

CORRECTED VERSION

ECONOMIC DEVELOPMENT COMMITTEE

Inquiry into Workcover premiums for 2000–01

Warragul – 19 February 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 C. Buckingham, President, Moe Development Group.

Mr BUCKINGHAM — I wanted to talk principally about my own business, the business I work in, in relation to Workcover rather than the experience of Moe businesses in general. As a company we have no objection to the common-law rights of workers.

Mrs COOTE — What sort of company is it?

Mr BUCKINGHAM — It is a job network company. It is a private company that employs about 45 people in Gippsland and the Goulburn Valley. It pays a significant Workcover premium — I think in the past financial year it was close to \$13 000 or \$14 000 — and it has increased dramatically since the changes in the Workcover act and the Workcover premiums. What that change is I cannot tell the committee, but I can say that it has increased significantly. In principle we have no objection to workers having the right of recourse, but we object in the sense that we as a company never made a Workcover claim and yet our premium has gone up dramatically in the past 6 to 12 months.

The CHAIRMAN — The committee has heard evidence that one of the reasons for or contributing factors to some of these businesses going out of business was the effect of Workcover.

Mr BUCKINGHAM — Yes, it was one of the contributing factors, although not quite as significant as the GST. Most people understand why Workcover is paid, so in some way there is benefit to the employer — it is in effect an insurance premium — but it makes it harder for small business to do business.

Mr BEST — Do you understand how the Victorian Workcover Authority calculated your increase?

Mr BUCKINGHAM — No.

Mr BEST — Have you sought any explanation from your insurance company?

Mr BUCKINGHAM — Not at this stage. We have been slugged with an increase just as everybody else has been.

Mr BEST — But as a business operator it is now probably four or five months since you received notification of that increase.

Mr BUCKINGHAM — Yes, and we have paid it.

Mr BEST — Did you pay it without questioning the increase?

Mr BUCKINGHAM — We talk to the accountants and we read the newspapers. What we are getting is that everybody is paying more for Workcover. I have not heard of anybody paying less in the past 6 to 12 months. Have you?

Mr BEST — Yes. Do you realise that Workcover premium was to rise by only 17 per cent for the restoration of common-law rights and the GST component?

Mr BUCKINGHAM — Only 17 per cent?

Mr BEST — Yes.

Mr BUCKINGHAM — I would suggest that is a reasonably significant increase. We are still being slugged. Maybe it is because our payroll has also increased dramatically at the same time. It is still a significant cost of doing business.

Mr THEOPHANOUS — I know you have said it is a significant cost. Without having the details of your particular claim it is very difficult for the committee to judge. Do you have any problem with the committee asking the Workcover authority for those details so we can have a look at them?

Mr BUCKINGHAM — No.

Mr THEOPHANOUS — It seems to me that, as has already been said, your increase should be 15 per cent for common law and 2 per cent for the GST. If you have had no claims, any other increase would relate to increases in your payroll and nothing else. Do you think it is a reasonable thing to have an increase of 15 per cent for the restoration of common law, given that your company supports common law?

Mr BUCKINGHAM — I think we can talk specifics and various things, but we are talking about a series of factors that are really impeding us in doing business. I do not begrudge workers common-law right to pursue common-law actions, but all this is added to the other costs of GST, payroll tax and Workcover. Ours business is a labour-intensive business — and if we had more money we would employ more people.

Mr THEOPHANOUS — Are you aware that Victoria has the lowest rate of Workcover of any Australian state?

Mr BUCKINGHAM — No.

Mrs COOTE — I refer to your role in the Moe Development Group with a view to exploring the Workcover issue. Many of the businesses that your group has dealt with had major concerns with the increases in their premiums, is that right?

Mr BUCKINGHAM — Only two businesses have approached me about the increase in Workcover premiums. That flies in the face of the proportion of businesses that have approached me with GST complaints. Perhaps that is because GST is a hot topic and Workcover seems to be a peripheral issue.

Mrs COOTE — Have you heard what the rate of increase has been for those people who have spoken with you?

Mr BUCKINGHAM — There was a printer in Moe a while ago. I am happy to give the committee the details so it can pursue the specifics.

Mrs COOTE — What would be the impact on them and the Moe Development Group if the premiums in this area increased again at the same rate?

Mr BUCKINGHAM — There would probably be an increase in the level of frustration of the business community in the Moe region.

Ms DARVENIZA — Are you aware that 35 per cent of businesses had no increase in their premiums, or in fact had a decrease in premiums?

Mr BUCKINGHAM — No.

Ms DARVENIZA — Do you support an experience rating system where the businesses that have more accidents pay more in premiums and those that have fewer accidents pay less?

Mr BUCKINGHAM — I guess, as a business that has had no reported accidents under Workcover, I would say yes.

The CHAIRMAN — Thank you for coming along to speak with the committee today. You will receive a copy of the transcript, to which you may make any necessary alterations.

Witness withdrew.

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Witness

Ms K. Elliott, Mawarra Centre.

Ms ELLIOTT — Mawarra is a community service industry classification, and this year Mawarra received a 46 per cent increase in the Workcover premium. Internal factors that would have influenced that increase included the appointment of a manager at the supported employment services, certification of agreements for staff at Mawarra and increases under awards. However, the industry classification went from 2.7 per cent to 3.26 per cent. We have a cap on that at the moment, so we can expect an increase next year as well. That is really not anything to be terribly thrilled about.

I was very concerned about the way the whole thing was undertaken. There was a lack of information provided to agencies. The timing was absolutely atrocious. We were scrambling around trying to protest and all the rest of it, but there was just so much happening at the time. Even now, to try to understand the Workcover process and how it is calculated is almost impossible.

The state government — I think around Christmas — agreed that it would contribute to the funding of the restoration of common-law claims. At this stage I have been unable to obtain a breakdown of the money that was sent to Mawarra to cover that because included in that money was the increase in salary payments that were due, the Workcover premium increase and maybe — this is sort of being a little hesitant — some productivity savings that had to be applied.

So, at this stage we are still waiting to find out how much that subsidy contributed to this increase.

The CHAIRMAN — So you have a whack of money with no definition as to what those funds are for?

Ms ELLIOTT — Yes, there was no breakdown. Although there has been some funding, I cannot tell you how much. The area in which Mawarra operates is high risk — there is no doubt about it. Manual handling, physical assault and stress claims are the main ones we have. Mawarra has an excellent claims history, mainly because our committee of management has appointed additional staff, at its own cost, to manage those situations. The key to all this is to have good skilled staff and good occupational health and safety practices, all of which cost money.

The industry levy really gives no recognition for the good practice. At the beginning of July we had a claims history of \$18 863. I understand from talking to others that that is not very much in the scheme of things, but I was horrified at that. I had discussions with the insurer and that was reduced to zero, just like that. I do not know what impact that had on our premium. I have not seen an impact, but the calculation of the premium is based on claims history, they say.

Also, the fact that we have zero in our claims history and others are paying much higher premiums because of their poorer histories, for one reason or another we are being dragged up with them to that higher level of insurance and we cannot do very much about it.

The CHAIRMAN — What amount did the premium go up this year?

Ms ELLIOTT — It went up by \$7796 net, that is minus GST.

The CHAIRMAN — From what to what?

Ms ELLIOTT — We were \$16 700 and moved up to \$26 900 — that is with the GST included.

The CHAIRMAN — Did the organisation find it hard to pay that additional cost?

Ms ELLIOTT — Yes. We have had to bring across money from our auxiliaries that fundraise for us. Those funds are usually used for innovative projects, vehicle replacements and things like that, where you are having to support a subsidy; we are now using that money to fund these recurrent expenses and maintain our cash flow.

The CHAIRMAN — Is it fair to say that service suffered as a result of the increase?

Ms ELLIOTT — Most definitely, stress wise and otherwise; but most definitely financially. We are finding the maintaining of that cash flow very difficult. At the end of last year we did not renew a position in the direct care area at the centre, mainly because of our budget situation.

Granted, we have more staff than other centres, and that is because of the type of clientele to whom we are

providing service, but once you start reducing staff and you are unable to implement the strategies needed to manage some of those difficult situations, that is when things start to go wrong.

The CHAIRMAN — So if you try to keep the premiums down at one end there is a potential for higher claims at the other?

Ms ELLIOTT — Yes.

Mrs COOTE — You said before that you can expect an increase again next year. You have already said you did not renew one position. Will that impact dramatically on the people you will keep as employees next year?

Ms ELLIOTT — Do you mean of the client group?

Mrs COOTE — No, the staff.

Ms ELLIOTT — It is difficult to say. Our committee of management is very aware of the need to resource staff appropriately; I would think we would probably look to further fundraising because if you reduce the level of staff — and we are down to rock bottom now — there is no doubt you will run into trouble.

Mrs COOTE — Will you ultimately have to reduce the number of clients you can take?

Ms ELLIOTT — We would not take additional clients.

Mr THEOPHANOUS — You mentioned earlier that you had a 46 per cent increase in premium but you have also had an increase in your payroll by one person, so some of that increase is accounted for by that.

Ms ELLIOTT — Yes, definitely.

Mr THEOPHANOUS — But really the increase for common law in Workcover is 15 per cent. Are you aware that all the additional increased amount beyond that is really related to applying the previous government's system of experience rating, where the rate for the whole sector — in your case, the community support services sector — gets increased irrespective of whether there are accidents in your workplace? Would you support some method whereby the increases did not impact so much on small businesses like yours?

Ms ELLIOTT — One of the problems in answering that question is that it is very difficult to understand the actual workings of the Victorian Workcover Authority and the way it calculates its premiums and the like. I do not know. Salary on-costs play a very big part in the budget at Mawarra and the funding system that we are under also plays a part. I just do not have the expertise to make the comment. I just know that we are being dragged up with the general industry, despite our — —

Mr THEOPHANOUS — As you have said, you have been dragged up, not because there have been accidents in your workplace but because there have been accidents in the same community sector.

Ms ELLIOTT — That is right.

Mr THEOPHANOUS — What I hear you saying is that you would prefer some different system where your own experience was taken into account much more.

Ms ELLIOTT — I believe people have to have incentives for their good practices. Occupational health and safety takes a lot of time. We have a small staff overall that has to coordinate all of this, but it does take a lot of time and money. You need to have incentive to continue, to make it worth your while. Our staff is the most valuable resource we have. We are so dependent on good staff.

Mr THEOPHANOUS — Thank you for your positive suggestion.

Mr BEST — You said your centre is a not-for-profit organisation, is that correct?

Ms ELLIOTT — That is right.

Mr BEST — And do you receive both federal and state government funding?

Ms ELLIOTT — That is right.

Mr BEST — And the state government has made a commitment that you will receive an offset payment — —

Ms ELLIOTT — Contribution.

