

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into Workcover premiums for 2000–01

Melbourne – 19 April 2001

#### Members

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

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

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

#### Staff

Executive Officer: Mr R. Willis

#### Witness

Mr J. Lock, Manager, Human Resources, Royal Victorian Institute for the Blind.

**The CHAIRMAN** — I declare this hearing open and welcome Mr Jonathon Lock, the manager of human resources at the Royal Victorian Institute for the Blind (RVIB).

All evidence taken by this committee is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act. I am sorry for our slightly late start but we will still finish at 2.30 p.m., if we can. If you would like to make an opening statement we might then ask some questions.

**Mr LOCK** — The Royal Victorian Institute for the Blind provides a broad range of services to the blind and vision-impaired community and to the print handicapped. These services include education of a preschool and school nature for children from birth to 18 years and rehabilitation in the form of orientation mobility, occupational therapy and social work. These services are provided on a domiciliary basis.

Training technology is provided. That is in the form of the use of computer software, including adaptive technology, such things as artificial voice screen navigation software, also Internet, email, advice on adaptive equipment, things such as closed circuit televisions and electronic aids ranging to kitchen products and games. We also research new products and provide assistance to attain and retain employment. We also provide a free public library service providing talking books, talking newspapers and talking magazines. This service also transcribes textbooks for primary, secondary and tertiary students. We also have an employment and training facility which provides TAFE-recognised training in woodwork and metalwork and ongoing employment in woodwork, food packaging and general assembly and packaging occupations.

These services are provided from some 18 workplaces. We have five major workplaces: one in St Kilda Road, two in Prahran and two in the Burwood area. They employ 50 to 55 staff. There are five intermediate workplaces in suburban areas employing some 15 to 20 staff and some seven small workplaces across rural Victoria with 1.5 full-time equivalent staff. As well as that there is a community-based house, which is staffed by one person. Total staffing for the organisation is 327. We receive funding from the Victorian government to the tune of \$4.7 billion and from the commonwealth government to the tune of \$1.5 million. That funding comes from a variety of departments.

Our Workcover costs for the 1999–2000 financial year were 1.4 per cent of our salaries, wages and superannuation. In 2000–01 this increased to 1.9886 per cent. When compared to our community services sector of 3.26 per cent and the state average of between 2.19 per cent and 2.2 per cent the RVIB can be seen to be a very efficient and safe operation. However, the increase over those two financial years represents some 40.39 per cent. It is worth about \$62 000, including GST. Without GST it is worth some \$42 500. That is a 27.62 per cent increase. In that time our remuneration increased only 1.97 per cent.

**Mr THEOPHANOUS** — You get back the GST, do you not?

**Mr LOCK** — We do claim it back but at the present time we have services that are taxable, GST free and input taxed. We find ourselves paying something like \$100 000 GST each quarter. While we get that back we are still out of pocket.

**Mr THEOPHANOUS** — For the other stuff.

**Mr LOCK** — Yes. To us, \$42 500 in people terms is a health professional for 12 months. That is an orientation mobility instructor, a social worker or an occupational therapist. As we documented in our submission, the increase was due to one claim, which was resolved before 30 June 2000 but not in time to be finalised for premium calculation. The only reasons we were given for that is that the claims agents and the Workcover authority were busy implementing the GST and the sector changes to the system and therefore were not able to provide a second recalculation of premium.

**Mrs COOTE** — Can you give us some detail of that claim?

**Mr LOCK** — Yes. It was at one workplace, the RVIB talking book library. Our claims agent received the claim on 24 January and immediately placed \$49 000 of estimated future costs against it because it was considered to be heart-related.

**Mrs COOTE** — Did you say heart?

**Mr LOCK** — Yes, it was heart-related. Due to the claimant's difficulties in obtaining his medical reports the claim was not conciliated until 31 May 2000. We and the insurer objected to the claim. At conciliation the parties agreed that the condition was not work-related So claims costs which had been estimated at \$49 000 became \$450, which was the cost of the investigation and the medical reports.

**Mr THEOPHANOUS** — Has that been adjusted?

**Mr LOCK** — No, it has not. We went to the claims agent and asked whether we could do anything about it. They said no, as all claims costs were finalised on 6 May and there would be no further adjustments to them. They said that additional premium would have to be paid and reclaimed in October this year when last year's premium is finalised. Effectively we are out of pocket some \$40 000 for 16 months. That is the situation.

Had that claim been finalised and the premium recalculated then, on my calculations, RVIB's overall premium would have only increased by 5.27 per cent, which is only \$8086 including GST. Without GST it would have decreased by 4.3 per cent. Had the claim been resolved and the 12 per cent increases not been applied, our premium would have decreased overall by 8.46 per cent or \$13 000. If you take out the GST it would have dropped by 16.79 per cent.

**Mr THEOPHANOUS** — Have you been told that you will get the \$40 000 back?

**Mr LOCK** — Effectively, yes. We understand that once the claims costs are finalised and the salaries, wages and superannuation payments are finalised for this financial year we will get a credit for that for the next financial year.

**Mr THEOPHANOUS** — So what you have really lost is the interest on that.

**Mr LOCK** — The interest and the use of that money.

**The CHAIRMAN** — Are you saying you have incurred \$40 000 worth of cost or that the premium has gone up related to \$40 000 worth of claim?

**Mr LOCK** — We have incurred a \$40 000 cost.

**The CHAIRMAN** — Where does that show on the figures — just to make it clear?

**Mr THEOPHANOUS** — Is it the \$42 439?

**The CHAIRMAN** — Is that the figure?

**Mr LOCK** — That is the figure.

**The CHAIRMAN** — So the premium has gone up \$40 000 based on that claim of \$39 500.

**Mr BEST** — Based on the identified cost of the claim at the time which was put on at \$45 000 and turned out to be \$450.

**Mr CRAIGE** — How does this come back to you?

**Mr LOCK** — Effectively you do not get it back. You get a credit on next year's premium. You never get it back.

**Mr CRAIGE** — But it has meant that in the year you have incurred it and the cost associated with it, it is a worker you have not been able to put on. You are virtually out of pocket for that period of time.

**Mr LOCK** — Correct.

**The CHAIRMAN** — As I understand it, the situation is that your confirmed premium of \$153 000 for 1999–2000 increased to an initial premium of \$196 000 for 2000–01. You are suggesting to us that the reason for that increase is that there was a claim of \$40 000 and the premium has gone up \$40 000 QED. However, I would not believe that that is the case. I believe the \$40 000 increase in premium is due to other reasons — for instance, the 17 per cent increase for common law and a change of category for each of the three categories of the RVIB. I suggest that the confirmed premium for 1999–2000 may be higher than it was meant to be if the claim was made

before the end of that financial year. Is that what you said to us before? When was the claim made?

**Mr LOCK** — The claim was made in December-January.

**The CHAIRMAN** — In 1999–2000?

**Mr LOCK** — Yes.

**The CHAIRMAN** — The confirmed premium would have taken into account that claim for \$40 000 and it would be inflated as a result and the increase from 1999–2000 to 2000–01 would be for other reasons not as a result of the claim. The confirmed premium for 2000–01 will be potentially less when that claim situation is sorted out. I hope that makes sense. Do you have a view on that, Mr Theophanous?

**Mr THEOPHANOUS** — I am not sure. Perhaps it might help us if you answer a couple of questions. Do you have any objection to us getting information from the Workcover authority about how your premiums were calculated so we can work that out?

**Mr LOCK** — We do not have a problem with that.

**Mr THEOPHANOUS** — That should allow us to at least understand what has taken place. As the Chairman has indicated, your premium for this financial year would have included a 15 per cent increase for common law and a 2 per cent increase for GST and then it would have been adjusted depending on your industry category and whether that went up or down and a range of other factors. Did you ask for that information? Did you get that information from your claims agents or the Workcover authority?

**Mr LOCK** — Not in that amount of detail. They provided us with information about the premium and where those two figures came from.

**Mr THEOPHANOUS** — According to this, your category has gone up by one. You are in libraries, community support services, and primary schools private. In each case the category went up by one which would have affected the premium and then you have the other two increases I mentioned. What we are trying to understand as a committee — I think this is what the Chairman was pointing to — is if this \$42 000 is the increase above the previous year? Is that correct?

**Mr LOCK** — That is correct.

**Mr THEOPHANOUS** — That is the total increase but that would not all be because of the claim — a proportion of it would be because of the claim but not all of it.

**Mr BEST** — In other words, you are not going to get a \$42 000 credit in your October review. We will break the bad news to you early.

**Mr THEOPHANOUS** — You will get some adjustment for that claim unless we are all wrong, but this is how it looks at the moment.

**Mr CRAIGE** — I am not going to say anything at the moment — you can keep going.

**Mr THEOPHANOUS** — I am confirming the Chairman's analysis.

**Mr CRAIGE** — I think you have said more than he said.

**Mr THEOPHANOUS** — It appears as though the \$42 000 would be partly as a result of the claim and partly as a result of the other factors. If they have said they will adjust the claim back, you will get a credit for that.

**The CHAIRMAN** — But it will not be \$40 000; it will only be a few thousand. What you are saying is if RVIB is, to take a figure, \$40 000 worse off in one year compared with the previous year, that translates into a health professional that you either cannot replace if one leaves or put on in circumstances where you believe you need further people working for you. Did the state government provide any additional funding by specific grant or part of an additional grant to RVIB to compensate it in any way for the Workcover increase?

**Mr LOCK** — It has provided some through its funding formulas, but it is difficult to identify precisely

how much that was because we negotiate funding agreements with the government to provide so many hours of service. The rate is sent along and the government comes back and funds us according to that rate.

**The CHAIRMAN** — So that would not be retrospective? Would your increased Workcover premiums from 1 July 2000 be reflected in the new grants from that period forwards, or have the increases come in during the financial year which means you are out of pocket for the first part of the financial year for the services that you provided under the grants that you previously received?

**Mr LOCK** — No, they would have come in from 1 July, but they would probably cover in the range of only the 50 or 60 positions at the most.

**The CHAIRMAN** — Out of 327?

**Mr LOCK** — Yes.

**The CHAIRMAN** — So the increased Workcover payment from the state government would be for only one-sixth or so of you staff?

**Mr LOCK** — Yes.

**The CHAIRMAN** — You told us that you received funding from the commonwealth government for some programs that you operate. Have you received any funding from the commonwealth to cover the increase in Workcover premiums or have you applied for such an increase?

**Mr LOCK** — I am not aware that we received any, and I could not say whether we have applied for any.

**Mr THEOPHANOUS** — To get a correct view of the aspect that the Chairman has raised, as I understand it you are saying that you received an increase from the state government for the positions which the state government funds you for, and that is to cover the cost of a 15 per cent increase in common law, and that is about 50 positions out of 300-odd that you have?

