



ECONOMIC DEVELOPMENT COMMITTEE

FINAL REPORT

Inquiry into WorkCover Premiums for 2000/01

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TERMS OF REFERENCE

Parliamentary Committees Act 1968

**TERMS OF REFERENCE TO THE ECONOMIC DEVELOPMENT
COMMITTEE**

WORKCOVER PREMIUMS FOR 2000-01

That pursuant to the *Parliamentary Committees Act 1968*, the Economic Development Committee be required to inquire into, consider and report on WorkCover premiums for 2000-01, including:

- (a) the reasons for the level of those premiums;
- (b) the manner in which those premiums were determined , both in aggregate and for individual industry classifications and employers;
- (c) the impact which those premiums have had and can be expected to have on economic activity and employment in aggregate and in metropolitan, regional and rural Victoria;
- (d) the impact which those premiums have had and can be expected to have on the State budget and on the provision of services by Government departments and agencies, by local government and by non-profit and community organisations;
- (e) whether the Government can or should take action to reduce or compensate for any such adverse impacts; and
- (f) what changes should be made to the manner in which WorkCover premiums are determined in future;

and to provide an interim report to Parliament by 30 November 2000 and a final report to Parliament by 31 March 2001.

By resolution of the Legislative Council

Dated: 6 September 2000

CHAIRMAN'S FOREWORD

It is an understatement to say Victorian businesses were surprised upon receiving their WorkCover Premium notices for 2000/01.

The Bracks Government had a well-publicised pre-election policy of reintroducing common law rights for injured workers. The Committee's evidence indicates that while many businesses may not have agreed in principle with the legislative changes, they were aware that their premiums would increase by an appropriate amount in order to fund the reintroduction of common law. The effect of reintroducing common law was that average premium rates increased by 15 per cent plus a further 2 per cent to cover the flow-on effects of the New Tax System.

This Inquiry into WorkCover premiums presented an opportunity for the all-party Committee to consult widely with Victorian businesses to assess the extent to which their premiums changed over the past financial year and the impact such changes have had on their business. The Inquiry also presented an opportunity to obtain evidence from the Victorian WorkCover Authority on the reasons for the level of 2000/01 premiums and how they were determined.

The major concern of many Victorian businesses was not only the size of their premium increases, but that the increases were sudden and without any clear warning.

As stated above, businesses were generally aware that they would be facing an increase in premiums to cover the cost of common law. The Committee found that some businesses in fact received increases of over 65 per cent in their initial premiums before GST. Further, one-third of all Victorian employers experienced a 39 per cent increase in their premium rate in 2000/01 while over 50 per cent of all employers experienced a rise in the dollar premium of greater than 40 per cent.

The reasons for such massive increases were the reintroduction of common law, a change in benefit entitlements and a number of policy changes recommended by the Victorian WorkCover Authority and accepted by the Minister for WorkCover.

The main policy changes were:

- a 20 per cent increase in the deeming rate for employers who had failed to supply a remuneration estimate;
- automatic rounding up where necessary to the WorkCover industry rate above each respective industry's true risk rate; and
- some higher risk industries were moved through multiple industry rate categories to align them more closely with their true risk profiles.

Chapter 5 of the Committee's Report highlights that the increases in premiums reduced the level of profitability of many businesses. Furthermore, the Committee was advised that as a result of the premium increases, some businesses had either reduced employee numbers or downwardly revised their recruitment plans.

The Committee's Report notes that premium increases beyond the common law impact were not adequately publicised.

In particular, it is important to note that the Minister for WorkCover misled the Victorian community on a number of occasions when he publicly stated that 29 per cent, 30 per cent or 31 per cent of businesses are paying a lesser premium/premium rate than last financial year. Evidence obtained from the Victorian WorkCover Authority states that only 18 per cent of employers had a reduction in premium rate and only 7 per cent of employers had a decrease in premium.

I would like to take this opportunity to extend appreciation to the large number of businesses, both metropolitan and regional, together with various organisations, which provided evidence to the Committee. This includes the authors of 73 written submissions and approximately 130 people who attended public hearings throughout Victoria. The evidence provided by these people formed the basis of the Committee's report and was therefore invaluable.

Appreciation is also extended to the Victorian WorkCover Authority for its assistance throughout the Inquiry. The Authority provided a detailed written submission, gave

evidence at two separate hearings, and provided follow-up information to a number of the Committee's queries upon request.

I would also like to acknowledge the contribution of all Members of the Economic Development Committee in terms of their participation in the numerous meetings and public hearings and for their deliberations throughout the Inquiry. Due to time constraints and the Committee's desire to present the Report in the Autumn Session of Parliament, no Executive Summary has been included. However, a full list of findings and recommendations follows this Chairman's Foreword.

On behalf of the Committee, I conclude by thanking the staff of the Committee for their support and hard work, namely the Executive Officer, Mr. Richard Willis, Research Officers, Mr. Mark Ryan and Ms. Karen Ellingford and Office Manager, Ms. Tania Esposito.

I urge the Government and Victorian WorkCover Authority to give due consideration to the Committee's Report, and look forward to the Minister's formal response to Parliament within the next six months.

Hon. Neil Lucas, PSM MLC
Chairman

COMMITTEE FINDINGS AND RECOMMENDATIONS

Chapter One: Introduction

Finding 1.1 – page 5

The Committee finds that, given the significant nature of the changes introduced to the WorkCover scheme in 2000/01, the Minister's decision not to provide evidence to the Committee's investigation of the impact of these changes is of concern.

Finding 1.2 – page 5

The Committee finds that, as the Minister responsible for overseeing the workplace health and safety of all Victorians, Minister Cameron is to be admonished for his reluctance to appear before the Committee and for publicly providing incorrect information on a number of occasions indicating much higher decreases in premiums/premium rates than had actually occurred.

Chapter Three: The Reasons for Premium Increases in 2000/01

Finding 3.1 – page 21

The Committee finds that the decision taken by the Victorian WorkCover Authority to deem the remuneration of employers who failed to provide a remuneration estimate by 20 per cent in 2000/01 was ill-timed and an excessive penalty on Victorian business.

Finding 3.2 – page 22

The Committee finds that the new deeming rate of 10 per cent is a more appropriate level to provide disincentives for non-declaring employers.

Recommendation 3.1 – page 24

The Committee recommends that the Victorian WorkCover Authority give consideration, without increasing the cross subsidy from large to small employers, to reversing its decision to automatically round up industry rates and in future allocate industries to the nearest rate above or below their true risk rate as was the case prior to 2000/01.

Finding 3.3 – page 27

The Committee finds that smaller employers classified under any of the 66 industry groupings that experienced multiple industry rate rises in 2000/01 will continue to experience 20 per cent premium rate increments in future premium years until they reach their respective industry's prescribed rate unless the underlying risk of their industry reduces.

Finding 3.4 – page 31

The Committee finds that increases in 2000/01 Victorian WorkCover initial premium notices were as a result of the following factors:

- the Victorian Labor Government's policy decision to restore common law rights to injured workers which represented a 15 per cent increase in the average premium rate, plus a further 2 per cent to cover the flow on effects of the New Tax System;
- the Victorian WorkCover Authority's decision to apply a 20 per cent deeming rate to employers who failed to supply an estimate of their workplace's remuneration;
- the Authority's decision to automatically round up to the WorkCover industry rate above each respective industry's true risk rate;
- the Authority's decision to move higher risk industries through multiple industry rate categories to align them more closely with their true risk profiles whereas previously an industry could only move one industry rate category in any given year;
- an increase in the maximum cost of a single claim used in calculating a firm's experience factor from \$150 000 to \$156 800; and
- an increase in the minimum premium and registration fee from \$100 to \$135.

Finding 3.5 – page 35

The Committee finds that the Victorian WorkCover Authority's selective use of data in its submission to highlight only 2 per cent of employers had experienced a premium rate increase in excess of 40 per cent was, in this instance, less than forthright. The Authority's submission failed to highlight that almost 33 per cent of employers had received an increase in their premium rate of 39 per cent.

Finding 3.6 – page 35

The Committee finds that approximately 33 per cent of all Victorian employers experienced a 39 per cent increase in their premium rate in 2000/01.

Finding 3.7 – page 36

The Committee finds that the median premium increase experienced in 2000/01 was 36 per cent.

Finding 3.8 – page 36

The Committee finds that 51 per cent of all employers experienced a rise in their dollar premium of greater than 40 per cent, with approximately 41 per cent receiving an increase greater than 50 per cent.

Finding 3.9 – page 37

The Committee finds that small employers who experienced an increase in their industry rates, and who also failed to declare a remuneration estimate prior to the initial premium calculation, would have received an increase of at least 67 per cent in their premiums over their 1999/00 premiums, excluding GST, or 84 per cent including GST.

Finding 3.10 – page 41

The Committee finds that in determining premiums for the 2000/01 policy year, the Authority removed from the scheme some of the cross subsidy that had historically flowed from large employers to small employers. In removing the cross subsidy, small employers in Victoria were allocated an increased share of the total burden for covering the cost of the WorkCover scheme, while the portion applied to large employers was reduced.

Chapter Four: The Determination of Premiums in 2000/01

Finding 4.1 – page 49

The Victorian WorkCover Authority advised the Committee that the restoration of common law rights, changes to statutory benefits and the effects of the New Tax System were the main reasons for the increases in premium rates. The Committee therefore believes that no increases in premium rates would have been necessary to achieve full funding of the scheme had the Autumn 2000 legislation not been introduced, given the existence of a safety margin which was built into the previous average premium rate of 1.9 per cent. However, if the large number of claims submitted under the previous common law provisions had occurred even in the absence of the Autumn 2000 legislation, it would have extended the date when full funding was achieved to a latter time.

Finding 4.2 – page 51

The Committee finds that, given the lack of relevant historical comparative claims data on which to allocate the cost of common law reintroduction, the general increase was the next best available option. The Committee concurs with the Victorian WorkCover Authority's assessment that, going forward, the ongoing cost of common law claims will increasingly be carried by those industries and/or employers that have the worst claims profile.

Finding 4.3 – page 52

The Committee finds that general increases to premium rates that effect all employers, such as the one implemented in 2000/01 to fund the reintroduction of common law, interfere with the financial incentives that are a crucial component in an experience-based workers' compensation scheme.

Finding 4.4 – page 55

The Committee finds that any workplace safety and workers' compensation framework critically requires financial rewards and penalties to be in place in order to provide appropriate encouragement to employers to manage their workplace safety.

Finding 4.5 – page 56

The Committee finds that the level of cross subsidy from large businesses to small businesses has been progressively reduced and is now at a historically low level. The Committee believes the small remaining subsidy from large business should not be reduced further in the medium term.

Finding 4.6 – page 57

The Committee finds that the restoration of access to common law for seriously injured workers, together with the other significant changes introduced in the 2000/01 policy year, made it extremely difficult for employers to estimate their WorkCover premiums prior to receiving their initial 2000/01 assessments. This, in turn, seriously impacted upon the cash flow and budgetary positions of some employers, particularly smaller employers.

Finding 4.7 – page 57

The Committee finds that in the view of many Victorian employers who presented to the Committee, the credibility of the WorkCover scheme suffered negatively as a result of the policy changes in 2000/01. This was a product of the weakening of the relationship between individual employer safety performance and premium outcomes in 2000/01, due to the application of the general increase.

Recommendation 4.1 – page 58

The Committee recommends that in future, policy changes introduced to the WorkCover scheme should be designed in a manner that will reward good employer OH&S processes and that consideration should be given to rewarding employers with reduced premiums where approved safety processes are introduced.

Finding 4.8 – page 61

The Committee finds that that the current WorkCover methodology for determining premiums does not allow for sufficient feedback through financial incentives to employers, particularly smaller employers, on their workplace health and safety procedures.

Finding 4.9 – page 78

The Committee finds that many employers have little concept of the purpose or complex process of calculating the F factor loadings applied when estimating the costs of claims lodged by all Victorian workplaces. The F factor is seen as a major obstacle to employer attempts to forecast WorkCover premiums and as decreasing the level of transparency within the WorkCover scheme.

Recommendation 4.2 – page 79

The Committee recommends that the Victorian WorkCover Authority examine the methodology used by claims agents to try and reduce variations in estimates and F factors and, where at all possible, simplify procedures so that employers are more readily able to understand the process by which their premiums are determined.

Chapter Five: Impact of Premium Increases on Activity and Employment

Finding 5.1 – page 93

The Committee finds that the economic modelling undertaken by the National Institute of Economic and Industry Research understates the full impact of WorkCover premium increases in 2000/01 as a 15 per cent general increase was assumed rather than the full 17 per cent (which included the 2% GST affect) that was actually applied. Further, as the modelling was undertaken using 1998/99 data, the estimated total production losses are also likely to have been deflated on what the outcome would be assuming 2000/01 price levels.

Finding 5.2 – page 97

The Committee finds that the significant increase to WorkCover premiums in 2000/01 has reduced the level of profitability of many metropolitan businesses, which can be expected to have a negative impact upon future growth and investment opportunities for these firms.

Finding 5.3 – page 97

The Committee finds that, as a direct result of the premium increases, some metropolitan businesses have either reduced employee numbers or downwardly revised their recruitment plans.

Finding 5.4 – page 104

The Committee finds that the increase in WorkCover premiums in 2000/01 stalled the implementation of expansion plans for many regional firms. This may have longer-term ramifications for the future prosperity of many rural and regional Victorian towns and centres.

Finding 5.5 – page 105

The Committee finds that the significant increase in WorkCover premiums in 2000/01 has resulted in many rural and regional employers downgrading their future hiring intentions. Given that many people living in rural and regional Victoria already face limited employment options compared to those available to the metropolitan based population, the relative impact of the WorkCover increases on rural and regional Victorians will be even greater than that experienced by the metropolitan based labour force.

Chapter Six: Impact of the 2000/01 Premium Increase on the State Budget and on Government and Non-Profit Agency Service Provision

Finding 6.1 – page 108

The Committee finds that the supplementary funding provided to government departments and agencies and non-profit organisations did not provide an offset to WorkCover premium increases in 2000/01 that had resulted from the decision to automatically round up industry rates, the introduction of the GST or changes to remuneration levels or claims experience.

Finding 6.2 – page 108

The Committee finds that the Government should have, at the time premiums were set, determined the impact on government departments and agencies and non-profit organisations and, as a consequence, announced the level of supplementary funding at a much earlier time.

Finding 6.3 – page 109

The Committee finds that, whilst it recognises there are many safety management issues arising from the specific nature of the work of some NGO's, in general the provision of additional funding to compensate non-profit organisations for poor claims experience is inappropriate.

Finding 6.4 – page 109

The Committee finds that there was a level of confusion and uncertainty caused as a result of the delayed announcement.

Finding 6.5 – page 109

The Committee finds that the financial impact of the policy decision to round up industry rates should have been included in the supplementary funding that was provided to government departments and agencies and non-profit organisations.

Finding 6.6 – page 111

The Committee finds that the supplementary funding to be provided to government departments and agencies over the forward estimates period, as announced in the 2000/01 Budget Update, understates the real budgetary impact of the reintroduction of common law on the budget sector.

Finding 6.7 – page 111

The Committee finds that the supplementary funding allocated in the 2000/01 Budget Update is, under reasonable assumptions, at least \$4.5 million below the level required to provide government departments and agencies with a full cost offset over the forward estimates period of the increased WorkCover premium incurred as a direct result of the reintroduction of common law access.

Finding 6.8 – page 112

The Committee finds that, for those budget sector entities that received supplementary funding, there should have been no adverse impact on service provision arising from the reintroduction of common law.

Finding 6.9 – page 113

The Committee finds that the policy of requiring public sector entities to internally fund premium increases arising from deteriorating claims experience or an increase in remuneration levels is appropriate.

Finding 6.10 – page 114

The Committee finds that the provision of supplementary funding to government departments and agencies did not include those public sector agencies that failed to meet the definitional test for budget sector inclusion.

Finding 6.11 – page 114

The Committee finds that those public sector entities that have been excluded from supplementary funding, and that have no or only limited means to pass on the additional cost associated with the reintroduction of common law, should be granted additional funding to compensate for the cost increase.

Finding 6.12 – page 116

The Committee finds that, as a direct result of the reintroduction of access to common law, Victorian municipalities in aggregate have incurred a \$4 million increase in their annual WorkCover premiums.

Finding 6.13 – page 116

The Committee finds that any Victorian local council unable to internally fund WorkCover premium rises through increased efficiencies will necessarily be faced with the option of increasing rates and services or reducing services to ratepayers.

Finding 6.14 – page 124

The Committee finds that non-profit and community organisations were not fully compensated by the State Government for the additional cost burden arising from the reintroduction of access to common law.

Finding 6.15 – page 124

The Committee finds that the financial viability of the non-profit and community sectors was seriously impacted upon by the increases to WorkCover premiums in 2000/01.

Finding 6.16 – page 124

The Committee finds that the increase in WorkCover premiums in 2000/01 reduced the ability of non-profit and community sector organisations to maintain the level of service they provide.

Finding 6.17 – page 124

The Committee finds that NGO's were compensated by the State Government for the proportion of services which they deliver as a result of State Government funding for those services.

Finding 6.18 – page 125

The Committee finds that services NGO's deliver as a result of private funding was not compensated for as WorkCover costs have always been borne by the NGO's for those services they fund privately.

Chapter Seven: Compensation and Suggested Changes for the Future

Finding 7.1 – page 133

The Committee finds that no claim bonus schemes, such as that which operated under WorkCare if they applied to all employers, distort financial incentives as small employers can receive considerable subsidies through the funding of bonuses (mainly paid to small employers as the probability of a claim against these employers is low) from penalties applied to employers with claims (predominantly larger employers).

Recommendation 7.1 – page 136

The Committee recommends that the Victorian WorkCover Authority continue to investigate available options for the introduction of a group improvement rebate system into the WorkCover scheme. The Committee recommends that the Victorian WorkCover Authority continue to undertake extensive consultation with key stakeholders prior to deciding on a preferred option.

Recommendation 7.2 – page 136

The Committee recommends that the Victorian WorkCover Authority investigate the potential to, and the level of support for, increasing the weight applied to the actual claims experience of individual small and medium-sized employers in the determination of their premiums.

Finding 7.2 – page 138

The Committee finds that Victorian employers received neither sufficient nor timely information prior to the implementation of the policy changes introduced in 2000/01, other than changes relating to restoration of common law, and as a direct result some businesses experienced unnecessary budgetary and cash flow difficulties.

Recommendation 7.3 – page 138

The Committee recommends that, in future, any policy changes that can be expected to significantly impact upon premium levels should be effectively and extensively communicated to Victorian employers as early as possible and, in all cases, well in advance of the dispatch of initial premium notices.

Recommendation 7.4 – page 141

The Committee recommends that, in future, policy changes should be developed and implemented in a way which allows sufficient time to notify employers and not result in delays in the mail out of initial premium notices.

Recommendation 7.5 – page 143

The Committee recommends that the Victorian WorkCover Authority provide additional information and clearer explanation of the means by which premiums are calculated so that employers are more readily able to understand the process by which their premiums are determined.

Recommendation 7.6 – page 145

The Committee recommends that the Victorian WorkCover Authority increases the amount of information publicly available on the WorkCover scheme by posting actuarial reports and aggregated claims data on the Authority's Internet site, while ensuring that it does not provide information that might identify individual companies.

Recommendation 7.7 – page 150

The Committee recommends that, as part of the Victorian WorkCover Authority's current internal review, the Authority evaluate current procedures for the incorporation of employer input into claims determination. In particular, where an employer strongly questions the legitimacy of a claim, the employer is accorded genuine opportunity to have its position given full consideration.

Recommendation 7.8 – page 152

The Committee recommends that the Victorian WorkCover Authority investigate the prevalence of multiple hearing loss (or similar) claims being lodged against an individual employer or against employers in the same regional location. Further, the Committee recommends that the Victorian WorkCover Authority investigate the legality of such occurrences in relation to the Accident Compensation Act 1985, the Accident Compensation (WorkCover Insurance) Act 1993 and any ancillary legislation.

Recommendation 7.9 – page 155

The Committee recommends that the Victorian WorkCover Authority, in consultation with key stakeholders, investigate the issue of staff differentiation by workplace function to ensure that employee functions are aligned with true risk where it can be demonstrated that employees are not exposed to the working environments of other higher-risk employees.

Recommendation 7.10 – page 156

The Committee recommends that the Victorian WorkCover Authority, in consultation with key stakeholders, investigate the issue of, and options for, the allocation of costs of long-term and degenerative injury claims.

Recommendation 7.11 – page 159

The Committee recommends that the State Government refer the issue of enhancing occupational health and safety awareness programs for students and teachers in Victorian schools to the Department of Education for further investigation.

Recommendation 7.12 – page 161

The Committee recommends that the Victorian WorkCover Authority, in consultation with key stakeholders, investigate the issue of succession with a view to minimising the degree of distortion that this policy is having on the endeavours of responsible employers to expand their business operations.

Chapter 1: Introduction

1.1 Terms of Reference

On 6th September 2000, the Legislative Council of Victorian Parliament issued the Economic Development Committee with a Reference to inquire into, consider and report on WorkCover premiums for 2000/01. The Reference included an examination of the following:

- the reasons for the level of those premiums;
- the manner in which those premiums were determined, both in aggregate and for individual industry classifications and employers;
- the impact which those premiums have had and can be expected to have on economic activity and employment in aggregate and in metropolitan, regional and rural Victoria;
- the impact which those premiums have had and can be expected to have on the State budget and on the provision of services by government departments and agencies, by local government and by non-profit and community organisations;
- whether the Government can or should take action to reduce or compensate for any such adverse impacts; and
- what changes should be made to the manner in which WorkCover premiums are determined in future.

The Committee was required to table an Interim report in Parliament by 30th November 2000 and a Final Report by 31st March 2001.

1.2 Process for Gathering Evidence

This report is based on evidence received through a large number of written submissions and an extensive series of public hearings held throughout Victoria.

The Terms of Reference was advertised in the major daily newspapers on 25th September 2000. Seventy-three written submissions were received from a wide

range of interested parties including businesses, industry bodies, government agencies, consulting actuaries and community and non-profit organisations. A list of written submissions is provided in Appendix 2 (page 229).

The Committee's Terms of Reference required investigation into a number of separate areas in which input would be required from different organisations.

In order to address the first two parts of the Reference, the reasons for the level of the premiums and the manner in which those premiums were determined, the Committee called the Victorian WorkCover Authority to give evidence at a public hearing on 27th November 2000. The Committee had already received a detailed written submission from the Authority dealing with these issues.

The Authority provided further evidence to the Committee at a hearing held on 9th April 2001. A number of matters remained outstanding at the conclusion of this hearing to which the Authority provided a series of written responses to the Committee.

The Committee also studied the *Report of the Working Party on Restoration of Access to Common Law Damages for Seriously Injured Workers (February 2000)*, which detailed options for restoring common law access in response to the Bracks Government's 1999 pre-election commitment.

Evidence received from the Department of Treasury and Finance, and a number of consulting actuaries, also addressed the issue of the reasons for the level of the premiums and the manner in which they were determined.

The third part of the Committee's Reference required an assessment of the impact which the 2000/01 WorkCover premiums have had and could be expected to have on economic activity and employment in aggregate and in metropolitan, regional and rural Victoria. In its endeavours to investigate this matter, the Committee conducted a series of public hearings throughout Victoria to hear first hand from businesses the extent of their WorkCover premium increases and its resulting impact on their business.

The majority of these hearings were undertaken in regional Victoria (refer Appendix 3, page 235). The Committee also received input from a number of metropolitan-based businesses during public hearings conducted in the Cities of Kingston and Banyule.

A number of written submissions from businesses also dealt with the economic impact of the premium increases on their individual businesses.

The Committee was unable to adequately determine the full impact that the 2000/01 premiums have had on economic activity and employment in aggregate in the State. However, in an effort to address this issue, the Department of Treasury and Finance provided the Committee with a report that it had commissioned from the National Institute of Economic and Industry Research (NIEIR) to quantify the impact of the increase in WorkCover premiums in 2000/01 upon employment and economic activity in Victoria. Details of the NIEIR study are reported in Chapter 5.

Part four of the Committee's Terms of Reference required an examination of the impact that the 2000/01 WorkCover premiums have had and could be expected to have on the State budget and on the provision of services by government departments and agencies, local government and non-profit and community organisations.

Evidence was received from the Department of Treasury and Finance on the impact of the premium changes on the State budget. The Committee received a number of written submissions and took evidence at public hearings from local government and non-profit and community organisations on the impact of the premium increases on their service delivery. This is dealt with in Chapter 6.

Many businesses that gave evidence to the Inquiry commented on possible changes to the manner in which WorkCover premiums are determined in future and whether the Government should compensate businesses for any adverse impacts as a result of the recent premium increases. These issues are examined in Chapter 7.

1.3 Interim Report

The Committee's Terms of Reference required an Interim Report to be tabled in Parliament by 30th November 2000 with a Final Report tabled by 31st March 2001.

The Committee tabled a brief interim report in Parliament on 30th November 2000. This report provided a state of progress of the Committee's Inquiry in order to meet the reporting requirement for an interim report. At that time, the Committee had not reached a position whereby any findings or recommendations could be reported to the Parliament.

In the event of the large workload of the Committee, the large volume of evidence gathered throughout Victoria, and the decision to seek further evidence from key witnesses such as the Victorian WorkCover Authority, the Department of Treasury and Finance and the Minister for WorkCover, the Committee was unable to complete its investigations in time to table a Final Report by 31st March 2001.

Again, in order to meet this reporting deadline, the Committee tabled a second interim report on 21st March 2001 providing an update of the Inquiry's progress.

1.4 Minister for WorkCover

The Committee wrote to the Hon. Bob Cameron, MP, Minister for WorkCover, on 23rd April 2001 inviting him to give evidence at a future public hearing. Unfortunately, at the time of finalising this Report, the Minister had not accepted the Committee's invitation to attend a hearing.

During the course of the Inquiry, it became clear that the Minister had apparently not been correctly briefed in relation to the WorkCover premium increases. On a number of occasions, both in Parliament and publicly, the Minister indicated that 29 per cent, 30 per cent or 31 per cent of businesses are paying a lesser premium/premium rate.

Subsequent information provided to the Committee by the Victorian WorkCover Authority indicates that the Minister was clearly incorrect as only 18 per cent of employers had a reduction in premium rate and only 7 per cent of employers had a decrease in premium.

⇒ **FINDING 1.1**

The Committee finds that given the significant nature of the changes introduced to the WorkCover scheme in 2000/01, the Minister's decision not to provide evidence to the Committee's investigation of the impact of these changes is of concern.

⇒ **FINDING 1.2**

The Committee finds that, as the Minister responsible for overseeing the workplace health and safety of all Victorians, Minister Cameron is to be admonished for his reluctance to appear before the Committee and for publicly providing incorrect information on a number of occasions indicating much larger decreases in premiums/premium rates than had actually occurred.

CHAPTER 2: OVERVIEW OF THE VICTORIAN WORKCOVER AUTHORITY AND THE VICTORIAN WORKERS' COMPENSATION SCHEME

2.1 Victorian WorkCover Authority Responsibilities

The Victorian WorkCover Authority (the 'Authority') is the statutory body responsible for the management of workplace health and safety, public safety and workers' compensation arrangements in Victoria. The Authority is charged with administering legislation of the Victorian Parliament covering:

- health, safety and welfare in the workplace under the *Occupational Health and Safety Act 1985*;
- workers' compensation and the rehabilitation of injured workers under the *Accident Compensation Act 1985* and the *Accident Compensation (WorkCover Insurance) Act 1993*;
- employer insurance and premium under the *Accident Compensation (WorkCover Insurance) Act 1993*;
- explosives and other dangerous goods under the *Dangerous Goods Act 1995*;
- the transport of dangerous goods by road under the *Road Transport (Dangerous Goods) Act 1995*; and
- high-risk equipment used in public places and on private premises under the *Equipment (Public Safety) Act 1994*.

Prior to the amendments to Victorian workers' compensation arrangements contained in the *Accident Compensation (WorkCover Insurance) Act 1993*, the previous scheme ('WorkCare') had allocated responsibilities between three separate branches: prevention, which was administered by a government department; rehabilitation, which was administered by two separate statutory authorities; and compensation.

However, ongoing evolution of the WorkCover scheme saw the Health and Safety Organisation (previously part of the then Victorian Department of Business and Employment) merged with the Authority on 2nd July 1996. From that time on, the

Victorian WorkCover Authority has been responsible for managing workplace health and safety, public safety and workers' compensation in Victoria.

2.2 Victorian WorkCover Authority Organisational Structure¹

An eight-member Board of Management, chaired since February 2001 by Mr. James MacKenzie, governs the Authority. Immediately prior to Mr. MacKenzie's appointment as Chairman, Professor Bob Officer had been Chair of the Authority. The Authority's Chief Executive Mr. Bill Mountford, who commenced with the Authority in May 2000, is a member of the Board. The Board reports to the Minister for WorkCover, the Hon. Bob Cameron, MP. At the time of the introduction of the new premium structure, Mr. Bob Officer was both the Chairman of the Board and the Authority's Chief Executive.

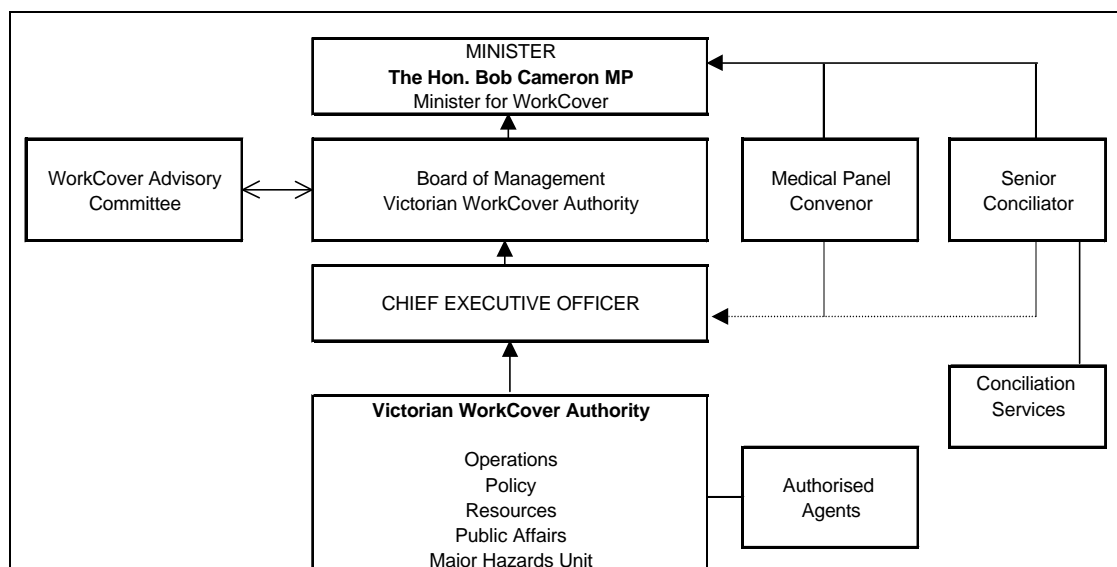
As at the 30th June 2000, the Victorian WorkCover Authority employed 663 permanent staff across six business units:

- Executive: responsible for stakeholder relations, corporate governance and Ministerial & Government liaison
- Public Affairs: communications, marketing, advertising, education & training and the WorkCover Advisory Service
- Policy & Planning: strategic policy & research, legislative services and planning & assessment
- Operations: field operations, provider services, compliance, licensing & technology and planning & development
- Resources: finance, information technology, administration, human resources and corporate legal
- Major Hazards Unit

In addition, 29 independent Conciliation Officers nominated by the Minister for WorkCover operated the WorkCover Conciliation Service.

¹ Victorian WorkCover Authority, *Annual Report 1999/2000*.

Chart 2.2: Victorian WorkCover Authority Organisational Structure



Source: *Report of the Working Party on Restoration of Access to Common Law Damages for Seriously Injured Workers*, February 2000, p.10.

2.3 Workplace Health and Safety

2.3.1 *Accident Compensation Act 1985*

The principal piece of enacting legislation covering Victoria's workers' compensation scheme ('WorkCover'), is the *Accident Compensation Act 1985*. The *Accident Compensation Act 1985* outlines the following objectives:

- (a) *to reduce the incidence of accidents and diseases in the workplace;*
- (b) *to make provision for the effective occupational rehabilitation of injured workers and their early return to work;*
- (c) *to increase the provision of suitable employment to workers who are injured to enable their early return to work;*
- (d) *to provide adequate and just compensation to injured workers;*
- (e) *to ensure workers' compensation costs are contained so as to minimise the burden on Victorian businesses;*
- (f) *to establish incentives that are conducive to efficiency and discourage abuse;*

- (g) *to enhance flexibility in the system and allow adaptation to the particular needs of disparate work situations;*
- (h) *to establish and maintain a fully-funded scheme;*
- (i) *in this context, to improve the health and safety of persons at work and reduce the social and economic costs to the Victorian community of accident compensation.*

In its submission to the Committee, the Victorian WorkCover Authority stated that, as the regulator of Victoria's workplace occupational health and safety management and return to work requirements, it focuses on three core functions aimed at delivering improved workplace safety performance: occupational health and safety; injury management and return to work; and compensation.

2.3.2 WorkCover Authorised Agents

The Victorian WorkCover Authority, as underwriter of the WorkCover scheme, has appointed eleven private insurance companies as authorised agents to provide various services to employers and employees in accordance with Authority guidelines. Agents receive a set fee from the Authority as well as a performance-based fee dependent upon the agent's success in achieving an improvement in its clients' claims costs and prevention and return to work strategies.

Whilst the Authority is charged with the responsibility for determining the premium of all Victorian employers (Chapter 3 details the methodology employed), WorkCover's authorised agents are responsible for its collection. According to the Victorian WorkCover Authority², agents are also expected to provide the following services to policyholders:

- advice on how to keep workplaces safe and prevent injuries;
- advice on employer and employee rights and responsibilities;
- responses to questions regarding an employer's policy, premium or claims;

² Victorian WorkCover Authority, *All about WorkCover for Employers*, p.13.

- advice on, and explanations for, any changes in an employer's policy or premium;
- assistance in developing rehabilitation programs and return to work plans for injured workers;
- assistance to employers who encounter difficulty in the payment of premiums; and
- assistance in organising reasonable retraining for injured workers.

Employers are free to choose which agent they wish to insure their workplace through and are allowed to change agents during a policy period (though only once in any given period).

2.3.3 Self Insurance³

The Victorian WorkCover Authority allows qualifying entities to self-insure, enabling them to manage their own claims and have full responsibility for meeting current and future claims liabilities. To be considered an eligible entity, firms must satisfy prescribed minimum standards indicating financial viability and be of required legal structure (that is, a non-subsidiary body corporate or a partnership or limited partnerships of which all the partners are bodies corporate).

In determining whether an employer meets the financial requirements to self-insure, the Authority estimates an employer's existing and future WorkCover liabilities (arising under the *Accident Compensation Act 1985* and at common law) in respect of past and future work injuries and then considers the employer's capacity to meet these liabilities.

A further pre-condition of self-insurance is that eligible employers become contractually liable for work injuries sustained prior to self-insurance. Additionally, an assessment fee of \$30,000 or 0.03 per cent (plus GST) of total remuneration (whichever is the lesser) is payable and, on commencement of self-insurance, the employer must provide a bank guarantee with a 50 per cent margin on assessed liabilities.

As at 31st December 2000 there were 32 approved self-insurers in Victoria.⁴

³ Victorian WorkCover Authority, *Guidelines on Eligibility for Prospective Self-Insurers*, pp.1-6.

⁴ Victorian WorkCover Authority, *Half-Yearly Report 2000*, p.19.

CHAPTER 3: THE REASONS FOR PREMIUM INCREASES IN 2000/01

Victorian WorkCover premiums rose significantly for many businesses in 2000/01 and this chapter explores the reasons for those premium increases. Further, the chapter also examines the distribution of the premium increases across Victorian employers. Following on from this investigation, Chapter 4 reports how premiums for 2000/01 were determined in aggregate and at both individual industry classification and employer levels.

3.1 Introduction

Policy initiatives introduced from the commencement of 2000/01 by the Victorian Government resulted in substantial increases in WorkCover premiums being experienced by many Victorian employers. Primary amongst these changes was the restoration of common law rights for seriously injured workers (and associated changes to benefits) in accordance with the Victorian Labor Government's September 1999 election policy commitment.

In addition to the reintroduction of common law access, the Board of the Victorian WorkCover Authority recommended to the Minister for WorkCover that several additional changes be introduced concurrently, and these were subsequently included in the determination of premiums for 2000/01. The additional changes introduced were:

- an increase in the deeming rate for employers who failed to supply a remuneration estimate to 20 per cent (previously it was deemed at the level of the Consumer Price Index (CPI));
- automatic rounding up to the WorkCover industry rate above each respective industry's true risk rate (previously it was rounded to the nearest WorkCover industry rate be that above or below the respective industry's true risk rate);
- some higher risk industries were moved through multiple industry rate categories to align them more closely with their true risk profiles (previously an industry could only move one industry rate category in any given year);

- the maximum cost of a single claim used in calculating a firm's experience factor was increased from \$150 000 to \$156 800; and
- the minimum premium and the registration fee were increased from \$100 to \$135.

In evidence before the Committee, Victorian WorkCover Authority Chief Executive Mr. Bill Mountford stated that these changes:

*"...were independent of a decision to reintroduce common law benefits."*⁵

The then Chairman of the Authority, Professor Bob Officer, in questioning before the Committee, accepted responsibility in recommending these changes and defended them.

In addition to the above State-based policy changes, the Commonwealth Government's introduction of the Goods and Services Tax (GST) from 1st July 2000 also impacted upon premium levels in 2000/01.

Each of these changes is described in more detail below.

3.2 Restoration of Common Law Rights

In the lead up to the September 1999 Victorian State election, the then Labor opposition's policy platform included a commitment to the restoration of access to common law rights for seriously injured workers. Following the change of Government in late 1999, the newly appointed Minister for WorkCover, the Hon. Bob Cameron, MP, established a Working Party, comprising representatives from various stakeholder groups, to examine and evaluate options for the restoration of common law rights. The Working Party comprised representatives from:

⁵ Minutes of Evidence, 27/11/00, p.3.

<i>Department of Treasury & Finance</i>	<i>Victorian WorkCover Authority</i>
<i>Self-Insurers Association of Victoria</i>	<i>Stringer Clark Solicitors</i>
<i>Victorian Trades Hall Council</i>	<i>Australian Industry Group</i>
<i>Australian Workers' Union</i>	<i>Gadens Lawyers</i>
<i>Construction, Forestry, Mining & Energy Union</i>	<i>Victorian Employers' Chamber of Commerce & Industry</i>

The Working Party's Terms of Reference was as follows:

"Taking into account the Government's policy objectives:

- fair and equitable benefit levels that provide adequate statutory benefits for people with long term incapacity for work or permanent impairment that seriously affects their work capacity and quality of life and covers all reasonable medical and similar costs arising from the injury;*
- proper recognition of the extent of injury;*
- efficient and effective delivery of benefits with minimum transaction costs;*
- premium levels competitive with other States which do not unfairly burden small business;*
- appropriate encouragement for resumption of work, including access to proper rehabilitation programs;*
- access to fair and equitable dispute resolution processes; and*
- a stable and fully funded Victorian WorkCover scheme.*

the Working Party is asked to:

- develop options for the restoration of access to common law damages, including the date of restoration and changes to statutory benefits;*
- prepare the costings and outline the implications of each of these options for costs, funding and premium levels; and*

- *recommend any measures that might need to be included as a consequence of the new arrangements.”⁶*

In addition to referring the Terms of Reference, the Minister for WorkCover advised the Working Party that the maximum premium consistent with Government objectives was the Australian standardised average premium rate. The national standardised average premium rate for 1998/99 was subsequently determined to be 2.39 per cent with the Victorian equivalent rate 2.18 per cent. Further, the Minister for WorkCover specified that the options developed by the Working Party should preferably achieve full funding of the scheme by June 2003.

The Working Party had completed its investigations by the end of February 2000 with the report presented to the Minister for WorkCover on 29th February 2000. The Working Party failed to reach agreement on a recommended approach for restoration of access to common law rights with the report instead incorporating a number of options reflecting the divergent views of Working Party members.

The report contained three options for the restoration of access to common law:

- option 1: restore common law with a 30 per cent whole person impairment (WPI) test and a narrative test for serious injury as it was prior to the abolition of common law in 1997;
- option 2: restore common law with a 30 per cent WPI test and no narrative test for serious injury; or
- option 3: restore common law with a 30 per cent WPI test and a new tighter narrative test for serious injury requiring a deprivation of earning capacity of at least 40 per cent.

In addition, the report presented three possible dates from which access to common law could be restored:

⁶ Working Party on Restoration of Access to Common Law Damages for Seriously Injured Workers, *Report of the Working Party on Restoration of Access to Common Law Damages for Seriously Injured Workers*, February 2000, p.6.

- 12th November 1997 – the date common law had been previously abolished (full retrospectivity);
- 20th October 1999 – the date on which the Bracks Government was sworn in (partial retrospectivity); or
- 1st July 2000 – no retrospectivity.

The Working Party report (and a supporting actuarial report⁷) contained costing details for all of the proposed options. Ultimately, the Government decided that its preferred model for the restoration of common law was option two with partial retrospectivity. On 11th April 2000, the Minister for WorkCover issued a press release announcing that access to common law rights for seriously injured workers would be restored from 20th October 1999. The press release stated that:

“...workers would be able to access damages for common law if they satisfied strict guidelines for serious injury under either a whole person impairment test or through a tightened narrative which would be assessed through the courts.

As was the case prior to November 11th 1997 a worker must have either a whole person impairment of 30 per cent, as assessed under the AMA Medical Guides 4th Edition, or satisfy the narrative test for serious injury...”⁸

As mentioned above, in order to access common law, workers must satisfy one of two gateways laid down to test for serious injury. Under the primary gateway, medical practitioners are responsible for determining the degree of whole person impairment (WPI) of an injured worker as specified in the American Medical Association Guide (4th edition). Where a dispute arises over the degree of impairment, the matter is referred to a Medical Panel.

⁷ Trowbridge Consulting, *Actuarial Costing of Options for the Working Party on Restoration of Access to Common Law Damages for Seriously Injured Workers*, February 2000.

⁸ Minister for WorkCover, *Going Forward: Government Delivers on Common Law Rights for Seriously Injured Workers*, Media release, 11 April 2000.

Under the second gateway, the narrative, the injured worker must have a permanent serious impairment or loss of bodily function, a permanent serious disfigurement, a permanent severe mental or behavioural disturbance or disorder, or the loss of a foetus. According to the Victorian WorkCover Authority:

“The test for the narrative will be determined by the courts, taking into account the consequences of the injury in terms of pain and suffering and economic loss. To pass the serious injury test the consequences must be “very considerable.”

Where the consequences of the injury result in “very considerable” pain and suffering only, the worker will be entitled to claim common law damages for pain and suffering but not economic loss.

To claim damages for economic loss the injured worker must show a loss of gross income of 40 per cent or more that will continue permanently.”⁹

An injured worker must wait twelve months after the date of the injury before submitting a common law claim to ensure that the injury has stabilised and all its consequences are known. An independent medical examination will then determine the level of impairment of the injured worker. A 30 per cent or greater impairment will automatically qualify the worker for access to common law litigation while an assessed level less than 30 per cent requires the worker to apply to WorkCover (or the worker's employer where the employer is self-insured) for a 'serious injury certificate'. Access to a serious injury certificate is dependent upon the narrative test guidelines outlined above.

In addition to the reintroduction of access to common law, changes were announced to the level of lump sum and weekly benefits payable to injured workers. For example, in the case of lump sum benefits, the minimum benefit payable for workers with a whole person impairment (WPI) of 10 per cent (a statutory non-economic loss benefit) increased from \$5 040 to \$10 300 from 1st July 2000.

⁹ Victorian WorkCover Authority, Fact Sheet, *Common Law Restored ... The Way Forward – Explaining Common Law*

Table 3.1 below details all the changes made to statutory non-economic loss lump sum benefits.

Table 3.1: Changes to Statutory Non-Economic Loss Benefits

Degree of WPI	Benefit to 30 th June 2000	Benefit from 1 st July 2000
Less than 10%	Nil	Nil
10% - 30%	\$5 040 +(WPI – 10) x 2 020)	\$10 300 +(WPI – 10) x 2 060)
31% - 70%	\$45 340 +(WPI – 30) x 3 280)	\$51 500 +(WPI – 30) x 2 220)
71% - 80%	\$176 310 +(WPI – 70) x 12 590)	\$180 300 +(WPI – 70) x 12 880)
Over 80%	\$302 250	\$309 100

Source: Victorian WorkCover Authority, Fact Sheet, *Common Law Restored... The Way Forward – Statutory Non-Economic Loss Benefits*.

Further, for claims submitted on or after 1st September 2000, weekly benefits will now include provision for an injured worker's regular overtime and shift allowances for the first 26 weeks of incapacity. This provision will apply where there has been an established pattern of shift work or overtime prior to the injury and where it can be shown that it would have continued after the date of the injury.

As a result of the reintroduction of access to common law and the changes to benefits outlined above, the average Victorian WorkCover premium increased from 1.9 per cent of remuneration in 1999/2000 to 2.18 per cent in 2000/01 – a 15 per cent increase (an additional 2 per cent increase was also implemented due to flow on effects from the GST, taking the average premium rate to 2.22 per cent – refer Section 3.7 for further details).

3.3 Increase in Deeming Rate for Remuneration Estimates

Prior to the commencement of each premium year, the Victorian WorkCover Authority writes to employers requesting that they provide an estimate of their remuneration for the upcoming premium year. In its submission to the Committee, the Authority reported that typically only around one half of all employers provided a remuneration estimate prior to the commencement of the policy period.

Before the change introduced in 2000/01, if an employer failed to provide a remuneration estimate to the Authority, the Authority would base their initial WorkCover premium for

the upcoming year on their previous year's remuneration, inflated by the Consumer Price Index (CPI). However, given the strong growth and low inflation environment that has typified the Australian economy in recent years, the Authority came to view this approach as providing many employers with an inherent incentive not to declare their remuneration. With many firms experiencing solid growth in their business through the late 1990s, and consequently strong growth in their remuneration bases, by not declaring a remuneration estimate they could effectively defer a portion of their WorkCover premiums until the end of the policy year.

The Authority's submission claimed that this resulted in the Authority inaccurately calculating premiums in aggregate which meant that either some of the initial premium costs which should have been paid by non-declaring employers were shifted to other employers, or there was a loss of initial premium income which was beneficial to employers but a cost to WorkCover. In his appearance before the Committee at a public hearing, the Chairman of the Victorian WorkCover Authority, Mr. James MacKenzie, explained that:

*"...in the past, without that incentive to disclose early being in the system, people were gaming the system, and therefore the Authority did not have a realistic understanding of the risk that it was managing in the scheme."*¹⁰

In order to remove this inherent incentive not to declare, the Authority determined to deem the remuneration of employers who failed to provide a remuneration estimate by 20 per cent in 2000/01 rather than by the rate of CPI. The Authority's submission stated that employers were notified of this change to the deeming rate when they were sent their preliminary premium packages on 15th March 2000. For those employers who failed to provide a remuneration estimate, their WorkCover premium for 2000/01 would have therefore included a 20 per cent deeming component.

Table 3.2: Comparative Progress in Provision of Remuneration Estimates

		1999/00	2000/01
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¹⁰ Minutes of Evidence, 9/4/01, p.671.

Date	Comment	Per cent of employers	Per cent of remuneration	Per cent of employers	Per cent of Remuneration
31 Mar	After preliminary letter sent	5	3	3	2
31 May	After calculation (normally)	40	37	49	47
30 Jun	After notices (normally)	43	40	54	53
31 Jul	After 2000/01 calc. & notices	46	44	57	57
31 Aug	After 2000/01 recal. started	49	47	62	64
30 Sep		51	49	64	69
30 Nov		54	51	68	82
30 Jun	Prior to certification	64	76		

Source: Victorian WorkCover Authority in correspondence to the Economic Development Committee dated 7 May 2001.

In further correspondence with the Committee, the Authority provided the above information on the provision of remuneration estimates by employers over the last two policy years.

The WorkCover submission advised that employers were entitled to provide a revised estimate of their remuneration at any time either before or during the policy period and have their premium recalculated. In addition, at the end of the premium period, once employers have provided their certified remuneration for the year, they are entitled to receive a refund if it is determined that their initial premium was too high given their actual remuneration.

Nonetheless, the imposition of the 20 per cent deeming rate in the same financial year that a 17 per cent general increase was to be applied, along with various other changes, was an unfair and unnecessary burden on employers.

⇒ **FINDING 3.1**

The Committee finds that the decision taken by the Victorian WorkCover Authority to deem the remuneration of employers who failed to provide a remuneration estimate by 20 per cent in 2000/01 was ill-timed and an excessive penalty on Victorian business.

The Committee notes that the Victorian WorkCover Authority has since acknowledged this, with the Chairman of the Authority stating that *"...clearly the decision to introduce deeming at 20 per cent was, with the benefit of hindsight, not the best decision that*

could have been made...”¹¹ and that it has subsequently decided to halve the deeming rate to 10 per cent for 2001/02.

⇒ **FINDING 3.2**

The Committee finds that the new deeming rate of 10 per cent is a more appropriate level to provide disincentives for non-declaring employers.

3.4 Rounding up of Industry Rates

The Victorian WorkCover Authority allocates each Victorian employer covered by the WorkCover scheme to an industry grouping on the basis of the “predominant activity” of that employer. Each industry grouping is in turn allocated an industry rate from the 18 industry rate categories in use by the Authority (see Appendix 4).

In allocating industry rates, the Authority first determines each industry’s underlying risk by dividing total industry based claims costs by total industry based remuneration. In previous years, the Authority would then round an industry’s underlying, or true, risk rate to the nearest industry rate, be that higher than or lower than the industry’s true risk rate. However, in 2000/01, this convention was changed and all rates were rounded up to the industry rate immediately above the true risk rate.

In its submission, the Authority stated that:

“Historically, the premium generated from small and medium-sized employers based on industry rates had not reflected the real costs of those employers to the scheme. As a result, large employers have long been cross-subsidising small and medium-sized employers through the revenue that the experience rating system collects from large employers.

This cross-subsidy was a legacy of the bonus and penalty system that applied before 1993. Under this system, smaller employers received considerable subsidies as a result of the funding of no claims bonuses

¹¹ Minutes of Evidence, 9/4/01, p.671.

(mainly paid to small employers as the probability of a claim against these employers is low) from the penalties applied to employers with claims (predominantly larger employers). Although WorkCover has progressively been removing this cross-subsidy, in 1999-2000, the cross-subsidy of small business still represented about 3 per cent of premium or \$50 million.”¹²

Further, the Authority’s submission stated that:

“This change in methodology has resulted in a further reduction in the level of cross-subsidy of small and medium businesses, within the premium system. Of the 275 industry classifications affected by an increase in industry rates in 2000-2001, 152 increased because the industry classification was rounded up, rather than down.”¹³

Section 4.1.3 of this report provides a detailed discussion of cross subsidies within workers’ compensation schemes.

The Committee believes that the decision to automatically round up industry rates has imposed an unfair cost burden on those industries whose true risk rate proves to be only marginally above one of the 18 industry rates. For example, should a particular industry’s true risk rate be calculated at 2.75 per cent, and another industry’s be calculated at 3.2 per cent, both will be rounded up to the industry rate of 3.26 per cent. Under the previous policy, the first industry would have been rounded down to the 2.70 per cent industry rate.

