

# CORRECTED VERSION

## ECONOMIC DEVELOPMENT COMMITTEE

### Inquiry into Workcover Premiums for 2000–01

Melbourne – 27 November 2000

#### Members

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

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

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

#### Staff

Executive Officer: Mr R. Willis  
Research Officers: Mr M. Ryan and Ms K. Ellingford

#### Witnesses

Professor R. Officer, Chairman; and  
Mr B. Mountford, Chief Executive Officer, Victorian Workcover Authority.

**The CHAIRMAN** — I declare open this meeting of the Economic Development Committee. The committee has before it a reference from the Parliament asking it to look into Workcover premiums for 2000–01 under six headings. I will not go through the details of the terms of reference; they are on the Internet for anybody who wishes to read them.

The Economic Development Committee is an all-party investigatory committee of the Legislative Council. I wish to advise all present at these hearings that all evidence taken by this committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act. Comments made by witnesses outside the committee's hearing are not protected by parliamentary privilege. We have a request from a journalist who wishes to use a tape recorder if we have no objections. There are no objections.

We have received from the Victorian Workcover Authority (VWA) a detailed submission, for which we are grateful. I propose for you to give us an overview of the document, and we may have some questions as we go along. I am aware that your submission initially addresses the first two points in our terms of reference and that you have made a comment indicating that the authority would be happy to give further advice and suggestions in relation to the last section of our reference, which concerns the future.

The committee has not resolved on this, but I expect we will have a few more discussions with you before this reference is completed. You will appreciate that the establishment of premiums can be quite confusing to somebody who has not had anything to do with them before and most of the members of the committee are in that position. Over time I hope to get us as up to speed as we can be in relation to what happens at the Victorian Workcover Authority and how the premiums are set. We will collect evidence over the next month or two and we may then ask you to come back and have at least one more hearing with us. We might be better able to ask appropriate questions at that stage.

**Prof. OFFICER** — We welcome this opportunity, because as you pointed out the setting of the premiums is not a straightforward matter — there are a lot of issues there. We welcome the opportunity to try to throw light on how it is done.

The Victorian Workcover Authority is, among other things, an insurance business that operates in a commercial manner. It is one of Australia's largest insurance businesses with annual revenue in excess of \$1.8 billion. It provides levels of benefits as determined by the Victorian Parliament. It collects premiums from Victorian employers to provide the insurance cover which enables those benefits to be delivered to employees who suffer workplace injury or disease. It is a requirement that the authority operate as a prudent, self-sustaining business.

When levels of benefits provided change, premiums change accordingly to enable them to be funded. Of course, the authority does this in accordance with the principles set out in the Accident Compensation Act. Some of those principles are: to reduce the incidence of accidents and diseases in the workplace, to provide adequate and just compensation for workers, to ensure workers compensation costs are contained so as to minimise the burden on Victorian business, to establish incentives that are conducive to efficiency and discourage abuse; and to establish and maintain a fully-funded scheme.

I would like to hand over to the chief executive officer of the authority, who will take you through some of the details associated with the premiums.

**Mr MOUNTFORD** — 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. At the same time, the established drive to minimise cross-subsidies and unnecessary costs to the system continued. Even after applying the increases, Victoria's system is competitive with most other states.

In order to fund the increased benefits and meet the cost of the new tax system Workcover premium rates increased 17 per cent in 2000–01. This provided for the costs associated with the new legislative package, including the reintroduction of common law and increased benefits, returning the system to a fully-funded status and the costs associated with the new tax system. Accordingly, the average premium rate for 2000–01 increased by 17 per cent of total Victorian remuneration.

To ensure that we arrived at a premium recommendation that was both fair and equitable and consistent with the aims of the authority, which the chairman of the authority outlined, Workcover considered a number of options. We need to begin by saying that the setting of the Workcover premium is, as Mr Chairman suggested, a large and complex undertaking. The general premium increase for 2000–01 represented the biggest single change to the system since the early 1990s. In order to reach its final recommendation Workcover investigated a number of premium 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. At the same time, the established drive to minimise cross-subsidies and unnecessary costs to the system continued. In terms of industry rates, many employers had increases to their industry rates in 2000–01 while for others industry rates went down. That was part of a continuing evolution to ensure that rates reflect risk.

On remuneration assumptions, to eliminate the costs associated with late premium collection and to lessen 'gaming' of the system, a decision was made to assume a 20 per cent increase in remuneration for those companies that did not provide remuneration estimates. Employers wishing to adjust their remuneration have the opportunity to do so at any time by providing those estimates and their premiums payable will be recalculated by their agents. The changes were independent of a decision to reintroduce common-law benefits.

The next table shows a breakdown of the distribution of changes in premium rates. As the top of the page suggests, 31 per cent of employers had either no change to their premium rate or a premium rate decrease. This table breaks it down by employers in the left-hand bar and by remuneration. By percentage of employers and percentage of remuneration the table decomposes the changes to: decreases over 10 per cent — 13 per cent of employers, 7 per cent of remuneration; no change to a 10 per cent decrease — 18 per cent of employers representing 18 per cent of remuneration; zero to a 20 per cent increase — 17 per cent of employers and 28 per cent of remuneration; 20 per cent to 40 per cent increase — 50 per cent of employers and 42 per cent per cent of remuneration; and over 40 per cent — 2 per cent of employers representing 13 per cent of remuneration. Even after applying the increases Victoria's system is competitive with most other states. Some comparisons are contained on page 10 of the presentation. You would note that the New South Wales figure is adjusted to include the organisational costs of compliance with the new tax system to allow for a like-to-like comparison to be made. The stated figure for New South Wales of 2.8 per cent excludes costs associated with the new tax system. As we note in the source, standardised data for 2000–01 is unavailable but it is unlikely to change relativity.

**The CHAIRMAN** — When will that be available?

**Mr MOUNTFORD** — I am informed that it will be at least another 12 months before that data is available. On page 11 we provide an example of a small nursing home with a remuneration of \$205 000 and five employees to provide an example of the 2000–01 outcome — in this case a premium increase of 68 per cent pre-GST and 85 per cent post-GST. If you start from the left-hand side of the page, the initial premium for 1999–2000 is \$2218. Let us assume in this case that there was no remuneration estimate. This was one of a number of firms which did not respond to the letter we sent seeking their estimates, so a 20 per cent increase was applied to its remuneration base, representing a \$444 increase on its 1999–2000 premium. As indicated in the box, the industry risk increased by one band, which is a 20 per cent increase, and therefore increased the premium by \$523.

The pre-package total premium with those two elements of the remuneration and the experience in the industry would take the premium to \$3184. It was at that point that the increase attributable to the new package of 17 per cent was added, bringing the initial premium for 2000–01 to \$3726. As we suggest there, that represents a 68 per cent increase. The GST of 10 per cent is on top of that, representing another \$373 and taking the total premium bill receivable to \$4098.

With regard to that example, as we say on the last page, remuneration and individual experience or industry rate and the premium adjustments based on changes to quantum and risk respectively are key elements of not only the Victorian but also most other compensation systems world wide. Although this example shows an increase in the industry rate, for a significant number of businesses the industry rate decreased and their final premium rate also decreased. The 17 per cent general premium increase was applied after all the adjustments for individual experience, industry rate and remuneration were applied.

**The CHAIRMAN** — Given that we are in the process of identifying the situation in relation to setting premiums for this year and we are aware that there are changes from last year, I want to get an initial handle on what changes have occurred compared with last year. It could be that the minimum has increased and the capping has changed, and so forth. Are we in a position to go through the changes that have occurred in summary if not in detail so we know exactly what changes we are looking at?

**Mr MOUNTFORD** — I will talk about some of the detail. You will excuse me if I hesitate because I actually joined the Victorian Workcover Authority only some days before the board decision of 26 May. If you look at the key changes from this year to last year, the minimum premium rate of \$100 was increased to \$135. That basically is driven by the administrative costs of running an account. I will refer to my notes so I may give you the right figures. The minimum premium was increased to \$135 and \$148.50, including the GST. The maximum cost of a single claim used in calculations of experience was increased from \$150 000 to \$156 800 in line with inflation.

The other change incorporated in the calculation of the industry rates was that some industry groups were still a long way from reflecting the true risk of their industry. As the system has been migrated from the beginning of the experience-rated system some of the industry rates have not reflected the true risk and have been moved one 20-per-cent jump at a time. This year a number of rates that were still some way away from representing the true risk of activities were moved to those rates, and our submission indicates there may have been six or seven rate categories they could have moved to do that.

**Mr THEOPHANOUS** — Why was that decision taken, and was it a board decision?

**Prof. OFFICER** — It certainly came from the board as a recommendation. The real reason is to try to make the system risk related.

**Mr THEOPHANOUS** — Why did you not do it for the last seven years?

**Prof. OFFICER** — If we had done it in one hit it would have caused enormous changes in premiums, and even with this, although the industry rates have moved significantly, the cap comes in and prevents individuals whose premium rate is largely determined by industry rates — that is, the smaller firms — from moving significantly in any one period. We felt it was slowing up the system to better reflect the underlying risk and also relative cross-subsidies. At the end of the day we want those who are reflecting the greatest risk to bear the greatest cost to the system. It encourages them to improve their workplace safety.

**Mr THEOPHANOUS** — I may agree with you on that, and many people would agree, but my question was a little different. It was done in one hit. Why is it that for seven years you decided you should only lift it by one grade per industry for the industries? Although it may have gone up by 3, 4, 5 or 10, you decided the maximum increase would be 1 but this year the board decided it would allow a free flow and consequently some industries increased by as many as 10 notches.

**Prof. OFFICER** — The maximum.

**Mr THEOPHANOUS** — Can you explain why that was done this year? You already had premium increases that had to be built into the system. Was that not simply going to aggravate the premium situation?

