — and we have spoken about this during the course of the morning already — the deterioration we are talking about goes back a number of years. Poor management of common-law liabilities — the old common-law liabilities, obviously — has been the root cause of this. I think it is important, given that problem recognition is a major part of problem solution, that we do all understand that the independent actuaries, both firms that reported to the VWA board in February, told us that the data as it was, with the final cut-off through, was indicative of an old common-law scheme that was out of control.

What we are doing — and I think both Bill and I have alluded to this this morning — is implementing a comprehensive strategy to turn around our performance in this area, especially in the management of common law. In Victoria we learnt from managing the common-law liabilities at the TAC that you need both a strategy in place — and we have not had one — and the controls in place to ensure that that strategy is implemented.

This is the next slide. It has been zero based. It indicates just what has happened, in relative performance, between the two accident compensation schemes in the state since December 1998, which was when the TAC changed its approach to managing common-law liabilities and the decision was made by the VWA to discontinue the common law as common-law benefits. The chronic decline in the VWA's liabilities over that period was about $670 million. During the same period the progressive improvement in the way in which the TAC has managed its common-law liabilities — and these liabilities are very similar in nature — has resulted in $200 million in improved performance in that scheme.

Finally, Mr Chairman, I will wrap it up on behalf of Bill and me. Of the subsequent information requests we have had from you, the first was for a breakdown of premium information running to government departments and authorities. I do not want to sit here and make excuses, but in reality because of the changes in the health care and hospital systems, that is not necessarily that easy to pull together at the wave of a wand. We have people

working on that. We are advised that that information should be able to be handed to your committee by the end of April.

The other information that you have requested is an update on the premium review for this year. The authority is very keen to engage the committee in a dynamic discussion on the way in which this process is being handled. I think we have put our hands up today and said that we did not handle — the authority did not handle — the premium determination well last year. While I have an opportunity I just say that that should not be singled out on any one person. It is important that it is the authority that is accountable for that — the management and the board of the authority. We extend an open invitation to brief the committee on where we are going at the various stages of our premium determination process this year.

In terms of the information you have requested, we believe that all of that information has now been handed to you. One thing I want to point out in the interests of completeness, is that we have omitted and have not photocopied all the appendices attached to the two independent actuaries' review of the scheme at 31 December. That is probably more a conservation effort rather than a withholding of information exercise. If any member of the committee who would like that information lets me know, I will make sure that it is available.

The CHAIRMAN — If the committee appoints some consultant actuaries it will need to get that from you.

Mr MacKENZIE — Yes.

The CHAIRMAN — A few points about your last statement need to be clarified. It is difficult to put this. I do not think you have addressed the committee on all the issues it understood you would address it on today. Rather than read those issues out — there are six of them — the committee's executive officer will directly put those to you. If they are on the list and you have covered them, there is no problem. If they are not, I assume you will send that information to the committee in the next week or so.

Mr MacKENZIE — We went through a check list on Friday and we believe we have provided everything.

The CHAIRMAN — On page 25 of the original submission you indicated that in relation to industry classifications, 43 or 8.3 per cent had had a decrease. Heading down that column, the total number of workplaces that were listed as having a decrease was around 14 per cent. In terms of total remuneration, there was a decrease of around 14 per cent, which is the $9 million figure. So the percentages there are 8, 14 and 14, just using those figures generally. The submission you gave the committee in November indicated that 17 per cent of remuneration had no change or a premium decrease. Can you clarify that situation?

Based on those figures, if you look at the classifications of workplaces or remuneration, the number of employers who would have had a decrease would be somewhere around those percentage figures. I have heard other percentages quoted on the number of employers with a premium rate decrease of around 31 per cent, 30 per cent or 29 per cent. Your figure for employers with no change or decrease was 31 per cent. I have heard others say that 31 per cent of employers had a decrease, not including those with no change.

Given those figures of 14, 14, 8 and 17, it seems almost impossible that 31 per cent can be right. I have also read a statement that 31 per cent of small employers had a decrease and that 31 per cent of all employers had a decrease. Your statement is that 31 per cent of employers had either no change or a decrease.

Mr MOUNTFORD — That is the correct statement.

The CHAIRMAN — Can you tell me what percentage had no change?

Mr MOUNTFORD — Basically, if you take those two numbers on page 25, it is simply 200 groups.

The CHAIRMAN — No, how many employers had no change?

Mr MOUNTFORD — In terms of workplaces, it is there, is it not, in terms of 10 000 workplaces having the same classification with the same rate?

The CHAIRMAN — In their premium rate?

Mr MOUNTFORD — The same rate, yes.

The CHAIRMAN — So 100 907 workplaces — which is 43 per cent because I have worked out the figures — had no change in their premium rate. Is that what you are telling me?