**Mr LOCK** — Yes.

**Mr THEOPHANOUS** — You did not get a similar funding increase to cover the common-law increase for the rest of them, which are mainly funded from the commonwealth government?

**Mr LOCK** — Commonwealth funding does not always provide funding for services on the same basis as the state-funded services, and state departments also fund differently as well. Generally the state Department of Human Services has an identifiable contract and says, 'We will fund for X hours of services in certain categories', and we have a funding formula which will take into account pay increases.

**Mr THEOPHANOUS** — Including Workcover?

**Mr LOCK** — Including Workcover.

**Mrs COOTE** — Given that quite a few of the people who work for you are visually impaired, I imagine that in order to reduce your premiums you would have a well laid out strategy for dealing with occupational health and safety — more so than perhaps you would expect in a normal, not visually impaired, organisation?

**Mr LOCK** — We do. As well as the standard occupational health and safety committee we also have independent occupational health and safety consultants who come in regularly and carry out safety audits on our various premises.

**Mrs COOTE** — When you say regularly, do they come in on an annual basis?

**Mr LOCK** — Twice yearly. They will go through and review areas and provide written reports which we then take on board. We action areas that require actioning. As you say, because we both provide services to blind or vision-impaired people and employ them we are acutely aware of the safety requirements on our premises and we act accordingly.

**Mrs COOTE** — Do you believe that has helped you in the past to reduce the claims against you?

**Mr LOCK** — It has, yes.

**Mr McQUILTEN** — If you looked at the extra cost of Workcover and the extra costs of the GST handling that, which has been harder for your organisation to handle?

**Mr LOCK** — Overall, not having an accounting background or coming from the finance areas of our organisation but looking in general, I would have to say it has been the GST.

**Mr THEOPHANOUS** — How much more has it cost you for GST than for Workcover?

**Mr LOCK** — I understand it is in the vicinity of an extra — do you mean overall?

**Mr THEOPHANOUS** — Overall, what is the GST cost to your organisation?

**Mr LOCK** — It is costing us about \$100 000 a quarter.

**Mr McQUILTEN** — So about \$400 000 per year.

**Mrs COOTE** — Net or gross?

**Mr LOCK** — Oh — —

**Mr BEST** — Is that just out of cash flow?

**Mr LOCK** — Sorry. I spoke to our accounting staff and they said that is what we pay a quarter.

**The CHAIRMAN** — That is before you claim anything back?

**Mr LOCK** — That is the net payment.

**The CHAIRMAN** — That is the net payment?

**Mr LOCK** — That is what we remit to the Australian Taxation Office.

**Mr BEST** — Is that input credits or is that redeemable? Is it money out of your cash flow? How does it impact on your organisation?

**Mr LOCK** — It would be money out of the cash flow.

**The CHAIRMAN** — We are getting a bit away from the subject. I assume we have finished on Workcover?

**Mr LOCK** — Yes.

**The CHAIRMAN** — Mr Lock, thank you very much for coming along today. We appreciate the time you have given to us. We will send you a copy of the transcript to check so that we have got it right. Thank you for coming.

**Witness withdrew.**

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#### Witness

Dr J. Honner, Coordinator of Social Policy, MacKillop Family Services.

**The CHAIRMAN** — Dr Honner, welcome. All evidence taken by this committee is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act.

Dr Honner, we usually run these hearings by having the witness make an opening statement and we then ask some questions. We have a bit over half an hour to do that, so over to you.

**Dr HONNER** — I do not know whether you have read the submission put in by MacKillop Family Services.

**The CHAIRMAN** — Yes, we have.

**Dr HONNER** — The submission is made not only on behalf of MacKillop but also on behalf of many similar agencies in Victoria that work with adolescents in residential units in particular. To put you in the picture, MacKillop is a major provider of what are called statutory services to high-risk, high-need adolescents in the state. We look after hundreds of families, children and young people a year who are all at the extreme end, many under protective orders or with placement prevention services, so they are right on the very edge of challenging behaviour. We have been doing that for 150 years under various guises in the state of Victoria. In the last three years MacKillop has been running at a loss — we lost around \$1 million the first year, \$700 000 in the second and \$600 000 last year. The government provides about 85 per cent of funding.

**Mr McQUILTEN** — Is that state government or federal?

**Dr HONNER** — That is mainly state and less than 10 per cent would be federal, mainly in education reconnect and youth suicide programs. Sixty-five per cent of our costs go in paying staff. It is important to realise in this area that the staff who are most critically affected by Workcover are paid \$5 to \$6 an hour on a 24-hour shift. They are undertrained, they are not particularly able in many ways and they work in highly stressful situations. We do our best to train, recruit and sustain them but when you have a high turnover of staff you have bad relationships with young people and you have Workcover claims. In our submission it is a catch-22 situation that if we have to pay more on Workcover we are going to pay less on training, less on recruiting good staff, less on facilities and we will have higher Workcover claims again. Basically while we agree with Workcover and with user-pays, if the agencies providing these services to the community have to pay, it will go under.

**The CHAIRMAN** — You made the comment that where people are paid \$5 or \$6 an hour they are more likely to have Workcover claims?

**Dr HONNER** — No. The most difficult areas of our work are with young people who are in what are called residential care. That runs across home-based care where the young people are placed in what is called a family group home when they are on a placement for two, three or five years — hopefully in one place with a fairly regular caring group. Those people get paid different rates. If it is in your home, you do not get paid very much at all. You get paid a bit for their clothes and food but it hardly covers it. If you are in a family group home, that will be on a 24-hour roster and it averages out \$5 to \$6 an hour. You can be in what is called a rostered unit, where young people might be there for only a week, three months, six months. You will usually have two people on that roster at any one time. Sometimes they will be on an 8-hour roster, sometimes on a 24-hour roster. Again, it costs more to have more people on the roster so lately the department has asked us to do 24-hour rosters. It is very hard to recruit people for 24-hour rosters; you work a 19-day month, 24-hour roster, out of your home and into this other place.

Then we have special accommodation emergency units; we have lead tenant houses — there is a whole range. There must be 20 to 30 of these houses around Melbourne and Geelong with from two to four young people from the ages of 10 to 16 years in them. Plus we have hundreds of foster-care homes which house young people — from babies through to two to seven-year-olds who will be in foster care — but again, with very challenging behaviours. People who look after those children — and we encourage them to — have to work with the natural families of these young people. We try to reconnect the children to their families. It is very stressful work.

**The CHAIRMAN** — What I am looking for here, understanding the various categories of care that are provided, is the reason for the connectivity between that type of work and the higher claims under Workcover.

**Dr HONNER** — For example, chroming is not illegal. You cannot stop a child from chroming.



**Mr McQUILTEN** — What is chroming?

**Dr HONNER** — Chroming is buying a \$3 can of spray paint from the hardware store, spraying in a bag and breathing it in. It is a very common practice with young people. There is actually a systemic abuse of children where sometimes carers are required by contract to take a 10-year-old and put that child who would never have chromed in a house with 12 to 14-year-olds who are chroming. We know that is a disastrous mix. We fight and fight and eventually sometimes we have to take that child, so you try to put on more staff. But a kid who is chroming is completely out of control.

**The CHAIRMAN** — So are you saying that the Workcover claims are as a result of a worker attempting to prevent somebody from doing something that is going to hurt themselves?

**Dr HONNER** — You cannot prevent them, no.

**The CHAIRMAN** — Where does the Workcover claim come in?

**Dr HONNER** — I will give you some examples of Workcover claims. Some are pretty extreme. Most are accumulated stress. The extreme ones concern a young person hanging himself in a tree in the backyard of the house and a rostered worker has to deal with that. The child lives but he is hanging from a tree. That is pretty stressful. One case concerned a young girl with not a lot of training who was held hostage by a girl who held scissors to her throat. A young man who is a terrific worker and well trained, a youth worker, opened the door, and as he opened the door he was punched in the face and his nose was broken. One of our really committed long-term care workers had her nose broken by having the rear-vision mirror of a bus thrown at her — not because the kid was aiming at her but because the person the kid was aiming at ducked.

**Mr THEOPHANOUS** — So these are examples of claims?

**Dr HONNER** — Workcover claims, yes.

**The CHAIRMAN** — So the people who work for you are potentially faced with the highest level of stress claims than those at a lot of other workplaces?

**Dr HONNER** — Yes.

**The CHAIRMAN** — Also the potential for personal injuries as a result?

**Dr HONNER** — Yes, and that is why our claims have risen so greatly.

**Mr THEOPHANOUS** — I notice in your submission you are talking about the past three years or so, so the increase in claims would be as a result of a change in policy where more contracting out took place. Presumably it would have started under the previous government if you are talking about three years ago?

**Dr HONNER** — Yes.

**Mr THEOPHANOUS** — When that occurred three years ago was any additional compensation paid for Workcover as a result?

**Dr HONNER** — Not that I know of. I do not know for certain. I can give some further examples of what happened in those cutbacks. Once upon a time in this service you had a family therapist at your beck and call; you had a psych assessment that was possible. We do not get that as part of the funding arrangement now. So everything has been pared right back to increase the difficulty of dealing with these children.

**Mr THEOPHANOUS** — In many other circumstances the government has provided the additional funding for the 15 per cent increases that have resulted from the reinstatement of common-law claims — for example, in hospitals.

**Dr HONNER** — Yes.

**Mr THEOPHANOUS** — Are you saying that you have not received any additional funding for common-law increases?

**Dr HONNER** — I cannot answer that question but from the business manager's comments to me I would expect the answer to be that we have not.

**Mr THEOPHANOUS** — I find that surprising.

**Dr HONNER** — I may be wrong.

**Mr THEOPHANOUS** — I find it surprising because a representative of the RVIB was here earlier. We were told that it was provided similar funding by the government and the evidence was that it received an increase for the 15 per cent.

**Dr HONNER** — I can check that out for you.

**Mr THEOPHANOUS** — Would you mind if we gained access to your Workcover information from the Workcover authority to check that aspect out ourselves?

**Dr HONNER** — I cannot give you that authority myself.

**Mr THEOPHANOUS** — Could you inquire as to whether there is any difficulty from your perspective of our looking at Workcover's records in relation to you and let us know?

**Dr HONNER** — Yes. To whom shall I direct that?

**The CHAIRMAN** — To the executive officer of the committee, Mr Willis.

You said on page 3 of your submission that your premium for 2000–01 was an increase of 246 per cent.

**Dr HONNER** — That is right, at St Joseph's Babies Family Service.

**The CHAIRMAN** — What is the effect of that Workcover increase and others you have had this year on your organisation in toto? Does it mean that you put staff off or you do not replace them, or do you reduce services? What do you do? You said you are operating in a deficit situation — you are running at a loss. Do we assume that loss goes up?

