

CORRECTED VERSION

ECONOMIC DEVELOPMENT COMMITTEE

Inquiry into Workcover premiums for 2000–01

Moorabbin – 18 December 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

Mr P. Bancroft, Managing Director; and
Mrs L. Iurato, Financial Controller, Sticky Products.

The CHAIRMAN — I declare this meeting open and welcome our first witnesses. Firstly, all evidence taken by the committee, including submissions, is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act.

I invite you to make a brief presentation, and then we will ask you some questions.

Mr BANCROFT — As part of our brief presentation, do you want the background of the company?

The CHAIRMAN — Yes, but very briefly. I am particularly keen to get onto the issue of Workcover.

Mr BANCROFT — We are a small employer of approximately 35 people. We are a manufacturer of paper products based here in the Cheltenham area. The company is 25 years old. It was part of a public company until six months ago, and it has been privatised back to my family, which originally started it, so that is where we begin.

Will you pose questions based on your formula, or do you want us to — —

The CHAIRMAN — We are here to investigate the issue of Workcover, particularly in relation to premiums, so if you would like to make some initial comments in relation to your situation and the effect on your business, you could do that first.

Mr BANCROFT — As you know, I have prepared a submission of some facts. Unfortunately we do not have an overhead or we could have screened them. In summary, last year we paid out \$15 113.76 as our premium. This is in 1998–99, and we were billed slightly above that. You have the summary in front of you.

Our classification number is C 2643T. It is the same this year as last year; there is no change. Our rate is 1.52 per cent, and we have negotiated that down to 1.16 per cent. The premium levied this year as against last year is \$26 645.27, which represented a 100 per cent increase over the previous calendar year.

We renegotiated that down with a reduction of nearly \$6000, which brings us to an adjusted balance of \$21 813.00. So in the first instance it was a 100 per cent increase, and we got that adjusted down to a 64 per cent increase.

The base salary for our company is \$800 000 a year. The amount for the Workcover premium is based on \$1.2 million, which includes 50 per cent on-costs. The declared amount for Workcover in the 1999–2000 year was increased by 20 per cent over last year. We are advised the actual rate did not increase — that is what our insurers tell us. We are advised that there was a 17 per cent common-law fee this year, which we do not believe we had last year, and we had the 10 per cent GST. That equates to a 27 per cent increase, setting aside that we increased our base amount by 20 per cent this year.

The CHAIRMAN — I will interrupt you there. The current year we are working on is 2000–01. Do I assume that under your figure 3, where you state that the premium levy had gone up 100 per cent before you got it down a bit, that should be 2000–01 rather than 1999–2000?

Mr BANCROFT — Yes, that is correct.

The CHAIRMAN — So that figure of \$26 645 applies to 2000–01, and therefore that figure of \$14 566 down to \$13 113 would be for 1999–2000. Are you happy with that?

Mrs IURATO — Yes.

The CHAIRMAN — Please continue.

Mr BANCROFT — The two amounts, the common law 17 per cent and the GST of 10 per cent, amount to only a 27 per cent increase. So we are looking to where the other increases have come from. The press have reported rises of 17 per cent to 75 per cent, but nothing adds up between what the press are reporting and what we have actually been billed, and that is our starting point.

As for the reasons for the level of those premiums, you may know more about it than we do. This is all happening at a time when inflation is low and government charges are inflating like mad. If we look at it as a private enterprise and business, we are trying to be responsible, but we are being hit with very substantial charges from government, which we consider should be setting the example.

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

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

It is happening at a time when there is a slow down in business, and that started for most people in our factory three or four months ago. We experienced it in the November–December period. Demand is substantially down on this time last year, quite amazingly, and there seems to be a rapid loss of confidence out in the marketplace.

Unfortunately, this has been talked down by the press to some degree. The buyers seem to follow that, and that is what we are finding.

Mr CRAIGE — You would have been aware that there was going to be an increase in Workcover, because that was well publicised by the current Labor government. It said it would reintroduce common law, so you would have known that. You would also have known that there would be a GST factor in Workcover, as in reality we all know. But were you ever aware at any stage, or are you a member of an organisation or an association that could have let you know, that the size of the increase would be as huge as it is?

Mrs IURATO — No. A lot of them did not think they would apply a tax to a tax, either. So that made a difference as well.

Mr CRAIGE — Is there an organisation you belong to?

Mrs IURATO — It was called PATEFA, but it has had a name change again. It is now the PIA, which is the Printing Industry Association. It looks after the printing industry.

Mr CRAIGE — And it had no inkling that there would be the significant change that ended up happening?

Mrs IURATO — It had an inkling, but it was not quite sure as to how it would affect all industries, in particular ours, and how great the increase would be.

Mr CRAIGE — So it was done, to some extent, in secret? You ended up with a bill, not knowing about it in advance?

Mrs IURATO — Yes. Of course, initially our bill was a lot higher than it is now. We negotiated it down by a little over \$5000. That was purely because I complained.

Mr CRAIGE — To whom?

Mrs IURATO — To Workcover. I rang up Workcover because I could not understand why our premium had doubled. They said it technically had not doubled, and without going into the breakdown of it I just said, 'Well, to me it has doubled — from 13 to 26 is double'. And they said, 'The premium itself has not doubled'. So then it was broken down, and from their point of view the premium had not doubled and it had not gone up by as much as I thought — but the bottom line is that it has.

They took into consideration the insurance component and not the added fees. It is like if you take out home insurance and say, 'My premium has doubled', and they say, 'No, your premium from your home and contents is \$400. The other \$200 comprises levies associated with it. So your premium has not gone up'. That is how they have explained it to me.

Mr BANCROFT — On-costs are not a charge; only the bottom line.

Mr CRAIGE — But it does not make any difference to you, does it?

Mr BANCROFT — Absolutely not. You can call it what you like, but at the end of the day we have to meet the bottom line.

Mrs IURATO — I look at the bottom line, they do not. That is the difference.

Mr BANCROFT — It is all a matter of smokescreens.

Mr CRAIGE — Did you actually speak to the Workcover authority? Whom did you speak to?

Mrs IURATO — Directly with CGU.

Mr CRAIGE — So you did not ring the Workcover authority, you rang your — —

Mrs IURATO — We rang our insurance company. I only know it; I do not know there is another contact person.

Mr CRAIGE — So you negotiated that with your agent?

Mrs IURATO — That's right.

Mrs COOTE — With that \$5000, did they explain which part they had taken it from? Did they say, 'It has come off the no-claims bonus'? They did not explain from which sector it had come?

Mrs IURATO — They did two things with us. They reduced our industry rate, which should be 1.52, to 1.16 or 1.17, I think it is from memory. Then they penalised us for some old claims, because in our instance we had two issues. We went from a public company to changing the public name. It sort of carried through. Then they tried to say, 'No, you are a new company, so therefore we have to give it to you at the highest rate'. And I said, 'That is a bit poor when you take in the history as well'. So after negotiations they said, 'Okay, this is what we can do. We can give you a discount', which was the \$5600, from memory. They also reduced the industry rate, so that helped a little bit.

Mrs COOTE — You had some old claims, did you say?

Mrs IURATO — The claim went back to 1997–98, while it was a public company. There was an injury, and the whole claim was worth \$7000; that was it. So they took that into our new account.

Mrs COOTE — Your understanding is you do not have any outstanding common-law claims?

Mrs IURATO — No.

Mr BANCROFT — Somebody cut a finger.

Mrs IURATO — It was years ago too. They took that into account and therefore penalised us. That is what they told us.

Mr BEST — Has the number of employees in your organisation increased or decreased?

Mr BANCROFT — It has been static. Sorry, we have increased our part-time people in the previous 12 months.

Mr BEST — By many?

Mr BANCROFT — Probably 6 or 7 people out of 35.

Mr BEST — Has it made any difference to the remuneration statement that you handed back to them?

Mr BANCROFT — We have taken off the 20 per cent this year.

Mrs IURATO — No, because if we employ casuals, they are doing the work that we would have had our full-time staff doing, paying them the penalty rate. So that just about stays on a par. It is a little bit more, but not much. I allow for that in my 20 per cent increase, which I can adjust about three months before the end of the financial year. I take that into consideration.

Mr BEST — Was your remuneration statement in on time?

Mrs IURATO — Yes.

Mr THEOPHANOUS — I am sorry I was late. I did not get to hear your full submission to the committee, but I understand you were saying that your premium went up by 100 per cent; is that correct?

Mr BANCROFT — Yes.

Mr THEOPHANOUS — You have also had some increase in remuneration, which presumably — —

Mr BANCROFT — Is not proportionate to the increase.

Mr THEOPHANOUS — It is not proportionate?

Mr BANCROFT — No.

Mr THEOPHANOUS — But it would account for some of that?

Mr BANCROFT — Maybe 5 per cent. We are looking for a greater margin — —

Mr THEOPHANOUS — Do you have a problem with us asking the Victorian Workcover Authority for full details of that?

Mr BANCROFT — Not at all.

Mr THEOPHANOUS — So we can get fix on that.

Mr BANCROFT — Absolutely.

Mr THEOPHANOUS — Did you put in your remuneration estimate?

Mr BANCROFT — Yes.

Mr THEOPHANOUS — So that would have been taken into account?

Mr BANCROFT — Yes.

Mr THEOPHANOUS — Finally, you have a payroll of \$800 000?

Mr BANCROFT — Plus on-costs of \$1.2 million.

Mr THEOPHANOUS — About \$2 million?

Mr BANCROFT — It is \$1.2 million, with 50 per cent on-costs.

Mr THEOPHANOUS — Do you know how much your estimated claims cost has been over the past three years?

Mr BANCROFT — Yes.

Mr THEOPHANOUS — How much?

Mr BANCROFT — Two years ago it was \$7000-odd.

Mrs IURATO — Somewhere between \$5800 and \$7000.

Mr BANCROFT — I think that is the only claim, ever.

Mr THEOPHANOUS — What is the new adjustment following your representation?

Mr BANCROFT — It has come down from 100 per cent to 65 per cent.

Mr THEOPHANOUS — Are you happy with that?

Mr BANCROFT — Sixty-four. No, we are not happy with it at all.

Mr THEOPHANOUS — What do you think that reflects?

Mr BANCROFT — It reflects out-of-control rises in government — —

Mr THEOPHANOUS — Have you asked for an explanation?

Mr BANCROFT — I thought we might get an explanation from you here today. You are the government.

The CHAIRMAN — We are not in a position to enter into that area. We are here to collect information from witnesses. Sadly the time has run out. So, Mr Bancroft and Mrs Iurato, thank you very much for coming along today. We will send you a copy of the transcript, and you may submit to us any alterations you desire. Thank you for your time.

Witnesses withdrew.

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Witness

Mr A. Abbott, Proprietor, Nanson Nominees (trading as Chelsea Drycleaners).

The CHAIRMAN — Welcome, Mr Abbott. All evidence received by this committee is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act.

We have strictly 15 minutes. If you would like to make an opening statement, we will then ask you some questions.

Mr ABBOTT — I run four dry-cleaning businesses. Two are dry-cleaning plants, which means we process the work there, and two are dry shops. We have been in business since 1962. We are struggling a bit at the moment, but that is because of the GST. There is a bit of a backlash because prices have gone up, but we hope to remain in business for a few more years to come.

Do you want premiums? Our business in 1999–2000 had a wages bill of \$346 977. This year we anticipated our wages should go up, or could go up. We put another \$10 000 on top, and we went to \$357 180, which was an increase of \$10 000. Our premium in 1999–2000 was \$4449.33, and this year it was \$6198.36, an increase of \$1749.03, which meant an increase of 39.30 per cent. That is not taking into account the GST. That is the net amount, which basically means our premiums have gone up 33.64 per week over our four establishments.

Even though we have hot steam going, we have not had a claim for 14 years. When we received this, our association, the dry-cleaning association, which has its offices at VECCI, put out a letter to all members and asked them to fill in a form, and we had to document how much our premiums were. They were sent to Mr Ken Smith at Wonthaggi. His secretary, Neville Goodwin, compiled them and asked the drycleaners who had filled them in to contact him. We spoke to Steve Kokolyo about Workcover premiums.

As a result of the 27 drycleaners that returned the forms, we were able to save \$41 000 in premiums. We ourselves, through an adjustment in talking to Steve, were able to adjust our premiums down — this is without GST — to approximately \$1200.

The CHAIRMAN — A \$1200 increase?

Mr ABBOTT — Down.

The CHAIRMAN — A \$1200 reduction from the \$6198?

Mr ABBOTT — Yes.

Mr THEOPHANOUS — What was the effective increase you got?

Mr ABBOTT — It is not as great now.

Mr THEOPHANOUS — What was it — \$500?

Mr ABBOTT — About \$500 to \$700. That is without the GST component.

Mr THEOPHANOUS — What do you mean by that? You have already deducted it for the GST?

Mr ABBOTT — No, the GST goes on. That is the net figure. But I suppose our premiums went up another 10 per cent on top of that.

Mr THEOPHANOUS — And then reduced?

Mr ABBOTT — Yes, but I am just talking about the net. So that is the effect on our business. Some people say we should pass the costs on. As I said in my opening remarks, retailers, particularly drycleaners, are experiencing a 20 per cent decrease in business due to the effects of the GST and the warm weather, so things are pretty tight out there and we cannot pass on any increase in price.

We have unfortunately reduced our staff by one — we had 10 this time last year — through retirement. We have not replaced that person, and as things are not going super well at the moment, I am looking at closing one of the shops and reducing our numbers again by one. That is definitely not solely as a result of Workcover, but it is another cost that has come into our business.

Mr BEST — How do you feel having received a reduction of \$1 200? Are you happy about that?