Mr BEST — For the increase you have incurred in Workcover?

Ms ELLIOTT — The common-law claims part, yes.

Mr BEST — That is 15 per cent.

Ms ELLIOTT — Yes, that is 15 per cent. We do not know what we are getting for that or anything at this point.

Mr BEST — And you have not seen it at all?

Ms ELLIOTT — I believe I have got the money, but I have not seen a breakdown.

Mr BEST — That is interesting.

Ms ELLIOTT — It happens.

Mr BEST — Are you aware that you will probably have another Workcover premium increase in the vicinity of some \$6000 or \$7000 next year?

Ms ELLIOTT — I had not got that far.

Mr BEST — I think you said the industry rate is 2.7 per cent, and it is going up to 3.26 per cent, so it is a half a percent increase.

Ms ELLIOTT — Yes.

Mr THEOPHANOUS — That is already gone.

Ms ELLIOTT — But it has been capped at 20 per cent.

Mr BEST — And you are getting a 20 per cent increase again next year.

Ms ELLIOTT — No, we are not getting a 20 per cent. The increase to the 3.27 has been recommended, but we have been increased only up to 20 per cent of that increase, and the additional part will be next year.

Mr BEST — What impact will that have on your programs?

Ms ELLIOTT — As I said before, we will just have to find the extra money. We will not be taking additional clients, but we will certainly have to find the money. At this point we have the minimum number of staff with the various groups that we can afford. We have programs in different locations around the town, so we have people isolated, and it all goes on.

Mr BEST — So, your centre will not be taking on any extra clients next year?

Ms ELLIOTT — Unless we lose clients by attrition.

Ms DARVENIZA — Do you have any difficulty with the committee getting some information from the Victorian Workcover Authority to find out exactly why your premium has gone up to that extent?

Ms ELLIOTT — Not at all. I will just leave the handouts for you.

The CHAIRMAN — Thank you very much for your time. We will send you a copy of the Hansard transcript and if we have anything wrong, you can let us know.

Witness withdrew.

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Witnesses

Mr T. Brorsen; and
Ms L. Wright, Tabro Meats.

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

I invite you to make an opening statement, and then we will ask questions in the 15 minutes we have?

Mr BRORSEN — Probably 98 per cent of our meat goes overseas. We are competing on world markets, of course, with a lot of countries that do not have a Workcover burden as we have in Australia. We employ, in round figures — it varies a bit — about 150 people. Obviously the Workcover premiums are a considerable cost to the industry.

The CHAIRMAN — What are the dollar figures? Can you recall how much it has gone up, in dollars and percentage?

Ms WRIGHT — The 1999–2000 premium came in at \$704 705, which was approximately 18 per cent of our remuneration. This year, even though our 1999–2000 claims costs were lower, our initial premium has come in at \$702 660 plus \$119 452, which is your government's 17 per cent across the board, plus \$82 211 GST, so it has come in at around \$800 000, which is 19.57 per cent of our gross remuneration that we have estimated for this year.

The CHAIRMAN — What percentage increase is that?

Ms WRIGHT — So far it is an increase of about 1.3 per cent, but that will not be the final figure. When it comes in at the end of the year it will go up a lot more than that.

The CHAIRMAN — What is the effect on your business of such a substantial increase in Workcover?

Ms WRIGHT — It is a huge effect. We find it very difficult. We pay it on a monthly basis of \$74 000 a month. That is a lot of money to find every month just towards Workcover.

The CHAIRMAN — Does it come off the bottom line, or does it mean you cannot expand? What are the implications of this?

Mr BRORSEN — It means we have to really try and cut labour. We did cut six jobs when we got the increase in Workcover, because with some of it it was not worth our while doing it any more. We are finding it very hard looking at getting rid of more in certain areas. If it is not profitable, it will cost jobs because there is no fat there to trim. I set a target to try to offset the increase in Workcover. It simply has to come off jobs; there is no other way it can be paid for.

Mr BEST — Are you able to get increased productivity out of the remaining work force?

Mr BRORSEN — If we don't, we won't survive. It is simple mathematics.

Mr BEST — Do the remaining employees understand that?

Mr BRORSEN — Yes, I think they do. There can be an operation where the people have been involved in saving certain products, where it is simply not worth doing that; it is cheaper to throw it out and get rid of people.

Mr BEST — Recently Frews of Kyneton was reported in the media as saying that because of the impost of the increased Workcover and the burden that the levy places on its business the company was considering just closing the factory; is that something your company has looked at?

Mr BRORSEN — I was about to jump off the West Gate Bridge when I got the bill because I thought it was an impossible task to jump the hurdle. Frews is competing on the domestic market; we are competing with the Americans, including South America, and it used to be with the Europeans which is no longer the fact. They have not got all the costs we have. It is not the only cost the industry has. In Australia we have to pay for the funding of Ausmeat, the vets and inspectors, AQIS, and a registration fee. In New Zealand they do not pay for the vets, and registration fees are borne by the government. We are to compete on the world market and Workcover is just another burden.

Mr THEOPHANOUS — You gave some figures before. Did you have an increase in your payroll between 1999 and 2000?

Ms WRIGHT — We have been doing retraining, so we take that into consideration in our Workcover. In 1999–2000, the actual gross wages were \$4.3 million, plus \$265 000 super, but we did training, so for 1999–2000 it came in at \$3.873 million. This year first off — because we were going to be expanding and doing things — I put my estimated wages and superannuation in at \$5.2 million. That is when we got the first bill for just under \$1 million for our Workcover and that just was unreasonable; we just could not do it. We thought, ‘We’ll put people off; we won’t do it’. I redid the wages at \$4.2 million. So the wages and superannuation this year have been put in at \$4.2 million.

Mr THEOPHANOUS — Compared to \$3.8 million last year?

Ms WRIGHT — Yes, so it is up a little bit on that.

Mr THEOPHANOUS — Could I suggest to you that in fact your Workcover premiums have actually come down?

Ms WRIGHT — They have, but they put that \$119 000 on it more for the government.

Mr THEOPHANOUS — Yes, but the fact is you have had an increase from \$3.8 million to \$4.2 million in your payroll, and even despite that increase you have \$702 000 this year compared with \$704 000 last year. Then there is the \$119 000 on top of that.

I have a further question for Mr Brorsen. You have said that your average payment is roughly 18 per cent of your payroll.

Ms WRIGHT — It was last year; that is exactly what was last year.

Mr THEOPHANOUS — Your average industry rate is 8.4 per cent. You must be having a hell of a lot of accidents up there in order to get your industry rate from the average of 8.4 up to 18 per cent. Am I correct in that?

Ms WRIGHT — No. We have had two big payout claims; that is all we have had in the whole time I have been doing this job, which is six years. We have had two claims that were big payouts. The others were all cut fingers and stuff like that. You do get a few long-term people.

Mr THEOPHANOUS — Yes, but what I am getting at is that compared with the rest of your industry you are not doing as well in your claims. I would suggest that the way for you to get down from 18 per cent to the industry average of 8 per cent is to put in a proper regime to stop accidents.

Ms WRIGHT — We do have a proper one. We have a very strong safety committee, with an occupational health and safety officer, who is very good. But we cannot fight people who go for bad backs, who have got a spine that was bad before they came to work for us but who then say the job that they do for us has caused an irritation of that, and they get a \$320 000 payout. How can you fight that? You can’t.

Mr THEOPHANOUS — Obviously the rest of your industry does better than you do because they pay only 8 per cent.

Ms WRIGHT — I would be surprised if any abattoir has an 8 per cent Workcover rate. I would be very surprised.

Mr BRORSEN — The industry rate is also taking into consideration the corner butcher shop, which is a one-man outfit. Are they in it, or is this on abattoirs only?

Mr THEOPHANOUS — I do not know who is taken into account.

Mr BRORSEN — This is taking into account the shop butchers.

Mr THEOPHANOUS — You are under the category of meat products manufacturing. It does not take into account butcher shops. All I am saying is that the rest of the meat products manufacturing category seems to be able to come in on average at 8 per cent. I suggest to you that the only way we could help you would be to make the people who are not having accidents pay more so you could pay less. Would you support that?

Mr BRORSEN — Maybe we should not be in business; maybe we should just chuck it in!

Mr THEOPHANOUS — I think you should look at your occupational health and safety.

Ms WRIGHT — We do health and safety. I do not really think you understand. You need to get only two big payouts, like we did. That is all it took. Of those, one had a degenerative disease that he was considered to have irritated at our place and so he got \$320 000.

Mr THEOPHANOUS — But those two big payouts might be more than what you have paid in premiums for a whole year.

Ms WRIGHT — No, they were not.

Mr THEOPHANOUS — You said one was \$300 000.

Ms WRIGHT — Yes, and one was \$250 000, so we pay that.

Mr BRORSEN — That is over a number of years. I think we added it up a couple of years ago and — —

Mr THEOPHANOUS — Would you be interested in having the Victorian Workcover Authority assist you with your occupational health and safety?

Ms WRIGHT — We have the Workcover authority out to the place — it has come out; QBE Insurance has just done a safety map audit. We go through all the procedures. We have a very good quality assurance officer who knows all the procedures and he writes them all down. We do what we can.

Mrs COOTE — With the issue of the people who perhaps have some problem before they come to you, do you have a rigorous medical examination for people to take before they come to you, and is that something you are aiming to do?

Ms WRIGHT — No, we do not actually do that, but maybe we will have to go down that track.

Mrs COOTE — You employ about 250 people, and it would be a tragedy if the company closed up because of the premiums and because of the industry you are in. I think Mr Best spoke earlier about Frews, although that example might be the average. Can you explain to me in better detail what your occupational health and safety measures are?

Ms WRIGHT — We have our single occupational health and safety officer for the whole plant; then we have an occupational health and safety representative in each department around the place. We have a committee; we meet every month and go through all the issues. We have our quality assurance officer who is the one in charge, and he has a very broad knowledge of health and safety. Our union representative is on the committee as well.

If anyone brings up in a meeting something that needs to be addressed, it is all addressed before the next meeting. So we are very strong in occupational health and safety. As I said, recently QBE has been down. The lady came down and did one of those safety map things with Mr Reinbeck, our quality assurance officer, and Mr Ray Butler, our occupational health and safety officer.

Mrs COOTE — Did you have to make many changes after that?

Ms WRIGHT — She has not submitted her report yet. She came down only a couple of weeks ago and I am waiting on her report.

Ms DARVENIZA — What was your premium in 1998–99?

Ms WRIGHT — Yes, it was \$433 251.

Ms DARVENIZA — So it went up significantly under the previous government's scheme, did it not?

Ms WRIGHT — Yes, it went up that year because we had that one claim come in for the person with the bad back; it happened that year.