**Dr HONNER** — No, the Division of Community Care has accepted that these services are not being properly funded and has done a very thorough costing of these services. We expect that in the coming budget we will probably get funding which matches pretty much the cost of the service, but it does not include the 21 per cent or whatever increase in Workcover rates. So we are going to go backwards again.

**Mr BEST** — How do you handle that? Is there more pressure?

**Dr HONNER** — The religious congregations which effectively own MacKillop will bail us out. We eat into funds. We hire casual staff, which cost a fortune. We lose good staff and we go backwards. This morning's *Age* has a story on child protection workers, saying they cannot get them any more. It is an 'Insight' series on our children. They are true stories; it is a precarious situation.

**Mr BEST** — You are suggesting that services will be compromised?

**Dr HONNER** — Yes. Training and services will be compromised. Or we go broke — if it keeps going like that. Or we pull out.

**Mr THEOPHANOUS** — I follow on from that and indicate that the committee has been in touch with your business manager and been told that you did receive the 15 per cent for common law. You have indicated to the committee that your increase was 21 per cent from year on year. Is that what your evidence is?

**Dr HONNER** — No, I do not think that is right.

**Mr THEOPHANOUS** — You mentioned that number before.

**Dr HONNER** — As I understand it — and I am referring to page 3, dot point 3 below table 1; this is the information I have received from our business manager — the industry rates for 2000–01 for community services will have increased by 21 per cent.

**Mr THEOPHANOUS** — I think he is referring to the industry rate there; is that correct?

**Dr HONNER** — That is right.

**Mr THEOPHANOUS** — But what we do not know is how much, in percentage terms, your premium went up by from 1999 to 2000. Do you have that figure?

**Dr HONNER** — I do not know whether table 1 gives you some indication of what that figure might be. That shows it as a percentage of remuneration, but you can — —

**Mr THEOPHANOUS** — You have got here that it went up by 69 per cent over three years.

**Dr HONNER** — That is as a percentage — —

**Mr THEOPHANOUS** — But it does not tell us how much it went up by from last year to this year.

**Dr HONNER** — No, but you can see on the graph there, and I suggest that it would be of the order of 3 per cent.

**Mr THEOPHANOUS** — Your evidence to the committee is that you want the government to pay for the increases in your premiums.

**Dr HONNER** — It is a suggestion that that would be appropriate.

**Mr THEOPHANOUS** — That is what you are asking the committee to consider. But in discussions with your business manager we have been informed that the government has already given you 15 per cent to cover the common law. If the increase is not much more than that, I do not really know what it is you are asking the committee to do.

**Dr HONNER** — As I understand it, the 21 per cent increase of the industry rate is on top of the 15 per cent as a result of common law.

**Mr THEOPHANOUS** — I suggest to you that that increase of 69 per cent over three years, if it is correct, if split up equally is about a 20-something per cent increase from last year to this year. If 15 per cent of that is being covered by the government, the amount you are out of pocket is really about 5 per cent or 6 per cent — —

**Mr McQUILTEN** — And there has been an increase in — —

**Mr THEOPHANOUS** — And you have had a number of accidents. I understand what you are saying about accidents and the vulnerable nature of the job your people have to do. Nevertheless, the system is based on trying to minimise the number of accidents.

**Dr HONNER** — That is right.

**Mr THEOPHANOUS** — It has not been a part of any government's policy that responsibility for accidents would be taken, whether in a hospital situation or in any other situation. It takes responsibility for the basic premium and give you that, but to also take responsibility for the accidents would be to remove any responsibility from you. Can you see that?

**Dr HONNER** — I can see that. But I do not see that we are asking you to take responsibility for our accidents.

**Mr THEOPHANOUS** — If we have taken responsibility for the common-law increase, only accidents are left.

**Mr McQUILTEN** — And an increase in salaries, because there has been an increase in salaries as well.

**Mrs COOTE** — Given that 65 per cent of your costs are in staff — —

**Dr HONNER** — Yes.

**Mrs COOTE** — And you said before that it is very difficult — —

**Mr CRAIGE** — How many staff?

**Dr HONNER** — About 250.

**Mr CRAIGE** — Full-time?

**Dr HONNER** — No. I do not know what the EFT number would be. There are another 150 volunteers at least active in foster care.

**Mr CRAIGE** — There is 150?

**Dr HONNER** — At least.

**Mrs COOTE** — You say that it is difficult with the training. By training do you mean basically dealing with children who have really challenging behaviour or, alternatively, looking at occupational health and safety-type issues?

**Dr HONNER** — We have pretty active health and occupational safety — —

**Mrs COOTE** — It must be a nightmare!

**Dr HONNER** — It is a nightmare. We are unable to fund a proper return-to-work program that is handled through that. We have focused very much on quality training in fire prevention, in restraint, and in high-risk high-need adolescent relationships.

**Mrs COOTE** — Did the government give you any additional help in that training area?

**Dr HONNER** — Yes. That training is part of your package, but it is up to you to access it and to make it happen — and it is easy not to do it. It is easy for staff not to turn up for training, but we have been pretty strong on that in the last year.

**Mrs COOTE** — Are you currently getting additional pressure to deal with more and more children? Is it that you are not only unable to get experienced staff but you are also getting an increase in the number of clients you deal with?

**Dr HONNER** — Probably not. I would say that work with the department has been very good in the past year. There has been a much greater partnership, cooperation and recognition of difficulties. But we do not have extras like quality backup or psyche assessment built into the package as yet. I believe it will make a difference. MacKillop on its own funds many of these activities, but if we have to keep funding Workcover costs and so on that will make it more difficult to do that.

**Mrs COOTE** — Thank you.

**Mr CRAIGE** — John, I understand that money is an issue, but on its own, it would not fix the problem?

**Dr HONNER** — No.

**Mr CRAIGE** — We are dealing with a social issue which is far greater than throwing money at a resolution — —

**Dr HONNER** — Sure.

**Mr CRAIGE** — I want to ask you about claims. Do you have anything at your fingertips about the current claims on your books?

**Dr HONNER** — No.

**Mr CRAIGE** — We can all ask questions about Workcover and GST, but the reality is that it is a single big issue for all of us, and having heard what you have said today, Workcover will have an impact on you.

**Dr HONNER** — Yes.

**Mr CRAIGE** — Particularly with the type of work that all your people are doing. Are the foster care providers covered under Workcover?

**Dr HONNER** — If they are employed by us, yes. If they are volunteers I suspect they are covered under a DHS insurance policy for volunteers.

**Mr CRAIGE** — So you think — —

**Dr HONNER** — I am sorry, it is not my area.

**Mr CRAIGE** — But it is an important question, isn't it?

**Dr HONNER** — I know that volunteers are covered by a DHS insurance policy. What the specifics of that are, I am not sure.

**Mr CRAIGE** — So those who are engaged in full-time, part-time or casual work directly but not in a volunteer capacity are covered by Workcover?

**Dr HONNER** — Yes.

**Mr CRAIGE** — Therefore that covers those who are well-qualified health professionals.

**Dr HONNER** — Yes.

**Mr CRAIGE** — To those who have — —

**Dr HONNER** — Not a great deal of training.

**Mr CRAIGE** — That must be very difficult for you as an organisation to not only manage the issues but to also manage that work force?

**Dr HONNER** — That is right.

**Mr CRAIGE** — Is that not one of the real issues you are confronted with with Workcover — that is, how you manage your work force, your claims and the client group they are dealing with?

**Dr HONNER** — Yes. What I can say is that we see houses that work well, and houses that work well have stable staff in them who are of a consistent mind and attitude — and they get that through being there for a long time. They will not be there for a long time if their work is interrupted through injury or stress. That is the bottom line for our effectiveness.

**Mr CRAIGE** — As the coordinator of social policy in particular, do you have any suggestions about Workcover that the committee might take on board that could help ease the stress your organisation goes through in respect of Workcover? Is there anything that we could do?

**Dr HONNER** — Well, you have probably heard it before.

**Mr CRAIGE** — No, but I would like to hear it again.

**Dr HONNER** — It tends to come out in jargon words. I do not like the words 'whole of government' very much, but it is true that sometimes we cannot get help from mental health because a child is seen as a problem of community care — but they have the expertise. In crisis situations it is extremely difficult sometimes, through education, to get the linking to schools. It is improving, but when you are dealing with a child you sometimes need to break through some of the barriers, and it is very difficult.

Local area support is important. Where volunteers work with the young people, the young people flourish; they are much better because they understand that it is not a paid service that is being provided to them and that the person is doing it because of a genuine care about the quality of humanity and the community.

**Mr CRAIGE** — Do they distinguish that?

**Dr HONNER** — Yes, they do. The kids know if you are a volunteer. One of our houses — which has a difficult load of children but which works very well — has two retired senior public servants who have decided,

having worked in the industry as bureaucrats, to work on the floor. Their commitment is so strong — and they are wise people — that it has really made a difference to this house.

**Mr BEST** — I refer to page 4 of your submission. You refer to a letter from the Minister for Community Services, Christine Campbell.

**Dr HONNER** — That is right.

**Mr BEST** — And her acknowledgment that there is a 21 per cent increase in the category — —

**Dr HONNER** — In the industry rate.

**Mr BEST** — In the industry rate.

**Dr HONNER** — She said, ‘You’ve got to wear it.’

**Mr BEST** — She said, ‘You’ve got to wear it.’?

**Dr HONNER** — Yes. That is my difficulty — I do not know whether we should have to wear it, I do not understand why we should have to wear it.

**Mr BEST** — Have you pursued that further with the minister?

**Dr HONNER** — Yes, I believe the Children’s Welfare Association of Victoria (CWAV) has tried to pursue it, because this has come out of correspondence between the minister and CWAV. But it has not been pursued successfully.

**Mr BEST** — You have had ongoing meetings with the minister?

**Dr HONNER** — I cannot answer that with a definite yes, but I know that the executive of the CWAV does meet with the minister quite regularly. Some things they agree on and some things they find difficult.

**Mr BEST** — In her response to you the minister further suggested that it is up to the agencies to improve the workplace within their environment?

**Dr HONNER** — That is right. But if you are going to do a costing of services and then say, ‘We are going to fund these services at cost’, you are in fact renegeing on that because you are not funding the services at cost, you are funding the services at cost, less whatever the 21 per cent increase will cost us.

**Mr BEST** — Thank you.

**Dr HONNER** — That is the argument that I see. If we have agreed on that, that is what we have covered.

**The CHAIRMAN** — Dr Honner, thank you for your time today.

**Dr HONNER** — I am sorry I cannot answer all your questions.

**The CHAIRMAN** — We appreciate the extremely invaluable work your organisation does and we wish you well in that. We will send you a copy of the Hansard record of our discussions.