Mr ABBOTT — We had to work at it. We had to go through some parliamentary channels, speak to this chap, fill out some figures and revise our wages down. You have a 20 per cent leeway in your wages, so we reduced our wages bill, because in our industry sometimes you can get a contract and get more work in. We reduced our wages bill by in excess of \$50 000, and that was how we got the premium down.

Mr BEST — What was the explanation they gave for the rise you incurred initially?

Mr ABBOTT — Basically they said it just went through the industry, and it was basically 15 per cent of this and 15 per cent of that and the various things that went onto it. But our industry has not had a high claims rate; it is very low.

Mr BEST — How does it affect your competitiveness?

Mr ABBOTT — With other businesses?

Mr BEST — Yes.

Mr ABBOTT — All drycleaners are scratching at the moment, unfortunately. You cannot cut prices because you will go out of business sooner.

Mrs COOTE — Can I clarify a question on the process of how you got to the reduction? Obviously you initially accepted the premium increase. Were you unhappy and therefore then contacted your association? Was that the way it went?

Mr ABBOTT — First of all I went to our local member of Parliament.

Mrs COOTE — You approached Ken Smith?

Mr ABBOTT — Yes. Then our association contacted Mr Ken Smith at Wonthaggi, because our president has dealings with him, and we sent all our figures to Neville Goodwin, who is Mr Ken Smith's secretary.

Mrs COOTE — So your local member is not Ken Smith?

Mr ABBOTT — No, it is Jenny Lindell.

Mrs COOTE — And she was no help?

Mr ABBOTT — She said I had not got all my interim premiums back in time and various other things, but nothing happened there, no.

Mrs COOTE — So you did not get any help until you got to Ken Smith, and when you got to him you got help and he took it further to the association?

Mr ABBOTT — Yes, but only 27 members had replied up to a certain date.

Mrs COOTE — If there is a premium increase next year, how would that impact on your business, first of all, and secondly, what approach would you take?

Mr ABBOTT — Unfortunately, we have reduced staff by one, and we will probably reduce it by another, but we cannot pass the costs on. I have to look at internal savings, somehow.

Mr THEOPHANOUS — What is your industry category?

Mr ABBOTT — I think it comes under laundries and drycleaners. Dry-cleaning does not have a huge work force. We are filed within laundries, which sometimes can be government-run laundries. We are not a big pool.

Mr THEOPHANOUS — You said that ultimately, after you had been to the Workcover authority and so on, your premium increased by about 10 per cent; is that right?

Mr ABBOTT — Yes.

Mr THEOPHANOUS — You are aware that when it came to power the government said it would increase Workcover premiums by 15 per cent in order to cover common-law rights?

Mr ABBOTT — Yes.

Mr THEOPHANOUS — We also had the federal government impose the GST, which you have said was a big impact on your business.

Mr ABBOTT — Yes.

Mr THEOPHANOUS — That added another 2 per cent, which makes 17 per cent?

Mr ABBOTT — Yes.

Mr THEOPHANOUS — So in effect, with your 10 per cent you are a bit better off than most others in terms of the average increase?

Mr ABBOTT — Yes, but I have reduced my payroll by \$50 000.

Mr THEOPHANOUS — How would you rate the impact of this on your business compared with the impact on your business of the GST?

Mr ABBOTT — The GST has affected all drycleaners, because everything has gone up 10 per cent minimum, but all dry-cleaning would be down 20 per cent — —

Mr THEOPHANOUS — So the GST was a much bigger impact?

Mr ABBOTT — Yes.

The CHAIRMAN — Thank you very much for your time. We will take on board what you have had to say. We will be making a report to the Parliament, which may or may not have recommendations in it based on what we have heard from people such as you who have given up their time to talk to us. We will also send you a copy of the Hansard transcript.

Witness withdrew.

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Witnesses

Mr P. Beattie, Managing Director; and
Ms L. Fink, Secretary, Natures Gift Australia.

The CHAIRMAN — I welcome Mr Beattie and Ms Fink of Natures Gift Australia. I invite you to make a submission, and then we will ask you some questions. Before that, I point out that evidence taken by this hearing is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act.

Mr BEATTIE — Thank you for the opportunity. We are a small pet food manufacturer here in Moorabbin. I have been operating for six years now, and we have an overall staff between this plant and the Thomastown plant of about 30.

The Workcover premium that came to the surface for us this year is that, on a lesser total package, compared with last year it has increased another \$6000. On a percentage rate we paid 3.94 per cent for our classification in pet food, and because of the circumstances it has gone up to 5.56 per cent. The reason they tell me it has gone up to that extent is a change that I made. I thought I was trying to do the right thing.

I bought our business in Thomastown under the same name as Moorabbin's. We were with GIO in Thomastown and Sun Alliance in Moorabbin, so I thought that instead of paying two bills and having two files it would be easier to bring them all into one section. By doing that I penalised myself. I have gone from 3.94 per cent for my business in Moorabbin to 5.56 per cent. The people at Sun Alliance tell me my percentage has increased because I bought my business in Thomastown under the same flagship as Moorabbin. They said there was a succession link in bringing one business down to Moorabbin. I said, 'Why should I be penalised?'. They gave me a bit of history.

There was a claim at the factory at Thomastown which was settled two years ago and which resulted from a person having a back problem. We no longer do the hide tanning part of the business, making dog chews at Thomastown. All we do now is repackage dog products. Because of that my per cent has increased in Moorabbin. I tried to say to the people, 'If I put my business from Moorabbin over to Thomastown, do I get a succession rate?'. That way my premium in Thomastown will be decreased, not my percentage here increased. They could not do that because the name of the company, Natures Gift Australia, is based here in Moorabbin and not at Thomastown.

I asked the question of the fellow I was talking to on the phone. It has taken me three months to get satisfaction from Sun Alliance. I asked the fellow I was referred to, who was one of the head branch members, 'Why don't you return my telephone calls when you say you will?'. Four times he was supposed to return telephone calls. It was not until Lisa hassled him that we actually got some answers. We finally got an answer last week. He is still needing to gain copies of different costs from the previous Workcover people to calculate our claim. I might have been a little bit cynical when I said this is the very reason why all your manufacturers in Victoria are going across the border to South Australia, because over there it is a little bit different.

Mr THEOPHANOUS — That is true. It is more expensive there.

Mr BEATTIE — I thought it was cheaper. Our concern is that if these costs keep increasing, it is going to put awful strains on our business. We employ 30 people. We are in a market that is dominated by the multinationals, with foreign products coming into the country. We are an industry that cannot put our prices up in supermarkets because they will take us off the shelves. We have to find ways of absorbing those extra costs and percentages, because we have been dealt a penance of paying for previous people, and I do not believe it is right. I am not sure what more I could add.

The CHAIRMAN — Do you have this year's figures there?

Mr BEATTIE — For Natures Gift — I am talking about Moorabbin — last year our total salary package was just under \$380 000.

Ms FINK — You have to make it different for the factory and the office workers, so it is about \$700 000 in total.

Mr BEATTIE — At Moorabbin we have two categories. In the factory the total package is just under \$380 000. We paid \$14 500, at 3.94 per cent Workcover. For the package of \$355 000, which is about \$25 000 less than last year, I am paying nearly \$20 000 in Workcover at a rate of 5.6 per cent, because I brought our factory at Thomastown under the same criteria.

Mr BEST — The Workcover authority is allowing you to have two different categories within your own work force?

Mr BEATTIE — Yes.

Mr BEST — Are they on the one site?

Ms FINK — Yes.

Mr BEST — So your administration staff has a work premium of what percentage?

Ms FINK — That is different from the factory.

Mr BEST — This is very interesting.

Mr BEATTIE — They call it an agency agreement — an agency for administration staff and sales staff.

Mr BEST — We have heard evidence elsewhere that they do not allow it, so this is quite interesting for us.

Mr BEATTIE — I wrote to them six years ago and argued about why my girl in the office — or girls, now — should have the same Workcover percentage as the guy in the factory.

Mr BEST — Unfortunately they do not have one set of rules right across the board, because we heard evidence of an abattoir where all staff, including administrative staff, were charged out at the higher rate. So for the sake of clarification of the evidence, can you tell us what category your administration staff is under, and the percentage?

Mr BEATTIE — Last year it was .49 per cent, and this year it has gone up to .83 per cent. It is under — —

Ms FINK — ‘Agencies NEC’ is the office. That is the industry — ‘Agencies NEC’. Then for the factory it has ‘Industry-prepared animal and bird foods, manufacturing’, et cetera, so it is definitely separated. I can show you.

Mr BEST — To make sure we are absolutely clear on this, it is a factory on the same site, under the same roof, but you have two different sections?

Mr BEATTIE — Yes. The difference is that the people in the office have a separate entrance and separate amenities, and they do not go in towards the factory. So there is no cross link from the administration going into the factory, and that was why they allowed it to happen. They came down and inspected the plant, and they were quite satisfied that it separated the office staff and sales staff out of the factory workplace.

Mr BEST — But on the same site?

Mr BEATTIE — Yes.

Mr THEOPHANOUS — So they told you that if you have a physical separation — if one lot of workers does not have contact with the other — you could have the different rates; is that right?

Mr BEATTIE — I cannot exactly remember the words. That would have happened six years ago. I put up a case and they accepted it. They came down and inspected the plant and were quite happy with it.

Mr THEOPHANOUS — On these other issues, I am trying to figure out why they are charging you a higher amount. Presumably it is the factory in Moorabbin you are talking about?

Mr BEATTIE — Yes.

Mr THEOPHANOUS — And you have another factory?

Mr BEATTIE — In Thomastown.

Mr THEOPHANOUS — And the Thomastown factory had a poor claims record?

Mr BEATTIE — It had one claim.

Mr THEOPHANOUS — Whereas your one had a good one?

Mr BEATTIE — Correct.

Mr THEOPHANOUS — What they have done is put the two together, but you are making the same thing? You are under the same category with both those companies?

Mr BEATTIE — Yes we are, which is another bone of contention, because the categories they place you under do not define what sort of work you do. They have us over in Thomastown under ‘Offal and crushed wholegrain for fodder excluding rice and rye in preparing animal foods’. We are packaging pet foods — —

Mr THEOPHANOUS — What I am trying to understand is that your complaint is not really about the increases due to what the current government has brought in — the common law — but about the categorisation and the way they have crossed it from Thomastown to Moorabbin.

Mr BEATTIE — That is a secondary argument. I am primarily here today because my premium has gone up so much from last year.

Mr THEOPHANOUS — Yes, but you say that is because of what they did with the Thomastown and Moorabbin plants.

Ms FINK — Well that is the excuse they are giving, anyway.

Mr BEATTIE — That is what they are telling me.

Mr THEOPHANOUS — Are you aware that that would have occurred irrespective of any changes to common law? Those arrangements have been in place for the past seven years. What you are talking about is whether the committee should consider what has always been the case — that if one company buys another company and the second company has a poor performance record, it will affect the first company. That has always been the case; there is nothing different about that. But what I hear you saying is that that has been the reason for the increase rather than any legislative changes brought about in relation to common law.

Mr BEATTIE — How much of that is due to the increase? They do not tell you that. That is part of it.

Mr THEOPHANOUS — I think it is only a matter of asking, because they will tell you.

Mrs COOTE — Given that the Bracks government came in on a platform about common law and so on, were you expecting some premium changes because of the legislation they were flagging at the time?

Mr BEATTIE — All the reports suggested that premiums would increase, yes.

Mrs COOTE — When were you notified? Was it when you first got your returns, or had you been notified and been given information or a package beforehand?

Mr BEATTIE — The first time it came with the first invoice and so forth, and it was reasonable and I thought it had not gone up too badly. Then a week later I got the same letter from the insurance people with another invoice, and one figure went up \$12 000 in a week. It was the same letter word for word, except for two different dates — one was 7 October and one was 15 October — with two different invoices and no explanation, just the \$12 000 difference.

Mr CRAIGE — I am having difficulty following. No doubt you are, but I am, let me tell you! You said one part of it is ‘unprepared animal and bird foods manufacturing’, but what was the other, because I cannot find this offal thing?

Ms FINK — That is all part of it.

Mr BEATTIE — The number is C 2175R.

Mr CRAIGE — Where is the ‘offal’ description?

Mr THEOPHANOUS — They are both under the same number.

Mr CRAIGE — But the industry rate is 5.78 per cent. You said it was 5.56.

Mr BEATTIE — And Thomastown is 9.59.

Mr CRAIGE — So let's get this right: the Moorabbin plant is 5.56, which is lower than the industry rate because of your good performance down there — —

Mr BEATTIE — Hopefully, yes.

Mr CRAIGE — And you have been placed under a penalty at Thomastown because of a pre-existing claim?

Mr BEATTIE — In an industry that does not exist anymore. But you cannot get out of the classification because the classification is on the plant.

Mr CRAIGE — Would you close Thomastown?

Mr BEATTIE — Maybe we will have to for a week and then reopen it. Maybe that will reclassify it.

Mr CRAIGE — Do you do the same thing at Thomastown as you do at Moorabbin?

Mr BEATTIE — No. In Thomastown the practice there was making a raw hide dog chew product. The raw hide would come in and be processed, split, basted, dried and packed. It was a fairly involved process. Nobody in Australia does raw hide anymore, you cannot do it in Australia. So you buy it in bulk; you put it on a table and you have half a dozen girls there putting it in boxes. It is a process that is already made, but I still cannot get out of this classification of offal and animal bird seeds and crushed whole grain.

You mentioned abattoirs before. They have made me part of the abattoir industry. I said to these people, 'I don't even use knives, so how can anyone cut themselves?'

Mr CRAIGE — So there is no high-risk task there anymore?

Mr BEATTIE — No, not unless you call putting things in boxes high risk.

Mr CRAIGE — No I don't, and I don't think you would, either.