Ms DARVENIZA — In fact, it almost doubled. You have given us quite a lot of information about your Workcover premiums and your details. It would be helpful for the committee to be able to have a look at the information that Workcover has so it gets a real handle on what you have paid and why. Do you have any difficulty

with the committee having a look at that information from Workcover?

Ms WRIGHT — No.

Mr CRAIGE — Your business is not an abattoir, but meat processing, so it is boning — —

Mr BRORSEN — It is abattoir, boning — —

Mr CRAIGE — Where are the majority of people engaged — boning?

Ms WRIGHT — It is about half and half.

Mr CRAIGE — Boning is a task which requires the use, I assume, of a knife.

Mr BRORSEN — And muscle.

Mr CRAIGE — Therefore, it is an industry in which you require a great deal of manual work by individuals using things like knives to cut the meat?

Mr BRORSEN — Yes.

Mr CRAIGE — So there will be, in an industry like yours, those risks associated with the task?

Mr BRORSEN — We do provide mesh gloves and mesh aprons.

Mr CRAIGE — Do they wear the gloves all the time?

Ms WRIGHT — They have to. It is company policy. The only ones allowed not to wear the gloves are very old boners, who have boning since the year dot — they do not cut themselves anyway. There are about four of them. But everyone else has to wear gloves and aprons.

Mr CRAIGE — In view of your high premium this year, introduced by the current Labor government —

Ms DARVENIZA — As opposed to the big increase in premium under the previous government!

Mr CRAIGE — It would help if I could ask my question uninterrupted.

Can you explain what plans you have made for the future? Is there any chance for development in the industry for the future, and will the premium have an impact?

Mr BRORSEN — It certainly will have a big impact. I had plans to introduce two shifts of three days on, four days off, and working a longer day and six days a week, which would give more production, of course, and it would more or less include doubling the work force. At the moment I think this is not really the right climate to do it because it also involves a lot of training and it is not easy to get people to work in the meat industry. That was the plan; it will not happen at the moment.

Mr CRAIGE — One of the reasons being Workcover?

Mr BRORSEN — It is one of the reasons, yes. It certainly has a big bearing on it. Last year our claims history actually got better and the payout this year has got worse, so I think we are in a no-win situation.

The CHAIRMAN — Thank you very much for coming along. We will send to you a copy of the Hansard transcript and you can submit any alterations you think need to be made to it.

Witnesses withdrew.

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Witnesses

Mr D. Donaldson; and
Mr P. Edwards, Liftmaster Strong Arm Australia.

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

I invite you to make a submission to us, and then we will ask questions in the 15 minutes we have.

Mr DONALDSON — We are a very small business in Drouin. We officially employ one person and the other people are over 65 years and partners in the business. We have employed up to seven people. We received an account this year for Workcover. Our previous account was \$385 and this year we received an account for \$503.92. There is no correspondence to say why it was increased. There is no letter to explain, or any extras.

The CHAIRMAN — Did you wish to make a statement, Mr Edwards?

Mr EDWARDS — This is strictly to the terms of reference and nothing else that impinges on it outside them?

The CHAIRMAN — Yes. We have to report to the Parliament on those two terms of reference, so we try to keep to them as best we can.

Mr EDWARDS — All I can say, supporting Darryl, is that small business is struggling, and any extra impost, specifically in this area — and any other area — just makes it that much more difficult to employ people. An extra person was put on but he had to be put off again because there was not the wherewithal to keep him on. The smaller the impost on business the easier it is to keep people in employment. It is a factor that does impinge directly on that. It is only small but it is the last straw.

Mrs COOTE — How does one person make all those things?

Mr DONALDSON — As I said, other people are employed. They are over 65, so they are not on the Workcover premiums; they are not eligible because you do not pay Workcover for people over 65.

Mrs COOTE — If Workcover were to go up again, given the evidence we have heard that small business is struggling at this stage, and you were to have an increase in Workcover in the same percentage as you have had this year, would that cause you to rethink the long-term viability of the business?

Mr DONALDSON — Absolutely. We could probably employ two or three more people right at this stage, but at the moment we are just hanging off. There are other reasons; there are things going on in the business sector that Phil and I are both aware of, but we cannot mention them today, of course.

Mr THEOPHANOUS — You have had an increase of \$125 in your Workcover premiums. You are not seriously telling this committee that if you did not have that \$125 increase you would be putting on more staff?

Mr DONALDSON — Where is it going to end? That is my argument. I did not get a letter, I do not know what is happening, and I get increases. Why? There have been no claims, nothing.

Mr THEOPHANOUS — Fair enough, you can complain about the increase, but don't tell us that if you did not have the \$125 increase that you would have been putting on more staff.

Mr DONALDSON — What is going to happen? What is the next step?

Mr THEOPHANOUS — I'll tell you what: I'll give you the \$125 and you put on two more people; how is that?

Mr DONALDSON — Okay.

Mr CRAIGE — Let's get back to some civility. Can you just explain a bit about your company but, more importantly, indicate how many over 65s you have in your factory or warehouse? I cannot get a concept of what you actually do, so could you tell us?

Mr DONALDSON — We make ergonomic equipment. Over the past 12 years we have designed and built specifically trolleys and lifting equipment that actually helps people in the workplace. With the machines we have designed and built ourselves we have put back into the workplace hundreds of people who have had injuries to their backs.

Mr CRAIGE — And your market is in Australia?

Mr DONALDSON — Yes, all over Australia. We do sell to New Zealand, but very small numbers.

Mr CRAIGE — How many people over 65 do you have?

Mr DONALDSON — Two, plus me.

Mr CRAIGE — Do you work on the floor?

Mr DONALDSON — No, not really.

Ms DARVENIZA — What happens to the employees over 65 if they have an accident at work if they are not covered by Workcover? Who pays them?

Mr DONALDSON — My understanding of the act is that there is no premium. That is all I know.

Mr EDWARDS — I do not work in the workshop. I do design on a part-time basis. I try to do approximately a couple of working days a week. I do computer design and so forth; whatever needs to be designed, I design for the workshop to build.

The CHAIRMAN — Thank you very much for coming along; we appreciate the time you have given to us. We will send to you a copy of the Hansard transcript of our discussion. You can submit any alterations you think appropriate. We wish you well.

Witnesses withdrew.

CORRECTED VERSION

ECONOMIC DEVELOPMENT COMMITTEE

Inquiry into Workcover premiums for 2000–01

Warragul – 19 February 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 L. Jensen, Proprietor, Tarago River Cheese Pty Ltd.

The CHAIRMAN — Welcome, Mr Jensen. I understand you will be talking to the committee about both Workcover and the GST. It is necessary to split those discussions into two sections because they relate to separate references of the committee. We shall discuss Workcover first.

I advise all present at the hearing that all evidence taken by this committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act.

I invite you to talk to the committee about Workcover, after which members may ask some questions. We will then proceed to the discussion on the GST.

Mr JENSEN — We have a cheese manufacturing company that is approximately 18 years old. We have a farming operation as well that we purchased in June or July last year. We have had two major claims, and I suppose, just looking through our Workcover history, there have been some substantial increases since 1996. In that year the increase was 2.11 per cent; in 1997, it was 2.24 per cent; in 1998, 2.89 per cent; in 1999, per cent 3.53; and this year, including GST, 5.06 per cent — if you take the GST out of that, it is 4.6 per cent. That represents an increase of 21.7 per cent, excluding GST, for each of those four years, which is well above the indicated 20 per cent cap supposedly in place to recover premiums.

The other reason I am here today is that I find it difficult, or impossible, to calculate our Workcover requirements. I think that is a huge issue. I presume you are all aware of the Workcover information brochure that is available. If anybody can work out on those back four pages how to calculate the Workcover premium, I would like them to explain it to me today. There are so many factors and issues that it is not transparent. The Workcover authority is a very difficult organisation to talk to.

We have had two major claims. I think working through Workcover issues probably consumes about a third of my senior account person's time. As I said, in our 18-year history we have had two major claims. They are both on the books at present, and they are substantial claims. One of them has just been settled; the other is still in progress.

Mrs COOTE — How many people do you employ?

Mr JENSEN — We currently employ the equivalent of 27 full-time people in that part of the business, but we have 29 people on the books.

Mr BEST — Is that for the cheese factory?

Mr JENSEN — Yes.

Mr CRAIGE — Does that not include those on the farm?

Mr JENSEN — There are a further 11 on the farm.

Mr CRAIGE — Is the farm a separate enterprise?

Mr JENSEN — It will be shortly. It is currently traded in the cheese factory books. We are currently undergoing consolidation. Two cheese factory businesses are being consolidated here, and then there is the farm business, so we have to deduct that out to give you a clearer picture of our operations.

Mr BEST — Does the Workcover authority currently calculate the Workcover premium at the same rate for all employees?

Mr JENSEN — The on-farm situation is different, but the cheese factory is at the same rate.

Mr BEST — So all your Workcover premium remuneration calculation is done at the rate of 5.6 per cent?

Mr JENSEN — No, because our history is prior to the 5.06. We are an older company. We have come forward on the historic rate. There was a period of time that we went through this equalisation. We were well below in 1992. I think they started creeping it up — I think it had a special name — but our premium doubled at that time. Because we had had no claims we felt it was unfair. We are not on a rate of 5.06 per cent. I mentioned the figure of 5.06 per cent as the figure at which we are currently rated, this year. All employees are on that.

Mr BEST — Are they all on that figure?

Mr JENSEN — Yes.

Mr BEST — So, is there no differentiation or consideration of the fact that some employees are in a more exposed working environment — that is, that they are more exposed to injury? Are the clerical staff and everybody else on the same rate?

Mr JENSEN — Everybody is on that rate. In some respects I would not be making a case about that, because our clerical staff need to walk through the business. They are in the business from time to time, so I suppose they are exposed to those hazards in some respects, although to a lesser extent.

Mr BEST — I would like to know about your relationship with your insurance company. One thing the committee has found during this inquiry is that the performance of insurance companies varies enormously. Could you give the committee some indication of the relationship you have with your insurance company?

Mr JENSEN — I would hate to be cruel to it, but the office we deal with at Moe uses a lot of juniors, and I consider it is generally fairly incompetent. We have had a lot of trouble when asking how our premium is calculated. We have done that on a number of occasions. They say it can be done, but they cannot do it. We have some issues with the claims we have had: we have had a lot of trouble getting the insurance agents to the meeting table and getting the process completed at the right time.

I feel sorry for them — they have a huge task. But of all the authorities we have dealt with they would be the hardest and most incompetent.

Mr BEST — What is the name of your agent?

Mr JENSEN — MMI.

Mr THEOPHANOUS — From what you have told the committee it seems you have had an increase in your premium of about 20 per cent each year for the past four years.

