

CORRECTED VERSION

ECONOMIC DEVELOPMENT COMMITTEE

Inquiry into Workcover premiums for 2000–01

Melbourne – 30 April 2001

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Witnesses

Mr I. Little, Secretary;
Mr J. Rosewarne, Director, Portfolio Analysis; and
Mr A. Nye, Director, Insurance Policy, Department of Treasury and Finance.

The CHAIRMAN — I declare this hearing open, and apologise for the slightly late start due to problems with the lifts in the building.

We welcome to our midst Mr Ian Little, the Department Secretary of Treasury and Finance, Mr Jeff Rosewarne, Director Portfolio Analysis, and Mr Adrian Nye, Director Insurance Policy.

All evidence taken by this Committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act.

My understanding is that you have indicated you would like to be away within 50 minutes, and we will attempt to accommodate you. If we cannot, it will be necessary for us to schedule another hearing. It is as simple as that. Mr Little, I understand you want to make an opening statement. We will then ask questions.

Mr LITTLE — Thank you, Mr Chairman. Our presentation addresses the letter you sent me, and I will distribute that presentation now. To set the scene, the first slide indicates what we have prepared for. Your letter requests that we address the Committee's terms of reference, about the impact which those premiums have had and can be expected to have on the state budget as outlined in your letter. The two gentlemen beside me are well placed to answer that. I hand over to Mr Nye, who will continue the presentation.

Mr NYE — In the letter, Mr Chairman, reference was made to the 2000/2001 budget update, which stated that there had been budget supplementation of \$20.5 million for departments and \$6.9 million for non-government organisations. We have taken that as our lead of some of your areas of interest, and hope we have anticipated those interests correctly.

The next slide deals with the allocation of Workcover premiums. Keep in mind that not all the agencies that are in receipt of government funding have the same characteristics. We want to make the point here that we have eight large government departments that are employers for Workcover purposes, and that there is a cluster of budget sector organisations that lie underneath those portfolios and departments. I think in some discussions people get a bit confused about whether we are talking about the department, the portfolio or the agency, so I have set a scene that demonstrates that we have different corporate creatures within the budget context. In addition, for today's discussion, we have a cluster of non-government organisations which can be funded either on a grant basis or a service contract basis. The method of their funding may be of interest to you later.

To reiterate some of the things I know the Committee has looked at previously: look at the key dates when these things flowed through. In April 2000 the common-law rights reintroduction was announced; the premium order was signed by the Governor-in-Council in June; and notices in respect of that order were issued on 19 July. As was indicated in the Budget Update, in October 2000 additional funding supplementation for the effects of the Workcover increases attributable to common law were dispersed in October.

To make it plain, the supplementation released to government departments and NGOs, in particular in respect of government departments, covered: \$20.5 million applied exclusively for the 15 per cent common-law package increase to so-called new common law, and we have listed there what is well-known and came out in the common-law working party in subsequent statements; and the \$6.9 million for non-government organisations generally was issued to compensate for the same restoration of common-law right consequences.

The process for funding government departments for the fluctuations in Workcover premiums attributable to government policy is a fairly well-trod path. Recent governments have generally accepted submissions for supplementary fundings to departments and agencies where the premium increases are not within departmental or management control. There are a couple of examples in there of how and when governments have topped up funding over the past few years.

That policy of topping up the things that are — to use the lingo — 'exogenous' to local management, those things for which local management is responsible, has over recent years been considered fairly and squarely to be the responsibility of local management. As a consequence they enjoy the benefits of the rise or fall of premium increases that are attributable to their management activities. Those methodologies are no different from those applied in the private sector.

If you look at the actual figures on the next slide for the aggregate budget sector, the Workcover premiums for the budget sector increased from \$127.5 million in 1999/2000 to \$176.1 million in 2000/2001. This was an increase of approximately 38 per cent. To put that in context, because they are large figures, we make the point that in the context of the business of the state we have a budget outlay for these correlating group of agencies of \$21.8

billion. You will realise that at this point we have made a point of putting in brackets the particular date that data was extracted, being 21 November 2000.

