

**Submission
No 240**

INQUIRY INTO NSW WORKERS COMPENSATION SCHEME

Organisation: Infrastructure Partnerships Australia

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18 May 2012

The Hon Robert Borsak
Chairman of the Joint Select Committee
on the NSW Workers Compensation Scheme
Parliament House
Macquarie St
Sydney NSW 2000

Dear Mr Borsak,

NEW SOUTH WALES WORKERS COMPENSATION SCHEME REVIEW

Infrastructure Partnerships Australia welcomes the opportunity to contribute to the review of WorkCover – the State’s Workers Compensation Scheme. The NSW Scheme has not been comprehensively reviewed for over ten years and the opportunity that the current review presents must not be wasted.

Infrastructure Partnerships Australia supports a scheme that efficiently provides fair and timely assistance to workers injured in the course of their employment. However, the system in its current form does not adequately serve workers or employers, and is financially unsustainable with a growing deficit (currently \$4 billion). Reforming the system will reduce State Government liabilities, creating Budget headroom to invest in the productivity-boosting infrastructure that NSW critically needs.

Analysis by WorkCover, the Independent Scheme Actuary (PwC), and the Auditor-General has concluded that the scheme is financially unsustainable. Without radical reform, employers premiums would need to increase by 28 per cent. Premiums in NSW are already higher than Victoria and Queensland and any further increases would make NSW a less competitive destination for business and jobs.

Industry has indicated that premium increases would be passed on where they can be, resulting in higher infrastructure project costs in the State and lower value for the taxpayer dollar.

Reform to the workers compensation system that focuses on recovery, rehabilitation, and return to work will drive much-needed efficiency in the system, as will ensuring that incentives and employers premiums are directly linked to workplace safety.

1. ABOUT INFRASTRUCTURE PARTNERSHIPS AUSTRALIA

Infrastructure Partnerships Australia is the nation's peak infrastructure body. Our mission is to advocate the best solutions to Australia's infrastructure challenges, equipping the nation with the assets and services we need to secure enduring and strong economic growth and importantly, to meet national social objectives.

Our Membership is comprised of the most senior industry leaders across the spectrum of the infrastructure sector, including financiers, constructors, operators and advisors. Importantly, a significant portion of our Membership is comprised of government agencies.

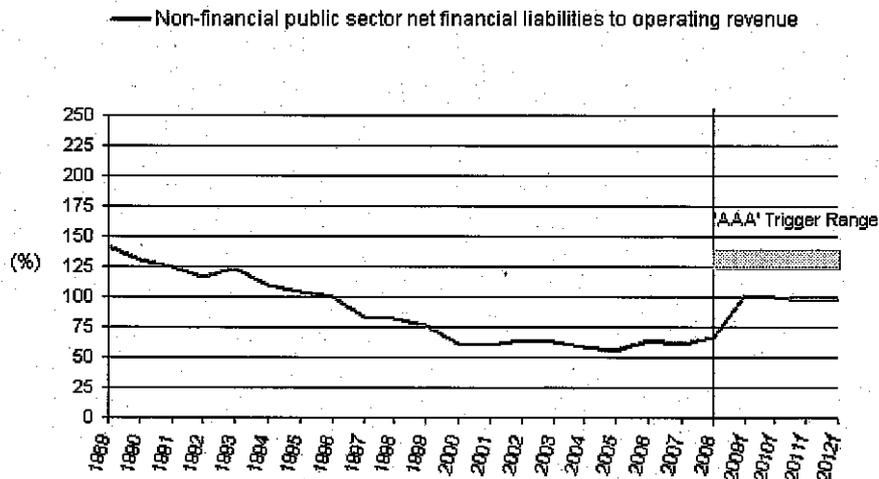
Infrastructure Partnerships Australia draws together the public and private sectors in a genuine partnership to debate the policies and priority projects that will build Australia for the challenges ahead.