Mr JENSEN — Yes.

Mr THEOPHANOUS — So really there is a continuing of the increase that the previous government introduced in Workcover, not something that has changed this year — it is an ongoing increase you have experienced over four years? Is that correct?

Mr JENSEN — Yes, that is correct, but the biggest change is this year, with a percentage increase of 118 per cent, excluding GST, over the previous year.

Mr THEOPHANOUS — I am sorry, I thought you said it had gone from 3.93 to 4.6.

The CHAIRMAN — From 3.53 to 5.06.

Mr JENSEN — No, without GST. Sorry.

Mr THEOPHANOUS — It went from 3.93, is that correct?

Mr JENSEN — From 3.53 to 4.6.

Mr THEOPHANOUS — That's hardly 118 per cent.

Mr JENSEN — Sorry, it is not 118 per cent.

Mr THEOPHANOUS — It is more like 20 per cent.

Mr JENSEN — Closer to 30 per cent.

Mr THEOPHANOUS — In fact, it is not much different from four years before. You said it has been capped at 20 per cent, and that cap would have also applied this year, with the difference that if there was an additional increase it would have been the common law and the GST. Really it is as a result of the attempt to bring up some of the small businesses to the level of the average for the industry. Your average for the industry is 3.95 per cent in cheese manufacturing, which is your 27 people.

Mr CRAIGE — Twenty-nine.

Mr JENSEN — It is 27 full-time equivalents, but 29 people.

Mr THEOPHANOUS — But 3.95 per cent is the average for the industry, and 5.78 for the other 11 people.

Mr JENSEN — Is the 3.95 with or without GST?

Mr THEOPHANOUS — It is without. So you are actually fairly close to the industry average. Do you accept that?

Mr JENSEN — Yes, we are fairly close.

Mrs COOTE — Can you tell me the nature of the claims you have had and explain in what part of the cheese-making process they are likely to be made?

Mr JENNINGS — There have been back injuries. One person who was lifting cheese fell from a ladder which was two steps high. She has twisted her back and that claim has been settled. I have to say we do not really know how the other claim happened. It was one of those evolution claims. We do not believe it was necessarily a genuine claim. That person is two years into that claim at present.

Mrs COOTE — Do you have a health and safety support person, or how do you operate?

Mr JENNINGS — We have a committee which I must say has come and gone a bit as people have moved in and out. Currently we have a consultant looking at that. The consultant worked for us for some time and he is now setting up a program. Previously, in 1998, we had a consultant come in and go through a lot of the issues we had. Between 1999 and 2000 we had a factory manager who has left us and he was running a program at that time.

The CHAIRMAN — Would you support the idea of no-claim bonuses, where if your record shows you have not any claims some bonus was provided to you?

Mr JENSEN — Yes, I do not have a problem with that.

Mr THEOPHANOUS — That would be going back to the previous system, Mr Chairman.

Mr CRAIGE — You would be aware from the publicity that the Labor government has a deal with the trade union movement to introduce common law into Workcover?

Mr JENSEN — Yes.

Mr CRAIGE — Do you believe with the reintroduction of common law the mentality will be reintroduced that it is a bit like a Tattsлото payout with workers compensation?

Mr JENSEN — I think the problem that Workcover has is that it has the potential to blow its head off, yes.

Mr CRAIGE — Because of common law?

Mr JENSEN — Common law is a big part of the issue. The way the operation runs is also part of the issue. You are not talking to an expert here. I do not claim to really understand except that I think one of the biggest issues facing us as a business trying to grow — and I must say we struggle a fair bit with that — is the risk-and-reward issue. This puts enormous risk on us in trying to grow. Currently we are trying to shrink our cheese-making business. We would rather be employing fewer people than more people. It is forcing everybody to tighten up their operations, but also over a long time more people will question why we are taking an enormous risk all the time.

One of the biggest problems we have is the way the Workcover philosophy is being preached. It all comes back to this little duck here — that is, me. I think the responsibility needs to be shared. Certainly there is not the attitude of sharing among the people. If we were to change around our promotion and advertising and help and support, we could all get through this. I am a believer that if somebody has been done wrong that person should be entitled to be

done right, but I do not think Workcover and the common law, the way it is set up currently and the way Workcover runs its program, do that properly.

Ms DARVENIZA — You would agree that part of the reason for your premium increase is due to your claims record?

Mr JENSEN — I would not know that, because I cannot work it out and we have not been able to confirm that, but I am certain that it is.

Ms DARVENIZA — It would probably be helpful to us if we were able to get some information from Workcover about how it has calculated your increase in premiums; do you have any difficulty with us contacting Workcover and getting the information?

Mr JENSEN — Not at all. Will that information be available to me? I am going to ask the same question.

Ms DARVENIZA — Have you asked Workcover for that information?

Mr JENSEN — We have asked at least twice over the past three years — I do not know because my accounts lady has done this — how it is calculating the premiums. We particularly want to know what cost the claims were going to be on our business. It has not come forth with that information.

Ms DARVENIZA — When did you last ask them?

Mr JENSEN — I do not know the answer to that.

Ms DARVENIZA — We will certainly ask them and I suggest you ask them again. Has your payroll gone up in the past 12 months? The reason I ask is that you talked about taking over the farming operation in fairly recent times and that is an extra 11 employees. Were those employees in last year's calculations for Workcover?

Mr JENSEN — No, they were not.

Ms DARVENIZA — So there has been a very significant increase in your remuneration in this year's calculation?

Mr JENSEN — No. One thing that affects the figures is that we have a number of the trainees, so the remuneration that is reported and the actual amount is quite different. If you would like me to run through those figures I can give you an indication. It has actually come down in the past year.

Ms DARVENIZA — So in the past year it has come down; it has not gone up?

Mr JENSEN — Correct; the reported remuneration and the actual remuneration have both gone down.

Ms DARVENIZA — You have talked about your concerns about common law. Would you agree that the reintroduction of common law puts employers in the position where they are more likely to look more carefully and closely at their occupational health and safety program and how that works in their particular business?

Mr JENSEN — I think all it does is make people like me question whether you should be in business. I do not think that it puts any more pressure on. We have fines of \$200 000 for this and that, and indications such as 'Go directly to jail for this'.

Ms DARVENIZA — Fines?

Mr JENSEN — Yes. I mean we have the potential of being fined for our actions. I think common law is just a lottery, as somebody mentioned earlier.

The CHAIRMAN — Thank you for giving us your time today; we appreciate your coming along. We will send you a copy of the Hansard transcript and you can submit any alterations that are suitable.

Witness withdrew.

CORRECTED VERSION

ECONOMIC DEVELOPMENT COMMITTEE

Inquiry into Workcover premiums for 2000–01

Warragul – 19 February 2001

Members

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Mr T. C. Theophanous

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

Staff

Executive Officer: Mr R. Willis

Witnesses

Mr D. Sharp, Radford Abattoirs; and
Mr R. Schaffer, National Meat Association.

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

Usually we have an opening statement made to us and then we ask some questions.

Mr SCHAFFER — I am here on behalf of the National Meat Association and the meat industry generally. I would like to begin by expressing our concerns about the pressure that the increases, particularly due to common law, in Workcover premiums have put on the industry as a whole. The industry has very slight margins and with tariff prices and all the other changes at the moment they are becoming even slighter. The industry as a whole has really come under pressure due to the increased costs of the Workcover system, particularly since the common-law premiums have gone up.

I would also hope the system could be simplified to the degree where everyone can understand it a bit easier and industry can actually understand what effect claims and other things have on their premium calculation, because I think the calculation at the moment is particularly complicated and a lot of people really do not understand how the system works. Therefore, it is very hard to see whether the changes in workplace safety affect the claims rate and, if so, how. Some small employers have very small claims but they come under the industry rate. They look at themselves and say, 'I've had no claims or minimal claims in the past X years; what benefit is there for me to try to improve my workplace when I'm hung up on the industry rate?'

When small businesses are hung up on an industry rate, they look at the minimal claims they have had in the past few years and ask, 'What benefit is there in my trying to improve my workplace when the premiums are tied to this industry rate?'. They are the two main concerns I have that I wanted to bring forward to the committee.

Mr SHARP — I shall make some comments on behalf of Robert Radford, who could not be here today. One of his concerns is that the industry itself is recognised as a major problem for industry claims — soft tissue injury claims, such as those for sprains and strains. We are currently revamping our floor. There is no incentive or feedback for the people who are outlaying sufficient dollars to try to improve these things. One of the other major concerns not only to Radford Abattoirs but also other processors, is that the claims themselves, the soft tissue injury claims, are hard to prove or disprove. That is not to say that a majority of them are fraudulent claims, but some are really hard to deal with. For us to put in place an investigation through our insurer involves another cost, with no guarantee that we will be found not responsible and that it could have happened somewhere else.

Employees have 30 days to report an injury to us. A lot of our workers are young people who participate in a lot of different sports. What is to say that they are not going to play some sport at the weekend and then come in to work, put up with it for a day and then make a claim? Getting something back from the premium is very hard because we operate on a tight margin, especially now.

Mr CRAIGE — How many people do you employ?

Mr SHARP — All up, between 40 and 50.

Mr CRAIGE — And is your business a slaughterhouse and boning room?

Mr SHARP — It is just an abattoir.

Mr CRAIGE — And beef and — —

Mr SHARP — Beef and small stock lambs, but you have the load-out dispatch as well, which requires a lot of physical work. We are trying to improve on that. We are doing all these things, but there are no incentives really for Robert Radford to carry on with that. It makes it hard. I know it will reduce the likelihood of injury, but the cost is a burden.

Ms DARVENIZA — What are your premiums this year?

Mr SHARP — The industry rate is 8.4 per cent and we are currently on 10.2 per cent.

The CHAIRMAN — What happened with the premium this year? Did it go up?

Mr SHARP — We have a pretty good system in place. Anybody injured at work takes a form to the

doctor. It is a light duties form. Rarely do we have anybody off work for longer than two days.

Mr SHARP — I am not 100 per cent sure how much, but I am pretty sure they have increased.

Ms DARVENIZA — Your claims have increased this year?

Mr SHARP — No, the premium has.

Ms DARVENIZA — But you do not know how much?

Mr SHARP — No, I could not be 100 per cent sure.

Ms DARVENIZA — Would you mind if the committee spoke to Workcover and got information from it about what your premiums are and why they have been struck at that level?

Mr SHARP — No problems at all.

Mr BEST — I am interested in the performance of general practitioners. In other areas that the committee has visited they have been referred to as 'Dr How Long'. Do you suffer the same problems here?

Mr SHARP — We do. I will give an example. In the case of an infection, because somebody works in an abattoirs it is just perceived that the abattoir is the cause of the infection. For us to investigate that, as I said before, involves a minimum cost of \$2000 because of the initial investigation problem.