**Prof. OFFICER** — I would have to take that on notice to work out to what extent the latter statement is true, whether it aggravated it or not. As I said, the individual employer is largely protected to the extent it is dependent on the industry rate by the capping.

**Mr THEOPHANOUS** — For small business?

**Prof. OFFICER** — For small business. With large business their own experience rating comes in and plays a much bigger role. The industry rate is much less relevant for large businesses. As to why it was not done earlier, I can only repeat what I said before: I am not aware of any conscious decision not to increase them other than that it was felt and the general philosophy has been — and I will return to this later, probably — that you do not want to jerk the premiums around more than you absolutely have to. It is much better to creep up on industry experience over time rather than trying to do it in one hit.

**Mr THEOPHANOUS** — That explains the previous policy, but it does not explain what you did this year.

**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 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.

**Mr THEOPHANOUS** — I am not disagreeing with the principle; in fact I may agree with you. I am trying to establish why it was that under a previous regime it was not felt necessary to bring those into line. Was that because of a political decision of the authority?

**Prof. OFFICER** — To be perfectly honest, I am not aware of any political direction or otherwise. 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. I am certainly not trying to mislead you. So far as I know, there has been no conscious decision.

**The CHAIRMAN** — I want to get my first question answered. You indicated that there had been a number of key changes, and you mentioned three of them.

**Mr MOUNTFORD** — Yes, and the other was the fact that where the different industry groups moved into a classification or rate group, typically in the past they were rounded to the nearest grouping. This time around they were rounded up.

**Mr THEOPHANOUS** — Why?

**Mr MOUNTFORD** — The reason was that, using the complex model, when the people were trying to run the model and deliver in the final analysis the required premium of \$1.525 billion, there needed to be finetuning because the parameters are running in the industry rates and the experience is there. Because of the interaction of these variables it is not possible to predict precisely what the premium yield will be.

They need to literally finetune the model to ensure you get the premium and that that sort of final element of the premium is taken from a balance between individual firms under the experience rating, the F factors, and between the industry rates. This was done as a way of trying to ensure there was equity between that portion of the burden, to get the final increment of premium income balanced between the large employers who pay based on their individual experience and the majority of employers who pay on the basis of the industry rate. It was a way of getting some slight increase in revenue from the industry rates to balance what was required and what was being taken from the large employers.

**The CHAIRMAN** — Given that they are the four key changes I am also keen to know what other changes have been made this year that you would not classify as key changes. I will give you the option of either mentioning them now or maybe getting somebody to send that to us in writing.

**Mr MOUNTFORD** — As to the changes, we have not mentioned the 20 per cent increase, the application in the system where employers did not notify us of their estimated remuneration. In the past their previous year's remuneration base was factored up by the consumer price index (CPI). This year it was changed so it was factored up by 20 per cent.

**The CHAIRMAN** — I am keen to find out for sure what changes have been made, and if you cannot think of any off the top of your head, when you get back to your office you can reflect on them.

**Mr MOUNTFORD** — All the changes are referred to in our written submissions. There are no changes of which I am aware; I will not tell you of any changes over and above those in the submission. They are all covered in the submission.

**The CHAIRMAN** — Everything is in the submission in respect of every change made?

**Mr MOUNTFORD** — Yes.

**Mr McQUILTEN** — You talked about having a larger rise and said, 'We may as well have a larger rise and send out the right messages'. It appears to be strange logic. We had seven years of no rises and suddenly we have a large rise because of the 17 per cent and the GST and then we are having more rises.

**Prof. OFFICER** — Let us get it right. There were not that many industry groups. We have highlighted in the submission those that were most extreme. Most were getting closer to their true experience rate. The experience

rating for an industry changes over time, also. You will always get changes as the experience rating of the industry changes. I cannot add to what was said before. To my knowledge we were never instructed that industry rates should not change. It was a policy decision: presumably it goes back well before my time as chairman, and the reason for it this time so far as I am aware was simply to get the right signals out. It was not going to involve an abnormal number of changes across different industry groups. There were a few exceptions that have been highlighted.

**Mr MOUNTFORD** — Whether the rates of the businesses concerned were moved one category or five categories would have had no impact on them because their increases were capped at one category. One rate is 20 per cent, but as we said, for 96 per cent of businesses the increases are capped. If their rates get increased it signals to them that unless their rating experience and history improves and the rates come down in future years they will face further increases. However, for 96 per cent of businesses this year, whether their rates moved one, two or three categories would not have affected their increases.

**Mr McQUILTEN** — You gave us an example of a nursing home. An increase is being imposed on top of a percentage, and then another percentage is being whacked onto that, which keeps pushing the figure up, and included in that is the 20 per cent increase as opposed to a CPI increase. Why not add a 10 per cent or a 5 per cent increase? What is CPI going to be — 5 per cent? All of a sudden it has gone to 20 per cent. It seems an extraordinarily big chunk. On top of that, the industry risk adds to the figure, then the 17 per cent adds to that, and then the GST adds to that again.

**Prof. OFFICER** — I understand. I point out that the initial 20 per cent you refer to is for those who have not informed us of their expected premiums in the forthcoming year.

**Mr McQUILTEN** — A phone call could fix that up.

**Prof. OFFICER** — Indeed — and why not, although we require some written evidence, a fax or the like? When the information does come — it often comes through their agents — their premium is adjusted and fixed up. We are concerned about gaming to some extent. When there is a very small CPI increase most firms — particularly in a buoyant economic environment — will face significant remuneration increases and it pays them to sit on their hands and not advise us of a premium increase. To encourage them to advise us we put in a fairly large jump.

**Mr McQUILTEN** — That is a big step.

**Mr THEOPHANOUS** — Again, you did not do it for seven years but you did it this year.

**Mr CRAIGE** — I know we are talking about only a handful of industries that are affected by the 20 per cent increase, and I understand that you are trying to get the message through to them, and obviously the board took a clear decision to be prudent given its legislative requirements, but I am still somewhat confused about one thing. According to the document you provided to us a lot of industries moved by one or two categories, but there are some that have clearly jumped much more. We would all understand a big movement for something like aerial agricultural services, and perhaps for something like prawn fishing, but I do not understand why pet care services, for example, has gone up by six categories. What I really want an explanation of is why political parties went up six categories.

**Mr BEST** — Knives in the back!

**Mr CRAIGE** — As a punter it is difficult to understand. We all smiled and understood why the rate for aerial agricultural services increased, and we recognised that prawn fishing is also hazardous — we could relate to that and understood you were trying to sell the right message out there — but then we came to political parties. I cannot for the life of me understand how you are going to get the right messages out into the community when the rate for some industries has gone up by 10 categories. I would like you to throw some light on those issues. For example, how did you reach the conclusion to increase the rate for political parties by six categories?

**Prof. OFFICER** — If you do not mind, we will have to take that on notice. I can only speculate.

**Mr CRAIGE** — Can you understand what I am saying?

**Prof. OFFICER** — I can understand what you are saying. I speculate it would have been due to a mixture of historical precedents — where they were in the past — —

**Mrs COOTE** — From 1993?

**Prof. OFFICER** — Yes, from way back where they started, and trying to gradually bring them up to their true risk rate. At the same time there may be changing risk rates — there may be greater stresses, for example.

**The CHAIRMAN** — We will take it you will come back to us on that.

**Prof. OFFICER** — We will give you more detail. I am personally not across individual industries. I know the general way they are set, but I have not followed through the process to be able to give you chapter and verse for individual examples.

**Mr CRAIGE** — You have given us today an example of those people who do not submit their estimates to you. Firstly, how many contributors do you have to the scheme?

**Prof. OFFICER** — A little over 200 000.

**Mr CRAIGE** — Of those 200 000, how many are in this devil of a group who make late premiums?

**Mr MOUNTFORD** — Those who did not respond by providing us with an estimate of their remuneration?

**Mr CRAIGE** — Yes, each year, I presume?

**Mr MOUNTFORD** — Yes, that is right. It is about 38 per cent.

**Mr CRAIGE** — How long has the Victorian Workcover Authority been established now?

**Prof. OFFICER** — Since 1993.

**Mr CRAIGE** — What systems have you put in place to prevent that from happening? You have given us the example of the 20 per cent increase, and yet 38 per cent of employers are still not responding each financial year with estimates of their remuneration.

**Mr MOUNTFORD** — The interesting question will be what the response rate will be like next year. I suspect it will be a lot better. One of the reasons the 20 per cent was applied was that under the act there is a fine for people who underestimate their premium. One of the reasons the 20 per cent was introduced by the individuals in the authority who were charged with the responsibility was because we have not actually been hitting people with those fines. As you say, a 20 per cent increase is not that difficult for those businesses to find if they have a bit of growth. When the confirmed remunerations of businesses that did not respond were higher than the CPI-applied figure they were eligible for fines of 100 per cent of the difference between the premium they paid initially and their confirmed premium. The 20 per cent increase was introduced partly to avert the situation where employers were getting into the category of being exposed to the risk of fines. That is basically the answer.

**The CHAIRMAN** — Mr Theophanous has inquired about obtaining — and I am happy to ask you for it — a tracking of that percentage since 1993.

**Prof. OFFICER** — It would be the CPI until this year.

**The CHAIRMAN** — No, I am referring to the 38 per cent figure.

**Mrs COOTE** — I have some concerns about the table on page 9 of the document you have given us today and the figures on page 2 of the submission premium outcomes for 2000–01, where it says that 31 per cent of employers had either no change to premium rate or a premium rate decrease. There is a figure of 9 per cent missing, and I wanted to know what that was. I would like to know how those figures are made up — the 48 per cent, et cetera.

**Mr MOUNTFORD** — Are you talking about the ‘Employer’ bar there?

**Mrs COOTE** — I am talking about page 9 of the table and page 2 of the submission.

**Mr MOUNTFORD** — The left-hand side of the table on page 9 shows it fairly clearly. If you add it up — 31 per cent, 17 per cent, 50 per cent and 2 per cent — it gives you 100 per cent.