The Committee considers that the change implemented in 2000/01 has resulted in an inequitable outcome although the Authority indicated that this rounding up of industry rates was designed, in part, to reduce the cross subsidy from large businesses to small businesses as industry rates affect smaller businesses more than larger ones.

RECOMMENDATION 3.1

¹² Submission No. 27, Victorian WorkCover Authority, p.25.

¹³ Ibid, p.26.

The Committee recommends that the Victorian WorkCover Authority give consideration, without increasing the cross subsidy from large to small employers, to reversing its decision to automatically round up industry rates and in future allocate industries to the nearest rate above or below their true risk rate as was the case prior to 2000/01.

3.5 Multiple Industry Rate Category Movements for Higher Risk Industries

Prior to the 2000/01 premium year, the Authority maintained a convention that an industry classification could only move one industry category in any one year (be it up or down). The intent behind this rule was to shield employers from sudden increases to the level of their premiums.

In its submission, the Authority stated that:

“Under the previous levy system (a bonus and penalty system), the rate applying to many industries did not reflect the industry’s underlying risk.”

And with employers shielded from multiple industry rate movements:

“This meant that industries slowly moved to a rate reflective of their true risk level. However, in 2000-2001, a few small industry groups were still considerably below their true risk rate.”¹⁴

In evidence before the Committee, the Authority’s then Chairman Professor Bob Officer and Chief Executive Bill Mountford explained the decision to remove the one category shift cap:

“Prof. OFFICER – The reason for it this year so far as I am concerned was to try to make the system that much purer in the sense of bringing

¹⁴ Ibid, pp.26-27.

the industry rates into line earlier and then, of course, the individual employers would creep up at the capped rate if their industry rate, for example, went up quite a few blocks. They would creep up on that over time at the 20 per cent rate.

Mr. MOUNTFORD – As I am advised within the authority, one of the other factors was to make sure the players in the industry understood the true risk of the activities they are involved in in their workplaces. As I am advised by people in the authority responsible for making the changes, there was a sense that these were residual categories that had not moved. It was felt that in order for those people to start to address the problems in those industries, because they were industries that moved significantly upwards it was time to get the signals right to those people.”¹⁵

And further:

“Prof. OFFICER – From my perspective my guess is that because the premium increases were going to be large this period, this was an opportunity to try to get through the message that some industries are not reflective of their true rate or experience.”¹⁶

The Authority advised the Committee in its submission that the multiple movement of industry rate categories had affected 66 industry groups out of the 275 industry groupings that had seen their industry rates increased in 2000/01. However, the Authority claimed that, for the majority of small and medium-sized employers (accounting for approximately 98 per cent of all employers registered with the Authority), the removal of the one category shift rule was immaterial as they were effectively quarantined from the change in policy. The methodology used to determine WorkCover premiums includes a premium rate cap to ensure that small and most medium-sized employers can only experience a maximum 20 per cent increase in their premium rate in any given year (20 per cent being the average increment between each industry classification).

¹⁵ Minutes of Evidence, 27/11/00, pp.4-5.

¹⁶ Minutes of Evidence, 27/11/00, p.5.

However, the quarantine provided by the premium rate cap only protects an eligible employer from experiencing a multiple category movement in any one year. Eligible employers classified under the 66 industry groupings that experienced multiple category movements in 2000/01 will experience further 20 per cent premium rate rises in future years until they reach their newly determined industry rate (assuming no change to their industry's underlying risk rate). Table 3.3 below provides some examples of industries that experienced multiple industry rate rises in 2000/01.

Table 3.3: Multiple Industry Rate Movements in 2000/01 – Example Industries

Description	True risk rate	1999/00 industry rate	2000/01 industry rate	No. of category moves
Combined meat cattle with cereal grains	5.62	2.70	5.78	+4
Aerial Agricultural Services	4.84	0.86	5.78	+10
Prawn Fishing	5.28	1.84	5.78	+6
Non ferrous metal ores mining, dressing, etc	2.56	0.86	2.70	+6
Limestone quarrying for agricultural purposes	2.70	0.86	3.26	+7
Clays quarrying	2.68	0.86	2.70	+6
Petroleum exploration (own account)	2.50	0.86	2.70	+6
Mineral exploration NEC (own account)	2.62	1.04	2.70	+5
Alcoholic beverages NEC manufacturing	4.61	0.86	4.78	+9
Tobacco products manufacturing	5.75	0.86	5.78	+10
Plaster products & expanded minerals	6.68	3.95	7.00	+3
Stone products manufacturing	7.40	5.78	8.40	+2
Bread vendors	1.91	0.86	2.23	+5
Labour Associations, Councils Or Unions	2.36	0.86	2.70	+6
Parks and Zoological Gardens	2.32	1.26	2.70	+4
Women' s Hairdressing & Beauty Salons	3.71	1.84	3.95	+4
Crematoria and Cemeteries	3.94	1.26	3.95	+6

Source: Victorian WorkCover Authority, *Submission to the Economic Development Committee Inquiry into Premiums for 2000/01*, 31 October 2000, p.28.

Given the multiple industry rate increases implemented in the 2000/01 premium year, smaller employers classified under the 66 industries affected must now either work to improve the overall workplace health and safety regimes of their respective sectors or face ongoing 20 per cent premium rate rises until they reach their prescribed industry rate categories.

The Committee notes that there were also five multiple industry rate decreases which reduced premiums for some employers.

⇒ **FINDING 3.3**

The Committee finds that smaller employers classified under any of the 66 industry groupings that experienced multiple industry rate rises in 2000/01 will continue to experience 20 per cent premium rate increments in future premium years until they reach their respective industry's prescribed rate unless the underlying risk of their industry reduces.

3.6 Increase in Maximum Single Claim Cost

When calculating either an employer's initial premium or its confirmed premium, the Authority takes into consideration the costs of any claims that the employer has lodged over the preceding two (in the case of the initial) or three (in the case of the confirmed) years. The claims cap was incorporated into the scheme design in order to protect employers from the impact of the full cost of any extremely large claims, which could jeopardise the financial viability of employers.

In 2000/01, the Authority increased the claim cap from \$150,000 to \$156,800 stating that the increase was in line with inflation. The Authority reports that currently 97 per cent of all claims have a total cost of less than \$156,800.¹⁷

3.7 Increase in Minimum Policy and Registration Fee

The Victorian WorkCover Authority increased the minimum premium and the registration fee in 2000/01 from \$100 to \$135 (\$148.50 inclusive of GST). Employers affected by these changes are those that fall into one of the following categories:

- an employer with a remuneration of less than \$7 500 who experiences a claim; or

¹⁷ Victorian WorkCover Authority, Fact Sheet, *WorkCover Premium 2000/01 – Changes to the Premium Parameters*.

- an employer with a remuneration above \$7 500 in a low risk industry with a calculated premium of less than \$135.

In the case of the first category, an employer that has a remuneration of less than \$7 500 per annum is not required to take out a WorkCover policy. The employer is deemed to have policy coverage and its employees are eligible for workers' compensation in the event of a workplace injury. However, should such an employer lodge a compensation claim, as of 2000/01 it is subject to a registration fee of \$135 (previously \$100).

An employer in the second category, one with remuneration above \$7 500 per annum, is required to take out a WorkCover policy. However, in some instances where the employer may be a very small business in a low risk industry, the employer's calculated WorkCover premium could be less than \$135. In this case, as of 2000/01, the employer is required to pay the minimum premium of \$135 (previously \$100).

In its submission to the Committee, the Authority claimed that:

"The increase brings fees in line with costs, as previously the costs of administering these two types of policies was considerably greater than \$100, and was being subsidised by other employers.

The increase in the minimum premium accounts for the cost of administering and maintaining the policy of insurance, which otherwise would have to be subsidised by other employers. WorkCover estimates that these costs amount to \$135 annually.

The increase in the registration fee...is still well below the cost of these policies. For each claim against an employer who is deemed to have a policy of insurance, the Authority currently pays \$575 to its agents for the costs incurred in registering the employer and managing the claim.

Approximately 44 400 employers equivalent to 22 per cent of Victorian employers have been affected by the increase in the minimum premium and registration fees.”¹⁸

3.8 Introduction of the Goods and Services Tax (GST)

Following the introduction of the goods and services tax (GST) on 1st July 2000, WorkCover premiums for 2000/01 were subject to the 10 per cent GST. The GST was payable on an employer's actual premium (that is, an employer's calculated WorkCover premium adjusted for the inclusion of the buy-out option, if exercised, or any recovery rebate due).

In order to be eligible to claim part or all of the GST paid on the 2000/01 premium from the Australian Taxation Office (ATO) as an input tax credit, an employer must be registered for the GST with the ATO. Any employer not registered for GST will be unable to claim input tax credits for the GST paid on their WorkCover premium.

In addition to the direct 10 per cent GST payable on WorkCover premiums from 1st July 2001, the Victorian WorkCover Authority decided to assign an additional 2 per cent general increase across all policies from 2000/01 to cover the costs to WorkCover associated with the Commonwealth Government's New Tax System (NTS). The additional 2 per cent general rise increased the average Victorian WorkCover premium rate from 2.18 per cent to 2.22 per cent. At 2.22 per cent, the total increase in the average premium rate in 2000/01 was 17 per cent.

Whilst taking evidence during the course of its Inquiry, the Committee heard from several witnesses who expressed concern that the Authority had increased premiums by an additional 2 per cent, over and above the 10 per cent GST, to cover costs associated with the introduction of the New Tax System.

The Authority has justified this additional 2 per cent increase as follows:

¹⁸ Submission No. 27, Victorian WorkCover Authority, p.41.

“The...2 per cent is the result of added costs to WorkCover associated with the Federal Government’s New Tax System on some services WorkCover provides to injured workers and expected increases in benefits.

For GST purposes WorkCover payments fall into two categories.

The first group includes the costs of administering the WorkCover scheme such as the cost of retraining an injured worker, payment for job placement services and WorkCover’s legal costs. WorkCover can claim input tax credits on the costs in this first group.

The second group includes such things as weekly benefits, lump sum payments, medical and like payments and the injured worker’s legal costs. Because employers in the vast majority of cases are able to claim the full input tax credit for the GST on their premium, WorkCover will not be able to claim any tax credit on the costs in this second group.”¹⁹

The Authority claims that independent actuaries employed to assess the extra cost to the Authority estimated it at 2 per cent of premium.

⇒ **FINDING 3.4**

The Committee finds that increases in 2000/01 Victorian WorkCover initial premium notices were as a result of the following factors:

- **the Victorian Labor Government’s policy decision to restore common law rights to injured workers which represented a 15 per cent increase in the average premium rate, plus a further 2 per cent to cover the flow on effects of the New Tax System;**
- **the Victorian WorkCover Authority’s decision to apply a 20 per cent deeming rate to employers who failed to supply an estimate of their workplace’s remuneration;**

- the Authority's decision to automatically round up to the WorkCover industry rate above each respective industry's true risk rate;
- the Authority's decision to move higher risk industries through multiple industry rate categories to align them more closely with their true risk profiles whereas previously an industry could only move one industry rate category in any given year;
- an increase in the maximum cost of a single claim used in calculating a firm's experience factor from \$150 000 to \$156 800; and
- an increase in the minimum premium and registration fee from \$100 to \$135.

3.9 Distribution of Premium Increases Across Victorian Employers

According to the Victorian WorkCover Authority submission, 94 per cent of employers registered with the Authority in 2000/01 were small employers with less than 20 employees.

Currently, the experience-based scheme operated by the Authority gives minimal weight to the actual claims experience of small employers in the calculation of their premiums, with the primary determinants being their respective industry rates and their remuneration.

The application of the 20 per cent cap for small and medium-sized employers (SME's) also means that, irrespective of industry rate movements, the maximum increase they can experience in their premium rate is 20 per cent while improved industry rate performance can result in reductions.

During the course of its inquiry, the Committee heard evidence from some employers who were of the view that WorkCover premiums are a 'tax on jobs' or, at the very least, a serious disincentive to employing additional staff. Though the Committee acknowledges that WorkCover premiums are an on-cost in the employment of staff, it disagrees with the premise that they represent a tax on employment. Workers' compensation schemes are, by their very nature, insurance schemes where it is the value of the firm's payroll

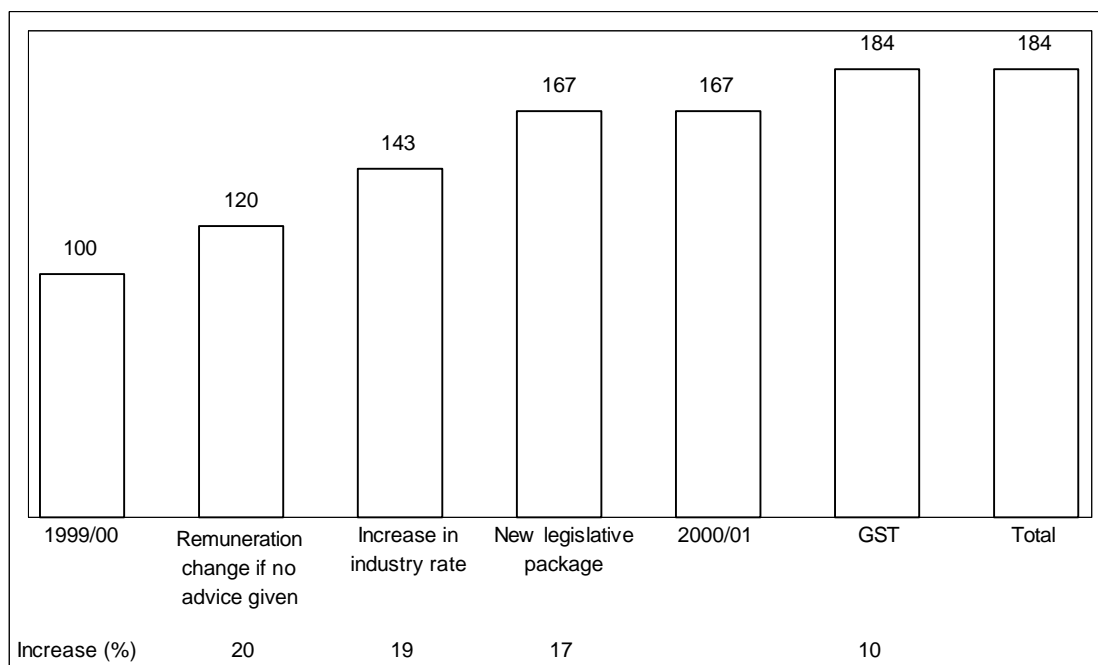
¹⁹ Victorian WorkCover Authority, *Frequently Asked Questions 3 - Initial Premium 2000*, 14 July 2000.

that is underwritten. That being the case, WorkCover premiums will necessarily increase as the level of a firm's remuneration increases, just as a comprehensive motor vehicle policy premium will increase as the underwritten value of the vehicle increases.

As previously stated, for the vast majority of WorkCover policyholders in 2000/01, the primary determinant of their premiums were their industry rates and total remuneration. However, in 2000/01, once any movement in these factors was incorporated into the initial premium calculation, the 17 per cent general increase was then applied. Finally, following application of the general increase, the 10 per cent GST was added.

Figure 3 illustrates the potential impact of movements in these variables. The figure incorporates a 20 per cent increase in remuneration in order to demonstrate the impact of the rise in the deeming rate applied to the remuneration of employers who failed to provide a remuneration estimate prior to the initial premium calculation in 2000/01. Additionally, it includes a 19 per cent increase representing an upward movement in a small employer's industry rate.

Figure 3: Impact of Industry Rate and Remuneration Increases on SME's



Source: Derived from the Victorian WorkCover Authority's, *Submission to the Economic Development Committee Inquiry into Premiums for 2000/01*, 31 October 2000, p.3 and subsequent investigation by the Economic Development Committee.

Though the average increment between industry rates is approximately 20 per cent, and the actual cap applicable to small employers premium rates is 20 per cent, the capping formula used by the Authority ensures that the majority of small employers will only experience a 19 per cent increase when they are assigned to a higher industry rate (refer Section 4.3 for further details).

Those employers who complied with the requirement to notify their remuneration estimates did not have an automatic 20 per cent increase on the previous year applied to them.

Figure 3 demonstrates that a small employer who experienced an increase in its industry rate and who also failed to declare a remuneration estimate prior to the initial premium calculation would have received an increase of at least 67 per cent in its premium over its 1999/00 premium, excluding GST, or 84 per cent once GST was added.

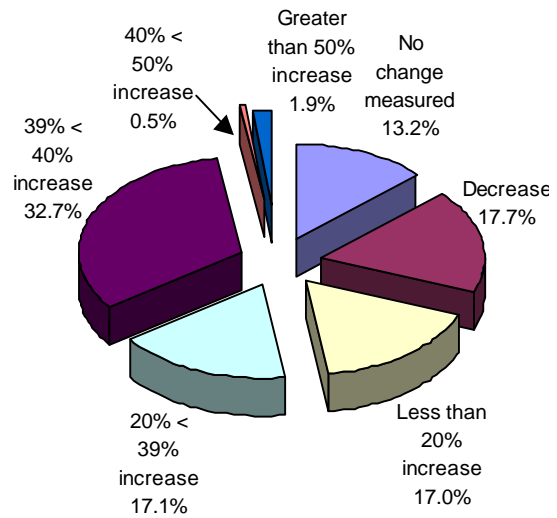
In the case where a small employer did provide a remuneration estimate and that estimate showed no change to remuneration levels, the increase experienced would have reduced to 39 per cent pre-GST or 53 per cent GST inclusive. Where such employers did notify unchanged remuneration estimates, their premium increases were effectively capped at approximately 40 per cent (excluding GST) with some experiencing increases less than this.

In correspondence to the Committee in June 2001, the Authority advised that there were 200 578 employers currently registered with the WorkCover scheme. The Authority provided a breakdown of these policyholders by remuneration band and by both the increases in their premium rate and their actual premium in dollar terms in 2000/01 over their levels in 1999/00.

3.9.1 Premium Rate – All Employers

Chart 3.1: Premium Rate Increases (All Employers)

Chart 3.1 reveals that 32.7 per cent of all Victorian employers experienced a 39 per cent increase in their premium rate in 2000/01. This is likely explained by the combination of an industry rate rise (delivering an effective 19 per cent increase) and the 17 per cent general increase to fund the restoration of access to common law for seriously injured workers.



In its written submission to the Inquiry, the Authority highlighted the following statement:

“2 per cent of employers had increases in premium rates in excess of 40 per cent. These were all large employers with a remuneration greater than \$10 million.”²⁰

²⁰ Submission No. 27, Victorian WorkCover Authority, p.2.

The extremely selective nature of this statement is clearly evident when the figures it presents are compared to those in Chart 3.1. Though the Committee accepts that only 2 per cent of Victorian employers received an increase in their premium rate in excess of 40 per cent, almost 33 per cent received an increase of approximately 39 per cent, 17 per cent an increase of between 20 and 39 per cent, 17 per cent an increase of less than 20 per cent, with nearly 31 per cent receiving no change or a decrease in their premium rate.

⇒ **FINDING 3.5**

The Committee finds that the Victorian WorkCover Authority's selective use of data in its submission to highlight only 2 per cent of employers had experienced a premium rate increase in excess of 40 per cent was, in this instance, less than forthright. The Authority's submission failed to highlight that almost 33 per cent of employers had received an increase in their premium rate of 39 per cent.

⇒ **FINDING 3.6**

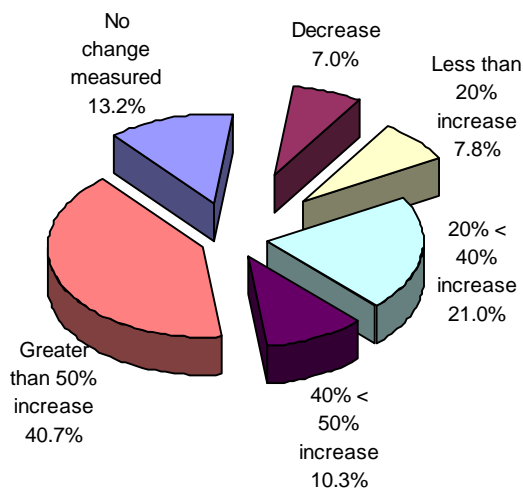
The Committee finds that approximately 33 per cent of all Victorian employers experienced a 39 per cent increase in their premium rate in 2000/01.

3.9.2 Dollar Premium – All Employers

Chart 3.2 illustrates that a total of 51 per cent of all employers experienced a rise in their actual premium of greater than 40 per cent, with 40.7 per cent receiving an increase greater than 50 per cent. Given that a total of 35.1 per cent of all employers experienced a premium rate rise of 39 per cent or more, increases in their dollar premiums of this magnitude were to be expected. With the Australian and Victorian economies having exhibited strong growth throughout both 1999 and 2000, many workplaces would have undergone solid expansion in remuneration levels which, when combined with the substantial increase in premium rates, would account for dollar increases of this scale.

Chart 3.2: Premium Increases (\$) (All Employers)

During its investigation, the Committee requested that the Authority advise the median premium increase in 2000/01, the median number in a distribution of a set of numbers being the middle observation that has 50 per cent of observations above it and 50 per cent below it. The Authority responded that the median increase was 36 per cent.



Note: Premium increases detailed in Charts 3.2, 3.4, 3.6 and 3.8 are exclusive of the 10 per cent GST. Increases in dollar premiums result from increases in premium rates, remuneration levels and employee numbers. May not sum to 100% due to rounding. Source: Data provided by the Victorian WorkCover Authority.

⇒ **FINDING 3.7**

The Committee finds that the median premium increase experienced in 2000/01 was 36 per cent.

⇒ **FINDING 3.8**

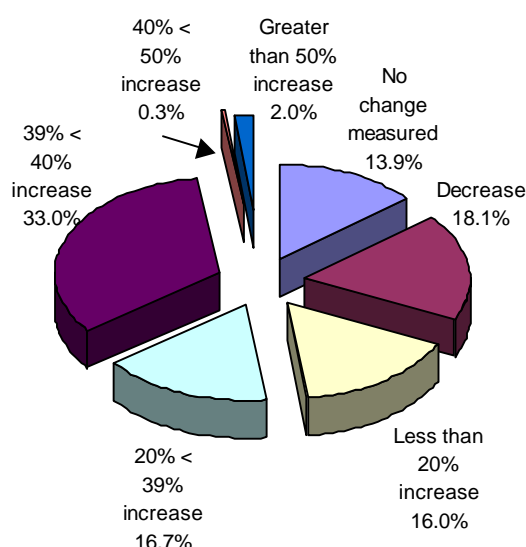
The Committee finds that 51 per cent of all employers experienced a rise in their dollar premium of greater than 40 per cent, with approximately 41 per cent receiving an increase greater than 50 per cent.

3.9.3 Premium Rate – Small Employers

The premium rate increases experienced by small employers, defined as those with total remuneration below \$650 000, were generally of similar magnitude to those incurred by all Victorian employers (refer Chart 3.3). Of the approximate 187 700 small employers registered with the Authority, 14 per cent experienced no measurable change in premium rate (for example, they may have been newly registered employers) and 18 per cent a decrease in premium rate. A further 16 per cent

incurred an increase of up to 20 per cent, 17 per cent an increase between 20 and 39 per cent, 33 per cent a rise of between 39 and 40 per cent and approximately 2 per cent incurred a rise in excess of 40 per cent.

Chart 3.3: Premium Rate Increases (Small Employers)



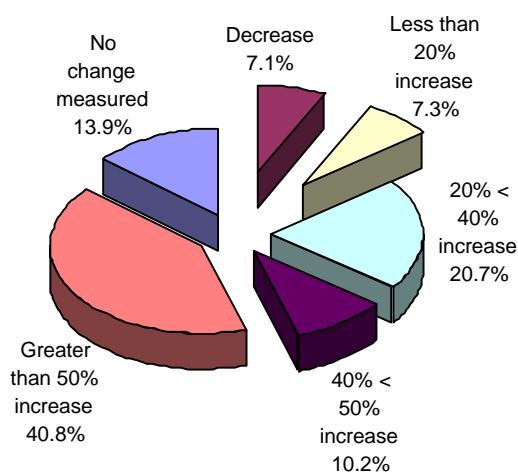
⇒ **FINDING 3.9**

The Committee finds that small employers who experienced an increase in their industry rates, and who also failed to declare a remuneration estimate prior to the initial premium calculation, would have received an increase of at least 67 per cent in their premiums over their 1999/00 premiums, excluding GST, or 84 per cent including GST.

3.9.4 Dollar Premium – Small Employers

In terms of movements in their actual premiums in 2000/01, Chart 3.4 illustrates that 14 per cent of small employers had no measurable change in their premium, 7 per cent experienced a decrease, around 7 per cent an increase less than 20 per cent, 21 per cent an increase between 20 and 40 per cent, 10 per cent an increase of 40 to 50 per cent and 41 per cent an increase of greater than 50 per cent.

**Chart 3.4: Premium Increases (\$)
(Small Employers)**

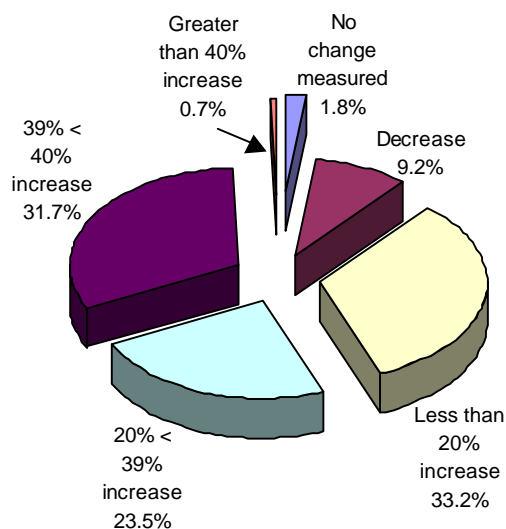


It should be noted, however, that increases to levels of employer remuneration would have been at least partially responsible for the extent of some of the larger increases.

3.9.5 Premium Rate – Medium Employers

Chart 3.5 reveals that the distribution of premium rate increases amongst medium-sized employers, those with total remuneration of between \$650 000 and \$4 million, was significantly different to that of small employers, this being the result of the weighting attached to claims experience. Of the approximate 10 500 employers in this category, 11 per cent had no measurable change or a decrease, 57 per cent experienced an increase up to 39 per cent and the remainder incurred a rise of 39 per cent or above.

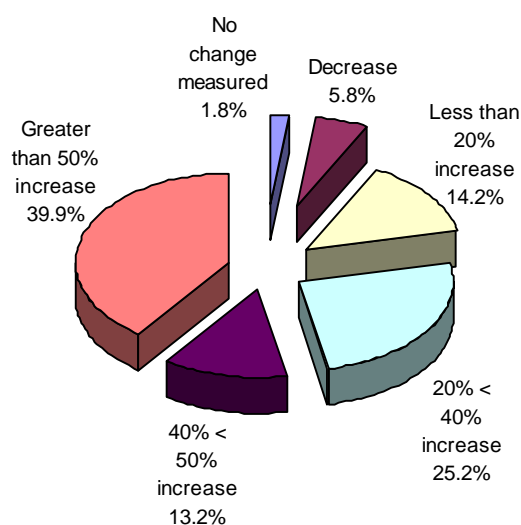
**Chart 3.5: Premium Rate Increases
(Medium Employers)**



3.9.6 Dollar Premium – Medium Employers

The impact of these changes to premium rates among medium-sized employers in terms of their actual dollar premium is displayed in Chart 3.6. The chart reveals that around 7 per cent experienced no change or a decrease, some 53 per cent incurred an increase of up to 50 per cent and the remaining 40 per cent experienced an increase of 50 per cent or greater.

Chart 3.6: Premium Increases (\$) (Medium Employers)



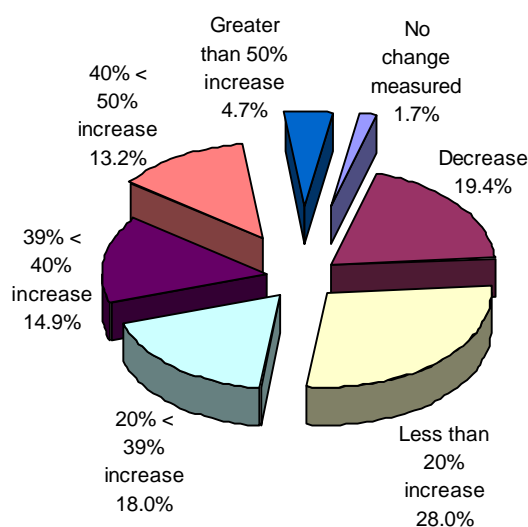
Large employers, being those with total remuneration above \$4 million, account for only 1.1 per cent (or around 2 100) of total employers registered with the WorkCover Authority. However, data provided by the Authority reveals that large employers nonetheless account for 48 per cent of total premium income. That being the case, movements in premium rates among large employers will have a significant impact on the premiums payable by small and medium-sized employers.

As the WorkCover scheme is a closed system, the predetermined estimate of total premium income required to fund the scheme in any given year is allocated among all employers according to their risk profiles and their size. Therefore, the large increases in premium rates incurred by many small employers in 2000/01 are significantly attributable to the generally lower increases experienced by large employers (refer Chart 3.7).

3.9.7 Premium Rate – Large Employers

Of all large employers registered in 2000/01, approximately 19 per cent experienced a decrease in premium rate (as opposed to 18 per cent of small employers) while a further 28 per cent incurred an increase of less than 20 per cent (compared to 16 per cent of small employers). An additional 18 per cent of large employers received an increase between 20 and 39 per cent (17 per cent of small employers) and 15 per cent incurred an increase of between 39 and 40 per cent (33 per cent of small employers). Finally, the premium rates of a further 18 per cent of large employers increased by more than 40 per cent (compared to 2 per cent of small employers).

Chart 3.7: Premium Rate Increases (Large Employers)

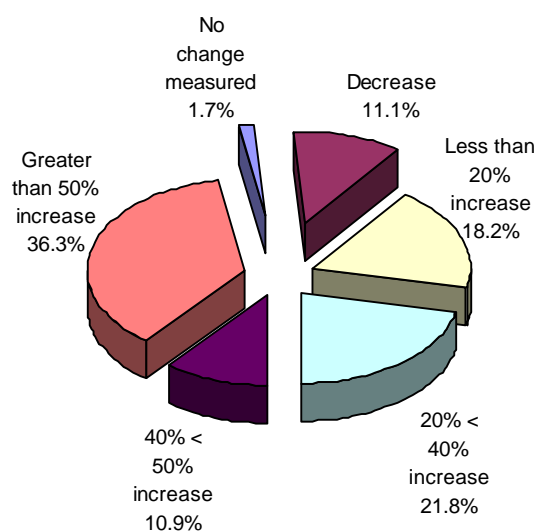


A significantly greater percentage of large employers (28 per cent) experienced a premium rate increase of less than 20 per cent (the majority of which is accounted for by the 17 per cent general increase applied to fund the reintroduction of common law) than was the case for small employers (16 per cent). This demonstrates that, whilst all employers incurred the 17 per cent general increase, a greater percentage of small employers also incurred an additional 20 per cent increase attributable to rises in their industry rates. Large employers were not exposed to the industry rate rises because the determination of their premiums is more heavily weighted toward their own claims experience. As a consequence, a much greater percentage of large employers received an increase of over 40 per cent compared to small employers (18 per cent versus 2 per cent) because of the greater weighting applied to large employers' own experience in their premiums.

3.9.8 Dollar Premium – Large Employers

In dollar terms, 13 per cent of large employers experienced no change or a decrease in their premiums, 18 per cent an increase less than 20 per cent, 22 per cent an increase of between 20 and 40 per cent, 11 per cent between 40 and 50 per cent and 36 per cent an increase greater than 50 per cent.

**Chart 3.8: Premium Increases (\$)
(Large Employers)**



In implementing changes to the WorkCover scheme in 2000/01, a stated objective of the Authority was to reduce in the extent of cross subsidy from large to small employers evident in the scheme (for a more detailed discussion refer Section 4.1.3).

⇒ **FINDING 3.10**

The Committee finds that in determining premiums for the 2000/01 policy year, the Authority removed from the scheme some of the cross subsidy that had historically flowed from large employers to small employers. In removing the cross subsidy, small employers in Victoria were allocated an increased share of the total burden for covering the cost of the WorkCover scheme, while the portion applied to large employers was reduced.

CHAPTER 4: THE DETERMINATION OF PREMIUMS IN 2000/01

The Committee was required by its Terms of Reference to examine the manner in which the 2000/01 WorkCover premiums were determined, both in aggregate and for individual industry classifications and employers.

Chapter 3 has dealt with the reasons why the 2000/01 premiums increased. Chapter 4 will now provide a detailed analysis of how the premiums were determined.

4.1 Allocation of the Cost of Common Law Restoration

In investigating the determination of premiums in 2000/01, the Committee initially sought to establish the process by which it was determined how to allocate the cost of restoration of common law among employers registered under the WorkCover scheme.

When questioned during a public hearing on the options for cost allocation that had been considered by the Authority, current Chief Executive, Mr. Bill Mountford, and then Chairman, Professor Bob Officer, offered the following advice:

“Mr. MOUNTFORD — All in all the Authority might have looked at a dozen different options, but there were only a few core variables or options that were really looked at in the final analysis because there were only so many degrees of freedom for change in that sort of model.

The CHAIRMAN — Are you able to provide us with those dozen options?

Prof. OFFICER — It would be hard. I am not sure how we would establish that. Mr. Mountford said a dozen; I would have said probably 10 to a dozen, because some would vary minimally and others more extensively. I remember that we looked at whether to add the 17 per cent or the 15 per cent before or after the remuneration adjustments and the other industry adjustments. In order to arrive at the final outcome we had to have time to run computer models, and one of the problems we had, which quite frankly restricted the number of options we could look at, was the time it took to develop the full impact of various options. We won a bit more time from the Government, which enabled us to do some more testing. I endeavoured to find out how

*many serious options there were but from the Board's point of view the final option, given the time constraints I referred to, was clearly the best that was put before us."*²¹

The Authority informed the Committee that options investigated by it had included whether to maintain the premium rate cap at 20 per cent or raise it to 25 per cent. Additionally, consideration was given to whether the cap should be applied before or after the 17 per cent surcharge and whether the surcharge should be applied equally across all employers or be based on past experience.

At a subsequent public hearing, the Authority's Chief Executive, Mr. Bill Mountford, further advised the Committee:

"...that the actual recommended option was to maintain the cap at 20 per cent and to apply the cap to the 1999/2000 base. The reason for that was that it provides continuity with the past, and secondly, that it retains the protection of small businesses while at the same time minimising the impact of the cross-subsidy.

*It was then recommended to distribute the 17 per cent – the surcharge – equally to all employers, because essentially it provides clarity to industry and ensures initial equity in the distribution. Over time basically premium rates will adjust according to where the common law actually falls."*²²

The Authority advised the Committee that the Authority's Board had delegated approval of the final model to the then Chairman and Chief Executive, Professor Bob Officer.

Other than that which is detailed above, the Committee was unable to determine any further the precise options investigated, or processes undertaken, by the Authority in allocating the cost of restoration of common law across registered employers in the WorkCover scheme.

²¹ Minutes of Evidence, 27/11/2000, p.8.

²² Minutes of Evidence, 9/4/2001, p.677.

4.2 Determination of Premiums in Aggregate

The principal objective of the Victorian WorkCover Authority, as set down in its Mission Statement, is to “...work with all Victorians to progressively reduce the incidence, severity and cost to the community of work-related injury and disease.”²³ An integral component in the Authority’s endeavours to achieve its mission is the premium system.

The Authority states that the overriding principles it uses to guide the setting of premiums are:

- *“collection of sufficient funds to meet the fully developed costs of the scheme;*
- *determination of premium in an equitable manner;*
- *minimisation of cross subsidies;*
- *stability (with premium varying with claims experience); and*
- *feedback on performance through financial incentives for employers to prevent injuries, improve claims management and encourage early return to work.”²⁴*

Each of these principles is addressed below.

4.2.1 Collection of Sufficient Funds to Meet Full Cost of the Scheme

The full cost of the WorkCover scheme is deemed to be the total ultimate claims cost for a particular injury year plus the operating and claims management cost of the Victorian WorkCover Authority in that year.²⁵ Necessarily then, any policy change that impacts upon either the level or availability of WorkCover benefits to injured workers will also impact upon total annual scheme costs. Similarly, changes to operating costs or claims management procedures will impact upon overall scheme costs. This being the case, the significant changes introduced in 2000/01 to both the level and availability of entitlements for injured worker impacted upon the expected cost of the WorkCover scheme for that year.

²³ Victorian WorkCover Authority, *Annual Report 1999/2000*, p.2.

²⁴ Submission No. 27, Victorian WorkCover Authority, p.1.

As detailed in Section 3.1 of this Report, upon the election of the Bracks Government, a working party was established under the direction of the Minister for WorkCover to develop and evaluate options for the restoration of common law rights to seriously injured workers. Ultimately, the Government's preferred model saw the restoration of common law with a 30 per cent whole person impairment (WPI) test and a new tighter narrative test for serious injury with partial retrospectivity (that is, a start date of 20th October 1999).

Further, Section 3.1 also details the introduction of the improved statutory non-economic loss (SNEL) and weekly benefits. Briefly, in the case of SNEL benefits, the minimum benefit payable for workers with a whole person impairment (WPI) of 10 per cent increased from \$5 040 to \$10 300 from 1st July 2000. With regards to weekly benefits, for claims submitted on or after 1st September 2000, payments will now include provision for an injured worker's regular overtime and shift allowances for the first 26 weeks of incapacity.

Actuarial advice provided to the working party by Trowbridge Consulting indicated that the model chosen for the reintroduction of common law, together with the improved weekly and SNEL benefits also introduced, would meet the additional parameters determined by the Minister for WorkCover that the scheme should achieve full funding by June 2003, whilst at the same time maintaining a nationally competitive premium level. In terms of premium competitiveness, the Working Party deemed this as requiring Victoria's standardised average premium rate to be no more than the national standardised average premium rate for 1998/99. At the time of the Working Party's deliberations, the expected national standardised premium rate was 2.39 per cent with the equivalent Victorian rate determined to be 2.18 per cent.

Trowbridge Consulting presented costings to the Working Party on the above options in two formats – expressed as a *full funding premium rate* and an *ongoing premium rate*. The full funding rate included the funding of the scheme deficit and the retrospective restoration access to common law but excluded a safety margin. As it is typically many years before an accurate assessment of the scheme cost for any one year is able to be

²⁵ Trowbridge Consulting, *Actuarial Costing of Options for the Working Party on Restoration of Access to Common Law Damages for Seriously Injured Workers*, February 2000, p.8.

ascertained, a target safety margin of 10 per cent of premium was considered prudent by the Working Party. The ongoing rate represented the expected cost of the scheme, once full funding had been achieved, plus the safety margin.

The advice provided to the Working Party by Trowbridge Consulting was that the common law restoration model chosen by the Government, and the associated statutory benefit changes, would require a full funding premium rate of between 2.09 and 2.13 per cent and an ongoing premium rate of between 2.14 and 2.18 per cent.

With regards the full funding premium rate, at the time that Trowbridge Consulting undertook its costings for the Working Party (late 1999 and early 2000), the expected scheme deficit as at 30th June 2000 was \$195 million. Trowbridge Consulting subsequently estimated that in order to fully fund the deficit by June 2003, in addition to funding the annual cost of the scheme in each injury year, a premium rate of between 2.09 and 2.13 per cent would be required.

In a press release issued by the Minister for WorkCover on 11th April 2000, it was announced that WorkCover premiums would increase to an average of 2.18 per cent of payroll in 2000/01 – an increase of 15 per cent over the 1999/2000 average premium rate of 1.9 per cent. The press release further announced that WorkCover's estimated unfunded liability had increased to \$296 million but that the average premium rate increase was still expected to return the scheme to full funding within three years.

Table 4.1 below presents a comparison of the disaggregated costings of the WorkCover scheme for the 1999/00 and 2000/01 policy years, as provided in the Working Party's report on the restoration of common law. At the time that these costings were estimated, the full cost impact of the New Tax System on the scheme was unknown.

Table 4.1: Actuarial Costings to WorkCover Scheme of Common Law Restoration

Benefit Type	1999/2000	Cost of Change	2000/2001
	% of wages	% of wages	% of wages
Weekly	0.64	-0.15	0.49
Common Law	..	0.42	0.42
Non-Economic Loss	0.26	-0.05	0.21
Medical	0.27	..	0.27
Other	0.19	..	0.19
Expenses	0.36	..	0.36
Safety Margin	0.18	0.06	0.24
Total	1.90	0.28	2.18

Source: Victorian WorkCover Authority, *Submission to the Economic Development Committee Inquiry into Premiums for 2000/01*, 31 October 2000, p.12.

In its submission to the Committee, the Victorian WorkCover Authority stated that it received further advice from Trowbridge Consulting in mid-May 2000 that the implementation of The New Tax System would increase the costs of the WorkCover scheme in the order of an additional 2 per cent of premium rates, bringing the average premium rate increase to 17 per cent and the average premium rate to 2.22 per cent.²⁶

The Authority's submission further advised the Committee that, with an average premium rate of 2.22 per cent and an expected remuneration base of \$68.7 billion, total premium revenue in 2000/01 was forecast at \$1.525 billion.²⁷

²⁶ Submission No. 27, Victorian WorkCover Authority, p.6.

²⁷ Ibid, p.10.

Table 4.2: Impact of the New Tax System (NTS) on WorkCover Scheme Costs

Component Cost	Restored Common Law (before NTS)	NTS Cost Reductions	NTS Cost Increases	Net Additional GST on Claim Settlement	Anticipated Cost (after NTS)
	\$m	\$m	\$m	\$m	\$m
Projected claim cost	1 064	-8	13	17	1 085
Expenses & Agency	244	-3	..	..	240
Safety Margin	168	..	..	..	168
Implementation costs	..	..	0.4	..	0.4
Additional NTS Liability	..	..	8.3	..	8
Base Premium Pool	1 475	-11	22	17	1 502
GST	..	..	..	..	150
Expected Premium Pool	1 475	..	..	..	1 652
Ave Premium Rate	2.18%	..	..	..	2.442%

Source: Victorian WorkCover Authority, *Submission to the Economic Development Committee Inquiry into Premiums for 2000/01*, 31 October 2000, p.13.

⇒ **FINDING 4.1**

The Victorian WorkCover Authority advised the Committee that the restoration of common law rights, changes to statutory benefits and the effects of the New Tax System were the main reasons for the increases in premium rates. The Committee therefore believes that no increases in premium rates would have been necessary to achieve full funding of the scheme had the Autumn 2000 legislation not been introduced, given the existence of a safety margin which was built into the previous average premium rate of 1.9 per cent. However, if the large number of claims submitted under the previous common law provisions had occurred even in the absence of the Autumn 2000 legislation, it would have extended the date when full funding was achieved to a latter time.

4.2.2 Determination of Premium in an Equitable Manner

With specific reference to the 2000/01 premium year, the reintroduction of common law and associated benefit changes, together with the flow on impact of the GST, saw a 17 per cent general increase applied to the WorkCover premiums of all Victorian policyholders. In evidence before the Committee, Victorian WorkCover Authority Chief Executive, Mr. Bill Mountford, stated that:

“WorkCover chose a method to pass on the costs of the new legislative package which showed no favour and was fair and equitable to all. In order to fund the increased benefits and meet the costs of the New Tax System, average WorkCover premium rates increased 17 per cent in 2000/01. To ensure that it arrived at a premium recommendation that was both fair and equitable and consistent with its aims, WorkCover considered and canvassed a number of options. The option that was finally recommended was the one that was, in the Board’s opinion, most consistent with the long-term objectives of WorkCover and the fairest and most equitable.”²⁸

However, the Committee heard evidence from some witnesses who were of the view that this was in fact an inequitable approach and that the increase should rather have been distributed amongst those employers with the worst claims performance history.

Mr. Andrew Wibberley, General Manager Manufacturing, Maxitrans Australia Pty. Ltd., Ballarat:

“...the changes introduced by the State Government with respect to the calculation of the premiums and the reintroduction of common law seem to have ignored individual performance and claims management and categorised all employers as being equal. This is grossly unfair and inequitable.”²⁹

²⁸ Minutes of Evidence, 27/11/00, pp.2-3.

²⁹ Minutes of Evidence, 12/12/00, p.153.

Mr. Stephen Hayden, Proprietor, Hayden Floors, Montrose:

“With the reintroduction of the right for an employee to sue, why should every employer be subjected to the increase? If an employer is negligent why are we all punished with higher premiums?”³⁰

The Committee empathises with those employers with sound occupational health and safety processes and good claims records that were forced to bear the cost of the reintroduction of common law. However, the Committee nonetheless believes that, given historical data limitations faced by the Victorian WorkCover Authority, the general increase was the most appropriate means of funding the reintroduction. The Authority stated in its written submission to the Committee that:

“The allocation of the additional costs in proportion to premium had the advantage of equitably spreading the anticipated initial costs of the new common law package and the flow on of The New Tax System across all employers. As the 17 per cent increase is added to the premium after re-calculation of the employer’s individual premium based on the employer’s latest available experience, the increase is applied in proportion to the size and risk of the employer. Over time, common law costs will be reflected in the experience rating system, such that industries or employers that have a greater likelihood of receiving these claims will bear the costs of these claims.”³¹

⇒ **FINDING 4.2**

The Committee finds that, given the lack of relevant historical comparative claims data on which to allocate the cost of common law reintroduction, the general increase was the next best available option. The Committee concurs with the Victorian WorkCover Authority’s assessment that, going forward, the ongoing cost of common law claims will increasingly be

³⁰ Submission No. 35, Hayden Floors.

³¹ Submission No. 27, Victorian WorkCover Authority, p.13.

carried by those industries and/or employers that have the worst claims profile.

Though the Committee accepts the rationale for the implementation of the general increase as being the most appropriate in the circumstances, it nonetheless recognises that many Victorian employers who view workplace safety as a critical element of their day-to-day business activities were severely impacted by the general increase. The Committee received evidence from numerous employers who, rather than receiving a reward for proactive workplace safety management in the form of a decrease in their premium, instead suffered an increase as a result of the general increase in WorkCover premiums.

⇒ **FINDING 4.3**

The Committee finds that general increases to premium rates that affect all employers, such as the one implemented in 2000/01 to fund the reintroduction of common law, interfere with the financial incentives that are a crucial component in an experience-based workers' compensation scheme.

4.2.3 Minimisation of Cross Subsidies

Cross subsidies in a workers' compensation scheme such as WorkCover occur when an employer's premium rate diverges significantly from its true underlying risk rate, resulting in the premium rates of other employers being misaligned with their true underlying risk rate. Cross subsidies can occur either between industry groupings, within industry categories or between small and large employers.

An integral component of an experience-based system is an employer's premium rate. The premium rate is intended to provide the employer with a strong price signal, through the inherent financial incentive, to minimise workplace injury with improved workplace safety practices. Significant cross subsidies within a scheme can seriously inhibit these incentives, thereby compromising the efficacy of the scheme.

Where high-risk industries pay premium levels below their true risk rates, and lower risk industries face higher premiums as a result, high-risk industries have reduced financial incentive to improve workplace safety. Similarly, lower risk industries have reduced financial incentives to improve their performance as they are already faced with premiums higher than their current performance justifies.

Cross subsidies between industries will occur where there are too few industry rates or categories resulting in, for example, the highest risk industries being allocated to an industry rate well below their underlying true risk rates. Similarly, should there be too few industry categories, resulting in employers with significantly varied risk profiles being pooled together, cross subsidies will exist between employers within the industry category. The constant challenge for experience-based workers' compensation schemes is to ensure that industry categories are broad enough to incorporate credible premium pools and risk, whilst at the same time ensuring they are narrow enough to reasonably reflect the true risk profile of each employer within the category.

Finally, cross subsidies can exist between large and small employers within a scheme, as was the case with Victoria's previous workers' compensation scheme, WorkCare. The Industry Commission's 1994 *Workers' Compensation in Australia* report noted that:

*"...under Victoria's previous scheme, WorkCare, the bonus/penalty system resulted in small employers as a group paying less in premium than the costs they brought to the scheme (while large employers were paying more than their share)."*³²

The Victorian WorkCover Authority submission gives some explanation of the historical large employer – small employer premium imbalance evident in the WorkCare scheme:

"This cross subsidy was a legacy of the bonus and penalty system that applied before 1993. Under this system, smaller employers received considerable subsidies as a result of the funding of no claims bonuses (mainly paid to small employers as the probability of a claim against these employers is low) from the penalties applied to employers with claims

(predominantly larger employers). Although WorkCover has progressively been removing this cross subsidy, in 1999/2000, the cross subsidy of small business still represented about 3 per cent of premium or \$50 million.”³³

History also goes some way in explaining why there has been a degree of cross subsidy between some industries in the current WorkCover scheme.

“Under the previous levy system...the rate applying to many industries did not reflect the industry’s underlying risk. To avoid sudden increases in rates, WorkCover adopted a policy of restricting movements in industry rates to one category up or down. This meant that industries slowly moved to a rate reflective of their true risk level. However in 2000/01, a few small industry groups were still considerably below their true risk rate.”³⁴

As outlined in Section 3.4, the Authority acted in the 2000/01 policy year to eliminate the remaining inter-industry cross subsidies by removing the restriction that industry rates could only move up or down one category in any given year. However, as the majority of employers affected by this policy change were quarantined from its full impact in 2000/01 because of the premium rate cap, it may still be several years before this cross subsidy is effectively totally withdrawn.

Even with this recent policy change by the Authority, a degree of cross subsidy from large employers to small employers will remain within the WorkCover scheme by design, as a direct result of the \$15 500 allowable remuneration deduction and the cap on premium rate increases. In evidence to the Committee, Victorian WorkCover Authority Chief Executive, Mr. Bill Mountford, stated that:

³² Industry Commission, *Workers’ Compensation in Australia*, Report No. 36, February 1994, p.64.

³³ Submission No. 27, Victorian WorkCover Authority, p.25.

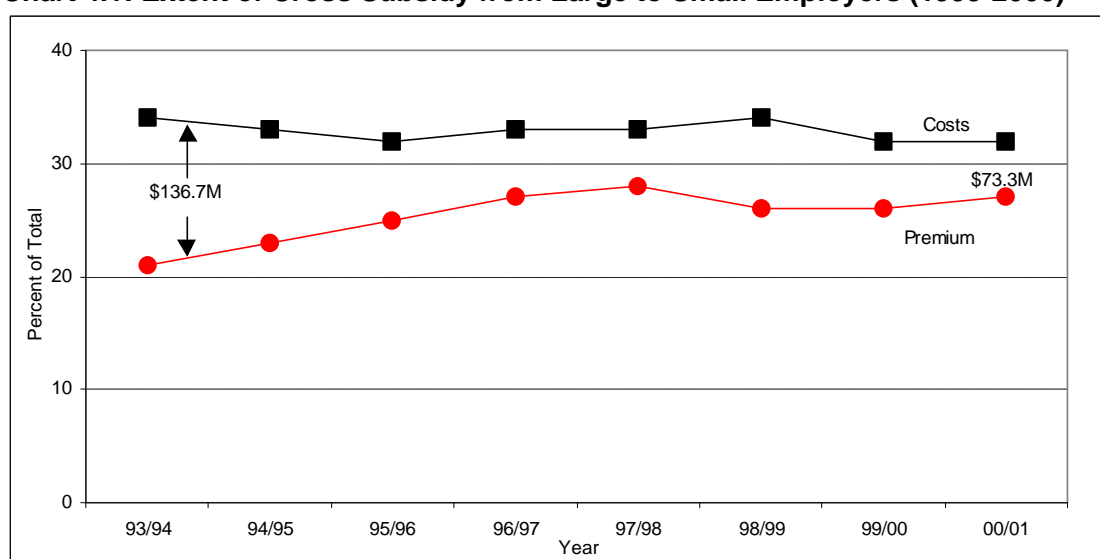
³⁴ Submission No. 27, Victorian WorkCover Authority, pp.26-27.