Mr BEST — What sort of relationship do you have with your insurance company?

Mr SHARP — It is a fairly good relationship. We are hands on. A lot of managers do a lot of things in other areas as well in an attempt to keep it all going, trying to keep up with our insurers; ensuring they are rechecking previous claims is very hard to do, so you are basically relying on them 100 per cent to do the right thing by you.

Mr BEST — Where you have queried an injury or authenticity of an injury occurring at your workplace have you been able to get satisfaction from the insurance company on the evidence, or has the company just been prepared to pay the claim out?

Mr SHARP — In some cases, as to the first part, we are happy with what the insurance company does; in other cases, probably not. With the GPs, the certificate of capacity that is supposed to be filled in is rarely done as is stated on the certificate.

Mr THEOPHANOUS — I just point out to you that 10.2 per cent is a bit above the average for the industry, so the more you can do for occupational health and safety to bring that down, the better for your business. But it is still better than Tabro Meats, which said it had 18 per cent.

Mr SCHAFFER — I think you will find that is quite common in the meat industry. It spreads quite widely. I think you will find people with rates as low as 6 per cent and 7 per cent, and they go up towards that 20 per cent mark.

Mr THEOPHANOUS — And that is all about how many accidents there have been. Are you happy with that system, which says that the more accidents you have the more you pay?

Mr SCHAFFER — I think the problem with that system is that it is heavily weighted towards the large employer. Obviously the larger employer gets more put on their own accident ratio, whereas the smaller employer is more of a burden on the industry rate. From my knowledge of it, it is a mix, depending on how many people you employ. So smaller employers with, say, 80 or even as low as 10 or 12 people, may do a lot to improve their personal ratio, yet they are burdened on the industry premium.

So, although that system seems to work better for the larger employers because they get to see the benefits of that, I think the smaller employers — I mean those with as few as 100 people — tend to say that they have done a lot of improvements, and they have reduced their claims, but there is still this severe mix of the industry rate, which is obviously not as necessarily influenced by the one plant's actions; it would be influenced more by the whole industry.

Mr THEOPHANOUS — So, would you prefer to see us change the system that was established by the previous government so that the smaller employers' actual experience is taken into account more?

Mr SCHAFFER — There need to be more incentives. I understand why it is put that way, because obviously the reverse is true also: if a small business has a claim for \$1 million it will be difficult to cover with a huge increase. But the downside of that is that it also has removed the incentive to improve. So if the solution to that requires a change to the system, so be it.

Mr THEOPHANOUS — You realise that in common law it has to be a serious accident before you can actually claim, so if you have a crook hand and try to cover it up you are not going to get a common-law claim for that — it has to be a serious accident.

Mr SCHAFFER — Yes.

Mr THEOPHANOUS — You seem to be suggesting that common law should not be the same.

Mr SCHAFFER — I am not necessarily suggesting that. I am suggesting the burden put on the industry has been significant. Obviously you have to fund it from somewhere. I am not saying we are against the whole concept of people claiming common law. I am saying that because of the way it is put in, the cost impact on this industry in particular is considerable. If that is the trade-off we have to take — —

Mr THEOPHANOUS — Perhaps I can ask you to reflect. You are an employee, Mr Sharp. If you were in a serious accident at work that was not your fault but was the fault of the employer, do you think it is fair enough that you should be able to claim common law for it?

Mr SHARP — Given that circumstance, yes. But as Mr Schaffer has just said, the impact of the way it has been brought in is making the industry struggle.

Mr CRAIGE — Just to go beyond what Mr Theophanous was saying about how your rate is higher, the reality is that you are not all the same. The nature of injuries in the beef chain are entirely different from that in the lamb chain; and the boning rooms, which are included in this industry, are different from abattoirs, are they not?

Mr SCHAFFER — Yes.

Mr CRAIGE — And you are lumped in, irrespective of whether or not you like it, a very broad classification and therefore you have to bear the brunt of that broad classification.

Mr SCHAFFER — And the classification has not been reviewed for a long time and does not accurately reflect the work practices of today. It does not really allow for boning rooms, abattoirs, small businesses and retail shops, places that do just slaughtering, boning, value-adding and so on. A whole lot of changes have taken place, some of which do not have the severity or potential for injuries that others have, but they are all bundled into one meat processing category.

Mr CRAIGE — Therefore it can have an influence one way or another on those who have a safer operation and are different from those with a higher risk.

Mr SCHAFFER — I think that is reflected in the spread of percentage premiums that are paid by the industry. The industry average is some 8 per cent, but there are people on 20 per cent and some on 4 per cent. Obviously the industry average is not necessarily reflective of what is actually happening in the industry.

Mrs COOTE — How many people do you represent in this area?

Mr SCHAFFER — We represent 80 per cent of the meat processors in Victoria and the National Meat Association represents about 75 per cent nationally. In Victoria we also represent about 70 per cent of the retailers, about 40 per cent of the boning rooms and, from memory, about 90 per cent of the smallgoods.

Mrs COOTE — Given that the industry attracts claims, looking at some of the smaller people around and particularly in this vicinity, will the increase in Workcover premiums have an impact on businesses, such as whether people will keep their businesses going?

Mr SCHAFFER — Most certainly. About a month ago in this region a small abattoir that employed only

about 12 or 15 people went out of business. One of the reasons they cited for that was the increased costs because of Workcover.

Mr CRAIGE — And the reintroduction of common law?

Mr SCHAFFER — And the reintroduction of common law.

Mrs COOTE — If there is another increase of a similar magnitude — —

Mr SCHAFFER — If the costs incurred by businesses due to Workcover went up again, I would be very surprised if there were not more closures or at least reductions in employment. If the cost of employment in an industry where margins are so fine is going to go up the employer has a choice of saying, 'The only way I can reduce that cost is to reduce employment'. In a country environment, even if it is only 80 people — we have smaller country businesses where they might have only 20 or 30 people — they might be 15 or 20 per cent of the working population. You have to remember that these days most of the abattoirs are in regional Victoria. The retailers and smallgoods manufacturers are in Melbourne but 80 per cent of the employment would be in regional areas, so that can make a big difference to a rural environment as a whole.

Mr CRAIGE — Are you a domestic supplier or are you an exporter as well?

Mr SHARP — We are domestic and we have exemptions for restricted export as well.

Mr CRAIGE — How is the domestic market going?

Mr SHARP — In respect of what?

Mr CRAIGE — Competition among the suppliers.

Mr SHARP — It is not too bad at the moment but the price of stock certainly is making it pretty difficult.

Mr CRAIGE — So with that, Workcover and other things, your boss would obviously look at it and, firstly, ask if it is worthwhile, and secondly, if he wanted to expand and take up the opportunity of getting into limited export, he would think twice about it, surely?

Mr SHARP — Yes.

Mr SCHAFFER — I think that is also illustrated by the number of meatworks that are on the market at the moment. If an abattoir closes down, it is not as if somebody says, 'I'm going to take it over'.

Mr CRAIGE — Wally did a good job of sending most of it to Queensland, didn't he?

Mr SCHAFFER — That's true.

Mr CRAIGE — On the opportunities for expansion in the export market, which is very important for us, with you going around the traps, do you hear people making statements about Workcover being an impediment to them expanding further into the very lucrative export market, which is especially so at the moment because of what is happening internationally?

Mr SCHAFFER — I think Workcover is an issue whenever there is mention of expansion or investment because obviously it is a big factor in the equation. They are talking about expanding to areas where the market is not sewn up for them. Obviously they are looking at employment and then they are looking at an increase in Workcover. I would not say that people say 'I'm not going to expand because of Workcover', but I would say it is a very significant factor in any expansion in any plant anywhere in Victoria because of the effect it has on their employment.

Mr BEST — Looking at the comparative abattoir industry Workcover rates between states, which is the most costly and which has the lowest cost?

Mr SCHAFFER — I would not be able to tell you off the top of my head. I know that South Australia's actual average is about 12 per cent, while their industry average is about 10 per cent. New South Wales has just gone through huge changes and I think the rate is actually going up. I can certainly get those figures for you. I would not want to quote them off the top of my head because I do not know them.

Mr BEST — One of the things I would like to know is whether with the increases we have suffered in Victoria there is any potential for business to be exported interstate.

Mr SCHAFFER — For example, 18 months or two years ago the rates in Queensland were put up severely and two particularly large employers, who have already been mentioned, basically turned around and said, 'Well, if you do that we're going to close down'. Therefore the government turned around and said, 'We can't lose you because you're huge employers so we'll compensate you'. They said, 'You're going to pay this much in Workcover but we're going to give you this much back'.

Mr BEST — Was it through a regional development grant?

Mr SCHAFFER — I am not sure about the mechanism but what they took with the one hand they gave back to a degree. That is one state example.

The CHAIRMAN — Thank you very much for coming today. We will send you a copy of the transcript and you can suggest alterations to it.

Witnesses withdrew.

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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 H. Mohideen, Director of Finance; and
Mr B. Lemmon, Occupational Health and Safety Manager, West Gippsland Hospital.

The CHAIRMAN — Mr Lemmon, would you like to make an opening statement on Workcover? Then we will ask some questions about it.

Mr LEMMON — I had no prior information about what this meeting was about so perhaps if we move to questions — it would probably be more effective.

The CHAIRMAN — Our brief in relation to Workcover is to look at the effect on your organisation of the premium increase, if there was one, how that came about and how you have dealt with it, what you know as to why it went up for your organisation, the specific amount of the increase, and what government assistance you might have been given on any increase you have had.

Mr LEMMON — I think the director of finance should handle a lot of that.

Mr MOHIDEEN — The hospital is on three sites and we had a significant increase in Workcover premium, almost 100 per cent. That is a combination of things: in one year over the past three years, 1998-99, our claims cost was quite high, and there is also the 17 per cent increase due to common-law claims and GST. I was not able to get a breakdown from the Workcover people or the insurance company. They provided me with details only of the 17 per cent increase. For the hospital site, that 17 per cent increase amounted to \$31 000, and the funding we got from the government was roughly about the same.

Mr THEOPHANOUS — From the state government?

Mr MOHIDEEN — Yes, from the Department of Human Services — they funded that. But with regard to the industry average and so forth, we have not had any funding for that.

The CHAIRMAN — So your premium has gone up more than \$100 000?

Mr MOHIDEEN — Yes, it went from \$105 000 to \$212 000. The 17 per cent is equal to \$31 000, so the rest is the increase in the industry rate as well as our claims cost. We could not get a breakdown from the Workcover insurance company people on how that increase is made up; they will not give it to me.

Ms DARVENIZA — Have your claims increased?