In the course of the presentation and the discussion we run the risk of having data sets that are not totally identical because of the date of extraction from the Workcover system. We have tried to anticipate that possibility so as to avoid confusion. It is not helpful to have discussions about when somebody pressed the computer button. The majority of our data is data that was accurate at 15 July 2000, which was when we had interim remuneration, interim premiums for two years, in place. That may be a point we might come back to, but for someone not aware of that distinction it would be very easy to ask how do these two sets of data line up with one another? The difference, as we go through, is probably one of timing.

If we look at the aggregate budget sector sum of \$48.6 million, the budget increase attributable to Workcover, we have done an attribution analysis to demonstrate what was driving those expense increases. You will be familiar with this from submissions from other employers – this is a fairly well-trod path now. \$2.7 million of additional state expense was due to our remuneration increases through payroll across the budget sector. \$6.7 million of the increase was due to claims experience, as we are no more buffeted from the chill winds of adverse employer behaviours or adverse Workcover experiences than the private sector. \$20.5 million, the amount that was supplemented, was attributable to the new benefits package. \$2.7 million was due to a particular GST aspect in the way insurance premiums work and are paid out by departments, and \$16 million of the increase was due to the 10 per cent GST.

We will look later at a table that indicates which of these items was supplemented and which were not. We thought it useful to point out the differences between Victoria and other states. The Victorian situation is that budget sector agencies are treated as employers with the same set of rules as any other, whereas some other states run these exclusive centrally managed insurance funds, normally out of their treasuries. There is some interesting discussion to be had about whether that is wise policy or not. In Victoria we have consistently argued, for the last seven years at least, that government agencies should be treated on differently than private sector companies, subject to the experience-based premium system.

Moving on to the non-government organisations, to reiterate a couple of points. The government provided \$6.9 million in budget supplementation for approximately 3500 non-government organisations which received funding through the Department of Human Services. As we see on the next slide, the allocation of that \$6.9 million was determined by the Department of Human Services according to the service contracts that it has in place with those agencies. Therefore, to anticipate any questions about the particular mechanisms by which the X, Y, Z community health centres received funds or not because of the large number and the disparity or the diversity of service agreement types, we have not come here today with a full list of 3500 funding mechanism types. However, it may be possible that there was variance within those distributions according to the service arrangements in place.

We have presented here a slide which indicates a break-up of the Department of Treasury and Finance changes.

Mr LITTLE — If I might handle that. This is just one component of the \$40 million-odd increase shown on an earlier page. You can see that has gone up by \$41,000 between 1999/2000 and 2000/2001. You can see the breakdown on a micro level of that \$40,000-odd increase. Adrian showed in an earlier slide that for the total public sector the Workcover costs had gone up by exactly \$48.6 million, and that comprises an increase across a number of departments, agencies and non-government organisations. This is just going down to the micro level for the department that I know best, Treasury and Finance; so our cost went up from \$107,846, which is that top line — or which was later confirmed to be \$100,435 for 1999/2000 — and the premium for this year is \$141,565. That is a \$41,000 increase, which is about 40 per cent.

At the macro level there was a breakdown of that figure right across all departments and all agencies, and you can see the breakdown in the increase for Treasury and Finance. The major contribution was a worsening in claims experience of \$17,335; then the new benefits package of \$16,499, and then there were some offsets. So that is an example. If you wish to do that for other departments, you would probably have to call other departments and look at their individual experiences.

Mr NYE — To conclude, in the tables attached we have provided some summary data on material that is generally already available but may not be available in a nice neat form. The first four pages reiterate and summarise the data provided to the Parliament in response to questions in respect of Workcover premiums for 1999/2000 and 2000/2001.

The last sheet is a disaggregation of departments and some of their key agencies to show what government policy provided funding supplementation for and what it didn't. So you could get a sense there of which agencies enjoyed or didn't enjoy the benefits of adverse experience, and for which things the government topped them up in respect of the 15 per cent benefits package, et cetera. We thought that might set the scene for a bit of discussion.

