

## Agreement in Principle

**Ms VIRGINIA JUDGE** (Strathfield—Parliamentary Secretary) [4.21 p.m.]: I move:

That this bill be now agreed to in principle.

The Workers Compensation Legislation Amendment (Financial Provisions) Bill 2008 contains proposed amendments to the workers compensation legislation to introduce a new more transparent model for the funding of the WorkCover Authority of New South Wales. Before I detail the bill to the House I will outline the current arrangements for the funding of the WorkCover Authority. The New South Wales workers compensation system comprises the Workers Compensation Nominal Insurer, a statutory entity that manages the Workers Compensation Insurance Fund, self-insurers and specialised insurers.

The Workers Compensation Nominal Insurer insures the majority of employers and 74 per cent of employees. WorkCover's budget is funded by levies on the premium income of the Workers Compensation Nominal Insurer and specialised insurers and the deemed premium income of self-insurers. Like most Government agencies WorkCover receives some funding from other sources, including licensing fees investment income and other miscellaneous sources. WorkCover can also draw down funds from the Workers Compensation Insurance Fund to support its activities undertaken on behalf of the Workers Compensation Nominal Insurer. Each financial year WorkCover makes an estimate of its total budget and the amounts the WorkCover Authority Fund requires to be contributed.

The contribution paid by the Workers Compensation Nominal Insurer specialised insurers and self-insurers is based on a percentage determined by the authority and paid into the WorkCover Authority Fund. The contribution is a percentage of the premium income of the Workers Compensation Nominal Insurer and specialised insurers in the relevant financial year and of the deemed premium income of self-insurers. The legislation requires the percentage to be the same for all licensed insurers and for all self-insurers. The Workers Compensation Nominal Insurer specialised insurers and self-insurers pay the contributions in regular instalments throughout the relevant financial year as determined by WorkCover.

The Workers Compensation Nominal Insurer consistent with its market share of the workers compensation system pays by far the largest contribution. Several problems exist with the current model in relation to the premium income of the Workers Compensation Nominal Insurer. Firstly, WorkCover's budget is determined on the basis of WorkCover's operational needs. Premium income may rise or fall directly impacting on WorkCover's operational funding. Secondly, the formula for determining a percentage of premium is complex, making budgetary planning more difficult than if specified sums were withdrawn from the Workers Compensation Insurance Fund.

I refer now to the reforms to WorkCover's budget-setting process proposed in the bill. It is proposed that rather than a percentage being imposed on the premium income of the Workers Compensation Nominal Insurer that WorkCover will prepare an annual base expenditure budget and estimates in relation to income WorkCover expects to receive from various sources. These sources include contributions on the premium income of specialised insurers and the deemed premium of self-insurers, licensing fees, investment income and other miscellaneous sources. WorkCover will then be permitted to receive a specific sum from the Workers Compensation Insurance Fund. This sum will be calculated by deducting WorkCover's estimated income from the base expenditure budget.

WorkCover will be permitted to withdraw sums from the Workers Compensation Insurance Fund at regular intervals throughout the relevant financial year up to the value of the specific sum described above, which will be specified in the WorkCover budget. The Workers Compensation Legislation Amendment (Financial Provisions) Bill amends the Workplace Injury Management and Workers Compensation Act 1998 to provide for WorkCover to make an estimate of the amount required to be contributed to the WorkCover Authority Fund from the Workers Compensation Insurance Fund before the beginning of each financial year. The bill further provides for the Minister to approve the payment into the WorkCover Authority Fund of amounts from the Workers Compensation Insurance Fund having regard to the estimates made by WorkCover and the need for any additional funding to provide for the proper exercise of WorkCover's functions.

It is proposed that the amount calculated by WorkCover to fund its operations and approved by the Minister under the proposed new funding model incorporate an amount to cover WorkCover's costs in acting on behalf of the Workers Compensation Nominal Insurer. The Government is confident that the reforms embodied in the bill will significantly enhance the transparency and predictability of WorkCover's budget-setting process. The WorkCover budget-setting process will be subject to extensive scrutiny and oversight. Funds can be drawn only from the Workers Compensation Insurance Fund with ministerial approval.

WorkCover will, of course, consult with the WorkCover Board before submitting its budget to the Minister.

WorkCover will consult also with Treasury in a similar manner to other Government agencies in the course of setting its budget. The Minister responsible for WorkCover and WorkCover officials will continue also to be subject to the scrutiny of the estimates committees in the course of the consideration of the budget. WorkCover will again have to seek ministerial approval if it requires further funding during the year exceeding its estimate. Under the new funding model it will be clear in advance exactly how much money WorkCover will receive from the Workers Compensation Insurance Fund instead of the contribution varying in accordance with the actual premium income of the Workers Compensation Nominal Insurer throughout the relevant financial year.

The amount paid to the WorkCover Authority Fund therefore will be predictable and transparent. The new funding model will remove the risk of volatility to WorkCover's budget caused by unanticipated surpluses and deficits arising from unforeseen changes to premium income. The bill before does not affect the determination of the contributions made by self-insurers and specialised insurers to the WorkCover budget. WorkCover will continue to collect contributions from specialised insurers and self-insurers using the current method. The change to WorkCover's current financial model is not expected to have any financial impact on self-insurers and specialised insurers. There is no intention that the new funding model proposed by the bill will result in an overall increase in WorkCover's funding as compared with the current funding model. Rather, the proposed funding model is intended to be a more efficient, transparent and predictable method of funding WorkCover.

If WorkCover were to require further funding, then WorkCover would have to seek further approval from the Minister. Such approval would be sought for enhancement of effort or where additional responsibilities necessitated an increase in funding. The bill further provides a mechanism for WorkCover to transfer money or other form of surplus from the WorkCover Authority Fund to the Workers Compensation Insurance Fund. An example may be where WorkCover has a budget surplus at the end of a financial year. In line with Treasury's expectations, WorkCover will develop its budget to result in a zero net cost of services. As a transitional measure, the bill provides for the Workers Compensation Nominal Insurer to pay over to the WorkCover Authority Fund any outstanding contributions from premium as at 30 June 2008.

This provision simply ensures that funds that were due to be paid into the WorkCover Authority Fund from the Workers Compensation Insurance Fund under the old funding arrangements nevertheless are paid into the WorkCover Authority Fund. The bill is an important reform to WorkCover's budget-setting process and will make that process more transparent and accountable. I commend the bill to the House.