“...since about 1995/96 or 1996/97 there has been a relatively constant level of cross subsidy in the scheme. It is now sitting at around \$73.3 million...”³⁵

And that:

“...small business is paying 27 per cent of total premium, compared to their cost [to the scheme], which is 32 per cent.”³⁶

Chart 4.1: Extent of Cross Subsidy from Large to Small Employers (1993-2000)



Source: Victorian WorkCover Authority

⇒ **FINDING 4.4**

The Committee finds that any workplace safety and workers’ compensation framework critically requires financial rewards and penalties to be in place in order to provide appropriate encouragement to employers to manage their workplace safety.

⇒ **FINDING 4.5**

³⁵ Minutes of Evidence, 9/4/01, p.673.

³⁶ Minutes of Evidence, 9/4/01, p.674.

The Committee finds that the level of cross subsidy from large businesses to small businesses has been progressively reduced and is now at a historically low level. The Committee believes the small remaining subsidy from large business should not be reduced further in the medium term.

The Committee therefore supports the ongoing reduction in the degree of cross subsidies in the WorkCover scheme.

4.2.4 Stability

Stability, in terms of a workers' compensation scheme, equates to the ability of employers (and potential investors) to have a high degree of certainty that there will be minimal disruption to current policy settings and premium determination methodologies.

In its submission to the Inquiry, Trowbridge Consulting, a firm of consulting actuaries, set out seven criteria that it considers important when evaluating the efficacy of premium determination within a statutory workers' compensation scheme (refer Chapter 7 for more detailed discussion). Stability is one of these seven criteria, which Trowbridge Consulting defines as offering some predictability of premiums from one year to the next.

Against this background, one of the most common complaints that the Committee heard from employers who gave evidence to the Inquiry was that their 2000/01 initial premiums were comparatively larger than their 1999/00 premiums.

Mr. Terry McLennan, Finance Manager, Clarke's Pies, Warrnambool:

"Initially when we received notice of our premium in August we probably had budgeted on a 20 per cent increase but we were pretty shocked when it came to a 70 per cent increase including GST. It had gone from \$169 000 to \$300 000. Our employment and sales had dropped over the previous 12 months, yet after taking out GST we were going to pay \$272 000 — \$103 000 extra, with less employees and less sales.

Definitely our claims were almost nil, and in the nine months since then we have had no claims.”³⁷

Mr. Daryl Rodgers, Accountant, Blackforest Timbers, Bendigo:

“The increases were on top of other increases: the common-law increase, the GST and the industry increases occurred all at the one time. That has hit us with a real increase of about 44 to 45 per cent in our premiums for the year. We were a bit concerned about the lack of transparency. We made written requests for just a brief explanation of why our premiums went up, but we were not really given any answer.”³⁸

⇒ **FINDING 4.6**

The Committee finds that the restoration of access to common law for seriously injured workers, together with the other significant changes introduced in the 2000/01 policy year, made it extremely difficult for employers to estimate their WorkCover premiums prior to receiving their initial 2000/01 assessments. This, in turn, seriously impacted upon the cash flow and budgetary positions of some employers, particularly smaller employers.

⇒ **FINDING 4.7**

The Committee finds that in the view of many Victorian employers who presented to the Committee, the credibility of the WorkCover scheme suffered negatively as a result of the policy changes in 2000/01. This was a product of the weakening of the relationship between individual employer safety performance and premium outcomes in 2000/01, due to the application of the general increase.

RECOMMENDATION 4.1

³⁷ Minutes of Evidence, 6/3/2001, p.495.

³⁸ Minutes of Evidence, 13/12/2000, p.188.

The Committee recommends that in future, policy changes introduced to the WorkCover scheme should be designed in a manner that will reward good employer OH&S processes and that consideration should be given to rewarding employers with reduced premiums where approved safety processes are introduced.

As concluded by the Industry Commission in its 1994 investigation into workers' compensation arrangements in Australia:

*"Incentives for prevention are lessened where a firm manages to reduce the level of injury or disease but fails to be rewarded for better performances."*³⁹

Employers who perform commendably in terms of their workplace safety need to be certain that their vigilance will be rewarded through the premium system. Similarly, those employers that may consider flouting their occupational health and safety responsibilities need to be made clearly aware that such actions come at a significant expense. To this end, stability, or predictability, in premiums determination play a crucial role in workers' compensation schemes as they will assist in maintaining a consistent message that good practice is rewarded whilst poor practice comes at a substantial financial cost (refer to next Section for detailed discussion).

4.2.5 Feedback on Performance Through Financial Incentives for Employers

The primary objective of an experience-based workers' compensation scheme, such as WorkCover, is to achieve improved workplace safety outcomes through the financial incentives provided, by directly relating an employer's premium to the cost of that employer's claims.

However, a dilemma exists in relation to small employers in an experience-based workers' compensation scheme. Small employers suffer from a lack of claims "credibility"

³⁹ Industry Commission, *Workers' Compensation in Australia*, Report No. 36, February 1994, pp.66-67.

due to the inherent erratic nature of their claims experience. Whilst large employers typically exhibit a reasonable degree of stability in their claims costs due to their size, small employers, characteristically claim free over lengthy periods, will still incur claims occasionally, making it very difficult for insurers to adequately quantify their expected risk profiles at any particular point in time (refer Section 4.4.3.4 for a more detailed discussion).

This being the case, the problem in determining individual employer premiums in an experience-based scheme *“...is essentially a conflict between running workers’ compensation as an insurance scheme, which requires risk pooling, and as a mechanism to encourage workplace health and safety which requires ‘user pays’ principles.”*⁴⁰

The approach used in the WorkCover scheme weights the impact of an employer’s claims experience on the determination of its annual premium according to its size (using an employer’s level of remuneration as a proxy for firm size). For large employers, premiums are predominantly determined by their own claims experience, whilst for small employers, their own claims experience is a minor factor in their premium calculation, with their respective industry rates being the primary determinant (refer Section 4.3 for a full discussion).

The difficulty arising from the WorkCover methodology is that the financial incentives inherent in an experience-based scheme are largely muted in the case of small employers. In investigating the issue of employer feedback through financial incentives, the Industry Commission found that movements in employer premiums (or premium volatility), as a direct result of claims experience, should be a vital component in any workers’ compensation scheme. However, the benefits that may accrue in terms of improvements to workplace safety performance arising from such an approach needed to be balanced against the costs to employers associated with not maintaining relatively stable premium levels. Ultimately, the Commission’s view was that *“...premiums should be as volatile as is tolerable.”*⁴¹ However, the Commission further noted:

⁴⁰ Ibid, p.62.

⁴¹ Ibid, p.63.

*"It seems, however, that the scales have been tipped too far in favour of premium stability, leaving too few strong financial incentives for OHS performance, particularly for small firms. It is difficult to justify a situation whereby a consistently poor OHS performer is never required to pay the full cost that it is bringing to other premium payers."*⁴²

The Committee heard evidence from many employers that they are frustrated at what they see as the lack of financial incentives that the current WorkCover scheme provides to smaller employers with good workplace safety practices. The following views typify those expressed to the Committee:

Mr. Doug Issell, Chief Executive Officer, Cobden District Health Services Inc., Cobden:

*"The present WorkCover system appears to be subjecting proactive workplaces to financial strangulation. Significant physical and financial resources are made available to ensure a safe workplace yet there is no reward."*⁴³

Mr. Graeme Gooding, Executive Director, Victorian Association of Forest Industries:

*"With no demonstrable benefit in undertaking OHS programs and engaging specialist consultants to assist in the workplace, many organisations are reviewing their programs and considering cutting back to save costs."*⁴⁴

Ms. Judy Hartcher, Business Policy Adviser, on behalf of the Victorian Small Business Committee, CPA Australia:

"CPA Australia members are concerned that the current system of calculating premiums does not adequately reward businesses that invest time and resources into ensuring a safe workplace. Employers that never

⁴² Ibid, p.62.

⁴³ Submission No. 36, Cobden District Health Services Inc.

⁴⁴ Submission No. 52, Victorian Association of Forest Industries.

make a claim have been penalised by increased premiums because of a reclassification of their industry.”⁴⁵

⇒ **FINDING 4.8**

The Committee finds that that the current WorkCover methodology for determining premiums does not allow for sufficient feedback through financial incentives to employers, particularly smaller employers, on their workplace health and safety procedures.

Though the Committee accepts that the current methodology was set in place to protect small employers from exposure to potentially dire financial consequences of large one-off claims, the Committee nonetheless agrees with the view that small employers are as a result now excessively quarantined from the impact of their own experience.

4.3 Determination of Premiums at Industry Level

The Victorian WorkCover Authority allocates all Victorian employers to one of 518 industry classifications incorporated in the Australian Bureau of Statistics *Australian Standard Industrial Classification (ASIC)* framework (this framework has been superseded by an Australian and New Zealand equivalent, the ANZSIC code) on the basis of their predominant business activity.

Each industry classification is annually assigned an industry rate by the Authority based on the pooled risk profile of all the employers within that classification. A classification's true risk profile or true risk rate is the ratio of total claims experience to total remuneration over the preceding three years. Once an industry's true risk rate is determined, it is assigned to the closest of 18 predetermined industry rate levels (which range from 0.33 per cent to 8.4 per cent of remuneration at increments of approximately 20 per cent). Prior to the 2000/01 policy year, an industry was assigned to the closest industry rate be it above or below its true risk profile. However, for the 2000/01 policy year, this was amended to be the next industry rate above an industry's true risk rate. A

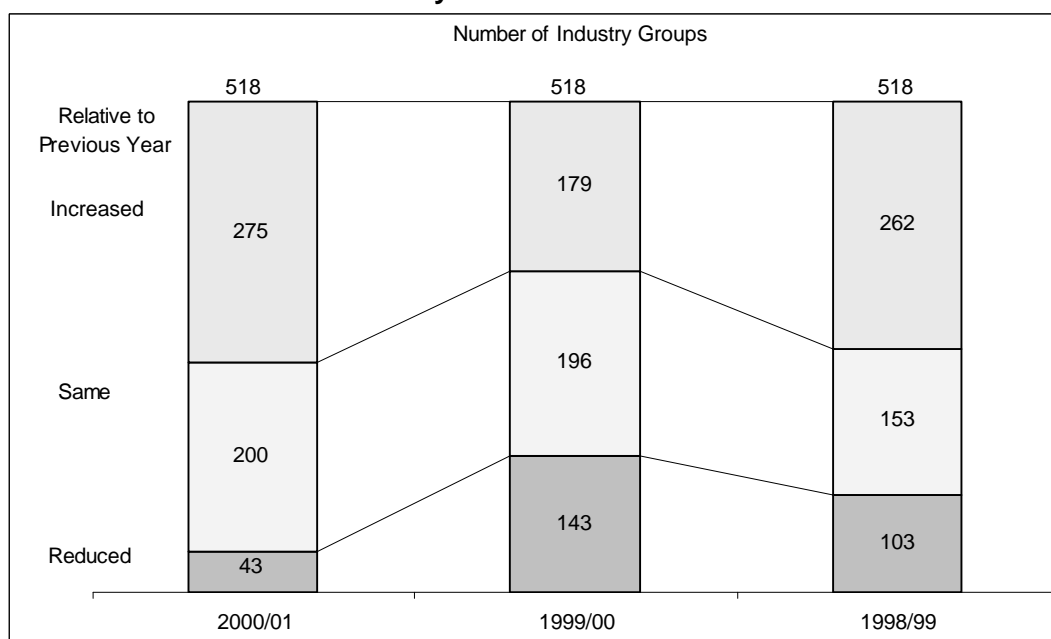
⁴⁵ Submission No. 54, CPA Australia.

full list of the 518 industry classifications together with their risk profiles and assigned industry rates is at Appendix 4, page 243.

As was discussed in Section 4.1 above, the claims experience of a small employer in any given year is difficult to predict and it is therefore given minimal weighting in terms of determining a small employer's annual premium under current WorkCover methodology. Rather, by pooling employers into industry groupings on the basis of primary business activity, a more statistically reliable risk profile is able to be determined for small employers. It is these pooled or aggregated risk rates that are then considered to be statistically indicative of employer true risk profiles.

Each of the 518 industry classifications is reviewed annually using the latest remuneration and claims data to ensure that the true risk profile of each industry grouping is still suitably aligned to the respective industry rate allocated to them.

Chart 4.2: Movements in Industry Rates 1998/99 – 2000/01



Source: Victorian WorkCover Authority, *Submission to the Economic Development Committee Inquiry into Premiums for 2000/01*, 31 October 2000, p.24.

In 2000/01, 275 (or 53 per cent) of the 518 industry classifications received an industry rate rise, while 200 (39 per cent) experienced no change and 43 (8 per cent) received a reduction. Chart 4.2 above compares the movements in industry rates over the last three policy years.

In its submission to the Inquiry, the Victorian WorkCover Authority stated that there were three main reasons why the rates applied to individual industries may have changed in 2000/01:

- total revenue derived from many industry rates in the past had not reflected the cost of claims lodged by small and medium-sized employers in those industries;
- the underlying risk profile of an industry had changed; or
- for historical reasons, the rate applying to some industries had not reflected those industries' underlying risk profiles.

4.3.1 Revenue to Cost Imbalance for Small and Medium-Sized Employers

In relation to this issue, the Authority's submission stated that:

*"Historically, the premium generated from small and medium-sized employers based on industry rates had not reflected the real costs of those employers to the scheme. As a result, large employers have long been cross subsidising small and medium-sized employers through the revenue that the experience rating system collects from large employers."*⁴⁶

Large employers' premiums are substantially determined by their own claims experience under the WorkCover scheme's methodology. Small (and to a lesser degree, medium-sized) employers' premiums, however, are significantly determined by their industry rates. Given that many small employers have not been bearing the full costs of their own claims experience since the introduction of the WorkCover scheme in 1993, large employers have been partially subsidising smaller employers.

In an effort to reduce the extent of this cross subsidisation, the Authority varied the manner in which it allocated an industry to one of the 18 industry rate levels in 2000/01. Prior to then, once an industry's true underlying risk rate had been determined (the ratio of total claims costs to total remuneration) it was assigned the *nearest* industry rate

⁴⁶ Submission No. 27, Victorian WorkCover Authority, p.25.

immediately above or below its own risk rate. For 2000/01, however, this method was varied and all rates were rounded up to the next nearest industry rate.

The Authority advised the Committee that of the 275 industry classifications that had received an increase in their industry rates in 2000/01, 152 (or 55 per cent) had increased as a result of the decision to round up rather than round down.

4.3.2 Change in Underlying Risk Profile

The underlying risk profile of an industry may change due to a change in the workplace safety or return to work performance of that industry. The Authority's submission to the Inquiry provided the following example of such a change:

*"An example of this is the logging industry which has reduced its claims numbers from 156 in the three years to June 1996, to 116 in the three years to June 1999. As a result, the incurred claims costs of the industry fell from \$97 561 per million dollars of remuneration in 1993-1996, to \$43 387 per million dollars of remuneration in 1996-1999, with a result that the gazetted premium rate applying to the industry fell from 7.00 per cent in 1993/94 to 5.78 per cent in 2000/01."*⁴⁷

Additionally, the underlying risk of an industry may change in response to a change in industry structure or activity that results in certain employers being reclassified, or because large employers opt for self-insurance, removing the effect of their claims from the industry's aggregate.

Of the 275 industry classifications that received an increase in their industry rates in 2000/01, 57 (or 21 per cent) had increased as a result of deterioration in the industry's workplace safety or return to work performance.

4.3.3 Historical Reasons

⁴⁷ Ibid, p.25.

As outlined in Section 3.4 of this Report, prior to the 2000/01 policy year, industry rates could only move one category up or down in any policy year. The result of this policy had been that some industries had been only slowly moving to industry rates reflective of their underlying true risk rates.

For the 2000/01 policy year, the Authority abandoned this policy in order to “*complete the transition from the pre-1993 bonus and penalty system, to rates which better reflect industries’ risks.*”⁴⁸ Of the 275 industry classifications that received an increase in their industry rates in 2000/01, 66 (or 24 per cent) increased by more than one category as a result of this policy change. In addition, 43 (or 16 per cent) industry classifications had a decrease in their industry rate and five (or 2 per cent) decreased by more than one category.

4.4 Determination of Premiums at Employer Level⁴⁹

4.4.1 Introduction

An employer must have a WorkCover policy if that employer employs workers who work in Victoria and:

- its annual remuneration is greater than \$7 500 or the employer believes that it will likely surpass \$7 500; or
- its annual remuneration is \$7 500 or less but the employer employs one or more apprentices.

An employer with an annual remuneration of \$7 500 or less and that does not employ any apprentices, is not required to take out a WorkCover policy. Such an employer is deemed to have a policy with the Victorian WorkCover Authority and the employer’s workers are covered in the event of a workplace injury.

An employer not currently required to hold a WorkCover policy because it meets the above criteria must take out a policy immediately, however, should any of its employees

⁴⁸ Ibid, p.27.

make a claim, or the employer takes on an apprentice, or the employer becomes aware that its annual remuneration will exceed \$7 500.

4.4.2 The Initial Premium

Prior to the commencement of each policy year, usually in March, the Victorian WorkCover Authority sends a “preliminary premium package” to all registered employers. The Authority undergoes this process to request employers provide an estimate of their remuneration for the upcoming policy year (and, where applicable, a WorkCover claims information statement is included so that employers with claims may verify their claims costs).

In June each year (but delayed until July for the 2000/01 policy year), the Authority sends all employers an “initial premium package” advising them of their initial premium for the policy year (1st July to 30th June).

Typically, the initial premium is payable as follows:

- if an employer pays the annual premium in advance, normally at the beginning of August, the employer’s premium is discounted by 5 per cent; or
- if the premium is less than \$1 000, it must be paid in full as an annual payment in mid August; or
- if the premium is less than \$50 000, it is payable by quarterly instalments on the first day of each fiscal quarter; or
- if the premium is \$50 000 or more, it is payable by twelve equal monthly instalments seven days after the end of the month.

Where an employer is encountering financial difficulties, authorised agents have some discretion to enter into payments arrangements.

⁴⁹ This section draws extensively from the Victorian WorkCover Authority’s written submission to the Inquiry (submission no. 27), in particular Appendix A of the submission, “*The WorkCover Premium System – A Technical Summary*”.

The initial premium is calculated for the workplace of an employer based on the following factors:

- the estimated remuneration for the workplace provided by the employer to the Authority or, if an estimate has not been provided, on the latest available remuneration information available to the Authority;
- the sizing factor of the employer;
- the experience factor of the workplace (being the ratio of claims costs to remuneration for the preceding two policy years);
- the industry classification of the workplace; and
- the prior rate of the workplace.

4.4.3 The Initial Premium Calculation

This section will detail the complex methodology that was employed by the Authority to calculate initial WorkCover premiums for 2000/01.

4.4.3.1 Basic Formula for Premium Determination

The formula used for calculating a workplace's premium (P) for 2000/01 is:

$$P = (WP + B - Q) \times G$$

where:

P	=	premium payable for 2000/01
WP	=	WorkCover premium of an employer
B	=	buy-out option
Q	=	recovery rebate
G	=	the GST

The buy-out option (B) effectively provides employers the opportunity to hedge against the occurrence of a claim. Employers pay an additional 25 per cent of their calculated WorkCover premium (WP) to insure against having to pay the excess on their policy in

the event of a claim. The excess in 2000/01 is the first 10 day's of weekly compensation benefits and the first \$440 of medical expenses.

The recovery rebate (Q) is provided to employers when the Authority recovers a cost that had previously been included in an employer's claims costs and had therefore affected the employer's premium. For example, a recovery may be made where a third party has been negligent.

The GST (G) amounts to 10 per cent of the WorkCover premium after any necessary adjustments have been made for buy-out options or recovery rebates.

4.4.3.2 The WorkCover Premium (WP)

The 2000/01 WorkCover premium (WP) of an employer is the sum total of the premium for all the employer's workplaces multiplied by 1.17 (excluding the 10 per cent GST). The multiplicative factor 1.17 represents the across the board 17 per cent premium increase applied in 2000/01. The 17 per cent increase consisted of:

- a 15 per cent general premium increase that was introduced in order to return the scheme to a fully funded position and meet the costs associated with the legislative changes introduced by the Labor Government (principally the reintroduction of access to common law rights for seriously injured workers); and
- an additional 2 per cent increase to cover the costs to WorkCover associated with the Commonwealth Government's New Tax System (NTS).

The WorkCover premium is determined using a mix of an employer's level of remuneration, its claims experience and the employer's prior rate. The weighting accorded to each of these factors in calculating the WorkCover premium is dependent upon a sizing factor assigned to each employer. In effect, this sizing factor ensures that:

- a small employer's premium closely reflects their previous year's rate which in turn is closely linked to the industry rate; and
- a large employer's premium closely reflects their own experience (in terms of claims costs and remuneration history).

The formula used for calculating workplace WorkCover premiums (WP) for 2000/01 is:

$$WP = PR \times W$$

where:

PR = WorkCover premium rate

W = rateable remuneration of the workplace less a \$15 500 deductible allowance. Should an employer have multiple workplaces, the deductible allowance becomes \$15 500 / n so that each employer enjoys a maximum deduction of only \$15 500

4.4.3.3 WorkCover Premium Rate (PR)

The WorkCover premium rate of a workplace will be either: the relevant industry rate, where the workplace is a new workplace without a predecessor workplace and it is registered for the first time in 2000/01; or a mix of the workplace's prior rate and its experience.

In the case of a pre-existing workplace, the formula used for calculating its premium rate (PR) for 2000/01 is the greater of:

(i) 10 per cent of the industry rate; or

(ii) $PR = [(1 - Z) \times R] + (Z \times E)$

where:

Z = sizing factor

R = prior rate of the workplace (the 1999/2000 rate in the case of 2000/01) adjusted for any changes in the industry rate of the workplace for 2000/01

E = experience factor (the ratio of claims costs to remuneration of the preceding two years)

In relation to the prior rate (R), should an industry classification experience an industry rate change for the upcoming policy period, the prior rate of all workplaces covered by that industry classification are adjusted by the ratio of the new industry rate to the previous industry rate when calculating the initial premium prior to the commencement of the policy year, such that:

$$R = PR_{t-1} \times \frac{IR}{IR_{t-1}}$$

where:

PR_{t-1} = the WorkCover premium rate for the workplace in the previous policy period

IR = the industry rate assigned to the workplace for the upcoming policy period

IR_{t-1} = the industry rate assigned to the workplace for the previous policy period

4.4.3.4 The Sizing Factor (Z)

The sizing factor (Z) is used to weight the mix of a workplace's prior rate and its actual experience and was incorporated in the methodology of the WorkCover scheme upon its introduction in 1993. The reason for its inclusion stems from the inherent difficulty that insurers such as the Victorian WorkCover Authority face when attempting to assess the underlying true risk of small employers. The dilemma arises from the lack of "credibility" that typifies small employer claims experience and was well articulated in the 1994 Industry Commission study into workers' compensation in Australia:

"Analysis of claims statistics shows that as a group, small firms are expected to have a certain number of claims, with a small proportion of large claims. These ratios are relatively stable. However, individual firms

*face a far more erratic claims experience. It is difficult for an insurer to know how to interpret a small firm's claims data. This is described by actuaries as the small numbers problem. Say a small firm in a particular industry is statistically likely to have two lost time injuries every ten years. If the firm happens to have three lost time injuries in one year, does this mean that the firm is riskier than others in the industry, and so deserves to pay a higher premium, or is it that the likely accidents for the next fifteen years all happened to come at once, and the firm will have no more claims? Both answers are reasonably plausible, which makes setting premiums difficult."*⁵⁰

It is due to this intrinsic lack of "credibility" of small employer's claims experience that experience rated schemes such as WorkCover incorporate a sizing factor in order to underweight a small employer's actual experience. In addition, without this weighting to reduce a small firm's exposure to its own experience, a small employer would be at risk of being financially overwhelmed by the occurrence of a large one-off claim in any given year.

The formula used to calculate the sizing factor (Z) for the 2000/01 initial premium is:

$$Z = \frac{0.9 \times X}{X + 360\,000}$$

where:

- X = sum of ($W_1 \times IR_0$) for all workplaces of an employer
- W_1 = the workplace remuneration for 1999/2000
- IR_0 = 2000/01 industry rate applicable to the workplace

From this formula it follows that if an employer's workplace has (or workplaces have) a small remuneration and a low industry rate, X is small which results in Z also being small. Under this scenario, the premium rate for each workplace operated by the employer will be closely aligned to the workplace's prior rate (that is, the rate of the workplace in 1999/2000 adjusted for any changes in the industry rate of that workplace

⁵⁰ Industry Commission, *Workers' Compensation in Australia*, Report No. 36, February 1994, p.61.

for 2000/01). Given this, the actual experience of these workplaces plays a minimal role in determining their premium rate.

If, on the other hand, the combination of a workplace's remuneration and industry rate is large (that is, X is large resulting in a larger value of Z), the prime determinant of the premium rate for a workplace will be its actual experience.

Table 4.3 below provides some examples of the weightings that would be accorded to an employer's prior rate and to its experience given its respective remuneration and industry rate.

Table 4.3: Weightings of Experience versus Prior Rate

1999/2000 Remuneration	2000/01 Industry Rate									
	0.33%		0.86%		1.84%		3.95%		8.40%	
	E	R	E	R	E	R	E	R	E	R
\$50 000	0%	100%	0%	100%	0%	100%	0%	100%	1%	99%
\$500 000	0%	100%	1%	99%	2%	98%	5%	95%	9%	91%
\$5 000 000	4%	96%	10%	90%	18%	82%	32%	68%	48%	52%
\$50 000 000	28%	72%	49%	51%	65%	35%	76%	24%	83%	17%
\$500 000 000	74%	26%	83%	17%	87%	13%	88%	12%	89%	11%

Note: 'E' is the weight accorded to a workplace's own experience while 'R' is the weight accorded to a workplace's prior rate as incorporated in the premium rate formula detailed in Section 4.3.3.3 above.

Source: Victorian WorkCover Authority, *Submission to the Economic Development Committee Inquiry into Premiums for 2000/01 (Appendix A)*, 31 October 2000, p.7 and Economic Development Committee.

In addition to insulating small employers from large deviations in their premiums emanating from a drastic deterioration in any one year's claims experience, the WorkCover scheme's methodology incorporates a rate cap that restricts premium rate increases to no more than a 20 per cent increase over the previous year's premium rate. As the size of the employer increases, so too does the size of the capping applied. The sizing factor used to determine the cap is the same as the Z factor outlined above. The capping formula is:

$$\begin{array}{l} \text{Maximum Employer Premium} \\ \text{Rate for 2000/01} \end{array} = \begin{array}{l} \text{Premium Rate for 1999/00} \\ \text{Multiplied by } (1.19 + 5Z^5) \end{array}$$

where:

$$Z = \frac{0.9 \times X}{X + 360\,000}$$

X = sum of ($W_1 \times IR_0$) for all workplaces of an employer
 W_1 = the workplace remuneration for 1999/2000
 IR_0 = 2000/01 industry rate applicable to the workplace

For employers with a total remuneration of less than \$2 million, the factor '5Z⁵' is insignificant, thereby effectively capping small employer premium rate rises to a maximum of a 19 per cent increase in any given year (as was the case for many smaller employers in 2000/01).

4.4.3.5 Experience (E)

For the initial premium calculation, the formula used to calculate a workplace's experience (E) for 2000/01 is:

$$E = \frac{(F_1 \times C_1) + (F_2 \times C_2)}{W_1 + W_2}$$

where:

F_1 = factor assigned to the employer's WorkCover agent for adjusting the costs of claims received in 1999/2000
 C_1 = total cost of reported claims (including estimates) in 1999/2000
 F_2 = factor assigned to the employer's WorkCover agent for adjusting the costs of claims received in 1998/99
 C_2 = total cost of reported claims (including estimates) in 1998/99
 W_1 = remuneration for 1999/2000
 W_2 = remuneration for 1998/99

The formula above reveals that an employer's experience (E), for the purpose of the initial premium, is the ratio of claims costs to remuneration for the preceding two years.

Individual claim costs are capped at \$156 800 in 2000/01 (increased from \$150 000 in 1999/2000) in order to partially insulate employers from the potentially damaging impact on their financial viability of a very large claim. However, the process of calculating an employer's experience is complicated by the inclusion of the 'F' factors.

4.4.3.6 'F' Factors

The Victorian WorkCover Authority's eleven authorised agents are responsible for estimating the cost of claims that are lodged by all Victorian workplaces. However, the Authority annually applies a loading to agents' estimates in order to:

- *standardise differences in estimates between agents;*
- *adjust for the costs of claims that are incurred but not reported; and*
- *ensure that the claims costs in the premium system reflect the underlying system costs as valued by the actuaries.*⁵¹

These loadings are referred to as 'F' factors and may vary both between agents and between premium years (refer Table 4.4 below). The Authority calculates the F factors and they are included in the Premiums Order presented to the Governor in Council for approval prior to the commencement of each premium year. The Authority recalculates the F factors for each premium year at initial premium and at confirmed premium.

Effectively the independent actuaries apply a factor to correct varying estimates of liability among claims agents to increase the accuracy of these liability estimates.

Given the degree of variation evident in the F factors accorded to the authorised agents, it would appear that some agents perform significantly better than others do when estimating claims costs. However, the Committee was somewhat perplexed by the approximate 200 per cent variation between the lowest F₁ factor and the highest F₁ factor which would seem to indicate that some authorised agents make errors when assessing their clients' claims costs.

⁵¹ Submission No. 27, Victorian WorkCover Authority, Appendix A, p.8.

Table 4.4: Authorised Agent 'F' Factors

Authorised Agent	F ₁ (ie 99/00)	F ₂ (ie 98/99)
Allianz Australia Workers' Compensation (Vic) Ltd *	4.855853	3.865332
AMP Workers' Compensation Services (Vic.) Ltd **	4.591973	3.309762
Catholic Church Insurance Ltd	4.029622	3.089364
CGU Workers' Compensation (Vic.) Ltd	3.479046	3.426125
GIO Workers' Compensation (Vic.) Ltd	4.432274	3.160066
Guild Insurance Ltd	4.418455	3.518198
HIH Workers' Compensation (Vic.) Ltd***	3.826055	3.269858
JLT Workers' Compensation Services P/L	5.352585	3.449971
Mercantile Mutual Worksure Ltd	3.896041	3.686620
Royal & Sun Alliance Workers' Compensation Ltd	5.098397	3.770679
VACC Insurance WorkSafe P/L	2.191092	1.742257
Zurich Workers' Compensation Victoria P/L	6.099337	3.914230
Average	4.355894	3.350205
Minimum	2.191092	1.742257
Maximum	6.099337	3.914230

Note: * Formerly MMI Workers' Compensation (Victoria) Ltd. ** Ceased 30 June 2000. *** Policies transferred to NRMA Workers Compensation on 1 April 2001.

Source: Victorian WorkCover Authority

The Committee heard evidence from witnesses that indicated that many employers have little concept of the purpose or the process of calculating the F factor. It is seen as a major obstacle to employer attempts to forecast WorkCover premiums and as decreasing the level of transparency within the WorkCover scheme.

Ms. Margaret Aivatoglou, Proprietor, Evangelia Aged Care Facility, Parkdale:

"Ms. COOTE — You made a comment about the industry formula, saying that it needs to be more transparent and that you need a better understanding of it. Have either of you any idea about the F factor, including how they reach it and what is involved with that?"

Ms. AIVATOGLOU — I have no idea.

Ms. COOTE — Do you know what the F factor is?"

*Ms AIVATOGLOU — I do not know how they get there. I do not know how they arrived at that amount."*⁵²

⁵² Minutes of Evidence, 18/12/2000, p.265.

Mr. Peter Clark, Director, Belle Design and Manufacturing, Highett:

“Mr. CRAIGE — We have another thing that you have probably never heard of — the F factor. Have you heard about that?”

Mr. CLARK — I do not know if it is the F factor, but there are all sorts of figures and tabulations in the front here that I made no pretence to try to understand. But I do not know about the F factor.”⁵³

Ms. Ann Lord, Risk Management Coordinator, Greater Geelong City Council:

“One of our main concerns with the unpredictability is the F factors, which really relate to the insurers. It is their experience rating. I understand that the argument is that if they are not estimating claims as accurately as they should, it is a balancing factor, but I will give you an example. If we changed insurers and the F factors in our calculation changed from something like 2.3 to 4.5, our claims experience is suddenly doubled through nothing we have done.

Another concern is that when we talk about the actuarial estimates we never see the data that comprises the estimates. We are sort of expected to take in good faith the outcome of these calculations, and that includes the F factors — the claims as well and how they are calculated but particularly the F factors.”⁵⁴

Mr. Craig Herbert, Occupational Health and Safety Manager, Godfrey Hirst Australia Pty. Ltd., Geelong:

“The second last issue I would like to talk about is the F factors. I am sure you have heard a lot about them. From an employer point of view, this is a very difficult concept to grab. In talking to our claims agents we were led to believe that the F factor is basically an evening out to ensure that they are estimating claims correctly and that it is a comparison between their claims estimates and the government actuary’s claims estimates. In

⁵³ Minutes of Evidence, 18/12/2000, p.271.

⁵⁴ Minutes of Evidence, 12/12/2000, p.74.

dealing with our agents this year, they say they believe their estimates were somewhere around 80 per cent to 85 per cent of the assessment of the claims, yet their F factor comes out at 3.1. That has a huge impact on our business and our claims costs. From our point of view, when you are trying to control your costs it is difficult to understand when there is a factor that nobody really understands, including what it is and how to deal with it.”⁵⁵

Mr. Chris Knight, Occupational Health and Safety Consultant, Colac–Otway Shire Council:

“The other part of the estimated claims cost — and this is the part that has a significant impact on Colac–Otway Shire — is the WorkCover scheme says that the insurers can never get that estimate right. To make it right they apply what is called the F factor...an F factor is applied to claims cost. In 1999–2000 the average F factor for year 1 claims across the whole system — all insurers — was averaging 3.5 times. That means that in the calculation \$10 000-worth of claims costs for a 1999–2000 claim would be represented as \$35 000 not \$10 000. This year, 2000–01, the average across insurers is 4.5. Is the system saying to us that the performance of the insurer agents has deteriorated by 25 per cent in the past year in their guesstimates of what the open cost of claims is? Another part of this issue that concerns us is that every year for three years this F factor is applied to the cost of those claims. What happens to the claim which is made in August where the person is off work for two weeks, has minimal medical costs and returns to work by mid-September? The claim is finished and nothing more is to happen with it except that for the next three years that is affected by the F factor. The system applies a factoring to claims because, as it says in the system, the insurers cannot guess that continued cost right. Even though the claim is closed and the person has been back at work for 7, 8, 9 or 10 months they still factor the cost of that claim. In last year’s premium for Colac–Otway Shire that factoring of closed claims added \$9300 to the premium;

⁵⁵ Minutes of Evidence, 12/12/2000, p.103.

9.8 per cent of the premium was caused by the factoring of the costs of closed claims. We have no difficulty with the view that an open claim should be factored but why do we factor up closed claims?”⁵⁶

The evidence cited above is typical of the views expressed by Victorian employers to the Committee during the Inquiry. Generally, employers were either unaware of the F factor, unsure of its purpose or of the view that it decreased the level of accountability within the premium calculation methodology.

⇒ **FINDING 4.9**

The Committee finds that many employers have little concept of the purpose or complex process of calculating the F factor loadings applied when estimating the costs of claims lodged by all Victorian workplaces. The F factor is seen as a major obstacle to employer attempts to forecast WorkCover premiums and as decreasing the level of transparency within the WorkCover scheme.

RECOMMENDATION 4.2

The Committee recommends that the Victorian WorkCover Authority examine the methodology used by claims agents to try and reduce variations in estimates and F factors and, where at all possible, simplify procedures so that employers are more readily able to understand the process by which their premiums are determined.

The Committee notes that the Authority is currently undertaking a premium review with a major objective of the review being the simplification of the premium process. The

⁵⁶ Minutes of Evidence, 12/12/2000, p.82.

Committee strongly supports this review and anticipates that the outcome of the review process will see an increased level of transparency in the calculation of employer premiums. A greater degree of transparency in premium determination is a critical component if employers are to accept both their responsibilities in managing workplace health and safety and the validity and veracity of the current WorkCover scheme.

4.4.4 The Final Premium

In the event that an employer ceases business operations during the course of a policy year, the Victorian WorkCover Authority will calculate a final premium. The final premium is calculated in the same manner as the initial premium, except that the final premium will also take into account the remuneration and claims costs for claims lodged up to the date the policy ceases during the policy year.

Whereas the initial premium is calculated using only the remuneration and claims costs of the previous two policy years, calculation of a final premium additionally takes into consideration the remuneration and claims costs for the partial policy year up to the date that the employer ceased trading. This being the case, the formula used to determine the experience component of a workplace for input into the final premium calculation varies slightly from that used in the initial premium calculation (though the sizing factor formula is the same).

The formula used to calculate the sizing factor (Z) for a 2000/01 final premium is:

$$Z = \frac{0.9 \times X}{X + 360\,000}$$

where:

- X = sum of ($W_1 \times IR_0$) for all workplaces of an employer
- W_1 = the workplace remuneration for 1999/2000
- IR_0 = 2000/01 industry rate applicable to the workplace

For a final premium calculation, the formula used to calculate a workplace's experience (E) for 2000/01 is:

$$E = \frac{(F_1 \times C_0) + (F_1 \times C_1) + (F_2 \times C_2)}{W_0 + W_1 + W_2}$$

where:

F_1 = factor assigned to the employer's WorkCover agent for adjusting the costs of claims received in 1999/2000

C_0 = total cost of reported claims (including estimates) in 2000/01

C_1 = total cost of reported claims (including estimates) in 1999/2000

F_2 = factor assigned to the employers WorkCover agent for adjusting the costs of claims received in 1998/99

C_2 = total cost of reported claims (including estimates) in 1998/99

W_0 = remuneration for 2000/01

W_1 = remuneration for 1999/2000

W_2 = remuneration for 1998/99

4.4.5 The Confirmed Premium

At the end of each policy period, the Authority calculates the confirmed premium of all Victorian employers with a WorkCover policy. All employers are asked to certify their remuneration just prior to the end of the current policy year.

Upon supplying the Authority with their certified remuneration for the policy year just ended, employers that are claim free over the previous three policy years will receive their confirmed premium around the end of July or August. However, employers that have lodged claims during the policy year just ended have to verify their claims costs in addition to certifying their remuneration before their confirmed premium is calculated.

Employers in this category will typically not receive advice of their confirmed premium before the end of September.

Employers that do not certify their remuneration usually have their confirmed premium calculated at the end of November following each policy year (early February 2001 in the case of 2000/01) when the Authority assesses their remuneration on the basis of available information. Following the confirmed premium calculation, employers receive advice of their adjusted premium, incorporating either a refund or an additional amount payable.

The confirmed premium is calculated on the same basis as the initial premium, except that the confirmed premium takes into account the remuneration and the claims costs for claims received by the authorised agent during the premium period just ended and the previous two years. The confirmed premium is a mechanism to ensure that employers pay the correct premium for the policy period in light of the year's claims experience.

The formula used to calculate the sizing factor (Z) for a 2000/01 confirmed premium is:

$$Z = \frac{0.9 \times X}{X + 360\,000}$$

where:

- X = sum of ($W_0 \times IR_0$) for all workplaces of an employer
- W_0 = the workplace remuneration for 2000/01
- IR_0 = 2000/01 industry rate applicable to the workplace

For the confirmed premium calculation, the formula used to calculate a workplace's experience (E) for 2000/01 is:

$$E = \frac{(F_0^c \times C_0) + (F_1^c \times C_1) + (F_2^c \times C_2)}{W_0 + W_1 + W_2}$$

where:

F_0^c	=	factor assigned to the employer's WorkCover agent for adjusting the costs of claims received in 2000/01
C_0	=	total cost of reported claims (including estimates) in 2000/01
F_1^c	=	factor assigned to the employer's WorkCover agent for adjusting the costs of claims received in 1999/2000
C_1	=	total cost of reported claims (including estimates) in 1999/2000
F_2^c	=	factor assigned to the employer's WorkCover agent for adjusting the costs of claims received in 1998/99
C_2	=	total cost of reported claims (including estimates) in 1998/99
W_0	=	remuneration for 2000/01
W_1	=	remuneration for 1999/2000
W_2	=	remuneration for 1998/99

For the 2000/01 confirmed premium, the F factors will be calculated at the completion of the financial year and subsequently published in the Victorian Government Gazette.

CHAPTER 5: THE IMPACT OF THE 2000/01 PREMIUM INCREASE ON ECONOMIC ACTIVITY AND EMPLOYMENT

The Committee's Terms of Reference required an investigation into the impact that the rise in WorkCover premiums in 2000/01 would have on economic activity and employment both in aggregate and in metropolitan and regional Victoria. This chapter addresses this portion of the Terms of Reference, drawing upon evidence received from Victorian businesses and econometric analysis undertaken by the National Institute of Economic and Industry Research on behalf of the Department of Treasury and Finance.

5.1 Impact on Economic Activity and Employment in Aggregate

Throughout the course of its investigation, the Committee received evidence from many Victorian employers in both metropolitan and regional Victoria regarding the impact of the increase in WorkCover premiums in 2000/01 on their businesses. Though this evidence proved valuable in terms of the Committee's attempts to anecdotally assess the impact of the premium increases in metropolitan and regional areas, it was insufficient in terms of enabling the Committee to establish the aggregate impact that the WorkCover increases have had on the Victorian economy.

In an effort to gain some further insight into the possible aggregate impact of the increases, the Committee questioned the Department of Treasury and Finance (DTF) during a public hearing as to whether it had undertaken any analysis on the likely impact of the premium increases on the Victorian economy. The Secretary of the Department, Mr. Ian Little, advised the Committee that the Department would take the question on notice. In subsequent correspondence from Mr. Little to the Committee, the following advice was proffered:

"The Department did not undertake an analysis of the employment impact of the proposed increase in premiums for the 2000/01 financial year at the time the premiums were settled.

Subsequent to the announcement of the premium increases various claims were made in the press and the Parliament about their employment impacts. The Department conducted a preliminary analysis that was followed up by a detailed independent report commissioned from the National Institute of Economic and Industry research (NIEIR).”⁵⁷

The NIEIR undertook an econometric analysis to assess the regional impact on employment and investment activity emanating from an increase in the average premium rate from 1.9 per cent to 2.18 per cent as a result of the Government's decision to reintroduce common law rights. The method used in the modelling undertaken by the Institute incorporated a “bottom up” approach in which the direct impacts were estimated by Local Government Area (LGA) and industry, the sum of which equated to the Victorian aggregate outcome.

The Institute's analysis assumed a 15 per cent increase in the premium rate but used 1998/99 as its base year due to data limitations. The model utilised by the Institute required full set taxation and ABS business register data as input information and 1998/99 was the most recent full year data available. The modelling made allowance for this by applying the 2000/01 percentage rate increase to 1998/99 premium rate levels, as the average premium rate remained at 1.9 per cent over both 1998/99 and 1999/00. In dollar terms, the Institute's modelling assumed increased premium costs to Victorian employers of \$170 million in 1998 prices (or approximately \$190 million in current year prices).

The Committee notes that the Institute's analysis must necessarily understate the full extent of the impact of all the changes introduced in 2000/01, as the general increase applied was 17 per cent (comprising 15 per cent common law and 2 per cent GST effect) rather than 15 per cent. The average premium rate for 2000/01 was 2.22 per cent rather than the 2.18 per cent assumed in the modelling.

Further, the Institute's modelling assumed that the 15 per cent increase in premium rates would ultimately be passed through to injured employees in the form of increased

⁵⁷ Correspondence to the Economic Development Committee from Mr. Ian Little, Secretary, Department of Treasury & Finance, dated 18 May 2001 in which a copy of the NIEIR report was included.

benefits and lump sum payments arising from new common law actions. Following on from this assumption, the analysis established that there were four main lines of transmission by which the increase in WorkCover premiums would impact upon economic activity and employment. The four effects were (refer to Figure 5.1 on next page):

- Gross income enhancement (from lump sum payments);
- Hours/labour substitution;
- Margin absorption; and
- Cost pass-on.

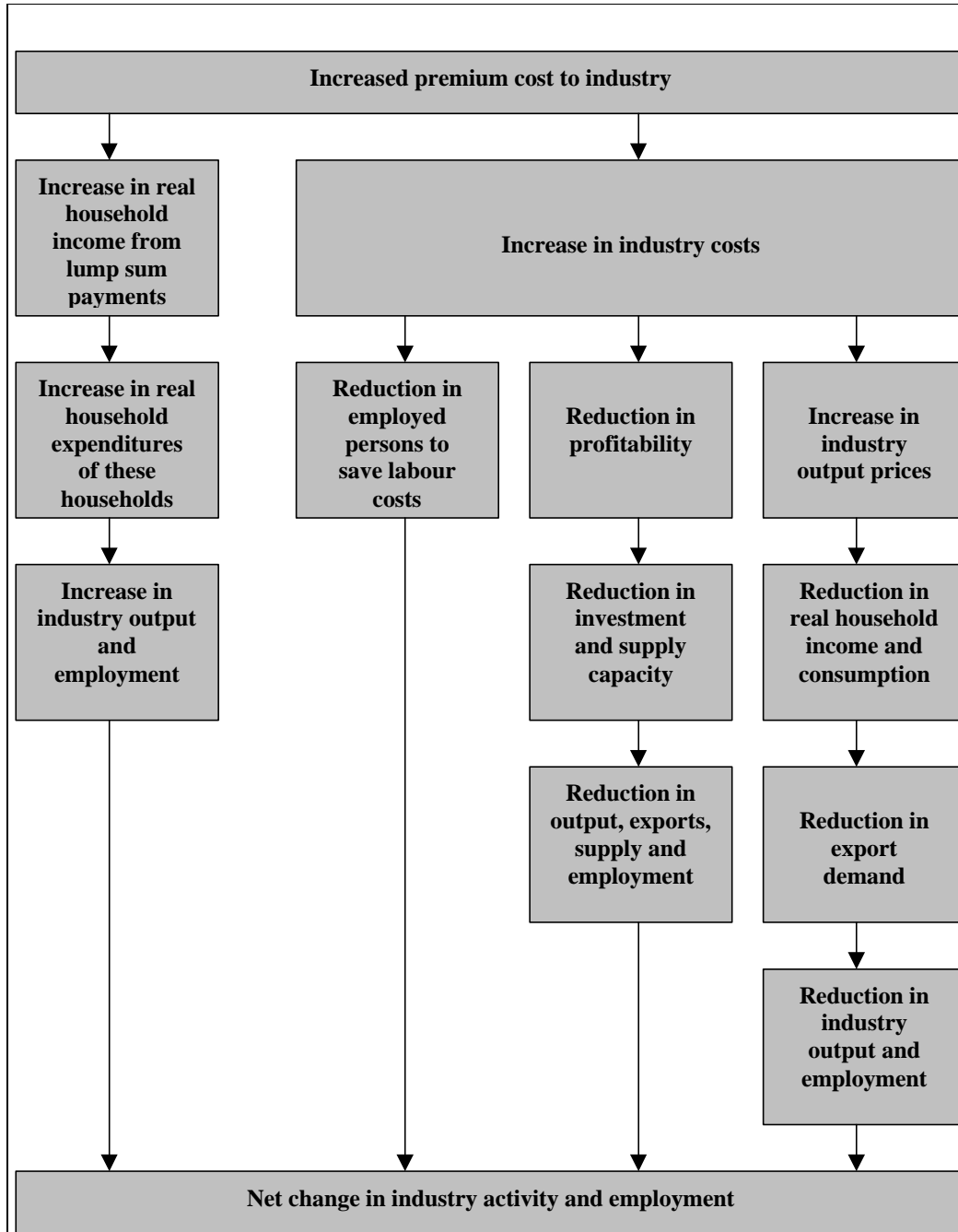
The Institute's modelling assessed that the increase in gross income experienced by those households that receive lump sum payments would exert a positive influence on economic activity. The other three effects, however, would impact negatively. The overall net impact would then be determined by the relative strengths of these four transmission mechanisms. Each of these is discussed in more detail below.

The NIEIR report incorporated short-run and long-run modelling analysis of the effects of the premium rate rises, with the short run being defined as the second year impact and the long run the tenth year impact. The reasons for the divergence between short and long-term impacts include an assumed lag in the decision-making responses of households and employers arising from premium changes, the increasing impact going forward in time of the margin absorption effects, and the increasing positive household expenditure effect of lump sum savings.

5.1.1 Gross Income Enhancement Effect

The positive impact on economic activity arising from this effect arises from the assumption that, as households with lump sum payments experience an increase in their real incomes, they will also increase their real consumption and dwelling expenditures which will flow through to increased industry output and employment.

Figure 5.1: Impact on Economic Activity of WorkCover Premium Increases



Source: National Institute of Economic and Industry Research, *Economic implications for the increase in WorkCover premiums from the access to common law damages on the State of Victoria*, a report prepared for the Department of Treasury and Finance, April 2001, p.17.

5.1.2 Hours / Labour Substitution Effect

In response to increased labour costs resulting from the WorkCover premium rises, the Institute's analysis noted various potential employer strategies that could be implemented:

- *“the hours of more productive employees are increased at a greater increase in cost than the cost savings from the reduction in hours of employees whose conditions are enhanced;*
- *the hours of owner-managers are increased at the expense of increased minimum standard employees;*
- *new techniques of production/service delivery are introduced which allows a reduction in labour hours input which will mainly involve the substitution of capital for labour; and*
- *full time employees are converted to part time employees. The hours saved would concentrate on low productive hours that would otherwise have been paid for by the employer. Hence, there would be a cost saving, with some forgone output.”⁵⁸*

Additionally, the report concluded that there would be some divergence between the short and long-term effects dependent upon which strategy a given employer may implement. For example, a manufacturer who decides to substitute capital for labour will necessarily experience some delays in implementing this strategy as time is spent researching the availability of appropriate technologies, placing orders with producers and awaiting ultimate delivery and installation.

5.1.3 Margin Absorption Effect

In this scenario, following a rise in employee costs, the employer absorbs the cost increase by accepting a reduced profit margin on the firm's trading activities leaving prices, employment and output unchanged. However, such a response impacts upon activity with both short and long-term implications.

⁵⁸ National Institute of Economic and Industry Research, *Economic implications for the increase in WorkCover premiums from the access to common law damages on the State of Victoria*, p.18.

The Institute's analysis cites the following partial impact in the short term:

*"In part the margin reduction will represent a cost free response to the Victorian economy...An increase in wage costs by reducing profits will reduce tax payments by business to the Commonwealth, and, if the wages go to employees on low pay, the reduction may exceed the increase in personal income tax payments. Also, dividend payments to out of state equity holders will be reduced without significant costs being imposed on the Victorian economy."*⁵⁹

However, over the longer term, reduced trading profits could negatively impact upon the Victorian economy through a reduction in investment expenditure. Reduced margins would also likely lead to a reduction in undistributed income (or retained earnings) which, in turn, reduces the funds available for future investment. Over time this then leads to a cumulative loss in total productive capacity within the Victorian economy.