**Dr HONNER** — You asked me to send a letter to Mr Willis authorising you to look at our Workcover authority claims.

**The CHAIRMAN** — That is if it is MacKillop’s desire to allow that to happen, yes.

**Dr HONNER** — Thank you for your interest.

**Witness withdrew.**

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into Workcover premiums for 2000–01

Melbourne – 19 April 2001

#### Members

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

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

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

#### Staff

Executive Officer: Mr R. Willis

#### Witness

Mr R. Cumpston, Partner, Cumpston Sarjeant Pty Ltd.

**The CHAIRMAN** — We welcome Mr Richard Cumpston, who is a partner with Cumpston Sarjeant Pty Ltd, consulting actuaries.

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

We welcome you and thank you for coming along. We can chat to you for about 30 minutes. You may make an opening statement, after which we might ask you a couple of questions. Over to you.

**Mr CUMPSTON** — Thank you. I am here on my own behalf. Basically I think the present system is not bad. I have a few specific criticisms, but I think that overall the premiums are generally low, fairly determined, unsubsidised and provide incentives for injury prevention and rehabilitation. It is a lot better situation than we had perhaps 10 or 15 years ago, and I think it is one of the best in Australia.

But the specific thing I am concerned about is the slightly unnecessary mess we had last year when premiums were put up in a slightly odd way. But that was only a transitional issue. The problems that worry me more are the complex formulas that apply in determining premiums and the erratic estimation processes of insurers, because what an insurer puts on a claim flows through to the premium to the employer and that is a very erratic process with unpredictable results for the employer.

I shall take the committee briefly through each of the points. I am sure the committee has heard evidence of how Victoria rates compared with the other states. My view is that if you look at the average premiums compared to wages, they are lower than those of any state except Queensland and they are substantially lower than New South Wales, South Australia and the Australian Capital Territory. From a broad commercial perspective relativity with other state is not crucial.

At the time I wrote this submission Email and BAE had just decided to shift from Victoria to South Australia, in spite of the fact that that is virtually the highest premium state. So those differences may not matter in terms of moving businesses between states, but of course those are only averages. If a particular industry has a much higher workers compensation premium in one state than in another that could mean a lot of money, and could shift a heavy-risk manufacturing plant.

So far as premiums go, for about the past six years Workcover has used a complicated actuarial process called hierarchical credibility blending. I do not think we need to go into that. The maximum change to an industry in a year was 20 per cent, but last year several weird things happened simultaneously. I shall take the committee through an example that I have just chosen randomly — political parties. The rate there last year — that is, 1999–2000 — was 0.86 per cent, so it is quite a low rate, as fitting a low-risk occupation. However, Workcover's complicated process produced a figure of 2.36 per cent. In prior years that difference would have meant that political parties would have gone up 20 per cent, so they might have gone from 0.86 per cent to 1.04 per cent.

But last year I think Workcover had an internal problem and needed to squeeze individual rates up to get the total right, so it did several things. One thing it did was to say, 'We will totally eliminate our restriction to one jump', so that meant that it was then looking to the nearest rate to 2.36 per cent. It did another thing quite bizarrely. It said, 'We will no longer go to the nearest one' — which I think was 2.23 per cent — 'we will go to the higher rate', so that put it up to 2.7 per cent.

But the story does not stop there because there was the 17 per cent to pay for common law and one or two other little bits, and on top of it was 10 per cent GST — this might need checking — and in the end the rate for political parties was 3.47 per cent. So the rate increased from the 0.86 per cent to 3.47 per cent set. I think that is one of the more extreme cases, but it just happens to be close to home.

**Mr CRAIGE** — Tobacco products went from 0.86 per cent to 5.78 per cent — it went up 10 categories.

**Mr CUMPSTON** — And if you were a farmer needing a crop-duster, you had the same problem.

**Mr CRAIGE** — And if you were drinking alcohol you had the same problem: alcohol manufacturers went up by nine.

**Mr CUMPSTON** — Only some of the more exotic tipples, I think.

**Mr McQUILTEN** — So the smoking, drinking, crop-dusting farmer is in big trouble!



**Mr CUMPSTON** — I know the unions subscribe to a conspiracy theory that Workcover did this to make the whole reform very unpopular with the public and employers. I do not think that is true. I think Workcover had a very obscure technical problem. It had limit that no employer could go up more than a certain amount, and if you were small it was no more than 19 per cent. That meant that whatever it did to the industry rates it was not going to get a lot of money quickly, and I think it would have had to go and get this thing changed. I suspect it simply ran out of time.

**The CHAIRMAN** — For the record, what is the thing you are referring to?

**Mr CUMPSTON** — I think it is schedule 6 of the Accident Compensation (Workcover Insurance) Act 1993, premiums order 8 2000–01. Somewhere in there — I think it is schedule 6 — there is this restriction on any one movement. I think because the whole process of talking about reforms had been protracted Workcover had an extremely short time to do the job, so it simply said, ‘We do not have time to change that document and therefore we will find a few little fiddles that no-one will ever know about’. I think that was a misjudgment.

**Mr BEST** — ‘Fiddle’ starts with ‘F’, so does the F factor.

**Mr CUMPSTON** — I will come to those if I have time, if you do not mind. I do not think it is a conspiracy. I think it just that Workcover was very short of time.

**Mr THEOPHANOUS** — So all the people going around scaremongering about 10- category increases were way off the mark, because you are saying schedule 6 limited that for all but the largest employers to 19 per cent?

**Mr CUMPSTON** — Yes, but that is only a temporary reprieve. Political parties will go up by 19 per cent for the next 10 years or so as a result of this, because it will take that long to catch up to the jump that has been made.

**Mr THEOPHANOUS** — Unless the industry increases its safety record.

**Mr CUMPSTON** — Yes, but even that would be very slow to flow through, so it has really had teeth in it. One of the issues the committee had was whether there were cross-subsidies. I think there is doubt about the ones right at the very top. Nine industries are at the top rate. I think we might still be subsidising them, but the element of cross-subsidy in the scheme where the clerical people subsidise the heavier industry is being gradually wound out of it, so that is improving.

**Mr THEOPHANOUS** — What about cross-subsidies from small to large businesses?

**Mr CUMPSTON** — It may be happening, but the system is trying to be fair to everybody. You can get all sorts of situations where the changes have been slow to flow through to small employers, but I think it is trying, at least actuarially, to attempt a fairer system.

**The CHAIRMAN** — But you would have to accept that there is still some element of subsidisation in the scheme.

**Mr CUMPSTON** — I think so, yes. and probably the ones being subsidised would be those at the top rate.

**The CHAIRMAN** — So your comment that it is unsubsidised in the first paragraph — —

**Mr CUMPSTON** — Yes, I think I have said ‘unsubsidised’.

**The CHAIRMAN** — Do you not agree with that any more?

**Mr CUMPSTON** — I said ‘generally’, which is a copout!

**Mr THEOPHANOUS** — In fact, Workcover told the committee that small business is being subsidised by something in the order of \$40 million, I think.

**Mr CUMPSTON** — It would know, but I cannot see how — —

**Mr McQUILTEN** — No, it was actually \$72 million.

**The CHAIRMAN** — Let us go on to the last page.

**Mr CUMPSTON** — As an actuary I find the formula is extremely hard to understand. I do not think that gives the ordinary employer much chance.

**Mr McQUILTEN** — You are not on your Pat Malone there.

**Mr CUMPSTON** — And if employers cannot understand it, how can they respond to it? How can the incentives flow through the system if they do not understand it? I am sorry, I do not have the answers, I just do not like the problem.

One thing that I do understand reasonably well is that the system works by the insurers making case estimates and they flow through, again through these complicated formulas, into actual premiums for employers. So if the insurer puts a heavy estimate on an outstanding case the employer gets clobbered. So large employers have a big incentive to talk sternly to their insurers and bully them. Insurers are made of different amounts of moral fibre and they react differently to these pressures. So you get wildly erratic results. You can tell how erratic it is, because there is a little table of F factors in the premiums order, and they are a measure of how different the insurers are. I think that system is all wrong, apart from been very complicated.

One easy suggestion to it is to base all the premiums on what has actually been paid rather than what the estimates are. Estimates can be extremely conjectural, 'Will this worker go back to work?', 'Does he have a valid common-law claim?' — things to which the answer might be nought, or it might be one.

**The CHAIRMAN** — On that point, as an actuary would you accept that if it were done on what was actually paid rather than on estimates, a lesser amount of premiums would be collected?

**Mr CUMPSTON** — No, because whatever system is used, Workcover balances it up at the end. Workcover's technical people take whatever is proposed as a system — it has had some really odd ones over the years — and just run it through the computer and say, 'If we use that system with these formulas we will get \$1.1 billion'. Maybe they need \$1.3 billion to balance the books, so they go back and work it all out again.

**The CHAIRMAN** — Jig the premiums up a bit?

**Mr CUMPSTON** — Yes, they just allow for whatever system is in place.

**Mr THEOPHANOUS** — I find it extraordinary that as an actuary you would suggest that. You would be aware that the Victorian Workcover Authority makes calculations based on actuarial calculations of the estimated cost of all of its claims, and that is the figure that is then used to determine whether the scheme is in the red or in the black.

**Mr CUMPSTON** — Yes, exactly.

**Mr THEOPHANOUS** — What you are suggesting is that those figures should be ignored and that instead it should work on the basis of what was actually spent in any particular given year. It just seems to me that such an approach could be so far off the market in terms of the likely costs going into the future that I am very surprised that you as an actuary would suggest it.

**Mr CUMPSTON** — I think we are at cross-purposes. Those actuarial calculations are very elaborate — I have seen some of them — and are intended to keep the whole scheme fully funded. It is important that they be right. When you get down to setting premiums for individual employers the objectives are different. It is to get the right amount of money in total from employers and that is just done by balancing the books each year. But it is also the intention to give them a clear reward for keeping the claims low. I think it is crucial that they have those clear rewards, but the problem with the present system is that it all depends on the subjective estimates that insurers place. I have clients in states who run self-insurance schemes. One is all the councils in South Australia, who are in a pool scheme, and they work on payouts very happily because they do not trust the estimates.

**Mr THEOPHANOUS** — It might take five years for a common-law claim to be paid.

**Mr CUMPSTON** — Yes, that is right.

**Mr THEOPHANOUS** — An employer might have had a good record for those five years, not having any

further claims, and would be suddenly hit with a huge increase in his premium five years after the event. That employer would be wondering, 'Hang on a minute, we did not have any claims for the past five years'.

**Mr CUMPSTON** — That is exactly right, and I think that is the major disadvantage of going to paid claims. But at least the other side is that if the claim falls over the employer is not paying anything for it, whereas under the present scheme he could pay a very heavy additional premium for that case and get nothing back if it falls over.

**Mr THEOPHANOUS** — That is not true, is it? There is a refund system available that comes into play if the claim is ultimately not accepted.

**Mr CUMPSTON** — We are probably getting too detailed, but there are periods when it does and others when it does not.

**The CHAIRMAN** — Are you saying you would be out of pocket for a while?

**Mr CUMPSTON** — No. Whatever system they use, every year they juggle it to get their overall target premium. They have changed systems in the past and being out of pocket is not an issue. This is an incentive issue rather than a balancing-the-books issue.