Mr MOHIDEEN — Yes. They work on the basis of a three-year rollover. In 1998-99 our claims cost was \$136 000 and in 1999-2000 it was \$24 000. It is steadily coming down, so next year should see a sharp drop.

Mr LEMMON — The claims experience is the direct result of two stress-related claims. The total number of claims has not increased in the accounting periods.

Ms DARVENIZA — And with the number of people you have employed, has your remuneration gone up?

Mr MOHIDEEN — It has.

Ms DARVENIZA — Substantially?

Mr MOHIDEEN — It went up 18 per cent from 1999-2000 to 2000-2001.

Ms DARVENIZA — Would you have any difficulty with us getting information from Workcover about your Workcover premium and why it has gone up, so we can understand it?

Mr MOHIDEEN — No. If you get it, you could give me a copy.

The CHAIRMAN — What is the effect on your financial position when you get such a large increase of \$100 000 in a particular year?

Mr MOHIDEEN — We have to find the money and meet the costs.

The CHAIRMAN — Does finding the money and meeting the costs translate into putting staff off or reducing service in any way?

Mr MOHIDEEN — We do not reduce staff as such. As 60 per cent of our staffing is part-time, if our activity drops off at a particular time during the year then the staffing level comes down accordingly. That is

one way of managing the situation. If they are all full-time, that flexibility is not there for us. During times such as Christmas, New Year and the Easter period, we close one of the theatres. We have two theatres and during those periods the surgeons go on leave, so we manage with one theatre. During those times the staffing drops well down. But what happens is that during the year we will get funding for different projects, so it is a question of managing with other moneys that come into the system. So it is a question of just managing the cash flow.

Mrs COOTE — We have heard evidence from other people suggesting that there is a culture of getting an injury elsewhere and that then manifesting itself suddenly at work. Given the number of part-time staff, has that been a problem for you or do you believe it is going to increase because of the introduction of common-law claim rights?

Mr LEMMON — No, I do not think the common-law factor is going to have a big impact on us because of the nature of the claims that we have had during the period that could be dealt with under common law. What we are finding is that the employees are accessing the legal services of the solicitors offering no win, no fee and they are getting a section 98 settlement. They are certainly pursuing that.

Mrs COOTE — You gave two examples before of people making claims on stress-related grounds; what were they?

Mr LEMMON — They were soft-tissue injuries and back-related stuff that can be controlled very effectively.

Mr THEOPHANOUS — Just having a look at your premium increase, I think it is true to say that what you are actually telling the committee is that all the costs of \$31 000 for the increase in common-law claims have been met by the state government in your case.

Mr MOHIDEEN — Yes.

Mr THEOPHANOUS — So the increase you are talking about is as a result of an increase of 18 per cent in your remuneration; is that so?

Mr MOHIDEEN — That would be one of the factors.

Mr THEOPHANOUS — And the other is some relatively high claims that you had back in 1998-99, which are still impacting on the system?

You can talk about whether or not their claims were genuine, but generally speaking do you support the idea that if businesses or hospitals or whoever have claims they should pay more, and that those that do not have claims should get a reduction?

Mr MOHIDEEN — Yes, I agree with that. The third element is the industry experience, which can have a significant impact on regional hospitals because of the metropolitan hospitals having a greater proportion of claims and so on.

Mr THEOPHANOUS — Your industry rate went up by one grade.

Mr MOHIDEEN — I fully agree. So if the major hospitals are experiencing higher claim costs, they should bear their share.

Mr THEOPHANOUS — But you have had no impact on you as a result of the increase in common law, have you?

Mr MOHIDEEN — No.

Mr LEMMON — In those areas there are the claim estimates that the insurer puts in under the system. It is a worst-case-scenario estimate, which in many cases seems to be fairly excessive to my judgment.

Mr MOHIDEEN — I think the problem half the time is that there is no transparency regarding how these calculations are done. You just cannot get the information from the insurance agent.

Ms DARVENIZA — Have you asked Workcover?

Mr LEMMON — Yes. It told us it was unable to provide it because of the way the Workcover computer operates. They were not able to drag out the specific information we wanted on the break-up of the premium increase.

Mr MOHIDEEN — I have a copy of the letter I got from the authority, in case you want a copy.

Mr THEOPHANOUS — Thank you.

The CHAIRMAN — Do you think that is a general feeling across business and industry, that people just do not understand how it is worked out or calculated?

Mr LEMMON — I think so. You get no information as to how the agent is calculating the worst-case scenario. I think information on what exactly it is made up of should be provided to employers. Employers could then negotiate with the agent and say, 'Hold on, this is a low-level claim, and you have heaps of dollars in there on the claim, which impacts on the premium'.

The CHAIRMAN — If you had the opportunity to change things for the better, would one thing on the list be more transparency as to how this is worked out?

Mr LEMMON — Yes.

The CHAIRMAN — Do you have any other suggestions as to how to improve the situation?

Mr LEMMON — I think in the area we were talking about before, particularly in the health care group, those that generate the costs should be paying their share of the cake rather than it being put right across the industry.

We have a very good track record in Workcover management in the hospital, but we are paying for the unfortunate happenings in places Monash Medical Centre and the like — bigger organisations with a bigger spread of employees who are exposed to greater risks. Their experience is a correlation.

The CHAIRMAN — Thank you, gentlemen, for your time. You will receive a copy of the Hansard transcript for you to make any necessary corrections.

Committee adjourned.

CORRECTED VERSION

ECONOMIC DEVELOPMENT COMMITTEE

Inquiry into Workcover premiums for 2000–01

Traralgon – 19 February 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
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Staff

Executive Officer: Mr R. Willis

Witness

Mrs D. Blackwood, Owner, Blackwood Engineering.

The CHAIRMAN — Perhaps you could give us a submission on Workcover and then we might ask some questions on that.

Mrs BLACKWOOD — I guess our premiums have increased significantly because we have increased our employee base for our logging business. We do have the greatest risk category, so we are in a high premium there. I guess it is something that we learn to live with. As I say, the cash-flow scenario is also making it extremely difficult. I do not know what other system would be better; we need an insurance system of some sort.

The CHAIRMAN — How much did your premium go up?

Mrs BLACKWOOD — I'm sorry; I do not have those figures. I do not know.

The CHAIRMAN — Was it significant?

Mrs BLACKWOOD — We have doubled our production, so it will have doubled. We have not really got a level playing field to measure it against.

Mr BEST — How many employees have you gone from to?

Mrs BLACKWOOD — We have gone from 7 to 11.

Mr CRAIGE — How many trucks do you have?

Mrs BLACKWOOD — We have three trucks.

Mr CRAIGE — Are some of the others subcontractors' trucks?

Mrs BLACKWOOD — We have three trucks of our own and we fully utilise one and a half subcontract trucks.

Mrs COOTE — Have you had claims over the past couple of years?

Mrs BLACKWOOD — Yes, right at the moment we actually have one which is interesting. We had attempted to go to mechanised harvesting, and in the hardwood game, if you are going to do it properly, that is an investment of at least \$500 000 to \$700 000. We found a machine that would put our hauler into the machine and keep him safe. It cost us \$160 000 but then it would not access the areas they wanted us to go into, so we have had to come back to the manual hauling scenario. Three weeks ago he hurt his back and at the moment he is on Workcover, so we have to cover not only his wages but also the wages of the guy who is filling in for him. Previously we had employees who absolutely detested being off work — they would work through that sort of pain — so we have never experienced that amount of pressure.

Mr BEST — One of the things that interests me is employers dealing with insurance companies, doctors and the other people associated with the Workcover system; the level of information provided to the employee; and the interaction between doctors and insurance companies. How does your insurance company behave as far as informing you of what is occurring to your premium and why is concerned?

Mrs BLACKWOOD — I guess we get the information — which was very late this year, and that has caused us some problems. Our insurance broker set up a loan facility so that we would get the 5 per cent discount that you get if you pay it up front, and then we pay off the loan. There was some hold-up with that being sent out. The deadline was 31 July and we only received it on 8 July. That was very badly done but I presume they had pressures on them to change their system.

I do not necessarily talk to Workcover direct very often. The insurers, Alliance Insurance, that I dealt with are very helpful. They have an office in Moe and the girl that I speak to there — probably quite regularly now — seems very informative. Not that the premium side of it is the issue; it is complicated in the bush with the piece rate system and people not being paid straight wages. When the girl at the end of the phone said, 'Just tell me what the base gross wage is', I said, 'That takes a little bit of calculating. Can you help me decide the best way to come up with that?'. She said, 'What would you pay if he was just off sick — if he couldn't come to work for a couple of days?'. I said, 'Well, he'd get nothing' — because it is pro rata with the piece rate.

Mr BEST — I suppose the general area I am trying to explore is whether, because the Workcover

premium formula is complex and people do not understand the basis of how the premium is calculated, with the inquiry the insurance company has been able to explain the detail to you?

Mrs BLACKWOOD — No. I actually relied on Becky to help me with part of that and then went back to Workcover or Alliance Insurance to pass the scenario I had come up with and they said that was fair enough. She told me what was the maximum amount allowable for somebody in that category. The girl I have been speaking to at Moe sounded fully informed. Then I rang on a Monday and she is not there on a Monday and the other girl was not prepared to help me.

Mr THEOPHANOUS — Do you have any idea at all of how much you are actually paying in Workcover premiums?

Mrs BLACKWOOD — We pay about \$3000 a month, and that is on a payroll in excess of \$300 000 or \$400 000.

Mr THEOPHANOUS — But you are not unhappy about the premiums you are paying, given the insurance you are getting?

Mrs BLACKWOOD — But we have not had any major claims to date, either, which I believe has helped us. I know just from hearing of other people's experiences that some have long-term Workcover claims from employees on the books — even for 10 years and the like — and that presents difficulties. I am having to find extra money at the moment because suddenly we have virtually another person on the books, so it is not really an insurance policy as such. It will be a stopgap, and we will then be paying more in our premium. I presume if it is a long-term costly affair, based on what others tell me, it is really a pay-as-you-go system, because at the end of the day it costs the insurer X amount of money, but then we are paying that back in the long term.

Mr THEOPHANOUS — Good luck with not having any accidents, and I hope you have a good GST.

The CHAIRMAN — Thank you for coming today. You have spoken to the committee on two occasions now, and it very much appreciates your time. It is good for the committee to get away to rural and regional Victoria to hear of people's experiences. You will receive a copy of the Hansard transcript, which you may correct if necessary.

Witness withdrew.

CORRECTED VERSION

ECONOMIC DEVELOPMENT COMMITTEE

Inquiry into Workcover premiums for 2000–01

Traralgon – 19 February 2001

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Staff

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Witness

Ms T. Wakefield, Financial Controller, Safetech.

The CHAIRMAN — I advise all present at the hearing that all evidence taken by this committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act.