Under the assumption that the premium rate increase is ongoing, the fall in the level of investment expenditure will also be ongoing resulting in an ever-widening capacity gap between the pre-increase baseline scenario and the post-increase outcome. This being the case, the resultant falls in output and employment increase over time.

The report states that the industries most likely to be exposed to such an outcome are those where firms typically face strong competition, where they are price takers with prices set in international markets or where capacity installed is crucial to supply capability and is sensitive to retained earnings. The Institute considers that the industries that typically exhibit these characteristics *"...are in the tradable goods sectors, comprising agriculture, mining and manufacturing in general and particularly the export oriented and small business industries in these sectors."*⁶⁰

⁵⁹ Ibid, p.19.

⁶⁰ Ibid, p.20.

5.1.4 Cost Pass-On Effect

The cost pass-on response by employers results in an equivalent rise in prices of the goods and services that they market to offset their increased labour costs.

Initially, the cost pass-on involves a redistribution of income between those households that receive a lump sum payment, and therefore a rise in their real incomes, and those other households that do not receive a lump sum payment yet purchase goods and services at increased prices, resulting in a fall in their real incomes.

The Institute's report states that if this were to be the only outcome from the cost pass-on, then economic activity in Victoria in aggregate would be largely unaffected by the redistribution. However, the analysis determined that there would be secondary effects that would impact upon overall activity. It is likely that some industries that choose a cost pass-on strategy would not only be selling their products and services to Victorian households but that they would also be exporting their products interstate and overseas. Additionally, some industries would also be competing in markets with substitute goods and services imported from interstate and overseas competitors.

In such instances, increased pricing would reduce the competitiveness of Victorian suppliers resulting in a loss of sales in export markets and an increase in import substitution. The flow-on effect would lead to an overall reduction in economic activity that gradually increases over time. Further, the cost pass-on strategy would initiate a price multiplier effect as the input costs for other Victorian firms rise, leading to additional price increases for the goods and services that they produce.

In its attempt to quantify the net impact of the four transmission mechanisms detailed above, NIEIR developed two scenarios for investigation, a base case and an 'efficient economy' scenario. The Institute's econometric model utilised labour demand equations based on empirical evidence of the effects on labour demand arising from changes in the price of labour.

The Institute's report claimed that as labour productivity had historically risen, a significant proportion would have been the result of either the substitution of capital for

labour, increases in economies of scale and scope arising from mergers and business closures or the selection of lower cost production technology. However, in addition to these factors, the Institute claimed that an element of the improvement in labour productivity would have been due to improved efficiencies arising from substantial microeconomic reform and structural changes in the Victorian economy.

The efficient economy scenario, then, arose out of the uncertainty as to “...how much inefficiency is left in the economy to allow further increases in relatively costless labour productivity?”⁶¹ The scenario was modelled under an assumption that there is little unexploited labour productivity in the Victorian economy, and therefore higher WorkCover costs would ultimately be met through larger falls in investment, and the subsequent loss of capacity, and higher levels of cost pass-on to Victorian households and industry.

The results of the NIEIR modelling are detailed in Tables 5.1 and 5.2 below.

Table 5.1: Direct Cost Response of Increased WorkCover premiums (1998 \$m)

	Base case		Efficient economy	
	Short run	Long run	Short run	Long run
Increased premium costs	170	170	170	170
(1) Labour substitution cost saving	40	64	8	14
(2) Pass-on costs to local economy	57	47	72	69
(3) Pass-on costs to rest of Victoria	43	36	53	51
(4) Cost savings from fall in investment	8	7	11	10
(5) Cost allocated outside Victoria	20	17	26	25
(6) Increased Social Security payments	12	20	4	6
Net direct costs to Victoria (=1+2+3+4-6)	136	134	140	138
Memorandum item				
Annual additional capital costs	2	9	4	7

Source: National Institute of Economic and Industry Research, *Economic implications for the increase in WorkCover premiums from the access to common law damages on the State of Victoria*, a report prepared for the Department of Treasury and Finance, April 2001, p.25.

⁶¹ Ibid, p.22.

Focussing first on the short-run base case scenario, the results of the NIEIR modelling (reported above) reveal that as a direct consequence of the premium rate increase introduced in 2000/01, the level of Victorian employment would be 957 below that which it would otherwise have been in 2002/03 (the second year following the increases). Further, Table 5.1 reports that such a decline in employment would involve a cost offset to Victorian employers of \$40 million, that is, approximately 24 per cent of the assumed \$170 million additional premium costs would have been offset by declines in employment.

Table 5.2: Direct and Total Impact on the Victorian Economy

	Unit	Base case		Efficient economy	
		Short run	Long run	Short run	Long run
Lump sum consumption impact	1998 \$m	98	179	98	179
Investment-capacity output impact	1998 \$m	-14	-56	-18	-85
Flow on impact on Victorian output	1998 \$m	-42	22	-44	9
Total impact on Victorian industry output	1998 \$m	-55	-33	-62	-76
Labour substitution employment impact	Number	-957	-1 626	-286	-488
Flow on employment impact	Number	-601	-261	-676	-623
Total economy-wide employment impact	Number	-1 558	-1 888	-962	-1 111

Source: National Institute of Economic and Industry Research, *Economic implications for the increase in WorkCover premiums from the access to common law damages on the State of Victoria*, a report prepared for the Department of Treasury and Finance, April 2001, p.25.

Under the long-run scenario, the modelling results indicate that the direct response would see the level of Victorian employment at 1 626 below that which it would otherwise have been in 2010/2011 (the tenth year). In this instance, the cost offset to Victorian employers from the decline in employment would amount to \$64 million, meaning that approximately 38 per cent of the additional premium costs are by then being offset by reduced employment levels. The divergence in the outcomes of the short and long-term scenarios is as a result of investment time lags involved in substituting capital for labour.

However, from an economy-wide perspective, total Victorian employment would be lower still in both scenarios due to flow on effects emanating from the premium increases. In the short run, total Victorian employment would be 1 558 below the level it would have reached without the premium increases, whilst it is 1 888 lower in the long run scenario.

In terms of the total impact on Victorian industry output, in the short run, total production losses were estimated to be \$55 million (in 1998/99 dollars), falling to \$33 million (1998/99 dollars) by the tenth year.

Under the efficient economy scenarios, labour losses are smaller as the lack of internalised, though unexploited, labour productivity in the Victorian economy results in the higher WorkCover premiums being met by larger falls in investment rather than through labour shedding. Total lost industry output is higher under the efficient economy scenario as the heavier fall in business investment negatively impact on the productive potential of the State's economy.

As noted earlier in this section, the Institute's modelling was undertaken assuming only a 15 per cent general increase, rather than the full 17 per cent that was actually applied. The outcomes reported above would then necessarily understate the full impact of the WorkCover premium increases in 2000/01. Further, as the modelling was undertaken using data in 1998/99 dollars, the estimated total production losses are also likely to be less than the outcome assuming 2000/01 price levels.

While the Committee accepts that numerous factors impacted upon the outlook of Victorian employers during the course of 2000/01 (including uncertainty surrounding interest rate movements, the volatility of the Australian dollar and the introduction of the GST), the Committee has no doubt that the increase in WorkCover premiums accentuated negative sentiment within the Victorian economy. Sections 5.2 and 5.3 below report views expressed to the Committee by Victorian employers.

The Committee therefore notes the findings within the economic modelling undertaken by the National Institute of Economic and Industry Research which indicated that, by 2002/03, total Victorian employment would be 1 558 below the level it would have been without the premium increases, further deteriorating to 1 888 by 2010/2011. In addition, in the short run, NIEIR estimated losses to total Victorian industrial output at \$55 million (1998/99 dollars), falling to \$33 million (1998/99 dollars) by the tenth year.

⇒ FINDING 5.1

The Committee finds that the economic modelling undertaken by the National Institute of Economic and Industry Research understates the full impact of WorkCover premium increases in 2000/01 as a 15 per cent general increase was assumed rather than the full 17 per cent (which included the 2 per cent GST affect) that was actually applied. Further, as the modelling was undertaken using 1998/99 data, the estimated total production losses are also likely to have been deflated on what the outcome would be assuming 2000/01 price levels.

5.2 Impact on Economic Activity and Employment in Metropolitan Areas

During the course of its investigation, the Committee conducted public hearings in the City of Kingston and the City of Banyule in an endeavour to assess the impact that the WorkCover premium increases have had on individual metropolitan-based businesses. In addition, the Committee received approximately 35 submissions from metropolitan-based private firms and peak industry bodies.

The Committee notes that throughout these public hearings, many of the businesses complained of receiving increases far in excess of the 17 per cent that the Government had led them to believe they would incur as a result of the reintroduction of common law and the flow on effects of the GST. Many witnesses reported significant increases in line with those detailed in Section 3.8 of this report. In some cases these increases were later adjusted down when revised premium calculations were made for those employers who had failed to initially submit a remuneration estimate.

Much of the evidence received by the Committee from metropolitan-based businesses also reinforced the findings of the analysis undertaken by NIEIR. In particular, in the face of an extremely competitive business environment, witnesses pointed to reduced margins, and therefore profits, which would adversely effect their ability to grow their businesses. The Committee heard from numerous manufacturers who were particularly exposed to these severe market conditions and therefore strictly limited in their ability to

pass on the increase in WorkCover costs. The evidence presented below typifies that received by the Committee.

Ms. Jacki Miller, Human Resources Manager, Coogi Australia Pty Ltd, Abbotsford:

“The impact on the operation of the Company due to the increase in premiums is significant. Coogi Australia is one of few remaining local garment manufacturers now employing in the vicinity of 400 personnel. The Company exports significant quantities of product to overseas markets where the main selling point to clients is the fact that the garments are Australian made. The spiraling costs of the WorkCover premium will significantly impact on the Company’s ability to grow and further develop both the product and the expertise required to maintain leading edge design and product range.”⁶²

Mr. Peter Bancroft, Managing Director, Sticky Products, Cheltenham:

“The CHAIRMAN — Would you like to comment on the effect on your business of increases such as this?

Mr. BANCROFT — Every increase has to be covered somehow. Either we have to increase turnover and bring more to the bottom line to meet it or it eats into something else. First of all, it certainly eats into the bottom line, as do all the others. It represents probably a partial employment of a person full time, and certainly a part-timer.”⁶³

Mr. Peter Leipnik, Managing Director, The Specialty Group, East Bentleigh:

“Our company supplies goods in very competitive local and overseas markets. Locally in most markets we have not been able to increase prices for a number of years. The increased cost of WorkCover premiums means less profit being available for the company to reinvest for growth,

⁶² Submission No. 15, Coogi Australia Pty Ltd.

⁶³ Minutes of Evidence, 18/12/2000, p.226.

including employment. An increase in WorkCover premiums is clearly a disincentive to employment.”⁶⁴

Mr. Peter Clark, Director, Belle Design and Manufacturing, Highett:

“I am afraid the 67 per cent increase will make a difference in the vicinity of \$18 000 to us this year. If I could increase my prices by 67 per cent, I would be laughing; I would not have a problem at all. Unfortunately, the competitive nature of business these days does not allow us to do that. We have no incentive to employ any new people, no incentive to train new people. It is going to cost us that.”⁶⁵

Mr. Robert Anderson, Managing Director, Zep International Pty. Ltd., Clayton South:

“The increase in WorkCover costs by a 17% loading...has and will have a serious impact on Zep International Pty Ltd in terms of its competitiveness in the market.

Zep have attempted to absorb the increased costs however have reached a point that it is no longer viable to do so.

Zep have downsized seven positions in recent months in Victoria.

Zep is now considering its next action, which will most likely be to close its Manufacturing and Research units and import product from its parent company. The Parent Company is able to provide product at lower costs than locally produced product.

The impact of this move would be to reduce staff by at least 10 people in Victoria.”⁶⁶

⁶⁴ Minutes of Evidence, 18/12/2000, p.254.

⁶⁵ Minutes of Evidence, 18/12/2000, p.269.

⁶⁶ Submission No. 46, Zep International Pty. Ltd.

The Committee also heard evidence that some employers are, as a result of the premium increases, intending to either restrict new recruitment or reduce current staffing levels. The following are some of the comments put to the Committee by metropolitan businesses during its investigation.

Mr. Peter Patroni, Managing Director, Kinetic Technology International Pty Ltd, Cheltenham:

*"The bottom line is that it will make it more difficult for us to employ people or to promote our products because of competition. The Taiwanese do not pay common law, nor do the Chinese, nor do my competitors from overseas."*⁶⁷

Ms. Margaret Aivatoglou, Proprietor, Evangelia Aged Care Facility, Parkdale commented on the rise in her premium in 2000/01:

*"I would have employed extra staff with that \$27 000. Many part-time jobs could have been offered with that money."*⁶⁸

Mr. Vic Bedin, Managing Director, Peninsula Curtains, Mornington, stated in a written submission to the Committee that his company's 44 per cent premium increase would:

*"...have a detrimental effect on the future prosperity of our business, particularly our ability to maintain current employee numbers, and also inhibit future employment possibilities."*⁶⁹

⁶⁷ Minutes of Evidence, 18/12/2000, p.241.

⁶⁸ Minutes of Evidence, 18/12/2000, p.265.

⁶⁹ Submission No. 1, Peninsula Curtains.

Mrs. Alison & Mr. Myles Sutherland, Directors, E.W. Hogan Moving & Storage, Mordialloc:

“The impact of these unforeseen rises on our business has been substantial. Our business has now had to take out an overdraft to assist with cash flow. We will not employ any other persons other than those already employed; it’s just not worth the effort.”⁷⁰

Ms. Mary Johnson, Director, The Blue Dandenongs Bulb Farm, Monbulk;

*“...a small to medium size business simply cannot work hard enough, or smart enough to generate enough sales, that generate enough profit, to pay for all the additional labour ‘on-costs’.
Because it is becoming increasingly difficult...to generate a profit from a business primarily producing from the land, we are taking drastic action right now to address the matter. We are immediately terminating the equivalent of 6 full time staff, and will not be hiring any additional in the next 6 months.”⁷¹*

⇒ **FINDING 5.2**

The Committee finds that the significant increase to WorkCover premiums in 2000/01 has reduced the level of profitability of many metropolitan businesses, which can be expected to have a negative impact upon future growth and investment opportunities for these firms.

⇒ **FINDING 5.3**

The Committee finds that, as a direct result of the premium increases, some metropolitan businesses have either reduced employee numbers or downwardly revised their recruitment plans.

⁷⁰ Submission No. 10, E.W. Hogan Moving & Storage.

⁷¹ Submission No. 28, The Blue Dandenongs Bulb Farm.

5.3 Impact on Economic Activity and Employment in Regional and Rural Victoria

During its inquiry, the Committee undertook a series of public hearings throughout regional and rural Victoria in order to assess the extent of the impact of 2000/01 premium increases on regional and rural employers. The Committee held hearings in the following regional locations: Geelong, Ballarat, Bendigo, Mildura, Swan Hill, Warragul, Traralgon, Sale, Portland, Warrnambool, Colac, Broadford, Euroa, Benalla and Wangaratta.

In addition, the Committee received numerous written submissions from regionally based employers.

The Committee heard from several regional firms who had either postponed, or were considering postponing, expansion plans as a result of substantial increases in their WorkCover premiums in 2000/01. The meat processing industry appears to have been impacted upon particularly hard by the increases.

Mr. Kevin Gill, General Manager and Ms. Robyn Smith-Clark, Risk Manager, Frew Kyneton Pty Ltd:

“Mr. GILL — Because your industry rate and claims history go on, with any new people you employ your remuneration changes — and up she goes. We were looking at a development over the past 12 months and at putting on 50 new jobs.

Ms. SMITH-CLARK — May I add that Kyneton is a small rural community, and that is a huge employment for such a small area. I know Kyneton has had a high unemployment rate, but our catchment area is more than that — it is Bendigo, Heathcote, Geelong, Ballarat, Melbourne and all the surrounding districts. We are a proactive employer so far as employment is concerned. If we had to refocus on where we go in the future or on the bottom line of whether we close — which is on the cards — the impact on the Kyneton community would be devastating. We are seriously looking at those two options. If this impacts on us the same way next year, we will

not survive. I know a lot of other companies will not survive either. It is too much, too hard, too fast and too soon.”⁷²

Mr. Alex Egan, Finance Manager, Midfield Meat, Warrnambool:

“The group now regards the workers’ compensation system in its present form as the number one threat to its business. The additional funding required to meet vastly increased premiums affects our borrowing and cash flow requirements. Accordingly, we have deferred decisions to undertake a couple of projects worth \$4 million, including the development of a further set of plate freezers and cold storage facilities at our plants. That would give us additional capacity and production, and therefore the capacity to create a further 200 jobs.”⁷³

Mr. Rennie Schaffer, Executive Officer, National Meat Association of Australia, Victorian Division:

“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.”⁷⁴

⁷² Minutes of Evidence, 13/12/2000, p.195.

⁷³ Minutes of Evidence, 6/3/2001, p.522.

⁷⁴ Minutes of Evidence, 19/2/2001, p.362.

Mr. Michael Antolos, Assistant Managing Director, Pacific Textiles, Bendigo:

*"...we have looked at a possible future expansion — which we may defer. The reason we may defer is basically that we do not have the money to finance it; it has been taken up with the premium. Basically we could have looked at jobs for 12 to 20 people over two years, which would have been good for a town with high youth and adult unemployment."*⁷⁵

Mr. Daryl Rodgers, Accountant, Black Forest Timbers, Woodend:

*"Because it is a substantial premium increase, it is having a detrimental effect on our business and our employment, in that we have actually deferred some of our investment decisions. We had actually put in our plans for this year a 66 per cent increase in our remuneration for more employment in the future. We will probably have to cut that 66 per cent back by about 25 per cent."*⁷⁶

Mr. Andrew Wibberley, General Manager Manufacturing, Maxitrans Australia Pty. Ltd., Ballarat:

*"As a result of the additional costs incurred due to the changes in the WorkCover legislation, a number of major projects within our organisation have been put on hold or delayed. This obviously impacts on employment growth and stability and long-term viability."*⁷⁷

Mr. David Keenan, Director, Economic Development, Warrnambool City Council:

*"There are a number of local industries that have indicated to Council a willingness to expand their current operations but are reluctant to do so given the large increases in WorkCover premiums. This is at a time when the Warrnambool community is in need of new employment sources."*⁷⁸

⁷⁵ Minutes of Evidence, 13/12/2000, p.180.

⁷⁶ Minutes of Evidence, 13/12/2000, p.188.

⁷⁷ Minutes of Evidence, 12/12/2000, p.154.

⁷⁸ Submission No. 49, Warrnambool City Council.

As was evident amongst metropolitan employers, many regional employers who addressed the Committee also reported negative outlooks for margins, profitability and employment.

Mr. Tony Pumpa, Director, Pumpa Engineering, Swan Hill:

“The CHAIRMAN — I am interested in the effect on your business of the increase in the WorkCover premium.

Mr. PUMPA — One thing it has done is slow down our growth. I am very hesitant in taking on more employees and in business expansion. It means we have to borrow more money and it is harder to borrow and harder to make the repayments.”⁷⁹

Mr. Ken MacLeod, Managing Director, Strap Engineering, Mildura:

“At the end of the day the customer is the person who pays the premium, doesn't he, or we have to wear it in our margins. I daresay if the premium keeps going up, our company will then look at technology to perhaps replace people working for us. I assume there is technology out there. It might mean we have to go to Europe to find the technology we need to maintain that profitability. One way of doing it is to replace people with machines, which is not always the best way to go.”⁸⁰

⁷⁹ Minutes of Evidence, 31/1/2001, p.332.

⁸⁰ Minutes of Evidence, 29/1/2001, p.282.

Mr. Bernie McLoughlin, Administration Manager, Neville Smith Timber Industries, Heyfield:

“The CHAIRMAN — What is the effect on the business of such a large increase in the premium?”

Mr. McLOUGHLIN — It narrows your margins, of course, but our industry has a fluctuating margin anyway, with the rise and fall in demand in building and so forth. A figure like that is quite a big intrusion into our margin and in turn influences prospective employees. We have to prune back employees as far as possible, with things like this hovering in the background. So they are the two main aspects of it.”⁸¹

Mr. Rennie Schaffer, Executive Officer, National Meat Association - Victorian Division:

“Ms. 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 cost because of WorkCover.

Mr. CRAIGE — And the reintroduction of common law?”

Mr. SCHAFFER — And the reintroduction of common law.

Ms. 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.”⁸²

Mr. Ian Manton, Managing Director and Mr. Grant Harvey, Finance Director, Valcor Australia Sales Pty. Ltd., Ballarat:

“Mr. HARVEY — Like any business we have to marry our revenue with our expenses — it is simple economics. We have to control our costs, and we have found that we basically cannot employ any more people. We should have; we have enough work to employ more people but we are making do. We are trying to control the costs of the business.

The CHAIRMAN — Management has made a decision not to put more staff on because of the WorkCover problem?

Mr. HARVEY — Yes — well, we have to control our costs. Overall we look at our costs and we have to control them. This represents a \$20 000-odd increase in costs and we have to pick it up somewhere.

Mr. MANTON — For example, if we had to put on an apprentice we would seriously consider holding back on the appointment of the apprentice now. The apprentice program costs something in the order of \$20 000 per apprentice. This is a real concern for us because we need young people coming into our organisation. This would certainly have an impost on our business and hold us back on making an appointment. I would like to add that we invest a lot of money on a health and safety system and procedures. We have people trained, and I am surprised that we have not had any recognition for the investment we have made with regard to the prevention of injury and of illness within our organisation. This is also a real concern to us.”⁸³

Mr. Gordon Rorison, Business Manager, Gippsland Aeronautics Traralgon:

⁸¹ Minutes of Evidence, 20/2/2001, p.426.

⁸² Minutes of Evidence, 19/2/2001, pp.361-362.

“Ms. 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.”⁸⁴

Mr. Peter Ansell, Manager, Legal Affairs, Godfrey Hirst Australia Pty. Ltd., Geelong:

“...issues such as the WorkCover premium issue probably impact harder on Geelong than on most other areas, simply because Geelong is an industrial town and a lot of people are employed in the manufacturing sector, and it seems that it is in an area where larger premiums have been paid for employees. As a company and in proper financial management there is no question that we have to consider on-costs of employing further people. That is, without doubt, a consideration we have to make. As on-costs continue to increase we have to consider the impact of that on our business.”⁸⁵

⇒ **FINDING 5.4**

The Committee finds that the increase in WorkCover premiums in 2000/01 stalled the implementation of expansion plans for many regional firms. This may have longer-term ramifications for the future prosperity of many rural and regional Victorian towns and centres.

⇒ **FINDING 5.5**

⁸³ Minutes of Evidence, 12/12/2000, p.145.

⁸⁴ Minutes of Evidence, 19/2/2001, p.383.

⁸⁵ Minutes of Evidence, 12/12/2000, p.102.

The Committee finds that the significant increase in WorkCover premiums in 2000/01 has resulted in many rural and regional employers downgrading their future hiring intentions. Given that many people living in rural and regional Victoria already face limited employment options compared to those available to the metropolitan based population, the relative impact of the WorkCover increases on rural and regional Victorians will be even greater than that experienced by the metropolitan based labour force.

CHAPTER 6: THE IMPACT OF THE 2000/01 PREMIUM INCREASE ON THE STATE BUDGET AND ON GOVERNMENT AND NON-PROFIT AGENCY SERVICE PROVISION

The Committee's Terms of Reference required that it investigate the impact that the 2000/01 rise in the level of WorkCover premiums would have on the State budget. This issue is addressed in Section 6.1.

The reference further required the Committee to inquire into the impact that the premium increases would have on the provision of services by government departments and agencies. Section 6.2 deals with this issue at state government level while Section 6.3 covers the impact at local government level.

Finally, this portion of the reference also required an investigation of the impact into the premium rises on service provision by non-profit and community organisations. This is examined in Section 6.4.

6.1 Impact on the State Budget

Appendix A of the 2000/01 Budget Update, released in January 2001, details specific policy initiatives that have affected the budget position subsequent to the compilation of the initial 2000/01 Budget. Appendix A, in part, states:

*"The 2000-01 Budget made no allowance for the impact of the cost of the recent WorkCover changes as the form of the changes was not finalised and the legislation was not passed by the Parliament at the time the 2000-01 Budget was finalised."*⁸⁶

That being the case, the Budget Update announced an increase in government funding of \$27.4 million for 2000/01, continuing over the forward estimates, consisting of an additional \$20.5 million in funding to Departments and \$6.9 million to non-government

⁸⁶ Treasurer of the State of Victoria, *2000/01 Budget Update*, p.82.

organisations receiving funding from the State “...to enable the impact of the new common law and statutory benefits on the WorkCover premium to be met.”⁸⁷

Thus, the additional funding did not represent a full offset to all increases experienced by government departments and agencies and non-profit organisations in 2000/01. Increases incurred by government and non-government agencies as a result of changes in the level of the organisations’ remuneration, the decision to automatically round up industry rates, deterioration in claims experience or the impact of the GST were not provisioned for in this additional budget allocation.

The non-provision of additional funding for poor claims experience is appropriate. If these were to be funded by the Government it would discourage organisations from improving their safety record. The policy of not funding poor claims experience has been in place for many years.

⇒ **FINDING 6.1**

The Committee finds that the supplementary funding provided to government departments and agencies and non-profit organisations did not provide an offset to WorkCover premium increases in 2000/01 that had resulted from the decision to automatically round up industry rates, the introduction of the GST or changes to remuneration levels or claims experience.

⇒ **FINDING 6.2**

The Committee finds that the Government should have, at the time premiums were set, determined the impact on government departments and agencies and non-profit organisations and, as a consequence, announced the level of supplementary funding at a much earlier time.

⇒ **FINDING 6.3**

⁸⁷ Ibid, p.82.

The Committee finds that, whilst it recognises there are many safety management issues arising from the specific nature of the work of some NGO's, in general the provision of additional funding to compensate non-profit organisations for poor claims experience is inappropriate.

⇒ **FINDING 6.4**

The Committee finds that there was a level of confusion and uncertainty caused as a result of the delayed announcement.

In evidence before the Committee, Mr. Adrian Nye, Director, Insurance Policy, Department of Treasury and Finance (DTF) stated that:

“The processes for funding government departments for the fluctuations in WorkCover premiums attributable to government policy is a fairly well-trod path. Recent governments have generally accepted submissions for supplementary funding to departments and agencies where the premium increases are not within departmental or management control.”⁸⁸

⇒ **FINDING 6.5**

The Committee finds that the financial impact of the policy decision to round up industry rates should have been included in the supplementary funding that was provided to government departments and agencies and non-profit organisations.

In a supporting written submission tabled during its appearance before the Committee, DTF claimed that the supplementary funding was also provided to departments and agencies following the increase in the average premium rate from 1.8 per cent to 1.9 per cent in 1998/99. Further, the submission stated that current funding policy for WorkCover premiums was built on the premise that government departments and agencies were to manage safety locally and they were therefore expected to absorb any

premium increases (or retain the benefits of premium reductions) that resulted from changes in claims experience within individual workplaces.⁸⁹

In addition, DTF informed the Committee that only budget sector government entities had been allocated a share of the increased budget funding. Budget sector entities are those government departments and agencies that source fifty per cent or more of their funding from budget appropriations.

The DTF provided the Committee with a breakdown, by portfolio, of the WorkCover increases incurred by all budget sector government departments and agencies (refer Appendix 5). The data revealed that, in 2000/01, premiums incurred by all budget sector departments and agencies totalled \$ 176.1 million (including GST), compared to \$127.5 million for 1999/00, an increase of \$48.5 million. Of the \$48.5 million increase, approximately \$2.7 million resulted from increases in remuneration, \$6.7 million from claims experience and industry rate movements, \$2.7 million from non-claimable GST cost increases and \$16.6 million from the 10 per cent GST. The remaining portion of the total increase, \$20.5 million, was attributable to the 15 per cent general increase applied to fund the reintroduction of common law and that was provisioned for in the Budget Update.

The supplementary funding provided for in the 2000/01 Budget Update would appear to give full coverage to budget sector entities for the cost incurred by those entities arising from the reintroduction of common law in 2000/01. However, according to the Budget Update, the same level of supplementary funding (\$20.5 million) has also been allocated over the forward estimates period, encompassing policy years 2001/02 to 2003/04, an approach that clearly understates the actual ongoing cost to the budget.

The 2001/02 Budget, delivered on 15th May 2001, forecasts solid growth in general government sector employee entitlements over the period 2001/02 to 2003/04 (averaging 4 per cent). Similarly, the Department of Treasury and Finance's economic

⁸⁸ Minutes of Evidence, 20/4/2001, p.732.

⁸⁹ Department of Treasury and Finance, submission entitled '*Economic Development Committee – WorkCover Premiums for 2000/01*' presented to EDC at public hearing held on 30/4/2001, pp.6-7.

projections reported in the 2001/02 Budget forecast wage growth at 3.5 per cent over the same period.⁹⁰

It is standard forecasting procedure to incorporate assumptions for parameter changes when compiling budget forecasts. That said, incorporating an assumption of 3.5 per cent wages growth over the period 2001/02 to 2003/04 increases the total additional cost imposition to budget sector entities by \$4.5 million over this period. Further, no allowance has been made in the supplementary funding for growth in budget sector entity employee numbers. Under the reasonable assumption that this is likely to occur, especially given the projected growth in employee entitlements reported in the Update, the additional cost to the budget over the forward estimates period would be proportionately greater.

⇒ **FINDING 6.6**

The Committee finds that the supplementary funding to be provided to government departments and agencies over the forward estimates period, as announced in the 2000/01 Budget Update, understates the real budgetary impact of the reintroduction of common law on the budget sector.

⇒ **FINDING 6.7**

The Committee finds that the supplementary funding allocated in the 2000/01 Budget Update is, under reasonable assumptions, at least \$4.5 million below the level required to provide government departments and agencies with a full cost offset over the forward estimates period of the increased WorkCover premium incurred as a direct result of the reintroduction of common law access.

⁹⁰ Treasurer of the State of Victoria, *2001/02 Budget Statement*, pp.58 & 288.

6.2 Impact on Service Provision of Government Departments and Agencies

6.2.1 Budget Sector Entities

As outlined in Section 6.1, the Bracks Government provided supplementary funding for budget sector departments and agencies in 2000/01 to cover the cost imposition associated with the reintroduction of common law. For those entities that received such funding, there should have been no adverse impact on service provision arising from the reintroduction of common law.

⇒ **FINDING 6.8**

The Committee finds that, for those budget sector entities that received supplementary funding, there should have been no adverse impact on service provision arising from the reintroduction of common law.

However, in addition to the 15 per cent increase to fund common law reintroduction, many government departments and agencies incurred additional increases as a result of deteriorating claims experience, increases in remuneration and the introduction of the GST, all of which they were expected to fund internally (refer Appendix 5, page 257).

The Committee fully supports the policy position that budget sector entities be required to internally fund increased premiums that are the result of deteriorated claims experience. Improving workplace health and safety is an outcome all managers within the public sector should strive for, just as in any other sector of the economy. Similarly, the Committee considers that decisions that affect remuneration levels within agencies, either as a result of wage rises granted or an increase in employee numbers, should be the responsibility of management, as should any consequential premium movements. Finally, with regards the GST component of the increase, as the cost incurred can be reclaimed as an input credit, it will have had minimal effect upon the operations of budget sector entities.

⇒ FINDING 6.9

The Committee finds that the policy of requiring public sector entities to internally fund premium increases arising from deteriorating claims experience or an increase in remuneration levels is appropriate.

6.2.2 Non-Budget Sector Entities

During the course of its investigation, the Committee ascertained that there were certain public sector organisations that, though tasked with the provision of vital public services, were not deemed to be budget sector entities and therefore were not recipients of supplementary funding to offset the cost of restoration of common law access. Two such organisations, the Metropolitan Fire and Emergency Services Board (MFESB) and the Country Fire Authority (CFA), receive the majority of their annual income (in excess of 60 per cent in both cases) from insurance companies that insure against fire to property and they were therefore excluded from the receipt of supplementary funding.

In the case of the MFESB, the total contribution to its annual funding provided by the insurance industry is determined by the Minister for Police and Emergency Services under the *Metropolitan Fire Brigades Act 1958*, and subsequently approved by the Governor-in-Council. Similarly, the Minister determines contributions to the MFESB emanating from both Consolidated Revenue and municipal councils. That being the case, the MFESB does not have the authority to unilaterally increase charges in an effort to recoup cost increases.

In a written submission to the Inquiry, the Metropolitan Fire and Emergency Services Board advised the Committee that it had incurred an increase in its premium of 60 per cent (or \$1.2 million) in 2000/01. The increase was the result of numerous factors including a 5 per cent increase in remuneration, claims costs incurred and a two-category upward shift in the MFESB's predominant WorkCover industry classification – fire brigades and associated services. However, a significant portion of

the increase, approximately \$400 000, resulted from the 15 per cent general increase applied to all employers in 2000/01 to fund the reintroduction of common law rights.⁹¹

As the MFESB has little capacity to increase revenue streams in an effort to fund the common law component of the 2000/01 WorkCover premium increases, it must necessarily meet this additional burden through improved internal efficiencies or cost reductions. Though the Committee did not receive evidence from the CFA during its investigation, the Committee reasonably expects that the CFA will have been faced with the same financial difficulties as the MFESB.

The Committee considers that this outcome has been inequitable for those public sector agencies that, due to their failure to meet the definitional test for budget sector inclusion, were excluded from receiving supplementary funding. These agencies were nonetheless faced with the same increased cost burdens as those entities considered to be within the budget sector yet they have limited ability to recoup these cost increases from either budget grant or from those parties that use their services.

⇒ **FINDING 6.10**

The Committee finds that the provision of supplementary funding to government departments and agencies did not include those public sector agencies that failed to meet the definitional test for budget sector inclusion.

⇒ **FINDING 6.11**

The Committee finds that those public sector entities that have been excluded from supplementary funding, and that have no or only limited means to pass on the additional cost associated with the reintroduction of common law, should be granted additional funding to compensate for the cost increase.

⁹¹ Submission No. 55, Metropolitan Fire and Emergency Services Board.

6.3 Impact on Service Provision of Local Government

During the course of its investigation, the Victorian WorkCover Authority supplied the Committee with data detailing the WorkCover premium increases incurred by the 78 Victorian municipalities. The data revealed that, of the 78 councils, 66 incurred an increase in their dollar premium in 2000/01 over its level in 1999/00, whilst 12 experienced a decrease. However, as these comparisons fail to allow for rises that resulted from remuneration increases, a more reasonable indicator is to determine the number of municipalities that experienced an increase in their premium as a percentage of their remuneration. On this measure, 59 councils experienced an increase in their effective premium rate with 19 receiving a decrease.

In aggregate terms, total remuneration of the 78 Victorian municipalities in 1999/00 was \$931 million compared to \$1 006 million in 2000/01, while total premium was \$27 million for 1999/00 versus \$37.3 million including GST, or \$33.9 million excluding GST, in 2000/01. The effective average premium rate across all municipalities in 1999/00 was 2.89 per cent of remuneration and 3.37 per cent in 2000/01.

Given that the average premium rate for 2000/01 of 3.37 per cent incorporated the 17 per cent general increase, the average premium rate for Victorian municipalities in 2000/01 without this increase would have fallen marginally from its 1999/00 level to around 2.88 per cent.

Applying the 2000/01 non-common law average premium rate of 2.88 per cent to the 1999/00 level of remuneration, and then further applying the approximate 8.1 per cent growth in total local government remuneration between 1999/00 and 2000/01, gives a total 2000/01 Victorian local government WorkCover premium of \$28.9 million had common law not been reintroduced. Thereafter, the 15 per cent general increase applied to fund the restoration of common law added a further \$4.3 million to total premiums in 2000/01, with the additional 2 per cent general increase applied to fund the cost of the GST's implementation adding approximately \$580 000.

Under the policy position detailed to the Committee by the Department of Treasury and Finance, Victorian municipalities received no supplementary funding to offset any of the

increases incurred in their WorkCover premiums in 2000/01, as the majority of local government revenue is derived from rates levied on properties and user charges.

With many councils having experienced significant and ongoing increases in their WorkCover premiums as a result of the reintroduction of common law, local governments across the State have been left with the following options to fund these increases:

- improve the efficiency of their operations in order to establish internal cost savings;
- decrease the level of services offered to the community; or
- increase municipal rates and charges.

⇒ **FINDING 6.12**

The Committee finds that, as a direct result of the reintroduction of access to common law, Victorian municipalities in aggregate have incurred a \$4 million increase in their annual WorkCover premiums.

⇒ **FINDING 6.13**

The Committee finds that any Victorian local council unable to internally fund WorkCover premium rises through increased efficiencies will necessarily be faced with the option of increasing rates and services or reducing services to ratepayers.

6.4 Impact on Service Provision of Non-Profit and Community Organisations

Throughout the Inquiry, the Committee heard evidence from many of Victoria's non-profit and community-based organisations on the impact that 2000/01 WorkCover premium increases had on this vital sector.

In the 2000/01 Budget Update, released in January 2001, the Bracks Government provided an additional \$6.9 million in supplementary funding for distribution to 3 500

non-government organisations (NGO's) receiving funding from the State through the Department of Human Services (DHS). The NGO's are funded by DHS to deliver a range of programs offering disability, community care, aged care and health services. The purpose of the supplementary funding that was granted was to enable these organisations to meet the increased cost imposed by the reintroduction of common law.

However, the evidence compiled by the Committee during the course of its investigation revealed that the supplementary funding allocated to this sector did not fully offset the total cost imposition resulting from the reintroduction of access to common law.

Further, the Committee found that, due to the complex nature of funding arrangements between the Department of Human Services and recipient NGO's, many organisations were unsure of the precise amount of additional funding that had actually been passed on by DHS.

In its appearance before the Committee, the Department of Treasury and Finance (DTF) advised that the additional amounts provided through DHS were linked to the service agreements between individual NGO's and DHS. The Department of Treasury and Finance provided an example of the approach used in the case of agencies providing disability services, whereby the 15 per cent increase in WorkCover premiums resulting from restoration of common law was applied as an adjustment to the hourly rate paid to these agencies. This was deemed as the appropriate method as the majority of the funding allocated to disability agencies is based on an hourly rate purchase.

At a public hearing, Mr. Jonathon Lock, Manager, Human Resources, Royal Victorian Institute for the Blind (RVIB), was asked by the Chairman of the Committee whether the RVIB had received any additional funding from the State Government:

"Mr. LOCK — It has provided some through its funding formulas, but it is difficult to identify precisely how much because we negotiate funding agreements with the government to provide so many hours of service. The rate is sent along and the government comes back and funds us according to that rate.

The CHAIRMAN — So that would not be retrospective?

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

The CHAIRMAN — Out of 327?

Mr. LOCK — Yes.

The CHAIRMAN — So the increased WorkCover payment from the State government would be for only one-sixth or so of your staff?

Mr. LOCK — Yes.

The CHAIRMAN — You told us that you received funding from the Commonwealth government for some programs that you operate. Have you received any funding from the Commonwealth to cover the increase in WorkCover premiums...?

Mr. LOCK — I am not aware that we received any...”⁹²

The above discussion indicates that funding of NGO's for increases WorkCover premiums was only on the basis of services provided as a result of State Government funding and not for services provided as a result of private funding. Thus, in the case of the RVIB, State Government funding equates to approximately 60 of the 327 positions they have and this portion was funded for WorkCover premium increases.

The discussion also highlights a further complexity faced by a significant number of NGO's in meeting the cost of the reintroduction of access to common law, as many NGO's undertake service provision on behalf of Commonwealth departments, in addition to providing services for State based agencies. However, of all the NGO's who gave evidence to the Committee that provide Commonwealth funded services, none had received additional funding from either the Commonwealth or the State to compensate them for the increased financial burden that reintroduction of common has placed on the provision of services under Commonwealth jurisdiction.

The following evidence of Mr. Ian Fisher, CEO of Swan Hill District Hospital and General Manager of the Alcheringa Hostel, emphasises the difficulty arising for organisations that provide both State and Commonwealth funded services:

⁹² Minutes of Evidence, 19/4/2001, pp.697-698.

“Mr. FISHER — The hospital received an increase in WorkCover premiums charged for 2000/01 as a result of changes to the system. At this stage there has been government support to fund the acute sector of the premiums increase, which is fine. As yet we have not seen the money, but it should come through. We have not received any advice about the sorts of dollars that will impact on the aged care component of our business.

The Alcheringa Hostel is a not-for-profit organisation. The impact of the increased premiums will be greater on it than on the hospital. It has no other means of generating revenue to support any increases. The increase for the hostel only was about \$30 000. It is a serious issue for the hostel to try to make up that gap because most aged care organisations are already struggling to meet the costs involved in aged care. The extra WorkCover impost makes it difficult for it to break even and provide the sort of care needed in such agencies.

The CHAIRMAN — What is the consequence in the provision of care and running of the hostel when you have such an increase?

Mr. FISHER — From the hostel’s point of view we eat into our investments a little more. There are only a couple of options including either to raise revenue, which is restricted, or to reduce costs. While we always consider all avenues of our costs and opportunities for decreasing them, the major component of our expenditure in the hospital and hostel is salaries and wages. The dependency on the organisation of its residents is increasing. That means we will have to put on even more staff. The opportunity to reduce costs is limited. From that point of view, you have to suffer the consequences. It adds \$30 000 onto the deficit.

The CHAIRMAN — It could well mean \$30 000 worth of wages that you cannot afford for additional staff?

Mr. FISHER — It makes it harder to increase the number of staff. We are always under pressure, with the dependency of residents increasing, to provide more resources. When the bottom line is not looking flash you

have to weigh it up. Often it is difficult to make the decision to increase resources when you are already operating on a deficit.”⁹³

Ms. Jillian Carson, CEO of Churches of Christ Community Care (CCCC), Box Hill informed the Committee that her organisation faces similar challenges:

“CCCC is a non-profit community care organisation that predominantly provides aged care and disability services within the Melbourne metropolitan region. Due to the type of industry that CCCC operates within, we are heavily reliant on funding that is set by the Federal Government. This funding is for the daily care of residents, and does not cover existing or increased WorkCover premiums.

The only methods available to this organisation to absorb increases in WorkCover premium are to reduce the services currently provided to residents of our facilities, or reduce staffing levels.”⁹⁴

Some of the NGO's that gave evidence before the Committee also explained that the challenges presented by the increase in WorkCover premiums in 2000/01 were particularly onerous given that their sector typically had little or no capacity to pass on cost increases to clients. That being the case, unexpected increases in their overheads necessarily impacted upon either the level of service they could provide or on their ongoing financial viability.

Ms. Nancy Hogan, CEO, MECWA Community Care, East Malvern:

“Mecwa is a not-for-profit community based organisation which has served inner Melbourne for 41 years. Mecwa's WorkCover premium has increased from \$380 000 to \$660 000 this year. The impact of this increase has been extraordinary. What is at risk at this time includes the following:

⁹³ Minutes of Evidence, 31/1/2001, p.323.

⁹⁴ Submission No. 13, Churches of Christ Community Care.

- *A \$13M rebuilding project which would consolidate an 81 bed low care facility, 35 bed high care facility and 19 independent living units. As we will be borrowing the funds, we must have the ability to repay our loan and this has been completely destroyed by the increase in premiums.*
- *A programme for adults with an intellectual disability is now at risk.*

...the aged care sector has been hit and does not have the capacity to increase charges. Our only recourse is to shed staff or cut our services.”⁹⁵

Ms. Coleen Clare, CEO, Children’s Welfare Association of Victoria Inc., Melbourne:

“Children’s Welfare Association of Victoria (CWAV) is the peak body representing community services organisations that deliver child, youth and family welfare services in Victoria.

The impact of further increases in the cost of WorkCover in 2000-2001 has exacerbated an already difficult situation for community services organisations and is contributing to the further degradation of their financial viability.”⁹⁶

Mr. John James, General Manager, Business Services, St. Laurence Community Services, Geelong stated that:

“...unless there is some reduction in premiums, employment will certainly be discouraged, there is no question about that, and there will also be, I think, a reduction in the services we provide.”⁹⁷

Ms. Sandra de Wolf, CEO, Berry Street Victoria, East Melbourne:

“The impact of increased WorkCover premiums...means:

⁹⁵ Submission No. 16, MECWA Community Care.

⁹⁶ Submission No. 25, Children’s Welfare Association of Victoria Inc.

⁹⁷ Minutes of Evidence, 12/12/2000, p.87.

- 1) *The ongoing viability of the community service sector is threatened, as agencies are caught between increased costs and stable or reducing income.*
- 2) *A reduction in our capacity to service our clients, e.g. our youth and family mediation counsellors in Seymour and Yea have had to reduce their hours (and numbers of clients they can help) as we can no longer continue to subsidise the gap between costs and funding.*
- 3) *Existing staff are under additional pressure to “do more with less” and this can lead to additional OH&S issues.”⁹⁸*

The supplementary funding allocated in the 2000/01 Budget Update only provided supplementation to services directly funded by DHS.

In an appearance before the Committee, Ms. Jenny Balshaw, Human Resources Manager at the Yooralla Society of Victoria provided the following information:

“Our anticipated turnover this year is about \$33 million. We have about 800 staff plus about 140 supported workers and 75 per cent of our income is [State and Commonwealth] government funding. The rest comes from sales, investments, bequests, fundraising and that sort of thing. Approximately 80 per cent of that is spent on labour costs so WorkCover issues are quite significant to us.”⁹⁹

Similarly, the Royal Victorian Institute for the Blind's (RVIB) 1999/00 Annual Report states that the Institute's total revenue in 1999/00 totalled \$17.9 million, comprising \$6.3 million in Commonwealth and State Government grants with the remaining \$11.5 million received from sales, fundraising and other sources.¹⁰⁰ Clearly, the majority of the RVIB's services are not funded from revenue provided by the State Government but rather through other revenue streams.

⁹⁸ Submission No. 31, Berry Street Victoria.

⁹⁹ Minutes of Evidence, 19/4/2001, p.725.

As examples from the not-for-profit sector, the RVIB and Yooralla Society necessarily expend all of the revenue they raise, either directly or indirectly, on the provision of services to those in genuine need in the community. However, as these examples clearly detail, much of their revenue, and therefore the services they provide, is sourced from activities other than those funded by the State Government. That being the case, the cost imposition that these and other NGO's have incurred, as a result of the reintroduction of common law, has not been fully compensated for by the State Government and, consequently, will have reduced their capacity to maintain levels of service to clients in genuine need of their assistance.

In a written submission to the Inquiry, Ms. Sue Jackson, Executive Officer of the Council of Intellectual Disability Agencies (CIDA) commented that:

“Changes to legislation made by the Victorian Government must also be placed in the context of how this may potentially affect Victorian citizens with disabilities who receive services from organisations funded by the Commonwealth Government.

Organisations funded by the Commonwealth Government are currently unable to access additional funds through the Commonwealth to meet their financial obligations when there are variations made to Victorian legislation. Quality of service delivery to Victorians with a disability should not be determined by fluctuations in Government commitment in providing appropriate financial assistance to not-for-profit organisations, nor should the quality of service be dependent on the funding source.

The assumption that not-for-profit organisations will be able to meet the costs of significantly increased premiums and provide a safe environment which promotes quality services is unrealistic if there is to be no simultaneous increase in funding to offset the additional expense being incurred.”¹⁰¹

¹⁰⁰ Royal Victorian Institute for the Blind, *Annual Report 1999/2000*.

¹⁰¹ Submission No. 19, Council of Intellectual Disability Agencies (CIDA).

The NGO sector provides vital services to some of Victoria's most vulnerable and disadvantaged citizens, often under extremely trying circumstances, and as such, governments must seek to ensure that the valuable work undertaken by this sector is not undermined by the implementation of new policy decisions.

⇒ **FINDING 6.14**

The Committee finds that non-profit and community organisations were not fully compensated by the State Government for the additional cost burden arising from the reintroduction of access to common law.

⇒ **FINDING 6.15**

The Committee finds that the financial viability of the non-profit and community sectors was seriously impacted upon by the increases to WorkCover premiums in 2000/01.

⇒ **FINDING 6.16**

The Committee finds that the increase in WorkCover premiums in 2000/01 reduced the ability of non-profit and community sector organisations to maintain the level of service they provide.

⇒ **FINDING 6.17**

The Committee finds that NGO's were compensated by the State Government for the proportion of services which they deliver as a result of State Government funding for those services.

⇒ **FINDING 6.18**

The Committee finds that services NGO's deliver as a result of private funding was not compensated for as WorkCover costs have always been borne by the NGO's for those services they fund privately.

CHAPTER 7: COMPENSATION AND SUGGESTED CHANGES FOR THE FUTURE

The Committee's Terms of Reference required that it investigate whether the Government should take any action to reduce or compensate for the adverse impacts that the premium increases in 2000/01 may have had on Victorian employers. Section 7.1 deals with this issue drawing upon evidence reported in Section 6.4 of this Report.

The Reference also required the Committee to consider potential changes that should be made to the manner in which WorkCover premiums are determined in the future; this is dealt with in Section 7.2.

The Committee received a significant volume of evidence through written submissions and public hearings highlighting various perceived weaknesses with the current WorkCover scheme and suggesting means to improve the system. While some of these suggestions are not directly related to changes to the manner in which WorkCover premiums are determined, as stipulated in the Reference, the comments made by many witnesses attempt to address the broader issues of improving OH&S, reducing the frequency of workplace injuries and improving claims settlement processes. Each of these issues, in turn, affects the level of an employer's WorkCover premium and are therefore included in Section 7.2.

7.1 Compensation for Adverse Impact of WorkCover Premium Increases

In the lead up to the September 1999 State election, the then Opposition's pre-election policy was the restoration of common law access for seriously injured workers. Upon its swearing into Office in October 1999, the Bracks Government moved to establish a working party to investigate options for the restoration of common law. Section 3.1 of this Report details the process that was undertaken and the option for restoring access to common law that the Bracks Government ultimately chose to implement.

Though the Committee has found that restoration of common law has had a substantial impact on many Victorian employers, as detailed in Chapter 5 of this Report, the Committee nonetheless makes no general recommendation on the payment of compensation to employers affected by the changes implemented in 2000/01, other than the findings made in Chapter 6 relating to government agencies and non-profit and community sector organisations. As the Bracks Government was elected on a policy platform of common law restoration, the Committee sees no validity in subsequently compensating Victorian employers for the implementation of this policy. Rather, as detailed in Section 7.2 below, the Committee makes several recommendations for improvements to the current WorkCover scheme in an effort to ensure that Victorian workplace injuries are minimised and the efficacy of the current scheme is maximised in the future.

7.2 Recommended Changes for the Future

During the course of its Inquiry, the Committee received in excess of 60 written submissions from Victorian employers and representative bodies, and obtained evidence from approximately 160 witnesses (in 15 public hearings held in regional Victoria and 6 in metropolitan Melbourne). In undertaking to gather information considered vital for this Inquiry, the Committee received a vast amount of evidence detailing the perceived or actual weaknesses of the current WorkCover scheme as well as many recommendations for potential changes aimed at improving the scheme. This section details a number of suggestions that were put to the Committee by witnesses, and the Committee's response to each of them.

7.2.1 Provision of Financial Incentives to Small and Medium-Sized Employers

The Victorian WorkCover scheme is an experience based scheme and, as is discussed in detail in Section 4.1.5 of this Report, the primary objective of an experience-based workers' compensation scheme is to achieve improved workplace safety outcomes through the financial incentives provided by directly relating an employer's premium to the cost of that employer's claims.