2. THE NEW SOUTH WALES INFRASTRUCTURE CHALLENGE

New South Wales requires significant investment to deliver the infrastructure that is needed to respond to demand growth and address the existing backlog. Over the coming decades, a growing population, changing demographics, constrained balance sheets and reduced productivity growth will serve to compound the problem of inadequate infrastructure.

The NSW budget does not have the capacity to fund the quantum of new projects required without endangering its AAA credit rating (See Figure 1).

Figure 1: NSW Nonfinancial Public Sector Net Financial Liabilities to Operating Revenue (%)



Source: Standard and Poor's, *Credit FAQ: How Stable is the Credit Quality of the Australian States? 2009*

At December 2011, the Independent Scheme Actuary estimated the scheme's net outstanding claims liability to be \$14.4 billion. Any actions that the Government can take to reduce the State's liabilities to make room on the Budget for critical infrastructure should be actively pursued.

3. IMPACT ON STATE COMPETITIVENESS

Together with payroll tax, workers compensation premiums are a significant factor in businesses' decisions on which jurisdiction to locate their operations. The workers compensation system is therefore critical for attracting and retaining investment and jobs in the NSW economy. Reforming the scheme would help to boost productivity and encourage much-needed investment in NSW.

The premiums paid by NSW employers are currently estimated to be between 20 and 60 per cent, higher than equivalent employers in Victoria and Queensland, including in infrastructure related sectors (see Figure 2).

Figure 2: Non-residential construction industry premium rates as at 30 September 2011 (% of payroll)

New South Wales	Victoria	Queensland	Western Australia	South Australia	Tasmania	New Zealand
3.928	2.185	2.905	2.13	2.90	3.39	3.03

Source: Safe Work Australia, Comparison of Workers' Compensation Arrangements in Australia and New Zealand, April 2012.

At current premium levels – despite being higher than for comparable businesses in other states and territories – the financial sustainability of the scheme is expected to deteriorate further in the near term. This is a significant worry for NSW businesses and their employees.

As at 31 December 2011, the Independent Scheme Actuary calculated the scheme's deficit at \$4.1 billion – a deterioration of \$1.7 billion in the last six months alone.

The deficit equates to \$15,146 per employer or \$1,326 per worker covered. The cost of the Scheme is estimated at \$2.6 billion in 2012-13 (adjusted current projections) meaning that premiums will fail to cover ongoing costs. The growth in the scheme deficit from June 2011 to December 2011 is expected to cost NSW taxpayers more than \$9 million per day.

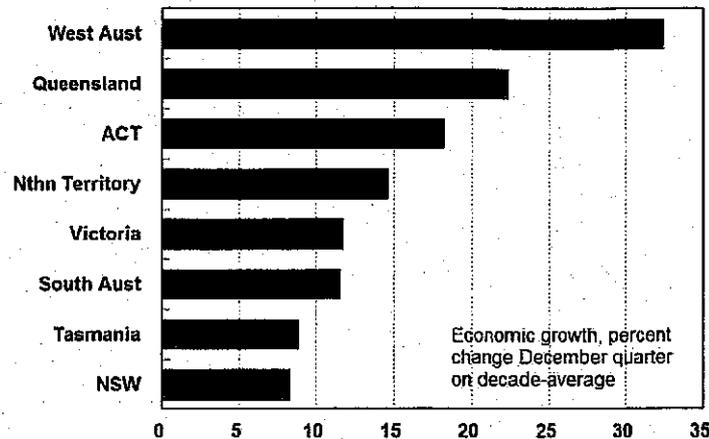
The Independent Scheme Actuary projects that to return to full funding over 5 years, premiums would need to be increased by 28 per cent.¹ This compares with Victoria where, from July 1, premiums will decrease by 3 per cent.

NSW cannot afford to further reduce its national competitiveness. Red tape and regulatory burdens already impede competition, innovation and productivity,² and in the April edition of the quarterly CommSec *State of the States* report, NSW was assessed the worst performer on economic activity (see Figure 3).