The committee is dealing with two topics in these visits, and it is necessary to separate them for the purposes of the transcripts for the two references. We shall deal with Workcover first. I invite you to make an opening submission. Committee members might then ask some questions.

Ms WAKEFIELD — Perhaps I can explain a bit about my company. I am financial controller and part owner of a manufacturing company based in Moe. We design and manufacture materials handling equipment. We distribute nationally and have a manufacturing base in Malaysia that supplies our American, European and Asian markets. We happen to be located in Moe because we were in business there doing other things prior to starting up this business. We employ about 45 to 50 people in Moe as well as a number of subcontractors. We use a distribution network involving about 50 companies Australia-wide to sell and distribute our products. This is our research and development base.

We have used the research and development tax subsidy in the past for many years because we heavily invest in research and development. We have always appreciated that assistance with investment, because investment comes at a higher price for small companies like ours.

The company is owned by three families, and I represent one of them.

Mrs COOTE — What sort of safety machinery do you manufacture?

Ms WAKEFIELD — It is designed around handling goods in factories and warehouses. If you can picture the pallet that everything is packed on and sent to supermarkets and the like, our equipment is essentially designed around the pallet. Our very first product was designed around just loading pallet loads with this device. It is designed to work at all levels, so if the operator is standing there he is always loading at a constant height, and so is not bending and so on.

My brother-in-law came up with the concept. He was a doctor working in industrial health, treating patients all the time with back and arm injuries. He came up with the concept. A friend who was an engineer designed the first prototype, and since then we have designed about 10 other products around the same theme of safety and productivity.

The Victorian Workcover Authority has been very supportive of our products because they prevent injury considerably.

Mr BEST — How has your premium been treated?

Ms WAKEFIELD — Not at all in relation to the product we manufacture. I am not well enough equipped to talk to you about Workcover. I have to confess that that is an area of management of my business to which I have not paid enough attention. Certainly our premium has increased. I understand premiums are doing more these days with the reinstatement of common-law rights and so on. I understand that well because my husband actually comes from that area of the law.

Philosophically I agree with that approach, and I know somebody has to pay for it. Certainly it has had a negative impact on our business costs. I am not sure whether I can say what sort of impact it has had on our business. As I say, it is certainly a negative impact in terms of costs. When I get a chance to analyse that in relation to other costs that change in our company I will be better equipped to talk to you about it. I am sorry I cannot do so now. I was busy doing my BAS.

Mrs COOTE — Have you had any claims?

Ms WAKEFIELD — We have had very few. We have one significant claim at present where, unfortunately, a staff member has had repetitive strain injury. I have not really looked on the cost side closely enough to be able to report to the committee on that. On the case management side, I have been very pleased with the insurance company's management of it.

I have been closely involved in that because it is certainly a human resources issue I have to keep on top of. For me that is more important than the cost side. I have a supportive committee involved with that staff member, and whenever there has been an issue that I have needed to stand up and speak about with the insurance

company — that has occurred on a couple of occasions — I have been impressed with what it has done. Its officers have worked with me to clarify it. I have been very impressed with the insurance company in this case. As I said, I am separating the cost side of it.

Mr THEOPHANOUS — You have just said that you support the common-law aspect. Are you aware that the increase in premiums to cover common law was 15 per cent across the board? So your premium would have gone up by 15 per cent to cover common law. It could have come down again if you did not have any accidents.

Ms WAKEFIELD — Yes.

Mr THEOPHANOUS — Do you think that is reasonable to cover the common-law cost?

Ms WAKEFIELD — To be honest, I do. I do not know whether my partner would necessarily agree with that, but I certainly do. I have the view that those who can look after themselves should do so and look after those who cannot look after themselves. I am not in a position to draw the line and say whether or not as a business community we are bearing a bigger burden for that.

Mr THEOPHANOUS — Do you think common law simply means that if a business causes a serious injury and it can be shown to be at fault, it effectively has to pay for common law? Do you think bringing that back in might urge some businesses to be a bit more careful in the way they structure their occupational health and safety?

Ms WAKEFIELD — As a company selling point itself, we have certainly been on the beneficial receiving end of companies being forced to buy products. I am not quite sure where the line is drawn in terms of legislation, but we have the happy situation where companies are actually almost told to buy our products to prevent further injuries. I have a bit of a problem with that. It is the stick-and-carrot approach, I suppose. Sometimes in the business community you can be so caught up in running the business that, unless they are placed before you, you can forget about those sorts of issues. So in summary I guess I sit on the fence on that. I do not think that you people in government representing our community should be too heavy-handed because it will scare too many people out of business. I think you need to be guiding companies through that, as opposed to whacking legislation in front of them. I do not know if such a middle ground exists.

The CHAIRMAN — Thank you very much.

Witness withdrew.

CORRECTED VERSION

ECONOMIC DEVELOPMENT COMMITTEE

Inquiry into Workcover premiums for 2000–01

Traralgon – 19 February 2001

Members

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Mrs A. Coote
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Chairman: Mr N. B. Lucas
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Staff

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Witness

Mr P. Foster, National Logistics Coordinators.

The CHAIRMAN — I advise all present at the hearing that all evidence taken by this committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act.

Welcome, Mr Foster. I understand you will be speaking to the committee about both Workcover and the GST. I invite you firstly to talk about Workcover.

Mr FOSTER — I speak for the National Logistics coordinating group, which was formed in 1987. I apologise for the lack of preparation. Our chief officer is caught in Adelaide and I knew of this hearing only half an hour ago.

I work for National Logistics Coordinators as a contractor from my own business. I offer payroll services. This morning I received a phone call from our insurer about a situation that has arisen as a result of our growth last year. The background to the matter was not news to us, but certainly this morning's telephone call was.

I make these comments not in criticism of our insurer, because since I have been with the company for some months the insurance company has been working with us quite strongly in trying to clear up the mess I am going to paint you a picture of. I got the phone call this morning saying unless the insurance company receives \$25 000 this afternoon we will lose the benefits of instalments and this year's premium will fall due tomorrow.

The basis of that is that over the past three years National Logistics Coordinators has grown from a company with a wages bill of a bit more than \$900 000 to \$3.5 million last year — a significant growth. All that growth started in a single company, and in that time it has grown to the point where now the group represents four companies — National Logistics, National Logistics Coordinators (Consulting), National Logistics (Morwell) and National Logistics (Gippsland Intermodal Freight Terminal).

Over that time contracts were taken out with the original company and, depending on whom the contract was with, it was either an opportunity to change to the new company or it was not. So where the opportunity has come up employees and contractors have moved into the appropriate company now aligned with the lines of production, if you like.

That has meant that there has been movement within the companies quite freely over that past 12 months. That meant that 18 months ago when they estimated the premium for each of those companies — and at the time there were only three of them — they put forward the best estimates they could of what they believed their wages bill would be for the ensuing 12 months. They were issued premium notices and set off meeting their obligations under those premiums.

They found at the end of 12 months, when the reconciliation has taken place, that their wages bill was more than double what they had estimated. They thought they would just correct that. The person working for the company at the time diligently did that, submitted it and did not place any great importance on the way that was done. The response from our insurer was to say we owe \$50 000 in premiums and \$10 000 in penalties because we underestimated our premium.

The point to the story is that the companies have been about building jobs and so forth.

Mr THEOPHANOUS — When did that happen?

Mr FOSTER — That notice would have been given in early November 2000 initially.

Mr CRAIGE — It would not have been this year?

Mr FOSTER — No, we have not got there yet. Part of what we are about is the need to put systems in place so it does not happen again. If we are talking about small and medium-sized businesses, they do not have the resources to be tracking things in the way the legislation requires.

We initiated discussions with our insurer and they were held on 7 February. The detail we presented to our insurer was to go back and say, 'The employees were in this company to this date; they changed on this date and went to another employer; in the previous reconciliation they were there; they are here now and they have earned this for the year' and submitted it. Previously the companies were misaligned. If someone finished the year employed by one company they dragged all their salary across for the whole year, which distorted the reconciliation they put in.

It has taken us a week, with two officers in the company and our accountant, to go through records and so forth, to actually line up the people. We have not got the bill from our accountant yet, but it has been a significant impost on us, primarily to deal with the \$10 000 penalty. We are not saying we do not want to pay the premium, but all this has imposed a significant penalty on the company — \$10 000 is a quarter of a person's wages for a year.

We suggest to the committee that if you are looking at what changes can be brought about, you should look at targeting significant areas in regional Victoria, trying to encourage growth, and look at working with the companies that are providing that growth and not penalise them for doing it.

To finish the story, the \$25 000 that they spoke about on the phone this morning was actually \$30 000 — they forgot to include one of the work sites. It was only one of the four companies and the other three had another \$15 000 on top of that. We have come to some understanding and have a fortnight's grace to pay that. We are talking about \$45 000 — that is a person's salary — with on-costs, including Workcover. They are significant costs that the system has put onto us.

As I said, in the period we are talking about, in the three financial years from 1997 through to the end of 2000, we have gone from \$900 000 to \$3.5 million; and our Workcover premium has gone up threefold, from \$51 000 to \$151 366.

Mr THEOPHANOUS — But so have your wages?

Mr FOSTER — So have our wages, but \$1 million of that is the consulting group and they are paying 4.7 per cent premium. If you want to do the maths and take out that \$1 million and the \$2500 they pay, then proportionately the rest has grown significantly.

Mr BEST — What is your claims experience like?

Mr FOSTER — I do not have the detail because I have been with the company only a month. We certainly have a claims history. Apparently we have two long-term employees whose claims have been in for 12 months that I know of. The rest tend to be a day here or there. In a logistics company with people handling material it tends to be that a person fell off the back of a truck or pushed a crate the wrong way, but most of those injuries we would cover under our obligation.

Mr THEOPHANOUS — I understand your main concern is that the company has grown exponentially, so when you put in your original estimate it might have reflected what it was the previous year but it did not reflect the growth?

Mr FOSTER — No.

Mr THEOPHANOUS — As a result of growing you believe you have been penalised because not only have you been asked to pay the extra premium but also the penalty?

Mr FOSTER — Yes.

Mr THEOPHANOUS — I do not know, but I think the penalty system has been in place in Workcover for many years; it is not anything new. It is designed to ensure that employers do not understate their wages bill and then try to do a catch-up. What I hear you saying to the committee is that you would like us to look at that for those companies that are actually growing, to see whether some allowance could be made in those circumstances. Is that what you are saying to us?

Mr FOSTER — That is exactly what I am saying.

Mr THEOPHANOUS — And that is your major problem?

Mr FOSTER — That is our major problem, yes.

Mr THEOPHANOUS — But you accept you have to pay workers compensation if you are going to have a work force?

Mr FOSTER — Yes, no argument with that. Like any employer we would like it to be less.