Mr BEATTIE — That is why I cannot understand why I am penalised with 5.95 per cent.

Mr CRAIGE — You have raised this with your insurance agent and Workcover, and they will not reclassify?

Ms FINK — We just keep getting letters saying that they will look into the matter and get back to us.

Mrs COOTE — Is that dog chew or dog shoe?

Mr BEATTIE — Chew — c-h-e-w.

The CHAIRMAN — We are out of time. Thank you very much for your time today. We will send you a copy of the Hansard record, and you can submit any alterations to us.

Witnesses withdrew.

CORRECTED VERSION

ECONOMIC DEVELOPMENT COMMITTEE

Inquiry into Workcover premiums for 2000–01

Moorabbin – 18 December 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

Witness

Mr P. Patroni, Managing Director, Kinetic Technology International Pty Ltd.

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

Would you like to make an opening statement? We will then ask you questions.

Mr PATRONI — I have a small electronic manufacturing company in Cheltenham. We have never made a Workcover claim ever in our existence. The nature of the industry is electronic assembly. There is not a lot of machinery involved. What highlighted the issue for us was Premier Bracks on the Neil Mitchell show stating that Ericsson had had a drop in real terms of 18 per cent in its Workcover payments.

Our industry is very much aligned with the same type of manufacturing processes that Ericsson entails, yet our premiums increased by 45 per cent although our salaries decreased by 5 per cent.

We have made efforts to get this clarified and have made contact with people in the appropriate areas. We have never had any success or joy in so doing. I certainly appreciate the opportunity to come here and make my point. I do not know whether it will do any good, but we are in a very difficult industry.

We got in touch with Mr Attard and never had any reply from him when we did approach him.

The CHAIRMAN — Where is he from?

Mr PATRONI — From Workcover, at GPO Box 4306, wherever that is.

Mr BEST — What date did you write to him?

Mr PATRONI — The first notice we got was when the amended premium came out. We did not get any notice of any changes. On 17 July we got a letter of renewal, and that stated that our premiums had increased by 45 per cent.

The CHAIRMAN — That includes GST?

Mr PATRONI — It does, yes.

The CHAIRMAN — What effect would this increase have on your business, Mr Patroni?

Mr PATRONI — Unfortunately electronics in Australia is a dying art, and most of it is done in Asia now. It is very hard to compete and to justify manufacturing here in Australia under the conditions that we have to work under.

Asia is very much hands on in the electronic manufacturing industry, and Australian companies have left in droves. We find it very difficult to compete with Asian imports with no duty at all in a country with 5 per cent and with much different working conditions from what we have here.

We have been plastered by imports, and it is reducing our economic viability. That is why our wage bill is lower now. Although people have had salary rises, the total wage bill is less because unfortunately it is about diminishing returns. Every extra expense added to it by extra non-productive charges like these is very, very detrimental to our business.

Mr THEOPHANOUS — I am just trying to understand the increase for you. You said it did not include GST. Can I suggest that although you have said Ericsson had a reduction, which may be true — I do not know — —

Mr PATRONI — That is according to these rates.

Mr THEOPHANOUS — The industry rate as a whole, however, went up by one category, which means that the industry as a whole did not perform in terms of safety. Now Ericsson might have performed as one part of the industry and therefore got a reduction, but the industry as a whole went up by one category. That accounts for 20 per cent of the increase. If that is the case, it would have happened irrespective of the sort of package. It is nothing to do with common law; it had to do with the industry rate going up.

Mr PATRONI — It had nothing to do with how safe we behaved, or anything to do with us.

Mr THEOPHANOUS — That is right, but for a small industry one of the ways this works — this was put in place by the previous government — is that small companies are charged the industry rate; otherwise you could have a \$3 million accident and you would go broke. That is not the way it works. Small companies get the industry rate.

My question is this: if it is true that 20 per cent can be accounted for by the industry rate increase, do you accept that the rest of it is accounted for by a 15 per cent increase for common law, which the government was up-front about? There was a further 2 per cent for the GST, which makes your total increase 37 per cent. I suggest the rest of it is what comes back to you as a result of the GST discount you will get back. What I am putting to you is that it is all very well to criticise, but the way to reduce those rates is for the industry as a whole to increase its safety record.

Mr PATRONI — But surely that is a motherhood statement. What hope have I got of making sure that some other company behaves more responsibly or puts in practices that are safer? Surely we should be judged on our merits. Is that not fair?

Mr THEOPHANOUS — That was the system that was put in place for small business.

The CHAIRMAN — We are getting into a debate here. Did you have another question, Mr Theophanous?

Mr THEOPHANOUS — My final question is: do you accept the need to have increased it by at least 15 per cent to cover common law? Do you have a problem with that?

Mr PATRONI — Yes, I do. I have a problem with increasing it at all in difficult economic times. It is just more difficult for my company. The bottom line is that it will make it more difficult for us to employ people or to promote our products because of competition. The Taiwanese do not pay common law, nor do the Chinese, nor do my competitors from overseas.

Mr THEOPHANOUS — But we are the second lowest of any state in terms of premium.

Mr CRAIGE — Did you mention to us what category you were in?

Mr PATRONI — I did not mention it, no. The category given here is — —

Mr CRAIGE — Let me ask the question. You did not tell us, did you?

Mr PATRONI — No.

Mr CRAIGE — Having looked at all the industry categories, I am a little confused as to which one you are in. I assumed you were in one that went up two points, which was electrical machinery and equipment, but I do not know because there are so many categories in here. Which one are you in, by the way?

Mr PATRONI — I do not know that you get much of a say in your classification. We are in C3353K.

Mr THEOPHANOUS — Which went up by one.

Mr CRAIGE — Have you ever challenged the reason why you are in that category?

Mr PATRONI — No. In fact I am not privy to how categories are arrived at or what may be more favourable categories to be classified in. Surely someone should tell me. Surely someone should look at our industry and realise that no-one has even cut a finger in it, so maybe we should be in a more appropriate category for the type of work we are doing. I do not know what is encompassed by that category, either.

Mr BEST — How many workers do you have on the factory side of your operation?

Mr PATRONI — On the factory side, we have six workers.

Mr BEST — Do you have a sales team?

Mr PATRONI — No.

Mr BEST — An administration component?

Mr PATRONI — We have two people in R & D, because in electronics if you do not have R & D, you go backwards. We have two in administration.

Mr BEST — Are they all categorised in the one industry rate?

Mr PATRONI — I believe so, yes. The wages all go out of the one basket, so I guess that is probably how it is all done.

Mr BEST — Just to get a profile of the business, is it all on the one site?

Mr PATRONI — It is all on the one site. It has never moved. We have been there for 10 years.

Mr BEST — Under the one roof?

Mr PATRONI — Under the one roof.

Mr BEST — Does everybody enter from the same door?

Mr PATRONI — Yes.

Mrs COOTE — Did you ever get to the bottom of why Ericsson was able to have an \$18 000 decrease?

Mr PATRONI — 18 per cent.

Mrs COOTE — 18 per cent.

Mr PATRONI — No, we tried to find that out from Mr Attard, but we were never privy to the reasons for it.

Mrs COOTE — So presumably in the same industry and the same category, the same sort of rules should have applied?

Mr PATRONI — I would have thought so.

Mrs COOTE — So no-one has given you any satisfaction about that?

Mr PATRONI — No.

Mr BEST — What was the date of the letter which you wrote to Mr Attard?

Mr PATRONI — I do not have a copy of the letter here, but it would have been — —

Mr BEST — Two or three months ago?

Mr PATRONI — Yes.

Mr BEST — So you have heard nothing back from Workcover?

Mr PATRONI — No, nothing back. I am happy to table our two premium notices, if you wish.

The CHAIRMAN — That is up to you, Mr Patroni.

Mr PATRONI — Yes, I am quite happy to do that.

Mr CRAIGE — One of the things we have been asked to look at is competition. You have imports and you have a company here which gets a reduction. Does that affect your competitiveness in the marketplace?

Mr PATRONI — It does, although we are not directly competing with Ericsson. I do not know how many other people are treated like Ericsson. We have one competitor who is Sydney based. There is only one other Australian competitor. All the rest are overseas. Our suppliers are now turning to product from overseas because we are not price competitive with them.

Mr CRAIGE — And this increase helps you become less competitive?

Mr PATRONI — Exactly.

The CHAIRMAN — Thank you for coming today along. We will send you a copy of the transcript from Hansard for you to make any corrections you deem necessary. Thank you very much for your time.

Witness withdrew.

CORRECTED VERSION

ECONOMIC DEVELOPMENT COMMITTEE

Inquiry into Workcover premiums for 2000–01

Moorabbin – 18 December 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
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Staff

Executive Officer: Mr R. Willis
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Witness

Mr R. Dannals, Operations Manager, Timstock Trading Pty Ltd.

The CHAIRMAN — Thank you for coming along today, Mr Dannals. All evidence taken is subject to parliamentary privilege and granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act.

Please make an opening statement.

Mr DANNALS — I work for Timstock Trading House in Cheltenham. It is a privately owned family business that has been in existence in one form or another through three generations for 125 years. We employ 26 people. We are subject to outside stresses, one of which is the Workcover situation.

I support a lot of Mr Patroni's comments. They are very relevant to us. He did steal a lot of my comments, but I would like to thank him for that.

Where I have a problem with the whole Workcover situation is with the lack of consultation and the lack of individual reward for effort and for what we have done at Timstock since March of this year, when I took over as operations manager. Effectively we have had a good claims history. We had a fairly large one about three years ago, which involved Workcover people coming around to assess why this claim was put in. They were doing a report of back injuries, so they came around and we created a very good working relationship with them. Where I am having trouble is with the lack of consulting and the lack of individual assessment, as Mr Patroni said, of our situation.

I would like you to consider those remarks to be my statement, but there may be further issues that I would like to raise during questions.

The CHAIRMAN — Has your premium gone up this year?

Mr DANNALS — Eighty-five per cent, including GST.

The CHAIRMAN — What do you put that down to?

Mr DANNALS — Actually I rang the Workcover authority to ask them why, and they stated the basic reasons that Mr Theophanous explained — just industry increases, GST, common-law percentages and so on. They said thank you very much but there was nothing they could do about it. That was after we received a letter from Workcover, and at Workcover's suggestion I contacted the premium building people to see whether, with what we had done with them, Workcover might approve a discount. That was not the case because it is completely and totally irrelevant to any personal or private issues of improvement. It makes no difference whatsoever.

The CHAIRMAN — Can I assume that before you became involved with Timstock it had a claims record that you may still be suffering from?

Mr DANNALS — There were apparently within the past 10 years two claims made, both on back injuries. Speaking out of school, one of them I class as dubious, the other I am not terribly sure of. It was over two years ago.

The CHAIRMAN — What has been the effect on your business of such an increase?

Mr DANNALS — We are going through a large developing stage, which involves spending many tens of thousands of dollars of unfunded resources. That is, we are using our sales resources to gain this progress. We are not borrowing money to do so. Any amounts we have to spend which come out of left field, which are unable to be negotiated or which we are not totally aware of will restrict and have restricted our growth to that amount of dollar value.

Mr THEOPHANOUS — Eighty five per cent is a substantial increase. Can you explain to me whether your remuneration changed from the previous year to this year? Did it go up or down?

Mr DANNALS — Up by one employee. I cannot give you the dollar value.

Mr THEOPHANOUS — But that would account for a bit of that 85 per cent, whatever it was?

Mr DANNALS — Yes.

Mr THEOPHANOUS — Did you put in an estimate of remuneration?

Mr DANNALS — I honestly could not tell you, but I believe it would have been classed as static because prior to that employee — which happens to have been me — there was no growth rate for the past three or four years.

Mr THEOPHANOUS — Are you aware that if you did not put in an estimate of remuneration, an automatic 20 per cent — or even a bit more than that, because it accumulates — was put onto the account, and that if you contact the Workcover authority and tell them what your actual remuneration is going to be, you will probably be able to get a reduction?

Mr DANNALS — No, I was not aware of that, but when I did speak to Workcover about why our premiums had gone up that issue either was not raised or we had put in the estimated value.

Mr THEOPHANOUS — Do you mind if we contact Workcover and examine your details?

Mr DANNALS — Not at all.

Mr THEOPHANOUS — The other thing that I would ask you is whether yours is a fairly small business?

Mr DANNALS — Yes.

Mr THEOPHANOUS — You are aware that as the business gets smaller what applies most is the industry rate, and that as the business gets bigger what applies most is the actual experience of the business in terms of accidents. Would you prefer a different system from that?

Mr DANNALS — Absolutely.

Mr THEOPHANOUS — And you would not mind if you had an accident and your rate went up by, say, 300 per cent on the basis of that accident? You would be prepared to take that risk?

Mr DANNALS — It used to work fairly well with workers compensation, but to answer your question — yes, because our premium would not go up to the rates it has done. Since March this year at Timstock we have put in occupational health and safety quality assurance, food safety, staff training and all sorts of things that were not there before. That is why we have the nice letter of clearance from Workcover, not only obviating (sic) us from any future performance improvement programs because of our progress but also suggesting that because of the improvements we have made we should be entitled on an individual basis to some sort of rebate. But as you say, that does not work.

Mr BEST — So really there is not much reward for effort?

Mr DANNALS — If I may use the vernacular — diddly-squat. There is no benefit whatsoever, from what I can see, for the efforts we have made and the money we have spent.

Mr THEOPHANOUS — Has that been the case for the past six years?

Mr DANNALS — I have only been there since March.

Mr BEST — Are you under bread manufacturing or — —

Mr DANNALS — I was hoping you were not going to ask that. I think it is actually flour millers, but I am not sure.

Mr CRAIGE — Do you make anything?

Mr DANNALS — No, we repack; we do some repacking. I do apologise. I cannot give you the category.

