

REPORT OF PROCEEDINGS BEFORE

GENERAL PURPOSE STANDING COMMITTEE No. 1

**REVIEW AND MONITORING OF THE NEW SOUTH WALES
WORKERS COMPENSATION SCHEME**

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At Sydney on Friday, 7 June 2002

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The Committee met at 9.00am

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PRESENT

Reverend the Hon. Fred Nile MLC (Chair)

The Hon. Tony Kelly MLC (Deputy Chair)

The Hon. Michael Gallacher MLC

The Hon. John Jobling MLC

The Hon. Janelle Saffin MLC

The Hon. Henry Tsang MLC

The Hon. Dr Peter Wong MLC

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CHAIR: I welcome the media and members of the public to this hearing of the General Purpose Standing Committee No. 1 for its inquiry into review and monitoring of the New South Wales workers compensation scheme.

The Committee has previously resolved to authorise the media to broadcast sound and video excerpts of its public proceedings. Copies of guidelines governing the broadcast of proceedings are available from the table by the door.

I point out that in accordance with the Legislative Council guidelines for the broadcast of proceedings, members of the Committee and witnesses may be filmed or recorded. People in the public gallery should not be the primary focus of any filming or photographs. In reporting the proceedings of this Committee the media must take responsibility for what they publish or what interpretation is placed on anything that is said before the Committee.

Witnesses, members and their staff are advised that any messages should be delivered through the attendant on duty or through the Committee clerks.

I advise that under Standing Order 252 of the Legislative Council evidence given before the Committee and any documents presented to the Committee that have not yet been tabled in Parliament

... may not, except with the permission of the Committee, be disclosed or published by any Member of such Committee or by any other person.

I have been advised that The Hon. John Jobling will be replacing The Hon. Greg Pearce, for the purpose of this meeting of the General Purpose Standing Committee No. 1. I understand that Mr Pearce is involved in an inquiry at Cabramatta.

KATHERINE MARY MCKENZIE, General Manager, WorkCover NSW, 400 Kent Street, Sydney,

RODNEY STUART MCINNES, Assistant General Manager, Insurance Division, WorkCover NSW, 400 Kent Street, Sydney, and

PETER HENRY HOLE, Director, Information Management Branch, WorkCover NSW, 400 Kent Street, Sydney, sworn and examined:

CHAIR: Are you conversant with the terms of reference of this inquiry?

Ms McKENZIE: Yes.

CHAIR: Are you conversant with the terms of reference of this inquiry?

Mr McINNES: Yes, I am.

CHAIR: Are you conversant with the terms of reference of this inquiry?

Mr HOLE: Yes, I am.

CHAIR: As witnesses know, if you should consider at any stage during your evidence that in the public interest certain evidence or documents you may wish to present should be heard or seen only by the Committee, the Committee would be willing to accede to your request and we would go into camera.

Do you wish to make an opening statement or give your presentation? How would you like to proceed?

Ms McKENZIE: We were planning to do a presentation on the investment strategy followed by a presentation on the information technology strategy. If members are ready, we are ready to go ahead with the presentation on the investment strategy if that would be helpful.

CHAIR: Please go ahead.

Ms McKENZIE: What we have tried to do here in response to the Committee's request for some information on this is give a fairly broad overview of how we set investment strategy and how we monitor the performance of WorkCover scheme investments. To begin with, just to clarify the role of the various players in the investment strategy, as members of this Committee would be well aware, insurers are licenced to write policies, collect premiums, pay claims and invest funds on behalf of the WorkCover scheme.

CHAIR: Do you have a copy of these overheads?

Ms McKENZIE: Yes. We are happy to make a copy available. There were scheme assets of \$5.8 billion as at 31 March this year. The funds are held in trust and the investments are usually managed by related specialist investment companies of the insurers.

Our investment objectives are to be risk averse, to ensure there are always sufficient funds available to meet claims; we have a medium to long-term outlook to match up with the length of our liabilities; we try to align the investment outlook with the average duration of liabilities in the scheme; and we try to be balanced to maximise the returns available from the investments at the same time as minimising the risk.