**The CHAIRMAN** — You indicate on page 2 of your document that you have done some figures and worked out that the average increase without the common law across Victoria is around 11 per cent. You say the various changes in industry rates give an overall increase of 11 per cent. Is that before the 17 per cent and the GST?

**Mr CUMPSTON** — Yes, and also before you allow for the 19 per cent limitation on the increase in premiums. These are industry rates.

**The CHAIRMAN** — You are talking about the whole of Victoria?

**Mr CUMPSTON** — Yes, looking over the whole of Victoria, averaging all the — —

**The CHAIRMAN** — So, if you are averaging over the whole of Victoria you are saying industry rates have gone up 11 per cent?

**Mr CUMPSTON** — Yes.

**The CHAIRMAN** — Without the common law or the 17 per cent loading?

**Mr CUMPSTON** — Yes.

**The CHAIRMAN** — If I were just doing some basic arithmetic, would it be fair to say that if the premium were \$100 and the average premium had gone up to \$111 based on that 11 per cent increase, and then a further 17 per cent had been added to that — —

**Mr CUMPSTON** — And a further 10 per cent, but the 11 per cent is misleading because it does not allow for the limits on particular employers, and they are they ones that are very — —

**The CHAIRMAN** — I am trying to get to the overall Victorian situation rather than the individual employer situation in this context.

**Mr CUMPSTON** — No, as I understand it regarding the overall Victorian situation, Workcover was very clear that it wanted to put it up 17 per cent and then the 10 per cent GST. That was the objective, and it probably got very close to it.

**The CHAIRMAN** — So if the industry rate went up by an average of 11 per cent and then we add the 17 per cent, that is about \$130, which is an increase across Victoria of around 30 per cent.

**Mr CUMPSTON** — They lost 11 per cent because of the limits on individual movements. They had to juggle the books, to find ways to juggle 11 per cent up because they knew they would lose 11 per cent on the limits of individual employers.

**The CHAIRMAN** — If you have worked out the 11 per cent by dividing the premium into the amount of

remuneration, how can you say the 11 per cent has disappeared?

**Mr CUMPSTON** — I do not know that. I got the 11 per cent from the data files they gave me. They gave me premiums, wages and claims for each industry. The figures were worked from that data, but that was for each industry. I had no way of allowing for individual employers.

**The CHAIRMAN** — I am not asking you to. I am trying to get the figure across Victoria that you clearly indicated in your submission is around an 11 per cent increase.

**Mr CUMPSTON** — That is right. They put up the rates, but essentially by moving people up to the higher rather than to the nearer levels, and one or two other devices. They got an 11 per cent increase. I think they probably lost about 11 per cent because of the limits on changes in any one year. The end result they were after was the 17 per cent and the 10 per cent. That is what they said they were after, but I am not sure that that is what they got; they can probably tell you.

**The CHAIRMAN** — If your calculations are correct, how could they have lost the 11 per cent?

**Mr CUMPSTON** — They certainly lost something because they could not put anybody up by more than 19 per cent. They were already trying to get an average of 17 per cent. They only had about a 2 per cent increase to play with. I do not think I am being clear.

**The CHAIRMAN** — I will say what I think. I cannot see how, if the premium rates increased 11 per cent across Victoria, based on your figures, without the 17 per cent being taken into account — —

**Mr CUMPSTON** — That is right, that is on top of that.

**The CHAIRMAN** — If I add 11 per cent to premium rates and then 17 per cent on top of that I get 130 per cent, which is an average increase across Victoria of around 30 per cent?

**Mr CUMPSTON** — That is right. That is the underlying increase in the rates. What has not happened is that it has not flowed through fully this year, but it will flow through. The only things stopping it are the temporary limits.

**The CHAIRMAN** — You are saying the underlying increase in premium rates is about 30 per cent?

**Mr CUMPSTON** — Yes.

**The CHAIRMAN** — If somebody said to us that the Workcover premium rates increased by 17 per cent, would you say that was incorrect?

**Mr CUMPSTON** — I would say the industry premium rates have gone up by more than 30 per cent, but that effect has not yet fully flowed through.

**The CHAIRMAN** — But if somebody said they had increased by 17 per cent, you are saying that would be incorrect?

**Mr CUMPSTON** — I would, looking at the average rates across industries.

**Mr THEOPHANOUS** — As I understand it, you are telling the committee you accept that 17 per cent was the target?

**Mr CUMPSTON** — Yes.

**Mr THEOPHANOUS** — That 17 per cent was achieved?

**Mr CUMPSTON** — I do not know. You would have to ask Workcover.

**Mr THEOPHANOUS** — As I understand the 11 per cent, if all the industry rate increases had actually been applied the result would have been an 11 per cent increase?

**Mr CUMPSTON** — Yes, that is before the 17 per cent and the 10 per cent.

**Mr THEOPHANOUS** — But as you also said, the increases in the industry rates were not applied because of the 19 per cent rule?

**Mr CUMPSTON** — Yes.

**Mr THEOPHANOUS** — You are saying, in effect, that when we talk about the industries that increased by nine categories but in reality by only one category, had they increased by the full nine categories and all the others had increased also you would have got the 11 per cent increase?

**Mr CUMPSTON** — Exactly.

**Mr THEOPHANOUS** — You are talking about the projected increase that may or may not occur over the next 10 years or so, is that correct?

**Mr CUMPSTON** — Yes, exactly.

**Mr THEOPHANOUS** — But as to the increase in this financial year, to your knowledge it is 17 per cent?

**Mr CUMPSTON** — Yes, that is exactly right.

**Mr BEST** — Your estimation would be that a range of increases will come in the next few years?

**Mr CUMPSTON** — We talked about political parties as being one of them.

**The CHAIRMAN** — It does not follow that what you have said is consistent — I may be wrong. If it is correct that the 11 per cent was limited by the fact that not every industry rate could increase by more than 19 per cent, if you accept that many of them did increase by that amount, surely — —

**Mr McQUILTEN** — But he does not accept that.

**The CHAIRMAN** — Do you accept that many industries increased by 19 per cent but that there was a limit?

**Mr CUMPSTON** — The 19 per cent only applies to small employers. Bigger employers could have increased by bigger amounts.

**The CHAIRMAN** — If you are saying 11 per cent has disappeared, it seems some industries had increases that, as a result, would have meant some percentage figure would have been appropriate for an increase in premium rates?

**Mr CUMPSTON** — Yes.

**The CHAIRMAN** — Whereas you just told Mr Theophanous the opposite.

**Mr McQUILTEN** — I do not think so; it is consistent.

**The CHAIRMAN** — In comparing premiums with other states, you would accept that if you compare anything you should compare apples with apples and pears with pears?

**Mr CUMPSTON** — I am only comparing the whole state, but an individual employer would compare his rate with what he could get in other states.

**The CHAIRMAN** — Under your heading ‘Lower Victorian premiums’ it seems that if you are to compare with other states you need to compare on a standardised basis. Is that what you have done?

**Mr CUMPSTON** — A whole lot of adjusting could be done for things like the first week of coverage and the industry mix. A lot were done by Trowbridge Consulting for the common-law working party. You can get better figures.

**The CHAIRMAN** — I am interested in what you base your statements on.

**Mr CUMPSTON** — As an actuary I have watched the rates in the broad. I am basing it on what I have

seen happening and what the Trowbridge report showed. These comments are about right. Do you have evidence that these are wrong?

**The CHAIRMAN** — Are your comments based on standardised figures?

**Mr CUMPSTON** — At least in part. They were based on the standardised figures in Trowbridge, but there have been movements since those figures.

**The CHAIRMAN** — What year are they based on?

**Mr CUMPSTON** — It is a long time ago.

**The CHAIRMAN** — You indicated they were partly standardised. Can I assume that some are not standardised figures?

**Mr CUMPSTON** — The problem is that Trowbridge did the exercise and some states have changed since the exercise was done. I do not have standardised figures for those states. I still believe they are roughly correct.

**The CHAIRMAN** — What are your statements and figures based on?

**Mr CUMPSTON** — They are based on my broad impression of those standardised premiums and what I know what has been happening since. I would be at a loss if you were to ask me about particular figures.

**The CHAIRMAN** — It is based more on recollection than on specific figures?

**Mr CUMPSTON** — Yes, it is.

**The CHAIRMAN** — And you are not sure whether they are standardised figures?

**Mr CUMPSTON** — No, I am sure you could get those figures.

**The CHAIRMAN** — You have made a statement based on recollection, not on figures?

**Mr CUMPSTON** — I have not done calculations on premiums for a year.

**The CHAIRMAN** — Do you think it is an appropriate thing for an actuary to do — to make a statement without basing it on any figures, which is what you have told the committee?

**Mr CUMPSTON** — I in no way set out to mislead the committee. I still believe those figures are appropriate. When I say ‘generally’ and when I say ‘lower than any other state except for Queensland’, I think that is right. If you have figures that show otherwise, I would be interested in them.

**Mr McQUILTEN** — The Victorian Workcover Authority has proved that to this committee already. You are confirming what Workcover said about Victoria’s position in the hierarchy in Australia.

**The CHAIRMAN** — Is that a question or a statement, Mr McQuilten?

**Mr McQUILTEN** — A statement.

**Mr CRAIGE** — You said that weird things happened last year. Would one of those weird things been political interference in what was happening to Workcover?

**Mr CUMPSTON** — I would not have thought so.

**Mr CRAIGE** — What happened last year was entirely within Workcover?

**Mr CUMPSTON** — It was highly political a few months before, but my impression is that the premium process is very technical. It has to be done in a great hurry and it is constrained by what is in the order. It would have been extremely difficult to have any effective political interference.

**Mr CRAIGE** — The minister signs the order.

**Mr CUMPSTON** — But generally a heavy footprint would be left if something like that went on, but

there is no sign of that. It looks fair dinkum. Any mischief was internal to Workcover.

**Mr BEST** — In your earlier evidence you said you did not understand how they came to their conclusions on the way in which premiums had been increased on a percentage basis? I quote the example you gave, which concerned political parties, the rates having gone from 0.86 per cent to 3.4 per cent in the end. You were referring to the fiddle or F factor. You made an aside that you thought it was weird?

**Mr CUMPSTON** — Sorry, I should be more specific than that. I thought it was very odd that they suddenly removed the limits on the number of jumps you could make, from one jump up to any number of jumps. It was also extremely odd that they should go from rounding to the nearer rate rather than to the higher — that is unusual in its own right. When I thought about it I realised they had a temporary problem; they had to get enough money in the door somehow.