Mrs COOTE — How do you think these additional premiums have affected your competitiveness?

Mr DANNALS — It has restricted us from using that amount of money to progress. It has slowed us down. We are developing a web site, which is costing us just over \$10 000 and which will improve our situation. It is a special web site — very complex to design and very user friendly at the other end. It will especially help us in our ordering, in our pre-programming, in our monthly specials and in our cataloguing, pricing and so on, but now

we will just have to defer doing that web site until February rather than having it done before Christmas. That is just an example.

Mrs COOTE — If the premium rates were to increase at the same rate next year, how would that affect you?

Mr DANNALS — It would mean the same annoyance factor we have now, with all our efforts to make ourselves more professional and to take care of our employees on all sorts of different levels. I would like to be back here at the same time next year and go through the same thing again, if that is going to be happening.

The CHAIRMAN — In terms of the 85 per cent increase, can you again run through what you have done in asking why it is so high and the responses you have received?

Mr DANNALS — I rang the relevant authority that our Workcover field officers suggested I ring.

The CHAIRMAN — You rang the Victorian Workcover Authority, not your insurer?

Mr DANNALS — No, the VWA. I explained the situation — that we had clearance, had done the PIPs, had examined manual handling and were doing all these arrangements — and asked why it had gone up, and the answer was: ‘Common law, industry standards and the GST. That is the premium you are on now, thank you very much, and there is nothing you can do about it.’

The CHAIRMAN — Since that time you have not taken any further action to query why it is so high?

Mr DANNALS — I did report back to our field officer. We have an ongoing and very friendly relationship, where he has open slather to come in and have a look at our improvements if he wishes to put them across to any of his other customers. I did explain that to our Workcover field officer, and he said, ‘Well mate, you tried. There is nothing else we can do about it’. He is not in the appropriate area to say that, but that was his comment as a member of Workcover.

The CHAIRMAN — You used the term ‘PIP’, which is an improvement program. What is the first P for?

Mr DANNALS — Performance improvement program.

Mr THEOPHANOUS — Just to clarify things, because we are interested in getting people’s views on this, other than the 15 per cent of the 85 per cent, which was for common law, all the other increases were as a result of the application of the previous system under the previous government. Your view is that we should change that system and make it fairer for small business. Is that what you are saying?

Mr DANNALS — Yes.

The CHAIRMAN — Thank you. Do you believe the government should take any action to either reduce the premiums or compensate for any adverse impact?

Mr DANNALS — I am not one for compensation in a personal or professional sense, but I would like a review of the situation so that it applied similarly to motor vehicle accidents. You do have some sort of benefit for no claims or for meeting particular specifications, such as occupational health and safety and so on. Why should we comply? We have done more than comply, yet we are paying the same sort of premium as the bloke around the corner whose forklift does not have brakes!

This is my point of action. We are doing everything we can — and always have done since I have been there. I have been doing occupational health and safety for over 20 years, including workers compensation when it was there. I would like to see personal rewards or private rewards for individual people and individual company success rates.

Mr BEST — This is an open hearing, and in earlier evidence two witnesses said they have been able to negotiate reductions. How vigorous have you been in your negotiations with Workcover?

Mr DANNALS — As I said when I first made the phone call, I was told that that was the industry standard: ‘That is the rating you are in. There is nothing we can do about it. It is not negotiable’. Then our field officer commented, ‘Well, it looks like you have tried, but you won’t be able to get anywhere from there’, so I let it go at that. If you think I should pursue it, I am more than happy to do so.

Mr BEST — I think you should.

The CHAIRMAN — Thank you for your time today. We will send you a copy of the Hansard transcript, and you can submit any alterations to us. We appreciate your taking the time to come to see us.

Witness withdrew.

CORRECTED VERSION

ECONOMIC DEVELOPMENT COMMITTEE

Inquiry into Workcover premiums for 2000–01

Moorabbin – 18 December 2000

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Witness

Mr C. Mighell, Director, All Torque Transmissions Australasia Pty Ltd.

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

Mr Craig Mighell is the director of All Torque Transmissions Australasia Pty Ltd. I invite him to make an opening statement, and then we will ask some questions.

Mr MIGHELL — My name is Craig Mighell. I am a co-director of the company All Torque Transmissions, located at Braeside. My company employs five full-time staff made up of myself, my wife and the co-director and his wife, and we employ a sales manager.

I began our business four years ago after I had been in power transmission from the time I left school at 15½. We are a wholesale supplier of power transmission equipment — for example, electric motors, pulleys, belts and sprockets, all the equipment that makes industry turn.

There appeared to be a fair lack of experience in power transmission knowledge, and service was a problem. While our wives were employed to share accounting duties and administrative and secretarial duties, our other key staff, including myself and the other two guys, are very hands-on in the business.

Between the three of us — the key members — collectively we have over 82 years experience in power transmission, all exceeding 25 years each. We have strengths in particular areas of our operation, and we also respect the fact that we have only a certain amount of hands on deck and are regularly working as a team to sort out all sorts of tasks. I am sure the other small business members here today will agree with me that there are all sort of things you have to do. You have to be a jack-of-all-trades.

Probably 85 to 90 per cent of our business is around the sales office/administrative sort of work. We are continually purchasing and reselling. We do very little work out on the shop floor, aside from packing and despatching, et cetera. So from that point of view I would like to think that our Workcover premium is probably a little bit steep in that I would say we are in a very low-risk category.

Mr THEOPHANOUS — Do you know what your category is?

Mr MIGHELL — Yes, I do. It is ‘industry machinery parts or equipment wholesale’, which is classification F4736R. Our 2000–01 Workcover premiums represented a 48 per cent real increase in premiums to our business. Our company is in a very low-risk classification, as I say. For the 1999–2000 period, with a remuneration of just over \$155 000, our premium was \$1986, and the 2000–01 estimation is \$163 800. Our premium has gone up to \$3028, excluding GST.

I wanted to make a point of coming here today. As I said, we are a very hands-on business, and coming up close to Christmas we are very aware of machine breakdowns, keeping customers happy and so forth. But when I was given the opportunity, I was only too quick to jump at it because I can see this is obviously a fairly large concern for most small businesses.

From what you hear on radio, what you read in the newspapers and what you hear in discussions within our industry and throughout others, let’s face it, we all live here and this is a problem. I suppose my biggest problem with the whole scenario is how any operation can take, in one fell swoop, a 48 per cent increase from one year to another. In the four years that I have been operating, industry increases would have been somewhere up around about 8 to 10 per cent maximum across the board in any product or service. We can argue the reasons for it and the reasons why, but in one fell swoop small businesses find that sort of increase very difficult to sustain. That is the reason I am here.

The CHAIRMAN — Does the 48 per cent you mentioned before include the GST?

Mr MIGHELL — It is a bone of contention. I was going to bring my wife. She was keen to come, but she was very busy. But going by her figures here, she is saying that in one respect it does. It is a \$3028 premium, ex GST, that is without GST.

The CHAIRMAN — What effect will this increase have on your business? What is the impact in practical terms? Do you have to meet this additional cost?

Mr MIGHELL — It is probably fair to say that, from my business’s point of view, it is going to have a fairly large reaction in that, although other businesses will be suffering a similar sort of increase across the board —

whether it is 30 per cent or whether it is 80 per cent, as we heard earlier — it is still a fairly large increase in one fell swoop.

I do not want to deviate off the subject too much, but I run our three company vehicles on gas, and in the past 12 months we have had increases of between 30 and 50 per cent. There are two cases. If you throw into that the GST and the lack of confidence within the industry, all these things add up to some real problems in cash flow areas and so forth. I think a lot of companies, especially the ones that are not as experienced and go out selling on lower margins, forget the sorts of margins you have to work on to be able to sustain these sorts of increases.

The CHAIRMAN — Is the result of all this that you work on lower margins or put off staff or do not go into a development phase? How does it affect your business?

Mr MIGHELL — I guess in some ways we are reasonably lucky in that we had that experience on our side, and we see a lot of our opposition out there selling on price to get quick orders and selling to companies with serious cash flow problems. From our point of view, okay, it is a large increase, and I certainly do not support it, but I can see that a lot of other companies are going to find it a whole lot more difficult. We do not go out and sell on price. We try to use our experience to forward the business, but it is really difficult, even in this sort of climate, to be able to sustain these sorts of increases.

Mr CRAIGE — So you are saying it affects your competing against other people in the business you are in?

Mr MIGHELL — With due respect to my opposition, there are a number of loose cannons in the industry. As I say, we try to keep fairly hands on and fairly sharp in our marketing strategies and our view of the trade, and we also keep hands-on and streetwise insofar as what is going on in the industry is concerned.

In terms of our competitiveness, we deal with such a range of industry — for example end users, individual equipment manufacturers and retailers — that obviously pricing is one issue. Certainly you have to be sharp enough to be on the ball and to know the sort of pricing you can sell without being a loose cannon, like quite a few of them are.

Mr CRAIGE — I want to follow on from your raising the issue of small businesses having increases that come out of left field. You would have been aware, as all of us were — Blind Freddy knew it — that the government was going to increase Workcover because of its commitment to common law.

Looking at the size of the increase and looking at your bottom line, and not having great margins to work on, anyway, you suddenly have to find that money and pay it up front.

Mr MIGHELL — Certainly you pay it up front. Although, as I said earlier, most companies are in a similar boat, if I did not think it was a major concern I would not be here; instead I would be out servicing my customers. I reiterate that I find 40 to 50 and 60 per cent increases in any commodity, any cost or any overhead in small business really difficult to accept.

In all of my training from my previous bosses, who were very smart and business wise, rarely have I seen this sort of increase and run-on increases in 12 months. There are companies out there hurting, and they are all saying, 'What is my next step? How do I go about not losing my grip on the business? How do I go about not losing the margins I am used to?'. A lot of them have been working on low margins and are now finding cash-flow problems because of the increases we are getting here.

Mrs COOTE — Did you go through an agent or did you go to Workcover itself to find out what the premium would be? How did you first find out?

Mr MIGHELL — I believe it was direct from Workcover. Well actually, from CGU.

Mrs COOTE — I see; so it was an agent. Have you been happy with the level of information you have received, and do you understand the process even though you are not happy with it?

Mr MIGHELL — I do understand it. When I first started my business, for the first 12 months I looked after this side of things myself. My wife was working in another job at the time. She handles it now because of her experience in bookkeeping and dealing with these administrative issues, but I certainly keep a strong eye on it. However, because we are fairly shorthanded, it is a little difficult to keep your finger on the pulse of everything, but as soon as I see a 48 per cent increase out of left field I certainly stand up and take notice.

Mr THEOPHANOUS — What percentage rate are you on?

Mr MIGHELL — I am pretty sure that when I first started business it was around 3 to 4 per cent.

Mr THEOPHANOUS — What is it now?

Mr MIGHELL — I cannot give you a direct answer.

Mr THEOPHANOUS — Your industry rate is 1.84 per cent, which is very low. You should not really be getting any more than that. You should not be charged any more than that as a small business unless you have had some accidents. Have you had any accidents?

Mr MIGHELL — Not one claim whatsoever.

Mr THEOPHANOUS — It is a bit of a mystery to me because small businesses generally get charged the industry rate. That industry rate is very low at 1.84. Some go up to 7 per cent. That is F4736R, which is the one you read out. So I am a bit surprised that you are even here. Would you mind us asking Workcover for full details of your claims?

Mr MIGHELL — Not at all.

Mr THEOPHANOUS — You mentioned gas. Isn't it really the case that there have been a number of increases? You have had the GST, you have had petrol and you have had gas go up, and all of those increases would have had a much bigger effect on your business — —

Mr CRAIGE — And Workcover!

Mr THEOPHANOUS — Than Workcover?

Mr MIGHELL — Was the GST an increase?

Mr THEOPHANOUS — You have had the GST: you have had to prepare your company for GST.

Mr MIGHELL — I certainly do not want to deviate, but as for the cost of the GST, irrespective of the 10 per cent and what you can claim back, the bottom line is the administrative costs that my small business — the five people — have had to endure. I have only recently fallen short of sending an invoice to our good friends to see what sort of compensation can be paid to us for the hours put in, in preparation for GST and also seminars etc. while normal duties are put aside.

Mr THEOPHANOUS — So the GST — and gas prices — has probably had a bigger impact than Workcover?

Mr MIGHELL — The three of them put together are the problem. If you were running my business, Sir, with respect, I do not think you would be too keen on any of them.

Mr BEST — I would like a breakdown of the profile of your employees. How many are in office administration?

Mr MIGHELL — Myself and my co-director are heavily involved in sales, purchasing and management. We share management duties to a point, although we obviously have strengths in different areas. Our two wives work and share duties in accounting and administration and computer work, and the sales manager is out there to get orders. However my co-director and I try to get out at least once a week or once every two weeks to service customers that have been with us from the beginning.

Mr BEST — How many do you have on the books?

Mr MIGHELL — There are five on the books.

The CHAIRMAN — Mr Mighell, thank you very much for your time. We will send you a copy of the transcript for you to peruse, and you can send back any alterations that you think are appropriate.

Witness withdrew.

CORRECTED VERSION

ECONOMIC DEVELOPMENT COMMITTEE

Inquiry into Workcover premiums for 2000–01

Moorabbin – 18 December 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

Witness

Mr P. Leipnik, Managing Director, The Specialty Group.

The CHAIRMAN — I welcome Mr Peter Leipnik, managing director of the Specialty Group.

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

I invite you to make an opening submission, and then we might ask you some questions.

Mr LEIPNIK — On behalf of Specialty Coatings Australia Pty Ltd, I appreciate the opportunity to make a presentation in front of the Victorian parliamentary Economic Development Committee.