However, during the course of its investigation the Committee heard a great deal of evidence from Victorian employers and representative groups that the implementation of proactive OH&S procedures by small and medium-sized enterprises that lead to reduced claims costs are not being financially rewarded through decreased premium levels.

This section does not seek to elaborate on the reasons for this as Chapter 4 details extensively why small and medium-sized employers are largely insulated from their individual claims experience. Rather, this section will report the views and suggestions of the employers that gave evidence to the Committee during the course of its Inquiry in an endeavour to present potential remedies.

Mr. Graeme Esler, Regional Manager (Geelong Branch) of the Victorian Employers' Chamber of Commerce and Industry (VECCI) stated:

*"There seems to be no recognition in the premiums of employers' safety efforts and education and their attempts to bring about safe workplaces. They believe such efforts should be rewarded by no-claim bonuses or some sort of premium reduction."*¹⁰²

Further, in a written submission to the Inquiry, VECCI stated that:

*"WorkCover's philosophy is also to motivate employers to improve safety performance, prevent injuries, and return injured workers to work. Providing incentives for good performance best creates motivation. Feedback from VECCI members is that the current system is in fact demotivating and lacks credibility, particularly in the lack of responsiveness to claims experience. Good performing employers are not rewarded, but are penalised through the industry rate, which is influenced by poor performance, and is outside their control."*¹⁰³

Similarly, CPA Australia, the accounting professions peak body, offered the following insight:

¹⁰² Minutes of Evidence, 12/12/2000, p.92.

¹⁰³ Submission No. 32, Victorian Employers' Chamber of Commerce and Industry (VECCI).

“CPA Australia members are concerned that the current system of calculating premiums does not adequately reward businesses that invest time and resources into ensuring a safe workplace. Employers that never make a claim have been penalised by increased premiums because of a reclassification of their industry.”¹⁰⁴

Ms. Tracey Brown, Occupational Health & Safety Manager, Bendix Mentix Pty Ltd., Ballarat:

“Premium systems should be designed to drive improved health and safety performance through a structured process of predictable incentives and penalties. However, it has been our experience over recent years that changes to F factors and industry rates have meant that a decrease in claims costs has not been reflected in a decrease in premium. For us this is in spite of significant resources being allocated to prevention, improvement in our workplaces, improvement in our processes and the management of claims when they do occur, and really making serious attempts at helping people to return not just to work, but also to their normal lifestyle.

I request that the Committee recognise that the WorkCover premium system must deliver. It must help to improve health and safety performance and claims management by providing a system where employers know that if they invest in improvements in health and safety they will have improvements in their premium.”¹⁰⁵

Mr. Grant Harvey, Finance Director, Valcor Australia Sales Pty. Ltd., Ballarat:

“We have not had a WorkCover claim in over five years. We take health and safety very seriously at Valcor, and really our contention is that we should be getting a decrease in premium, not an increase. There should

¹⁰⁴ Submission No. 54, CPA Australia.

¹⁰⁵ Minutes of Evidence, 12/12/2000, p.130.

be some sort of no-claim bonus here because we try pretty hard and we spend a lot of money on health and safety.”¹⁰⁶

Mr. Robin Dannals, Operations Manager, Timberstock Trading Pty. Ltd., Cheltenham:

“There is no benefit whatsoever, from what I can see, for the efforts we have made and the money we have spent.

...I would like a review of the situation so that it applied similarly to motor vehicle accidents. You do have some sort of benefit for no claims or for meeting particular specifications, such as occupational health and safety and so on. Why should we comply? We have done more than comply, yet we are paying the same sort of premium as the bloke around the corner whose forklift does not have brakes!”¹⁰⁷

Mr. Peter Clark, Director, Belle Design and Manufacturing, Highett:

“There is no incentive to make our factory any safer than anyone else’s. In fact, WorkCover has been through and has given us a clean bill of health, because we have spent money on machine guards, stop buttons, presses and the whole shooting match. We have spent something like \$20 000-odd on bringing our factory up to scratch. Billy the Blacksmith over the road does not worry about it, yet we are both paying the same industry rate! There is no incentive for anybody to try with regard to safety being paramount.”¹⁰⁸

The above views, and the many others that were expressed to the Committee, clearly detail the level of frustration felt by many Victorian employers at the lack of financial reward available under the current WorkCover scheme to those employers with a genuine commitment to workplace occupational health and safety.

In its submission to the Inquiry, CPA Australia suggested the following:

¹⁰⁶ Minutes of Evidence, 12/12/2000, p.144.

¹⁰⁷ Minutes of Evidence, 18/12/2000, pp.246-247.

“One proposal is to introduce a form of loading, or excess, that would be imposed on employers with a history of claims and which do not have effective and enforced occupational health and safety systems in place. Alternatively, a ‘no claim bonus’ or a premium reduction based on claim experience should be introduced as an incentive to businesses that are diligent in establishing a safe work place.”¹⁰⁹

In relation to the suggestion that a system of no claims bonuses be introduced to the current scheme, Section 4.1.3 of this Report details the difficulties that arose under the predecessor of the current WorkCover scheme, WorkCare, partially as a result of no claims bonuses.

In part, Section 4.1.3 reported that under WorkCare, small employers had enjoyed considerable subsidies as a result of the funding of no claims bonuses (mainly paid to small employers as the probability of a claim against these employers is low) from the penalties applied to employers with claims (predominantly larger employers). For this reason, the Committee does not support a return to a similar system of no claim bonuses. The Committee firmly holds the view that financial incentives should be maximised in an experience-based scheme rather than reduced through any cross subsidisation.

¹⁰⁸ Minutes of Evidence, 18/12/2000, pp.269-270.

¹⁰⁹ Submission No. 54, CPA Australia.

⇒ **FINDING 7.1**

The Committee finds that no claim bonus schemes, such as that which operated under WorkCare if they applied to all employers, distort financial incentives as small employers can receive considerable subsidies through the funding of bonuses (mainly paid to small employers as the probability of a claim against these employers is low) from penalties applied to employers with claims (predominantly larger employers).

However, the Committee notes that the weight of evidence it received throughout its investigation highlighted that, for small and medium-sized employers, only minimal financial incentives are present in the current WorkCover scheme.

For this reason, the Committee fully supports the current review being undertaken by the Victorian WorkCover Authority into an initiative known as the *Group Improvement Rebate*. The following is an extract from a Victorian WorkCover Authority briefing paper on the initiative.

“In a number of US states...incentives in the form of premium rebates have been offered to groups of small employers with superior safety and return to work performance. In New York, the program, run by the State Insurance Fund of New York, has been operating for over 30 years and has delivered reductions in premium rates for small firms of 15-20 per cent.

Under these programs, small and medium-sized firms join groups established by industry and employer associations or insurance brokers.

By forming a group, small employers are collectively large enough to generate sufficient experience or ‘credibility’ for their collective claims performance to be taken into account when setting a group premium rate. This means that as a group, they can be experience-rated like large firms, and receive a reduction in the premium payable if their group reduces claims costs. In addition, by working together, the group can more

cost-effectively develop safety programs suited to their industry's circumstances.

The features of group programs that help to reduce employers' costs and provide an incentive for small employers to improve their safety and return to work performance include:

- *implementation of safety programs geared to the specific industry of the group;*
- *rapid response to reductions in claims costs through lower premiums;*
- *dividends or discounts offered in response to lower claims costs; and*
- *peer pressure.*

The implementation and coordination of strong safety and return to work programs to meet the group's specific needs is a significant benefit.

Under the programs, member firms have greater financial incentives for reducing claims through an improved safety and return to work performance because it directly affects their premium.”¹¹⁰

In correspondence forwarded to the Committee in April 2001, the Chairman of the Victorian WorkCover Authority, Mr. James MacKenzie, advised that:

“WorkCover is continuing to explore the feasibility on introducing a Group Improvement Rebate concept in Victoria.

In the information and briefing sessions provided to date, and in further consultation with various employers and employer groups, most have expressed good and in-principle support for the program concept. However, many had also expressed concern regarding the possible timing of introduction, and how any rebates were to be funded. Generally, they cautioned against an early introduction and further felt that funding should not come from small business employers.

WorkCover has noted these concerns and is continuing to examine the full range of issues in the context of ensuring the successful introduction of any such program in Victoria in the interests of all parties and of the WorkCover scheme overall.”¹¹¹

In light of the fact that there was significant angst within the business community at the manner in which changes were introduced to the WorkCover scheme in 2000/01, the Committee supports the Authority’s more consultative approach in relation to the introduction of a group rebate initiative.

Further, the Committee believes the Victorian WorkCover Authority should investigate the potential to, and the level of support for, increasing the weight applied to the actual claims experience of small and medium-sized employers in the determination of their premiums. The Committee heard a great deal of evidence from small and medium-sized Victorian employers on the extent of their frustration at receiving little financial reward for implementing sound occupational health and safety procedures. Though the Committee understands the historic rationale for protecting smaller employers from the potential adverse financial impact in the event of a serious claim, the Committee nonetheless believes that the level of protection accorded to individual small and medium-sized employers may currently well exceed that which is judicious.

RECOMMENDATION 7.1

The Committee recommends that the Victorian WorkCover Authority continue to investigate available options for the introduction of a group improvement rebate system into the WorkCover scheme. The Committee recommends that the Victorian WorkCover Authority continue to undertake extensive consultation with key stakeholders prior to deciding on a preferred option.

¹¹⁰ Victorian WorkCover Authority, *Employer Fact Sheet 7 – International Best Practice*.

¹¹¹ Correspondence to the Economic Development Committee from Mr. James MacKenzie, Chairman, Victorian WorkCover Authority, dated 27 April 2001.

RECOMMENDATION 7.2

The Committee recommends that the Victorian WorkCover Authority investigate the potential to, and the level of support for, increasing the weight applied to the actual claims experience of individual small and medium-sized employers in the determination of their premiums.

7.2.2 Effective Communication of WorkCover Changes to Employers

The Committee heard evidence from a large number of employers who had significant concerns over the lack of effective communication from the Victorian WorkCover Authority, both with specific reference to the changes introduced in 2000/01, as well as more generally.

In addition, the manner in which the Bracks Government announced the restoration of common law left Victorian businesses with the mistaken impression that the full impact of policy changes introduced in 2000/01 would only materialise as a 15 per cent increase in their premium. A press release issued by the Minister for WorkCover, the Hon. Bob Cameron MP, on 11th April 2000 announcing the restoration of common law, included the following statement:

“WorkCover premiums will increase marginally to an average of 2.18 per cent of payroll - still below the national average. This will overcome WorkCover's unfunded liability, which has been estimated at \$296 million, and ensure the scheme is fully funded within three years.”¹¹²

However, the Minister issued no subsequent media releases notifying Victorian employers of the additional changes to be introduced in 2000/01, such as the increase in the deeming rate to 20 per cent and the increase to many industries' rates due to the decision to automatically round up classifications. As a result, many employers were completely unprepared for the actual size of the premium increases they incurred in

¹¹² Media release, the Minister for WorkCover, the Hon. Bob Cameron, MP, 11th April 2000.

2000/01, as is evident from the following extract from the July/August edition of the Australian Industry Group's (AIG) membership magazine, *Industry*:

"Many Australian Industry Group members in Victoria have been shocked by huge increases in their WorkCover premiums in 2000/2001.

The rises are far greater than they were led to expect in April when the Government foreshadowed increases to underwrite the costs of restoring common law to the system.

*...many companies are still facing much higher premiums than they were led to expect or have budgeted for."*¹¹³

Had the Minister for WorkCover made a greater attempt to inform Victorian business of all the policy changes to be introduced in 2000/01, many businesses would have been better prepared for the budgetary and cash flow challenges they faced as a result of the significant premium increases experienced in 2000/01.

This point is supported by the view expressed to the Committee by CPA Australia:

*"Many businesses operate on tight budgets, and unexpected increases in costs can cause serious cash flow problems. The government should make a greater effort to inform businesses of policy changes that affect business costs with sufficient lead-time to enable businesses to make necessary commercial decisions. Staggered increases over time, rather than a single major increase, would also have allowed businesses to adjust budgets and plan for increases. Good information and adequate planning time can reduce the adverse impact of such changes, particularly for small business."*¹¹⁴

¹¹³ Australian Industry Group (AIG) magazine, *Industry*, July/August 2000, p.12.

¹¹⁴ Submission No. 54, CPA Australia.

⇒ **FINDING 7.2**

The Committee finds that Victorian employers received neither sufficient nor timely information prior to the implementation of the policy changes introduced in 2000/01, other than changes relating to restoration of common law, and as a direct result some businesses experienced unnecessary budgetary and cash flow difficulties.

RECOMMENDATION 7.3

The Committee recommends that, in future, any policy changes that can be expected to significantly impact upon premium levels should be effectively and extensively communicated to Victorian employers as early as possible and, in all cases, well in advance of the dispatch of initial premium notices.

To this end, the Committee notes that the Chief Executive of the Victorian WorkCover Authority, Mr. Bill Mountford, in giving evidence at a public hearing, acknowledged that effective communication with Victorian employers had been a weakness in the past and the Authority was working to remedy the situation:

“...we have been reviewing the experience last year and our performance, and consulting with employers on that. One of the things that has come out of it clearly was the communication...and the fact that our communication in the last premium round...was poor and needed to be improved, and we have been working at that.”¹¹⁵

In subsequent correspondence, the Authority informed the Committee of positive steps that had been set in place for the 2001/02 policy year that were specifically aimed at improving the flow of information to employers.

7.2.3 Early Advice of WorkCover Premiums

¹¹⁵ Minutes of Evidence, 9/4/2001, p.669.

The mailing out of initial premium notices for 2000/01 was delayed, as legislative amendments relating to the restoration of common law needed to be passed through the Parliament. In its submission to the Inquiry, the Authority stated that the mail out of 2000/01 initial premium notices took place between the 19th–26th July 2000. Given the substantial work that was involved in implementing the Bracks Government's policy to restore common law, some delay in dispatching the 2000/01 premium notices was largely unavoidable, though nonetheless inconvenient to many businesses.

The Committee heard evidence from employers and representative bodies on the adverse impact that the late notification had on businesses' ability to sufficiently budget for their 2000/01 WorkCover costs. The following are typical of the views expressed to the Committee:

Mr. Graeme Gooding, Executive Director, Victorian Association of Forest Industries:

*"The lack of notice of these increases has had a severe impact on the budget planning for many small businesses within the forest industries. Some members were unable to take advantage of the upfront discounting the Victorian WorkCover Authority offer due to the late premium notices and inappropriate payment deadlines."*¹¹⁶

Mr. Arthur Shoppee, Managing Director, Luv-A-Duck Pty. Ltd.:

"LAD's major concern with the large increase in WorkCover premiums is the inherent problem with a system which makes it impossible for an employer to budget for a very significant cost involved in operating a business in Victoria.

*Without the ability to accurately budget for annual expenses, how can a business in Victoria be responsibly and successfully conducted?"*¹¹⁷

Mr. Peter O'Brien, Manager, Employee Services, Ballarat City Council:

¹¹⁶ Submission No. 52, Victorian Association of Forest Industries.

¹¹⁷ Submission No. 64, Luv-A-Duck Pty. Ltd.

“The issues that are confronting in the latest rounds are: the unexpected size of the increase; the lateness of the announcement — even though we tried to add some of the money into the budget estimates, we were pretty much well out; the shortness of notice of the 5 per cent discounts — which we did take up, but it was short notice; and the effects on the budget. As I illustrated before, it really came at the end of our budgetary process. So we had to issue a revised budget, which had to go back out to the public, and we had to explain why we needed to find the additional \$285 000.”¹¹⁸

Given the importance of annual budget planning to all Victorian businesses, the Committee believes that it is crucial that initial premium notices be dispatched to employers well in advance of the commencement of each financial year.

¹¹⁸ Minutes of Evidence, 13/12/2000, p.136.

RECOMMENDATION 7.4

The Committee recommends that, in future, policy changes should be developed and implemented in a way which allows sufficient time to notify employers and not result in delays in the mail out of initial premium notices.

7.2.4 Increased Simplicity in Premium Determination

During the course of its investigation, the Committee heard evidence from many employers who considered the current methodology of premium determination extremely complex and difficult to decipher. The following evidence is indicative of that collected by the Committee during the Inquiry.

Midfield Meat Group, Warrnambool:

“The first problem that confronts an employer in determining how the premium affects their business is breaking it down into its components. However unless you are an actuary it is very difficult to understand and comprehend. Underwriters have visited us from two different agents and have attempted to break the premium down for us, and it is clear that even they struggle to understand the full import of the formulae used. The method of calculating the premium must be simplified so employers can clearly and openly assess what factors they need to specifically address to reduce their premium.”¹¹⁹

Mr. Richard Cumpston, Cumpston Sarjeant Pty Ltd, consulting actuaries:

“The formulas set out in the premium order and its schedules are complex, and it is unlikely that many employers understand them. Employers who do not understand the adverse effects of claims on their

¹¹⁹ Submission No. 65, Midfield Meat Group.

premiums are less likely to implement injury prevention and rehabilitation procedures.”¹²⁰

Mr. Matt Greaves, Management Accountant, Insulform Pty. Ltd., Heidelberg West:

“About four years ago we looked into how the premium came about. At that stage it was quite high and we wanted to work out how to get it down but the formula we were shown then as to how the premium was calculated was way beyond our comprehension. There were so many factors went into it...”¹²¹

Ms. Gael Knight, Office Manager, Carpenter’s Body Works & Modern Towing, West Heidelberg:

“We had a big claim a couple of years ago and I rang WorkCover. They told my insurer to send out a document showing how the claim would impact on our premiums, but you would need to be an actuary to understand that document.”¹²²

Though the Committee heard a great deal of evidence on the complexity of the premium determination process, it received no definitive recommendations or suggestions for potential alternative approaches. In light of this, the Committee suggests that the Authority undertake extensive consultation with employer representatives and other key stakeholders during the course of its current premium review in an effort to establish the most appropriate means for determining premiums in a more transparent and straightforward manner.

¹²⁰ Submission No. 26, Cumpston Sarjeant Pty. Ltd.

¹²¹ Minutes of Evidence, 23/2/2001, p.433.

¹²² Minutes of Evidence, 23/2/2001, p.465.

RECOMMENDATION 7.5

The Committee recommends that the Victorian WorkCover Authority should provide additional information and clearer explanation of the means by which premiums are calculated so that employers are more readily able to understand the process by which their premiums are determined.

The Committee notes that in correspondence from the Victorian WorkCover Authority on the 27th April 2001, the Authority announced that premium notices for the 2001/02 premium year will, for the first time, provide details of the reasons for premium increases or decreases. The Committee fully supports the Authority's endeavour to improve the level of information provided to Victorian employers.

7.2.5 Greater Transparency

During the Inquiry, some employers and employer organisations expressed concern over what they viewed as a minimal degree of transparency in the WorkCover scheme. The following comments made by Mr. Laurie Miller, Secretary of the Geelong Chamber of Commerce typified the concerns that were put to the Committee:

"...the Chamber sees the whole exercise as having been a PR disaster for the WorkCover scheme and the Victorian government...and that the whole exercise was severely lacking in transparency.

*The Chamber believes it is imperative that future deliberations around premium settings should be fully disclosed, along with some actuarial calculations as a clear guide, and that the process should be fully open to comment and debate. To do less than that will cause the same feeling of unfair handling and assessment among the employers and their respective organisations."*¹²³

¹²³ Minutes of Evidence, 12/12/2000, p.62.

In its written submission to the Inquiry, the Victorian Employers' Chamber of Commerce and Industry (VECCI) further elaborated on this issue:

"The most critical improvement to the current premium system is that it must be absolutely transparent. The VWA and the Government may well point to the explanation of the calculations that are listed in the Premiums Order, however these are only transparent to actuaries. Employers and other stakeholders are unable to determine exactly how premiums are calculated.

In summary, VECCI recommends that...a full disclosure of actuarial reports, the calculations for determining industry rates, and claims data for each industry should be made available to...the public to explain how and why the premiums were increased..."¹²⁴

The ongoing credibility of any compulsory workers' compensation insurance scheme, such as WorkCover, critically rests upon community perceptions of its integrity, fairness and efficacy. However, community concerns about the lack of transparency and openness in a workers' compensation scheme will work to undermine support for it within the community.

With the advances that have been made in telecommunication and information technologies in recent times, an abundance of information can now be made available to the general public with relatively little cost. Providing Internet-based access to WorkCover scheme data will allow employees, employers and their representative bodies to assess individual workplace performance against their respective industry's performance and that of the overall scheme.

Making WorkCover's actuarial reports publicly available will increase the degree of transparency within the scheme and give greater credibility to movements in industry and premium rates. The reports will also increase community awareness of the various factors that critically impact upon scheme costs and may provide insights into emerging trends in workplace injury.

In a submission to the Inquiry, Ms. Michelle Green, Executive Director of the Private Hospitals Association of Victoria Inc. commented on:

“...the lack of industry data available to the PHAV. Obtaining any industry data is difficult – it is not published and/or not readily available.

Some 2-3 years ago such statistics relating to the performance of the public and private hospital sector hospitals were published and these were quite useful. The publication of future statistics should assist in identifying where and why injuries are occurring.”¹²⁵

Providing public access to partially disaggregated claims data (for example, broken down to industry level by injury type and claim value) will allow individual employers and/or industry groups to compare their performance against that of similar employers or industries. Further, it will provide transparent justification for movement in industry rates that result from changes to claims performance.

RECOMMENDATION 7.6

The Committee recommends that the Victorian WorkCover Authority increases the amount of information publicly available on the WorkCover scheme by posting actuarial reports and aggregated claims data on the Authority’s Internet site, while ensuring that it does not provide information that might identify individual companies.

7.2.6 Employer Input into Claims Determinations and Payments

One of the most frequent concerns raised by employers with the Committee during its Inquiry was in relation to a perceived lack of employer input into claims determinations. In particular, many employers were frustrated that claims they considered clearly fraudulent were being settled by WorkCover’s agents and that settlement was being

¹²⁴ Submission No. 32, Victorian Employers’ Chamber of Commerce and Industry (VECCI), p.15.

undertaken against the will of the employer. The following evidence is indicative of the views expressed to the Committee during its investigation.

Mr. Peter Leipnik, Managing Director, The Specialty Group, East Bentleigh:

“Mr. BEST — What correspondence did you have with your agent on the final settlement figure or payout?”

Mr. LEIPNIK — I wrote numerous letters to our agent stating that we believed this was an abuse of the system, and it did not make any difference. I was quite dissatisfied with the communication of the authorised insurer. Unless I kept contacting them, we got very little communication.

Mr. BEST — Do you think the insurer was more interested in settling the claim and getting it off its books?”

Mr. LEIPNIK — Very much so, I believe.

Mr. BEST — Rather than the consequence that applied to your company?”

Mr. LEIPNIK — Yes. One of my main points is that employers pay the premiums but we have very little say in the process.”¹²⁶

Mr. Arthur Shoppee, Managing Director, Luv-A-Duck Pty. Ltd., Albert Park commented that he viewed the following a problem in the scheme:

“The lack of input and consultation provided to an employer regarding a claim and in particular, the lack of any real and significant role for the employer in the scheme, other than to pay whatever compulsory premium is notified to the employer by the insurance company.”¹²⁷

Ms. Margaret Aivatoglou, Proprietor; Evangelia Aged Care Facility, Parkdale:

“Payouts through common law claims are made without reference to the employer at all. Details are usually requested from the employer by a solicitor, and that is the last you hear of it.

¹²⁵ Submission No. 23, Private Hospitals Association of Victoria Inc.

¹²⁶ Minutes of Evidence, 18/12/2000, p.256.

...You might ask why we accepted the claim. At that time we were told by the insurer...that we might as well accept it, because in the end it would be paid anyway. So we were told to accept it, and that is what has happened. This has caused many facilities to have a high base when in reality the claims should never have been accepted because the cases were not genuine WorkCover cases.”¹²⁸

Mr. Trevor Ryan, Proprietor, Designer Commercial Furniture, Ballarat:

“You can only be guided by your insurers, especially when it is all new and you have never had a claim before, but in 1996 we were told that the claim cost was expected to be \$88 000 and then they settled for \$240 000. We wondered where that came from. You have no input; you do not know where it comes from.”¹²⁹

Ms. Nartuhi Karibian, WorkCover Coordinator, Yooralla Society of Victoria:

*“Mr. BEST — Are there occasions when the insurance company has said, ‘We will pay this out’, and you have not had the opportunity to have your day in court or to test the validity of the evidence that the employee is providing to the insurance company? I do not want individual cases.
Ms. KARIBIAN — Yes. We have felt on many occasions that the seat has been pulled from under us.”¹³⁰*

The Committee considers that a crucial element in the success of a workers' compensation scheme is that there exists broad-based agreement as to its 'legitimacy'. In particular, for employers to be expected to fully embrace a workers' compensation scheme, they must believe that its processes generally deliver legitimate outcomes for both the employee and employer. However, the evidence cited above, typical of much of that gathered by the Committee during its investigation, points to a serious concern on

¹²⁷ Submission No. 64, Luv-A-Duck Pty. Ltd.

¹²⁸ Minutes of Evidence, 18/12/2000, pp.264-265.

¹²⁹ Minutes of Evidence, 12/12/2000, p.141.

¹³⁰ Minutes of Evidence, 19/4/2001, p.734.

the part of many Victorian employers about the equity of outcomes, and therefore the legitimacy, of the current scheme.

The extent of the concern that many Victorian employers have in relation to claim legitimacy was possibly best articulated by Mr. Martyn Edwards, Office Manager at F. & I. Baguley Flower & Plant Growers, Clayton:

"I feel that the culture of "compo" being used as a threat against the boss is still alive among some workers, and a lot of the television advertisements by the VWA seem more intent on perpetuating this notion of the "evil boss" than showing that health and safety works better in a spirit of cooperation with joint responsibility.

*The simple acceptance of claims by the insurance companies is another problem that has far-reaching implications. To accept an odd claim that may not be quite as serious as we are led to believe may not seem like a huge problem. The fact is that the co-workers of the claimant will know that it is a suspicious claim, and that can ultimately cause huge problems. Some workers will have such contempt for the claimant that a return to work becomes virtually impossible. Others will realise how easy it is [to] exaggerate an injury and, consequently, claims will gradually become more frequent and allegedly, more serious. Thus, the circle begins:- the claim costs increase, the premium goes through the roof, management becomes more suspicious of every claim, staff morale deteriorates, claims increase."*¹³¹

On this issue, Committee member, the Hon. Ron Best, MLC, had the following exchange with the Chairman of the Victorian WorkCover Authority, Mr. James MacKenzie, during a public hearing on 9th April 2001:

"Mr. BEST — There is no initiative here to look at the relationship between the employer and the insurance company. One of the consistent issues that has been raised in evidence we have heard is that there is a

Tattslotto type of mentality in common law and throughout the industry. Often employers complained that they did not even get their opportunity to have their day in court. They would have liked to have contested a lot of the claims but there was an inability for them to actually contest a claim because the insurance company was more prepared to pay it out, to get it of the books, and the impact adversely affected the employer. I would be interested in your comments.

Mr. MacKENZIE — I can answer that, Mr. Best. As Strategy 2000 highlights, and as is obvious to most stakeholders in the scheme, there are some flaws in the model on which the workers' compensation scheme in Victoria works. One of the major initiatives that the Authority is undertaking this year is a review of that model. Mr. Mountford and his team are going back and looking at that in terms of dealing with those types of issues, because we will never have an effective claims management system operating, especially for statutory benefits, unless those sorts of issues are addressed. That is on the table, and I think we are probably about two or three weeks into that major review at the moment.”¹³²

RECOMMENDATION 7.7

The Committee recommends that, as part of the Victorian WorkCover Authority's current internal review, the Authority evaluate current procedures for the incorporation of employer input into claims determination. In particular, where an employer strongly questions the legitimacy of a claim, the employer is accorded genuine opportunity to have its position given full consideration.

The Committee also heard evidence during its investigation from employers who expressed concerns that some legal practitioners are openly touting for claims on a “no win, no fee” basis. The following evidence provided at a public hearing in Broadford highlights this issue:

¹³¹ Submission No. 56, F. & I. Baguley Flower & Plant Growers.

Mr. Shane Brown, Human Resources Manager, Shire of Mitchell:

Mr. BROWN — Another area of concern is the number of hearing loss claims which have been lodged by former council employees in recent months. The Council has had seven claims that come under sections 98 and 98A of the Accident Compensation Act. We have been perturbed by the administrative process adopted to manage claims of this nature and the notion that the last employer should assume full accountability for this type of claim.

Dealing with some of the matters sequentially, it would seem that better administration of part 7A of the Accident Compensation Act which refers to prohibited conduct relating to touting for claims may lead to a decline in the claims that the Council and maybe others are experiencing. All the claims received by the Council to date have been initiated by law firms, six of which have actually come from the one firm.

The CHAIRMAN — Which firm is that?

Mr. BROWN — Roth Warren solicitors. They are Melbourne based...”

The CHAIRMAN — How do you believe these lawyers recruited their clients? How come it is that the same lawyers are appearing for all of your former staff? How did they get in contact with each other do you believe? How did they form that relationship?

Mr. BROWN — That is an awkward question because the answer is purely anecdotal. Some of the stories you hear are about people going to a social event, a place where people congregate and word getting around that, as I alluded to earlier, easy money can be made because of the lack of administrative processes in place to deal with these claims. People just put a claim in, it would appear that everyone gets a slice of the action and the employer is left to bear the brunt of that.

The CHAIRMAN — Do you believe the lawyers are encouraging the claims or the impetus to claim is coming from this social environment where the word is that there might be easy money available?

¹³² Minutes of Evidence, 9/4/2001, pp.689-690.

Mr. BROWN — It may be that good news gets around. I am not too sure of the actual process of sharing that information. It seemed to be unusual that there were several claims in a very short space of time. Usually even the grapevine does not work that quickly, and it would take some time.”¹³³

The Committee was concerned to hear of a similar case from another witness in relation to the same law firm:

Mr. Dan O'Dwyer, Proprietor, O'Dwyer's Horseshoes, Broadford:

“Mr. O'DWYER — We had a claim for loss of hearing recently from a former employee who left our company in 1992. He was deemed to have had 10.9 per cent loss of hearing. The cut-off is 10 per cent. Because he had worked for himself since 1992, the claim came back on us. But it was also written in the claim form that he had spent prior instances with other employers in noisy environments without hearing protection. That seems to be a real problem, because when you get the claim, insurers look at it. Because the claim was under \$10 000, they think, ‘Well, why fight it? Let’s pay it and minimise the cost’. Generally, the employer has no rights.

The CHAIRMAN — Do you recall who the lawyers were who acted for the employee?

Mr. O'DWYER — Roth Warren, I think.”¹³⁴

On the same issue, Mr. Ken McCoombe, Human Resource Manager, Colac Community Health Services made the following observation:

“You should realise that in many country situations the doctor who is treating the 40-year-old female employee of today is the doctor who was there at her birth 40 years ago, and it is sometimes difficult to get an objective view from a doctor. We have a vast number of lawyers skirting this region saying, ‘No win, no cost’. I suggest it is a pretty good carrot to

¹³³ Minutes of Evidence, 29/3/2001, pp.568-569.

¹³⁴ Minutes of Evidence, 29/3/2001, pp.578-579.

*hold out, and people will say, 'Well, damn it all, why don't I have a go?' If you come out of the court with 200 grand in your back pocket, you are okay, the lawyer is okay and we are down the tube."*¹³⁵

RECOMMENDATION 7.8

The Committee recommends that the Victorian WorkCover Authority investigate the prevalence of multiple hearing loss (or similar) claims being lodged against an individual employer or against employers in the same regional location. Further, the Committee recommends that the Victorian WorkCover Authority investigate the legality of such occurrences in relation to the *Accident Compensation Act 1985*, the *Accident Compensation (WorkCover Insurance) Act 1993* and any ancillary legislation.

7.2.7 Differentiation of Staff by Function at Workplaces

The Committee heard the views of many employers with regards to the limited ability of employers to differentiate their staff by workplace function for the purpose of workers' compensation insurance. The evidence that follows is typical of that received by the Committee during its investigation.

Mr. Graeme Esler, Regional Manager, Geelong Branch, Victorian Employers' Chamber of Commerce and Industry (VECCI):

*"Finally — and this has been a very common suggestion — different types of staff should be classified differently and given a different base rate even when they work in the same workplace but maybe in different rooms or areas of a factory. For instance, clerks, process workers, storemen and drivers all need to be classified separately."*¹³⁶

Mr. Andrew Wibberley, General Manager, Manufacturing, Maxitrans Australia Pty. Ltd., Ballarat:

¹³⁵ Minutes of Evidence, 7/3/2001, p.549.

“The second area I would like to comment on is the single industry classification within a workplace. This has impacted heavily on our organisation, particularly with our premium calculation. The Act allows for only one industry rate classification to be applied to those employees employed at the same address — that is, there is no ability to differentiate between functions.

It is acknowledged by our claims agent that the risk in our administration environment is substantially reduced and that our claims history in this area is minimal. However, due to the idiosyncrasy in the definition of ‘workplace’, we have been forced to pay a higher premium for this area. No account is taken of the duties and tasks performed by the personnel in the area, the risk involved, and the fact that many of them never enter the manufacturing facility.”¹³⁷

¹³⁶ Minutes of Evidence, 12/12/2000, p.93.

¹³⁷ Minutes of Evidence, 12/12/2000, p.154.

Mr. Daryl Rodgers, Accountant, Blackforest Timbers, Bendigo:

*"I believe that in the past there was a facility where we could put down that our staff were in different categories, and they were categorised differently. That has changed in recent years to one where you are under all the same classification rate if you are housed on the same property. We would like to see a system like that reinstalled, where the mill staff are classified separately from the office staff, unless the office staff are involved in the inherently risky areas. We would like to see that separated so we could be rated separately in the office."*¹³⁸

Mr. Andrew Moyle, Proprietor, Colonial Leather, Bendigo:

*"...our company employs five full-time staff. Two of those staff are involved in manufacturing, and one staff member does the dispatching of both manufactured and imported goods. I have one staff member in administration and one staff member in sales, which is me. More than 50 per cent of my staff are not involved in manufacturing, yet I have to pay manufacturing rates on my administration staff. If I get rid of my two factory staff and set up a plant in China and bring it in from there, all of a sudden I am on a quarter of the WorkCover rate for the three staff I have left. What incentive is there to continue to grow my manufacturing?
.... I come back to saying that when only two people in my organisation are employed in an unsafe industry, why am I penalised for the other three?"*¹³⁹

The Committee believes that this issue also significantly impacts upon Victorian employers' perceptions of the fairness and legitimacy of the WorkCover scheme. Currently, many employers see little correlation between the premium assigned to employee functions and the risk profile assigned to those employees.

¹³⁸ Minutes of Evidence, 13/12/2000, p.191.

¹³⁹ Minutes of Evidence, 13/12/2000, pp.210-212.

RECOMMENDATION 7.9

The Committee recommends that the Victorian WorkCover Authority, in consultation with key stakeholders, investigate the issue of staff differentiation by workplace function to ensure that employee functions are aligned with true risk where it can be demonstrated that employees are not exposed to the working environments of other higher-risk employees.

7.2.8 Long-Term and Degenerative Injury Claims

A further issue that was raised frequently with the Committee during the Inquiry involved the allocation of the full cost of long-term or degenerative injuries to the current or final employer with whom the claimant was employed.

Mr. Ken Hayland, Skanda Industrial Services, Benalla:

*"I think one of the things that strikes me as an employer about these types of claims is that the current employer bears the full burden of that claim, regardless of whether there has been any contributing situation to the strain by prior occupation, prior practice, prior anything else, so that you are in a situation where you actually bear the whole cost of that claim. That strikes me as being totally inequitable."*¹⁴⁰

Mr. Rob Kerr, Human Resource Manager, Dominance Industries, Wangaratta:

"The CHAIRMAN — This morning someone put to us an interesting view along the lines that where you are the last employer and an injury occurs it is unfair that the current employer wears the whole cost of a claim when the claimant may have suffered a similar injury whether at work or football or whatever in the past. He put the view that maybe the current employer who is at the end of the line should not wear the whole cost of such an

¹⁴⁰ Minutes of Evidence, 30/3/2001, p.629.

injury but that it should be spread out over the pool. Do you have a view on that?

Mr. KERR — That is a reasonable assumption; that is the way it should be. We have been in business since 1996. Our people have worked in other industries, from concreting to furniture removal, yet we cop a back injury from somebody who was not doing any manual work for us.”¹⁴¹

As the Committee has noted previously in this Report, the perceived legitimacy of the WorkCover scheme is crucial to its acceptance within the Victorian business community. The issue of allocating the full cost of a claim to current or final employers, irrespective of previous employment history, clearly impacts upon employer perceptions of the degree of legitimacy or equity and fairness within the WorkCover scheme as it currently operates.

RECOMMENDATION 7.10

The Committee recommends that the Victorian WorkCover Authority, in consultation with key stakeholders, investigate the issue of, and options for, the allocation of costs of long-term and degenerative injury claims.

7.2.9 Fixed Fee Premiums

In a written submission to the Inquiry, Zep International Pty. Ltd.¹⁴² recommended that WorkCover establish a system of fixed fees based on industry classification. The submission further recommended that each fixed fee should be determined taking into account the extent of each company’s investment in workplace OH&S improvements. Zep International was adamant that the fee should not be charged as a percentage of remuneration.

¹⁴¹ Minutes of Evidence, 30/3/2001, p.638.

¹⁴² Submission No. 47, Zep International Pty. Ltd.

The Committee believes that a system of fixed fee premiums is not a valid model for the funding of workers' compensation in Victoria. First, workers' compensation schemes are insurance schemes designed to underwrite, individually and in aggregate, the payrolls of employers. That being the case, individual employer remuneration levels are necessarily crucial elements in any workers' compensation scheme.

Secondly, as the Victorian WorkCover scheme is an experience-based system, financial signals play a crucial role in providing feedback to employers on both their individual, and their industry's, OH&S performance. Replacing the current system of variable premiums with a fixed fee system would remove the price signals inherent in the current scheme. Indeed, it is the Committee's view that the feedback provided to employers through financial incentives should be increased rather than reduced or removed from the scheme.

7.2.10 Discounted Premiums for Regional-Based Employers

In a submission to the Inquiry, Warrnambool City Council raised the issue of providing regional Victorian employers with a system of discounted premiums:

*"By far the great majority of businesses and industry in the State are located in the metropolitan and Geelong areas, meaning that employee numbers in these areas would far exceed regional employment. If this is the case, is there an opportunity to reduce the WorkCover premiums in regional areas, where employment and industrial investment has a greater impact on the stability of the community. It could be submitted that the Government may consider maintaining or increasing premiums in the areas where employment and investment are concentrated, such as the metropolitan area and Geelong, and discounting areas where both factors are low."*¹⁴³

Though the Committee recognises that rural and regional Victoria face some unique challenges not present in metropolitan areas, it cannot support the proposal put to it by Warrnambool City Council.

The WorkCover scheme is a “closed” scheme whereby the first step for any respective policy year is to actuarially estimate the total scheme cost for that year. Once an estimate is settled upon, the determination of individual employer premiums is an allocative function whereby the total cost of the scheme is spread across all Victorian employers according to criteria such as the employer’s level of remuneration, claims experience and industry classification. In this scenario, a reduction in the premium charged to one individual employer must be offset against a rise in the premiums of all other employers to ensure full funding of the scheme is accomplished.

Under the proposal put forward by Warrnambool City Council, therefore, discounting the premiums of regional employers would necessarily involve a proportionate increase in the premiums of non-regional employers, irrespective of relative movements in their individual claims experience. However, as was the case with fixed fees outlined in Section 7.2.7 above, such an approach would interfere with vital financial incentives present in an experience-based scheme such as WorkCover and the Committee can therefore not recommend it. Workers’ compensation schemes are not appropriate mechanisms to use in policy maker attempts to deliver assistance to regional locations.

7.2.11 Enhancing OH&S Awareness Programs in Victorian Schools

During a public hearing held in Geelong, the Committee heard evidence from Mr. Graeme Esler, the Regional Manager (Geelong Branch) of the Victorian Employers’ Chamber of Commerce and Industry (VECCI). In part, Mr. Esler commented:

“We also had a somewhat different suggestion that occupational health and safety could become a subject at school to educate children in safe working practices and to provide them with a practical knowledge of their safety obligations before they enter the workplace. In talking to a couple of friends of mine who are schoolteachers I found they quite agree that this could be well worthwhile.”¹⁴⁴

¹⁴³ Submission No. 50, Warrnambool City Council.

¹⁴⁴ Minutes of Evidence, 12/12/2000, p.92.

During a later hearing in Ballarat, Mr. Esler's proposal was put to Mr. Graeme Shearer, Secretary of the Ballarat Regional Trades and Labour Council:

*"I do not have a problem with it whatsoever. I have always felt that occupational health and safety is not only the obligation of the employer, but also the obligation of the employee. It is a joint thing. It is in the interests of everyone to ensure that workplaces are safe. I think if we can introduce younger people to occupational health and safety and the need to look at doing things safely, doing it has to be positive."*¹⁴⁵

The Committee fully concurs with the view that workplace health and safety is the responsibility of both employers and employees. In any effort to manage workplace safety, prevention of injury must always be the primary target. To that end, the Committee finds the proposal put by Mr. Esler a positive suggestion.

RECOMMENDATION 7.11

The Committee recommends that the State Government refer the issue of enhancing occupational health and safety awareness programs for students and teachers in Victorian schools to the Department of Education for further investigation.

¹⁴⁵ Minutes of Evidence, 13/12/2000, p.127.

7.2.12 Succession

During the course of its investigation, the issue of succession, whereby an employer that takes over control of another workplace inherits that workplace's claims costs, was raised with the Committee by numerous employers.

The Committee understands that the succession rule serves a valuable purpose by negating the opportunity of employers with poor claims records from exploiting opportunities to reopen a workplace under a new business name, thereby escaping a premium rate for that workplace that may be well in excess of the respective industry rate applicable to the workplace.

However, the Committee believes that the succession rule is also unintentionally impacting upon employers who are legitimately seeking to expand their operations.

The following example, typical of those expressed to the Committee, was offered by Mr. Craig Herbert, OH&S Manager with Godfrey Hirst Australia Pty. Ltd., Geelong:

"Godfrey Hirst has tried to expand over the past number of years. One of our problems is that...we recently purchased a wool scanning company.

We take on a company that is performing poorly, we change its management and most other people in there, and we bring in a lot of new work practices, but we are burdened with the succession of that industry...We recognise that it does go both ways, and we have also been involved in the acquisition of other companies that have good records. But it tends to be that the ones companies take over are the ones with poor records, and they are burdened with that immense cost.

*At the time we took over this business I think the claims had a total estimate of \$204 000. A month after we purchased the assets of the business those claims were estimated out to nearly \$3 million."*¹⁴⁶

RECOMMENDATION 7.12

The Committee recommends that the Victorian WorkCover Authority, in consultation with key stakeholders, investigate the issue of succession with a view to minimising the degree of distortion that this policy is having on the endeavours of responsible employers to expand their business operations.

¹⁴⁶ Minutes of Evidence, 12/12/2000, p.103.

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EXTRACTS FROM THE PROCEEDINGS

The Minutes of the Proceedings of the Committee show the following Divisions which took place during consideration of the Draft Report.

A summary of the Proceedings follows.

Monday, 4 June 2001

Chapter 1: page 4

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted at the end of the second paragraph on page 4:

'It is unfortunate that the task set by Parliament to report by the 30th November 2000, or by the subsequent date of the 31st March 2001, could not be met by the Committee. A report at these times may have been of greater use at providing recommendations that the Government may have been able to use in its review.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. R.A. Best

Hon. G.R. Craige

Chapter 1: page 4

'Again, in order to meet this reporting deadline, the Committee tabled a second Interim Report on 21st March 2001 providing an update of the Inquiry's progress.'

Amendment proposed by the Hon. T.C. Theophanous,

That the fourth paragraph on page 4 be omitted with the view of inserting in place thereof -

'The Committee failed to meet the 31st March 2001 deadline and a second Interim Report providing an update of the Inquiry's progress and had to be tabled instead.'

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Noes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Amendment negatived.

Chapter 1: page 4

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted at the end of the fifth paragraph on page 4:

'The Committee recognises that as an Upper House Committee it has no power to call Ministers from the Lower House of Parliament.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. R.A. Best

Hon. G.R. Craige

Chapter 1: page 4

'The Committee wrote to the Hon. Bob Cameron, MP, Minister for WorkCover, on 23rd April 2001 inviting him to give evidence at a future public hearing.'

Amendment proposed by the Hon. T.C. Theophanous,

That the first sentence in the fifth paragraph on page 4 be omitted with the view of inserting in place thereof –

'The Committee wrote to the Hon. Bob Cameron, MP, Minister for WorkCover, on 23rd April 2001, five months after the Committee commenced its public hearings, inviting him to give evidence at a future public hearing.'

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Noes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Amendment negatived.

Chapter 1, Finding 1.1, page 5

'The Committee finds that, given the significant nature of the changes introduced to the WorkCover scheme in 2000/01, the Minister's decision not to provide evidence to the Committee's investigation of the impact of these changes is of concern.'

Amendment proposed by the Hon. T.C. Theophanous,

That Finding 1.1, page 5 be omitted with the view of inserting in place thereof -

'The Committee finds that although there were significant changes introduced to the WorkCover Scheme in 2000/01 it has no power as an Upper House Committee to require evidence from a Minister in the Lower House and received advice to this effect.'

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Noes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Amendment negatived.

Chapter 1, Finding 1.2, page 5

'The Committee finds that as the Minister responsible for overseeing the workplace health and safety of all Victorians, Minister Cameron is to be admonished for his reluctance to appear before the Committee.'

Amendment proposed by the Hon. T.C. Theophanous,

That Finding 1.2, page 5 be omitted with the view of inserting in place thereof -

'The Committee recognises the cooperation of the Ministers' office during the inquiry and the substantial evidence provided by the Victorian WorkCover Authority and the Department of Treasury and Finance.'

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Noes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Amendment negatived.

Chapter 2: page 11

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted at the end of the second paragraph on page 11 -

'The system of using insurance agents under defined arrangements and responsibilities was established from WorkCare to WorkCover in 1993 and has been continued by the present government.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. R.A. Best

Hon. G.R. Craige

Chapter 3: page 13

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted after the third dot point at the bottom of page 13 -

'The cap of no more than 20 per cent increase effectively changed the impact of multiple industry rate increases for small and medium sized businesses and meant that the increase for these businesses did not exceed one industry rate increase even when the rate for that industry had increased several categories.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. R.A. Best

Hon. G.R. Craige

Chapter 3: page 14

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted after the second dot point at the top of page 14 -

'These changes had the effect of changing the distribution of WorkCover payments amongst employers however the overall premium increase left Victoria with an average premium of 2.18 which is lower than the national average of 2.39 and comparable with other States such as NSW (2.96).'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. R.A. Best

Hon. G.R. Craige

Chapter 3: page 19

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted after the third paragraph on page 19 -

'The changes introduced by the Government were designed to restore reasonable but not excessive benefits to injured workers which had been removed by the previous Government.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. R.A. Best

Hon. G.R. Craige

Chapter 3: page 21

'Nonetheless, the imposition of the 20 per cent deeming rate in the same financial year that a 17 per cent general increase was to be applied, along with various other changes, was an unfair and unnecessary burden on employers.'

Amendment proposed by the Hon. T.C. Theophanous,

That paragraph three on page 21 be omitted with the view of inserting in place thereof -

'Nonetheless, the imposition of the 20 per cent deeming rate in the same financial year that a 17 per cent general increase was to be applied, along with various other changes, lead to many employer complaints about excessive increases even though in many such cases the level of premium increase was reduced when remuneration estimates were subsequently provided to the VWA.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. R.A. Best

Hon. G.R. Craige

Chapter 3: Finding 3.1, page 21

‘The Committee finds that the decision taken by the Victorian WorkCover Authority to deem the remuneration of employers who failed to provide a remuneration estimate by 20 per cent in 2000/01 was ill-timed and an excessive penalty on Victorian business.’

Amendment proposed by the Hon. T.C. Theophanous,

That the words *‘was ill-timed and an excessive penalty on Victorian business’* be omitted from finding 3.1, page 21 with the view of inserting in place thereof -

‘was designed to stop non-declaration of remuneration by some employers to the disadvantage of others who had done the right thing and provided such information.’

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Noes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Amendment negatived.

Chapter 3: page 23

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted after the second quote on page 23 -

'This rounding up of industry categories had a minimal affect on most businesses and as far as SMEs are concerned, was again mitigated by the 20 per cent cap on premium increases which applied to those businesses'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. R.A. Best

Hon. G.R. Craige

Chapter 3: page 25

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted at the end of page 25 after the quote from Prof. Officer:

'This last comment by Prof. Bob Officer. (given that he was both Chairman and CEO of the VWA at the time the decision was taken) shows the thinking of the VWA Board. That is, many of these perennial problems had not been addressed by the previous Government and the increase for common law represented an opportunity to make a series of changes that affected the distribution of employer premiums although not the overall quantity of premiums collected.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. R.A. Best

Hon. G.R. Craige

Chapter 3: page 26

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted after the second paragraph on page 26 -

'In effect this is no different to the previous system for SMEs as those industries that had industry rates artificially kept down in the past would experience increases in rates for a number of years until they had reached their true level. The immediate impact of this increase is likely to be felt by larger employers but even these employers can mitigate its impact by improving their safety procedures and their experience ratings.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. R.A. Best

Hon. G.R. Craige

Chapter 3: Finding 3.3, page 27

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted at the end of finding 3.3 on page 27 -

'This would have occurred in any case under the previous system and the greater transparency in knowing in advance the upward trend in premiums is likely to encourage safer work practices and help reverse this trend.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. R.A. Best

Hon. G.R. Craige

Chapter 3: Finding 3.3, page 27

Amendment proposed by the Hon. K. Darveniza,

That the following words be inserted at the end of finding 3.3 on page 27 -

'The Victorian WorkCover Authority recently announced that WorkCover premiums would stabilise for 2001/02. This should provide stability and certainty for Victorian businesses.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. R.A. Best

Hon. G.R. Craige

Chapter 3: page 30

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted at the end of page 30 -

'The Committee has no reason to dispute this claim and what it means is that employers are effectively paying a further 2 per cent on their premiums as a direct result of the Federal Government's GST.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. R.A. Best

Hon. G.R. Craige

Chapter 3: page 32

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted at the end of the second paragraph on page 32 -

‘Moreover, in the vast majority of cases when witnesses were asked about relative impacts, they nominated the GST as having a far greater effect on business profitability than the WorkCover premium increases.’

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. R.A. Best

Hon. G.R. Craige

Friday, 8 June 2001

Chapter 3: page 20

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted after the third paragraph on page 20 -

'The previous Board, under the Chairmanship of Prof. Bob Officer, was well aware of this issue but it failed to recommend to the previous Government a course of action to ensure businesses did not seek to deliberately evade declaring their estimated remuneration therefore shifting the burden to other employers. Prof. Officer could offer no reason as to why this problem was not addressed in the past or why the Board, in the context of premium increases for common law, decided to recommend its introduction at the same time. The Government has since announced that the 20 per cent deeming component will be reduced to 10 per cent in future years.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 3

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. G.R. Craige

Chapter 3: page 23

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted after the third paragraph on page 23 –

'As with other changes, the then Chairman of the Board and CEO, Prof. Bob Officer, could offer no reason as to why the change was not recommended in the past by the VWA Board short of indicating that because the premium increases were large this period, this was an opportunity to make these changes.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 3

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. G.R. Craige

Chapter 3: page 35

'The extremely selective nature of this statement is clearly evident when the figures it presents are compared to those in the paragraph immediately above it. Though the Committee accepts that only 2 per cent of Victorian employers received an increase in their premium rate in excess of 40 per cent, almost 33 per cent received an increase of approximately 39 per cent.'