The CHAIRMAN — Thank you for that presentation. Mr Little, did your department provide any advice to the government in relation to the economic impact of the increases in Workcover premiums that it finally adopted, or are you aware of any economic impact work that was done prior to the government setting the premiums?

Mr LITTLE — Yes. The department did do some work, and I am pretty sure that was provided to government. It is not something I prepared for today, so if you wish to know more than that, I would probably have to come back or answer in writing. But my fairly firm recollection is we did do some work, yes.

The CHAIRMAN — Do you recall off the top of your head what the general economic impact that was predicted was going to be?

Mr LITTLE — No, not precisely. The only recollection I can make is that I know there was some public comment from Robert Clarke about the economic impact on about 9000 jobs. I know at the time I looked at that, that our estimates were lower than that. The main reason for that was that Robert Clarke's estimate was based upon the economic consequences of a payroll tax increase or decrease. You would need to add on to that analysis the positive impact to the economy as a result of the funds raised from the Workcover increase being then granted to workers and that forming part of injured workers' incomes, and the flow-on effect on the economy. That is the only recollection I have at this time, but I am willing to come back to the Committee.

The CHAIRMAN — What sort of number of employees?

Mr LITTLE — No, that is something I cannot recollect.

The CHAIRMAN — Would you be prepared to give us a copy of that report?

Mr LITTLE — That is something I would have to look at in terms of whether it went to Cabinet or not in the usual standards, but I am willing to come back and answer questions or give written answers to questions if need be.

The CHAIRMAN — You are not aware whether it went to Cabinet or not?

Mr LITTLE — I think I said earlier that my recollection was that it was given to government, so the answer is probably yes, but I cannot state that for a fact.

The CHAIRMAN — Thank you. Maybe we could formally ask whether we could have that document made available to the Committee. You might like to respond to us in writing in that respect. Are we likely to get that response within a week?

Mr LITTLE — I am advised yes.

The CHAIRMAN — Thank you very much. In terms of the role in premium setting of your department, do we assume that the department had a role in advising the government regarding the setting of premiums for the current year?

Mr LITTLE — I might hand over to Adrian.

Mr NYE — Not outside the common law working party documents. DTF chaired the working party which did the modelling on the 15 per cent, and DTF oversaw the agreement of the parties in that working party, the arithmetic and the outcome. That was then fed into the Victorian Workcover Authority, given the government had announced as a matter of policy it was pursuing the reintroduction of common law. That pretty well was the extent of the engagement.

Mr CRAIGE — DTF provided no information to government about that at all then?

Mr NYE — No, it is a conduit — —

Mr CRAIGE — No, the question is they provided no information to government on that?

Mr NYE — As I think the Committee has been advised previously, the premium setting was principally done between the Workcover Authority and the Minister, and certainly at a lot of those discussions, DTF officers were present. I have certainly not, since I have taken up this position, noted on file large briefing notes of the sort that briefed for or against the proposals of the VWA Board, and that includes drafting and discussion with the Minister.

The CHAIRMAN — Who would have advised the government that the rounding-up of premiums was something that would be worthwhile?

Mr NYE — I can only go off the record that I think the Committee has been advised of, and that is that it was something that the Workcover Board undertook, and I think the new chairman of the VWA advised of that at one of the recent hearings.

The CHAIRMAN — You are confirming then that DTF had no part in that.

Mr NYE — I was not in place at the time, but certainly my review of the files suggests that we were not commenting on the minutiae of that.

The CHAIRMAN — Is there anyone else here that can enlighten us on that point?

Mr LITTLE — I was Secretary of the Department at the time, and it did not come to my attention that we were involved in that.

Mr THEOPHANOUS — Just on that point, what has been put before the Committee already by the then Chairman, Bob Officer and other people who have appeared before this Committee, is that the Board made a decision which came at the end of the process involving that increase that has just been referred to, the 20 per cent, and the Board took responsibility for that. Is that in keeping with your understanding that that decision was made down at the Workcover Authority?