Speciality Coatings is a privately owned textile manufacturing company located in Moorabbin. The company was established in 1978 and currently employs 32 people. It will have an estimated turnover of \$9 million in 2000–01. Approximately 12 per cent of sales are exported, not including New Zealand.

During the 22-year history of the company there have been approximately five Workcover claims. Recent claim costs include: 1995–96, \$228 025; claim costs 1997–98, \$9028.

Workcover premium rates for the company since 1996–97 have been as follows: 1996–97, 3.94 per cent; 1997–98, 4.70 per cent; 1998–99, 5.59 per cent; 1999–2000, 6.66 per cent; and 2000–01, 8 per cent estimated, not including GST. Note that the confirmed premium is always higher than the initial premium. For example, in 1998–99 the initial premium was 4.10 per cent and the confirmed premium was 5.59 per cent. Premium rates have increased by 103 per cent over the five years from 1996–97 to 2000–01. Our company has been subjected to another substantial increase in premium of at least 20 per cent from 1999–2000 to 2000–01. Our company's initial premium for 2000–01 is \$126 375, which is 1.4 per cent of expected turnover.

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

An increase in Workcover premiums is clearly a disincentive to employment. One of the reasons for increases in premiums is increases in industry rates. For the past three years our industry rates under classification C2349C, textile finishing, have been: 1996–97, 3.95 per cent; 1997–98, 4.78 per cent; 1998–99, 5.78 per cent; and 1999–2000, 5.78 per cent. Employers are not informed as to the claim costs of their industry and how industry rates are determined, and they have no say in their determination.

According to the complex formulas that have been established, the previous premium rate is used to calculate the following year's premium, although the authorised insurers stress that only the past three years claim history is considered in the calculations. This means that previous claims keep compounding into higher rates.

As to the abuse of the scheme, in 1996 we had an incident where the company, due to a downturn in business, decided that a number of positions needed to be made redundant. First we called for volunteers. One person obviously considered that his position would be made redundant, and he reported sick the next day. The employee subsequently lodged a claim for recurrence of a previous back injury. The company did not receive a record of the incident where the employee aggravated a previous injury. Our company was convinced that this was a fraudulent claim.

The employee remained in the care of his family general practitioner. The employee did not make a genuine effort to improve his medical condition. For example, he claimed that he could not tolerate hydrotherapy because of severe dermatitis that occurred after the lower back injury and was attributed to psychological causes. The employee refused to attend rehabilitation arranged for him at a spinal management clinic. There was conflicting medical evidence as to the personal impairment according to the AMA guidelines.

The CHAIRMAN — We are getting a bit away from premiums here. That is our concern.

Mr LEIPNIK — I am coming to that. Weekly wages were paid for 104 weeks after which, despite great protest from our company, a statutory lump sum settlement offer of \$155 000 for serious injury under section 135A(3) of the act was made and accepted by the employee. There was no incentive for this employee to return to work.

This case demonstrated to me that it is very easy to abuse the scheme. Our company had no control of the system or the process, but our company bore the cost through increased premiums. It is through my own experience of

suffering for about 20 years with two degenerated discs in the lower back that I know that such conditions can be managed and can also be very easily exaggerated.

I recommend that the government make the following changes to reduce premiums:

1. Disclosure of claims and calculations of industry rates.
2. Tightening the subjectivity associated with an entitlement to compensation, such as definitions associated with injury and significant contributing factors, particularly in a manner that would assist the medical profession in accurately evaluating entitlements to compensation.
3. The degree of impairment in the case of injuries to the back to be assessed according to the methods specified by the American Medical Association guidelines in the evaluation of permanent impairment.
4. Suspension of entitlement to weekly compensation payments pursuant to section 93D(2)(d) of the act needs to be enforced more by the authorised insurers.
5. Allow employers more involvement in the compensation process.
6. Make authorised insurers accountable for poor decision making.
7. Communications between authorised insurers and employers need to improve.

Ms DARVENIZA — Can I ask you about your remuneration and whether in fact you have employed more people over the past 12 months. You have talked about your premium going up on an estimate from 6.66 to 8 per cent. What about the number of employees?

Mr LEIPNIK — I especially did not mention the actual amount of the premium, because that is dependent on the remuneration. In fact, over the years the number of people we have employed has decreased.

Ms DARVENIZA — What about your claims record? What has it been like?

Mr LEIPNIK — I mentioned that in my summary. There have been five claims in 22 years. Except for two large claims in 1995–96, the other three claims have been very small — \$2000, \$3000 and \$9000, of that size.

Mrs COOTE — Your report is very comprehensive. You mentioned the 12 per cent that you export. Before I get to my question, could you clarify what it is that you do? You manufacture the textiles here and then export them?

Mr LEIPNIK — Correct.

Mrs COOTE — So they are manufactured here?

Mr LEIPNIK — Yes. Ours is a manufacturing company.

Mrs COOTE — Do you spend quite a bit of your money on upgrading health and safety issues and procedures within your factory?

Mr LEIPNIK — We do. We have health and safety committees and we follow all the procedures in the regulations. I believe we do all the right things that a company should do.

Mrs COOTE — If there is to be an increase in premiums, will that have an impact? No doubt you do more than just what the regulations say, but will that have an impact on what you can look to in the future to provide for health and safety?

Mr LEIPNIK — Would you please repeat that?

Mrs COOTE — You talked before about health and safety, about the procedures you have in place at the moment and about what the regulations ask. Do you do more than that? Do you do more than the regulations are asking?

Mr LEIPNIK — I believe we do. I cannot answer that clearly because I am not directly responsible for that area, so I am not completely familiar with all the things we are doing.

Mrs COOTE — Say there were more increases in premiums again next year. Would that be an area you might have to look at more closely in terms of the additional things that you do?

Mr LEIPNIK — We have been focusing a lot on prevention. I cannot give you details of how, but we have.

Mrs COOTE — In fact, you should be rewarded for doing that.

Mr LEIPNIK — As managing director, I recognise that the key to reducing premiums is prevention.

Mrs COOTE — Thank you very much.

Mr CRAIGE — But you have not had a reduction.

Mr LEIPNIK — No. One of my main points is that I do not know to what extent our premium is governed by the industry rate. The industry rate has been increasing. Information on why it has been increasing or claims costs in the industry is not shared with employers, and an employer like me does not have control of the rest of the industry.

Mr BEST — There is another point, and it refers to your insurance agency and your authority over or the negotiations you have on the final outcome or payout.

Mr LEIPNIK — Absolutely.

Mr BEST — In particular, one of the issues I would like to pursue is the Workcover culture or Tattsotto-type payout. Do you think that that is alive and well within the work force? Have there been any copy cat claims within your organisation?

Mr LEIPNIK — Not within our organisation, no. But since I have evidenced this, I am sure there are a lot of cases like that.

Mr BEST — What correspondence did you have with your agent on the final settlement figure or payout?

Mr LEIPNIK — I wrote numerous letters to our agent stating that we believed this was an abuse of the system, and it did not make any difference. I was quite dissatisfied with the communication of the authorised insurer. Unless I kept contacting them, we got very little communication.

Mr BEST — Do you think the insurer was more interested in settling the claim and getting it off its books?

Mr LEIPNIK — Very much so, I believe.

Mr BEST — Rather than the consequence that applied to your company?

Mr LEIPNIK — Yes. One of my main points is that employers pay the premiums but we have very little say in the process.

Mr THEOPHANOUS — Do you support the principle that employers who have more accidents should have higher premiums and those with fewer accidents in their workplaces should have lower premiums?

Mr LEIPNIK — I support the concept that the premiums should reflect the performance of the individual workplace for the reason that that is something we can control, but we cannot control what the rest of the industry is doing. I do not even know what other companies are under this classification.

Mr THEOPHANOUS — Well your classification, for your information, is currently rated at 5.78. That is the industry classification. You are facing a premium of 8 per cent. There is only one reason for the difference between 5.78 and 8 per cent, and that is that your claims record is not as good as the rest of the industry.

Do you think the rest of the industry that is performing better with their claims should pay for you?

Mr LEIPNIK — I will answer it this way. I have been told that only the past three years' claims costs are in the calculations. We have had no claims in the past three years, Sir, so why should our costs be higher?

Mr THEOPHANOUS — Do you mind if we have a look at that with Workcover?

Mr LEIPNIK — I do not have a problem with that.

Mr THEOPHANOUS — Because if you are, I can assure you of one thing, Mr Leipnik, and that is that if you continue to not have any claims your premium will definitely come down.

Mr LEIPNIK — That is one of my problems. I thought it would, but it just keeps going up.

Mrs COOTE — Can I clarify something you said in your statement before? You went through what your premiums were and then what the industry rates were. Unless I have copied it down incorrectly, you said your premium rates were marginally less on each in comparison with the industry rates. Is that right?

Mr LEIPNIK — No, that is incorrect.

Mrs COOTE — They were slightly above?

Mr LEIPNIK — Yes.

Ms DARVENIZA — You have had increases on the figures you gave us?

Mr LEIPNIK — Sorry, you maybe correct. It might have been a bit less.

Mrs COOTE — Yes. I think you'll find you were marginally below on all of the industry rates.

Mr LEIPNIK — Yes.

Mrs COOTE — Until this year.

Ms DARVENIZA — Your premiums have been increasing for the past five years. It is not just the changes that have come about in the past 12 months or the recent changes in Workcover that have resulted in an increase in the premiums. They have been steadily going up for the past five years under the old system; isn't that right?

Mr LEIPNIK — That is correct.

Mr BEST — That is, based on your claims that are now more than three years old?

Mr LEIPNIK — Yes.

The CHAIRMAN — Thank you very much, Mr Leipnik. We will send you a copy of the transcript. We appreciate the time you have taken and, in particular, the fact that you have gone to the trouble of working out some solutions and making some suggestions, which is important to the committee.

Witness withdrew.

CORRECTED VERSION

ECONOMIC DEVELOPMENT COMMITTEE

Inquiry into Workcover premiums for 2000–01

Moorabbin – 18 December 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

Ms C. Evans, Director; and
Mr J. Long, Director, the Elly-Kay Centre

The CHAIRMAN — I welcome you to the committee hearing. All evidence taken is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committee Act.

I will hand over to you and let you make a statement, and then we will ask you questions.

Ms EVANS — We have a government-funded aged care facility and have been operating it for three years. During that time our Workcover premiums have nearly doubled. We have not had a claim in those three years. Our staffing levels have not increased drastically. Because the funding we receive is guided by the commonwealth government, we cannot claim any more there. The fees we charge the residents are also under guidelines, so our income has not increased drastically compared to the premiums of Workcover.

Mr LONG — We are not here to make a big speech. These are the facts as they have happened to us as relatively small operators in the three years we have been operating.

The CHAIRMAN — Are you in a position to trace through the dollar amounts of the premium?

Ms EVANS — The first year, 1998–99, it was \$14 582.

Ms DARVENIZA — What was the sum again?

Ms EVANS — It was \$14 582. In 1999–2000 it was \$13 869, and in 2000–01 it is \$25 074. That is excluding GST.

The CHAIRMAN — What effect does that have on your business?

Ms EVANS — Our income is controlled, so we do not want to decrease our staffing levels as our quality of care would deteriorate. I suppose that, with a new facility, our equipment is all new, so the upgrading of equipment is not a major concern at the moment, but within five years it will be. If those increases continue without a claim, it does make it very difficult.

The CHAIRMAN — Paraphrasing, does that mean there might be less equipment and fewer programs for the residents than you might normally have been expected to get involved with?

Mr LONG — We will make sure other arrangements are made, because it would be detrimental for our business.

The CHAIRMAN — Does it mean that the bottom line will be affected? Do you believe that, being aware of the increase to your business, the government should take some action to either reduce the figure or compensate you in some way so that the business you operate will not be affected to the potential detriment of people?

Mr LONG — Industry standards are always a very high claim rate as an industry, but I think that as an individual facility there should be compensation there as well.

Ms EVANS — It makes it very hard. We have our occupational health and safety standards. We have been through accreditation. We know everything is correct at this stage. I do not think we have really got an answer to what the next step is — where the dollars come from — if it increases in the next 12 months. We cannot cut staff. As I said, the equipment is new at the moment.

Mr THEOPHANOUS — Have you had an increase in staff?

Ms EVANS — No, we increase staff only if their care needs indicate that we need to; but then our subsidy is increased, so that is balanced.

Mr THEOPHANOUS — What I am trying to find out is whether you have had an increase in remuneration, because the difference in the past year seems quite high compared to previous years. One possible part of that might be explained by — —

Mr LONG — That would be partly due to it, yes.

Mr THEOPHANOUS — Partly because of that?

Ms EVANS — A small margin, 10 per cent.

Mr LONG — But the overall total figure is substantial.

Mr THEOPHANOUS — Do you know what percentage of overall remuneration you are being charged at the moment? Is it 4 per cent or 5 per cent?

Ms EVANS — I am not sure what the percentage is. I can give you the industry classification.

Mr THEOPHANOUS — What is that?

Ms EVANS — K8148T.

Mr THEOPHANOUS — The industry rate went up by one, and that would be partly reflected in it. There is 15 per cent for common law, 2 per cent for the GST, and 20 per cent for the extra increase in the industry rate, which makes it a 37 per cent possible increase. The rest of it can be explained only by a higher income, which you say you have had, or because you did not put in your remuneration estimate on time. Did you do that?

Ms EVANS — We do that.

Mr THEOPHANOUS — You put in your remuneration estimate?

Ms EVANS — Yes.

Mr THEOPHANOUS — Or you have had a claims history. Have you had any claims?

Ms EVANS — None at all.

Mr THEOPHANOUS — Were there claims before you bought the business?

Ms EVANS — It is a new business.

The CHAIRMAN — It seems an extraordinary increase. Have you taken this up with your insurer, the Workcover authority or your insurance agent?