Amendment proposed by the Hon. T.C. Theophanous,

That the words *'The extremely selective nature of this statement is clearly evident when the figures it represents are compared to those in the paragraph immediately above it'* be omitted from the last paragraph on page 35 with the view of inserting in place thereof -

'Had the VWA combined together all employers of 39 per cent and over in one category, their information provided to the Committee would have been misleading as only 2 per cent of employers (who account for 40 per cent of the total premium pool) experienced

increases above 40 per cent. In the event, the VWA provided accurate information which reflected these differences.'

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 3

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. G.R. Craige

Noes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Amendment negatived.

Chapter 3: Finding 3.5, page 35

'The Committee finds that the Victorian WorkCover Authority's selective use of data in its submission to highlight only 2 per cent of employers had experienced a premium rate increase in excess of 40 per cent was, in this instance, less than forthright. The Authority's submission failed to highlight that almost 33 per cent of employers had received an increase in their premium rate of 39 per cent.'

Amendment proposed by the Hon. T.C. Theophanous,

That finding 3.5 on page 35 be omitted with the view of inserting in place thereof -

'The Committee finds that for these SMEs who did the right thing and submitted their remuneration estimates, the maximum increase was less than 40 per cent which indicated costs associated with common law, GST and industry rate increases.

The Committee further finds that when premiums are adjusted for GST refunds and for remuneration estimates provided subsequently by employers, only 2 per cent of

employers received increases in excess of 40 per cent and the other 98 per cent can be broken up as follows:-

- *33 per cent of employers at 39 per cent;*
- *17 per cent of employers between 20 per cent and 39 per cent;*
- *17 per cent of employers at less than 20 per cent; and*
- *31 per cent of employers with no change or a decrease in premium rate.”*

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 3

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. G.R. Craige

Noes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Amendment negatived

Chapter 3: page 35

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted under the heading ‘3.9.2 Dollar Premium – All Employers’ on page 35 –

‘Chart 3.2 should be interpreted cautiously as it only represents the additional impact of employment growth and growth in remuneration in dollar terms.’

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 3

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. G.R. Craige

Chapter 3: page 35

'Given that a total of 35.1 per cent of all employers experienced a premium rate rise of 39 per cent or more, increases of this magnitude in their dollar premiums were to be expected.'

Amendment proposed by the Hon. T.C. Theophanous,

That the second sentence in the fourth paragraph on page 35 be omitted with the view of inserting in place thereof –

'Given that a total of 35.1 per cent of all employers experienced a premium rate rise of 39 per cent or more, and given increases in remuneration and employment, increases of this magnitude in their dollar premiums were to be expected.'

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 3

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. G.R. Craige

Noes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Amendment negatived.

Chapter 3: page 38

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted at the end of the first paragraph on page 38 -

'The premium dollar increase should be interpreted cautiously as they simply reflect dollar increases as a result of increased remuneration and employment above the rate increase. These factors of greater employment and remuneration have occurred as a result of economic growth and explain differences in rate increases and decreases.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 3

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. G.R. Craige

Chapter 3: page 39

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted at the end of the first paragraph on page 39 -

'Again these dollar premium increases should be interpreted cautiously as they simply reflect increases above the rate increase as a result of increases in remuneration and employment.'

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 3

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. G.R. Craige

Noes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Amendment negatived.

Chapter 3:

Amendment proposed by the Hon. T.C. Theophanous,

That throughout the report, where reference is made to the New Tax System, for the purpose of clarity it read ‘Federal New Tax System.’

Question,

That the Amendment be agreed to – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 3

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. G.R. Craige

Chapter 3: Finding 3.4, page 31

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted at the end of the second dot point in finding 3.4 on page 31 –

'This resulted in premium notices being provided to employers which were 20 per cent above the previous years' estimate but these were later adjusted following receipt of adjusted estimates.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 3

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. G.R. Craige

Chapter 3: Finding 3.4, page 31

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted at the end of the fourth dot point in finding 3.4 on page 31 –

'increases in industry rate categories affected some very large employers but had little or no impact on SMEs due to the 20 per cent cap.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 3

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. G.R. Craige

Chapter 3: Finding 3.6, page 35

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted at the end of finding 3.6 on page 35 –

‘and that 17 per cent experienced an increase of between 20 per cent and 39 per cent, a further 17 per cent experienced an increase of less than 20 per cent and 31 per cent experienced no change or a decrease in premium rate.’

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 3

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. G.R. Craige

Chapter 3: Finding 3.8, page 36

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted at the end of finding 3.8 on page 36 –

'These dollar increases do not represent increases in rates as they include increases growth in employment and remuneration levels.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 3

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. G.R. Craige

Chapter 4: page 52

Amendment proposed by the Hon. T.C. Theophanous,

That the word 'severely' be deleted from the first sentence in the second paragraph on page 52.

Question,

That the word proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 3

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. G.R. Craige

Noes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Amendment negatived.

Chapter 4: Finding 4.3 page 52

Amendment proposed by the Hon. T.C. Theophanous,

That finding 4.3 on page 52 be omitted with the view of inserting in place thereof-

'The Committee finds that the general increase to premium rates that affected all employers in 2000/01 to fund the re-introduction of common law was the most appropriate mechanism to share the increase across employers as those with higher premiums arising from poor experience ratings paid proportionately more.'

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 3

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. G.R. Craige

Noes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Amendment negatived

Wednesday, 13th June 2001

Chapter 3: pages 39

'Therefore, the large increases in premium rates incurred by many small employers in 2000/01 are significantly attributable to the generally lower increases experienced by large employers.'

Amendment proposed by the Hon. T.C. Theophanous,

That the words *'Therefore, the large increases in premium rates incurred by many small employers in 2000/01 are significantly attributable to the generally lower increases experienced by large employers'* be omitted from the last sentence in the last paragraph on page 39 with the view of inserting in place thereof -

'A significantly greater proportion of larger employers experienced an increase above 40 per cent in their rate (18 per cent of those large employers experienced this increase) compared to small employers where only 2.3 per cent experienced increases in excess of 40 per cent. Slightly more large employers (19.4 per cent) experienced reduced rates compared with small employers where the figure was 18 per cent.'

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Noes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Amendment negatived.

Chapter 3: Finding 3.10, page 41

'The Committee finds that in determining premiums for the 2000/01 policy year, the Authority removed from the scheme some of the cross subsidy that had historically flowed from large employers to small employers. In removing the cross subsidy, small employers in Victoria were allotted an increased share of the total burden for covering the cost of the WorkCover scheme, while the portion applied to large employers was reduced.'

Amendment proposed by the Hon. T.C. Theophanous,

That finding 3.10 on page 41 be omitted with the view of inserting in place thereof -

'The Committee finds that following the determination of premium levels for 2000/01, a cross subsidy from large employers to small employers still exists. This cross subsidy has been progressively reduced since 1993 so that small employers now pay 10 per cent more of the total premium pool than they did when WorkCover was introduced in 1993.'

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Noes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Amendment negatived.

Chapter 3: page 31

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted as a separate finding on page 31 -

'The Victorian WorkCover Authority's decision to impose the 20 per cent cap on SMEs' premium increases resulted in increases in premiums for SMEs being kept down to an effective maximum of 40 per cent even after the premium increases for common law and the GST.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Chapter 3: Finding 3.9, page 37

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted at the end of finding 3.9 on page 37 -

'Where remuneration was declared, the maximum increase was 39 per cent pre-GST and 53 per cent including GST, thus had all SMEs notified their remuneration levels they would have received a premium notice with an effective increase of less than 40 per cent. Those who did receive higher than 39 per cent increases in premium notices were subsequently adjusted following notification by them of remuneration levels.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Chapter 4: Finding 4.6, page 57

'The Committee finds that the restoration of access to common law for seriously injured workers, together with the other significant changes introduced in the 2000/01 policy year, made it extremely difficult for employers to estimate their WorkCover premiums prior to receiving their initial 2000/01 assessments. This, in turn, seriously impacted upon the cash flow and budgetary positions of some employers, particularly smaller employers.'

Amendment proposed by the Hon. T.C. Theophanous,

That finding 4.6 on page 57 be omitted with the view of inserting in place thereof -

'The Committee finds that the reintroduction of common law access to seriously injured workers, together with the introduction of the GST and other significant changes introduced in the 2000/01 policy year, made it extremely difficult for employers to estimate their WorkCover premiums prior to receiving their initial 2000/01 assessments.'

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Noes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Amendment negatived

Chapter 4: Finding 4.7, page 57

'The Committee finds that in the view of many Victorian employers who presented to the Committee, the credibility of the WorkCover scheme suffered negatively as a result of the policy changes in 2000/01. This was a product of the weakening of the relationship between individual employer safety performance and premium outcomes in 2000/01 due to the introduction of the general increase.'

Amendment proposed by the Hon. T.C. Theophanous,

That finding 4.7 on page 57 be omitted.

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Noes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Amendment negatived

Chapter 4: Finding 4.8, page 61

'The Committee finds that the current WorkCover methodology for determining premiums does not allow for sufficient feedback through financial incentives to employers, particularly smaller employers, on their workplace health and safety procedures.'

Amendment proposed by the Hon. T.C. Theophanous,

That finding 4.8 on page 61 be omitted with the view of inserting in place thereof -

'The Committee finds that the current WorkCover methodology, established in 1993, for determining premiums does not allow for sufficient feedback through financial incentives to employers, particularly smaller employers, on their workplace health and safety procedures.'

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craigie

Noes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Amendment negatived.

Chapter 4: page 68

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted at the end of the first paragraph on page 68 -

'This excess of 10 days was increased in 1993 by the Kennett Government from 5 days. This shifted more of the cost of injuries to employers as many injuries are short in duration and lasting less than 10 days.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Chapter 4: page 75

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted following Table 4.4 on page 75 -

'The use of F factors was introduced in 1993 by the Kennett Government, together with authorized agents with new powers established within the system. The large variations in F factors are partly to compensate for different performance and clientele of these authorized agents.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Chapter 4: Finding 4.9, page 78

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted at the end finding 4.9 on page 78 -

'The F factor was introduced in 1993 as a way of trying to make claims agents accountable. Effectively the independent actuaries apply a factor to correct varying estimates of liability amongst claims agents to increase the accuracy of those liability estimates.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Chapter 5

Amendment proposed by the Hon. T.C. Theophanous,

That an additional section dealing with the impact of WorkCover premium changes on economic activity and employment relative to the impact of the GST be included in Chapter 5.

Question,

That the additional section proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Chapter 5: page 91

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted after the first paragraph on page 91 -

‘Given that over 70 000 new jobs have been created in Victoria over the last 20 months, the figure of 957 jobs represents a minimal impact on the Victorian economy.’”

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Chapter 5: page 91

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted after the second paragraph on page 91 -

'Given that hundreds of thousands of new jobs could be created in Victoria by 2010, the figure of 1 626 as the impact of premium increases in WorkCover is minimal.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Chapter 5: page 92

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted after the third paragraph on page 92 -

'The Committee notes that the overall impact on small and medium sized employers of premium increases related to common law is less than \$100 million. This equates to about \$400 per employer on average. This should be compared to the Committee's finding in its GST Report which reports an average of \$6 000 for small employers and \$19 000 on average for medium employers on GST implementation costs.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Chapter 5: Finding 5.1, page 93

Amendment proposed by the Hon. J.M. McQuilten,

That the following words be inserted at the end of finding 5.1 on page 93

'However the product losses of WorkCover premium increases of between \$33 million and \$50 million over 10 years are insignificant compared with the over \$3 billion in compliance costs associated with the GST in the present 12 months.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Chapter 5: page 94

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted after the first paragraph on page 94 -

'In most cases however, businesses reported that the impact of GST compliance on their business far exceeded that of any WorkCover related increase.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Chapter 5:

Amendment proposed by the Hon. T.C. Theophanous,

That the comments of those witnesses who stated that the GST compliance costs were a much greater factor than WorkCover premium increases, be included in the report.

Question,

That the words and expressions proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Chapter 5: page 97

‘The Committee finds that the significant increase to WorkCover premiums in 2000/01 has reduced the level of profitability of many metropolitan businesses, which can be expected to have a negative impact upon future growth and investment opportunities for these firms.

The Committee finds that, as a direct result of the premium increases, many metropolitan businesses have either reduced employee numbers or downwardly revised their recruitment plans.’

Amendment proposed by the Hon. T.C. Theophanous,

That findings 5.2 and 5.3 on page 97 be omitted with the view of inserting in place thereof -

‘The Committee finds that the WorkCover Premium increases have had a small affect on profitability in line with the National Institute of Economic and Industry Research Report, and that the impact of GST compliance has had a far greater impact in the order of 30-40 times greater than WorkCover premium increases.’

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Noes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Amendment negatived.

Chapter 5: page 105

'The Committee finds that the significant increase in WorkCover premiums in 2000/01 has resulted in many rural and regional employers downgrading their future hiring intentions. Given that many people living in rural and regional Victoria already face limited employment options compared to those available to the metropolitan based population, the relative impact of the WorkCover increases on rural and regional Victorians will be even greater than that experienced by the metropolitan based labour force.'

Amendment proposed by the Hon. T.C. Theophanous,

That the finding 5.5 on page 105 be omitted with the view of inserting in place thereof -

'The Committee also found many instances where the impact of other factors particularly the GST implementation costs and flow on costs in terms of fuel etc far outweighed the impact of the cost increases of WorkCover premiums, but are not included in this report.'

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Noes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Amendment negatived.

Thursday, 14 June 2001 (8.00 a.m)

Chapter 6: Findings 6.3 & 6.4, page 109

Amendment proposed by the Hon. T.C. Theophanous,

That findings 6.3 & 6.4 on page 109 be omitted.

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Noes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Amendment negatived.

Chapter 6: Finding 6.5, page 109

'The Committee finds that the financial impact of the policy decision to round up industry rates should have been included in the supplementary funding that was provided to government departments and agencies and non-profit organisations.'

Amendment proposed by the Hon. T.C. Theophanous,

That finding 6.5 on page 109 be omitted with the view of inserting in place thereof -

'The Committee finds that there has been a financial impact of the policy decision to round up industry rates for government departments, agencies and non-profit organisations, however, the Committee also finds that any additional funding for increases in these industry rates should be balanced against the need to provide incentives in order to reduce accident rates.'

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craigie

Noes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Amendment negatived.

Chapter 6: page 102

'The Committee finds that the supplementary funding to be provided to government departments and agencies over the forward estimates period, as announced in the

2000/01 Budget Update, understates the real budgetary impact of the reintroduction of common law on the budget sector.

The Committee finds that the supplementary funding allocated in the 2000/01 Budget Update is, under reasonable assumptions, at least \$4.5 million below the level required to provide government departments and agencies with a full cost offset over the forward estimates period of the increased WorkCover premium incurred as a direct result of the reintroduction of common law access.'

Amendment proposed by the Hon. T.C. Theophanous,

That findings 6.6 and 6.7 on page 102 be omitted with the view of inserting in place thereof –

'The Committee finds that the Government has compensated government agencies fully in the 2000/01 year for increased WorkCover premiums arising from common law and that notwithstanding the forward estimates in the budget, the Government is committed to providing the necessary funding in future years.'

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Noes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Amendment negatived

Chapter 6: page 116

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted after the dot points on page 116 -

'The Committee notes that these same three options which relate to earlier increased costs from WorkCover premiums also apply to local government in absorbing the additional costs of GST compliance for which they were not compensated by the Federal Government.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Chapter 6: Finding 6.13, page 116

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted at the end of finding 6.13 on page 116:

'The Committee further finds that the 78 local councils are likely to be able to absorb the relatively small increase in WorkCover premiums without rate increases, but they face significant difficulties in absorbing the very high GST compliance costs.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Noes: 4

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. A. Coote

Hon. G.R. Craige

Thursday, 14 June 2001 (1.00 p.m.)

Chapter 1: page 4

Amendment proposed by the Hon. G.R. Craige,

That the following words be inserted after the first paragraph under Section 1.4 - Minister for WorkCover on page 4 -

'During the course of the Inquiry, it became clear that the Minister had apparently not been correctly briefed in relation to the WorkCover premiums increase. On a number of occasions, both in Parliament and publicly, the Minister indicated that 29 per cent, 30 per cent or 31 per cent of businesses are paying a lesser premium/premium rate.

Subsequent information provided to the Committee by the Victorian WorkCover Authority indicated that the Minister was clearly incorrect as only 18 per cent of employers had a reduction in premium rate and only 7 per cent of employers had a decrease in premium.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 3

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. G.R. Craige

Noes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

There being an equality of votes the Chairman gave his casting vote with the Ayes.

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted after the third paragraph under Section 1.4 - Minister for WorkCover on page 4 -

'In fact, 30 per cent of employers either had a reduction or no change in their industry rate.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Noes: 3

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. G.R. Craige

There being an equality of votes the Chairman gave his casting vote with the Noes – Amendment negated.

Chapter 1: page 5

Amendment proposed by the Hon. G.R. Craige,

That the following words be inserted after the finding on page 5 -

'and for publicly providing incorrect information on a number of occasions indicating much higher decreases in premiums/premium rates than had actually occurred.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 3

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. G.R. Craige

Noes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

There being an equality of votes the Chairman gave his casting vote with the Ayes.

Chapter 6: page 124

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted as a separate finding on page 124-

'The Federal Government did not compensate for WorkCover increases for the proportion of NGO funding which they provide. The failure of the Commonwealth to provide compensation for the proportion funded by them, as the State Government has done, reduced the ability of NGO's and community organisations to provide the level of services they provide.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Noes: 3

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. G.R. Craige

There being an equality of votes the Chairman gave his casting vote with the Noes - Amendment negatived.

Chapter 7: page 132

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted after the first paragraph on page 132 –

'It should however be noted that the complainants above were mainly small or medium businesses who were not affected by their own experience under the scheme. This is because small businesses are insulated from large premium increases if they do have claims but on the other side, may not get benefits from having a no-claims record.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

Noes: 3

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. G.R. Craige

There being an equality of votes the Chairman gave his casting vote with the Noes - Amendment negatived.

Chapter 7: page 137

'Had the Minister for WorkCover made a greater attempt to inform Victorian business of all the policy changes to be introduced in 2000/01, many businesses would have been better prepared for the budgetary and cash flow challenges they faced as a result of the significant premium increases experienced in 2000/01.'

Amendment proposed by the Hon. T.C. Theophanous,

That the fourth paragraph on page 137 be omitted with the view of inserting in place thereof –

'Although there were unannounced changes to deeming rates, this did not affect Victorian employers who informed VWA of their remuneration estimates in line with their legal obligations, moreover, changes in industry rate movements did not affect small business over and above what they would have expected as a result of the 20 per cent cap on premiums.'

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 3

Hon. N.B. Lucas (Chairman)

Hon. R.A. Best

Hon. G.R. Craige

Noes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. J.M. McQuilten

There being an equality of votes the Chairman gave his casting vote with the Ayes - Amendment negatived.

Friday, 15 June 2001

Chapter 4: Finding 4.1 page 49

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted before finding 4.1 on page 49 -

'The Minister for WorkCover wrote to the Committee on 6th June 2001 indicating that the Committee should take account of "...how inadequate the premium was during the time of the Kennett Government. As you will be aware the premium was 2.25 per cent of payroll in 1994/95. You will be aware that if the premium remained at that rate that the scheme at June 2000 would have been just fully funded.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 3

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. G.R. Craige

Chapter 7: page 132

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted after the first sentence in the last paragraph on page 132 –

'It is for this reason that the Industry Commission, in its 1994 report, recommended a separate system based on bonuses and penalties to apply to small businesses only.'

However, the Committee does not support a return to a system of no claim bonuses as applied under WorkCare.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 3

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. G.R. Craige

Chapter 7: Finding 7.2, page 138

'The Committee finds that Victorian employers received neither sufficient nor timely information prior to the implementation of the policy changes introduced in 2000/01, other than changes relating to common law restoration, and as a direct result many businesses experienced unnecessary budgetary and cash flow difficulties.'

Amendment proposed by the Hon. T.C. Theophanous,

That the words *'and as a direct result many businesses experienced unnecessary budgetary and cash flow difficulties'* be omitted from finding 7.2 on page 138 with the view of inserting in place thereof –

'however these changes had little affect on cash flows because the vast majority of employers either notified their remuneration estimates and thus avoided deeming, or later notified VWA of these estimates and received adjusted bills, while the multiple movements in industry rates had little affect on 96 per cent of businesses because of the 20 per cent cap on premiums.'

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 3

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. G.R. Craige

Noes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Amendment negatived.

Chapter 7: page 144

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted after the quote from VECCI on page 144 –

‘VECCI’s call for more information on premium calculations might be seen as admirable. It should be noted, however, that during the whole course of the Kennett Government’s stewardship of WorkCover, during which the same process of notifying calculations in premium orders to employers was in place, VECCI apparently did not feel the need to call for greater disclosure or transparency.’

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 3

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. G.R. Craige

Chapter 7: page 148

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted after the second paragraph on page 148 –

'Legitimacy, however, is a two-way street; it also depends on employees believing the system will treat them fairly. Given its narrow Terms of Reference, the Committee did not seek evidence from injured workers who may have felt they were badly treated or short changed in the compensation they received.

This would have balanced the views of the employers that are documented above. Clearly there will be some employers and employees who will question the legitimacy of the system but these tend to be a minority.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 3

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. G.R. Craige

Chapter 7: page 149

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted after the quote from Mr. MacKenzie on page 149-

'The Committee welcomes the candid comments of Mr. MacKenzie which identify some of the flaws which have characterised the WorkCover system since its adoption in 1993 and his undertaking to review and address them.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 3

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. G.R. Craige

Chapter 7: Recommendation 7.7, page 150

'The Committee recommends that, as part of the Victorian WorkCover Authority's current internal review, the Authority evaluate current procedures for the incorporation of employer input into claims determination. In particular, where an employer strongly questions the legitimacy of a claim, the employer be accorded genuine opportunity to have its position to contest the claim.'

Amendment proposed by the Hon. T.C. Theophanous,

That recommendation 7.7 on page 150 be omitted with the view of inserting in place thereof –

'The Committee recommends that, as part of the Victorian WorkCover Authority's current internal review, the Authority evaluate current procedures to see if it is viable or cost effective to include greater employer input. In particular, where an employer strongly questions the legitimacy of a claim, the employer be accorded genuine opportunity to have its position to contest the claim. However if such contesting of claims leads to increases costs beyond those which would have been incurred if the claim was settled,

these increased costs should be borne by the employer concerned and not passed on in additional premium costs to other employers.'

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 3

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. G.R. Craige

Noes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Amendment negatived.

Chapter 7: Recommendation 7.8, page 152

'The Committee recommends that the Victorian WorkCover Authority investigate the prevalence of multiple hearing loss (or similar) claims being lodged against an individual employer or against employers in the same regional location. Further, the Committee recommends that the Victorian WorkCover Authority investigate the legality of such occurrences in relation to the Accident Compensation Act 1985, the Accident Compensation (WorkCover Insurance) Act 1993 and any ancillary legislation.'

Amendment proposed by the Hon. T.C. Theophanous,

That recommendation 7.8 on page 152 be omitted with the view of inserting the following finding in place thereof –

'The Committee finds that evidence from employers who are affected by claims against them is anecdotal and should be interpreted carefully as these employers' suggestions that employees or lawyers were rorting the system could not be verified by the Committee. When questioned by Government members about their evidence, no real

substantiation was provided by these employers however the questioning by Government members does not appear in the Report.'

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 3

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. G.R. Craige

Noes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Amendment negatived.

Chapter 7: page 154

'The Committee believes that this issue also significantly impacts upon Victorian employer perceptions of the fairness and legitimacy of the WorkCover scheme. Currently, many employers see little correlation between the premium assigned to employee functions and the risk profile assigned to those employees.'

Amendment proposed by the Hon. T.C. Theophanous,

That the third paragraph on page 154 be omitted.

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 3

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. G.R. Craigie

Noes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Amendment negatived.

Chapter 7:Recommendation 7.9, page 155

'The Committee recommends that the Victorian WorkCover Authority, in consultation with key stakeholders, investigate the issue of, and options for, the allocation of costs of long term and degenerative injury claims.'

Amendment proposed by the Hon. T.C. Theophanous,

That recommendation 7.9 on page 155 be omitted with the view of inserting the following finding in place thereof –

'The Committee finds that the application of full costs on the final employer which has been in place since 1993 should be retained. While some employers might benefit from a change, other employers will be forced to bear the cost of employee claims when the employee no longer works for them. The apportionment of costs would rely on determining what proportion of the injury occurred in particular work places and would lead to many challenges, including legal challenges between employers.'

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 3

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Noes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Hon. G.R. Craige

Amendment negatived.

Chapter 7: page 159

Amendment proposed by the Hon. T.C. Theophanous,

That the following words be inserted at the end of the fourth paragraph on page 159 -

'It should be noted that the Education Department already provides a range of programs to ensure safe practices in schools, including discussions in the classroom. This does not mean there is not room for more or improved education of students and teachers around issues of occupational health and safety.'

Question,

That the words proposed to be inserted be so inserted – put.

The Committee divided.

Ayes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Noes: 3

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. G.R. Craige

Chapter 7: Recommendation 7.12, page 161

'The Committee recommends that the Victorian WorkCover Authority, in consultation with key stakeholders, investigate the issue of succession with a view to minimising the degree of distortion that this policy is having on the endeavours of responsible employers to expand their business operations.'

Amendment proposed by the Hon. T.C. Theophanous,

That recommendation 7.12 on page 161 be omitted with the view of inserting the following finding in place thereof -

'The Committee finds that the succession rule serves a valuable purpose by negating the opportunity for employers with poor claims records to start afresh with lower premiums under a new business name. The Committee further finds that while employers with good claims histories may be disadvantaged if they take over a company with a worse claims record than their own, they may equally be advantaged if they take over a company with a better claims record. The Committee therefore finds that these issues are a part of normal commercial considerations during takeovers.'

Question,

That the words and expressions proposed to be omitted stand part of the Chapter – put.

The Committee divided.

Ayes: 3

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. G.R. Craige

Noes: 2

Hon. T.C. Theophanous

Hon. K. Darveniza

Amendment negatived.

Adoption of Draft Report

Question,

That draft Report into WorkCover Premiums for 2000/01 (including the Table of Contents) Chapters 1-7 and Appendices 1-5, as amended, be the Report of the Committee - put.

The Committee divided.

Ayes: 3

Hon. N.B. Lucas (Chairman)

Hon. A. Coote

Hon. G.R. Craige

Noes: 3

Hon. T.C. Theophanous

Hon. K. Darveniza

Appendices

APPENDIX 1

Functions of the Economic Development Committee

The Economic Development Committee is an all-party Investigatory Committee of the Parliament of Victoria. It was originally established in 1992 under section 4EC of the *Parliamentary Committees Act 1968* as a Joint Investigatory Committee.

In the 54th Parliament, the Committee was reformed under section 37 of the *Parliamentary Committees Act* as a Select Committee of the Legislative Council.

The Committee consists of seven Members of Parliament, all of whom are drawn from the Legislative Council. The Committee carries out investigations and reports to Parliament on matters associated with economic development or industrial affairs.

Section 38 of the *Parliamentary Committees Act 1968* prescribes the Committee's functions as follows:

- The functions of the Economic Development Committee are to inquire into, consider and report to the Parliament on any proposal, matter or thing connected with economic development or industrial affairs, if the Committee is required so to do by or under this Act.

APPENDIX 2**List of Written Submissions Received**

Submission Number	Name of Individual/Organisation	Date Received
1.	Vic Bedin Managing Director Peninsula Curtains	5 October 2000
2.	Kerry Dean President Green Triangle Injured Support Group Inc.	6 October 2000
3.	Chris Baker Specialist in Occupational Medicine Dr Chris Baker & Associates Pty. Ltd.	6 October 2000
4.	Fred Maddern Executive Director The Australian Vietnamese Services Resource Centre	9 October 2000
5.	Andrew Gourlay Manager Main Street Deli	10 October 2000
6.	John Warton Director Deltaline Nominees Pty. Ltd.	11 October 2000
7.	Daniel M. Ferey Managing Director Australian Jewellery Company	11 October 2000
8.	J Bucknall Treasurer Connor House Respite Care Service Inc.	16 October 2000
9.	Anthony Morphett Proprietor B D S Panels	16 October 2000
10.	Alison Sutherland & Myles Sutherland Proprietors E.W. Hogan Moving & Storage	17 October 2000
11.	Trevour Forbes Manager Pyramid Hill Bush Nursing Hospital	18 October 2000
12.	J.T. & M.A. Monkhouse Taxi Driver	20 October 2000
13.	Jillian Carson Chief Executive Officer Churches of Christ Community Care	25 October 2000

14.	John Glover Executive Director Group Training Australia	26 October 2000
15.	Jacki Miller Human Resource Manager Coogi Australia Pty. Ltd.	30 October 2000
16.	Nancy J. Hogan Chief Executive Officer Mecwa	30 October 2000
17.	Andrew Adams Secretary North-East & Border Trades and Labour Council	30 October 2000
18.	David Eynon Executive Director Air Conditioning & Mechanical Contractors' Association of Victoria Limited	31 October 2000
19.	Sue Jackson Executive Officer Council of Intellectual Disability Agencies	31 October 2000
20.	Jennifer Flanagan Executive Officer Master Grocers Association of Victoria	31 October 2000
21.	Paul Linossier Chief Executive Officer MacKillop Family Services	31 October 2000
22.	Geoff Atkins General Insurance Practice Leader Trowbridge Consulting	1 November 2000
23.	Michelle Green Executive Director Private Hospitals Association of Victoria	1 November 2000
24.	Simon Garnett Acting President Australian Plaintiff Lawyers Association	1 November 2000
25.	Coleen Clare Chief Executive Officer Children's Welfare Association of Victorian Inc	1 November 2000
26.	Richard Cumpston Partner Cumpston Sarjeant Pty. Ltd.	1 November 2000
27.	Bill Mountford Chief Executive Victorian WorkCover Authority	1 November 2000
28.	Mary Johnson Director The Blue Dandenongs Bulb Farm	3 November 2000

29.	Phillip Horne Manager Master Plumbers and Mechanical Services Association of Australia	6 November 2000
30.	Geoff Leigh, MP Shadow Minister for Transport Member for Mordialloc	6 November 2000
31.	Sandra de Wolf Chief Executive Officer Berry Street Victoria	9 November 2000
32.	Neil Coulson Group General Manager VECCI	13 November 2000
33.	Peter Brand Farmer	14 November 2000
34.	Paul Kirkpatrick Chief Executive Officer Peter Harcourt Services	29 November 2000
35.	Stephen Hayden Proprietor Haydon Floors	1 December 2000
36.	Doug Issell Chief Executive Officer Cobden District Health Services Inc.	1 December 2000
37.	Ian Johnson Manager - Risk Management & Human Resource City of Greater Bendigo	5 December 2000
38.	Hans Roleff Proprietor Octa Nominees Pty. Ltd.	4 December 2000
39.	Paul Green Chief Executive Officer CVGT Employment and Training Specialists	5 December 2000
40.	Peter Veal General Manager Norvil Foundry	12 December 2000
41.	Miller Brothers Industries	12 December 2000
42.	Irene Stephen Company Secretary Stephen Pasture Seeds	13 December 2000
43.	Graeme Porter Captain's Bobcat and Tipper Hire Pty. Ltd.	13 December 2000
44.	Peter Doak Business Manager Arthur Reed Photos Pty. Ltd.	18 December 2000
45.	Mr Gary Bourke Human Resources Manager Surfcoast Shire Council	18 December 2000

46.	Hans Roleff Proprietor Octa Nominees Pty. Ltd. (Submission No. 2)	18 December 2000
47.	Robert Anderson Managing Director Zep International Pty. Ltd.	19 December 2000
48.	Phillip Lovel Executive Director Victorian Road Transport Association Inc.	19 December 2000
49.	John Nixon Chairperson Uniting Church Lodge Program	20 December 2000
50.	David Keenan Director Economic Development Warrnambool City Council	20 December 2000
51.	G Greenwood Chief Executive Officer The Victorian and Murray Valley Wine Grape Growers Council Inc.	21 December 2000
52.	Graeme Gooding Executive Director Victorian Association of Forrest Industries	22 December 2000
53.	Peter Lewis Director Continental Kosher Butchers Pty. Ltd.	2 January 2001
54.	Judy Hartcher Business Policy Adviser CPA Australia	2 January 2001
55.	Gary Barge Director Finance & Administration Metropolitan Fire & Emergency Services Board	4 January 2001
56.	Martyn Edwards Office Manager F. & I. Baguley Flower & Plant Growers	8 January 2001
57.	Jonathon Lock Manager, Human Resources Royal Victorian Institute for the Blind	9 January 2001
58.	Hans Roleff Proprietor Octa Nominees Pty. Ltd. (Submission No. 3)	10 January 2001
59.	John Byrne Individual	15 January 2001
60.	Dan Dubois Proprietor Mildura Special Accommodation House	24 January 2001
61.	Laurie Miller Executive Director The Geelong Chamber of Commerce	19 December 2000

62.	Dr Forbes J. Smith Medical Director NABENET Integrated Rehabilitation Services	14 February 2001
63.	Toni McKenzie Human Resource Manager Grizzly Engineering Pty. Ltd.	16 February 2001
64.	Arthur Shoppee Managing Director Luv-A-Duc	13 March 2001
65.	Alex Egan Finance Manager Midfield Meat Warrnambool	14 March 2001
66.	John Dixon Individual	27 March 2001
67.	Jill Savage Secretary Cobden Chamber of Commerce	2 February 2001
68.	Graeme Wheeler Director WV Management Limited	30 March 2001
69.	James MacKenzie Chairman Victorian WorkCover Authority*	30 April 2001
70.	James MacKenzie Chairman Victorian WorkCover Authority*	11 May 2001
71.	James McKenzie Chairman Victorian WorkCover Authority*	18 May 2001
72.	Ian Little Secretary Department of Treasury and Finance	21 May 2001
73.	Bill Mountford Chief Executive Victorian WorkCover Authority*	6 June 2001

* Supplementary Submissions

List of Public Hearings

27th November 2000 (Melbourne)

- ? Professor Robert Officer, Chairman, and Mr Bill Mountford, Chief Executive Officer, **Victorian WorkCover Authority**

4th December 2000 (Melbourne)

- ? Mr David Gregory, General Manager, and Ms Anita Kaminski, WorkCover Adviser, **Victorian Employers' Chamber of Commerce and Industry**
- ? Mr Paul Fennelly, Director, and Mr Paul Deakin, Senior Adviser OHS/WorkCover, **Australian Industry Group**
- ? Mr Leigh Hubbard, Secretary, and Mr Jarrod Moran, WorkCover Liaison Officer, **Victorian Trades Hall Council**

12th December 2000 (Geelong)

- ? Mr Laurie Miller, Secretary, **Geelong Chamber of Commerce**
- ? Mr Fred Ruggeri, Manager, and Mr Les Cropley, WorkCover Manager, **Brentwood Nursing Home**
- ? Ms Anne Lord, Risk Management Coordinator, **Greater Geelong City Council**
- ? Ms Samantha Patterson, Risk Management Officer, and Mr Chris Knight, OH&S Consultant, **Colac-Otway Shire Council**
- ? Mr John James, General Manager, Business Services, **St Lawrence Community Services**
- ? Mr Graeme Esler, Regional Manager, Geelong Branch, **Victorian Employers Chamber of Commerce and Industry**
- ? Mr John Kranz, Secretary, **Geelong and Region Trades and Labour Council**
- ? Mr Craig Herbert, OHS Manager, and Mr Peter Ansell, Manager, Legal Affairs, **Godfrey Hirst Australia Pty Ltd**
- ? Mr Anthony Spira, Managing Director; and Mr Peter Walsh, Financial Controller, **Geelong Wool Combing Ltd.**
- ? Mr Ted Ridgewell, Administration Manager, **Josie's Transport**

12th December 2000 (Ballarat)

- ? Mr Stewart and Mrs Diane Stewart, Directors, **Wendouree Cleaning Services**
- ? Mr Graeme Shearer, Secretary, **Ballarat Regional Trades and Labour Council**
- ? Ms Tracey Brown, Occupational Health & Safety Manager, **Bendix Mintex Pty Ltd**
- ? Mr Peter O'Brien, Manager, Employee Services, **Ballarat City Council**
- ? Mr Trevor Ryan, Owner/Proprietor, **Designer Commercial Furniture**
- ? Mr Ian Manton, Managing Director, and Mr Grant Harvey, Finance Director, **Valcor Australia Sales Pty Ltd**
- ? Mr Brian Hughes, Manager, **Ausworkforce Pty Ltd and Vic Brand Road Surfacing Pty Ltd**
- ? Mr Andrew Wibberley, General Manager, Manufacturing, and Ms Kate Muir, Group Human Resource Manager, **Maxitrans Australia Pty Ltd**
- ? Mr Graeme Cann, Manager, **Australian Valve and Engineering**

13th December 2000 (Bendigo)

- ? Mr Brain Young, **Shearing Contractor**
- ? Mr Paul Green, Chief Executive Officer, and Mr Robert Trew, General Manager, Finance, **CVGT Employment and Training**
- ? Mr Michael Antolos, Assistant Managing Director, **Pacific Textiles**
- ? Mr Daryl Rodgers, Accountant, **Blackforest Timbers**
- ? Ms Robyn Smith-Clark, Risk Manager, and Mr Kevin Gill, General Manager, **Frew Kyneton Pty Ltd**
- ? Mr Alec Sander, Owner/Proprietor, **Strathvillage Newsagency**
- ? Mr Andrew Moyle, Owner, **Colonial Leather**
- ? Ms Karen Kyle, Secretary, **Bendigo Trades Hall Council**
- ? Mr Charles Barton, Owner, **Rositas**

18th December 2000 (Moorabbin)

- ? Mr Peter Bancroft, Managing Director, and Mrs Iurato, Financial Controller, **Sticky Products**
- ? Mr Anthony Abbott, Proprietor, **Nanson Nominees**
- ? Mr Paul Beattie, Director, and Ms Lisa Fink, Secretary, **Natures Gift Australia**
- ? Mr Peter Patroni, Managing Director, **Kinetic Technology International Pty Ltd**
- ? Mr Robin Dannals, Operations Manager, **Timberstock Trading Pty Ltd**
- ? Mr Craig Mighell, Director, **All Torque Transmissions Australasia Pty Ltd**
- ? Mr Peter Leipnik, Managing Director, **The Specialty Group**

- ? Ms Cheryl Evans, Director, and Mr John Long, Director, **The Elly-Kay Centre**
- ? Ms Margaret Aivatoglou, Proprietor, and Mr Frank Nugent, External Accountant, **Evangelia Aged Care Facility**
- ? Mr Peter Clark, Director, **Belle Design and Manufacturing**
- ? Mrs Jan Waller, Owner, **Waller's Cakes**
- ? Mr Matthew Mahon, Accountant, **Fans Direct**

29th January 2001 (Mildura)

- ? Mr Ken McLeod, Managing Director, **Strap Engineering**
- ? Mr Graeme Burrows, Owner, **Graeme Burrows Jewellers**
- ? Mr Ross Lake, **Tasco Inland Australia**
- ? Mr John Judd, Ms Helen Munro, and Ms Donna Brown, **United Panel Works and John Judd Industries**
- ? Mr Graeme Martin, **Martin Petroleum**
- ? Mr Graeme Stone, **G.D. and S.I. Stone Pty Ltd**

31st January 2001 (Swan Hill)

- ? Mr Gary Lowe, Owner, and Mr Chris Wood, **Lowes Windows**
- ? Mrs Sue Duguid, **A. Duguid and Co. Pty Ltd**
- ? Ms Wendy McAllister, and Ms Toni McKenzie, **Grizzly Engineering Pty Ltd**
- ? Mr Ian Fisher, Chief Executive Officer, **Swan Hill District Hospital**
- ? Mrs Lucy Packer, and Ms Wendy Blair, **Swan Hill Chemicals**
- ? Mr Tony Pumpa, Director, and Ms Carole Khan, Accountant, **Pumpa Engineering**

19th February 2001 (Warragul)

- ? Mr Chris Buckingham, President, **Moe Development Group**
- ? Ms Kerry Elliot, **Mawarra Centre**
- ? Mr Ted Brorsen, Owner, and Ms Lindsay Wright, **Tabro Meats**
- ? Mr Darryl Donaldson, Director; and Mr Phil Edwards, **Liftmaster Strong Arm Australia**
- ? Mr Laurie Jensen, Proprietor, **Tarago River Cheese Pty Ltd**
- ? Mr Darren Sharp, Owner, **Radford Abattoirs**, and Mr Rennie Schaffer, Executive Officer, Victorian Division, **National Meat Association of Australia**
- ? Mr Haja Mohideen, Director of Finance, and Mr Brian Lemmon, Occupational Health and Safety Manager, **West Gippsland Hospital**

19th February 2001 (Traralgon)

- ? Mrs Diane Blackwood, Owner, **Blackwood Engineering**
- ? Ms Toni Wakefield, Financial Controller, **Safetech**
- ? Mr Peter Foster, **National Logistics Coordinators**
- ? Mr Gordan Rorison, Business Manager, **Gippsland Aeronautics**

20th February 2001 (Sale)

- ? Mr Gary George, Proprietor, **Pinky's Pizza**
- ? Mr Geoff Lindrea, Manager, **G & S Machining**
- ? Mr John Castle, Principal, **John Castle and Associates**
- ? Ms Emilie Falkiner, Human Resource Officer, and Mr Don Rabbah, Risk Management Coordinator, **Wellington Shire Council**
- ? Mr Peter Brand, Owner, **Shenstone**
- ? Mr Brian Gordyn, Owner/Manager, **Gordyn Abattoirs**
- ? Mr Ian Dietrich, Proprietor, **Maffra Licensed IGA Supermarket**
- ? Mr Bernie McLoughlan, Administration Manager, **Neville Smith Timber Industries**

23rd February 2001 (City of Banyule)

- ? Mr Matt Greaves, Management Accountant, and Ms Freda Krocaris, Human Resource Coordinator, **Insulform Pty Ltd**
- ? Mr Michael Plymin, Owner, **Henlor Sheet Metal and Roofing Pty Ltd**
- ? Mr Colin Risstrom, Managing Director, and Mr David Woodgate, **Britex Group**
- ? Ms Maureen McKenzie, Director, and Mr Rodney McKenzie, Managing Director, **The Graffiti Eaters Pty Ltd**
- ? Mr Andrew Bryant, Manager, **Bryson Stainless Steel Fabrication**
- ? Ms Gael Knight, Office Manager, **Carpenter's Body Works and Modern Towing and Salvage (Aust) Pty Ltd**

6th March 2001 (Portland)

- ? Mr Robert Tozer, Financial Controller, **Keppell Prince Engineering**
- ? Mr Robert McPherson, Owner, **McPherson Plumbing Contractors Pty Ltd**
- ? Ms Kerry Green, President, and Mr Iain Grant, Public Officer, **Green Triangle Injured Persons Support Group**

6th March 2001 (Warrnambool)

- ? Cr David Atkinson, Mayor, Mr Lindsay Merritt, Chief Executive Officer; and Mr David Keenan, Director Economic Development, **Warrnambool City Council**
- ? Mr Morris Clark, Managing Director, and Mr Terry McLennan, Finance Manager, **Clarke's Pies**
- ? Mrs Yvonne Bartlett, Owner, **BAM Stone**, and Mr Jay McGrath, Managing Director, **McGrath Consulting**
- ? Mr Chris Nolan, Chief Executive, **Warrnambool Racing Club**
- ? Mr Gavin Daniels, General Manager, **McDonalds Warrnambool**
- ? Mr Bill McKinniss, Financial Planner and Counsellor, **Community Connections**
- ? Mr Brian Delaney, Owner, **Swinton's Carpet**

7th March 2001 (Colac)

- ? Mrs Mary Neal, Owner, **Neal's Transport**
- ? Mr Ken McCoombe, Human Resource Manager, Mr John Scarrott, Director of Finance, and Ms Jan Ross, Chief Executive Officer, **Colac Community Health Services**
- ? Ms Lynette Genua, **Genua Brothers Steel Merchants**
- ? Mr Dean Watson, **CM Timbers**
- ? Mr Terence Loughnane, Partner, **Terence's Property Services**

29th March 2001 (Broadford)

- ? Mr Ian Haines, General Manager, **Corporate and Community Services**, and Mr Shane Brown, Human Resource Manager, **Mitchell Shire Council**
- ? Mr Bill Melbourne, Proprietor, **Seymour Family Videoland**
- ? Mr Dan O'Dwyer, Owner, **O'Dwyer's Horseshoes**
- ? Mr Bruce Nicholls, Managing Director, **Chadcorp**
- ? Mr Terry Dobson, Owner, **Kilmore Caravan Park**

29th March 2001 (Euroa)

- ? Mr Darren Asquith, Manager, **Euroa Newsagency**
- ? Mr Colin Burton, Manager, **Burton's Stores**
- ? Mr Xavier Thompson, **Thompson's Carpet Choice**
- ? Mr Des Nicel, Owner, **Euroa Clay Products Pty Ltd**
- ? Mr Steve McKernan, **McKernan's Engineering**

30th March 2001 (Benalla)

- ? Mr Dennis Scott, **Scottie's IGA Supermarket**
- ? Mr Don Maling, **Edible Deli**
- ? Mr Lance Gawley, and Ms Sue Gawley, Owners, **Gawley Plumbing**
- ? Mr Greg McNulty, **Ryan and McNulty**
- ? Ms Jan Crothers, **Crothers Joinery**
- ? Mr Ken Hayland, **Skanda Industrial Services**

30th March 2001 (Wangaratta)

- ? Mr Rob Kerr, Human Resource Manager, **Dominance Industries**
- ? Mr Gary Voss, and Mr Graham Wheeler, **W.V. Management**
- ? Ms Gayle Lee, Financial Controller, **Bruck Textiles Pty Ltd**
- ? Mr Paul Challman, Manager, **Browns Wangaratta Pty Ltd**
- ? Mr Greg Clydesdale, Manager Human Resources, **Rural City of Wangaratta**
- ? Ms Gayle Taylor, Human Resource Manager, **Brown Brothers**
- ? Mr Gregg Symons, Owner, **Symons Pharmacy**

9th April 2001 (Melbourne)

- ? Mr James MacKenzie, Chairman, and Mr Bill Mountford, Chief Executive Officer, **Victorian WorkCover Authority**

19th April 2001 (Melbourne)

- ? Mr Jonathon Lock, Human Resource Manager, **Royal Victorian Institute for the Blind**
- ? Dr John Honner, Coordinator of Social Policy, **MacKillop Family Services**
- ? Mr Richard Cumpston, Partner, **Cumpston Sarjeant Pty Ltd**
- ? Mr Craig Marshall, Policy Development Manager, and Ms Sue Medson, Vice President, **Children's Welfare Association of Victoria**
- ? Ms Jenny Balshaw, Human Resource Manager, and Ms Nartuhi Karibian, WorkCover Coordinator, **Yooralla Society of Victoria**

30th April 2001 (Melbourne)

- Mr Ian Little, Secretary, Mr Adrian Nye, Director Insurance Policy, and Mr Jeff Rosewarne, Director Portfolio Analysis, **Department of Treasury & Finance**

APPENDIX 4

List of 518 Industry Rates and Rate Movement in 2000/01

Industry	Description	Credibility Adjusted True Risk Rates	Actual 1999/00 Industry Rates	Proposed 2000/2001 Industry rates	Number of Categories Moved
A0124C	Poultry For Meat	4.48	4.78	4.78	-
A0125F	Poultry For Eggs	4.31	4.78	4.78	-
A0134J	Grape Growing	3.35	2.70	3.95	+ 2
A0135K	Plantation Fruit Growing	3.43	3.95	3.95	-
A0136L	Orchard & Other Fruit Growing	3.16	3.95	3.26	- 1
A0143K	Potato Growing	4.42	4.78	4.78	-
A0144L	Vegetables Growing (Except Potatoes)	4.53	4.78	4.78	-
A0181X	Cereal Grains	5.84	5.78	7.00	+ 1
A0182A	Combined Sheep With Cereal Grains	5.56	7.00	5.78	- 1
A0183C	Combined Meat Cattle With Cereal Grains	5.62	2.70	5.78	+ 4
A0184F	Combined Sheep With Meat Cattle	5.36	7.00	5.78	- 1
A0185J	Sheep	5.94	7.00	7.00	-
A0186K	Meat Cattle	5.48	7.00	5.78	- 1
A0187L	Milk Cattle	5.43	5.78	5.78	-
A0188R	Pigs	5.63	5.78	5.78	-
A0191C	Sugar Cane Growing	3.88	4.78	3.95	- 1
A0192F	Peanuts Growing	3.88	4.78	3.95	- 1
A0193J	Tobacco Growing	3.91	4.78	3.95	- 1
A0194K	Cotton Growing	3.88	4.78	3.95	- 1
A0195L	Nurseries Growing Plants For Supply	3.58	4.78	3.95	- 1
A0197T	Grazing, Farming Or Breeding Animals Nec	3.89	4.78	3.95	- 1
A0198V	Plant Growing Nec	3.84	3.26	3.95	+ 1
A0204C	Sheep Shearing Services	5.03	5.78	5.78	-
A0205F	Aerial Agricultural Services	4.84	0.86	5.78	+ 10
A0206J	Services To Agriculture Nec	4.84	5.78	5.78	-
A0303K	Logging	5.09	7.00	5.78	- 1
A0304L	Forestry & Service To Forestry	4.82	5.78	5.78	-
A0431C	Rock Lobster Fishing	5.31	5.78	5.78	-
A0432F	Prawn Fishing	5.28	1.84	5.78	+ 6
A0433J	Ocean & Coastal Fishing Nec	5.60	5.78	5.78	-
A0434K	Oyster Farming & Inland Fishing	5.24	5.78	5.78	-
A0440F	Hunting & Trapping	4.98	5.78	5.78	-
B1111K	Iron Ores Mining, Dressing Etc	2.57	2.70	2.70	-