**Mrs COOTE** — Can you clarify for me what it says on page 2?

**Prof. OFFICER** — That refers to small employers.

**Mr MOUNTFORD** — Yes, that is where the missing percentage is. The third dot point on page 2 refers to small employers and the table refers to all employers. The 41 per cent refers to small employers. It has disaggregated the total employers into those with a remuneration base of \$650 000 or less and the others. It is a slightly different number for the smaller employers.

**Mrs COOTE** — The minister has said at some stage that it was 29 per cent. Where would he have got that figure from?

**Mr MOUNTFORD** — You would have to ask the minister. I do not know.

**Mrs COOTE** — There is not an automatic response that you could give me that comes out of those figures?

**Mr MOUNTFORD** — No. They are the figures we have. You would have to direct that query to the minister.

**Mr BEST** — On page 4 of the document you presented today you talk about the modelling that has been done. How many models did you look at? Given that common law was coming back, what were the major components of the modelling? Can you explain to us what component of the premium increase attached to common law? Did you add 0.5 per cent or 1 per cent as part of the premium for the new common-law rights, for example? I would like an idea of the different models you used.

**Prof. OFFICER** — The reintroduction was 15 per cent.

**Mr MOUNTFORD** — That is the whole package. The whole new legislation package was 15 per cent. Are you asking for what component of that 15 per cent was specifically common law?

**Mr BEST** — Yes.

**Mr MOUNTFORD** — While we are getting that information, we can perhaps answer the question in terms of the number of options that were looked at. 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.

**The CHAIRMAN** — Can we then take it from you that you will send to us the major options that you considered?

**Prof OFFICER** — Yes, but again I am not sure what and how often — you see, they did not come up with a whole list and say, 'Here's five options; pick the best'. They came up with, 'This is what we were thinking of doing. Have you thought of doing this?' — and they could come up again. Therefore in terms of an audit trail I am not dead sure I can tell you how many, and I would have to refer to the executive. Of course, Bill was not on board at that stage.

**The CHAIRMAN** — Just on that point, Mr Mountford's not being on board at a particular stage is not an issue that the committee should take as a reason for not finding out what is going on.

**Prof. OFFICER** — I understand that.



**The CHAIRMAN** — If Mr Mountford is not in a position to answer questions because of that situation we would be very happy to have along you or somebody else from the authority. The point is that we would like to look at what answers were considered. If the Victorian Workcover Authority was to recommend a particular course of action to the government about the adoption of a premium arrangement for this year I would have assumed it would have come up with not just one and followed through on that option, it would have followed through on a number of options.

**Prof OFFICER** — More accurately, it would probably follow through on a number of parameters — looking at changes in the parameters. Whether they constituted a separate option or not is a moot point — a question of semantics. I can endeavour to get for you a range of alternatives, be they parameters, models or whatever were considered.

**The CHAIRMAN** — That is great. When can you get it to us?

**Mr MOUNTFORD** — I will get some advice on that.

**The CHAIRMAN** — You will let Mr Willis know?

**Mr MOUNTFORD** — We will, and we will also have to get back on the other question Mr Best asked about the component of the increase.

**Mr BEST** — Yes. The basis of my question is: how did you create the model, given the whole range of indicators within the modelling are variables and could be vastly — —

**Prof OFFICER** — You start off with last year's, to be perfectly honest, and in the first instance try to get minimal changes, unless you think you can improve on the system. Of course, as the Chairman has indicated, you might want to hear about how we might be going forward, and we can talk to you about that further on.

**Mr THEOPHANOUS** — I start by asking you to provide some technical information. Could you provide a chart which tracks the percentage of premiums paid by small businesses since 1993 for the benefit of the committee? In other words, what is the aggregate proportion of all premiums that are collected that is paid by small business and how has it changed over time? Could you do that?

**Mr CRAIGE** — And clearly define what you mean by a small business.

**Mr MOUNTFORD** — We will make the assumption clear.

**Mr THEOPHANOUS** — Secondly, who made the decision about the premium changes? Was it a recommendation of the board to the authority?

**Prof OFFICER** — Yes, it would have been a recommendation from the board to the minister. Ultimately of course the decision on premiums is made by the Governor in Council.

**Mr THEOPHANOUS** — So the board made a recommendation. My understanding is that in that recommendation the 20 per cent cap remained on small business, and in addition to that a 17 per cent increase arising out of the GST and the common-law changes made a total of 37 per cent, so the maximum apparent increase for small business should have been 37 per cent. In fact, a number of critical decisions were made on the recommendation of the board, which aggravated that. They were the application of a 20 per cent initial increase instead of the consumer price index, which affected 38 per cent of all businesses as you have indicated to the committee today; the rounding up on the industry rate of the scheme, which affected probably at least 50 per cent of businesses since we assume 50 per cent would be about halfway on each; and the industry rate increases were allowed to free flow from the previous cap of one industry increase to an increase of up to 10.

As I understand it those three decisions had the effect on some of the information provided to us of making the maximum increase not 37 per cent, as presumably the necessary increase, but in some cases up to 89 per cent. Do you take responsibility for that on behalf of the board, Professor Officer?

**Prof OFFICER** — I will go through the points and then talk about the numbers. First of all, let us get clear that the CPI as distinct from the 20 per cent figure is not permanent, and that is ultimately in the hands of the employers. If they chose to inform us of what next year's remuneration is they do not suffer that 20 per cent. It is in effect temporary because presumably once they get their remuneration forms — at the very latest that will be in the following year — an adjustment will be made to it so it is not a permanent difference.

It does have an effect on the rounding up of industry rates to the extent that small companies and others have a greater proportion on the industry rates, but as I already pointed out and as was pointed out in the papers, the cross-subsidy typically runs the other way — that large firms are actually cross-subsidising smaller firms. One of the intentions of the scheme has been continuously to try to remove levels of cross-subsidy because we do not want to protect those who have bad work practices from feeling the full brunt of the cost of those practices. The reason for the rounding up was that it helps whittle down some of that cross subsidy.

**Mr THEOPHANOUS** — I understand the reasons. You have gone through them before. My question is and has been all along in this discussion: you have been on the board for a number of years, and if these are such good ideas why were they not taken up previously and made as recommendations to the previous government? You may or may not want to answer that question, but those three things acting together did have the effect of increasing premiums in some cases by up to 40 per cent above what they would have been had they not been applied. That has resulted in some small businesses being a bit upset about what has taken place. I want to know why those decisions were made by the board at this time and not before?

**Prof OFFICER** — I can assure you there is no deviousness or sense of political impropriety in this.

**Mr THEOPHANOUS** — You just did not think about them before?

**Prof OFFICER** — The board has always been independent, and I have to say it has continued that way under the current government in terms of the appointments being made. We are not a static body. We are continually trying to make the system better. There is no question about that. We have always been conscious of the cross-subsidy. Speaking personally, although small businesses at times deserve special consideration it should not be given through a workers compensation system but through other means for the simple reason that we want small businesses to focus clearly on their responsibilities towards their employees for workplace practices. To protect small businesses in any way from that tends to blunt the instrument — the premium — as a way of enforcing or encouraging people to adopt good workplace practices. That is the reason.

**Mr THEOPHANOUS** — We agree, Professor Officer, and it is a pity it was not done before. You mentioned the CPI and the 20 per cent. In the event — it must be the case — that you find out what is the real increase when people ring up and say, ‘Actually it was not a 20 per cent increase that we had, it was a 2 per cent increase or a 5 per cent increase’, do you have figures to show what the average increase for that 38 per cent of businesses was as opposed to what you arbitrarily imposed?

**Prof OFFICER** — I do not know whether it is available, whether we could easily get it.

**Mr THEOPHANOUS** — Can it be made available?

**Prof OFFICER** — We will try. The first communication of employers is through their agents, and to the extent that we have data — I presume we have access to data — we can do what we can to get that.

**Mr THEOPHANOUS** — Would it not be reasonable to assume it would be closer to the CPI ultimately?

**Prof OFFICER** — No, not really, because in the early part of Workcover the rate of inflation was a lot higher and I think people were more encouraged to indicate their remuneration if it fell outside that. Since the rate of inflation has dropped and the economy has been performing pretty well there has been less incentive. So far as I am concerned it was really as simple as that.

**Mr MOUNTFORD** — The other thing is that at this time we could probably provide people’s estimations of their remuneration for the current year. We do not have the actual — that will come subsequently — but we could provide the difference between the estimated and the 20 per cent because it would still be either what they estimate or, where they have not given us an estimation, the 20 per cent would apply.

**Ms DARVENIZA** — I understand an announcement was made this morning of a timetable for a comprehensive review of the experience rating system. Why did you do that?

**Mr MOUNTFORD** — This morning we had a function to launch the new strategy of the authority. One of the elements of that is a premium review. I have been discussing the review with employer associations and others for the last little while. This morning we were announcing a number of initiatives — one was a safety development fund and another was simply to give the stakeholders who were present a timetable for the premium review we are undertaking — so it was in the context of the strategy launch. It is clearly an issue for one of our

important stakeholders — the employer groups — so we were keen to identify for them, as for the unions and other stakeholders, what are some of the key initiatives coming out of the strategy.

**Ms DARVENIZA** — Did one of the stakeholders there have a particular interest in, and were the initiatives that you were outlining today for, small business in particular?

**Mr MOUNTFORD** — No, not today. An important part of that is the premium for small business, which is the question of financial incentives for small business, and that is one of the key issues we will address in the premium review — how we can get meaningful financial incentives in there for small business.

**Ms DARVENIZA** — Are you in fact telling me that the experience system that we have now and that has been around for many years has very little in it for small business?