Mr LONG — We have not.

The CHAIRMAN — Do you have meetings with other similar facility providers that have similar increases, or is this just a one-off thing that has affected you?

Ms EVANS — Other facilities have had increases, too.

The CHAIRMAN — Of this magnitude? What is the general situation with aged care facilities and these increases? Obviously the industry is concerned. Is it the intention of the industry to take some action in relation to the increases?

Ms EVANS — I think a lot of it is that we know the industry is a high-risk industry due to the back injuries that are sustained by nursing staff and care staff. I think we have probably accepted it, but it is getting a little bit high now that people will probably look into this.

The CHAIRMAN — It is nearly twice what we might have expected based on Mr Theophanous's figures.

Mr BEST — Particularly as we heard in earlier evidence today that people have challenged the Victorian Workcover Authority and have been able to get renegotiated outcomes. You have basically \$11 000 or \$12 000 in increases, and you have not taken any action.

Ms EVANS — Not at this stage.

Mr BEST — Sun Alliance is the insurance agent. Are you owned by a church group?

Mr LONG — No, privately owned.

Mrs COOTE — I would like to go back to the care issue. The increase in premiums will obviously put a lot of pressure on your business. You say it will come off the bottom line. Could you explain about the aged care? You have excursions for your residents. Are they likely to be impacted on by those sorts of things?

Mr LONG — I guess from some of the other submissions put before you that \$11 000 is very little compared — —

Mrs COOTE — That is not the issue. The issue is how it relates to you. Doubling is quite a lot. If it were to double next year, you would have to look at cutting back on some issues. So it would probably be some of those things like excursions or the additional support that you give them that would have to be looked at.

Ms EVANS — Replacement of equipment is where the impact is going to come further down the track.

Mrs COOTE — Especially with lifting equipment, which is obviously something in your industry.

Ms EVANS — That is right.

Mrs COOTE — The pressure will come on if you put it off for longer than is needed. Knowing that the Bracks government would bring in common law, when did you become aware of what the impact might be on your industry and on your business, particularly?

Ms EVANS — From a conversation with Geoff Leigh.

Mrs COOTE — When you got the premium notice?

Ms EVANS — Yes.

Ms DARVENIZA — You have given us a range of figures, including the fact that your premium has doubled over the past three years. It would be helpful if the committee were able to have a look at your Workcover situation. Do you have any problem with us getting the information from Workcover?

Ms EVANS — Not at all.

Ms DARVENIZA — It is a particularly high-risk industry that you work in. It is one I am particularly familiar with, having worked in it some years ago, so I can appreciate the occupational health and safety considerations. Certainly, if it is a new facility and you have an accreditation, it would be very interesting to have a look and see exactly what is happening.

Mr CRAIGE — I guess it only came out afterwards, but were you aware that the government signed off on the capping on industry classifications that was once there? It removed that entirely. Your industry only went up one, but others went up far more dramatically. It would make a big change to you if in fact next year they introduced another change to the industry category. You would then just go up again. That in itself could have a detrimental effect somewhere along the line.

One of the things you keep saying to us is that client service is really important, and we all understand that, but if at the end of the day premiums continue to go up and you do not get an increase in your money, you have to make a decision about something you do, do you not? You cannot just keep saying, 'The bottom line, the bottom line'. You have to start doing something somewhere in respect of the way it operates.

Ms EVANS — Eventually. Our standards will deteriorate. In three years time when we go for accreditation again, we might fail. If the subsidy is withdrawn, you do not operate.

Mr CRAIGE — That is the bottom line?

Mr LONG — Yes.

The CHAIRMAN — Any more questions?

Mr THEOPHANOUS — Yours is a fairly small business, is it not?

Mr LONG — It is, yes.

Mr THEOPHANOUS — Are you aware that all the increases above the 15 per cent for common law for a small business actually occurred as a result of the system already put in place by the previous government? Are you suggesting to the committee that it should look at changes to the system so small businesses do not suffer these kinds of big increases?

Mr LONG — Being absorbed in one hit is a big hit when you have to go to the bank man. It should be gradually brought in, especially for small people like ourselves.

Ms EVANS — If there is a need to.

The CHAIRMAN — Thank you very much for coming along today. We will send you a copy of the Hansard transcript, and you may submit any alterations you consider appropriate.

Witnesses withdrew.

CORRECTED VERSION

ECONOMIC DEVELOPMENT COMMITTEE

Inquiry into Workcover premiums for 2000–01

Moorabbin – 18 December 2000

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Chairman: Mr N. B. Lucas
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Staff

Executive Officer: Mr R. Willis
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Witnesses

Ms M. Aivatoglou, Proprietor; and
Mr F. Nugent, External Accountant, Evangelia Aged Care Facility

The CHAIRMAN — Thank you for attending this afternoon. All submissions, including the evidence given verbally, are subject to parliamentary privilege and granted immunity from judicial review, subject to the Constitution Act and the Parliamentary Committees Act.

You can make a submission, and then we will ask you some questions. If you wish to table a written document when you have completed it, that will be quite in order. We will take that into account and circulate it to those who need it.

Ms AIVATOGLOU — I run a 30-bed nursing home in Parkdale. We have been there for 21 years, firstly as a 20-bed nursing home, and 5 years ago we became a 30-bed nursing home. I believe, after speaking to Zurich Workcover Insurance, that our industry average for the nursing and convalescent homes is stated as 4.78 per cent. However, according to the information from my insurance company, it is telling me it is more like 7 per cent. My Workcover rate is 8.817 per cent of wages.

I think the industry base rate is far too high. Even if you have no claims, your rate still goes up. The formula for working out the base rate needs to be investigated. If you should have a claim, it affects your rates for five to six years, I am told. I have had no claim for three years, so at present there are no claims affecting the premium.

Zurich tells me that part of my premium is 10 per cent GST, which is \$8000, which of course is refundable in the end; but we have to find those funds to pay them monthly. I am paying \$6700 per month, which is an awful lot out of a 30-bed nursing home.

There is also a 2 per cent Workcover authority GST administration cost, which is not refundable, and according to Zurich 17 per cent is caused by the common law, which has just been reintroduced.

Mr THEOPHANOUS — It is 15 per cent.

Ms AIVATOGLOU — They told me 17 per cent. I can only quote what they say.

There are a number of hidden costs placed on the employer for which the employer is never given any information, such as medical expenses. Once employers have paid the first \$421, or whatever it is at present, they are not advised of the amounts paid out for medical expenses. You could be in for a big surprise.

My premium this year was \$82 675.65. The first initial premium notice I received was \$95 000. I nearly fell off my seat. That is with an estimated remuneration of \$930 000. Last year it was \$55 782.88 with an estimated remuneration of \$889 881.00. So it is a \$27 000 increase.

I have no way of gaining any recompense from anywhere, because we are an aged care facility. We are told how much we can charge, and that is it. We do not know how much is built into our funding by the federal government, so we are wandering around in la-la land, basically.

Ms DARVENIZA — I just wanted to get the figures again. The \$82 675 was the premium for this year, with a remuneration — —

Ms AIVATOGLOU — Of \$930 000.

Ms DARVENIZA — And the previous year was \$55 782 — —

Ms AIVATOGLOU — On \$889 000. Payouts through common-law claims are made without reference to the employer at all. Details are usually requested from the employer by a solicitor, and that is the last you hear of it. For instance, one ex-employee has had two payouts. Firstly she received \$26 000, and I hear now that she is about to receive \$32 000. This employee started work in 1992. She always had a shoulder problem from day one, apparently, which I did not know about but everyone else did. I did not hear about this until the claim had already gone in. So people who are starting work with a physical problem are getting payouts through Workcover.

If people have accidents at work, I can understand them getting paid; but when they arrive at your workplace with sore shoulders — and as we are getting into our 50s we all have sore shoulders — it does not seem right that they can then make claims in that workplace.

You can have all the occupational health and safety things in place that you want, but you will not get out of this sort of claim. Workcover should be for an injury that took place at work, not something that was aggravated by a job, because the employer cannot control such things.

You might ask why we accepted the claim. At that time we were told by the insurer, which was not my present one, that we might as well accept it, because in the end it would be paid anyway. So we were told to accept it, and that is what has happened. This has caused many facilities to have a high base when in reality the claims should never have been accepted because the cases were not genuine Workcover cases.

The funding for Workcover is an amount not disclosed to proprietors of aged care facilities, but we are certainly not funded for this amount, we know that. The fees are set by the commonwealth government. Workcover is charged not only on wages but also on the compulsory superannuation payed by the employer. There is a buy-out option, which is not an option because it costs 25 per cent on top of the already huge rise in Workcover. So common-law claims should not have been reintroduced. There are lawyers out there urging workers who are genuine in getting back to work to go to court, and they are generally non-supportive in returning injured employees to the workplace.

I would have employed extra staff with that \$27 000. Many part-time jobs could have been offered with that money. That is all I have to say.

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

Ms AIVATOGLOU — I have no idea.

Mrs COOTE — Do you know what the F factor is?

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

Mr NUGENT — I have no idea, either.

Mrs COOTE — So at no point along the way did Workcover explain to you how it got to your industry rate?

Ms AIVATOGLOU — No.

Mr NUGENT — The information that has been provided has been scant at best. The reality is that the increase has come at a time when from this facility's point of view it is going through an accreditation process. In addition, scrutiny of aged care facilities has heightened substantially, and the costs of maintaining that process have been significant. Obviously the opportunity to present at a hearing is part of that review of Workcover rate increases in general. But certainly, trying to get some specific technical knowledge of how the rates are calculated would be fantastic from an employer's point of view.

The CHAIRMAN — You have indicated this substantial increase in the premium, but what is the impact on your business? You have mentioned some of it, but from a day-to-day point of view, what does this translate into?

Ms AIVATOGLOU — It does not translate too well, because we have to employ people. If you have 30 residents who must be looked after, you need so many pairs of hands each day, so you can be going down the drain quite quickly with this sort of money pouring out each month. You cannot reduce your work force, although you would like to.

The CHAIRMAN — Given that you are in a business where it is pretty tight, you have to provide staff for the number of residents and you are receiving government funding that has not been increased, do you believe the state government should take some action in terms of compensation or a reduction in the premium for a facility such as yours?

Ms AIVATOGLOU — I think there should be a reduction for nursing homes, perhaps. I know some places have a high incidence of accidents, but for those people who do not — I am talking about a real workplace accident, not the other one that I was talking about — I feel there should be some sort of recompense if you have a good claims record.

Ms DARVENIZA — Your business works in a very high-risk area with at times quite significant injuries, isn't that correct?

Ms AIVATOGLOU — Yes.

Ms DARVENIZA — Would it be true to say that you support an experience system where those workplaces in which accidents occur pay the premiums rather than those workplaces in which accidents do not occur?

Ms AIVATOGLOU — You have to deal again with the word ‘accident’. What is an accident? If it is an accident that happens at work, yes, I agree.

Ms DARVENIZA — In your industry in the health sector, as in some other sectors as well, it is often not just an injury that happens right here and now. There can be an accumulative effect on people who work in the health industry, with the strain on backs and necks and shoulders; you would have to agree with that?

Ms AIVATOGLOU — That is the nature of the job. If you feel you are getting some sort of pain or whatever, I would be out of that industry as fast as I could. Why would you stay there for 20 years?

Ms DARVENIZA — Certainly. So you agree that if your workplace has a higher level of accidents, you should have higher premiums than those that have fewer accidents?

Ms AIVATOGLOU — Yes. You would have to define ‘accident’, as I said.

Mr NUGENT — It is a clear point in terms of controlling the incidence of accidents. It is something that the employer has the opportunity to do, but where premiums are going up and funding is not equally meeting that cost, the only issue is going to be a reduction in their margin, which at the end of the day becomes the wages that the proprietor — —

Ms DARVENIZA — That is a federal government matter, not a state government matter. But what would happen to your business if in fact you had a number of accidents — say two very serious accidents — and everybody agreed they were genuine accidents where backs or shoulders were severely injured? What would it mean to you if there were not a system like Workcover and you had to self-insure?

Ms AIVATOGLOU — Sometimes I think a self-insurance system might be better.

The CHAIRMAN — We have run out of time.

Mr BEST — I want to ask one question. Given that you have been in business for a lengthy period of time, are you satisfied with the performance of your agents and the information they provide?

Ms AIVATOGLOU — It very much depends on their employees at the time. I have had excellent employees working for me at Zurich — we have had good results — and I have had those who are not so good. The people before Zurich were even worse, so they are an improvement.

The CHAIRMAN — Ms AIVATOGLOU and Mr Nugent, thank you very much for coming along today. We will send you a copy of the Hansard transcript.

Mr THEOPHANOUS — Could I ask a question?

The CHAIRMAN — A quick one.

Mr THEOPHANOUS — Do you think it is totally inappropriate for the federal government to force you to find \$8000 to pay these Workcover premiums and then get it back? Does that affect your cash flow?

Ms AIVATOGLOU — Of course it does, yes.

Mr THEOPHANOUS — It does not make much sense, does it?

Ms AIVATOGLOU — Our association is working hard to try to get that turned around.

Ms DARVENIZA — It would be helpful to us if we were able to look at your records, given the facts and figures you have provided us with. Would you have any problem with the committee getting those from Workcover and having a look at them?

Ms AIVATOGLOU — Not at all.

Ms DARVENIZA — Thank you very much for that.

The CHAIRMAN — We will send you a copy of the transcript. Thank you for your time.

Witnesses withdrew.

CORRECTED VERSION

ECONOMIC DEVELOPMENT COMMITTEE

Inquiry into Workcover premiums for 2000–01

Moorabbin – 18 December 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

Witness

Mr P. Clark, Director, Belle Design and Manufacturing.