In terms of the investment responsibilities for the WorkCover scheme, they can be categorised into three main areas: the overall scheme investment strategy, the tactical asset allocation and stock collection. WorkCover sets the asset mix for the scheme and this determines the allowable asset classes, and that means, for example, how much proportion is there going to be in shares, how much in bonds, how much in property, that kind of thing, and the standard mix of those classes, that is what percentage of those things we are going to have. The standard asset mix is used as a benchmark to monitor investment performance.

This diagram sets out the current allocation by asset class. As you can see, there is 23 percent in fixed interest, 15 percent in inflation linked bonds, 25 percent in Australian shares, 10 percent in property trusts, 12.5 percent in international shares unhedged and 12.5 percent in international shares hedged and two percent in liquid.

When it comes to tactical asset allocation decisions, the insurers make those decisions. It is a variation from

the standard asset mix. There is limited variation allowed. We give them benchmarks and we give them a range, if you like, within which they can choose to invest. They are generally short-term and take advantage of market trends. For example, they will move their asset mix around to take advantage of changes in the market place or they might at some points in time increase their weightings in shares or bonds or reduce them, depending on what is happening in the market.

The next aspect is stock selection, and once again insurers are responsible for stock selection, and that basically means they select the individual securities that they are going to buy and sell, and we have just given an example there: Are we going to buy Westpac shares or sell them; are we going to buy Rio Tinto shares or sell them? They are decisions that the insurers make. The securities that they are allowed to pick from, however, are restricted to the ASX 200, and that is once again in the interests of making sure that they do not get involved in investments that are too risky, they only get the blue chip companies, if you like.

Moving on to how we determine the registry strategy, we regularly review the strategy, try to take account of changes in the scheme over time and changes in the external world over time. Those reviews are always conducted by investment experts. The last review was conducted in 2001 by Towers Perrin. Implementation of the new investment strategy was completed in February this year. The strategy was, once again, a product of risk and return, lower returns, for example Government bonds, which guarantee relatively stable returns, and some higher returns, for example shares, which are volatile and can sometimes be negative in the short-term. So the art, I guess, is in balancing that portfolio to have the right mix.

How is the current investment strategy set? Towers Perrin conducted a review using their asset liability modelling techniques. That models the volatility and the duration of the liabilities and the volatility and return for the different asset classes. So basically it is really about trying to match up your liability profile with your asset profile so that you have got the right mix of things for the kind of scheme that we have got, and also trying to maximise the investment return for any given risk.

WorkCover determines the level of risk it will bear, and that investment strategy was approved by the board. Compliance and performance monitoring, which is a very important aspect of this, we have in the scheme a master custodian called Cogent. Cogent actually holds all the individual investment securities and it administers investment transactions and it provides performance reports on the insurers' investment performance. The reason for having a master custodian arrangement is really to do with making sure that the insurers are sticking with the investment mandate, so they can give us reports on any non-complying investments, and also it avoids the possibility of rogue trading because you have got an independent third party overseeing what is going on with the investment.

Who determines scheme performance? Well, the actual scheme investment return is a product, I suppose, of all those three aspects of the investment strategy. It is partly determined by the overall scheme investment strategy, which WorkCover determines, plus the insurers' tactical asset allocation decisions, where they choose to put their assets within the confines of the strategy that we give them, and their stock selection and whether they do that well or not.

The scheme's investment performance is benchmarked against the reference portfolio, which, as I described earlier, is just a return for the standard asset mix, the peer group, which is Towers Perrin pooled funds survey, and the adjusted Government bond rate, which I suppose, as it says there, is what we would get for a risk free return on the scheme investments. So we benchmark against all of those things, and the aim obviously is to outperform all of those indexes.

This graph shows the investment return for the scheme funds for the period ending March this year. As you can see, the scheme returns are in green, the reference portfolio is the orange colour, the peer group average is the yellow and the bond rate is the purple. Hopefully that is reasonably self-explanatory, how that performance compares, and we regularly keep a track of this to just keep an eye on making sure the investment strategy is on track and that there is nothing odd happening.

