

Second Reading

The Hon. HENRY TSANG (Parliamentary Secretary) [8.44 p.m.], on behalf of the Hon. Eric Roozendaal: I move:
That this bill be now read a second time.

I seek leave to have the second reading speech incorporated in *Hansard*.

Leave granted.

I am pleased to introduce the Workers Compensation Legislation Amendment (Financial Provisions) Bill 2008.

The bill before the House contains proposed amendments to the workers compensation legislation to introduce a new, more transparent model for the funding of the WorkCover Authority of NSW.

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; and self- and specialised insurers. The majority of employers and 74 per cent of employees are insured by the Workers Compensation Nominal Insurer.

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 required to be contributed to the WorkCover Authority Fund.

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 is to be the same for all licensed insurers and for all self-insurers. The contributions are paid by the Workers Compensation Nominal Insurer, specialised insurers and self-insurers in regular instalments throughout the relevant financial year, as determined by WorkCover. By far the largest contribution is paid by the Workers Compensation Nominal Insurer, consistent with its market share of the workers compensation system.

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 now turn 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 only be drawn 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 also consult with the 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 also continue to be subject to the scrutiny of the Estimates Committees in the course of the consideration of the Budget. WorkCover will need to again 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 will therefore 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 the House does not affect the determination of the contributions made by self- 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- 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 need 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 the 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 which were due to be paid into the WorkCover Authority Fund from the Workers Compensation Insurance Fund under the old funding arrangements are nevertheless 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.

The Hon. MATTHEW MASON-COX [8.45 p.m.]: It is my pleasure to lead for the Opposition on the Workers Compensation Legislation Amendment (Financial Provisions) Bill 2008. The purpose of this bill is to amend the Workplace Injury Management and Workers Compensation Act 1998 and the Workers Compensation Act 1987 to provide new funding arrangements for the WorkCover Authority as follows. First, WorkCover's operations will be funded from the Workers Compensation Insurance Fund by payments from that fund to the WorkCover Authority Fund with the approval of the Minister. Second, existing provisions that enable WorkCover to require a contribution from the premium income of insurers will be retained but limited to contributions from specialised insurers and self-insurers, with the result that WorkCover will no longer be able to levy a contribution on the premium income of the Nominal Insurer. Third, WorkCover will be authorised to transfer money or other forms of surplus from the WorkCover Authority Fund to the Insurance Fund.

Currently a statutory authority, the Workers Compensation Nominal Insurer, manages the Workers Compensation Insurance Fund, self-insurers and specialised insurers, which cover the majority of employers and 74 per cent of employees. The Nominal Insurer issues workers compensation policies and manages claims. WorkCover acts on its behalf and exercises the powers of the Nominal Insurer. It is worth noting that the budget of WorkCover is mainly funded by income levies from employers that vary according to the premiums paid from year to year. WorkCover can also draw funds from the Insurance Fund and other sources, such as investments and fees.

The bill will mean that WorkCover will prepare an annual budget and will then be able to receive a specific sum from the Workers Compensation Insurance Fund, calculated by deducting its expected income from other sources from its budget. Any shortfall in its budget throughout the year will come from the fund but will need ministerial approval first. The change to WorkCover's current financial model as envisaged by the bill is not expected to have any financial impact on self-insurers and specialised insurers. I note that the expenses of WorkCover have been relatively stable over the past four years. Indeed, in 2004-05 the expenses of WorkCover were some \$238 million; in 2005-06, \$266.7 million; in 2006-07, \$266 million; in 2007-08, a fall to \$238 million; and in 2008-09 it is forecast it will rise to \$253.7 million—a modest increase over 2007-08.

The most important aspect of this bill is that for the first time WorkCover will be operating within a budget context. Ensuring that WorkCover exercises some budget discipline in that regard is very worthwhile. The WorkCover Authority will then be able to monitor and be accountable for its performance over any financial year and into the estimate out-years. It is also worth mentioning that if the budget determined in any one year is exceeded by WorkCover then, of course, it would need to ask the Minister for additional funds, from the overall fund itself. It would be worthwhile if the Minister responsible would then report to Parliament the reasons why WorkCover exceeded its budget so that the Parliament knows of any problems in that particular circumstance. That would be an appropriate measure in order to ensure budget accountability.

It is also the case with overruns if one looks at appropriation bills when the Treasurer's Advance is used. The overruns in that regard were recently debated in this House. The touchstone of accountability is very important when we are dealing with public moneys. The Opposition welcomes the fact that WorkCover will be subject to accountability and financial discipline through the budgetary process. It certainly encourages the Government to extend that process so that the Minister responsible reports to Parliament a budgetary allocation overrun, before any further moneys are provided to WorkCover in that regard. I note that the New South Wales Business Chamber has no issues with the legislation. For all those reasons, the Opposition does not oppose the bill.

Reverend the Hon. FRED NILE [8.49 p.m.]: The Christian Democratic Party supports the Workers Compensation Legislation Amendment (Financial Provisions) Bill 2008, which will amend the workers compensation legislation and provide new funding arrangements for the WorkCover Authority. Currently, 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 additional funding from other sources, including licensing fees, investment income and other miscellaneous sources.

Over the past few years it has been found that the WorkCover funding model is complex and has a number of problems, mainly because it is largely dependent on the premium income of the Workers Compensation Nominal Insurer. Yet the premium income itself can vary; it can be affected by many factors, and this gives some uncertainty to WorkCover's funding needs. This legislation will make clear the WorkCover budget. WorkCover will now produce an annual budget and estimates of its income, including the premium income of specialised insurers and the deemed premium of self-insurers, licensing fees, investment income and other miscellaneous sources.

The main impact of this legislation is that it will now provide for WorkCover to be permitted to receive a specific sum for its budget from the workers compensation insurance fund with the approval of the Minister. I would like the Minister to indicate what that specific sum will be in round terms. There must be some idea as to the current WorkCover budget. If it is to be changed to this new system, will it be exactly the same total amount as it was in the past, or does the Government have in mind a specific sum that will now become the WorkCover budget but it will come from the Workers Compensation Insurance Fund, which I understand pays compensation to injured workers? That is why it is important to know the total amount to come out of that fund.

As we know, in past years the WorkCover Authority had a deficit of \$3 billion; that has been whittled down to a \$1 billion surplus. Is the specific sum to come out of that \$1 billion, or will it come from some other fund? It would be helpful if the Minister could explain that to the House for the purposes of this debate. I understand that WorkCover will consult with Treasury concerning its proposed budget and will seek the endorsement of the board of directors of the WorkCover Authority before seeking ministerial approval. I understand the benefits of the new system. I simply want to know what is meant by a specific sum. It may be only an estimate but it would be helpful to know. We support the bill.