The CHAIRMAN — The evidence given at this committee is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act. I welcome Mr Clark, the director of Belle Design and Manufacturing.

Over to you, Mr Clark. We have 15 minutes. If you would like to make a statement, we will then ask you some questions.

Mr CLARK — Thank you for the opportunity. We have a small or micro manufacturing business that produces skylights, barrel vaults and what we call natural lighting systems.

The business started in 1964, and we have owned it for 10 years. We have just received a 67 per cent increase in our Workcover premium for this year. As I heard Mr Theophanous say before, it is just a matter of fact. We are told that this is what we are going to pay, and this is the figure. Admittedly, our wages bill has increased. We run six people in the factory. There are four of us in the office, and we have six installers outside assisting us, but we pay them as a separate function. They carry their own Workcover, so they run independent businesses subcontracting to us.

Our rate is something in the area of 8 per cent. I am afraid the 67 per cent increase will make a difference in the vicinity of \$18 000 to us this year. If I could increase my prices by 67 per cent, I would be laughing; I would not have a problem at all. Unfortunately, the competitive nature of business these days does not allow us to do that. We have no incentive to employ any new people, no incentive to train new people. It is going to cost us that.

I guess one of the joys or disasters of being on last is that most of it has been said before!

I think Workcover should be reviewed in three ways. The first is that we have an industry classification. I went to the extent and trouble of buying the whole book which puts us in the category of ‘architectural aluminium products manufacturing, including prefabricated buildings manufacturing’. This goes on to list a whole series of products. Nothing has anything to do with us whatsoever until we get down to one of the predominant activities, ‘skylights, aluminium manufacturing’. In living memory I do not think I can recall us making an aluminium skylight. We certainly use aluminium for other products.

Mr CRAIGE — That would not let much sun through, would it?

Mr CLARK — It certainly would not let much sun through. We use aluminium glazing bars, which would account for possibly 5 to 7 per cent of our purchases a year. I know I have had this ongoing argument, as you said before. I have asked your Workcover people, HIH Insurance. I have had ongoing battles with them, particularly over an application we have at the moment, where one worker was injured. They are even surprised that I want a reply back to the letters that I write to them. That is how much information we get from them — there is virtually nothing at all.

I do believe that 90 to 95 per cent of our clients would be architects, builders and roofers. We basically make a wholesale product. We deliberately try not to deal with the public. They can consume an hour and a half of our time and buy a \$400 skylight. In that time we could be talking to a roofer and hopefully getting an order for \$5000 worth of skylights. So we cannot avoid this, but we do not encourage retail sales.

I am also the state president of the Skylight Industry Association, which is an adjunct to the Housing Industry Association. I am told by my insurer — HIH — that we are all classified the same, but we are not, because I have rung a few of the members. We should be regarded as ‘builders hardware wholesalers’, because basically that is what we do. We make builder’s hardware-type items.

Mr BEST — What is the difference in the industry rate?

Mr CLARK — The classification is 5.78 per cent where we are now, but because of the claim we have I believe we are on about 8 per cent. This one is 2.7 per cent, and they are guys handling glass and aluminium, just the same as we do. We not only make skylights out of aluminium and plastic, we also make them out of glass.

Ms DARVENIZA — Have you taken that up with Workcover?

Mr CLARK — Not directly as such, no I have not, I must admit; but it is on the agenda to do so. There is no incentive to make our factory any safer than anyone else’s. In fact, Workcover has been through and has given us a clean bill of health, because we have spent money on machine guards, stop buttons, presses and the whole shooting match. We have spent something like \$20 000-odd on bringing our factory up to scratch. Billy the

Blacksmith over the road does not worry about it, yet we are both paying the same industry rate! There is no incentive for anybody to try with regard to safety being paramount.

Speaking of Workcover, its attitude to accepting claims and paying claims has to change dramatically. We had one incident on 13 February 1998 where a gentleman injured himself. He was removing a roller door from the factory and claims he was hit on the head. We took him to hospital and he was admitted.

He lied — and there is no other word for it — on his application, saying that people witnessed this when they did not. While in hospital he said that when he was knocked off the ladder his knee was injured, yet we have a sworn affidavit that that injury happened 12 years ago and was fixed under Workcover. This business has gone on and on, to the extent that you need to bring Workcover and possibly the medical profession into line to stop them milking the golden cow.

Mr THEOPHANOUS — The issues you raise, including the 1998 situation and the way it was handled, happened under the previous government.

Mr CLARK — I do not want to talk politics. I do not think it would have changed.

Mr THEOPHANOUS — I understand that, but it is important from our perspective to understand which system you are talking about. My question to you is this: are you aware that except for 15 per cent of the 67 per cent, which is for common law, the increases you have suffered are a result of your company's or your industry's claims experience as applied under the previous government's system, plus GST, plus any remuneration increases?

Mr CLARK — Yes, I understand that.

Mr THEOPHANOUS — Given that, what is it that you are complaining about? Is it that you think we should not apply the experience of the industry and of your own company? Is that what you are saying?

Mr CLARK — I would like a definition of that. In 10 years of operation we have had one minor and now this major claim. Our insurers — HIH — set aside \$75 000, I believe, for the injury, and I believe \$50 000 has been paid, or somewhere in that vicinity. I have no idea of that.

We have had a good track record up until this one particular case. We are lumped in together with all those other industries that may have alarmingly high rates.

Mr THEOPHANOUS — So you want more access to information?

Mr CLARK — Yes, I would like to find out — —

Mr THEOPHANOUS — I can assure you that under this government you will get more access to information.

Mr CRAIGE — Let's keep going, seeing we've started. In respect of industry classifications, it is obviously something you have been pursuing not only as the president of the organisation but as a businessman. Currently it is on 4.78 — —

Mr CLARK — 5.78 is the industry norm at this stage.

Mr CRAIGE — Is it? So the industry norm is 5.78?

Mr CLARK — I beg your pardon, it is 4.78.

Mr CRAIGE — From your endeavours in the organisation I believe you said you felt that you were inappropriately categorised, and I support you totally. It does not make sense. As for putting yourself with builders hardware, wholesalers and so on, you are manufacturing a product, are you not?

Mr CLARK — Yes, certainly.

Mr CRAIGE — I would go for another classification under 'Manufacturing non-specific', which is 2.7 as well.

Mr CLARK — Something that like, yes. It needs to be looked at. But 95 per cent of our customers are builders who put margins on their products, so I suppose we could be regarded as wholesaling.

Mr CRAIGE — Were you aware that the government has been secretly negotiating a removal of industry capping? Once upon a time there was a cap on the industry level you could go to. That cap was removed based on recommendations to the government, which it approved. Were you aware that you could have gone up 9 or 10 categories?

Mr CLARK — No.

Mr CRAIGE — You could have, under the new scheme, gone up 9 or 10 different categories — or more.

Mr CLARK — The only indication we had was, after coming back from a court hearing one day, talking to the case worker from HIH who was handling our claim. He did mention at the time that with the change of government it could open the way again for common-law claims.

Mr CRAIGE — It has certainly done that. And not only did it do that, but industry classifications were changed and rounding up occurred. We have another thing that you have probably never heard of — the F factor. Have you heard about that?

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

Ms DARVENIZA — You have not taken up with Workcover the fact that you think there could be other classifications that are applicable to you?

Mr CLARK — What I am doing is going through the solicitor at the Housing Industry Association. He suggested I should pick out a category that we think we should be in. He is prepared to take it up with the minister and Workcover, with the weight of the HIA behind us, so hopefully something may happen. But it is only in the past 4 to 6 weeks that we have been discussing that.

Ms DARVENIZA — I think that is a good idea. It would be helpful to us if we could have a look at your records.

Mr CLARK — By all means. I have nothing to hide whatsoever.

Mrs COOTE — You spoke before about milking the golden cow, and you gave an example of an employee who you felt was perhaps rorting the system. Do you believe there is an industry culture within your area? Do you think the culture of milking the golden cow is returning in full force?

Mr CLARK — In terms of the person concerned, without telling tales out of school, his wife has had two Workcover payouts, so I would say there is definitely not so much an industry but a personal culture or personality culture there with certain types of people.

Mrs COOTE — You say you have been in the business for 10 years. With the introduction of common law do you think there will be people coming out of the woodwork whom you are not expecting to see?

Mr CLARK — I do not think so. I sincerely hope not. We have had only one minor claim, 4 or 5 years ago, and this major one in 1998.

The CHAIRMAN — Mr Clark, thank you very much for your time today. We will send you a copy of the Hansard transcript for you to make any necessary alterations.

Witness withdrew.

CORRECTED VERSION

ECONOMIC DEVELOPMENT COMMITTEE

Inquiry into Workcover premiums for 2000–01

Moorabbin – 18 December 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

Witness

Mrs J. Waller, Owner, Waller's Cakes.

The CHAIRMAN — I welcome Mrs Waller, who is the owner of Waller's Cakes. All evidence taken by this committee is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act.

We have approximately 15 minutes. If you would like to make an opening statement, we will then ask you some questions.

Mrs WALLER — I thought about an opening statement, but could not really think of anything except to say that I nearly passed out when I received my Workcover premium notice this year, and that is probably not just pertaining to me. It is probably pertaining to everyone in small business. I could not believe the figures I saw before me. I am in a business where my husband and I are very hands on. He works about a 70-hour week. I work a 40-hour week, which is not unusual, but it is a fairly heavy workload, with four small children, so therefore even to find the time is difficult. I found I met brick walls, could not find out why, who, what, where, when, how. I was told such things as I have had a loading put on my superannuation because I had not supplied my ABN, and I said, 'Could you tell me then why the letter you have sent me has my ABN on the top of it?'. They were the sorts of things that I mentioned, and nobody could tell me why it had gone up to the extent that it had.

The CHAIRMAN — You just used the word 'superannuation'. Did you mean Workcover?

Mrs WALLER — Sorry, my Workcover premiums. I have a superannuation problem at the moment as well. I have met brick walls whenever I have rung to make inquiries or anything like that, so I have made an assumption that I have to go ahead with what I have before me. Nobody seems to be able to tell me why it has gone up to the extent that it has.

The CHAIRMAN — Have you made contact with your insurance agent or the Workcover authority?

Mrs WALLER — I have done it through Workcover. The actual handling of it has switched from AMP to GIO. I went back through them. I went back to AMP to see if I could alter it, but they are not actually handling the sort of thing that we have at the moment. So, yes, I met brick walls and just assumed that I would have to go with what I got. I prepared some figures over the weekend, if that is any help to you. What I had on my records was right back, because my husband and I have been in this business now for about 20 years, but what I have found when I go back is that my 1997–98 figures were almost identical in wages content to what they were for the year 2000–01, and the premiums were \$2164.73 in that year.

Ms DARVENIZA — This is for the year 1997–98?

Mrs WALLER — That is right.

Ms DARVENIZA — What was the premium?

Mrs WALLER — It was \$2164.73, and it has gone up this year to \$4339.63.

The CHAIRMAN — Do you have last year's figure?

Mrs WALLER — Yes. Last year was a bit messy in that it went up, then it went back down, then it went up due to staff changes, so that is why it was a messier one in between. The premium for 1999–2000 was \$2953.60.

The CHAIRMAN — So it has gone up from \$2953 to \$4339. Has there been a big increase in staffing from last year to this year?

Mrs WALLER — No, the actual wages that that is based on make a difference of, I think, \$1000.

The CHAIRMAN — Have there been any claims in your business?

Mrs WALLER — Just the one claim in the 20 years that I have been handling it — although when we put the claim through we found out we came in under the level that it could be claimed. It turned out to be a minor claim anyway, so we handled it ourselves. It was just a case of a cut finger that went on, but I registered it as I believed I should and then found out that there was a cut-off in the amount that could be claimed and I did not go ahead with it, so we had no claims in 20 years.

The CHAIRMAN — What is the category of your business?

Mrs WALLER — I have trouble finding out things like that. The only thing that I found out is that my industry classification number is F4885V, which does not tell me much.

Mr CRAIGE — Bread and cake stalls.

Mrs WALLER — Other than that I could not find out whether we came in under any other category.

Mr CRAIGE — You make cakes?

Mrs WALLER — We do make cakes and bread.

Mr CRAIGE — But you are not a stall?

Mrs WALLER — A shop — we have a shop. We have a bakery outlet as in a retail outlet.

Mr CRAIGE — Separate to where you make the cakes and bread?

Mrs WALLER — One is behind the other, as in one building.

The CHAIRMAN — So given these figures that you have given to us, what is the impact on your business?

Mrs WALLER — I did more rough figures. From 1997 to the year 2000 there was a 200.46 per cent increase, and we would have about 30 friends who are in small business, particularly in the food industry, and most of those are finding their businesses are down by about 30 to 35 per cent. The impact is huge.

Mrs COOTE — You say you have had no communication now. Were you aware that the allowance of common-law claims was going to be reintroduced by the Bracks government and that that would have an effect upon you at some stage?

Mrs WALLER — I did not understand exactly what was going to happen. You hear things all the time. Quite often you hear things and it does not particularly affect you. I do not think we are on what is classed as a very high level of problem area or anything like that, so I did not really think it would affect us.

Mrs COOTE — When you got through to the Workcover authority, did they explain about the impact of the common-law aspect and how that was going to impact upon you?

Mrs WALLER — Yes.

Mrs COOTE — And how your industry rate might go up? Did they explain all those things at the time?

Mrs WALLER — Not initially, no. They did when I kept pursuing it to try and find out more and to have a review and things like that. I did find out more, but only through my pursuing it. I also received a book, which I do not have here, but it was beyond me to read.

Mrs COOTE — They do not have an explanation as to why your premium had gone up so much?

Mrs WALLER — They just said I had probably had claims and I said, ‘No. Why have I got zeros in the place there that says “claims cost”?’.