**Mr MOUNTFORD** — When you say ‘has very little in it for small business’, I would say at this point that the core of the experience-rated premium system is actually sound. If you go to other parts of the world where systems like ours are being run you will see this sort of system is sound. I suggest it is state of the art. However, having said that, there is a problem because of the probability inherent in the system — that the individual experience of small businesses does not have enough credibility to be a direct determinant of the premium. It is like a householder policy. Your experience in whatever suburb you live in is too small a part of the total experience of that suburb to be credible for an insurer.

However, we have identified some initiatives in North America that provide a way of sensibly enhancing the credibility of small businesses by bringing them together in a way that will give them some financial incentives. That is one of the avenues we would be looking to explore in the premium.

**Ms DARVENIZA** — Do you think you will be able to put in place a better system for small business in the future?

**Mr MOUNTFORD** — I believe that is right. Getting proper incentives for small business was one of the things small business was calling for. It is a difficult issue, but I think we may be able to do that through this avenue.

In regard to other areas that I have mentioned today, there is room to improve. We could improve on the issue of communication, and how we communicate particularly with small business, and also the complexity. We hope to be able to address some of the complexities and simplify some elements of the system. They are the sorts of key issues that business has certainly raised with me about the premium system. As the committee would probably understand in my time with the authority I have had a few discussions with business and employers about the premiums.

**Mr BEST** — Can you explain to the committee the protocols associated with the operation of the board and the advice to the minister and how decisions are made by the Governor in Council?

**Prof. OFFICER** — In the context of the premium system the board makes a recommendation to the minister and ultimately, I presume, the government makes a recommendation to the Governor in Council for a decision on premiums. Ultimately the decision on premiums rests with the Governor in Council. In this context the board is in a sense really an advisory group making recommendations.

**Mr BEST** — So all the information that has been gathered as part of that recommendation goes to the minister’s office — —

**Prof. OFFICER** — We do not want to overburden him or give him all the information that necessarily comes to the board because it is voluminous, but we certainly give our reasons why we believe a particular model, if you like, is the best model of the ones we have considered.

**Mr BEST** — What are the other decisions associated with the interaction between the minister’s office and the board?

**Prof. OFFICER** — Do you mean in the context of the premiums?

**Mr BEST** — I am not sure. You have said today on a couple of occasions that you are an independent board.

**Prof. OFFICER** — That is correct. We are an independent statutory board. In the context of premiums the decision is ultimately made by the Governor in Council, but there is no question that we will certainly talk to the minister and tell him the reasons why we think one model is superior over another. In turn, the minister will ask us, ‘Have you thought about this?’ or ‘Have you thought about that?’, to which we give due consideration, as we would to anyone who made a submission to us on premiums.

**The CHAIRMAN** — Are all your recommendations adopted by the government?

**Prof. OFFICER** — Yes. There was a two-stage process in this. We put an option up to the government, which was recommended, but we informed the government that we had not had sufficient time, because of the time constraints — the legislation was late in getting passed and the actual cost to the common-law system was in doubt — and that we wished to run further modelling and test other things. The minister gave us some additional time within the statutory time constraints, so we went back and ran some more testing and came up with a slightly different model that the board believed was superior to the previous model it had recommended. It was superior because it removed some of those cross-subsidies we had been concerned about, and ultimately I believe it was a more equitable model.

**The CHAIRMAN** — You recommended the 20 per cent capping to the government.

**Prof. OFFICER** — We recommended that it be retained.

**The CHAIRMAN** — Were no other figures recommended?

**Prof. OFFICER** — Not to my knowledge.

**Mr MOUNTFORD** — On the capping, no, because that was a number in the final recommendation.

**The CHAIRMAN** — Was there a prior recommendation that had a different figure in it?

**Prof. OFFICER** — I think it might have had a figure of 25 per cent, but it was on a quite different remuneration base.

**Mr MOUNTFORD** — But that was including the 17 per cent; that was quite different. That was in the first model, which Professor Officer mentioned was developed within the time constraints in terms of programming. There was a 25 per cent cap, but that was applied after the imposition of the 17 per cent increase.

**The CHAIRMAN** — Will you send the committee a copy of that model in due course?

**Mr MOUNTFORD** — Yes.

**The CHAIRMAN** — When will that be?

**Mr MOUNTFORD** — As soon as possible.

**Mrs COOTE** — Page 11 of your submission talks about the impact of the government’s new benefits package on Workcover costs. I believe we have dealt with common law quite a lot today. I refer to the next point on that page, the inclusion of the regular overtime and site allowance in the calculation of weekly payments. Can you indicate what the impact of that inclusion will be in both the short and long terms?

**Prof. OFFICER** — I presume you mean the monetary impact.

**Mrs COOTE** — Yes.

**Mr MOUNTFORD** — I am advised it is minor because it is capped at twenty six weeks — so it applies only for four weeks and it is actually minor. We can give you the costings of that.

**Mrs COOTE** — I would be interested to see those costings. My second question is about the safety margin. You talk about the common-law working party, which spoke about the need for full funding of the scheme in the safety margin. How is the safety margin calculated? How do you come up with a model for what is the safety margin, and is that likely to increase dramatically in the future?

**Prof. OFFICER** — I guess in this instance it was the level of benefits and the sort of cost which the government agreed to or thought was feasible in this. Then the difference would depend really on what the

actuaries came up with: if there was too large a gap the premium would have to be reduced, and if it went above the premium, the premium would have to increase in time.

**Mrs COOTE** — Were the actuaries just Trowbridge actuaries?

**Prof. OFFICER** — We have two now, but at the time we had one, and the working party, of course.

**Mr MOUNTFORD** — It is developed by the actuaries as they cost these things out, and it works out at around 10 per cent in this case.

**Mr CRAIGE** — How many assessments did you obtain or have submitted to you in respect of the funding of the scheme and your liabilities, taking into account all of the issues that you knew? How many assessments did you get from actuaries, individuals or other parties?

**Prof. OFFICER** — I think the best way to source that would be through the working party: all the estimates submitted to us came through the common-law working party.

**Mr CRAIGE** — Did you have no other assessment?

**Prof. OFFICER** — We would have had our own, but I think that would have been submitted to the common-law working party. I would have to take advice on that.

**Mr CRAIGE** — I would like to know who they were and whether they all agreed with each other.

**Prof. OFFICER** — I can reply to the latter part of the question: they would not have all agreed.

**Mr MOUNTFORD** — But the difference was very small.

**Mr CRAIGE** — It gets back to the safety issue in respect of the scheme being fully funded. How do you decide whose advice you will accept?

**Prof. OFFICER** — It is somewhat subjective in this sense. We know what our assets are; they are all very accessible and liquid — shares, fixed interest, securities, property and the like. But our liabilities are estimates of what we are going to have to pay out, sometimes running over 50 years or more. So you can imagine how difficult it is to try to say, ‘This is the present value of these liabilities and the estimates involved in them’. In the past we have used two actuaries and after they had come in very close for a couple of years — it was costing us something like \$500 000 each — I made a recommendation to the board, which it accepted, that we go back to having only one actuary. We are going back to the system of having two again because of the changes that have been made and the greater uncertainty again, so we have gone back to using two actuaries.

There are a lot of assumptions involved. Generally they are assumptions that actuaries recognise within the context of the profession — for example, what is the appropriate discount rate, and how to estimate some of these things. As I have said, some of the differences in the past were minimal. We will get another half yearly estimate from the actuary on the cost of the scheme at the end of this chronological year, and it will be interesting to see what the disparity is. In the submissions to the working party on this matter a number of people took quite widely different estimates of the underlying assumptions. I can assure the committee that it is not hard to move it significantly.

**Mr MOUNTFORD** — One thing has been drawn to my attention during the break. On page 9 of the paper we submitted to you today you will see at the bottom of the right-hand bar graph ‘per cent remuneration’. The second number on the bar going up, which is the naught to 10 per cent decrease, says 18 per cent; that is in fact 10 per cent. As I was going through it I thought it looked wrong. I apologise for that; that is in fact 10 per cent.

**The CHAIRMAN** — Thank you.

**Mr MOUNTFORD** — That might have been what you were missing.

**The CHAIRMAN** — Mr Best, you had not quite finished.

**Mr BEST** — I had not asked for clarification on the following. You said there was a two-stage process. Can you give us the dates of when the recommendations went to the minister?

**Prof. OFFICER** — I will do that at the time we show you what the models were.

**Mr BEST** — Okay. So we will have both the time frames and the discussions that occurred?

**Prof. OFFICER** — Yes.

**Mr THEOPHANOUS** — I want to ask some questions about the liability, but before I do I will say this. You said that your experience rating system is one of the best in the world, but you might want to look at and consider what the Industry Commission report said a number of years ago, when it identified some deficiencies in the scheme for the purposes of small business. The collection of the premiums is related to the financial state of the scheme. Can you tell us whether last year you collected your projected premium collections? Were your actual premium collections the same as your projected premium collections, or was there a shortfall in the premium collected?

**Mr MOUNTFORD** — I think the answer to that is that on the initial premium there was a minor shortfall, a minor loss of yield. But my understanding is that we have actually recaptured that in the confirmed premium round for last year — as you would know, there is an initial premium and then a confirmed premium. My understanding is that while there was some minor shortfall on the initial premium for last year, that has been caught up in the confirmed premium.

**Mr THEOPHANOUS** — Can those figures be provided to the committee?

**Mr MOUNTFORD** — Yes.

**Mr THEOPHANOUS** — The reason for my asking that is to see whether some of the premium you had to collect this year was as a result of a shortfall in the premium collected last year. I want to know what the figure is, and whether that had to be made up in the premium collected. I refer to the amount of unfunded liabilities the scheme had, which you have sought to catch up on with this year's premium increases. What was the level of the unfunded liability at the time the decisions were made for those premium increases, and what has the level of unfunded liability been subsequently confirmed to be?