Mr NYE — Yes.

Mr THEOPHANOUS — You have indicated on one of the slides in relation to the 15 per cent common-law benefits that supplementary funding of \$20.5 million for the budget sector and \$6.9 million for NGOs is forthcoming. I notice that you have included in there what that funding covers, and one of those things is the unfunded liabilities component. I presume that that is the unfunded liabilities of the Victorian Workcover Authority.

Mr NYE — Yes. When you go into the common-law methodology — if my recollection is right — there is a knock-on effect of the reintroduction of new common law on unfunded liabilities, which was a minor component of the 15 per cent. You would have to refer to the red common-law working party book for the details of the methodology that resulted in that. We put that in for the sake of completeness, notwithstanding the fact it is a small component.

Mr THEOPHANOUS — This, in other words, does not refer to the amount of \$1 billion unfunded liability which has come to light.

Mr NYE — No, that emerged well after.

Mr THEOPHANOUS — Over the past 12 months, as a result of the previous government's common-law claims that are coming through, that does not refer to that?

Mr NYE — That was not a known fact when the common-law working party recommended this package.

Mr THEOPHANOUS — So that is an additional item that would need to be funded by the Victorian Workcover Authority.

Mr NYE — As I said, you would have to go back to the red common-law working party book to check the methodology. My recollection is that the reintroduction of common law had a knock-on effect in terms of our liabilities in the system. We have seen that from the actuary's discussions about the recent influx of common-law applications having a knock-on effect on the costing of the new common law. So one string is connected to

another, and this is one of those components, but I am not an actuary. We could refer you, if you like, to the section in the red common-law working party reference that picks that out.

Ms COOTE — Could I have some clarification. I am looking at the aggregate budget sector and the breakdown of the GST issues. All the way through these slides you have the GST costs — on this page — the non-claimable GST costs, and then the \$16 million due to GST. Then on your back page as well you have got claimable GST costs and non-claimable GST costs. This is the first time I have seen this broken down like this. Usually when we have been speaking to people they have put 15 per cent at common law and 2 per cent for GST. I know we are dealing with knowledgeable folk in Treasury here, so could you explain this to me. In light of when you talk about the NGOs — and you talk here that you've only given them the 15 per cent — I would like to know where is that refundable or non-refundable GST with the hourly rate of non-NGOs. A complex question, but could you help clarify it for me?

Mr NYE — If I take the \$2.7 million and Jeff Rosewarne takes the major GST component — and I am flattered by the reference to 'knowledgeable folk in Treasury' — —

Mr CRAIGE — Don't get carried away with it though!

Mr NYE — The \$2.7 million increase in the non-claimable GST component is a cost that fell out of the federal-state GST negotiations, and particularly the manner in which GST would apply to insurance products across the board. It is a deeply complex matter that resulted, I think mid-stream, in the federal legislation having to be amended to enable GST to be properly applied to insurance products. Both the VWA and the TAC experienced a component of GST cost on their finance product, which is not claimable to the billee, and that is what the \$2.7 million captures.

I can get you extracts of a document that I have that attempts to explain better than I have what the origin of that is; but it is deeply embedded in the way GST was applied to financial instruments and the Workcover system not having previously experienced this form of tax, in fact not experiencing many forms of taxes. This was a cost flow that fell out of the GST system, but it is not a cost that the departments would claim back in the normal GST functions.

Ms COOTE — It is a one off?

Mr NYE — No, it will be an ongoing expense of insurance products in the market.

Ms COOTE — I would be very pleased to have a look at that document, it would be very helpful. The NGOs though, the second part of the question.

Mr ROSEWARNE — Part of it, the \$6.9 million, represents the 15 per cent. The 2 per cent non-claimable as referred to was not funded as part of the funding flow through to NGOs but as I understand it is part of the input credits that NGOs could claim back as part of their business process. The 15 per cent has been funded through government. That is what the \$6.9 million represents; the \$2 million similar to the budget sector was not a funded component.