**Mr McQUILTEN** — Because of the black hole of the previous government?

**Mr CUMPSTON** — No, not the black hole — —

**Mr BEST** — I ask for clarification on the point you are about to make — that it was not on the black hole?

**Mr CUMPSTON** — No, I suppose that is where it all started, but they were told to raise premiums by 17 per cent plus the GST. They had to do it quickly within the constraints of the premiums order. These were the only areas; they did not have much they could change. They were the only areas where they could make change and I think they searched for whatever device they could find.

**Mr THEOPHANOUS** — For the purpose of clarifying the issue of increases in the categories, essentially you have told the committee that the increase in the categories or allowing the categories to go up by more than one jump is something that affects larger and not smaller businesses?

**Mr CUMPSTON** — In the short term, yes.

**Mr THEOPHANOUS** — Even in the case of the smaller businesses, given the 19 per cent cap that we are talking about, it effectively is no different to the previous policy for a small business because even if you had annual increases of one they could still go up by one?

**Mr CUMPSTON** — That is correct.

**Mr THEOPHANOUS** — The effect is exactly the same for small business, is that correct?

**Mr CUMPSTON** — Yes.

**Mrs COOTE** — Have you done any work for the Victorian Trades Hall Council?

**Mr CUMPSTON** — Yes, I have done one job for it from about November 1999 through to March 2000. I was advising it on the common-law proposals and also on its desired change to overtime benefits, but it does not use us on a running basis.

**The CHAIRMAN** — Thank you very much. We will send you a copy of the transcript of our discussions.

**Mr CUMPSTON** — If there any typographical errors, can I alter it?

**The CHAIRMAN** — Yes, and return it to us.

**Witness withdrew.**

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into Workcover premiums for 2000–01

Melbourne – 19 April 2001

#### Members

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

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

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

#### Staff

Executive Officer: Mr R. Willis

#### Witnesses

Mr C. Marshall, Policy Development Manager; and  
Ms S. Medson, Vice President and Board Member, Children's Welfare Association of Victoria.



**The CHAIRMAN** — Welcome, Mr Marshall and Ms Medson. All evidence taken by the committee is subject to parliamentary privilege and is granted immunity from judicial review subject to the Parliamentary Committees Act and the Constitution Act. Would you like to make an opening statement?

**Mr MARSHALL** — I will explain what the Children's Welfare Association of Victoria is and does. CWAV is the peak body representing child, youth and family services in the community services sector in Victoria. It has an ordinary membership of about 76 Victorian community service organisations as well as subscriber members such as philanthropic trusts. It has associate members who would be professionals and academics who are interested in our work. It also has student members.

To give you some background of our interest in Workcover premiums, in 1999 we were informed by particularly those community service organisations that provide residential care services that they were beginning to experience difficulty with increased Workcover premiums. CWAV raised the issue with the Victorian Department of Human Services through its placement and support advisory group and CWAV conducted a survey of community service organisations that provided residential care service in response to requests by the department to provide more information on the issue. I have furnished a copy of that survey with the original submission to the inquiry.

In summary, the research found that the average Workcover premium for residential units had almost doubled in the previous two years. I will not go through the range of other conclusions because they are before the committee.

Having presented our evidence to the department, the department and CWAV agreed to establish a joint project, entitled the health and safety risk management project, to investigate key drivers of increases in Workcover premium costs. That work started in late 2000 in cooperation with the Victorian Workcover Authority. It basically found that one of the key drivers of Workcover premiums was occupational assault in residential care services, but some evidence that we thought the committee would be interested in came from the data we received from the Victorian Workcover Authority. I have copies for the committee.

When we put the data into graph form we were intrigued to find that the premium per million dollars remuneration had increased substantially, as you can see, from \$50 000 in 1997–98 to \$80 000 in 2000–01 although the claims costs per million dollars remuneration had actually decreased. On the next chart you will see premiums versus cost of claims reported in financial years. The gap is quite significant.

**Mr THEOPHANOUS** — Do you have the claim costs figures per million dollars for 2001 on the first chart?

**Mr MARSHALL** — The financial year has not finished so we do not have that figure, but this data is available if the committee wants it. I can send to the executive officer the original data as received from the Victorian Workcover Authority if you wish us to do so in the follow-up submission.

**The CHAIRMAN** — Can you for my benefit clarify the difference between the first and second pages?

**Mr MARSHALL** — I hope so.

**The CHAIRMAN** — I am sure you will. The X-axis on page 1 is dollars. Are they the premiums for all the members of your association?

**Mr MARSHALL** — The sample size is — —

**The CHAIRMAN** — Is that a particular organisation?

**Mr MARSHALL** — No, it is an aggregate. The data sample includes 22 of the 28 employers that are CWAV members and providers of residential care services in Victoria.

**The CHAIRMAN** — That is residential care?

**Mr MARSHALL** — Yes.

**The CHAIRMAN** — Page 1?

**Mr MARSHALL** — Yes.

**The CHAIRMAN** — And page 2?

**Mr MARSHALL** — The axis for the first graph is premium per million dollars remuneration and claim cost per million dollars remuneration. The second graph is the premium, full dollars.

**The CHAIRMAN** — For those same 22?

**Mr MARSHALL** — Yes.

**Mr THEOPHANOUS** — So you would argue the more relevant one is the claim cost per million dollars? That is the more accurate comparative figure?

**Mr MARSHALL** — Yes, because it gives you a common denominator, which is remuneration.

**The CHAIRMAN** — We will have to keep moving or we will run out of time.

**Mr MARSHALL** — We thought the inquiry would also be interested in the impact of the new tax system and the introduction of GST. All CSOs incurred an increase in Workcover premium rates for the 2000–01 financial year. Premium rates increased an average of 17 per cent, as I am sure you know; the point being that this was on top of the difficulties that CSOs were already experiencing with Workcover premiums when we started getting notification of that in 1999. Two per cent of this increase was introduced to cover the flow-on effects of the new tax system on Workcover's costs. The Victorian government has provided an increase in funding to cover 15 per cent of the increase in cost of premiums in 2000–01. However, the Victorian government has not provided funding to cover costs associated with the flow-on effect of the new tax system.

**The CHAIRMAN** — The 15 per cent that you have been reimbursed is for each of the organisations — you are obviously saying that? Has that been a specific figure to compensate for Workcover premium increases, or has it come out by way of grants for packages?

**Ms MEDSON** — It has been a specific figure for Workcover.

**The CHAIRMAN** — So you have the 15 per cent for all of the services you provide?

**Ms MEDSON** — The 15 per cent was not calculated on the originals, though. We have not actually received full compensation for that Workcover. It was a much smaller amount than the actual difference between one year and the next. That does not make any sense to me, not being — —

**The CHAIRMAN** — It did not make up the difference?

**Ms MEDSON** — No.

**The CHAIRMAN** — So if there had been a claim in that particular organisation which had caused the premium to go up, or if it had gone up in terms of the industry rate going up, the amount that the government has sent you by way of compensation is in respect to the 15 per cent only?

**Mr MARSHALL** — Yes.

**The CHAIRMAN** — Is that why you are making the statement that it did not compensate totally?

**Ms MEDSON** — That should be why I am making that statement. What I making, though, is a statement around an organisation such as the one of which I am CEO.

**The CHAIRMAN** — Which is?

**Ms MEDSON** — Goulburn Valley Family Care, which does not have residential services and therefore cannot explain why the rate went up, apart from the impact of the 17 per cent. It had no claims and has had no claims for a consistent period of time and still experienced quite a gap between the increase in Workcover and the compensation paid following that increase.

**The CHAIRMAN** — So you are not aware of the reason why it has gone up by more than 17 per cent?

**Ms MEDSON** — No.

**The CHAIRMAN** — Have you spoken to your insurer about that?

**Ms MEDSON** — Yes.

**The CHAIRMAN** — What happened?

**Ms MEDSON** — We have had no explanation from them either, only that the 17 per cent covers it.

**The CHAIRMAN** — I want to let you finish, but we are still on the charts. What percentage did Goulburn Valley go up?

**Ms MEDSON** — We were told we went up 17 per cent, but we went up from \$29 000 a year to \$56 000.

**The CHAIRMAN** — That is not 17 per cent.

**Ms MEDSON** — I would not have thought so.

**The CHAIRMAN** — I am sure it is not. We might come back to that.

**Mr THEOPHANOUS** — Looking at this chart, I must say it does not make sense to me in this context. What you are saying is for 2000–01 there will be a premium paid per million dollars of \$80 000, or over \$80 000, according to this chart; is that correct?

**Mr MARSHALL** — Yes.

**Mr THEOPHANOUS** — That represents an average premium of 8 per cent to the organisation?

**Mr MARSHALL** — Yes.

**Mr THEOPHANOUS** — Do you know what category you fit under? The business and professional associations is one category. What other category do you fit under?

**Mr MARSHALL** — Charitable and welfare homes, private — K, something, something. I can look that up.

**Mr THEOPHANOUS** — What is the industry rate for that?

**Mr MARSHALL** — It is 4.3.

**Mr THEOPHANOUS** — Why is your average premium among your members double what the industry rate is?

**Mr MARSHALL** — That is what we would like to know. That is one of the things that the health and safety risk management project is endeavouring to uncover. We have not concluded our findings yet.

**Mr THEOPHANOUS** — With respect, it must have something to do with the level of claims. What I cannot fathom from these figures here, looking at the second chart where you have the actual dollar amounts, is that in 1999–2000 you say you paid \$1.5 million in premiums but your claim is only \$325 000.

**Mr MARSHALL** — That is correct.

**Mr THEOPHANOUS** — You have used the term ‘Cost of claims reported’?

**Mr MARSHALL** — Yes.

**Mr THEOPHANOUS** — Does that include the estimated cost of the claims that you have had into the future?

**Mr MARSHALL** — No, it does not. That is one of the problems with it.

**Mr THEOPHANOUS** — So you are not actually using the projected cost of claims here?

**Mr MARSHALL** — No, not in that graph.

**Mr THEOPHANOUS** — The projected cost of the claims you have already had could well be far in excess of this \$325 000?

**Mr MARSHALL** — That is one of the things we are seeking more information on.

**Mr THEOPHANOUS** — But that figure would be available through Workcover.

**Mr MARSHALL** — Yes. We will ask for that figure as well to get to the bottom of it.

**Mr THEOPHANOUS** — Could I suggest to you that while I understand the charts you have provided here, they are in some respects misleading because they do not accurately reflect your claims history.

**Mr MARSHALL** — Yes.

**Mr THEOPHANOUS** — Could I further say to you the fact that your premium cost per million dollars is double the industry rate suggests that there is a significant occupational health and safety issue within your industry; is that correct?

**Mr MARSHALL** — Absolutely.

**Mr THEOPHANOUS** — So what exactly is it that you are asking this committee to do? Are you asking the committee to recommend to government that it pay for the significant problem of occupational health and safety, or are you asking it to assist in some way in reducing the number of accidents that you are having? What is it that you are asking this committee to consider?