**Prof. OFFICER** — Look, it would be off the top of my head, and rather than do that I had better get the actual numbers for you — remembering, of course until — —

**Mr THEOPHANOUS** — Is there no-one here that knows what the unfunded liabilities of the scheme were?

**Prof. OFFICER** — Was it 96 per cent? I am advised that at 30 December it was 96 per cent and that it was 92 per cent at 30 June.

**Mr THEOPHANOUS** — Can you translate those percentages into numbers? It was 4 per cent underfunded in December and now it is 8 per cent underfunded?

**Prof. OFFICER** — As of June.

**Mr THEOPHANOUS** — As of June. What does that translate to in millions of dollars? You do not know what your unfunded liabilities are — is that what you are telling me?

**Prof. OFFICER** — No.

**Mr THEOPHANOUS** — No-one here from Workcover can tell me what the unfunded liabilities are?

**Prof. OFFICER** — No. It will be \$160 million odd — the difference.

**Mr THEOPHANOUS** — A press release was issued by the minister not long ago which referred to a number. Are you aware of what that number is?

**Mr MOUNTFORD** — Yes, I think the minister referred to a number of revised valuations for June 1999 of a \$279 million increase, or to \$579 million — a \$200 million increase.

**The CHAIRMAN** — Hold on, at the end of December and at the end of June — —

**Mr MOUNTFORD** — No, that was a revision to June. The thing is that the premium is based on the valuation for December. I do not have the exact December valuation number on it. It is a historical number — it was 4 per cent.

**The CHAIRMAN** — So the June figure was \$579 million, was it?

**Mr MOUNTFORD** — Let me just see; I think I have that with me. Yes, that is right. That is basically on the basis of Tillinghast Towers Perrin basically saying that their finding on an initial review was that the unfunded liabilities at the end of June were \$579 million, relative to their estimate at the time, which was — —

**Prof. OFFICER** — And this was at June 1999, of course.

**Mr MOUNTFORD** — Yes.

**Prof. OFFICER** — Okay, relative to \$423.1 million. As of the 1999–2000 financial statement the authority identified that the authority had accumulated losses of \$423.1 million.

**The CHAIRMAN** — That \$423 million was at the end of June this year?

**Mr MOUNTFORD** — That was evaluation that was done at that time.

**The CHAIRMAN** — Hold on — the end of June this year?

**Prof. OFFICER** — That was at the end of this year, yes.

**Ms DARVENIZA** — June 2000?

**Prof. OFFICER** — That is 2000, yes.

**The CHAIRMAN** — That is \$423 million?

**Prof. OFFICER** — Yes, \$423.1 million.

**The CHAIRMAN** — What is the most up-to-date figure?

**Prof. OFFICER** — They go on to say that this has increased by \$127.5 million from the previous year — so this year, as of that period.

**Mr MOUNTFORD** — Yes.

**Prof. OFFICER** — It is an increase by \$127.5 million over the previous year.

**The CHAIRMAN** — So at the end of June 1999 the figure was a bit under \$300 million, was it?

**Prof. OFFICER** — \$300 million, yes.

**The CHAIRMAN** — What is the \$579 million figure?

**Prof. OFFICER** — This relates, I think, to some — —

**Mr MOUNTFORD** — This relates to some work by the actuaries, Tillinghast Towers Perrin, in reviewing the liabilities in the light of the increased number of common-law writs received for the run-off of the old common-law scheme.

**Prof. OFFICER** — Yes, in August, I think, this year — based on the run-off in the old common law.

**Mr THEOPHANOUS** — So in June it was \$423 million and in August it was \$579 million? Is that an accurate assessment?

**Prof. OFFICER** — That \$579 million figure relates to the unfunded liabilities as estimated — on the basis of that estimate — as of 30 June 1999, not 2000. The press release does not — —

**Mr MOUNTFORD** — I think rather than — —

**The CHAIRMAN** — We are not working off a press release, surely?

**Mr MOUNTFORD** — Rather than do that, we will give you — what you are looking for is the — —

**Mr THEOPHANOUS** — Mr Mountford, I am aware that you can get this information. My point is that you should have it already, and that it should certainly be available to the committee today with the number of people here. The unfunded liability of the scheme seems to me to be a fairly basic statistic. But anyway, can we move on.

**Prof. OFFICER** — Can I just point out that we rely on actuarial estimates; they are done twice a year. We had reported that in the annual accounts for 30 June 2000. There was a run-off in common law under the old common-law scheme in August, which changed those estimates, which will reflect in our next actuarial report at the end of this year.

**The CHAIRMAN** — You will clarify for us the situation in relation to unfunded liability as it was at the end of June last year and this year, and the latest actuarial estimate?

**Prof. OFFICER** — The latest actuarial estimate will not be in until the end of December — they will do it up to the end of December. We will not have it until probably February.

**Mr MOUNTFORD** — That is the point, that the real valuations of the liabilities that provide the basis on which the board makes decisions are done twice yearly, because they are detailed exercises. So there is the June valuation, and then the December valuation. We would be looking to the December valuation to get the next real fix on exactly what those liabilities are.

**The CHAIRMAN** — You have another figure as at August this year of \$579 million?

**Mr MOUNTFORD** — That is right. That figure is there that the minister referred to, and it is a preliminary estimate. We can provide you with that figure.

**The CHAIRMAN** — If you would, thank you.

**Mr THEOPHANOUS** — I am happy that you are providing those figures. Do you have any figures available for the estimated cost of common law?

**Mr MOUNTFORD** — The estimated cost of — —

**Prof. OFFICER** — The additional benefits under common law?

**Mr THEOPHANOUS** — You have added 15 per cent to the premium to cover that cost. Can you give the committee the dollar figure of the expected increased costs as calculated by the actuaries?

**Mr McQUILTEN** — While you are looking for that I will ask Bob a question. In June 1999, what was the liability of the scheme?

**Prof. OFFICER** — It was 96 per cent funded. I think the liabilities were about \$400-odd million, from memory.

**Mr McQUILTEN** — In June 1999 it was about \$400 million?

**Prof. OFFICER** — Yes, but that does not sound quite right.

**Mr McQUILTEN** — It is an important figure.

**Prof. OFFICER** — Unfunded liabilities estimate, about \$120 million.

**Mr THEOPHANOUS** — When was that?

**Prof. OFFICER** — That was June 1999, as of the June balance date. I am being corrected. On 30 June 1999 it was \$296 million. In the 30 June 2000 annual accounts it was \$423 million, and then with some actuarial estimates updated with the common-law run-off it has gone up to \$781 million.

**The CHAIRMAN** — The committee would like details of all those figures.

**Mr THEOPHANOUS** — Did you get a figure in relation to the new common law?



**Mr MOUNTFORD** — As a result of the increase in old common-law claims, the additional estimate on new common law is \$78 million.

**Mr THEOPHANOUS** — Correct me if I am wrong, but I understand that the premium increases will result in an increase in revenue of approximately \$200 million above last year's estimates. If you say that the estimated cost of common law is \$78 million, is the difference between the \$78 million and the \$200 million — which is a difference of about \$122 million — to cover the unfunded liabilities that have been left over on the scheme, which you have now confirmed as \$700-odd million?

**Mr MOUNTFORD** — No, because the figure I was referring to is an additional liability figure. I know you are asking about the increment in additional revenue that came from the increase and what proportion of that related to the cost of new common law. I think that was a question we had earlier.

**Mr THEOPHANOUS** — Correct. Didn't you say \$78 million?

**Mr MOUNTFORD** — No, the \$78 million is the increase that the actuaries estimated in terms of the liabilities. It is their increase in the estimated cost of new common law based on the volume of cases we received under the old common law.

**Prof. OFFICER** — I have been given an estimate of \$147 million, which is based on an estimate of 0.22 per cent of our premium.

**Mr THEOPHANOUS** — Does that \$147 million discount the estimated reductions that would occur in claims that would not continue on an ongoing basis, the weekly benefits that would be saved, or is it a net figure?

**Prof. OFFICER** — It is a net figure.

**Mr THEOPHANOUS** — That means with \$147 million there is an amount of \$53 million there to catch up on the unfunded liabilities. Am I in the ball park now?

**Prof. OFFICER** — There were other benefits and things that came in other than just common law to explain the 15 per cent increase.

**Mr THEOPHANOUS** — Is any of the 15 per cent increase to reduce the long-term unfunded liabilities?

**Mr MOUNTFORD** — That is correct. Apart from the safety margin there was a component there to bring the scheme back to full funding to cover the cost.

**Mr THEOPHANOUS** — Can you give the committee that amount? In other words, we want to know what it is that is being costed out for the purposes of the actual policy change, the common-law introduction and the legislative changes and what we can attribute as an increase to the unfunded liabilities that have been left over.

**Mr MOUNTFORD** — On the safety margin, I understand that.

**Mr THEOPHANOUS** — On the scheme, which you said is \$700-odd million. I assume you will pare that back and reduce it to a fully funded scheme. The committee wants to know what those figures are, if it is possible to get them.

**Prof. OFFICER** — I am advised that the difference for the safety margin is basically much the same as it was before. If that is true, then there is no increase to fund any historical unfunded liability. We have always been advised by the actuaries, at the time we have had actuarial reports, that the premium was sufficient to cover the claims. There are a lot of fluctuations in this, not only on the liability side, which you have mentioned, but also the asset side. It is a mistake to use the funding ratio we have been talking about as a measure of solvency. It is not. It would be a mistake for any government to jerk its premium rate around according to the funding ratio.

Having said that, in the long term of course you have to make sure your premiums are set in such a way that they will ultimately recover the claims that will be made against the scheme, so you cannot consistently set premiums below the actuarial experience.

**Mr THEOPHANOUS** — Do you believe the new premiums that have been set will be enough to bring the scheme back into the black?