Insurer investment performance: We measure the performance of the insurers against the return for the reference portfolio, that is compared to the standard asset mix, and we measure their performance as against each other. They can perform well by making good tactical decisions. Some of them have done well by having more in shares when the stock market increases and knowing when to buy and sell at the right time, I guess pretty standard for investments, and by making good stock selections, buying undervalued stocks and watching them rise, hopefully.

This slide compares our scheme investment strategy to the other jurisdictions. In summary, you can see that there are some variations between the various jurisdictions about how they choose to break up their investment portfolio, although there is a reasonable degree of consistency and I suppose that is not surprising given you would expect that the investment strategies for most of the schemes would be broadly similar, but obviously people are going

to make different judgments about the right scheme investment strategy depending on the financial position of the scheme and other parameters attached to their scheme compared to our scheme. Overall I think there is not a huge variation there.

This graph shows the comparison of the scheme performance of the New South Wales scheme compared to the other jurisdictions. Once again, as you can see at the bottom, New South Wales is the bright green, South Australia is the orange, Victoria is the yellow and Queensland is the purple, and that just shows you over one year, three years and five years.

The Hon. TONY KELLY: That is going back one year, going back three years and going back five years?

Mr McINNES: We have put in the three and five years because we have actually got a medium to long term outlook so from a longer term performance perspective that is the more critical result.

The Hon. HENRY TSANG: Is it in anticipation or is it the past?

Ms McKENZIE: This is past, this is historical.

Ms McINNES: It is historical performance.

The Hon. TONY KELLY: So effectively what that means is that this one and the previous one you are doing better in the current years, in the years just gone, than five years ago?

Ms McKENZIE: Yes.

The Hon. HENRY TSANG: Your scheme is new, though.

Mr McINNES: That is right.

The Hon. HENRY TSANG: So you cannot relate to five years ago because five years ago your portfolio was completely different.

Mr McINNES: That is right, and prior to the most recent review we had a more conservative investment strategy. I should say these are actually results to June last year, which is the most recent information we were able to get from the other States and which is why, because we had a more conservative strategy, we have performed better in the last year because of the downturn in that period, whereas over the longer term, because they had a more aggressive strategy, the other States have performed better, so again it is that balance of volatility versus return.

Ms McKENZIE: The reason for the conservative investment strategy previously was because with private underwriting looming, if that had gone ahead, the scheme would have been closed, so the quite correct view was that in that environment you need to have a conservative strategy because there would not be any more income coming in, but now that that is not happening any more, that is the reason why we reviewed the investment strategy last year and went for a more aggressive investment strategy.

The Hon. MICHAEL GALLACHER: Why have South Australia and Queensland had such marked changes in the scheme performance over the period whilst ours has been fairly--

Mr McINNES: Again, that is conservatism. The return for shares, for example, is much more volatile than the return for a fixed interest investment. They have a much higher proportion in shares than we have over these periods, so their returns are much more volatile.

Ms McKENZIE: And we would expect that for our scheme, with the adoption of a new investment strategy, we will see more volatility in our returns as well because we have now got more money invested in those asset classes that have a little bit more volatility.

Mr McINNES: But over the longer term you would expect to get a better return in relative terms. Again, if you look at the differential there, you are talking about a two percent differential over a five year period.

The Hon. JOHN JOBLING: For the record, just so that it is clear, the slide shows an absence of the State of Victoria in the three year band and five year band. Would you explain why the yellow graph for Victoria is not present in this slide?

Mr McINNES: Yes, we have not been able to get the information from Victoria at this point, so we have not actually got comparable figures for Victoria over the three and five year period.

Ms McKENZIE: Not everyone is as open and transparent as us.

The Hon. TONY KELLY: South Australia were actually the ones on the previous graph that showed that they were a bit away from the average in that they had 42.5 percent of international unhedged shares.

Ms McKENZIE: Yes.

The Hon. TONY KELLY: That is where the risk is, I suppose, or it could be, or you could do very well.

Ms McKENZIE: Well, it is where the volatility is, I guess.

Mr McINNES: You have the added volatility there of the Australian dollar as an added risk and again I suppose the whole point of having a balanced portfolio like that is to try and spread your risk across different areas so that if, in theory, one is going down, the other is going up.