¹ Consultation with IPA members indicates that premium increases may result in companies seeking private insurance. The impact of this should be considered in the context of the current review of the scheme.

² NSW Business Chamber, *Reducing the Cost of doing business in NSW*, 2009

Figure 3: Australian state and territory economic growth, per cent change on decade average.



Source: *CommSec State of the States, April 2012*

New South Wales is already a high cost state and measures that drive costs higher should be avoided. Examples across both economic and social infrastructure suggest that it is more expensive to build infrastructure assets in NSW as compared to other jurisdictions, and increased workers compensation premiums would further worsen this situation.

The 2011 NSW General Standing Committee Rail Inquiry found that it also costs more to build new railway infrastructure in New South Wales compared with other states and territories. A 2011 Ernst and Young benchmarking study – commissioned by the then NSW Department of Transport – found that the average total construction cost per track kilometre for rail projects in NSW was \$48 million, significantly higher than the \$27 million for the rest of Australia.

Industry has also noted that NSW infrastructure costs are increasing at a rapid rate. Delivering the M2 cost roughly \$20 million per kilometre, whereas the M7 cost around \$40 million per kilometre. Inflation over this time only accounts for around 30 per cent of cost increases, and the remaining cost blow out can be attributed to the State's unnecessarily and increasingly complicated planning processes.

Delivering infrastructure is more expensive in NSW than in other states and territories, and is also becoming more expensive over time. Increasing workers compensation premiums would be an unacceptable additional cost.

4. OPTIONS FOR REFORM

Given that further premium increases are clearly not a viable option, the scheme must be reformed to address its shortcomings. The following inefficiencies reduce the scheme's financial sustainability while doing little to improve the safety of workplaces or the health and wellbeing of injured workers.

A. JOURNEY CLAIMS

In NSW workers are covered for injuries which occur travelling to and from work. These claims are excluded in Victoria, Western Australia and Tasmania.

The Issues Paper recognises that eliminating workers compensation costs arising in circumstances over which employers have limited control would provide a closer connection between work, health and safety responsibilities and workers compensation premiums.

IPA supports reform measures that signal a commitment to workplace safety, while improving the efficiency and effectiveness of the system.

B. STEP DOWNS

Some jurisdictions have weekly benefit schemes which incorporate "step downs" or reductions after 13 weeks, to encourage workers to return to work. Introducing these in NSW would reduce the liability of the scheme by encouraging less seriously injured workers to regain financial independence.

Step downs would also improve the health of injured workers. A correlation between early return to work and improved health outcomes has been consistently found in international research. A 2002 study for the Victorian Work Cover Authority found that following a workplace injury, the chance of a person ever returning to work deteriorates the longer they are away from the workplace by:

- 70% if away for 20 days;
- 50 % if away for 45 days; and
- 35% if away for 70 days.

C. WORK CAPACITY TESTING

Work capacity testing at specific points could assist injured workers on long-term weekly benefits in transitioning back into paid employment and should be considered in NSW. Where injured employees are independently tested and deemed to have a work capacity, ceasing weekly benefits after a certain period would assist them to regain their financial independence through paid employment. Such a reform will also reduce the weekly liability of the scheme by cutting payments to workers who are no longer injured.

5. RECOMMENDATIONS/CONCLUSION

When compared to its key aims of supporting and rehabilitating injured workers while remaining financially sustainable and competitive with other states, the NSW Workers Compensation scheme is

clearly failing. This submission has highlighted the gravity of the challenges facing the scheme as well as the importance of achieving meaningful reform in this area.

In considering options for reform, IPA urges you to look at the issues we have highlighted as well as the form and function of workers' compensation schemes in other jurisdictions. An overhaul of the NSW Scheme would be a positive step in restoring the competitiveness of the NSW economy, reducing State Government liabilities and allowing the State to invest to address its infrastructure backlog.

6. FURTHER CONTACT

Should you require further information, I invite you to contact our office on anytime.

Yours sincerely,

BRENDAN LYON
CHIEF EXECUTIVE OFFICER