**Prof. OFFICER** — Yes, I do. We have that safety margin, and until — —

**Mr THEOPHANOUS** — Mr Mountford has undertaken to come back to the committee with that safety margin.

**Ms DARVENIZA** — What would the financial state of the scheme be if the premium rate had not been decreased so dramatically by the previous government?

**Prof. OFFICER** — You are talking magnitudes. Clearly, if the premium rate had not been reduced we would have had more by way of assets there. However, I point out that in the past we have been 100 per cent funded. In a scheme such as this I think it is a mistake to have vastly in excess of 100 per cent funding for the reasons I have already given: that your assets are very liquid, your liabilities are long term and you have quite a long time in which to adjust the scheme. It does not make a lot of sense to hold a lot of assets when you are not in any way close to insolvency.

**Mr McQUILTEN** — It was not 100 per cent funded in June 1999. You have already said there was \$296 million in unfunded liabilities. What was it in June 1998?

**Prof. OFFICER** — I would have to take that on notice. I cannot remember.

**Mr McQUILTEN** — I would like that answer.

**Prof. OFFICER** — We can give you the funding ratio over the past seven or eight years.

**Mr BEST** — Wasn't it in your annual report that, given the unfunded liabilities at 1999, the \$296 million, by 2001 you would be a fully funded scheme?

**Prof. OFFICER** — It is quite likely. The actuaries were expecting to recover within a couple of years. That has blown out.

**Mr BEST** — I thought that was part of your annual report. I could be wrong.

**Prof. OFFICER** — It could well have been in there.

**Mr BEST** — At 2001 it was to be fully funded, that \$296 million, and that was the premium Mr Mountford was talking about.

**Mr THEOPHANOUS** — I ask for that to be clarified, because my understanding is that the increase in liability we are talking about, to now something around \$781 million, and that all of that liability is due to increases in common law under the previous government and has nothing to do with the common law introduced by this government. Is that a correct statement?

**Mr MOUNTFORD** — It is all a result of the increase in the volume of common law received under the old common law. Of that total sum, a small amount is actually a consequential re-estimation of the new common law, but the vast bulk of it relates to the increase in the volume of writs under the old common law.

**Mr THEOPHANOUS** — To refer back to Mr Best's question, you got it wrong in the annual report when you said it would come down?

**Prof. OFFICER** — That is correct. As pointed out, the estimate of those liabilities is not easy. It moves around. That is further compounded by the variation in the value of the assets. If the stock market were to take a 10 or 12 per cent hit, that funding ratio would go down and the actuarial estimate of when the scheme became fully funded would be stretched out again. Would you have to increase premiums if the stock market went down? In all probability not, because the income is sufficient to cover the future claims cost. It is just that it will take that much longer to get back to 100 per cent funding.

**Mr CRAIGE** — If there were an increase in the stock market that resulted in a boom and you ended up with extra coming in on your assets, you would not necessarily just decrease premiums because of that?

**Prof. OFFICER** — That is correct.

**Mrs COOTE** — We spoke before about the fact that there was an industry risk rate increase, the GST was introduced and there was an additional minimum policy and registration fee — minimal, it was only tiny. Given that you said before that all those changes would have been in the pipeline in any case, was it the minister who said

all the changes had to be implemented at the same time? Did you advise the minister that it would be better if they were to be staggered?

**Prof. OFFICER** — Once a year we put out the premium, and of course we want all those things to go in the premium order. If we did not do it this year we could have, in theory I suppose, split premium orders. It would be complex and double the administrative effort. The incentive to put it all together was clearly to get it out in the one premium order. I think I am addressing your question.

**Mr MOUNTFORD** — In reality the answer is — as I tried to relay in my opening presentation — that these were things that were actually initiated within the authority. They were things the authority was doing as part of its attempts to administer the system better. I am pretty sure I am right in saying that those things were just part of a review process. They were not directed by the minister. I suspect the minister may not even himself have known of those things before they came into the final recommendation.

**Mrs COOTE** — When you took it to the minister with the common-law additions — and we spoke before about communication and small business being suddenly hit with all this — did the minister actually come out and say that this is what he wanted to do, that it all had to be done together rather than staggering it?

**Prof. OFFICER** — It was not at the minister's initiative. It would have been at our initiative to do it all together.

**Mrs COOTE** — Including the common law?

**Prof. OFFICER** — If the government had delayed getting that common-law legislation through, we would have either had to have taken a big hit and tried next year to set premiums in a way that would have recovered some of the costs, or we would have had to have tried for an interim premium order. Again, I would have to take advice on whether we would be legally entitled to do that. I am not exactly sure.

**Mr MOUNTFORD** — So the minister's focus was on the common law and on the commitment he had given about how much common law was to be charged and how it was to be distributed. Those other matters were not issues that were dealt with by the minister.

**The CHAIRMAN** — One of the options the committee has is to retain the services of an actuary to look at the advice that has been given to your authority. Given that the adoption of premiums at certain levels is based on a perceived need to raise certain amounts of money — that is, in relation to both the tail run-offs and to what it is expected you will need in the coming year — are you in a position to provide us with all the documentation provided by your actuaries in relation to premium setting and estimates in relation to common-law claims — all the actuarial work you have been given?

**Mr MOUNTFORD** — In relation to the premium, you have the actuaries' reports to the common-law working party. You have the common-law working party papers and I think the actuaries' reports are in those. That is the material. For the premium, there was the actuaries' report of June. Do you want the December valuation, which was the basis for the premium setting?

**The CHAIRMAN** — We are interested in getting the lot. Is what is in the report the length and breadth of what you received from the actuaries?

**Prof. OFFICER** — Yes. That related to common-law material, not to the broader issues of liabilities and the like. So the submissions there are restricted to that extent.

**The CHAIRMAN** — Are they full copies of what you received?

**Prof. OFFICER** — It was a working party into common law, not into the whole scheme. The difference between that and the actuarial reports that our annual report are based on is, of course, that the scheme is much broader than just common law.

**The CHAIRMAN** — Of course.

**Prof. OFFICER** — Common law was the major change but it was not the only change.

**The CHAIRMAN** — Are we in a position to receive from you all the actuarial reports and documentation for all the actuaries' advice to you in respect of anything in the past 12 months?

**Prof. OFFICER** — Unless there are legislative restrictions on access to such documents — and I cannot imagine why. A lot of it would be preliminary, of course. Quite frankly, we would do actuarial reports more frequently if they were not so costly — six monthly is as much as we can possibly — —

**Mrs COOTE** — Sustain?

**Prof. OFFICER** — Yes.

**The CHAIRMAN** — I assume you will send us that information?

**Mr MOUNTFORD** — Yes.

**Mrs COOTE** — As clarification for me, when the modelling was done for the businesses and small businesses on the effect of the premiums, was that rationalised in various regional things or just done on a set number of people? Was it done looking at the impacts perhaps and the differences between rural and regional Victorian small businesses?

**Mr MOUNTFORD** — The way we looked at the impact of the premium on small business was basically around their size, on different-sized bands, which is the way our data — —

**Mrs COOTE** — So it was not general?

**Prof. OFFICER** — We do not have a disaggregation.

**Ms DARVENIZA** — How much is the cross-subsidy of large employers to small businesses?

**Mr MOUNTFORD** — It is around \$50 million, the cross-subsidy from large business to small business.

**Ms DARVENIZA** — If that cross-subsidy were removed, where would the shortfall come from?

**Mr MOUNTFORD** — If it were removed, you would be increasing the premium rate for small business.

**Mr McQUILTEN** — By \$50 million.

**Mr MOUNTFORD** — By \$50 million, through the industry rates.

**Mr THEOPHANOUS** — Can you provide a chart tracking that cross-subsidy since 1993 and how it has come down?

**Mr McQUILTEN** — Do you have that figure for the unfunded liability to June 1998?

**Mr MOUNTFORD** — I think your concern goes to the funding ratio at the time. I have just not got the exact figures for you.

**Mr McQUILTEN** — There is a graph showing the figures. What was the unfunded liability for 1998?

**Mr MOUNTFORD** — The scheme was last fully funded in 1997, when it was funded with a 100 per cent funding ratio.

**Mr McQUILTEN** — It has been blowing out for three years and nothing happened until this year to try to fix it?

**Mr MOUNTFORD** — Something like that.

**Mr THEOPHANOUS** — Mr Mountford, you would not be aware of this, but Professor Officer would be, that under the previous government some changes were made which meant that employers had to pay for the first two weeks of any claim. That was a change in the new scheme; prior to that it was the first week. As a result of that and some other changes by which some employers were still left open in terms of having to pay for a proportion of accidents themselves, some employers privately insured for the gap — that is, they took what is called gap insurance.

**Mr MOUNTFORD** — Yes.

**Mr THEOPHANOUS** — Do you have any figures for how many employers have gap insured or as to the amount? I heard some figures bandied around that something in the order of 0.025 per cent of the wages bill was about the sort of amount that was being charged for gap insurance in relation to that. Could you provide the committee with any figures that you might have on the gap insurance, both as to the amount and as to the number of employers who have taken it up?

Secondly, in order for the comparison on the chart on page 10 to make some sort of sense — it compares Victoria with the other states — one would need to consider the question of gap insurance and whether that gap is similar in other states. I do not know what the gap level is in New South Wales and other states, but I am sure you would have those details and would be able to make them available.

What I am trying to establish is whether under the previous government there was an underinsuring because of the way the scheme was set up, whether that led a number of employers to insure for that gap privately and whether that is the case in the other states as well. Can you provide that information?

Can you also provide a comparison — I think you probably have them — of the various benefits paid in each of the jurisdictions, because the flip side of the coin is what you are getting for your premiums? Would you be able to provide those as well?

**Mr MOUNTFORD** — Yes, we will.

**Mr CRAIGE** — Did the authority do any economic modelling on the effect on employers of the changes that have occurred?