Ms COOTE — I am not talking about that; I am talking about the 2 per cent. When we speak to people around the place on this Workcover issue they all say it was 17 per cent. In fact I think Mr Theophanous has said that as well. It is usually 15 per cent for the common law being initiated and 2 per cent additional to GST. That is what I am talking about. I am talking about the 2 per cent additional and why that has not been costed in here for the 15 per cent per hour.

Mr NYE — I want to come back and confirm what I am about to say. My understanding is that the \$6.9 million represents the 15 per cent plus the GST component that can't be claimed by an enterprise in its GST return; in other words, the government was not supplementing funding that was recoupable by an entity in the fullness of tax time. And this is what I would want to confirm, because if I am wrong I naturally don't want to mislead the Committee. The sum of the 15 per cent new common law plus this element of GST, would be a cost passed on had we not recognised it as non-claimable.

Ms COOTE — Through you, Mr Chairman, can I have some clarification about all of that, so I get it right and know what is going on?

Mr LITTLE — When we refer to claimable, that is claimable back to the Tax Office. The big number, the \$16 million, the Workcover bill will go up by that \$16 million but the employer will get an increased tax

credit, that is essentially an invoice for that \$16 million. The employer hands that straight over to the ATO and gets \$16 million back, so that \$16 million is claimable, and that does not have an impact on cost as long as you get your paperwork right and claim that as an input tax credit. The \$2.7 million is not claimable from the ATO and is therefore an ongoing impost on that business.

Ms DARVENIZA — I want to follow up on the NGOs as well. We have had quite a number of NGOs come to the Committee and make submissions, and they have particularly talked about how difficult it has been with their premium increases for Workcover. The government has provided \$6.9 million additional funding to 3500 NGOs. If the Committee were able to give you a list of the NGOs that have made submissions to us, would you be able to provide the Committee with information regarding how much additional funding each of those NGOs has received in Workcover?

Mr ROSEWARNE — That is not information we have. The Department of Human Services would have that information. We have it at a higher level, not by specific organisations, so for us to answer that, we would refer that on to the Department of Human Services.

Ms DARVENIZA — If we gave you that information would you be able to refer it on to the Department of Human Services and then get that information back to the Committee?

Mr LITTLE — We could certainly make that request of DHS. I can't answer on their behalf. It seems like a reasonable request.

Ms DARVENIZA — You would be happy to make that request for us?

Mr LITTLE — I think the best way probably is for the chairman to write to DHS. I think it is a reasonable request, but I can not say whether or not they have that information. As you said, there is a large number, 3500.

Ms DARVENIZA — I am not asking for all the 3500; I am asking for those NGOs who have come and made submissions to us about the impact the Workcover premiums have had. It would be nothing like 3500; it would be a handful.

The CHAIRMAN — The other way for us to do it is to write a letter to DHS and request the particular ones and that information, which I am sure they would be happy to provide.

Mr BEST — I will follow along that line of questioning. You were kind enough to provide the Department of Treasury and Finance's Workcover premiums for 2000 and 2001. That shows a 41 per cent increase in your premium rate. What you said to us earlier was that the supplementation was 15 per cent for common law and 2 per cent for Workcover. That leaves somewhat of a shortfall in the rebate to you. How did you handle that, Mr Little, as head of the department?

Mr LITTLE — Our budget is not huge. But nevertheless it would be of the order of \$200 million, so an increase of \$20,000 or \$30,000 can be found within that \$200 million budget, and that is what I have done. Some management actions produced savings, and that is what I have called upon for areas where management inaction has resulted in some increases in costs. I have used my overall global budget to find savings elsewhere.

The second thing I have done is put in place a program to try to reduce the cost in future years. That is the benefit of having these signals come through to me as a manager. Some 70 per cent of our staff have now attended occupational health and safety programs, and we are part way through accreditation of the Workcover Authority safety map program. So far that seems to be bearing fruit. Our accidents in DTF are down by 50 per cent on the year and our Workcover claims so far this year are down 40 per cent. That is an improvement off a reasonable base. Our industry type, as stated here, is state government administration; it has a rate of 0.7, which is about three-quarters of a per cent against the Workcover charge. Treasury's rate comes out at only 0.38, so we are about half our industry type, and it looks like we are making improvements. I have used savings elsewhere to find the dollars and have put in place a program to try to get the rate down in future.