Mr MOUNTFORD — Basically, they did not have a change in terms of their classification, so they did not move up or down with their premium rate.

The CHAIRMAN — If that is 43 per cent, how can your 31 per cent for no change be right?

Mr MOUNTFORD — The issue there might be in relation to workplaces, because we measure by workplace, employer and premium.

The CHAIRMAN — My question relates to employers. I have three statements: one says 31 per cent of employers had no change or a decrease; another statement says 31 per cent of employers had a decrease, with no mention of no change; another statement says that 31 per cent of small businesses had a decrease, again with no mention of no change.

Mr MacKENZIE — I think the easiest way to deal with this is for us to give you a written submission reconciling those statements.

The CHAIRMAN — Thank you., that would be great.

Mr MacKENZIE — Once we start talking about workplaces rather than employers we get into the situation of apples and pineapples again.

The CHAIRMAN — We are looking at the difference between 43 per cent and 31 per cent and three different definitions. I look forward to that reconciliation.

Mr THEOPHANOUS — Over the past few years, and certainly following the legislative removal of common law, there was a reduction in premiums by the previous government, which I think amounted to about 0.2 per cent of the premium, or thereabouts. In hindsight, given the costs and the way the graph comes down in terms of the unfunded liabilities, can it not be said that this reduction in premiums was financially not the appropriate decision to have been made at that time?

Mr MacKENZIE — We were talking about the answer to that while you were asking the question, Mr Theophanous. It is clear on the basis of the information we have discussed today in terms of the state of the old common-law scheme that that was a slightly optimistic reduction. That would be the view of the authority.

Mr THEOPHANOUS — In fact, had that reduction not occurred, is it the case that the additional revenue that would have been collected over that time would have meant that the unfunded liability would have been less than what it currently is today?

Mr MacKENZIE — Yes, the unfunded liability would have been less than what it is today.

Mr BEST — How long have you been on the board of the Victorian Workcover Authority?

Mr MacKENZIE — Since February last year.

Mr BEST — The actuarial assessments will continue to be presented at each relevant board meeting as an update or assessment?

Mr MacKENZIE — Every six months.

Mr BEST — Is it not possible, particularly given the spike we have seen in the common-law lodgments in December 2000, that there was expected to be a smoothing out of the claims and that the actuarial assessment at that time might have been based on the fact that they did not expect the spike that was achieved, and that is in fact one of the areas that has led to the review of rates and the review of premiums for last year? Again, you are faced with relying on the best information available at the time given the current status of the information available.

Mr MacKENZIE — The answer to that is yes. In reality the authority has not necessarily been in a position where it has had the strategies, the processes and the controls in place to manage common-law liabilities effectively. The committee will see that the changes Mr Mountford has made, the unit he has set up and the

way in which he has staffed that unit will result in a far more contemporary and dynamic understanding of the way in which common law is managed, in particular in the short term. We will see the proper management of the common-law liabilities that will arise in the future from the new benefits package that was introduced last year.

Mr BEST — Do you have the same actuaries now that you had five years ago?

Mr MacKENZIE — To be honest, Mr Best, I do not know the answer to that. But certainly the actuaries are the same actuaries who have been there since I have been on the board.

Ms DARVENIZA — Did the VWA offer to provide information to this committee about individual employers who appeared before the committee to assist it in its discussion with those employers, and was this offer accepted by the committee?

Mr MOUNTFORD — The answer is that there was information provided, as I think we had an arrangement with the committee, should it want that information, to provide background on the specific premium for those people who were appearing before the committee.

Ms DARVENIZA — And information not only about the premiums but also — — ?

Mr MOUNTFORD — What makes up that in terms of remuneration, because they contribute to what goes into the premium.

Ms DARVENIZA — Did the lack of such information result in the embarrassing situation where the City of Geelong in fact told the committee that its premiums had increased when in fact they had decreased?

Mr MOUNTFORD — I could not comment. I was not there. I could not comment on that.

Mr MacKENZIE — I certainly was not there.

The CHAIRMAN — Mr MacKenzie and Mr Mountford, firstly we need to have another hearing, because we might need to ask quite a number of questions. It is a matter of us liaising to get another date for that to happen. We are all busy people, and I am sorry for your sakes that that has to happen. But that is the way it goes.

Secondly, Mr Willis will liaise with Mr Mountford regarding those five or six points about which we are not sure whether we have an answer, so that we can work it through. Thirdly, a copy of the *Hansard* transcript will be sent to you as soon as it is available for you to go through to see that everything is right. I will have a keen read of it myself to catch up with all the answers. Thank you for coming along.

Mr MOUNTFORD — In addition, I think we are to provide you with a reconciliation of those statements about the proportion of the 31 per cent who were the same or lower. We will provide that to you.

The CHAIRMAN — Thank you very much. I declare the hearing closed.

Committee adjourned.