**Prof. OFFICER** — No. Well, I mean — —

**Mr CRAIGE** — Or groups of employers?

**Prof. OFFICER** — Not outside what the effect would be on premiums. If you mean would this cause hardships or the like, no. I mean, our responsibility is to — —

**Mr CRAIGE** — So you did no modelling at all via the authority in respect of the impact that this would have on employers or groups of employers?

**Prof. OFFICER** — That is correct.

**Mr CRAIGE** — You did no economic modelling at all on the impact on state departments or the state budget?

**Prof. OFFICER** — That is correct.

**Mr MOUNTFORD** — I am just concerned that I may have given misinformation in answer to Andrea Coote's question about the discussions and the focus of the minister on the options and the question of the 20 per cent. I came into the position, as I said, in the middle of this. Embedded in all the options were some common parameters and in all the options that the authority developed and put to the board, and then the recommendations that were put to government, were the 20 per cent increase in remuneration base where people had not estimated it and the rounding up of industry rates. They were in every option, so they were in effect not part of the discussions that I had.

I was not conscious of those as a focus of the variations and the issues that were being negotiated. The minister may have been, but because I had just come into the position and was not aware of the history in the way others were, I was not aware of them. I did not want to leave an impression that he was not aware of them just because I was not as aware of them in terms of the change, as he might have been.

**Prof. OFFICER** — But the initiatives were from the authority.

**Mr MOUNTFORD** — And they were in each model.

**Mrs COOTE** — Just the opportunities perhaps of breaking those up and, as I say, staggering them.

**Prof. OFFICER** — I understand, trying to spread it.

**Mrs COOTE** — Why spread it?

**Prof. OFFICER** — Of course, employers have the option of paying the premium in tranches over the year or as a lump sum. As I said, we were loath to try to put out two premium orders in the year. I think we can do it under the act but administratively it would be very cumbersome.

**Ms DARVENIZA** — While Mr Mountford came in in the middle of it, Professor Officer was the executive officer during that time?

**Prof. OFFICER** — That is correct.

**Ms DARVENIZA** — So you would be aware of what went on prior to it?

**Prof. OFFICER** — Yes. As I said, those initiatives came from the executive. So far as at what stage the minister might have been informed is concerned, I had — and I presume Bill still does have — regular meetings with the minister's office to keep him abreast of things. He would have been informed soon after we had been considering them. But there is no question that what the board considered and the recommendations it made were done by the board.

**Mr THEOPHANOUS** — In setting the premium for the coming years did the board take into account the new government initiatives which have been put in place and which are aimed at reducing accidents in the workplace, including some initiatives of the previous government and some by the current government? Those initiatives increased the level of penalties for negligent employers to a very high amount, and in the case of the new government led to the introduction of quite a significant number of additional inspectors to check on workplaces for those sorts of practices and a whole range of other things that have been introduced in the area. One of the things I would like you to do is come back to the committee with a list of initiatives aimed at reducing the level of accidents and therefore the liabilities of Workcover. Was any of that taken into account in your preparation?

**Prof. OFFICER** — No. I think the point you are making is important. The win-win is, of course, reduced workplace accidents. There are a lot of triggers and mechanisms you can use other than the premiums to try to do that, and we are working at that. The reason that any new initiatives would not have been in is that we rely on the actuaries, who do not have experience of those things. They can do their best to make an estimate, and at the stage they were giving us estimates the new government's initiatives would not have been in their calculations.

So my presumption is they will take the December actuarial report into account to the extent that they have data. One of the things about actuarial reports is that actuaries, as you know, are basically mathematicians; they like objective data. I have already said how subjective and boring some of this can be. They do try, as I understand it, to make it objective, so that one actuary can follow the work of another, and it is not done by whim or what pressures they are under. They are objective, but this inevitably means a degree of conservatism in their efforts, that they are not game to make a change until they have some hard evidence that it will cause a difference; whereas if you are managing the scheme you might start thinking there will be some good effects out of this, but it might take 18 months to start showing fruit. The actuaries won't take it into account until it starts bearing fruit.

**Mr BEST** — One thing I am trying to work through in my mind is your statement that the premium you now charge has a component in it to meet the unfunded liability and that that has been consistent under both the previous administration and this administration to address the unfunded liability.

**Prof. OFFICER** — Let me clarify what I think Bill Mountford was saying. That gap between what the actuaries reckon the scheme is costing us and the premium, of course, will over time start to erode the difference, assuming they get it right, until we finish up fully funded. The difference in that gap is minimal between the two rates. It has been around 10 per cent or of that order. So what has happened with the estimate of when we will be fully funded is that it has just blown out longer. On the basis of the actuarial numbers that we have to date, because of the experiencing claim rate and the premiums there is a sufficient gap there that we expect to be able to recover. But it will take longer as we get these shocks to the system, like the old common-law run-off was. At some stage people will say, 'Twenty years is too long to recover the system. We would like you to reduce it', in which case premiums will have to go up, or alternatively some of these other factors we are desperately trying to implement in terms of the win-win situation will start bearing fruit a lot earlier and we will suddenly see that gap widen, bringing it forward, and we may be able to reduce premiums in anticipation of it fully recovering.

**Mr BEST** — Do you have each of your areas of exposure by category?

**Prof. OFFICER** — In what sense — industry category, risk category?

**Mr BEST** — Risk category.

**Prof. OFFICER** — Definitely.

**Mr BEST** — Could we have a copy of that? I am trying to work out from 1997, when we were fully funded, to an estimate now of \$781 million, where we have actually blown out.

**Prof. OFFICER** — What has been the change in the estimates of the actuaries of each period and why they have tended to underestimate the liabilities — that is the answer you want?

**Mr BEST** — Correct.

**Prof. OFFICER** — Yes, we can provide that.

**Mr McQUILTEN** — In terms of the companies that do not respond to the remuneration request at the beginning of the year, the 38 per cent, it means the charge is 20 per cent — quite a lot of money, I would have thought — what happens at the end of the year when a company fills in its form and just says, 'I have actually spent so much', would you be able to organise some rebate?

**Prof. OFFICER** — They can get their rebates much earlier, of course, if they inform earlier, but if they do not do anything and it goes right through until you get a confirmation of the remuneration, then they get a rebate.

**Mr McQUILTEN** — It is possible we are going to have a large amount of the money in the fund for the next six or nine months because of that increase?

**Prof. OFFICER** — We will have to rebate it.

**Mr McQUILTEN** — Yes.

**Prof. OFFICER** — I do not know whether we have made separate estimates of that.

**Mr MOUNTFORD** — No. I think we were asked before about the difference between the estimated and the actual amounts. I suspect that quite a number of people have responded now, as we encouraged them to, to ring their agents and give them the information on their estimated remuneration base. I think in answering that other question, we will identify how much is out there. It is also difficult because one does not know precisely what the difference between the estimated and actual is going to be.

**Prof. OFFICER** — What I suspect is that many people, because of the big increases, would have contacted their agents immediately after they got their premiums. I would expect, quite frankly, that that 38 per cent figure was whittled down very quickly.

**Mr McQUILTEN** — It seems to everyone that the most obvious way of reducing premiums to all businesses is to really focus on preventing accidents in the workplace; is that correct? Is that what we really have to focus on if we are concerned about trying to get these costs and inputs into business lower?

**Mr MOUNTFORD** — Yes.

**Prof. OFFICER** — It is a risk-related system and if we can make those who create risky workplaces bear the costs and their focus — —

**Mr McQUILTEN** — Or have fewer accidents.

**Prof. OFFICER** — That is the ultimate aim. Unfortunately, you can only attract the attention of some people through their pocket.

**The CHAIRMAN** — You can only go up one rung at a time unless you are a big business. Can you go down more than one rung at a time?

**Prof. OFFICER** — Sorry, in terms of?

**The CHAIRMAN** — Industry rates.

**Prof. OFFICER** — Of course, with big business, the industry rate effect is pretty minimal on them. It is their actual experience.

**Mr MOUNTFORD** — Industry rates can go up more and down more, and do. Experienced firms whose premiums are driven predominantly by their own experience — —

**Mr THEOPHANOUS** — Has that always been the case?

**Mr MOUNTFORD** — You can fall down more than one, I am informed.

**The CHAIRMAN** — All businesses can go down more than one?

**Mr MOUNTFORD** — You are asking can the industry fall more than 20 per cent, in effect?

**The CHAIRMAN** — Yes.

**Mr MOUNTFORD** — From year to year — the answer is yes.

**The CHAIRMAN** — No matter what size the business?

**Mr MOUNTFORD** — Yes.

**Mr CRAIGE** — There is no maximum on the decrease?

**Prof. OFFICER** — No.

**Mr THEOPHANOUS** — What you are saying is that in the case of small business, where they have gone up by more than one industry rate, it is effectively cut because of the 20 per cent cap?

**Mr MOUNTFORD** — Correct.

**Mr THEOPHANOUS** — Where they have come down more than one industry rate, they receive the full benefit of that reduction?

**Prof. OFFICER** — That is correct.

**Mr THEOPHANOUS** — Even if it might be four or five rungs down?

**Prof. OFFICER** — That is correct.

**Mr THEOPHANOUS** — Can you provide some figures as to how many small businesses actually move downwards more than one industry rate?

**Prof. OFFICER** — Yes.

**Mr THEOPHANOUS** — The other related question is when you had the policy of only one up and no more, was it also only one down and no more? Was that the case? Someone is nodding.

**Prof. OFFICER** — Yes, you are right. I am informed it was one up, one down. Now it is multiple ups and multiple downs.

**The CHAIRMAN** — Do I assume that the rounding up situation was deliberately put in as a money-generating mechanism — in other words, you knew you had to come up with so many million dollars to balance the books? Was that a way of getting part of those funds?