Mr BEST — Are there many other departments that would have bigger budgets than yours?

Mr LITTLE — Yes, we are only less than 1 per cent of the state budget. If you look at the page at the back there, it actually collapses, this slide, for every department.

Mr BEST — I suppose my point is if the supplementation to each of those departments has only been in the order of 17 per cent, are you aware of the action that other departments have had to take to address the difference between the supplementation and the increase in Workcover premiums to meet that shortfall; and has your department given any advice to departments on the actions that they should take?

Mr LITTLE — In most cases, and you can see from the numbers here on this last page, even though the increases are largely in percentage terms they are very small in relation to the overall budget, so it is a similar position with respect to my department. That overall \$48 million, of which \$20 million was supplemented — so there is \$28 million unsupplemented, if you like — of that, \$16 million is refunded from the Tax Commissioner so you are really only down to \$12 million out of a total budget of \$22 billion — and I will get my arithmetic right here — it is one-tenth of one percentage point, maybe even less than that. It is relatively small, and managers can take action from savings elsewhere to cover those increases.

What happens through the budget process, though, is that any department that is not in such a situation would bring forward that problem to the Department of Treasury and Finance, and that would be discussed as we discussed the whole budget for that department in the Expenditure Review Committee. There have been some discussions of that matter in the current Expenditure Review Committee round, and the results of that would be reflected in the budget of 15 May. There is not much more I can add to that. Although the increases are substantial, they are small in relation to their overall budget, so we would expect them to cover them by the type of management action we have taken in Treasury and Finance.

Mr BEST — What about NGOs, how have they been able to handle the shortfall and what information is flowing back to the Department of Treasury and Finance?

Mr LITTLE — That is all handled by the Department of Human Services. In a way the Department of Human Services purchases services off these NGOs and they discuss on a one-on-one basis how much it will cost this year to purchase those services. Some things will have gone up, some down, so those one-on-one discussions happen at the Department of Human Services level. I do not think there will be discussions with respect to the Department of Human Services in this year's budget with respect to that, so in other words they have been able to handle it.

Mr ROSEWARNE — In that context, the \$6.9 million was provided and the responsibility has been placed on the department to manage that with the service providers given they have such a large number, and that is just an ongoing process.

Mr NYE — The accountability for observing a deterioration in claims experience in NGOs is DHS's, the Boards of Management of those NGO's and Workcovers. I think in some of the material provided to you by Workcover a strategy was set out for some of the top worst performing industry sectors; one is community services in which the majority of NGOs will be located, so the alliance at the moment is between the Department of Human Services and Workcover to cover a particularly poorly performing sector.

Mr BEST — One of the previous witnesses gave evidence of the very stressful nature of the lot of counselling services that are provided and the difficulty that they were having as a department, or as a service, in meeting the increase in Workcover premiums.

Mr NYE — Yes.

The CHAIRMAN — Do I assume, given that the Melbourne Fire Brigade comes under Justice, that Justice would have received funding to provide the 15 per cent to the Melbourne Fire Brigade from your department?

Mr ROSEWARNE — No. Can we come back in terms of the detail. My understanding is no, it is not funded through this process; it is actually a separate process in terms of the levy arrangements, but we would prefer to come back in writing, if we could.

The CHAIRMAN — If the Melbourne Fire Brigade receives as part of its income a government grant to help pay for its staff and it also receives levies to pay for a proportion, wouldn't it be fair to assume they would have received 15 per cent for at least that part that the government provides for their budget for salaries?