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Industry	Description	Credibility Adjusted True Risk Rates	Actual 1999/00 Industry Rates	Proposed 2000/2001 Industry rates	Number of Categories Moved
B1112L	Iron Ore Pelletising Or Agglomerating	2.57	2.70	2.70	-
B1121R	Bauxite Mining, Dressing Etc	2.56	2.70	2.70	-
B1122T	Copper Ores Mining, Dressing Etc	2.55	2.23	2.70	+ 1
B1123V	Gold Ores Mining, Dressing Etc	2.55	2.70	2.70	-
B1124W	Mineral Sands Mining, Dressing Etc	2.56	2.23	2.70	+ 1
B1125X	Nickel Ores Mining, Dressing Etc	2.56	2.70	2.70	-
B1126A	Silver-Lead-Zinc Ores Mining, Dressing Etc	2.56	2.70	2.70	-
B1127C	Tin Ores Mining, Dressing Etc	2.56	2.70	2.70	-
B1129J	Non-Ferrous Metal Ores Mining, Dressing Etc	2.56	0.86	2.70	+ 6
B1201R	Black Coal Mining	2.20	2.23	2.23	-
B1202T	Brown Coal Mining	2.06	2.23	2.23	-
B1300W	Oil & Gas Mining	2.93	1.84	3.26	+ 3
B1401J	Sand & Gravel Quarrying	2.96	2.70	3.26	+ 1
B1404R	Construction Materials Nec Quarrying, Crushing	3.14	2.70	3.26	+ 1
B1501T	Limestone Quarrying For Agricultural Purposes	2.70	0.86	3.26	+ 7
B1502V	Clays Quarrying	2.68	0.86	2.70	+ 6
B1504X	Salt Production	2.67	2.70	2.70	-
B1505A	Non-Metallic Minerals Nec Mining, Quarrying Etc	2.75	2.70	3.26	+ 1
B1611F	Petroleum Exploration (Own Acct)	2.50	0.86	2.70	+ 6
B1612J	Mineral Exploration Nec (Own Acct)	2.62	1.04	2.70	+ 5
B1620J	Mining & Exploration Services Nec	2.40	2.23	2.70	+ 1
C2115L	Meat Products Mfg (Except Smallgoods And Poultry)	14.21	8.40	8.40	-
C2116R	Poultry Products Mfg	11.65	8.40	8.40	-
C2117T	Bacon, Ham & Smallgoods Nec Mfg	11.45	8.40	8.40	-
C2121J	Liquid Milk & Cream Grading, Filtering Etc	3.22	3.95	3.26	- 1
C2122K	Butter Mfg	3.32	3.95	3.95	-
C2123L	Cheese Mfg	3.45	3.95	3.95	-
C2124R	Ice Cream & Frozen Confections Mfg	3.36	3.95	3.95	-
C2125T	Milk Products Nec Mfg	3.19	3.95	3.26	- 1
C2131L	Fruit Products Mfg	4.19	3.95	4.78	+ 1
C2132R	Vegetable Products And Mixed Meat Etc Mfg	4.86	4.78	5.78	+ 1
C2140R	Margarine & Oils & Fats Nec Mfg	5.29	4.78	5.78	+ 1
C2151W	Flour Mill Products Mfg	5.20	4.78	5.78	+ 1
C2152X	Starch, Gluten & Starch Sugars Mfg	5.24	4.78	5.78	+ 1
C2153A	Cereal Foods & Baking Mixes Mfg	5.30	5.78	5.78	-
C2161A	Bread Mfg	3.64	3.26	3.95	+ 1
C2162C	Cakes & Pastries, Pies Etc Mfg	4.20	3.95	4.78	+ 1
C2163F	Biscuits Mfg	4.57	3.95	4.78	+ 1
C2171F	Raw Sugar Mfg	5.08	4.78	5.78	+ 1

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Industry	Description	Credibility Adjusted True Risk Rates	Actual 1999/00 Industry Rates	Proposed 2000/2001 Industry rates	Number of Categories Moved
C2173K	Sugar Confectionery, Chocolate & Cocoa Products Mfg	5.08	4.78	5.78	+ 1
C2174L	Processed Seafoods Mfg	5.00	3.95	5.78	+ 2
C2175R	Prepared Animal & Bird Foods Mfg	5.02	4.78	5.78	+ 1
C2176T	Food Products Nec Mfg	5.00	4.78	5.78	+ 1
C2185V	Soft Drinks, Cordials & Syrups Mfg	4.65	3.95	4.78	+ 1
C2186W	Beer, Ale, Stout Or Porter Mfg	4.43	4.78	4.78	-
C2187X	Malt Mfg	4.66	4.78	4.78	-
C2188A	Wine, Brandy, Fortifying Spirits Mfg	4.09	3.26	4.78	+ 2
C2189C	Alcoholic Beverages Nec Mfg	4.61	0.86	4.78	+ 9
C2190L	Tobacco Products Mfg	5.75	0.86	5.78	+ 10
C2340J	Yarns & Broadwoven Fabrics Mfg	5.51	4.78	5.78	+ 1
C2341K	Cotton Ginning	5.45	3.95	5.78	+ 2
C2342L	Wool Scouring & Top Making	5.67	5.78	5.78	-
C2348A	Narrow Woven & Elastic Textiles Mfg	5.32	4.78	5.78	+ 1
C2349C	Textile Finishing	5.35	5.78	5.78	-
C2351R	Household Textiles Mfg	4.84	4.78	5.78	+ 1
C2352T	Textile Floor Coverings Mfg	4.83	4.78	5.78	+ 1
C2353V	Felt & Felt Products Mfg	4.80	4.78	5.78	+ 1
C2354W	Canvas & Associated Products Nec Mfg	4.65	4.78	4.78	-
C2355X	Rope, Cordage, Twine & Related Products Mfg	4.73	4.78	4.78	-
C2356A	Textile Products Nec Mfg	4.80	4.78	5.78	+ 1
C2441V	Hosiery Mfg	3.15	2.70	3.26	+ 1
C2442W	Cardigans & Pullovers Or Similar Garments Mfg	3.32	2.70	3.95	+ 2
C2443X	Knitted Goods Nec Mfg	3.59	2.70	3.95	+ 2
C2450W	Clothing Mfg	3.76	3.26	3.95	+ 1
C2460A	Footwear Or Footwear Components Mfg	4.00	3.26	4.78	+ 2
C2531X	Log Sawmilling	5.84	5.78	7.00	+ 1
C2532A	Resawn & Dressed Timber Mfg	5.54	5.78	5.78	-
C2533C	Veneers & Manufactured Boards Of Wood Mfg	5.10	4.78	5.78	+ 1
C2534F	Wooden Doors Mfg	5.20	4.78	5.78	+ 1
C2535J	Wooden Structural Fittings & Joinery Nec Mfg	4.18	3.95	4.78	+ 1
C2536K	Wooden Containers Mfg	5.39	5.78	5.78	-
C2537L	Hardwood Woodchips Mfg	5.21	4.78	5.78	+ 1
C2538R	Wood Products Nec Mfg	4.99	4.78	5.78	+ 1
C2541C	Furniture (Except Sheet Metal) Mfg, Upholstery Etc	4.61	4.78	4.78	-
C2542F	Mattresses, Pillows Or Cushions Mfg	4.92	4.78	5.78	+ 1
C2631J	Pulp, Paper & Paperboard Mfg	2.79	2.70	3.26	+ 1
C2632K	Paper Bags Mfg (Including Textile Bags)	2.80	2.70	3.26	+ 1

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Industry	Description	Credibility Adjusted True Risk Rates	Actual 1999/00 Industry Rates	Proposed 2000/2001 Industry rates	Number of Categories Moved
C2633L	Solid Fibreboard Containers Mfg	2.70	2.70	2.70	-
C2634R	Corrugated Fibreboard Containers Or Sheeting Mfg	3.24	3.26	3.26	-
C2635T	Paper Products Nec Mfg	2.78	2.70	3.26	+ 1
C2641L	Publishing	0.55	0.86	0.59	- 2
C2642R	Printing & Publishing	1.46	1.52	1.52	-
C2643T	Paper Stationery Mfg	1.51	1.52	1.52	-
C2644V	Commercial Or Job Printing And Bookbinding	1.78	1.84	1.84	-
C2645W	Printing Trade Services Nec	1.10	1.26	1.26	-
C2751A	Chemical Or Chemical Based Fertilisers Mfg	2.15	2.70	2.23	- 1
C2752C	Industrial Gases Mfg	1.99	2.23	2.23	-
C2753F	Synthetic Resins, Rubber & Plastic Materials Mfg	2.34	2.70	2.70	-
C2759V	Industrial Chemicals Nec Mfg	1.91	2.70	2.23	- 1
C2761F	Ammunition, Explosives, Fireworks & Matches Mfg	2.31	2.23	2.70	+ 1
C2762J	Paints (Excluding Bituminous Paints) Mfg	2.18	2.23	2.23	-
C2763K	Pharmaceutical & Veterinary Products Mfg	2.22	2.23	2.23	-
C2764L	Pesticides Mfg	2.29	2.23	2.70	+ 1
C2765R	Soap & Other Detergents Mfg	2.54	2.70	2.70	-
C2766T	Cosmetics & Toilet Preparations Nec Mfg	2.33	2.23	2.70	+ 1
C2767V	Inks Or Printers Roller Composition Mfg	2.27	2.23	2.70	+ 1
C2768W	Chemical Products Nec Mfg	2.19	2.23	2.23	-
C2770J	Petroleum Refining	2.35	2.23	2.70	+ 1
C2780L	Petroleum & Coal Products Nec Mfg	2.23	2.70	2.23	- 1
C2850J	Glass & Glass Products Mfg	4.88	4.78	5.78	+ 1
C2861R	Clay Bricks Mfg	5.66	5.78	5.78	-
C2862T	Refractory Products Mfg	5.77	2.70	5.78	+ 4
C2863V	Ceramic Tiles Pipes & Other Construction Goods Mfg	5.70	4.78	5.78	+ 1
C2864W	Ceramic Goods Nec Mfg	5.64	5.78	5.78	-
C2871V	Cement Mfg	5.80	5.78	7.00	+ 1
C2872W	Ready Mixed Concrete Or Mortar Mfg	5.81	5.78	7.00	+ 1
C2873X	Concrete Pipes & Box Culverts Mfg	5.90	5.78	7.00	+ 1
C2874A	Concrete Products Nec Mfg	6.38	5.78	7.00	+ 1
C2881X	Plaster Products & Expanded Minerals Mfg	6.68	3.95	7.00	+ 3
C2882A	Stone Products Mfg	7.40	5.78	8.40	+ 2
C2883C	Glass Wool & Mineral Wool Products Mfg	6.95	4.78	7.00	+ 2
C2884F	Non-Metallic Mineral Products Nec Mfg	6.76	5.78	7.00	+ 1
C2941R	Iron & Steel Basic Products Mfg	4.94	4.78	5.78	+ 1
C2942T	Iron Casting	5.21	4.78	5.78	+ 1
C2943V	Steel Casting	5.05	4.78	5.78	+ 1
C2944W	Iron & Steel Forging	5.08	4.78	5.78	+ 1

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Industry	Description	Credibility Adjusted True Risk Rates	Actual 1999/00 Industry Rates	Proposed 2000/2001 Industry rates	Number of Categories Moved
C2945X	Seamless Or Welded Steel Pipes Or Tubes Etc Mfg	5.10	4.78	5.78	+ 1
C2951V	Copper Smelting, Refining, Recovery	4.81	3.95	5.78	+ 2
C2952W	Silver, Lead, Zinc Smelting, Refining, Recovery	4.82	4.78	5.78	+ 1
C2953X	Alumina Mfg	4.81	3.95	5.78	+ 2
C2954A	Aluminium Smelting, Recovery	4.80	4.78	5.78	+ 1
C2955C	Nickel Smelting, Refining, Recovery	4.81	3.95	5.78	+ 2
C2956F	Non-Ferrous Metals Nec Smelting Refining Recovery	4.80	4.78	5.78	+ 1
C2957J	Secondary Recovery & Alloying Of N F Metals Nec	4.85	4.78	5.78	+ 1
C2961X	Aluminium Rolling, Drawing , Extruding	4.49	3.95	4.78	+ 1
C2962A	Non-Ferrous Metals Nec Rolling Drawing Etc	4.84	4.78	5.78	+ 1
C2963C	Non-Ferrous Metal Casting Or Forging	4.73	4.78	4.78	-
C3141K	Structural Steel Fabricating	4.45	3.95	4.78	+ 1
C3142L	Architectural Aluminium Products Mfg	4.36	3.95	4.78	+ 1
C3143R	Architectural Metal Products Nec Mfg	4.87	3.95	5.78	+ 2
C3151R	Metal Containers Mfg	4.07	3.95	4.78	+ 1
C3152T	Sheet Metal Furniture Mfg	4.21	3.95	4.78	+ 1
C3153V	Sheet Metal Products Nec Mfg	4.10	3.95	4.78	+ 1
C3161V	Cutlery & Hand Tools Nec Mfg	4.69	4.78	4.78	-
C3162W	Springs & Wire Products Mfg	5.02	4.78	5.78	+ 1
C3163X	Metal Nuts, Bolts, Screws, Rivets Or Washers Mfg	4.46	4.78	4.78	-
C3164A	Metal Coating & Finishing	4.50	4.78	4.78	-
C3165C	Non-Ferrous Steam, Gas & Water Fittings Etc Mfg	4.58	4.78	4.78	-
C3166F	Boiler & Plate Work	4.69	4.78	4.78	-
C3167J	Metal Blinds & Awnings Mfg	4.56	3.26	4.78	+ 2
C3168K	Fabricated Metal Products Nec Mfg	4.61	4.78	4.78	-
C3231R	Motor Vehicles Mfg Or Assembling	4.23	3.95	4.78	+ 1
C3232T	Motor Vehicle Bodies, Trailers, Caravans Etc Mfg	4.50	3.95	4.78	+ 1
C3233V	Motor Vehicle Instruments & Elec. Equipment Mfg	3.68	3.26	3.95	+ 1
C3234W	Motor Vehicle Parts Nec Mfg	4.33	3.95	4.78	+ 1
C3241V	Ship Building, Converting, Refitting Etc	2.94	2.70	3.26	+ 1
C3242W	Boat And Yacht Building, Converting Etc	2.66	2.23	2.70	+ 1
C3243X	Railway Rolling Stock & Locomotives Mfg, Repairing	2.89	2.70	3.26	+ 1
C3244A	Aircraft Building, Assembling Or Repairing	1.94	1.84	2.23	+ 1
C3245C	Transport Equipment Nec Mfg	2.60	2.23	2.70	+ 1
C3341C	Photographic Equipment, Optical Instruments Mfg	1.86	1.84	2.23	+ 1
C3342F	Photographic Film Processing	1.74	1.52	1.84	+ 1
C3343J	Measuring, Professional & Scientific Equipment Mfg	1.68	1.26	1.84	+ 2
C3351J	Radio & Tv Receivers, Audio Equipment Mfg	2.56	2.23	2.70	+ 1
C3352K	Electronic Equipment Or Parts Nec Mfg	1.33	1.26	1.52	+ 1

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C3353L	Refrigerators H/hold Appliances Lawn Mowers Mfg	2.86	2.23	3.26	+ 2
C3354R	Water Heating Systems Mfg	2.60	2.23	2.70	+ 1
C3355T	Electric & Telephone Cable And Wire Mfg	2.75	2.70	3.26	+ 1
C3356V	Batteries Mfg	2.59	2.23	2.70	+ 1
C3357W	Electrical Machinery & Equipment Etc Nec Mfg	3.46	2.70	3.95	+ 2
C3361L	Agricultural Machinery Or Equipment Etc Mfg	2.59	2.70	2.70	-
C3362R	Construction Or Earth Moving Machinery Etc Mfg	2.60	2.70	2.70	-
C3363T	Materials Handling Equipment Mfg	2.81	2.70	3.26	+ 1
C3364V	Wood & Metal Working Machinery Or Equipment Mfg	2.56	2.70	2.70	-
C3365W	Pumps & Compressors Mfg	2.71	2.70	3.26	+ 1
C3366X	Commercial Space Heating & Cooling Equipment Mfg	2.53	2.70	2.70	-
C3367A	Dies, Saw Blades & Machine Tool Accessories Mfg	2.44	2.70	2.70	-
C3368C	Food Processing Machinery Mfg	2.60	2.70	2.70	-
C3369F	Industrial Machinery & Equipment Nec Mfg	2.75	3.26	3.26	-
C3370R	General Engineering	2.94	2.70	3.26	+ 1
C3451T	Leather, Animal Skins Or Furs Tanning Etc	5.64	4.78	5.78	+ 1
C3452V	Leather & Leather Substitute Goods Nec Mfg	4.79	3.95	5.78	+ 2
C3461W	Rubber Tyres Tubes, Belts Hose & Sheets Mfg	5.14	3.95	5.78	+ 2
C3462X	Rubber Products Nec Mfg	4.69	3.95	4.78	+ 1
C3471A	Flexible Packaging & Abrasive Papers Etc Mfg	3.45	3.95	3.95	-
C3472C	Rigid Plastic Sheeting Mfg	3.72	3.95	3.95	-
C3473F	Hard Surface Floor Coverings Nec Mfg	3.73	3.95	3.95	-
C3474J	Plastic Products Nec Mfg	4.13	3.95	4.78	+ 1
C3481F	Ophthalmic Articles Mfg	3.01	0.86	3.26	+ 7
C3482J	Jewellery & Silverware Mfg	2.95	2.23	3.26	+ 2
C3483K	Brooms & Brushes, Coir Mats & Matting Mfg	3.08	3.26	3.26	-
C3484L	Signs & Advertising Displays Mfg	2.79	3.26	3.26	-
C3485R	Sporting Equipment Mfg	3.01	3.26	3.26	-
C3486T	Writing & Marking Equipment Nec Mfg	3.01	3.26	3.26	-
C3487V	Manufacturing Nec	2.91	3.26	3.26	-
D3610R	Electricity Generation, Transmission, Distribution	0.73	1.26	0.86	- 2
D3620V	Gas Mfg Or Distributing	0.58	0.86	0.59	- 2
D3701W	Water Supply	1.46	1.84	1.52	- 1
D3702X	Sewerage & Stormwater Drainage	1.36	1.84	1.52	- 1
E4101K	House Construction Private	5.00	4.78	5.78	+ 1
E4102L	House Construction Non-Private	4.50	4.78	4.78	-
E4103R	Residential Building Construction Nec	4.55	4.78	4.78	-
E4107X	Non-Residential Building Construction	4.03	3.95	4.78	+ 1
E4131X	Road & Bridge Construction Or General Repair	5.22	5.78	5.78	-

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E4135J	Non-Building Construction Nec Private	4.33	3.95	4.78	+ 1
E4136K	Non-Building Construction Nec Non-Private	4.97	4.78	5.78	+ 1
E4231J	Concreting	7.63	7.00	8.40	+ 1
E4232K	Bricklaying	7.32	7.00	8.40	+ 1
E4233L	Roof Tiling	7.19	7.00	8.40	+ 1
E4234R	Floor & Wall Tiling Of Ceramic Etc Tiles	6.97	7.00	7.00	-
E4251T	Structural Steel Erection	3.40	3.26	3.95	+ 1
E4252V	Plumbing, Draining Or Septic Tank Installation	3.65	3.95	3.95	-
E4253W	Electrical Work	1.93	2.23	2.23	-
E4254X	Earthmoving & Dredging	3.37	3.26	3.95	+ 1
E4261W	Heating & Air Conditioning Installation	3.67	3.95	3.95	-
E4262X	Plastering & Plaster Fixing Or Finishing	4.93	4.78	5.78	+ 1
E4263A	Carpentry	4.94	4.78	5.78	+ 1
E4264C	Painting, Decorating Or Wall Papering	5.14	5.78	5.78	-
E4265F	Floor Coverings Laying (Excluding Tiles)	4.97	4.78	5.78	+ 1
E4269R	Special Trades Nec	5.16	5.78	5.78	-
F4610J	General Agencies	0.44	0.48	0.48	-
F4627C	Timber Agencies	0.58	0.59	0.59	-
F4628F	Builders Hardware Agencies Nec	0.64	0.71	0.71	-
F4631V	Farm & Construction Machinery And Parts Agencies	0.40	0.48	0.48	-
F4632W	Motor Vehicle Parts Or Accessories Agencies	0.43	0.48	0.48	-
F4633X	Professional Equipment And Parts Agencies	0.39	0.48	0.40	- 1
F4634A	Office Or Business Machines And Parts Agencies	0.38	0.40	0.40	-
F4635C	Electrical & Electronic Equipment & Parts Agencies	0.36	0.40	0.40	-
F4636F	Machinery And Equipment & Parts Agencies Nec	0.39	0.40	0.40	-
F4641X	Petroleum Products Agencies	0.46	0.48	0.48	-
F4642A	Iron & Steel Agencies	0.44	0.40	0.48	+ 1
F4643C	Metal Scrap Agencies	0.45	0.48	0.48	-
F4644F	Minerals & Metals Agencies	0.45	0.48	0.48	-
F4645J	Chemicals And Allied Products Agencies Nec	0.41	0.40	0.48	+ 1
F4651C	Wool Selling Brokers; Stock & Station Agencies	0.63	0.59	0.71	+ 1
F4652F	Wool Buying Agencies	0.62	0.59	0.71	+ 1
F4653J	Cereal Grains Agencies	0.61	0.59	0.71	+ 1
F4654K	Farm Produce Agencies Nec	0.60	0.59	0.71	+ 1
F4661J	Meat Agencies	0.77	0.86	0.86	-
F4662K	Smallgoods And Dairy Products Agencies	0.66	0.71	0.71	-
F4663L	Fresh Or Frozen Fish Agencies	0.73	0.71	0.86	+ 1
F4664R	Fruit & Vegetables Agencies	0.72	0.71	0.86	+ 1
F4665T	Egg Agencies	0.73	0.71	0.86	+ 1

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F4666V	Confectionery & Soft Drink Agencies	0.86	0.86	1.04	+ 1
F4667W	Beer, Wine & Spirits Agencies	0.72	0.71	0.86	+ 1
F4668X	Tobacco Agencies	0.73	0.71	0.86	+ 1
F4669A	Grocery Agencies Nec	0.71	0.71	0.86	+ 1
F4671L	Menswear Agencies	0.52	0.48	0.59	+ 1
F4672R	Womens & Infants Wear Agencies	0.49	0.48	0.59	+ 1
F4673T	Footwear Agencies	0.51	0.48	0.59	+ 1
F4674V	Textile Products Agencies	0.53	0.48	0.59	+ 1
F4681T	Household Appliance Agencies	0.52	0.59	0.59	-
F4682V	Domestic Hardware Agencies	0.51	0.59	0.59	-
F4683W	Furniture Agencies	0.50	0.59	0.59	-
F4684X	Floor Coverings Agencies	0.52	0.59	0.59	-
F4691W	Photographic Equipment Or Supplies Agencies	0.67	0.59	0.71	+ 1
F4692X	Jewellery Watches Precious Stones Etc Agencies	0.67	0.59	0.71	+ 1
F4693A	Toys & Sporting Goods Agencies	0.66	0.59	0.71	+ 1
F4694C	Pulp, Paper, Paper Products & Books Agencies	0.64	0.59	0.71	+ 1
F4695F	Pharmaceuticals & Toiletries Agencies	0.68	0.59	0.71	+ 1
F4696J	Agencies Nec	0.77	0.59	0.86	+ 2
F4710T	General Wholesalers	2.52	2.23	2.70	+ 1
F4727L	Timber Merchants	2.99	3.26	3.26	-
F4728R	Builders Hardware Wholesalers Nec	2.59	2.70	2.70	-
F4731C	Farm & Construction Machinery Etc Wholesalers	1.45	1.52	1.52	-
F4732F	Motor Vehicle Parts Wholesalers	2.03	1.52	2.23	+ 2
F4733J	Professional Equipment Wholesalers	0.91	1.04	1.04	-
F4734K	Office And Business Machines Etc Wholesalers	0.43	0.40	0.48	+ 1
F4735L	Electrical & Electronic Equipment Wholesalers Nec	0.96	1.04	1.04	-
F4736R	Machinery, Parts Or Equipment Wholesalers Nec	1.73	1.84	1.84	-
F4741J	Petroleum Products Wholesalers	2.48	2.23	2.70	+ 1
F4742K	Iron & Steel Merchants	2.87	2.70	3.26	+ 1
F4743L	Metal Scrap Merchants	2.77	2.70	3.26	+ 1
F4744R	Minerals & Metals Wholesalers Nec	2.44	2.23	2.70	+ 1
F4745T	Chemicals Or Allied Products Wholesalers Nec	2.04	1.52	2.23	+ 2
F4751L	Wool Sellers Farm Supplies Wholesalers	2.06	2.23	2.23	-
F4752R	Wool Buyers & Merchants	2.56	2.23	2.70	+ 1
F4753T	Cereal Grains Wholesalers	2.25	2.23	2.70	+ 1
F4754V	Farm Produce Wholesalers Nec	2.20	2.23	2.23	-
F4761T	Meat Wholesalers	4.31	4.78	4.78	-
F4762V	Smallgoods & Dairy Products Wholesalers	4.40	4.78	4.78	-
F4763W	Fresh Or Frozen Fish Wholesalers	4.15	4.78	4.78	-

REPORT INTO WORKCOVER PREMIUMS FOR 2000/01

Industry	Description	Credibility Adjusted True Risk Rates	Actual 1999/00 Industry Rates	Proposed 2000/2001 Industry rates	Number of Categories Moved
F4764X	Fruit & Vegetable Wholesalers	3.99	4.78	4.78	-
F4765A	Egg Wholesalers	4.07	4.78	4.78	-
F4766C	Confectionery & Soft Drink Wholesalers	3.96	3.95	4.78	+ 1
F4767F	Beer, Wine & Spirits Wholesalers	3.71	3.95	3.95	-
F4768J	Tobacco Products Wholesalers	3.97	3.95	4.78	+ 1
F4769K	Grocery Wholesalers Nec	4.28	4.78	4.78	-
F4771W	Menswear Wholesalers	1.56	1.84	1.84	-
F4772X	Womens & Infants Wear Wholesalers	2.06	2.23	2.23	-
F4773A	Footwear Wholesalers	1.71	2.23	1.84	- 1
F4774C	Textile Products Wholesalers	1.56	1.84	1.84	-
F4781A	Household Appliance Wholesalers	1.75	1.84	1.84	-
F4782C	Domestic Hardware Wholesalers	1.84	1.84	2.23	+ 1
F4783F	Furniture Wholesalers	1.99	1.84	2.23	+ 1
F4784J	Floor Coverings Wholesalers	1.86	1.84	2.23	+ 1
F4791F	Photographic Equipment Or Supplies Wholesalers	1.82	1.84	1.84	-
F4792J	Jewellery Watches Precious Stones Etc Wholesalers	1.83	1.52	1.84	+ 1
F4793K	Toys & Sporting Goods Wholesalers	1.82	1.84	1.84	-
F4794L	Pulp, Paper, Paper Products And Books Wholesalers	1.90	1.84	2.23	+ 1
F4795R	Pharmaceuticals & Toiletries Wholesalers	1.85	1.84	2.23	+ 1
F4796T	Wholesalers Nec	2.39	2.23	2.70	+ 1
F4814K	Department Stores	1.63	1.84	1.84	-
F4815L	General Stores	1.61	1.84	1.84	-
F4821J	Furniture, Second-Hand, Dealers	1.94	2.23	2.23	-
F4829A	Second Hand Goods Nec Dealers	1.95	2.23	2.23	-
F4840R	Clothing Or Clothing Accessories Stores	0.98	0.86	1.04	+ 1
F4845A	Footwear Stores	1.38	1.26	1.52	+ 1
F4846C	Shoe Repairers	1.50	1.04	1.52	+ 2
F4847F	Fabrics & Household Textile Stores	1.52	1.52	1.84	+ 1
F4848J	Floor Coverings Stores	1.98	2.23	2.23	-
F4849K	Furniture Stores	1.51	1.52	1.52	-
F4852X	Builders Hardware Stores	2.51	2.70	2.70	-
F4853A	Domestic Hardware Stores	2.11	2.23	2.23	-
F4854C	Watchmakers & Jewellers	1.74	1.52	1.84	+ 1
F4855F	Music And Musical Instruments Stores	1.84	1.04	1.84	+ 3
F4856J	Household Appliance Stores	2.04	1.84	2.23	+ 1
F4857K	Electric Appliance Repairers Nec	1.96	2.23	2.23	-
F4861A	New Motor Vehicle Dealers	2.03	2.23	2.23	-
F4862C	Used Motor Vehicle Dealers	1.96	2.23	2.23	-
F4863F	Farm & Construction Machinery And Parts Dealers	2.10	2.23	2.23	-

REPORT INTO WORKCOVER PREMIUMS FOR 2000/01

Industry	Description	Credibility Adjusted True Risk Rates	Actual 1999/00 Industry Rates	Proposed 2000/2001 Industry rates	Number of Categories Moved
F4864J	Service Stations	1.98	2.23	2.23	-
F4865K	Smash Repairers	2.77	2.70	3.26	+ 1
F4866L	Motor Cycle Dealers	2.09	2.23	2.23	-
F4867R	Boat & Caravan Dealers	2.31	2.23	2.70	+ 1
F4868T	Tyre & Battery Retailers	2.45	2.23	2.70	+ 1
F4869V	New Motor Vehicle Parts Or Accsories Retailers Nec	1.99	2.23	2.23	-
F4878W	Bread Vendors	1.91	0.86	2.23	+ 5
F4879X	Milk Vendors	1.96	2.23	2.23	-
F4881K	Grocers, Confectioners & Tobacconists	2.39	2.70	2.70	-
F4882L	Butchers	2.89	3.26	3.26	-
F4883R	Fruit & Vegetable Stores	2.68	3.26	2.70	- 1
F4884T	Liquor Stores	2.46	2.70	2.70	-
F4885V	Bread & Cake Stores	2.91	3.26	3.26	-
F4886W	Fish Shops; Take Away Food & Milk Bars	2.10	2.23	2.23	-
F4891R	Pharmacies	0.64	0.71	0.71	-
F4892T	Photographic Equipment Stores	0.95	1.04	1.04	-
F4893V	Sports & Toy Stores	1.03	0.86	1.04	+ 1
F4894W	Newsagents, Stationers And Booksellers	0.92	0.86	1.04	+ 1
F4896A	Nurserymen And Florists	1.28	1.04	1.52	+ 2
F4897C	Office, Business Equipment Stationery Etc Retailer	0.67	0.59	0.71	+ 1
F4899J	Retailing Nec	1.54	1.26	1.84	+ 2
G5111J	Long Distance Interstate Road Freight Transport	7.64	7.00	8.40	+ 1
G5112K	Long Distance Intrastate Road Freight Transport	5.92	5.78	7.00	+ 1
G5113L	Short Distance Road Freight Transport	5.84	5.78	7.00	+ 1
G5114R	Road Freight Forwarding	6.35	5.78	7.00	+ 1
G5131T	Long Distance Bus Transport	3.24	3.26	3.26	-
G5133W	Short Distance Bus Trans (Inc Tram) Private	3.31	3.26	3.95	+ 1
G5134X	Short Distance Bus Trans (Inc Tram) Non-Private	3.80	3.95	3.95	-
G5135A	Taxi & Other Road Passenger Transport	3.27	3.26	3.95	+ 1
G5200K	Rail Transport	3.02	3.26	3.26	-
G5307K	International Sea Transport	3.66	1.84	3.95	+ 4
G5308L	Coastal Water Transport	3.78	3.95	3.95	-
G5309R	Inland Water Transport	3.88	3.95	3.95	-
G5405R	Scheduled International Air Transport	1.76	1.26	1.84	+ 2
G5406T	Scheduled Domestic Air Transport	1.46	1.04	1.52	+ 2
G5407V	Non-Scheduled Air Transport	1.77	1.26	1.84	+ 2
G5500L	Other Transport	3.90	3.95	3.95	-
G5711L	Motor Vehicle Hire	1.77	1.84	1.84	-
G5712R	Parking Services	1.90	1.84	2.23	+ 1

REPORT INTO WORKCOVER PREMIUMS FOR 2000/01

Industry	Description	Credibility Adjusted True Risk Rates	Actual 1999/00 Industry Rates	Proposed 2000/2001 Industry rates	Number of Categories Moved
G5713T	Services To Road Transport Nec	1.85	2.70	2.23	- 1
G5721T	Stevedoring	3.64	2.70	3.95	+ 2
G5722V	Water Transport Terminals	4.58	3.26	4.78	+ 2
G5723W	Shipping Agents	2.98	1.84	3.26	+ 3
G5724X	Services To Water Transport Nec	3.37	2.70	3.95	+ 2
G5730V	Services To Air Transport	1.87	1.26	2.23	+ 3
G5741A	Travel Agency Services	0.53	0.48	0.59	+ 1
G5742C	Freight Forwarding (Except Road)	1.36	1.52	1.52	-
G5743F	Customs Agency Services	0.97	1.04	1.04	-
G5744J	Other Services To Transport Nec	1.02	1.26	1.04	- 1
G5801T	Grain Storage	3.80	4.78	3.95	- 1
G5802V	Cold Storage	3.86	4.78	3.95	- 1
G5803W	Storage Nec	3.97	4.78	4.78	-
H5901A	Unofficial Post Offices	1.24	0.86	1.26	+ 2
H5902M	Telecommunication Services	1.28	0.86	1.52	+ 3
I6142T	Trading Banks	0.53	0.59	0.59	-
I6143V	Development Banks	0.50	0.48	0.59	+ 1
I6144W	Savings Banks	0.53	0.40	0.59	+ 2
I6151V	Permanent Building Societies	0.34	0.33	0.40	+ 1
I6152W	Terminating Building Societies	0.34	0.33	0.40	+ 1
I6153X	Credit Unions	0.39	0.40	0.40	-
I6154A	Authorised Money Market Dealers	0.34	0.33	0.40	+ 1
I6155C	Money Market Dealers Nec	0.34	0.33	0.40	+ 1
I6156F	Financiers Nec	0.27	0.33	0.33	-
I6161X	Unit Trusts, Land Trusts & Mutual Funds	0.29	0.33	0.33	-
I6162A	Holding Companies Nec	0.26	0.33	0.33	-
I6163C	Holder-Investors Nec	0.28	0.33	0.33	-
I6171C	Stock Exchanges	0.22	0.33	0.33	-
I6172F	Services To Finance & Investment Nec	0.21	0.33	0.33	-
I6185T	Corporate Head Office Administration, Private	0.40	0.59	0.48	- 1
I6186V	Corporate Head Office Administration, Non-Private	0.59	0.86	0.59	- 2
I6231V	Life Insurance	0.17	0.33	0.33	-
I6232W	Superannuation Funds	0.30	0.33	0.33	-
I6233X	Health Insurance	0.31	0.40	0.33	- 1
I6234A	General Insurance	0.46	0.48	0.48	-
I6240W	Services To Insurance	0.33	0.48	0.40	- 1
I6310T	Real Estate Agents & Property Managers	0.46	0.40	0.48	+ 1
I6323C	Residential Property Operators Private	1.04	1.04	1.26	+ 1
I6324F	Residential Property Operators Non-Private	0.92	1.04	1.04	-

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Industry	Description	Credibility Adjusted True Risk Rates	Actual 1999/00 Industry Rates	Proposed 2000/2001 Industry rates	Number of Categories Moved
I6325J	Property Operators & Developers Nec	0.84	1.04	0.86	- 1
I6334K	Architectural Services	0.25	0.33	0.33	-
I6335L	Surveying Services	0.37	0.48	0.40	- 1
I6336R	Technical Services Nec	0.46	0.59	0.48	- 1
I6341J	Legal Services	0.50	0.48	0.59	+ 1
I6342K	Accounting Services	0.21	0.33	0.33	-
I6351L	Data Processing Services	0.18	0.33	0.33	-
I6352R	Typing, Copying & Mailing Services	0.49	0.59	0.59	-
I6353T	Collecting & Credit Reporting Services	0.23	0.33	0.33	-
I6361T	Advertising Services	0.34	0.40	0.40	-
I6362V	Market & Business Consultancy Services	0.28	0.40	0.33	- 1
I6363W	Pest Control Services	1.50	1.26	1.52	+ 1
I6364X	Cleaning Services	6.44	4.78	7.00	+ 2
I6365A	Contract Packing Services Nec	1.70	1.52	1.84	+ 1
I6366C	Protection & Private Enquiry Services	2.49	1.84	2.70	+ 2
I6369K	Business Services Nec	1.09	1.04	1.26	+ 1
I6390C	Plant Hire & Leasing Nec	1.75	2.23	1.84	- 1
J7112W	State Government Administration	0.64	0.71	0.71	-
J7113X	Local Government Administration	1.62	1.84	1.84	-
J7120W	Justice	1.25	1.04	1.26	+ 1
J7130A	Foreign Government Representation	1.07	0.86	1.26	+ 2
K8144J	Hospitals(Exc Psych Hosp)Private	2.26	2.23	2.70	+ 1
K8145K	Hospitals(Exc Psych Hosp)Non-Private	1.57	1.52	1.84	+ 1
K8146L	Psychiatric Hospitals	2.35	2.23	2.70	+ 1
K8148T	Nursing Or Convalescent Homes	4.33	3.95	4.78	+ 1
K8171L	Medical Practice	0.33	0.40	0.33	- 1
K8172R	Dentistry	0.63	0.59	0.71	+ 1
K8173T	Dental Laboratories	0.79	0.71	0.86	+ 1
K8174V	Optometry & Optical Dispensing	0.70	0.71	0.71	-
K8175W	Ambulance Services	1.25	1.26	1.26	-
K8176X	Community Health Centres (Medical)	0.82	0.86	0.86	-
K8177A	Community Health Centres (Paramedical)	1.70	1.52	1.84	+ 1
K8178C	Chiropractors & Physiotherapists	0.77	0.71	0.86	+ 1
K8179F	Health Services Nec	1.24	1.04	1.26	+ 1
K8190V	Veterinary Services	1.32	1.52	1.52	-
K8221A	Preschools	0.89	1.04	1.04	-
K8223F	Primary Schools, Private	0.50	0.48	0.59	+ 1
K8224J	Primary Schools, Non-Private	0.73	0.71	0.86	+ 1
K8225K	Secondary Schools, Private	0.76	0.86	0.86	-

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Industry	Description	Credibility Adjusted True Risk Rates	Actual 1999/00 Industry Rates	Proposed 2000/2001 Industry rates	Number of Categories Moved
K8226L	Secondary Schools, Non-Private	1.09	1.26	1.26	-
K8227R	Combined Primary & Secondary Schools	0.67	0.86	0.71	- 1
K8228T	Special Schools For Disabled Children Private	0.93	1.84	1.04	- 3
K8229V	Special Schools For Disabled Children Non-Private	1.14	1.26	1.26	-
K8241K	Universities	0.62	0.71	0.71	-
K8242L	Colleges Of Advanced Education	0.83	0.71	0.86	+ 1
K8243R	Technical & Further Education Colleges	0.81	1.04	0.86	- 1
K8244T	Education Nec	1.25	1.26	1.26	-
K8251R	Libraries	1.14	1.04	1.26	+ 1
K8252T	Museums & Art Galleries	1.03	1.26	1.04	- 1
K8311F	Welfare & Charitable Homes Nec Private	3.96	3.95	4.78	+ 1
K8312J	Welfare & Charitable Homes Nec Non-Private	4.77	3.95	4.78	+ 1
K8315R	Child-Minding Services	2.44	2.70	2.70	-
K8316T	Community Support Services Nec	2.96	2.70	3.26	+ 1
K8319X	Religious Institutions	2.77	2.23	3.26	+ 2
K8461L	Research & Scientific Institutions	0.91	0.86	1.04	+ 1
K8462R	Meteorological Services	1.40	0.86	1.52	+ 3
K8471T	Business & Professional Associations	1.23	1.26	1.26	-
K8472V	Labour Associations, Councils Or Unions	1.74	1.84	1.84	-
K8481W	Political Parties	2.36	0.86	2.70	+ 6
K8482X	Community Organisations Nec	2.16	2.23	2.23	-
K8492C	Police	2.72	2.70	3.26	+ 1
K8493F	Prisons & Reformatories	3.53	3.95	3.95	-
K8494J	Fire Brigades & Associated Services	2.52	1.84	2.70	+ 2
K8495K	Sanitary & Garbage Disposal Services	3.92	3.95	3.95	-
K8496L	Employment Services To Production Sector	6.70	5.78	7.00	+ 1
K8497R	Employment Services To Service Sector	1.36	1.52	1.52	-
L9131R	Motion Picture Production On Film Or Tape	0.81	0.71	0.86	+ 1
L9132T	Motion Picture Film Hiring	0.86	0.71	1.04	+ 2
L9133V	Motion Picture Theatres	0.82	0.71	0.86	+ 1
L9134W	Radio Stations	0.78	0.71	0.86	+ 1
L9135X	Television Stations	0.84	0.71	0.86	+ 1
L9136A	Live Theatre, Orchestras & Bands	1.07	1.04	1.26	+ 1
L9137C	Creative Arts	0.84	0.71	0.86	+ 1
L9138F	Entertainment Nec	1.04	1.26	1.04	- 1
L9141V	Parks & Zoological Gardens	2.64	2.70	2.70	-
L9142W	Lotteries	2.32	1.26	2.70	+ 4
L9143X	Gambling Services (Except Lotteries)	2.04	2.23	2.23	-
L9145C	Horse Racing	3.07	3.26	3.26	-

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Industry	Description	Credibility Adjusted True Risk Rates	Actual 1999/00 Industry Rates	Proposed 2000/2001 Industry rates	Number of Categories Moved
L9149R	Sport & Recreation Nec	2.09	2.23	2.23	-
L9231X	Cafes & Restaurants	1.99	1.84	2.23	+ 1
L9232A	Hotels, Bars Etc (Mainly Drinking Places)	2.28	2.23	2.70	+ 1
L9233C	Accommodation	2.61	2.70	2.70	-
L9241C	Licensed Bowling Clubs Or Associations	2.06	1.84	2.23	+ 1
L9242F	Licensed Golf Clubs Or Associations	2.09	1.84	2.23	+ 1
L9243J	Licensed Clubs Or Associations Nec	1.99	1.84	2.23	+ 1
L9244K	Non-Licensed Clubs Or Associations Nec	2.06	1.84	2.23	+ 1
L9340K	Laundries & Dry-Cleaners	3.37	3.26	3.95	+ 1
L9351T	Mens Hairdressers	2.34	1.26	2.70	+ 4
L9352V	Womens Hairdressing & Beauty Salons	1.86	2.23	2.23	-
L9361W	Photography Services Nec	3.71	1.84	3.95	+ 4
L9362X	Funeral Directors	3.96	3.95	4.78	+ 1
L9363A	Crematoria & Cemeteries	4.01	3.95	4.78	+ 1
L9365F	Pet Care Services	3.94	1.26	3.95	+ 6
L9366J	Domestic Services On A Contract Or Fee Basis	4.89	4.78	5.78	+ 1
L9369R	Personal Services Nec	3.68	3.26	3.95	+ 1
L9400A	Private Households Employing Staff	2.82	2.70	3.26	+ 1

Source: Victorian WorkCover Authority, *Submission to the Economic Development Committee Inquiry into Premiums for 2000/01*, 31 October 2000, Attachment A.

APPENDIX 5

Details of Budget Sector Entity WorkCover Premium Increases

PORTFOLIO	Change in Premium Due to:					Total Premium Change	2000/01 Initial Premium
	NOT SUPPLEMENTED				SUPPLEMENTED		
	Payroll Change	Claims Experience, Capping, F Factor and Industry Rates	Non-Claimable GST Costs (2%)	Claimable GST Costs (10%)	Costs of New Benefits Package (15%)		
EDUCATION, EMPLOYMENT & TRAINING	734,687	958,113	667,634	3,905,662	5,007,261	11,273,357	42,962,293
MINISTRY OF EDUCATION & TRAINING	510,016	957,074	580,028	3,393,161	4,350,207	9,790,486	37,324,772
OFFICE OF POST COMPULSORY EDUCATION TRAINING & EMPLOYMENT	3,688	5,487	686	4,015	5,148	19,024	44,169
TAFE INSTITUTES	211,637	478	84,678	495,366	635,085	1,427,244	5,449,029
BOARD OF STUDIES	345	(2,027)	396	2,318	2,972	4,004	25,499
COUNCIL OF ADULT EDUCATION	3,611	(2,497)	1,549	9,064	11,620	23,347	99,702
INTERNATIONAL FIBRE CENTRE LTD	5,390	(402)	297	1,738	2,229	9,252	19,122
HUMAN SERVICES	2,305,474	(1,600,306)	1,072,883	6,276,365	8,046,623	16,101,039	69,040,023
DEPT OF HUMAN SERVICES	(381,302)	(3,855,918)	235,210	1,375,980	1,764,077	(861,953)	15,135,782
PUBLIC HOSPITALS	2,499,232	1,507,988	771,779	4,514,905	5,788,340	15,082,244	49,663,955
VICTORIAN HEALTH PROMOTION FOUNDATION	1,677	1,561	666	3,895	4,994	12,793	42,849
AMBULANCE SERVICES	185,867	746,063	65,228	381,585	489,212	1,867,955	4,197,437
INFRASTRUCTURE	24,145	(347,042)	55,991	327,545	419,929	480,568	3,602,999
DEPT OF INFRASTRUCTURE	3,015	(73,271)	3,463	20,258	25,971	(20,564)	222,834
VIC ROADS	14,722	(272,996)	52,158	305,124	391,185	490,193	3,356,368
MELBOURNE CITY LINK AUTHORITY	6,408	(775)	370	2,163	2,773	10,939	23,797
JUSTICE	(803,221)	8,124,751	842,622	4,929,339	6,319,665	19,413,156	54,222,725
DEPT OF JUSTICE	(209,776)	(439,428)	82,078	480,158	615,587	528,619	5,281,736
VICTORIA POLICE FORCE	(593,445)	8,564,179	760,544	4,449,181	5,704,078	18,884,537	48,940,989

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PORTFOLIO	Change in Premium Due to:					Total Premium Change	2000/01 Initial Premium
	NOT SUPPLEMENTED				SUPPLEMENTED		
	Payroll Change	Claims Experience, Capping, F Factor and Industry Rates	Non-Claimable GST Costs (2%)	Claimable GST Costs (10%)	Costs of New Benefits Package (15%)		
DEPT OF NATURAL RESOURCES AND ENVIRONMENT	248,486	(500,880)	64,262	375,930	481,962	669,760	4,135,231
ENVIRONMENT PROTECTION AUTHORITY	22,187	(2,308)	3,107	18,175	23,301	64,462	199,927
PARLIAMENT	117,940	(69,597)	3,075	17,986	23,060	92,464	197,851
PARLIAMENT OF VICTORIA	110,559	(68,341)	2,687	15,719	20,153	80,777	172,910
VICTORIAN AUDITOR'S GENERAL OFFICE	7,381	(1,256)	388	2,267	2,907	11,687	24,941
PREMIER & CABINET	31,891	(2,232)	14,515	84,921	108,872	237,967	934,124
DEPT OF PREMIER & CABINET	24,292	21,999	2,379	13,920	17,846	80,436	153,120
MUSEUM OF VICTORIA	12,582	(939)	2,226	13,022	16,695	43,586	143,244
COUNCIL OF TRUSTEES OF THE NATIONAL GALLERY OF VICTORIA	(19,318)	(23,367)	4,043	23,654	30,325	15,337	260,189
STATE LIBRARY OF VICTORIA FOUNDATION	13,773	(88)	5,599	32,756	41,995	94,035	360,315
OFFICE OF THE GOVERNOR	562	163	268	1,569	2,011	4,573	17,256
STATE & REGIONAL DEVELOPMENT	2,432	27,767	2,893	16,924	21,698	71,714	186,168
DEPT OF STATE & REGIONAL DEVELOPMENT	2,432	27,767	2,893	16,924	21,698	71,714	186,168
TREASURY & FINANCE	(24,924)	65,027	9,144	53,490	68,576	171,313	588,391
DEPT OF TREASURY & FINANCE	(7,774)	17,335	2,200	12,870	16,499	41,130	141,565
STATE REVENUE OFFICE	(24,418)	50,754	6,133	35,876	45,995	114,340	394,641
VICTORIAN CASINO & GAMING AUTHORITY	7,268	(3,062)	811	4,744	6,082	15,843	52,185
TOTAL BUDGET SECTOR	2,659,097	6,653,293	2,736,126	16,006,337	20,520,947	48,575,800	176,069,732

Source: Victorian Department of Treasury and Finance



ECONOMIC DEVELOPMENT COMMITTEE

MINORITY REPORT

Inquiry into WorkCover Premiums for 2000/01

"A Question Of Balance"

Submitted by Government members

Hon. Theo Theophanous MLC. (Deputy Chair of E.D.C.)
Hon. Kaye Darveniza MLC. (Member of E.D.C.)
Hon. John McQuilten MLC (Member of E.D.C.)

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EXECUTIVE SUMMARY

The EDC Report on WorkCover does not contain an executive summary. This is because in the mad rush by the Liberal and National Parties to gain maximum political advantage by tabling the Report in this session of Parliament, the Committee ran out of time and the Chairman the Hon. Neil Lucas decided that an executive summary was unnecessary. The Committee finished its deliberations at noon on Friday 15th June and the Government members were given until 9am on Monday the 18th June to submit their Minority Report (including this executive summary). This abuse of process has meant that this Minority Report has had to be finalised over the weekend of the 16th and 17th June.

The Liberal and National Party Members who control the Committee after 75 divisions on proposed amendments by Government Members rammed through the Report. The Committee's Report is therefore, very much a report of the Liberal and National Parties and should be read in this context.

The Majority Report is an unbalanced report on two counts. First, it has been written to further the political interests of one side of politics and the evidence selected for inclusion reflects that fact. The value of cross party Parliamentary Committees comes from there being a genuine attempt to reach consensus in a Report that presents a balanced view. With 75 divisions the Majority Report in no way reflects this parliamentary tradition of compromise, consensus and balance.

The second way in which the Majority Report is unbalanced is in the fact that it totally ignores one side of the WorkCover equation – that is, the views of employees. This was bound to be the case from the start since the Liberal and National Parties in the Upper House had used their numbers to limit the terms of reference of the inquiry. They refused to allow the Committee to examine ways of improving occupational health and safety, rehabilitation and return to work practices. But improvements in these areas do affect premiums and it is precisely in these areas where employees (and employers) might well have had some views useful to the inquiry.

This lack of balance can be seen right through the Majority Report of the Opposition Parties. One section of their report refers to evidence from a few employers about their desire to have a greater say in the settlement of claims by WorkCover Agents including the right to have a case pursued in court rather than settled. The Majority Report highlights this anecdotal evidence of employers who were unhappy with claims against them by workers and argues that it “points to a serious concern on the part of many Victorian employers about the equity of outcomes, and therefore the legitimacy of the current scheme.” The following proposed addition moved by the Deputy Chair of the Committee, the Hon. Theo Theophanos, was rejected by the Liberal and National Parties:

‘Legitimacy, however, is a two way street; it also depends on employees believing the system will treat them fairly. Given its narrow Terms of Reference, the Committee did not seek evidence from injured workers who may have felt they were badly treated or short changed in the compensation they received. This would have balanced the views of the employers that are documented above.

Clearly there will be some employers and employees who will question the legitimacy of the system but these tend to be a minority.'

This lack of preparedness to contemplate a balanced WorkCover scheme is why the former Kennett Government removed Common Law. In the view of Government Members, the scheme must be balanced financially but it also must be balanced in the sense that it provides both reasonable benefits to workers and fair premium levels to employers. It must also attempt to reduce accidents and rehabilitate injured workers back to employment for the benefit of both employees and employers. The Committee's Report could have contributed to improved compensation, settlement, safety, rehabilitation and return to work practices if it had approached the issues with some attempt at balance, compromise and consensus rather than to simply further the political fortunes of the Liberal and National Parties.

The lack of balance in the Opposition Parties Report can also be seen in the selective use of evidence. Not only is anecdotal evidence representing exaggerated views from a few employers used throughout their Report but it is also presented as though it is typical of all employers' views. In an attempt to provide some balance or caution in interpreting these employers' views the following qualifying statement was moved by the Hon. Theo Theophanous for inclusion in the Report but was rejected by the Opposition:

'The Committee finds that evidence from employers who are affected by claims against them is anecdotal and should be interpreted carefully as these employers' suggestions that employees or lawyers were rorting the system could not be verified by the Committee. When questioned by Government Members about their evidence, no real substantiation was provided by these employers however the questioning by Government Members does not appear in the report.'