Mrs COOTE — Can you tell me what implications that sort of premium rise will have on your business?

Will you hesitate to take on more people or would you put people off, and if it were to increase at the same rate for next year what ramifications would it have?

Mr FOSTER — No, we are not going to put people off. We are still growing and the discussions that have led to me coming this afternoon were based around whether we can afford to put on another two people, which is what I was talking to Jeff Goss about initially. I believe and the line manager believes there are positions for another two and they are saying, ‘Well, one of those two has just walked out with the cheque that we are paying for that’.

Now that we are aware of it, we are trying to put in place systems so that we are not caught again. I would have to say that it is going to impact on the way we employ people. Now that they are aware of it, they are looking at total costs. It is very much a trap to say ‘This is the salary’ and forget about Workcover and payroll tax — and sometimes even forget about super. Depending on how it is reported within the company, a lot of the time those things are not obvious.

Mr CRAIGE — Are all your businesses on one location?

Mr FOSTER — No.

Mr CRAIGE — You have an area of railway land?

Mr FOSTER — Yes.

Mr CRAIGE — Have you done more extensions in respect of sealing and all that for your boxes?

Mr FOSTER — Yes.

Mr CRAIGE — Do you run your own trucks?

Mr FOSTER — Yes.

Mr CRAIGE — Are you a long distance intrastate company?

Mr FOSTER — One of the four, National Logistics Pty Ltd, is.

Mr CRAIGE — That is a road freight company that operates separately?

Mr FOSTER — Yes.

Mr CRAIGE — I see that your current rate should be 7 per cent. Are any other businesses associated with your company on that site?

Mr FOSTER — That does not operate primarily from that site; it operates from a site in Yarraville and shares some of that site. There are another three local sites that we work from.

Mr CRAIGE — I am just wondering, with the make-up of the company and the business it does, whether the businesses have been correctly characterised in respect of what they actually do?

Mr FOSTER — That is a catch 22 situation, because if they are inappropriately categorised and you have not notified that, your penalty is in fact attached with that. Part of our discussions on 7 February was about whether we were classified appropriately or when the change had happened. We were asked, ‘Have you notified us of the change? There are penalties if you do not’. We believe at the moment we did.

Mr BEST — Do you still like your insurance company?

Mr FOSTER — It is working with us. In my own company I deal with another one, and my experience is no different, although it is around different issues. I do not find this company to be obstructionist so far as that goes.

Mr BEST — Because the formula attached to working out premiums is very complex?

Mr FOSTER — Yes, I understand that. I had an appreciation of that before, but yes.

The CHAIRMAN — Thank you very much for coming in. We appreciate that you have come in at a

moment's notice, so to speak. Your evidence has been very interesting. You will receive a copy of the Hansard transcript for you to check what you have said.

Witness withdrew.

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Deputy Chairman: Mr T. C. Theophanous

Staff

Executive Officer: Mr R. Willis

Witness

Mr G. Rorison, Business Manager, Gippsland Aeronautics.

The CHAIRMAN — I advise all present at the hearing that all evidence taken by this committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act.

I invite you to make an opening statement, then we will move to questions.

Mr RORISON — Gippsland Aeronautics is an aircraft manufacturing company. We operate out of the Latrobe regional airfield here. We have been operating since the mid-1980s but manufacturing since the early 1990s. We currently make two types of aircraft, the agricultural aircraft, which has been going since the early 1990s, and one that we have just recently had certified, a single-engine utility aeroplane. It was certified just prior to Christmas last year.

We are the only commercial manufacturer of aircraft in Australia. By 'commercial' I mean manufacturing and selling aircraft to commercial operators. There is only one other aircraft manufacturer in Australia, a firm called Jabiru in Queensland, which makes an ultralight, which is quite different and has a quite different application from what we do.

We have sold some 50 agricultural aeroplanes since the early 1990s. The vast majority of those have been exported. We have established a substantial export market for GA200 aircraft, and we see no reason why that trend will not follow with the GA8.

As I said briefly, the GA8 is a single-engine eight-seat utility aircraft. It fits into a market niche that is much sought after by current operators of similar types of aeroplanes, which are 25 to 40 years old and need replacing. Our market research shows there is a substantial market for that particular aeroplane.

Up until the certification of the GA8 it is fair to say that the company's impetus was along the research and development focus, with the GA8 subsidising the R & D projects we were undertaking. Also we have a maintenance facility, and there have been some modifications to existing aeroplanes as part of that.

For almost the past 10 years we have essentially survived through sales of agricultural aeroplanes, with some maintenance and modification work. We are probably at a point in our development where if we have a fair bit of good luck along with a number of other things we will have the potential to be one of the biggest single employers in the Latrobe Valley region. We know clearly from our market research that there are somewhere in the order of 10 000 to 20 000 aircraft of the particular class of the GA8 which will need replacing over the next 10 to 15 years. It does not take an Einstein to work out that that is about 1000 aeroplanes a year. We cannot make 1000 a year, but we can certainly build up to the point where we can make perhaps 100 a year. So there is a fair life in this particular aeroplane, bearing in mind this is a first-generation aeroplane; improvements will be made on the way.

That is essentially where our company is at. It is fair to say that we have had a bit of a battle with the bureaucracy along the way. It is a very regulated industry, and you need to comply with certain rules and regulations. You cannot just build an aeroplane and send it out to work. We believe we have resolved most of those difficulties. We get on very well with the regulator, who has been very supportive of us. I guess we are at a point now where we are just getting down to the real manufacturing process.

Mrs COOTE — How many employees do you have?

Mr RORISON — About 40. It has been very much dependent on the work that has needed to be done. We have a number of subcontractors. When we have orders, obviously we need to institute those subcontracts, and when we do not have the orders we do not need the subcontractors. In round figures we would employ about 40 people.

The CHAIRMAN — What are your views on Workcover?

Mr RORISON — One of the problems we have come across is that of necessity we have had to run lean and mean. As I have already indicated, our emphasis until now has been very much on research and development. It is fair to say that we have had some government assistance by way of a concessional loan, but we essentially run fairly lean and mean.

The impact of the Workcover premiums is illustrated by the following example. Our premium last year was \$25 250; this year it will be \$41 000. For our business and every other business the size of ours that is struggling to some degree, that is a fairly hefty impost to bear. It cannot be passed on in our cost structure. We are in a highly

competitive market as it is. When you produce an aeroplane which is a first of its type there is always some reluctance in the marketplace to accept that aeroplane.

In other words, nobody is really prepared to say, 'Yes, I will order three of these'. Everyone wants to wait and see first that the aircraft does what you claim it will do. Between Christmas and now we have sold two GA8s; the intention is that we would probably sell about 10 planes.

Getting back to the Workcover situation, a 40 per cent increase in one of our costs — which, as I said, was from \$25 000 to \$41 000 — is substantial. It impacts heavily on our cash flow, which is parlous at the best of times. It is a cost that we do not particularly enjoy having to meet. Also there is some real misunderstanding as to why in the hell there was such an increase.

Mr THEOPHANOUS — Have you had an increase in payroll over the past 12 months?

Mr RORISON — No.

Mr THEOPHANOUS — You are paying the same amount?

Mr RORISON — We are paying essentially the same amount that we were paying two years ago.

Mrs COOTE — Have you had any claims?

Mr RORISON — No, nil claims — that is not quite right. We have had a couple of very small workplace claims, like cut fingers, but to answer your question, no claims per se.

Mr THEOPHANOUS — Were those very small ones put in or were they not claimed?

Mr RORISON — There is a minimum amount that you can justify claiming. They were \$60 or \$70 bills for the local hospital or a general practitioner. In our view it is hardly worth going through the rigmarole of filling out the paperwork for that sort of thing.

Mr THEOPHANOUS — For your information, you are in the aircraft building, assembling or repairing category, and it has gone up by one level.

Mr CRAIGE — And nobody told you about that?

Mr RORISON — That's correct.

Mr THEOPHANOUS — That system was put in place by the previous government, and it is revised every year.

Mr CRAIGE — The point is no-one told them.

Mr THEOPHANOUS — I do not think you have been told over the past five years, have you?

Mr RORISON — No.

Mr THEOPHANOUS — It is something we certainly need to look at. The industry as a whole appears to have a less-than-satisfactory safety record.

Mr RORISON — The aviation industry, are you saying?

Mr THEOPHANOUS — The aircraft building industry has had an increase relative to other industries, and that is because of its safety record.

Mr RORISON — There really is not an aircraft building industry in the country, with all due respect. There is a manufacturer of parts down at Avalon, but they are essentially maintenance people. There are only two manufacturers per se in Australia — us and Jabiru.

The CHAIRMAN — There is only one in Victoria, and that is you.

Mr RORISON — Yes. Nobody came to us and said, 'Let's have a look at your safety record', or 'You haven't had any claims'.

Mr THEOPHANOUS — I can assure you there are more firms than you in the category, because the category is aircraft building, assembling or repairing. There must be other people involved.

Mr RORISON — There are other people.

Mr BEST — Goldings in Bendigo is an example of a repairer.

The CHAIRMAN — As Mr Theophanous said, there is one category, which includes not only those building aeroplanes in Victoria — and there is only one of them, you — but also all the people who are dealing with assembling or repairing as well.

Mr THEOPHANOUS — As I said, the categories have been inherited by the government, and unfortunately that category has gone up. I understand your premium has gone up by 40 per cent, but I can tell you that 15 per cent and a further 2 per cent — that is, only 17 per cent — of that total is for common law, which has been introduced by the current government, and the GST. The rest of it is actually because the premium for the industry as a whole went up. You may want to inquire with Workcover whether that is the appropriate category for you to be in. That is the only thing I can suggest.

Mr RORISON — I think from the sound of things we are probably in the right category. I do not think we have an argument with the category, but I would suggest most others in that category are either small maintenance organisations or the maintenance bases and so forth of the larger organisations — such as Ansett or Qantas — who employ literally hundreds of people, and therefore I suggest the potential for accidents is higher than it is for us. We do not necessarily have a problem with the category at all, but it would have been nice to have been told that there would be an increase of 40 per cent.

Mrs COOTE — With the 40 per cent increase in your premium and given your explanation that potentially you could build 1000 planes, if your premium were to go up at a similar rate next year, how would that impact on your employing additional people to help you build those planes?

Mr RORISON — We would have to seriously look at all the implications of employing those people. It is not only the Workcover premium; there are other costs involved. We would have to sit down and rationally look at the pros and cons rather than just jump in and do it. There are a number of considerations.

Mr THEOPHANOUS — You realise there is no suggestion that it would go up by 40 per cent?

Mr RORISON — Yes.

Mrs COOTE — But there is a suggestion that it will go up?

Mr RORISON — Yes.

Committee adjourned.