Mrs COOTE — They were not able to offer you an explanation either?

Mrs WALLER — Not really. They just said, ‘Everybody’s premium has gone up and you have to realise this and you have to realise that’, but I really did not think anything was of a satisfactory nature. I would like to know if I suddenly put the cost of my products up by 200.46 per cent what would happen, because half of ours went up by 10 per cent on 1 July and that was enough to throw our local people into a wall, so if I put it up that much, I would be out of business.

Mr BEST — Has it affected your competitiveness? I know you said the industry in general is down.

Mrs WALLER — Industry is very down. That is my opinion, anyway, judging by the experiences of the people that I know. I would say it has affected competitiveness. I am not saying we put our prices up because of

this — we have not — but we have lost a couple of very large accounts that we did have, and I know that was due to the competitiveness.

Mr BEST — And your relationship with your agent and the Victorian Workcover Authority, that is okay?

Mrs WALLER — I have very little to do with them. I feel that if you have not had claims or any need to question them before, you do not have a relationship. I have never had any cause to do that. To them we would probably be people they do not even know because we have not had cases of injuries or anything like that, so I do not think it has been a problem. I do not think we have had a relationship as such with the Workcover authority. I usually get put through to inquiries, so it really is not a relationship.

Mr BEST — When you queried the increase in your premium, did you formalise that by writing to the authority?

Mrs WALLER — I followed it up with a letter to make sure that what they were saying was correct. I followed that with phone calls asking them to put it in writing, and they did that. Since then I have had a staff reduction, and therefore I followed that up with them again and I have had it reviewed because that is the normal procedure. I followed that up with letters.

Mr BEST — So do you find Workcover's reply to correspondence immediate?

Mrs WALLER — I have never had a reply other than another premium notice that tells me what it is again, but no letter as such, just a formal piece of paper. It is not a letter saying that they found my letter.

Mr BEST — So each time you have had to contact the Workcover authority, it has been at your own instigation?

Mrs WALLER — Yes.

Mr BEST — All you receive is an invoice some time later telling you the premium has gone up or down?

Mrs WALLER — Yes, and even then a couple of times I have had to go back because I really did not understand the invoice. I distinctly remember sitting on the phone trying to take it all in, and then I had to leave work because our work is very noisy and I did not want the interruption. So I went home to make the phone call, and I remember saying, 'I need an explanation of what you have done, because I really do not understand what you've done'. The man said to me, 'Oh, you must be new at this'. And I said, 'This is my 20th year of doing this exact thing, and I do not understand what you have done'.

Mr BEST — When would have been the first time you contacted Workcover? Was it July or August?

Mrs WALLER — Whenever the initial premium notice was, perhaps May or thereabouts. I think it was prior to the financial year starting — April or May.

Mr BEST — In more than six months they have never had the courtesy to even acknowledge your correspondence?

Mrs WALLER — No. I did not assume that they should. I perhaps assumed that that was normal. It is not normal private business practice — I certainly do not operate my business that way — but I thought it could well be normal for them.

Mr THEOPHANOUS — We have been trying to fix up the practices of the Workcover authority since we inherited it from the previous government.

Mr BEST — You've done a good job — they don't even answer!

Mr THEOPHANOUS — I am trying to work out how the increase occurred, which I think is what you are more interested in. You indicated two increases to the committee. First it went up from \$2164 to \$2953, which is an increase of almost \$800, and then it went up from \$2953 to \$4339. That \$4339 you would normally discount for the GST, so you will get back \$430 odd.

Mrs WALLER — Yes, in a normal GST claim.

Mr THEOPHANOUS — The actual premium is roughly \$3900, which is an increase of about \$900. So what you have had is an increase of \$800 and another increase of \$900. I do not know what is happening in your case, but there was a policy in place under the previous regime of trying to bring all small businesses up to what it called the industry rate. So small businesses were getting a 20 per cent increase every year in order to catch up to the industry rate. That would probably explain the \$800 one and the new one.

What I am getting at is that there is not really much of a difference between what happened to you under the previous system and what has happened under the new system. What I take you to be saying is that small businesses should be treated a bit fairer or that their increases should be more pegged than they are. Is that what you are saying?

Mrs WALLER — It is, but I need to go back to the two examples we had. In the year you are saying it went up \$800, my wages actually went down.

Mr THEOPHANOUS — Under the previous government's one? Under the previous regime?

Mrs WALLER — Yes. I gave you two periods — 1997–98 and then 2000–01. In the one in between that, my wages decreased by \$21 000.

Mr THEOPHANOUS — And that was in 1998–99?

Mrs WALLER — Yes, and yet I still got an increase of \$800.

Mr THEOPHANOUS — I do not understand that. Do you mind if we take your figures to Workcover and have a look to try to find the answer for you?

Mrs WALLER — No.

Ms DARVENIZA — You talked about the GST and its effect on your business. If you look at the GST and the Workcover impacts, how do they compare?

Mrs WALLER — The GST impact is direct — it directly affects the public — whereas Workcover is something we are absorbing ourselves. That would be my best way of describing that. Therefore it is more personal within a business. It is still overall the same thing, but it affects things differently in that we have not put prices up because of that. We cannot afford to, so we have absorbed the Workcover ourselves. A small business of our capacity cannot absorb prices of that magnitude along with all the other costs. We cannot afford imposts of this magnitude.

Ms DARVENIZA — Did you get the remuneration details in on time?

Mrs WALLER — Yes.

The CHAIRMAN — What changes do you believe should be made to Workcover to assist small business?

Mrs WALLER — I have a very old file that I keep because I am one of those people who love to keep everything just in case they ever need it. I spent the weekend digging in archive boxes, and I found a file back to 1983 showing that in those days you paid monthly. That was a help, because with a small business at the moment you have a three-monthly premium, but you also have a three-monthly GST bill. Our GST bill is astronomical, because as a manufacturer we buy in more ingredients and we turn them into items, so that half have GST and half do not. Therefore I know we are collecting it, but we are also having to make sure that we offset it in order to have it at the end of the three-monthly period to pay back to the government.

So if the two do coincide there is an awfully big drain on the capital of the business, and most small businesses cannot afford that.

The CHAIRMAN — Thank you very much for coming along today and for your informative contribution. We will send you a copy of the transcript.

Witness withdrew.

CORRECTED VERSION

ECONOMIC DEVELOPMENT COMMITTEE

Inquiry into Workcover premiums for 2000–01

Moorabbin – 18 December 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
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Executive Officer: Mr R. Willis
Research Officers: Mr M. Ryan and Ms K. Ellingford

Witness

Mr M. Mahon, Accountant, Fans Direct.

The CHAIRMAN — Thank you for attending today, Mr Mahon. All evidence taken by the committee is subject to parliamentary privilege and is granted immunity from judicial review pursuant to the Constitution Act and the Parliamentary Committees Act.

I invite you to make an opening submission, and then we will ask you some questions.

Mr MAHON — Thank you for your time. Our situation is a little bit different. We have not seen a large increase in our Workcover premium due to the rate. We are suffering something called the Workcover insurance premiums order no. 7, which introduced a new method of calculating the prior rate, where succession applied between workplaces of different employers.

Just to give you some history, Fans Direct came into being and amalgamated a number of small industrial fan companies on 28 August last year. Therefore we inherited the Workcover rate of the previous business, which was called Ductline. It had a good history — it had no claims. The industry rate at that time was 2.7 per cent, but it was enjoying a rate of 1.98 per cent.

We took the business over, increased the employees from 45 to 60, and inherited the rate. It went up a little bit to 2.08 per cent, so we were quoted that for the 1999–2000 year. The law changed somewhere in there, and the only indication we had of the law changing was in the premiums we received in October this year, even though they are quoting the law as 1999–2000 law. So it came into effect on 1 July.

What effectively happened was that they applied the new law to our 1999–2000 rate and also to our 2000–01 rate. But the funny thing was that we received premiums where this had not been applied, and a couple of days later we received premiums where it had been applied — and the difference is stark. I have a copy of those figures, and I will give them to you.

Because of this Workcover insurance premiums order no. 7, our rate went from the 2.08 we were enjoying to 2.6461 — some 35 per cent more. It was still under the industry rate, and we still had not made a claim. The claim history had not changed.

Dragging information out of the Workcover agency is a difficult process, but I managed to do it. All my letters were answered, and I received decent replies from them. I do not know whether that was partly due to my involvement or whether this was good business on behalf of CGU, but Workcover sent me a letter explaining the intention of the new formula.

The intention was to reduce the impact on small employers where succession is applied from a large employer with a bad Workcover history. I will repeat that: it was to reduce the impact on small employers where succession is applied from a large employer with a bad Workcover history!

One thing I do not understand is how often a small employer takes over a large employer. If it did it would enjoy a generous decrease in the Workcover rate anyway, so I do not know why we are paying more to protect small employers. I find the reasoning behind it illogical. A small employer would never take over a large employer. Even if it did, a huge decrease in premium would come about because it would obviously not be employing the people — not paying the wages — so its Workcover bill would be reduced.

My question is this: how many employers have had favourable results from this Workcover order? Has anyone taken advantage of the protection the order has offered? Has the true intention of the order been reflected or is this an unintended consequence? We are also unnerved at the fact that this law was applied in retrospect. As I said, our 1999–2000 confirmed premium notice did not include the application of this law.

The answer from the CGU people was that it took them 12 months to get the new calculation into their system. I do not know whether that was because of a hold-up in the legislation, or how to apply it, or whether they hadn't got it on their computer system. When we took over the business the law had already been thought of and had already been applied in the minds of our politicians, but we still had not heard anything of it, so we took over the business. They did not warn us of the effect of this succession rate — that we would not enjoy the lower rate; that our rate would increase by some 35 per cent.

When we sent our remuneration in late, they applied the 20 per cent increase in remuneration and increased the Workcover premium. We sent our confirmed notices back promptly. They sent back the initial premium notice for 2001 and confirmed premium notice for 2000. As I said, they did not apply the new order. Some 14 days later we got another bill which then applied the law. We could not make head nor tail of it.

One interesting fact was that our MD is very Workcover conscious. He spends a lot of money on occupational health and safety measures and takes an active part in it; he was in charge of it at Dulux. We spend quite a bit of money on it and work to prevent workplace injuries.

One thing we were getting charged under the previous administration was a buy-out premium. I detected that a buy-out premium would be unnecessary to our company, so I wrote to the Workcover authority to take that buy-out premium off, expecting an \$8000 bonus in the premium reduction. But that \$8000 bonus was eaten up. We virtually got the same 2000–01 premium without the \$8000 buy-out premium.

So generally that is my submission. I just cannot understand the application of the law. I do not understand the logic behind small employers taking over large employers. I would be very interested in evidence or facts and figures on who has claimed or who this premiums order no. 7 has helped.

Ms DARVENIZA — Do you have any difficulty with us getting some information from Workcover?

Mr MAHON — I will provide it all to you.

The CHAIRMAN — You said from Workcover, and Mr Mahon said, ‘I will provide it to you’.

Mr MAHON — You can get any information you need from Workcover and I will provide you with a copy of some correspondence and copies of our premium notices for the years in question and all the different premium notices we received in that period.

Ms DARVENIZA — Thank you very much for that.

Mr THEOPHANOUS — I am genuinely trying to understand this insurance order no. 7, which is a succession order. I am not sure under which particular legislation it was brought in, but we will find that out. I do not expect you to know that.

Mr MAHON — I imagine it was the new government.

Mr THEOPHANOUS — I will find out.

Mr MAHON — It was only applied from 1 July. When did you guys get in?

Mr THEOPHANOUS — We will find out whether it is or not. I think you are not interpreting me correctly when you say ‘reduce impact on small employers of a large employer with a bad experience rating’.

Mr MAHON — The information that Richard has just picked up off the table has in the last paragraph on that front page a letter from CGU works experience. It is a direct quote from their letter.

Mr THEOPHANOUS — I know, but your interpretation of it is that large employers are taking over small employers. I think what it means is that when a takeover occurs, the premium paid by the small company would not necessarily be affected as part of the bigger organisation by the fact that the larger employer had a poor experience rating; in other words, it would not automatically go down.

Mr MAHON — I understand that, but I just cannot see a small employer taking over a large employer.

Mr THEOPHANOUS — I am not saying it would. I am saying it still applies where a large employer takes over a small employer, but an allowance is made for the fact that the experience of the small employer is better than the experience of the large one.

What you are saying, as far as I can gather, is that you are not unhappy with the increases so far as common-law claims are concerned and so far as your industry rate is concerned. Your one issue relates to this question of the succession; is that right?

Mr MAHON — That is right.

Mr THEOPHANOUS — We will investigate that.

Mrs COOTE — You said that you had had an excellent relationship or correspondence with Workcover?

Mr MAHON — The CGU, yes.

Mrs COOTE — Can you tell me what your understanding of the F factor is?

Mr MAHON — None at all.

Mrs COOTE — So as an accountant for this company, Fans Direct, you have no idea how they got — —

Mr MAHON — I heard it when I was sitting there, but I do not know what the F factor is.

The CHAIRMAN — Do you have a view on how Workcover should change the situation to improve the position of businesses such as yours?

Mr MAHON — Maybe provide information more readily. A lot of the staff at insurance companies find it difficult to handle it. It is complicated legislation and does take a little bit of time to get your mind around; maybe the companies could provide that information to their staff in the first instance so they can get their own head around it to enable them to explain it in layman's terms to the people they are speaking to, who obviously have an interest in getting their head around it. You have definitely got to simplify the effects and why things happen to an extent for the customers of Workcover generally; that is just a general point of view.

The CHAIRMAN — Thank you for your time today. We will send you a copy of the transcript, and you can send any corrections to us if we have got anything wrong. Thank you very much for coming along.

Committee adjourned.