**Mr MARSHALL** — I think this ties in with the previous policy of the outsourcing of statutory services to the community services sector without a transfer of resources that goes with that transfer of duty of care. The sector has found itself in a catch-22 situation, that to improve health and safety risk management you need significant resourcing to make an impact.

**Mr THEOPHANOUS** — But you have received an increase from the government for Workcover of 15 per cent to pay for the common-law increase; is that correct?

**Mr MARSHALL** — That is correct.

**Mr THEOPHANOUS** — Are you seriously asking that the government should not only pay for the increase in common law, but also pay for your poor occupational health and safety record? Is that what you are suggesting?

**Mr MARSHALL** — We think the poor occupational health and safety record is connected to the transfer of responsibility for the children and young people in care in these facilities from direct government provision to the community sector.

**Mr THEOPHANOUS** — Do you believe if the government did take responsibility for the occupational health and safety increases, that would relieve you of responsibility for reducing those accidents?

**Ms MEDSON** — I do not believe we are asking the government to take responsibility for that, but for assistance so that we are able to address it.

**Mr THEOPHANOUS** — Okay.

**Ms MEDSON** — In residential units the potential for injury is very high. We need to have the money to train workers. We have very low paid employees in those situations, and it is very much tied to government funding. So is the 4.8 per cent rate of Workcover tied to our funding. If it was a more realistic level of 6 per cent, or even up to 8 per cent, our government funding would be tied to that level too. So by setting a low level and then saying there are a lot of injuries within that, or a lot of claims against that, yes, there are; but we are really quite powerless to deal with that while we have very low funding and very low paid staff. We need to be able to raise their skills to a level where they can cope with the situations they are confronted with on a daily basis.

**Mr THEOPHANOUS** — To make this clear, what you are asking for is assistance from the government in getting the occupational health and safety — —

**Ms MEDSON** — Managing the risk.

**Mr THEOPHANOUS** — Managing that appropriately within your industry?

**Ms MEDSON** — Absolutely.

**The CHAIRMAN** — In that context you are talking about a number of things. You are talking about an increase in government funding to meet your premiums. You have also represented to us the concept of having a contingency fund so that if some extraordinary event occurs which suddenly lifts up your premium significantly for a large claim, that that does not grind the organisation to a halt and mean you cannot help the people in need.

**Ms MEDSON** — That is right.

**Mr CRAIGE** — I hear exactly what you say about the area that you are involved in with the claims and about that therefore reflecting on your premiums relating to occupational health or safety and duty of care. I would be interested in an explanation of two areas that seem to be high. When dealing with the client group that you are dealing with, how will you be able to deal with the issues like being hit by a person accidentally, which is listed as 19? You are placing yourself into a different category, and we are moving into an area where there is a high risk exposure due to the client group you are dealing with. The same thing is there for the 10 claims for exposure, traumatic event. These are the claims that put your premiums up. Can you explain to me as a layperson how, with your best endeavours, you are going to decrease those sorts of claims?

**Ms MEDSON** — There is no doubt we work in a very high risk industry. I think the actual rate needs to reflect that and therefore we can balance that out with our funding. However, there are things that you can teach people about defensive behaviours, about dealing with aggressive minds, about judging where they are in relation to that client in terms of accidental hitting and those sorts of things that we do not have the time to do because we are short-staffed, often because they are lowly paid and we are using casual staff on a regular basis, so you have people who are not necessarily equipped to deal with the situation that you are constantly putting them in, in that situation. If we were able to maintain a staff that was adequately resourced and if the organisations were adequately resourced we would have an ongoing training program that would keep staff up with that sort of training that we can put things in perspective.

**Mr CRAIGE** — I hear what you are saying. If I was to obtain the 19 claims, would that back up what you are saying now? Would those 19 claims back up the fact that those people who have been accidentally hit would be people with little training?

**Ms MEDSON** — There is no reason for me to doubt those claims. I have not seen those particular 19 claims, but I have no reason to think that that would not back it up, because the percentage of casual and untrained staff used in this industry is far too high. They are seriously undertrained in risk management of themselves and the organisation.

**Mr BEST** — In former evidence given to the committee today, there was correspondence between the Minister for Community Services and a particular organisation. Have you approached the minister or the government to in some way be provided with funding to examine occupational health and safety issues within your workplaces?

**Mr MARSHALL** — Certainly.

**Mr BEST** — What has been the response?

**Mr MARSHALL** — We have put in place this project which is really only resourced with what resources we can give, and the department has made available its work health unit manager and an officer from the community care division.

**Mr BEST** — So what they are saying is that while there is an acknowledgment that this is a high risk area, you have to find the resources yourself but they will give you some manpower to help you drive the changes within your own organisation rather than giving you money to look at a strategic occupational health and safety program?

**Ms MEDSON** — That is right.

**Mr McQUILTEN** — I would like to make a suggestion following Mr Best's questions. In terms of the department I would suggest you contact the Victorian Workcover Authority directly and put your arguments to 713

them. They are going through a review at the moment, but I consider your problems clearly need to be looked at. I believe you would get a good hearing from the Workcover authority in terms of efforts to reduce your claims and how to manage and run your businesses more efficiently. I believe you will get a good hearing if you contact Workcover directly.

**Mrs COOTE** — Given that you have staffing as an issue and finding money for premiums, how does it relate? Does it mean you cannot put on X amount of full-time or casual staff? Could you give me some indication of how many people that would be likely to be? You have quite a large staff. Could you explain to me how that pressure would manifest?

**Ms MEDSON** — It manifests itself in that you have pressures around staffing ratios that are accepted in the funding formula as appropriate, but where you have more complex issues — where you have people coming into residential units who have particular difficulties — sometimes those ratios do not reflect the difficulties you are going to have to deal with in a night or a day with those people. So you are constantly putting staff into a situation that is more difficult than they are trained for.

**Mrs COOTE** — And the higher premiums mean you are not going to be able to put on any more highly trained staff.

**Ms MEDSON** — Not if we have to keep digging into our own resources to meet those demands.

**Mr CRAIGE** — I want to give you as much money as I can. I want to give you a bucketload of money but it will not solve some of your fundamental difficulties. You are dealing with a client group which is extremely difficult to deal with. You accept that and your organisation would accept that. We can talk about how that has moved out but that is the reality. I reckon I could throw money at you but at your level we have a huge societal problem which goes beyond you and money will not change that situation. Some money will, I agree, but you are dealing with a group in our community which is very difficult to manage.

**Ms MEDSON** — It is a very difficult group and that is reflected in the Workcover rate. There is no doubt about that, but I still maintain that if you are able to take people on who are not allowed to work in the unit until they have gone through an adequate orientation that includes risk management it would improve. To do that you need to have the funding to keep those people on while they are not productive. You need to look at a couple of weeks training for a new recruit and you need to look at being able to develop a work force that can learn and maintain those skills. You need to look at being able to pay higher salaries to do that. People come into these residential units, they learn a few skills, they work with people and they go on to find other work that is not as difficult, does not have the shift work, where they are not being confronted on a daily basis and they are quite good workers in other situations. Why would they not take a job which was not putting them in danger all the time? If you are able to reward them in a monetary manner they will stay longer. Currently they are being paid the bottom of bottom. They are very poorly paid.

**Mr CRAIGE** — McDonalds rates.

**The CHAIRMAN** — Thank you for coming along today. We appreciate the time you have given us. We will send you a copy of the Hansard record of our discussions for you to have a look at.

**Witnesses withdrew.**

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into Workcover premiums for 2000–01

Melbourne – 19 April 2001

#### Members

Mr R. A. Best  
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Mr N. B. Lucas  
Mr J. M. McQuilten  
Mr T. C. Theophanous

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

#### Staff

Executive Officer: Mr R. Willis

#### Witnesses

Ms J. Balshaw, Manager, Human Resources; and  
Ms N. Karibian, Workcover Coordinator, Yooralla Society of Victoria.



**The CHAIRMAN** — Welcome. All evidence taken by this committee is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act. I invite you to make a submission to us and then we might ask some questions.

**Ms BALSHAW** — Perhaps if I start off by giving you a bit of background about Yooralla so we are working within a framework of what the organisation is, what it does and so on. I will then talk about Workcover premiums and how they impact on us and some of the issues we have identified. We have had a look at your terms of reference and tried to contain what we have within them.

**The CHAIRMAN** — I think we are pretty much aware of the good work of Yooralla, so perhaps you could keep that short.

**Ms BALSHAW** — I will try and keep it brief. As you know, we are a disability organisation. Our anticipated turnover this year is about \$33 million. We have about 800 staff plus about 140 supported workers and 75 per cent of our income is government funding. The rest comes from sales, investments, bequests, fundraising and that sort of thing. Approximately 80 per cent of that is spent on labour costs so Workcover issues are quite significant for us. We provide a wide range of services including accommodation, in-home support, independent living, specialised equipment, employment, early intervention, school therapy and recreational.

We have a very broad range of services and that impacts to some extent on our premiums because the industry rate varies across the various areas — for example, in accommodation services there is a fairly high manual handling risk. Other people have probably told you about that but the industry premium there is higher than it is in the lower-risk areas like specialised equipment services.

Yooralla's premium has moved from 3.23 per cent of the salaries budget in 1999–2000 to 4.06 per cent in 2000–01. That is the average premium across the whole of the organisation: there are a series of premiums for each site which are averaged to give us an overall percentage. What we have is a movement from a Workcover levy in the previous year of \$518 000 to \$815 170 for 2000–01. Of course, that is an estimate; they do not finalise the premium until they get to the end of the financial year because your salaries move and so on. That will increase for us because we are continually bringing on new services and we estimate that our salary budget will increase by another \$3.5 million by the time we get to the end of the financial year. We have had an increase of 0.83 per cent between the 1999–2000 premium and the current premium.

**The CHAIRMAN** — That is about 57 per cent in dollars.

**Ms BALSHAW** — Do you mean the difference? If you translate last year's premium into this year's dollars, if we paid the same percentage premium this year as last year, it would have saved us about \$166 000. We could employ several extra staff with that money. It is a significant issue. Of course, that has been impacted on primarily by the common-law levy and an increase in industry rates.

**Mr THEOPHANOUS** — Are you refunded for the common-law levy by the government?

**Ms BALSHAW** — Some of our services receive some assistance with that. Some of our services which are unit costed have had 15 per cent of that levy built into the Workcover component of the unit cost. The unit cost is the amount of dollars with which you are supplied to deliver a unit of service, as it were.

**Mr THEOPHANOUS** — Is the answer to the question that you have been refunded?

**Ms BALSHAW** — We have been given some — —

**Mr THEOPHANOUS** — What proportion?

**Ms BALSHAW** — We have been given some recompense in some services. Because our funded services are so varied they are funded by a range of different areas. Some employment services particularly are commonwealth funded and our services are funded by a range of different areas as far as state funding is concerned.