Mr LITTLE — I think, once again, the government deals with large numbers in practically every industry in this economy. The approach the government takes in its budgeting is to assume first that managers manage

within their global budget, but if there is a difficulty those managers come back to government and say, 'We have had a difficulty with our global budget given all the concerns that we have had for this year'. That is the basis; otherwise we take accountability away from managers by taking action away from the budget. That is how the NGOs came forward. It's something the Department of Human Services decided would be a problem. We do not start by going out there and searching for a problem because that problem may be offset somewhere else, and you don't want to fund just the problems, you want the savings help out. That is why we do not have an immediate answer to that question, but we will come back with an answer.

Mr NYE — Can I make a technical observation: the Metropolitan Fire Brigade is not a budget sector agency by its nature and definition.

The CHAIRMAN — It receives funds, you would say, from Justice.

Mr NYE — Its principal revenue for that 15 per cent is attracted by fire service levies and by the budget definitions, but it is not a budget sector agency. That is why it is not caught up in this framework.

The CHAIRMAN — I suppose what I am interested in is whether it received any 15 per cent of whatever the sum is through a government process similar to other organisations that are either funded or part funded by the government. The latest information this Committee has is that the MFB have not received any additional funding to cover the impact of common law. I look forward to getting the answer.

Mr THEOPHANOUS — You have a kind of a watching brief over all of the departments, I suppose. I want to get this principle right in the way you have funded common law. The principle is they get the 15 per cent to cover the common law but fluctuations in terms of their performance on safety is not funded. That is something they have to manage and that is the incentive for them to try to improve their performance; is that correct?

Mr LITTLE — Yes.

Mr NYE — Yes.

Mr ROSEWARNE — Yes.

Mr THEOPHANOUS — And is that the principle which also applies to the NGOs, the non-government organisations? They will get the 15 per cent but if they have had a poor performance due to the course of the year they are not going to be funded also for that; is that also correct?

Mr LITTLE — That is correct.

Mr THEOPHANOUS — In terms of that watching brief, I am pleased to hear that you've moved towards safety in the department itself; do you have a program to try to encourage the other departments to also do that and improve their performance in relation to trying to get accreditation under the safety map regime?

Mr NYE — There is an initiative under way at the moment to bring about that outcome amongst others to enhance Workcover performance of all budget sector agencies, yes.

Mr THEOPHANOUS — How many are actually accredited under the safety map?

Mr NYE — I can't answer that question.

Mr THEOPHANOUS — In terms of that watching brief, part of it is risk management. Were you surprised by the size of the unfunded liability of \$1 billion that was uncovered in the course of the last 12 months?

Mr NYE — Without being flippant, having worked with or near actuarial estimates for a few years, I think I am beyond surprises.

Mr CRAIGE — With that aggregate budget sector of \$2.7 million due to payroll changes, one assumes that is through pay increases and not employee numbers.

Mr NYE — It could be either; either remuneration, payroll.

Mr CRAIGE — It can be affected either by a pay increase or increase in numbers of personnel. What is it?

Mr ROSEWARNE — It can be both or either.

Mr CRAIGE — Is it both?

Mr NYE — Yes, it would be, but we are not here today with a disaggregation. If that is of interest to you — —

Mr CRAIGE — No, I am just asking the question. Is it both?

Mr NYE — Yes, logically it would be.

Mr CRAIGE — Mr Little, I am impressed by your memory of the NGO request made to you in respect of the \$6.9 million. In view of the fact that it is some time ago that that request was made, are you aware now of any requests made subsequent to that from the Department of Human Services either from the Secretary or an officer of that Department for additional funding in respect of NGOs?

Mr LITTLE — I am only familiar with it because I have discussed this prior to coming here this morning, so I can remember something from half an hour ago. I can't personally recollect another request, but Jeff would be in a better position to be able to tell you.

Mr ROSEWARNE — Specifically to do with the Workcover premium?

Mr CRAIGE — Correct.

Mr ROSEWARNE — I am not aware of any other request.

Ms DARVENIZA — A bit of scaremongering has been going on in relation to the Workcover premiums, and there have been suggestions that have been put to people, particularly some of the people who have made submissions to the Committee, that in fact there may be another increase in Workcover premiums even to the same level that we have seen in the last financial year. Is it your expectation that there will be increases in the Workcover premiums in the next financial year?