And this is the point; if one looks through the majority report almost all the evidence presented is as a result of questions by the Liberal and National Parties and not by the Government members on the Committee.

Nor were the majority Liberal and National Party members prepared to compare the relative costs of GST compliance with WorkCover premium increases. This is despite the fact that time and again witnesses made the comparison themselves and indicated a much higher cost impact from the GST. In fact the Committee's own GST reports had presented evidence that GST compliance cost small businesses an average of \$6000 in start up costs and an average of approximately \$3000 in ongoing costs. The average cost to small businesses of WorkCover premium increases to cover Common Law we estimate at \$274, but these comparisons are not contained in the Majority report.

Given the degree of bias and lack of balance of the Opposition controlled Committee Report it is doubtful whether an Upper House dominated by one side of politics, as a result of eight year terms and a gerrymander, is capable of establishing balanced, workable Committees. This is why we have recommended that the Special Committee on reform of the Upper House be sent copies of the GST No.2 report and the WorkCover report to allow them to consider what changes would need to be made to the structure of the Upper House so that it could establish committees and references which might result in more balanced useful reports.

The Opposition Parties determination to establish an environment at hearings that would allow, through loaded questions, employers to make exaggerated statements even if these were on the basis of incomplete information is best captured by the Warrnambool hearings. It is there that the Opposition used its numbers on the Committee to disallow any information about the make-up of bills of employers giving evidence which WorkCover had at hand – even if the employer gave their consent. In Geelong this information would have allowed the Committee to establish immediately that the Geelong Councils premiums had gone down not up as claimed by the Council representative that gave evidence.

The Opposition invited the Minister to attend towards the end of its deliberations. The Minister did not attend partly because of the way the Committee was being used by the Opposition. No attempt was made to follow due process for inviting a Lower House Minister to an Upper House Committee as this may have resulted in debate of the Committee's activities in the Lower House. The Ministers request to include material in the Report was also totally ignored.

The Minority Report identifies the relative cost of GST/BAS compliance compared to the cost of WorkCover premium increases for small business. The GST comes out at approximately 22 times greater cost during its establishment year and 11 times greater ongoing than WorkCover.

Although the Committee was aware that WorkCover premiums would not rise for small businesses in 2001/2002 as announced by the CEO of WorkCover in May 2001 it still made a finding that they would increase. The Committee's finding is incorrect and mischievous.

The Minority Report attempts to identify the various factors that impacted on premiums for 2000/01 including the experience rating system, the introduction of Common Law rights for injured workers, the 20% cap to protect small business from multiple industry rate movements, the rounding up of industry rates and the deeming of remuneration. The Minority Report is critical of the timing of, in particular, the new deeming arrangements introduced by WorkCover and welcomes its halving from 20% to 10%.

The Minority report also discusses the features of the scheme designed to protect small business principally through the application of the 20% cap but also through a range of other measures such as a threshold, capped claims, and most importantly through a cross subsidy from large to small businesses.

The Opposition insisted that non-government organisations should receive funding for increases in premiums unrelated to Common Law, including that they should be funded outside of their service contracts for activities involving service contracts with others including the Commonwealth. They used their numbers to obstruct any reference to the Federal Government and its responsibilities. The failure of the Federal Government to provide compensation for WorkCover increases for the proportion of NGO activities funded by them, as the State Government had done, reduced the ability of NGOs and

community organisations to provide services but the Opposition refused to discuss this in the Report.

An analysis of the financial position of the WorkCover scheme based on information provided to the Committee is in the Minority Report. The major causes identified of the recent blow out in unfunded liabilities in the Scheme are: the mismanagement of Common Law claims under the Kennett government, the impact of the GST and the setting of an inappropriate premium rate between 1996 and 1999 that did not adequately cover the future liabilities of the scheme.

Clearly part of the answer in bringing the scheme back in the black includes improving the Schemes performance. The frank comments of the new Chair Mr. James MacKenzie are considered as well as efforts to improve the schemes performance through improved communication with employers and improved health and safety practices through initiatives such as 'WorkSafe' and 'Strategy 2000'.

The final section of the Minority Report deals briefly with some of the inappropriate and poorly considered recommendations of the Majority Report. These include a suggestion to relax the succession rule which serves a valuable purpose by negating the opportunity for employers with poor claims records to start afresh with lower premiums under a new business name. The Opposition also wanted reviews of whether Claims Agents should be able to settle claims without employer approval which would increase litigation and mean that other employers would have to pay for cases lost. They also wanted to open up the hornet's nest of apportionment of costs of claims to prior employers with all the litigation between employers this could bring. One wonders why all of these initiatives were not introduced when the Liberal and National Parties controlled the WorkCover Scheme.

We urge anyone reading the Majority Liberal and National Party WorkCover Report to also read this Minority Report and the proposed amendments in order to get a more balanced picture of the evidence gathered by and presented to the Committee. Government Members of the Committee hope that future Reports of this Committee will be consensual and thus more useful to the Parliament and to the Community.

SUMMARY OF FINDINGS

Finding: 1

The EDC WorkCover Report is a document of the majority Liberal and National party Members of the Committee who used their numbers to produce an unbalanced, biased and selective report which ignores much of the evidence for purely political purposes.

Finding: 2

The EDC WorkCover Report demonstrates why the Upper House is so badly in need of reform. With no independent thinking minor party or representation from Independents, the Committee reflects the huge majority of the Liberal and National Parties in the Upper House and has produced a report reflecting Liberal and National Party views only, using taxpayer funds. The EDC WorkCover Report and the GST No.2 Report should therefore be referred to the Special Committee investigating reform of the Upper House as examples of why a committee system under the current Upper House structure is of little value to the Parliament or the community.

Finding: 3

The Opposition refused to allow Committee members access to detailed breakdowns of premium calculations to assist witnesses or Committee members to understand the extent of increases or decreases in WorkCover premiums or to identify increases arising from the GST - even with the employer's consent. This gag on the Committee's operation compromised hearings, as the reasons for premium changes could not be discussed on the basis of facts.

Finding: 4

The refusal of the Liberal and National Parties to allow access to factual information on the make up of individual employers premiums - even with their consent - led to incorrect or misleading statements being made by some witnesses and by the Opposition. This led to exaggerated statements of WorkCover increases in many of the examples contained in the report.

Finding: 5

The Opposition failed to follow due process in seeking to bring a Lower House Minister before an Upper House Committee in order to avoid scrutiny of its operations in the Lower House and instead invited the Minister to attend very late in the process as part of a

political stunt. Given the way the Committee conducted the Inquiry the Minister's decision not to attend is justifiable.

Finding : 6

The additional costs born by small business for GST compliance were far_ greater (on average up to 22 times greater in the set up year and 11 times greater on an ongoing basis) than WorkCover Common Law related premium increases. The economic impact of the GST is therefore also far greater.

Finding: 7

The Committee was aware that WorkCover premiums will not rise for small businesses in 2001/2002 as announced by the CEO of WorkCover on 24_ May 2001 yet still made a finding that they would increase. The Committee's finding is incorrect in fact and mischievous in its intent.

Finding: 8

As in previous years the experience rated premium system which rewards employers with good safety records and provides increased premiums for those with bad ones was applied in 2000/2001. The system has been in place since 1993 and affects the premiums of large employers directly and smaller employers through movements in their industry rates. Despite this, testimony by employers complaining about increases related to their own poor safety records went unchallenged by the Opposition.

Finding: 9

Given historical data limitations the general increase in WorkCover premiums was the most appropriate means of funding the reintroduction of Common Law (and to cover GST costs). This was the most equitable means available, as employers or industries with higher premium levels as a result of poor experience ratings paid more because the 17 % increase was applied to their higher premium levels.

Finding: 10

Although the industry rate cap, which restricted the number of movements per year to one was removed, this in practice did not affect small businesses because of the 20% cap on increases in their premiums. For the very large businesses their own claims experience is a major determining factor.

Finding: 11

The rounding up of industry rates had the effect of slightly reducing the cross subsidy from large to small employers because the calculation of premiums for small employers relies on the industry rate rather than individual claims experience.

Finding: 12

While the intent of the decision to apply a 20% deeming rate to encourage employers to put in their remuneration is perhaps understandable, the recent decision of WorkCover to reduce this to 10% suggests that this may have been a more appropriate level. The reduction to 10% is therefore welcomed. The introduction by WorkCover of a 20% deeming rate as well as other changes, responsibility for which was accepted by the then CEO and Chairman Prof. Bob Officer, coincided with other Government policy changes in relation to Common Law, which increased premiums. In hindsight these changes were ill timed.

Finding: 13

There are a number of structured features of the WorkCover scheme which protect small business including a significant cross subsidy of approximately \$73.3 million, a 20% cap on premium increases, a threshold of \$15,500 and a cap on individual claims of \$156,800.

Finding: 14

Large employers' premiums are affected much more by their own claims experience under WorkCover and this has the effect of creating a significant incentive to reduce accidents in their workplaces, and consequently the experience related premium system which applies to them should be retained.

Finding: 15

The Opposition's criticism of budget sector and non-government organisation funding is unsustainable, as the process for funding Government departments and NGO's for the fluctuations in WorkCover premiums attributable to Government policy has remained the same for a number of years. However the failure of the Federal Government to provide compensation for WorkCover increases for the proportion of NGO activities funded by them, as the State Government had done, reduced the ability of NGOs and community organisations to provide services.

Finding: 16

The major causes of the recent blow out in unfunded liabilities in the Victorian WorkCover Scheme are: the mismanagement of Common Law claims under the Kennett government, the impact of the GST and the setting of an inappropriate premium rate between 1996 and 1999 that did not adequately cover the future liabilities of the scheme.

Finding: 17

WorkCover has put in place a number of strategies to improve communication with employers and industry groups and to improve workplace health and safety through prevention strategies and activities including 'WorkSafe' and 'Strategy 2000'.

Finding: 18

Many of the recommendations in the Opposition's report such as moving away from the succession rule, the apportionment of costs to prior employers and curtailing Claims Agents ability to settle claims without employer approval are not well thought out and are based on simply trying to get political kudos from some employers.

INTRODUCTION

Government members of the Committee have produced this Minority Report of the EDC in an effort to bring some balance to this Committee's reporting. This is the third minority report by Government members in the three reports that have been tabled in Parliament by this Committee.

The E.D.C is the first Upper House Parliamentary Investigatory Committee established in the Upper House and it reflects the fact that the Liberal and National Parties control the Upper House. With no independent thinking minority party or independent representation in the Upper House the E.D.C is effectively configured as four Opposition and three Government members with the chair also held by the Opposition.

The Committee's GST No.2 report and the Majority Report on WorkCover are very biased documents and are designed as political vehicles for the Liberal and National Party and not to inform the Parliament or the Public. The WorkCover Report is full of inconsistencies and politically motivated findings which undermine it and the committee's credibility. Because of this Government members did not support the WorkCover Report and a Minority Report has been provided instead.

This Minority WorkCover Report attempts to outline some of the material not included in the Majority WorkCover Report of the Opposition Parties and provides analysis of the bias and unsubstantiated conclusions contained in the material that is included in the Majority Report. This Minority Report was prepared in part while consideration of the Committee's draft progressed and had to be concluded over the weekend of 16 and 17 June 2001 in order to meet the deadline set by the Opposition. This tight deadline is an abuse of process and is not in keeping with allowing reasonable time for minority reports. Consequently, many of the inconsistencies contained in the Majority Report could not be fully addressed. The Report contains 75 divisions as a result of amendments moved and lost by the Government Members and these should be read alongside this Minority Report.

1. AN UNBALANCED REPORT

The Liberal and National Parties' Economic Development Committee report on WorkCover is unbalanced in its content, biased in its presentation, lacks proper verification for its findings and ignores much of the evidence presented to the Committee. It would not stand up to independent analysis or scrutiny. Large sections of the report simply repeat information provided from other sources or uses selective quotes from the public hearings to paint a misleading picture of WorkCover under the Bracks Government.

If the Committee's GST Report No 2 was a whitewash, as we strongly argued in our Minority Report, then this report is a political stunt. It is nothing more than an attempt by the Liberal and National Parties to try and get political mileage, particularly in country Victoria, to offset the negative images of them in these regions. But the fact that the Kennett policies of privatisation, compulsory competitive tendering, closure of rail services, schools and hospitals devastated country Victoria is not so easily forgotten.

Time and again we heard complaints during the public hearings in regional centres about closures of services by the Kennett Government and its affect on Business in those regions. Most importantly we heard of the devastation caused by the GST which most witnesses before the committee described as having a much greater affect than WorkCover premium rises. The average additional cost of GST compliance for small businesses was \$6000, according to the Economic Development Committee's own report (GST No.1 Report) while WorkCover average premium increases to cover Common Law for small businesses we estimate to be \$274 for the 95% of businesses with payrolls below \$650,000.

The Opposition Parties also completely ignored data on the average WorkCover premiums for all employers which even after recent increases still leaves Victoria (at an average of 2.22%) with low average premiums compared to other States. It simply focused on a few businesses that had larger than average increases which appeared before the committee. This procedure is unsound methodologically and biased politically.

To completely ignore the economic affects on Victoria of the GST which run into the billions of dollars and simply report the NIER study which estimates an impact on production from WorkCover premium increases of \$55 million (reducing to \$33 million in ten years) is to ignore the relative impact of WorkCover compared to other factors. This further illustrates the lack of balance of the Report. Based on figures in the Committee's own GST Reports, the cost of GST implementation for the estimated 192,000 small businesses (at an average cost of \$6000) is \$1.152 billion. Evidence received in compiling the GST No.2 Report suggested that ongoing costs would average approximately \$3000 per annum for small businesses which means the ongoing costs are an estimated \$576 million per annum

The Liberal and National Party Majority Committee report also largely ignores responses provided to questions from Government Members and reports only those arising from loaded questions from the Opposition Parties. This shows a total disrespect for the committee system. To fail to examine in cases where claims of very high premium increases were made, the information provided by the VWA, shows a disregard for even basic rules of analysis and verification. To fail to seek, consider or report the views of employees and not just a few employers shows a lack of balance.

Finding: 1

The EDC WorkCover Report is a document of the majority Liberal and National party Members of the Committee who used their numbers to produce an unbalanced,

biased and selective report which ignores much of the evidence for purely political purposes.

2. AN UNBALANCED UPPER HOUSE COMMITTEE.

To understand the bias and lack of balance in the Majority Report one needs to understand the structure of the E.D.C as the only Upper House Committee. The Economic Development Committee is an all-Party Parliamentary Committee of The Upper House. There are seven members of the committee. They are The Hon. Neil Lucas, Chairman (Liberal Party), The Hon. Theo Theophanous, Deputy Chairman (ALP), The Hon. Ron Best (National Party) The Hon. Geoff Craige (Liberal Party), The Hon. Kaye Darveniza (ALP), The Hon. John McQuilten (ALP) The Hon. Andrea Coote (Liberal Party). There are no Independents or independent thinking minor party Representatives on the committee as the system of election of the Upper House makes it almost impossible for this to occur.

The eight-year terms and electoral gerrymander has resulted in 30 serving Liberal and National Party members and 14 Government members in the Upper House. The Opposition and its ally the National Party not only control the Committee by 4 votes to 3 but the Upper House as well where this reference on WorkCover derived. If the Committees WorkCover Report or the GST No.2 Report is anything to go by The E.D.C. was clearly set up as a political tool of the Liberal and National Party.

On the 6th September 2000 the Economic Development Committee received a Terms of Reference by resolution of the Liberal and National Party dominated Legislative Council to inquire into WorkCover premiums for 2000-2001 in Victoria.

The Terms of Reference required the Committee to investigate and consider and report on WorkCover premiums for 2001-01, including:

- (a) the reasons for the level of those premiums;
- (b) the manner in which those premiums were determined, both in aggregate and for individual classifications and employers;
- (c) the impact which those premiums have had and can be expected to have on economic activity and employment in aggregate and in metropolitan, regional and rural Victoria;

- (d) the impact which those premiums have had and can be expected to have on the State budget and on the provision of services by Government departments and agencies, by local government and by non-profit and community organisations;
- (e) whether the Government can or should take action to reduce or compensate for any such adverse impacts; and
- (f) what changes should be made to the manner in which WorkCover premiums are determined in future;

and to provide an interim report to Parliament by 30 November 2000 and a final report to Parliament by 31 March 2001.

It is clear from the terms of reference which excluded such things as the impact on premiums of improved safety procedures, better return to work practices and better rehabilitation practices that this report was politically motivated from the beginning. Indeed the Liberal and National Parties used their numbers in the Upper House to specifically exclude such factors in the investigation of WorkCover.

The original intention of the Opposition Parties was to do a quick interim report by 29 November 2000 condemning WorkCover premium increases. As this became impossible due to delays in calling witnesses, a short interim report was tabled and the Committee focused on reporting by 31 March 2001 deadline. The Opposition decided to extend this deadline again hoping to gain the maximum political mileage by keeping the issue alive in a new round of visits to regional Victoria. In the meantime the WorkCover Authority had taken actions to assist small business and announced its own comprehensive review, all of which were disregarded by Opposition members.

As is evident from the Majority WorkCover Report and from the GST No.2 Report the Economic Development Committee is simply being used by the Liberal and National Parties as a political tool to try and somehow legitimise their criticism of Government or hide the failings of the Federal Government particularly on the GST/BAS.

The Government Members of the Committee recommended in our Minority Report on the EDC's GST Report No 2., that the report should be sent to the Special Committee on reform of the Upper House as an example of why the Upper House needs reforming. We think the same is true of this report, which is of little value to the Parliament or the community. Until we have an Upper House which reflects views in the community and a committee system which does likewise these reports, which are written essentially by one side of Politics, are of little value. Indeed the WorkCover majority report is arguably a political document prepared for the Liberal and National Parties at taxpayer's expense.

Finding: 2

The EDC WorkCover Report demonstrates why the Upper House is so badly in need of reform. With no independent thinking minor party or representation from Independents, the Committee reflects the huge majority of the Liberal and National Parties in the Upper House and has produced a report reflecting Liberal and National Party views only, using taxpayer funds. The EDC WorkCover Report and the GST No.2 Report should therefore be referred to the Special Committee investigating reform of the Upper House as examples of why a committee system under the current Upper House structure is of little value to the Parliament or the community.

3. REFUSAL TO CONSIDER INFORMATION ON PREMIUM CALCULATION

The Inquiry received a number of written submissions. But it also received many verbal submissions during public hearings around Victoria. The Government Members on the Committee argued that information which could be obtained from the VWA could usefully be used to assist witnesses in understanding the nature of their premium increases or decreases in terms of the various components of their bill. Unfortunately, the Committee chose to ignore this information which was prepared and provided by the VWA to the Committee to assist it in public hearings.

The information would have allowed the Committee to identify the reasons for changes in premium notices. For example increases could be because of increases in the employer's remuneration, or because of poor claims history or a poorly performing industry. The premium notices to employers included these factors as well as GST related increases. Although access to the breakdown of increases or decreases of employers appearing before the Committee was possible the Opposition Parties refused this

The reason given by the Opposition for not allowing the Committee access was that authority should be sought from witnesses prior to it being utilized by the Committee. However, the information provided was simply a breakdown of how the premium was calculated and in virtually all cases when Government members asked witnesses if they had any problem with the Committee accessing this information they answered, "No".

Not only was this information not used to assist witnesses and establish the facts surrounding movements in their premiums, in one case in Warrnambool one of the witnesses was asked whether the VWA representative at the hearing could hand information about how his premiums were calculated to the Committee. The employer enthusiastically agreed to this but the Chair refused to allow it. Dissent was moved from the Chair and failed on a 4 to 3 split vote.

This process of not having information on premium calculation at hand led to a great deal of misinformation being provided to the Committee. The Committee had no way of verifying whether the information being provided was accurate or if allegations about why particular increases or decreases had occurred were correct. The gag on accurate information shows clearly that the inquiry was a blatantly political exercise.

We have provided an example of the sort of information the VWA had available but committee members could not access even with the permission of the employers that were providing evidence. As can be seen by the information contained in this example, there are many factors that go towards premium calculation. The employer in the example provided could have given evidence that his premium had increased by \$356,748 on the previous year. In fact when one discounts for the GST component which is refundable the increase is only \$206,085. If one also discounts for the increase in remuneration and the further GST cost one can see that the WorkCover related increase was only \$172,480 which is less than half of the total increase listed.

Without this information to hand the Committee had no way of explaining the increases let alone gaining an accurate assessment of what the real WorkCover related increases were.

Finding: 3

The Opposition refused to allow Committee members access to detailed breakdowns of premium calculations to assist witnesses or Committee members to understand the extent of increases or decreases in WorkCover premiums or to identify increases arising from the GST - even with the employer's consent. This gag on the Committee's operation compromised hearings, as the reasons for premium changes could not be discussed on the basis of facts.

REPORT INTO WORKCOVER PREMIUMS FOR 2000/01

Example of information provided to the Committee by WorkCover, but not used.

WorkCover Premium Components	Details	Premium Increase 1999/2000 to 2000/2001
Remuneration Remuneration is made up of all The elements of your business' s Payroll and includes wages, Salaries, overtime and loadings, Bonuses, commissions, Allowances, fringe benefits, in kind Payments and superannuation.	Your remuneration for 2000/01 is \$31,010,637 (Estimated) This was \$186,086 higher than your Latest 1999/2000 remuneration at the Time of calculation.	\$7,851.34
WorkCover Net Premium Rate The WorkCover Net Premium Rate calculated for your business Takes into account: The Industry Rate for your Workplace which reflects the Experience of the WorkCover Industry Classification (WIC) to Which the workplace has been Classified; Experience at your workplace, and The remuneration deductible, Which is an amount of \$15,500 Deducted from your 2000/2001 Remuneration prior to calculating Your WorkCover premium.	The industry rate for WIC XXX Decreased one category from 2.70% to 2.23%; -For WIC XXX increased by one category from 0.59% to 0.71%; -For WIC XXX did not change from 2.23% -For WIC XXX - decreased by one category from 0.59% to 0.48%; -For WIC XXX - increased by seven categories from 0.86% to 3.26% -For WIC XXX did not change from 2.23% Your Individual Experience – Claim costs of \$ 526,629. Taking these factors into account your WorkCover Net Premium Rate is 4.1525% - a decrease calculated at -2%.	-\$20,679.11
Legislative Package It was one of the Government's Key election promises to restore Common law rights to seriously Injured workers. That reform and Changes to other benefits resulted in an increase in the average premium of 15% - from 1.9% to 2.18%.		\$193,158.25
Federal Government's New Tax System Changes to the Federal Tax system have increased the costs of some medical and legal services provided by WorkCover to injured workers. WorkCover will also pay GST on certain benefits which cannot be claimed back. This has resulted in a further increase of 2%.		\$25,754.43
Total Increase in WorkCover Premium		\$206,084.91
Latest calculated 1999/2000 Initial WorkCover Premium Increase 2000/01 Premium (explained above) 2000/01 Initial WorkCover Premium GST		\$1,300,549.45 \$206,084.91 \$1,506,634.36 \$150,663.44
TOTAL PREMIUM (Before Discount)		\$1,657,297.80

(Page 51 WorkCover Submission)

4. EXAMPLES OF MISINFORMATION IN PUBLIC HEARINGS

In the limited time made available to Government members to produce a Minority report we have been able to select just a few examples of misinformation provided to the Committee which could have been cleared up on the spot if access to WorkCover information about premium calculations had been allowed.

Geelong Hearings

The City of Greater Geelong submitted that its premium had gone up. In fact the calculation of its initial 2000/2001 WorkCover premium indicated that its premium had gone down by over \$200,000.

At the time that the Council provided its submission the Chair of the Committee refused to accept data provided by WorkCover that would clarify the Council's WorkCover premium even though the City of Geelong is not a private sector employer and its premiums should be a matter of public record.

Warragul Hearings

During the public hearings in Warragul an active member of a local Liberal party branch gave evidence that his company's WorkCover premium would make it much more difficult to employ people. He suggested that he could employ more people were it not for the WorkCover increases. When questioned how much the company's premium had actually gone up the Committee was advised that the company's premium had increased by only \$125.00. Mr Theophanous, on behalf of Government members offered to give the company \$125.00 if it would employ two more staff. The company declined. This type of submission simply added to the impression that the Opposition Parties Inquiry was a purely political exercise.

Portland Hearings

An employer in Portland (Keppel Prince Engineering Pty Ltd) stated that its premium had stayed about the same between 1999/00 and 2000/01 and that the premium was in excess of \$600,000. In fact the company's premium was around \$100,000 less than the previous year (confirmed premium) and was approximately \$535,500. The Committee, remained ignorant of these inaccuracies during the hearing.

Warrnambool Hearings

During the Warrnambool hearings the Hon. Theo Theophanous asked one of the employers giving a submission whether they minded if WorkCover provided information to the Committee while the employer gave their submission. Information prepared by WorkCover was handed over and used in the ensuing questions to the employer, enabling an informed discussion and questioning to occur.

The second time that Mr Theo Theophanous asked one of the employers giving a submission if WorkCover could provide information to the Committee at that time, the Chair of the Committee, Mr Neil Lucas, refused. The Chair would not allow the information to be provided even though the employer had agreed that it could be provided. Mr Theo Theophanous moved dissent in the ruling and the committee met *in camera* where the Opposition members used their numbers to apply the gag.

Finding: 4

The refusal of the Liberal and National Parties to allow access to factual information on the make up of individual employers premiums - even with their consent - led to incorrect or misleading statements being made by some witnesses and by the Opposition. This led to exaggerated statements of WorkCover increases in many of the examples contained in the report.

5. THE MINISTERS NON-APPEARANCE BEFORE THE COMMITTEE

The Opposition members have sought to make an issue of the WorkCover Minister Hon. Bob Cameron's non-appearance before the Committee. The appearance of a Lower House Minister before an Upper House committee actually presents a number of legal and constitutional issues. In its investigation of these issues the Committee received advice that it had no power to call a Lower House Minister before it. It was informed that for this to occur a motion of the Upper House would need to be passed requesting the Lower House to authorise or request the Minister to attend. The Opposition failed to pursue this course of action fearing that any debate on the operations of this Committee in the Lower House would uncover the bias and inappropriate use of the Committee by the Opposition.

The Opposition was never serious about inviting the Minister, even on a voluntary basis, to appear before the Committee. This is evident from the fact that although the Committee had been holding public hearings since November 2000, it did not request

that the Minister attends a hearing until 23 April 2001. Clearly the Opposition did not wish to give the Minister a genuine opportunity to attend a hearing given its inquiry had been proceeding for some 6 months and it had provided two interim reports before it invited the Minister to attend.

In fact, the Minister's office had insisted on full cooperation with the Committee by the VWA and much of the information contained in the report is derived from those sources. Information was provided on all witness's premiums, but as already noted this was completely ignored. Moreover, both the Chairman and CEO of WorkCover were encouraged to and did attend hearings of the Committee and provided information.

Finding: 5

The Opposition failed to follow due process in seeking to bring a Lower House Minister before an Upper House Committee in order to avoid scrutiny of its operations in the Lower House and instead invited the Minister to attend very late in the process as part of a political stunt. Given the way the Committee conducted the enquiry the Minister's decision not to attend is justifiable.

6. THE GST AND WORKCOVER

Many of the employers that gave public submissions to the Committee also commented on the impact of the GST on their business. Generally employers indicated that the GST had a much greater detrimental impact on their business compared to WorkCover premium increases. Some examples follow:-

***Ms Darveniza** – Is it true that the introduction of the GST has been a much greater cost burden to you than the introduction of common law in WorkCover?*

***Mr Dietrich** – Definitely. (page 422 Hansard) Sale*

***Mr Abbott** – I run four dry-cleaning businesses. Two are dry-cleaning plants, which means we process the work there, and two are dry shops. We have been in business since 1962. We are struggling a bit at the moment, but that is because of the GST. There is a bit of a backlash because prices have gone up, but we hope to remain in business for a few more years to come. (page 231 Hansard) Moorabbin.*

***Ms 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. (page 337 Hansard) Moe.

This evidence and many others were completely ignored by the Committee. Nor was any attempt made to quantify the relative impact of GST and WorkCover increases on business. This is despite the fact that the Committee's own research contained in its GST Report had shown that the impact on small business of the GST was \$6000 and for medium business \$19,000. Further evidence gathered during the GST No.2 inquiry suggested that these costs would continue at a level of \$3-4000 per annum for small businesses. The resulting economic impacts on Victoria would of course run into the billions of dollars.

By comparison the WorkCover increases and their effects on the economy were very small. The average increases for small businesses arising from WorkCover were a fraction of GST compliance costs but this analysis was excluded from the Opposition's Report. Instead their analysis focused on the NIER report which identified economic impacts of WorkCover premium increases as \$55 million reducing to \$33 million over 10 years. But as already noted the Opposition's Report failed to record the costs to Victorian small business of the GST which we estimate to be \$1.152 billion in establishment costs (based on \$6000 average) and at least \$576 million in ongoing costs (based on \$3000 average).

In terms of the 192,000 small businesses (those with payrolls of less than \$650,000, which make up 95% of businesses) their premium increases to cover the introduction of Common Law amounted to \$274 on average. However, the average cost to these small businesses of GST compliance was \$6000 and \$3000-4000 per annum in ongoing costs according to evidence received by the Committee. In the set up year GST costs to small businesses were therefore 22 times greater than WorkCover Common Law related increases and 11 times greater on an ongoing basis.

Finding : 6

The additional costs born by small business for GST compliance were far_ greater (on average up to 22 times greater in the set up year and 11 times greater on an ongoing basis) than WorkCover Common Law related premium increases. The economic impact of the GST is therefore also far greater.

7. SCARE TACTICS ABOUT FUTURE INCREASES

During the hearings the Opposition continually tried to scare employers by suggesting that they might suffer similar increases in following years to what they had experienced in the 2000/2001 year. This is contrary to Government announcements. The lack of rigor of the Opposition, and its attempt at scare mongering can be seen in the fact that they made a finding to the effect that " smaller employers classified under any of the 66 industry groups that experienced multiple industry rate rises in 2000/2001 will continue to experience 20 percent premium rate increases in future premium years".

This finding is wrong in fact. First some of these industry rates may come down in future years, but secondly and most importantly, it does not take into account the announcement by WorkCover that it would effectively freeze increases in rates for small business in 2001/2002.

On 24 May 2001, The CEO of WorkCover Mr Bill Mountford announced the following -

“the Authority had approached the premium setting process for 2001/02 with an emphasis on providing stability and certainty for Victorian business – particularly small business.

“As a direct result of this decision, almost 96 per cent of Victorian businesses will incur no increase in their WorkCover premium rate.

“Under the system which has been in place since 1993, a significant number of small businesses incur an automatic increase of 20 per cent in their premium rate each year as they gradually move to the ‘true risk rate’ for their industry.

“Had we continued this system for 2001/02, more than 65,000 Victorian businesses would have received an automatic premium rate increase, irrespective of their individual claims experience.

“However, after consulting widely with small business we have decided to minimise year-on-year changes to WorkCover premium rates.

“For 2001/02 businesses with annual remuneration of \$1 million or less will pay the same premium rate as they did for 2000/01.

“The larger a business becomes, the more its individual performance affects the way its premium rate is calculated.

“The Authority has consulted widely with the business community to identify what information employers require – and how it should be presented – to better understand the WorkCover premium.” (Press Release 24 May 2001, Victorian WorkCover Authority)

Finding: 7

The Committee was aware that WorkCover premiums will not rise for small businesses in 2001/2002 as announced by the CEO of WorkCover on 24_ May 2001 yet still made a finding that they would increase. The Committee’s finding is incorrect in fact and mischievous in its intent.

8. PREMIUM SETTING FOR 2000/ 2001- THE FACTS

A number of factors affected the setting of premiums for 2000/2001. These are discussed below.

(a) Experience rated premium system

The experience rated premium system was established in 1993. Its effect is that if there is a change in experience (either for an employer or an industry) then the premium paid by affected employers will change each year to reflect these movements. Some employers will have higher increases, others will have lower increases, and some employers will have a premium reduction. The extent of premium rate

increases or decreases will be determined by factors such as an employer's own experience (for large employers) or their industry experience (for small employers).

The experience rated premium system was applied in 2000/2001 as it had been applied in previous years but the Opposition sought to consistently make political points when increases were reported during hearings that were related to poor experience ratings. It was left to Government members to point out that the best way for those employers with poor safety records to reduce their premiums was to reduce accidents in their workplaces.

Finding: 8

As in previous years the experience rated premium system which rewards employers with good safety records and provides increased premiums for those with bad ones was applied in 2000/2001. The system has been in place since 1993 and affects the premiums of large employers directly and smaller employers through movements in their industry rates. Despite this, testimony by employers complaining about increases related to their own poor safety records, went unchallenged by the Opposition.

(b) Common Law Rights for injured workers

There was a general increase in premium rates in 2000-2001 due to the implementation of the Victorian Government's election commitment to return Common Law rights to injured workers and the Federal Government's decision to introduce a New Tax System, including a goods and services tax (GST).

An independent actuary that worked with the tripartite Restoration of Common Law Working Party determined the cost of reintroducing Common Law benefits. On the basis of the Working Party's finding, the WorkCover Board recommended to the Government that the average premium rate be increased from 1.9 per cent of remuneration in 1999-2000 to 2.22 per cent of remuneration for 2000-2001 — a 17 per cent increase in the average premium rate. This 17 per cent increase was made up of:

- A 15 per cent increase to cover the costs of the new benefits package and returning the scheme to full funding; and
- A 2 per cent increase to cover the flow-on effects of the New Tax System on Work Cover's costs.

In addition to the general increases in 2000-2001 a 10 per cent GST was included in employers' WorkCover premiums which in most cases could later be claimed back from the Federal Government.

To ensure equity among employers, the premium for 2000-2001 was calculated by applying the normal experience rating system, and then applying a 17 per cent general increase to all employers' premium bills.

The Opposition suggested that this was inequitable arguing that more of the cost should have been born by employers with poor safety records. This is a flawed argument on two counts. First, employers had no recent history of common law claims on which to base an assessment. Second, those employers with poor safety records and higher premiums did pay more as they paid 17% of a much higher premium. This is another example of flawed methodology in the Committee's Report.

The Opposition simply ignored these basic facts. In the Report they indicate that the Committee accepts the rationale of WorkCover for the implementation of a general increase as "the most appropriate means of funding the introduction of common law. " But they then go on to make a finding: "that general increases to premium rates that effect all employers, such as the one implemented in 2000/01 to fund the reintroduction of common law interfere with the financial incentives that are a crucial component in an experienced based workers compensation scheme." As already noted, individual employers and industries with poor records did pay more because they paid 17% of much higher premiums so the finding appears to run counter to the facts.

Finding: 9

Given historical data limitations the general increase in WorkCover premiums was the most appropriate means of funding the reintroduction of Common Law (and to cover GST costs). This was the most equitable means available, as employers or industries with higher premium levels as a result of poor experience ratings payed more because the 17 % increase was applied to their higher premium levels.

(C) Capping

In 2000–01 the industry rate which restricted the number of movements per year to one was removed. The purpose stated by WorkCover for this was to increase transparency so that companies could see the true risk rate involved with their activities.

This meant that of the 518 industry groupings, 243 were unchanged or lower, 209 moved up by one category, and 56 moved up by two or more categories. However small and many medium sized businesses (those with less than \$10 million payrolls) were not affected by multiple increases in their industry rates (reflecting the true industry risk). This is because a 20% cap was applied on increases for these businesses. This effectively limited their increase to one movement as in previous years. The increase in industry rates did have some affect on large businesses but this was also mitigated by the fact that for those businesses their own experience is a major determining factor on premiums. It should also be noted that the 20% cap on small business increases was applied before the 17% general increase for

common law and GST was applied. According to WorkCover this was to ensure that employers with deteriorating experience would bear a fair share of premium increases.

Finding: 10

Although the industry rate cap, which restricted the number of movements per year to one was removed, this in practice did not affect small businesses because of the 20% cap on increases in their premiums. For the very large businesses their own claims experience is a major determining factor.

(d) Rounding up of industry rates

As part of the progressive removal of the cross-subsidy that has been occurring since 1993, WorkCover increased a number of industry rates in 2000-2001. This was achieved by varying the way in which an industry's true risk rate was translated to an industry premium rate. The industry's underlying risk (eg claims cost divided by remuneration) is used to allocate industries to an industry premium rate. For 2000-2001, the convention of rounding the true risk rate to the nearest premium rate (ie some were rounded up and some were rounded down), was varied, and all rates were rounded up to the next nearest premium rate. This change in methodology has resulted in a further reduction in the level of cross-subsidy of small and medium businesses, within the premium system. But despite these changes, a significant cross subsidy still exists in the system from large to small employers estimated by WorkCover to be \$73.3 million. This represents about a 1% decline in cross subsidy (see discussion in Section 9).

During the enquiry and in a recommendation the Opposition argued that the decision on rounding up should be reversed. However this would have the effect of increasing the cross subsidy which seems undesirable as confidence by larger businesses that they are being fairly treated in terms of their proportion of total WorkCover premiums could be undermined.

Finding: 11

The rounding up of industry rates had the effect of slightly reducing the cross subsidy from large to small employers because the calculation of premiums for small employers relies on the industry rate rather than individual claims experience.

(e) Deeming of Remuneration

WorkCover indicated to the Committee that deeming arrangements were changed in 2000/01 to encourage accurate reporting of remuneration estimates by employers. Sixty-eight per cent of employers advised WorkCover of their estimated remuneration as at 30 November 2000. The premiums for the remaining 32% of employers were based on a deemed 20 per cent increase in remuneration over the previous year. Employers affected by this change, however, were able to provide revised, lower estimates of remuneration and this would be used to recalculate premiums and to issue refunds. Many employers did precisely this and in any case any excess premiums paid are refunded at the end of the

financial year, when employers certify their remuneration for the year. WorkCover has since decided for 2001/2002, to reduce the deeming rate from 20 per cent to 10 per cent.

Responsibility for recommending the deeming changes as well as changes to industry rates at the same time as common law and GST increases was accepted by Prof. Bob Officer, who was both Chairman of the Board and CEO of WorkCover when these decisions were made. The Committee questioned Prof. Officer, as to why the changes were introduced in the 2000/2001 year when they could have been introduced in previous years under the previous Government. Why had the Board had not recommended their introduction earlier. The questioning was important given that Prof. Officer was Chairman of the Board for a number of years under the previous Government. Prof. Officer offered this explanation:

“Prof. OFFICER – From my perspective my guess is that because the premium increases were going to be large this period, this was an opportunity to try to get through the message that some industries are not reflective of their true rate or experience.”

This comment suggests that the Board and WorkCover under the stewardship of Prof. Officer decided to recommend changes which affected premium notices, over and above those required to fund common law by capitalising on the opportunity afforded by higher premiums as a result of GST and Common Law. In hindsight these decisions were ill timed.

Finding: 12

While the intent of the decision to apply a 20 % deeming rate to encourage employers to put in their remuneration is perhaps understandable, the recent decision of WorkCover to reduce this to 10% suggests that this may have been a more appropriate level. The reduction to 10% is therefore welcomed. The introduction by WorkCover of a 20 % deeming rate as well as other changes, responsibility for which was accepted by the then CEO and Chairman Prof. Bob Officer, coincided with other Government policy changes in relation to Common Law, which increased premiums. In hindsight these changes were ill timed.

9. EFFECTS ON SMALL EMPLOYERS

(a) Industry rate effects

WorkCover submitted to the Committee that of the 201,300 employers registered with WorkCover, 94 per cent are small employers with less than 20 employees. The rate applying to their industry drives the premium rate for small employers almost totally. Small employers' own claims experience makes up 1 per cent or less of their premium.

A critical factor in determining small employers' WorkCover premium bills is the industry rate. If industry rates increased in 2000-2001, then the employer's premium increased by more than the 17 per cent average increase applied to all employers to cover common law and WorkCover GST costs.

In 2000-2001, WorkCover increased about 53 per cent of industry rates affecting 40 per cent of total remuneration. This compared to 35 per cent of rates increasing in 1999-2000, and 51 per cent of rates increasing in 1998-1999. Thus while some small businesses experienced increases as a result of industry rate movements others experienced declines. But as stated earlier all small employers and many medium sized ones were capped to a maximum increase of 20% that largely shielded them from the effects of multiple rate increases.

(b) Cross subsidies from small to large businesses

Since about 1995-96 or 1996-97 there has been a relatively constant level of cross-subsidy in the scheme. It is now sitting at around \$73.3 million as the cross-subsidy from big business - from those whose premium is predominantly derived from their own claims experience - to small business. Put a different way, small businesses (below \$1million) would be about 94 or 95 per cent of total businesses in Victoria, and they are paying around 27 per cent of total premium. Therefore, small business is paying 27 per cent of total premium, compared to their cost, which is 32 per cent. There have been only small reductions in the cross-subsidy over the last few years.

Last year larger employers paid a larger cross-subsidy by about \$2 million than they did in the previous year, and in percentage terms of total remuneration this amounts to 1 per cent decline in the cross subsidy to small employers.

(c) Features of the Scheme that protect small business

There are a number of features of the WorkCover scheme that protect small employers from substantial premium rate increases. These include:

- Rate rises are capped to 20 per cent year on year for small employers – larger caps apply to large employers;
- The lower weighting given to current experience in the setting of premiums for small employers. This protects these employers from major fluctuations in premiums which may otherwise result from a single workplace accident;
- The premium rate is applied to the employer's annual remuneration less \$15,500. Small employers benefit relatively more from this threshold;

- Employers with remuneration below \$7,500 do not pay premium but are covered by workers' compensation insurance (see section 9); and
- Costs above \$156,800 for an individual claim are not included in the employer's costs of claims.

Finding: 13

There are a number of structured features of the WorkCover scheme which protect small business including a significant cross subsidy of approximately \$73.3 million, a 20% cap on premium increases, a threshold of \$15,500 and a cap on individual claims of \$156,800.

10. EFFECTS ON LARGER EMPLOYERS

About 1 per cent of the employers registered with WorkCover are large employers, ie employers with a payroll of \$4 million or more. For large employers a greater proportion of their own claims experience is used for premium calculation and the larger the employer the greater the effect of their own claims experience. These very large employers account for about 50 per cent of total premium income collected by WorkCover.

As it is the case that for large employers their own claims experience has a greater impact on the premium they pay, improvements in their own claims performance can offset the impact of an increase in industry rates on premiums. As noted earlier these employers do however, cross subsidize smaller businesses in the premiums collected by WorkCover. The 17% general increase to cover WorkCover and GST also applied to these larger employers which means they are bearing a significant proportion of the overall costs of funding the WorkCover system.

Finding: 14

Large employers' premiums are affected much more by their own claims experience under WorkCover and this has the affect of creating a significant incentive to reduce accidents in their workplaces, and consequently the experience related premium system which applies to them should be retained.

11. EFFECT ON BUDGET SECTOR

The 2000/2001-budget update stated that there had been budget supplementation for WorkCover premiums of \$20.5 million for departments and \$6.9 million for non-government organisations. There are eight large government departments that are employers for WorkCover purposes, and there is a cluster of budget sector organisations that lie underneath those portfolios and departments.

As was indicated in the Budget Update, in October 2000 additional funding supplementation for the effects of the WorkCover increases attributable to common law were dispersed in October.

The process for funding Government departments for the fluctuations in WorkCover premiums attributable to Government policy has remained the same for a number of years. Recent Governments have generally accepted submissions for supplementary funding to departments and agencies where the premium increases are not within departmental or management control.

In 2000/2001 Workcover premiums for the budget sector increased from \$127.5 million in 1999/2000 to \$176.1 million. This was an increase of approximately 38 per cent.

This aggregate budget sector increase sum of \$48.6 million, can be broken up as follows: \$2.7 million of additional state expense was due to remuneration increases through payroll across the budget sector, \$6.7 million of the increase was due to claims experience, \$20.5 million was attributable to the new benefits package, \$2.7 million was due to the insurance related aspect of GST, and \$16 million of the increase was due to the 10 per cent GST.

No additional funding was provided for deteriorating claims experience or for movements in industry rates as has been the case for many years. The Opposition at first suggested that the process had somehow changed and later, that it would have to change in future years because of budget allocations in the forward estimates. Clearly, the process of budget allocations and budget bids will continue in future years.

The government also provided \$6.9 million in budget supplementation for approximately 3500 non-government organisations that received funding through the Department of Human Services. The allocation of that \$6.9 million was determined by the Department of Human Services according to the service contracts that it has in place with those agencies.

Despite this additional funding for NGO's, the Opposition insisted that they should also receive funding for increases in premiums unrelated to Common Law, including that they should be funded outside their service contracts for activities involving service contracts with others including the Commonwealth. They used their numbers to obstruct any reference to the Federal Government and its responsibilities.

Finding: 15

The Opposition's criticism of budget sector and non-government organisation funding is unsustainable, as the process for funding Government departments and NGO's for the fluctuations in WorkCover premiums attributable to Government policy has remained the same for a number of years. However the failure of the Federal Government to provide compensation for WorkCover increases for the proportion of NGO activities funded by them, as the State Government had done, reduced the ability of NGOs and community organisations to provide services.

12. FINANCIAL POSITION OF THE WORKCOVER SCHEME

The Chairman of the WorkCover Board, Mr James MacKenzie and CEO of WorkCover, Mr Bill Mountford provided the Committee with information regarding WorkCover's current financial position. They advised that the impact of the GST had resulted in an increase in the liabilities of WorkCover by \$250 million: \$57 million of this was identified in the June valuation and incorporated in the premium, and an additional \$190 million has been identified in the most recent valuation. This has contributed to delaying the time frame within which the scheme is expected to return to a fully funded basis.

According to the Chairman of the WorkCover Board, at the December 2000 valuation the unfunded liabilities of WorkCover were \$1 billion, and the growth to \$1 billion was, in substance, due to the poor management of old common-law claims as well as to the GST. The most recent increase in common-law liabilities was as a result of the surge of claims for workers injured pre-1997 that occurred last year. This surge added over 3000 claims to WorkCover's liabilities, all relating to incidents which occurred between 1992 and 1997 under the Kennett Government

Mr MacKenzie advised the Committee that the independent actuarial valuations at 31 December 2000 describe the old common-law scheme as being out of control. He said:-

"In a common-law scheme that is — to use their words, not our words — literally out of control, the authority did not have an idea of the activity that was coming through the pipeline. It is not something that could have been reasonably anticipated. But if we had the proper systems in place it would have been. Many of the claims involved with that surge are working through the system now. They have not been settled, so we do not know. We have an estimate of the cost but

we do not know because we have to wait to see how many claims are rejected, how many are accepted, and the average cost of those. The actuaries have made estimates of those based on experience. Included with the confirmation of premiums this year would be old common-law claims that had been settled over the course of this financial year.” (page 686 Hansard)

Mr McKenzie’s statement represents an indictment of the management of WorkCover under the Kennett Government and shows the folly of reducing premiums to 1.9% under that Government which is largely responsible for sending WorkCover into the red. The Opposition refused to include a written statement to the Committee by the Minister to that effect.(See divisions)

Mr MacKenzie and Mr Mountford advised the Committee of the steps that have since been taken by WorkCover to manage common law through its new Common Law Unit. Mr MacKenzie also informed the Committee that at the June valuation of WorkCover’s liabilities it was estimated that they were standing at \$4.8 billion. However, this did not include the \$387 million increase, which was a result of the surge in old Common Law claims. The new component of the liabilities in the December valuation was the \$277 million for changes in economic assumptions, of which, \$190 million, the single largest component was due to the GST. Despite the increase in liabilities, the actuaries indicated that the current premium is appropriate, and both actuaries engaged by WorkCover have advised that the scheme would return to a fully funded basis by 2006 on a status quo basis.

It is clear from the new information provided to the committee and outlined above that the decisions of The Kennett Government appears to have had a significant affect in increasing the unfunded liabilities of the Victorian WorkCover Scheme. When questioned in relation to this Mr MacKenzie gave the following evidence to the Committee:-

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

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

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

Mr MacKENZIE — Yes, the unfunded liability would have been less than what it is today. (p.693 Hansard)

Finding:16

The major causes of the recent blow out in unfunded liabilities in the Victorian WorkCover Scheme are: the mismanagement of Common Law claims under the Kennett government, the impact of the GST and the setting of an inappropriate premium rate between 1996 and 1999 that did not adequately cover the future liabilities of the scheme.

13. IMPROVING THE SCHEMES PERFORMANCE

According to the Chairman of the WorkCover Board, Mr James MacKenzie, in recent times there has been little reduction in the number of traumatic workplace injuries. Over the past 10 years there has been no significant reduction in work-related deaths and there has been little change in the rates of return to work after injury. The financial position of the scheme has also been declining for at least the past five years.

In order to improve its performance in these areas WorkCover must increase the emphasis on prevention and develop a more effective claims management model. We note that the Authority has already taken positive steps in this regard with the announcement of its strategy 2000 blueprint.

Recently WorkCover has also organised its activities into two business units, compensation and occupational health and safety and announced the new badge under which its occupational health and safety activities will operate – WorkSafe. This should provide a clearer focus on preventative measures to reduce the incidence of workplace accidents and to regulate breaches of the occupational health and safety Act.

Another area of criticism of WorkCover has been in its communication with employers and the community generally. This was recognised by the new Chairman James MacKenzie, who advised the Committee that:

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

WorkCover indicated its determination to the Committee to improve communication with stakeholders particularly in relation to premium reviews and premium setting.

Finding: 17

WorkCover has put in place a number of strategies to improve communication with employers and industry groups and to improve workplace health and safety through prevention strategies and activities including 'WorkSafe' and 'Strategy 2000'.

14. INAPPROPRIATE RECOMMENDATIONS

Many of the recommendations contained in the Liberal and National Parties Majority Report are clearly inappropriate. It is impossible to discuss all of these in detail given the length of time that was provided to produce the Minority Report.

In one such case the Opposition in the Report recommends that WorkCover investigate the allocation of costs of long term or degenerative injury claims amongst a number of employers where more than one workplace may have been involved. The apportionment of costs would however, rely on determining what proportion of the injury occurred in various workplaces and pit one employer against another. It would lead to challenges including legal challenges between employers and blow out the costs in the system.

Another recommendation to provide employers with an opportunity to contest the claim of the employee even when the Claims Agent wishes to settle the case is also dubious. It was suggested by Government members that perhaps if this was to be introduced it should also be the case that if an employer insists on going to court when the Claims Agent has secured an agreed settlement, then that employer should pay the difference if they lose the case. This was rejected by the Opposition, preferring instead to insist that employers be given a right to persist in going to court even if in cases where they lose the extra costs would have to be born by other businesses.

A third recommendation related to insisting that WorkCover somehow relax the succession rule particularly in the case of takeovers. Government members moved the following alternative finding which was lost:

'the Committee finds that the succession rule serves a valuable purpose by negating the opportunity for employers with poor claims records to start afresh with lower premiums under a new business name. The Committee further finds that while employers with good claims histories may be disadvantaged if they take over a company with a worse claims record than their own, they may equally be advantaged if they take over a company with a better claims record. The Committee therefore finds that these issues are a part of normal commercial considerations during takeovers.'

The Opposition rejected the Government members suggested finding and persisted with recommending changes to the succession rule.

Finding: 18

Many of the recommendations in the Opposition's report such as moving away from the succession rule, the apportionment of costs to prior employers, and curtailing Claims Agents ability to settle claims without employer approval are not well thought out and are based on simply trying to get political kudos from some employers.