**Prof. OFFICER** — You are right in a sense. There was a certain amount of money that we had to get in and, to use a metaphor, there are many ways to skin the cat. We are conscious that we had been rounding down before and that tended to exaggerate the cross-subsidy between large and small firms. By rounding up, it reduced some of that.

**The CHAIRMAN** — On page 22 of your report you indicate in the third paragraph that an amount for administration and Workcover and occupational health and safety program costs is included in the calculation. Do I assume when you add in those costs that they are evenly spread right across, or are they weighted in some way to big or small business industry groups? How is it distributed as to when you do that?



**Mr MOUNTFORD** — It is based on remuneration — for example, the health and safety costs are basically allocated on a remuneration basis.

**The CHAIRMAN** — And administration?

**Mr MOUNTFORD** — The same thing.

**The CHAIRMAN** — The other question was about income tax. On the bottom of page 12 you say there has been an increase in Workcover's costs because of flow-on effects of income tax reductions. Can you explain that?

**Mr MOUNTFORD** — Yes. Basically, there were a number of effects of the new tax package on Workcover — for example, one of the impacts was that the change in income tax actually changes the settlement payments that we make, because we make them in terms of net payments. So that the reduction in income tax increases effectively some of the net settlement payments that we would make. That was one of the factors that was in there that we would not get compensation for.

There is also the fact that under the new tax package, the estimation of inflation rate was increased. That in turn feeds into our liabilities and costs that need to be recovered in the scheme. So there are a variety of direct costs as well which we bear, or are borne in the course of claims — medical and legal costs which we can claim back. I will make available the details of that, but there were a range of factors in the new tax package which had both savings and costs to us. Those were calculated out in some detail by the actuaries with a net cost to the scheme estimated for us which we could not recover, if you like — a net cost which was unrecoverable in terms of our input costs for the scheme.

**Mr THEOPHANOUS** — On occupational health and safety, you have said you will come back to the committee with a list of the new initiatives. When you do that can you provide, if you have them available, whether there were any estimates provided by the Victorian Workcover Authority as to how these new initiatives would reduce the level of claims and by what amount?

**Prof. OFFICER** — Whether we had done any of the actuarial work at that time?

**Mr THEOPHANOUS** — That is right, in relation to those projections. Is it the current view of the authority that you would next year again impose this 20 per cent on people that had not notified the authority, or are you going back to the consumer price index?

**Mr MOUNTFORD** — I think the best answer to that is really that we are, as I indicated, beginning a premium review. As part of that review, we would be looking at that.

**Mr THEOPHANOUS** — The other question I had which we have not really gone into — and we might need to do it at a subsequent meeting — concerns the administration of the scheme. Obviously, part of the premium costs relate to how efficiently or inefficiently the scheme is run in terms of its administration. Quite a few comparisons have been made with the Transport Accident Commission (TAC), for example, in relation to administration. Have you examined any of those issues and do you have any projected savings that you have identified in administration of the scheme over the past 12 months?

**Mr MOUNTFORD** — In terms of looking at the Transport Accident Commission and how it administers the scheme, yes that is something we have looked at. For example, the established common-law unit within the VWA is headed up by a senior person from the TAC law group. We have certainly drawn from them all the necessary skills.

**Mr THEOPHANOUS** — Are you moving to in-house lawyers as the TAC has?

**Mr MOUNTFORD** — No.

**Mr THEOPHANOUS** — You are staying with a contracted-out scheme?

**Mr MOUNTFORD** — We are, but what we are doing is in effect replicating what the TAC does internally — that is, we are managing the common-law cases strategically. That means we are ensuring that we identify early those cases which potentially put the scheme at risk — the potentially high-cost cases in terms of creating adverse precedents — and we ensure that those cases are adequately prepared and that we brief the

appropriate counsel to represent the authority before the courts. In that sense, in looking at the TAC I think that is an important point, because it is not just there.

The real issue coming into the VWA from outside is not that the VWA has been spending too much on internal resources or on administration. In fact the problem coming into it, as I see it, I would suggest to you is that the VWA has not spent enough on putting in place the infrastructure the TAC has to enable it to manage the liabilities as effectively as it has done. That is really where the leverage is for the VWA.

**Mr THEOPHANOUS** — I know you have just come into the job, but Professor Officer would be aware of these issues. The authority has come back and sought a significant increase in premiums. From evidence you presented earlier, you have identified that some of that is to cover common-law and legislative changes and so forth, and some of it is to try in the long term to make up for the unfunded liabilities present in the scheme. Do you not think it is a bit strange that at the same time as requesting such a significant increase you did not also identify some savings the authority itself may have been able to put up in order to mitigate that impact?

**Prof. OFFICER** — My comment on that is that we have benchmarked against a number of schemes. In the past we have brought in outside experts to look at our systems. Yes, we are reordering priorities and the like. Quite a bit came out of the advertising expenditure last year and was redirected elsewhere. Are there savings to be made in administrative efficiency? In my opinion the big benefits of that will be thinking smarter about how we do things rather than cutting the dollars, as Mr Mountford said. I think a dollar spent wisely here can earn you quite a lot of money by doing it better and more effectively. That is what we are working on.

**Mr THEOPHANOUS** — How much is spent on administering the scheme?

**Prof. OFFICER** — About \$150 million.

**Mr THEOPHANOUS** — About \$150 million?

**Prof. OFFICER** — Yes.

**Mr THEOPHANOUS** — Does that include legal costs?

**Prof. OFFICER** — They would be part of the claims. That would be basically salaries, rent and actuarial assistance.

**Mr MOUNTFORD** — That does not include the payment to the agents.

**Mr THEOPHANOUS** — I have seen figures in excess of \$200 million.

**Mr MOUNTFORD** — That would include our payment to the agents.

**Ms DARVENIZA** — Who are the agents?

**Mr MOUNTFORD** — The agents are the general insurers who manage the claims.

**The CHAIRMAN** — I would like to wind this up as soon as we can.

**Mr THEOPHANOUS** — I just wanted to point out that the entire increase you have sought of about \$200 million is approximately about what you cost to administer the scheme each year. Perhaps in the future there may be some savings in that \$200 million which you can identify.

**Mrs COOTE** — In your conclusion you say that you are looking forward to exploring with the committee ways in which the system could be enhanced into the future. What do you think has been built in to motivate employers to improve and promote safety under this new system?

**Prof. OFFICER** — I think we are doing a couple of things. I will briefly outline my perspective, but the question is better directed to the chief executive officer. We are focusing on industry groups to try and get greater expertise. That was part of the strategy presentation this morning.

We have a number of advisory groups represented by various stakeholders. We are encouraging people to give us information and also disseminate issues which we think are important for the various stakeholders to take note of. I think improvements will always be able to be made in the premium system; that is why we have a review. It is a complex system, and it is not well understood. One area where we think we can get quite a bit of improvement in

communication is through better use of information technology and how we relate to agents and to their clients through the Internet and the like. It is a question better directed to Bill.

**Mr MOUNTFORD** — I mentioned before that there are a number of things specifically related to the premium system that we are looking at. These are innovations we have identified as appearing to be addressing the issue you were talking about: bringing together through employer and industry associations groups of smaller employers in the same industry and forming a group which works at improving its collective health and safety and return-to-work performances and giving them financial assistance for achieving that.

**Mrs COOTE** — It is the financial incentive I am interested in.

**Mr MOUNTFORD** — We are looking very carefully at a way of doing that.

**Mrs COOTE** — Building that into the system?

**Mr MOUNTFORD** — Yes, building it into the system. The challenge is there are penalty-and-bonus systems and other ways it has been done that are fundamentally not sustainable. We believe this may identify a sustainable way to move forward on that.

**Mrs COOTE** — And also to keep the larger employers in there and prevent them going off into a self-funded system? Will that be built into this process?

**Mr MOUNTFORD** — That is not really part of this. This is a process that is really directed to smaller employers, the employers who are if you like subject to the industry rate and therefore lack some of that incentive the large employers have to improve their own performance.

**Mrs COOTE** — The large employers will not be left out of the system either, you will be motivating them to improve their safety records and stay in the system?

**Mr MOUNTFORD** — No, we have separate schemes. As part of the strategy for health and safety going forward we have a program that is directed towards targeting the worst 100 employers in terms of their claims records and seeking to get significant improvement from those organisations by signing them up to an improvement program. We are seeking to take a balanced approach and looking at helping both larger and smaller employers. The big call that came out of the increase was from smaller employers looking for that financial incentive.

The other thing we are doing that may be relevant is the safety development funds. Again, we are looking to run that through employer associations and unions in combination to co-invest in preventive activity in industries, particularly among smaller employers to help them improve their health and safety performance and provide a catalyst for best practice that can then be picked up by other players. There are a number of initiatives we hope will have a positive impact.

**The CHAIRMAN** — We thank you for coming along today and speaking with us. It is an interesting topic. We look forward to having further discussions with you. If we would like to get some more information from your authority as we go along, I presume we have the opportunity to send you a letter and ask for additional documentation. The other way of doing it is to have a formal meeting. If you are happy for us to send you a letter every now and again if we think of any more information we want, we will do that.

**Prof. OFFICER** — I dare say there will be follow-up inquiries as a result of our responses.

**The CHAIRMAN** — We are just starting out on all of this. We hope to learn fast. We are having a series of hearings between now and Christmas, and in the new year we will recommence hearings at the end of January. We will give you a call when the time comes for us to meet again. Hansard has taken a record of what has been said today. We will send a copy of that to you. We are keen for you to look at it and make any corrections where you think we have got it wrong. You may need to have a close look at the figures mentioned earlier because there seemed to be some confusion in that area. You might wish to consider bringing some more people to the table with you next time. We have the option of formally asking you to do that, but I will leave it for you to think about. We would be happy for you to have anybody else with you if you chose to do that.

**Committee adjourned.**