Mr NYE — This is something that has been discussed between the Minister and the Workcover Board. I think the Committee has been advised of the process, and you would know this advise that we are probably bang slap in the middle of that now and it would not be our place to be speculating as to where those figures are going.

Ms COOTE — The additional funding, the \$25 million and not the \$6.9 million we have covered with the NGOs but the other; was any of this money given to local governments?

Mr NYE — No.

Ms COOTE — None was given to the local governments at all, any of that additional funding? Is there a reason for that that you know of.

Mr NYE — They are not budget-sector funded.

Ms COOTE — So therefore, presumably, we can expect an increase in our rates or less services; what would your feeling be about that?

Mr NYE — After they have taken into account the HIH readjustment, anything could happen.

Mr BEST — I am just interested. You spoke about the improved Workcover performances across agencies; were you surprised by the amount of the increase in Workcover premiums across government departments and NGOs?

Mr NYE — They didn't all increase. What they reflected was a pattern that one sees in private business in an experienced-based system, that you get rise and fall according particularly to an emerging claims experience. Because these agencies of state tend to be large, as you've seen from that horrendous formula, the experience component drives premium, so the twin effect of that experience and some payroll adjustments didn't lead to any surprises.

Mr BEST — You said the 'horrendous formula'.

Mr NYE — Yes, the formula that Workcover has previously provided to you with the Z factor and the F factor.

Ms COOTE — Do you know what it is?

Mr NYE — I have a passing knowledge of it. These things would be categorised as large enterprises, and therefore local experiences drive their premiums. Therefore, if one looks at the emerging claims experience in a year, blind Freddy would be able to tell you are about to have a lift in your premiums, and that is what occurred.

Mr BEST — Is the department looking at making any suggestions to the Workcover Authority to look at changing the formula?

Mr NYE — We are working with them on their current premium review, yes.

The CHAIRMAN — Just as a matter of interest, when the confirmed premiums come through at the end of the year, will there be a readjustment of the amount of supplementation the government has provided to departments and NGOs?

Mr ROSEWARNE — My understanding would be depending on the results that is something that we in Treasury would look at. We would then take the issue to the Expenditure Review Committee of the government to consider without pre-empting a decision one way or the other.

The CHAIRMAN — But it is going to be considered and you can't pre-empt the decision, obviously.

Mr THEOPHANOUS — Could I ask a question about the aggregate budget sector, where you talk about \$48.6 million being the increase in premiums and you set out what it is made up of. I take it that the \$16 million due to the 10 per cent GST is fully refundable, which means the actual figure is not \$48.6 but \$32.6 million; is that the actual cost to the budget?

Mr LITTLE — My understanding is yes, that is correct. That assumes that the managers out there recognise this valuable piece of paper, the input tax credit and actually claim it, but if they don't they'll feel the increased cost of not doing so.

Mr THEOPHANOUS — In terms of the extra budget that is provided to them from Treasury, are you going to provide \$48.6 million?

Mr LITTLE — No, \$20.5 million, the fourth dot point, that is what we've provided. So they will bear the cost.

Mr THEOPHANOUS — This is what the premium goes up by, the 38 per cent. All I am getting at is this 38 per cent, which is \$48.6 million, would have to be discounted; do you know what the percentage is once you discount for the \$16 million?

Mr LITTLE — It is roughly a third, so two-thirds of 38 — 24 per cent, 25 per cent.

The CHAIRMAN — Mr Little, if we have any other questions after we have sorted out what we have done in the last hour, we might send them in writing to you, and if you could get answers to them back to us within a week, that would be appreciated. I don't know that there is going to be many, if any. We appreciate your time with us today. We will send to you a copy of the Hansard transcript of our discussions for you to make any alterations you see appropriate, but thank you, Mr Nye, Mr Little and Mr Rosewarne for coming along today.

Mr LITTLE — Thank you very much, Chairman.

The CHAIRMAN — I will adjourn the meeting of the Committee. That ends the public hearing for today.

Committee adjourned