**Mr THEOPHANOUS** — With the state funding you have received the 15 per cent refund?

**Ms BALSHAW** — In some areas.



**Mr THEOPHANOUS** — Are you able to provide the committee with a breakdown of that?

**Ms BALSHAW** — I can — —

**Mr THEOPHANOUS** — When you say it is \$166 000 more, we need to know how much you are getting back from the government and what the real amount is, if you like.

**Ms BALSHAW** — We have access to some information about how the components given to us are calculated. My understanding is that in the unit-costed services they have taken an industry rate which does not necessarily match the actual industry rate and they have factored in 15 per cent of the 17 per cent to that industry rate and added that to the calculation for unit cost. Unit cost consists of a number of calculations all added together: you get a certain amount for your staffing, a certain amount for administration, a certain amount for sick leave and Workcover and superannuation. We do not have from them a breakdown of the unit cost. They do not give us a breakdown such as this amount is for this or that. The only information I have is that for unit-costed services they have established what they will factor into the unit cost in terms of a levy and they have added on 15 per cent of the 17 per cent. That has given us some recompense but not all because the industry rate they have used does not match the industry rate that is being applied.

**Mr CRAIGE** — It is the lower one?

**Ms BALSHAW** — That is right.

**Mrs COOTE** — When you talk about ‘they’, who are you talking about?

**Ms BALSHAW** — I am talking about the Department of Human Services. DHS funds the bulk of our state services. The commonwealth services are funded differently. Some of our services are block funded which means you just get a grant, and some of our services are unit costed which means you get this business where they factor in a certain amount of allowance for Workcover premiums. It is difficult.

**Mr THEOPHANOUS** — But you got nothing from the federal government.

**Ms BALSHAW** — My information is that the federal government has not adjusted its grants to compensate for our increases in that area.

**Mr CRAIGE** — And the state has not adjusted it for the block grants, only for the unit cost.

**Ms BALSHAW** — That is my understanding. It is difficult to get a picture of exactly what the block grant consists of, what makes it up.

**The CHAIRMAN** — We have heard that before from a number of organisations. You are in good company there.

**Ms BALSHAW** — That is the situation we have to deal with. We have a very proactive approach to controlling injury and injury rehabilitation and such like. Some 75 per cent of Nartuhi’s job is about Workcover, getting people back to work, minimising injury and those sorts of things. We are going down the path of working towards Safety Map accreditation in terms of occupational health and safety. We are just about to employ an Occupational Health and Safety /Quality Manager. We are doing all sorts of things to try and assist us to cope with that.

**Mrs COOTE** — You have 800 staff. What sort of occupational health and safety training do you have for those staff at present?

**Ms BALSHAW** — It varies from site to site. Our site managers are responsible for insuring that site induction occurs — for example, manual handling is a particular training issue. It is a difficult issue for us because the nature of the industry is such that you use a lot of casual staff. I could not help overhearing the end of the last discussion. The industry is such that you use a lot of casual staff and therefore there are always extensive costs in continually upgrading your staff, in terms of training new staff coming on and so on. Agency staff are used to plug up the holes when someone is sick at the last minute and you do not have enough casual staff to go around. It is an issue. Salaries is an issue — how much people are paid in this industry. A whole lot of things contribute to adding to the cost of providing people with appropriate occupational health and safety training.

It depends very much on the site as to what that training has to be. For example, if recreational services are taking people canoeing on the river they will have a different sort of OHS induction to what you would have for people doing manual handling within residential services. There are issues about in-home services and how you provide induction training to people who are one-on-one in the consumer's home. All those things have an impact on staffing.

One of the issues as far as premiums are concerned for us is that they are impacted on by insurers' estimates of future claims costs. I am not telling you anything that you do not know. It is an issue for us because the estimates always seem to be at the highest level rather than being realistic estimates of future expenses reflecting actual claims history. Yooralla spends a good deal of time trying to reduce the claims costs through effective injury management only to see that not reflected in future estimates. You have a legislative requirement for good injury management, good rehabilitation and return-to-work strategies but what you do does not seem to be reflected in your estimates. Nartuhi spends a tremendous amount of time debating with the insurance company about what is a realistic estimate for a particular claim. If you have gotten someone back to work, why is the estimate very large because in actual fact the predicted future is they will stay at work.

There are a lot of issues like that, about how the Workcover system actually works, that we think are significant as far as we are concerned in terms of controlling the premiums. You have a number of factors: you have the industry factor, the individual claims record factor and how the system works. That is a significant issue as far as we are concerned.

**Mr BEST** — While you are on that point, what is the name of your insurance company, your agent?

**Ms KARIBIAN** — VACC.

**Mr BEST** — How do you find it?

**Ms KARIBIAN** — It is good, but I think it is also in a straitjacket because it has to interpret what the Victorian Workcover Authority tells it about how it should be looking at claims, which is what Jenny was just saying — claims are always estimated in the worst case scenario, expecting that somebody will be off work for ever and a day. However — and this is from personal experience — when a worker comes back to work after good return-to-work plans and assessments the estimate never seems to come down even though the insurance company is informed of that. There is a figure of, let us say, \$120 000 from the moment the claim is recorded; we need to fight to get that \$120 000 down by saying the worker is back at work, doing very well and there are no problems with the worker. There is always this struggle. The insurance company is good but it also reflects the VWA's mentality.

**Mr BEST** — That culture is of concern to me and has been a theme of my questioning on this inquiry. The circumstances you were just referring to also adversely impact on your premium.

**Ms KARIBIAN** — Yes, because of the fact that that huge amount stays in the system. A premium is calculated on three years experience, so 2000–01 would be on 1998–99, 1999–2000 and 2000–01 — we are going back three years. So if an insurance company has put in a huge figure against the particular claim and that stays on for the whole of the three years, it all adds up, whereas if it drops the premium or it drops the cost for the first year when the worker is back at work and everybody is happy, that will of course affect the premium level.

**Mr BEST** — And the compounding faced by your organisation is that because you are program funded it impacts on your ability to meet the increase in premiums through the project funding?

**Ms KARIBIAN** — Yes.

**Ms BALSHAW** — Yes. If your premium goes up and you have to find the dollars to pay that and to meet the difference between the bits that are funded and the bits that are not, then of course any extra financial impost has to be found out of the residual 25 per cent that is not government funded. So if you take the Workcover premium that is not funded out of there you have not got that to do something else with.

**Mr BEST** — Which may mean a reduction in the work force or a reduction in the program that you offer?

**Ms BALSHAW** — It could well mean a reduction in those things that are not fully financed. We actually operate on the basis of attempting to meet our service costs out of the dollars that are provided and we use the other dollars to pay all the other things that you have to do. If you look at the extra \$166 000 in the premium this

year, we are just about to employ this new occupational health and safety and quality manager and that salary has to come out of somewhere — that is not a funded position. So of course it is those sorts of things that you cannot afford. You have a finite box of extra money and if your premium goes up you have to find those dollars from somewhere else.

**Mr McQUILTEN** — I have to remind you though, Jenny, that you did say earlier under questioning from my colleague who has just left that you do not know how much of that money is coming back from the state government to you because you have not quite worked it out yourself. You thought you would get back about 15 per cent.

**Ms BALSHAW** — What I was saying was that only a proportion of it comes back.

**Mr McQUILTEN** — That is right. It might be 90 per cent of \$166 000 or it might be 10 per cent of \$166 000. We do not know yet, do we?

**Ms KARIBIAN** — Only because we have not been given the breakdown.

**Ms BALSHAW** — Only a proportion comes. We have looked at what sort of increases in funding were there which were tagged for that sort of thing, and when you get the differential between what you are funded for and what you have to pay, you still have a problem.

**Mr CRAIGE** — And no matter what, they have calculated the subsidy or the payment on the industry rate and not on the actual rate that you are paying?

**Ms BALSHAW** — Well, it has been calculated not on this year's industry rate but on a different figure.

**Mr CRAIGE** — So it is not the full figure that has been calculated.

**Ms BALSHAW** — It is not the full industry rate figure, so while you are right in saying that we do not know exactly because we are not given those figures, we do know that we do not get fully funded for it, and what you are not fully funded for you have to find from somewhere else.

**Mr McQUILTEN** — There is also the commonwealth, which you were talking about before. Have you been to see the Workcover authority or had discussions with the authority at all?

**Ms KARIBIAN** — Through the insurance company, but not really. Over the phone, yes on a number of occasions.

**Mr McQUILTEN** — May I suggest you do? Okay, we are having an inquiry into the whole box and dice of Workcover and I think it may be in your interest to contact them directly and even make a submission on the problems you are having in various areas of your organisation.

**Ms KARIBIAN** — Thank you.

**The CHAIRMAN** — We are just about out of time here. Have we given you an opportunity to get through all of your submissions?

**Ms BALSHAW** — If I could just raise another issue about the Workcover system and how it impacts, and that is that they are influenced by the way disputed claims are handled by the system as well. There seems to be a bias towards the employee in terms of the way disputed claims are handled so it is very difficult to get any action when the employee doesn't seem to be carrying out his or her part of the bargain. For example the act states if the employee does not do this then this will happen; if the employee doesn't carry out procedures about going back to work, payments will stop and so on. It is very difficult to get that sort of thing to happen.

Therefore if you can't get that sort of thing to happen and you continue to pick up extra costs associated with the bias towards the employee, it is like the employer often seems to be perceived, for example at conciliation, as bad guy. We know some of them are, but even the employer who has done everything possible seems to be hamstrung by the fact that there is this focus on, 'You are the employer; we will bend over backward towards the employee'. If you bend over backwards towards the employees who are not doing their share, you the employer are continuing to bear the financial costs of that.

**Ms KARIBIAN** — Which then increases the premium.

**Mr McQUILTEN** — That is another reason to contact Workcover.

**Mrs COOTE** — We have heard that sort of thing about the cultural issue to which Mr Best was alluding before.

**Ms BALSHAW** — Yes, it is a real culture about how the system operates.

**Mr BEST** — Are there occasions when the insurance company has said, 'We will pay this out', and you have not had the opportunity to have your day in court or to test the validity of the evidence that the employee is providing to the insurance company? I do not want individual cases.

**Ms KARIBIAN** — Yes. We have felt on many occasions that the seat has been pulled from under us.

**Mr McQUILTEN** — That is an insurance company matter, not a matter for the Workcover Authority.

**Ms BALSHAW** — The insurance company says, 'You should pay so and so'. You know — 'Pay it!'.

**The CHAIRMAN** — Is that all?

**Ms BALSHAW** — Yes, thank you.

**The CHAIRMAN** — We want to thank you for coming along today. Yooralla does a fantastic job and we wish you well in your work. We will send you a copy of the Hansard record of our discussions for you to see if we got it right. Thank you both very much for your time today.

**Committee adjourned.**