The Hon. TONY KELLY: So with the dollar going up, if they cashed out now, they would lose--

Ms McKENZIE: For the unhedged, that is right, potentially, yes. Hopefully that is helpful. It is difficult to know how much detail to go into, but I think that gives you a fairly good overall picture of how this works.

The Hon. JOHN JOBLING: If you look at the bottom line, you would draw a conclusion that the total growth assets in Queensland are considerably much higher and we are obviously at the bottom of the tree on that particular graph, yet the subsequent graph overall tends to show New South Wales doing considerably much better in the one year term. Would you care to comment on why the former graph shows the variation, being at the bottom, and the current graph shows us as being in front of the other three States?

Mr McINNES: Again, for the periods in question we had a more conservative investment strategy than even existed in that graph, so for the one year I suppose we had less weight in shares and therefore we were not as adversely affected by downturns in the share market, whereas in the one year period Queensland, with its high growth bias, was adversely affected by the downturns in the local and the international share markets.

The Hon. JOHN JOBLING: So subject to the effect and the relationship of the share market, if it was to rise reasonably quickly and our balance remained more or less as it is, you would expect to see a figure somewhat more similar to the three year figure that we see there where the other States would benefit more rapidly from a share market increase.

Ms McKENZIE: Yes.

Mr McINNES: Yes, although again for the future we are much more in line with their situation. Previously our growth assets were in the order of 30 percent and we have now doubled that to 60 percent.

The Hon. JOHN JOBLING: The five year picture would be in fact perhaps over the short and middle term what you would expect to see it go back to.

Ms McKENZIE: Well, to some extent that depends on your judgment about what the future holds. It is always this art about striking the right balance. The strategy might backfire if the share market suddenly drops.

The Hon. JOHN JOBLING: I accept that.

Ms McKENZIE: And, as I say, from our point of view, what we try to do is match up the liabilities with the assets and, not surprisingly, that is going to give you slightly different answers in different jurisdictions depending on the state of the scheme and what is happening in the jurisdiction.

The Hon. MICHAEL GALLACHER: That one year that is shown there, is that under the old investment strategy or the new investment strategy?

Mr McINNES: That is the old investment strategy, so this is for the year to 30 June 2001, that one year, and, the five years, five years to 30 June 2001.

Ms McKENZIE: And I guess what that really shows is that under the more conservative investment strategy you get less volatility, so whereas some of the other jurisdictions, because they had higher growth assets, got shrinking returns because of the drop in the share market, we were less affected because we had less money in shares.

The Hon. MICHAEL GALLACHER: If we go to the previous graph that showed percentages across the bottom line, how long have South Australia, Victoria and Queensland had the more proactive or aggressive investment strategy?

Mr McINNES: I could not give you actual dates. I know that South Australia has had that approach for many years, in excess of five years I would suggest, and Victoria and Queensland a number of years, but I could not give you the exact figure. I mean we could certainly find out.

Ms McKENZIE: Like us, they would review their investment strategies on a reasonably regular basis.

The Hon. MICHAEL GALLACHER: Why has it taken us, therefore, so long to adopt what appears to be a relatively consistent or somewhat more consistent investment strategy now, according to this graph, when the one we had previously was 30 percent growth assets rather than 60 percent?

Mr McINNES: Because at the time the scheme was scheduled to actually come to a close and we were planning to move to private underwriting, so the scheme would close off, it would no longer have any income and you would be then just in run-off mode and paying out claims and the duration in which you would be making those payments would be much shorter than where you have an ongoing scheme and, as I said, you do not have any income to support it, so you need to have a more conservative approach to your investment strategy because of the shorter time frame and also there is an increased need for liquid assets because, as I said, you do not actually have income coming in so you need to have a much higher proportion in liquid assets that you can use to pay out claims.

The Hon. MICHAEL GALLACHER: The proposal to go to privately underwritten schemes was of course in the 1998 legislation. Am I therefore correct in assuming, because of the Government's indecisiveness since 1998, we therefore lost two years and if we had had a decision made in 1998 we could have had a far more aggressive investment strategy then?

Mr McINNES: Well, it is certainly true, I guess, you make a decision on the investment strategy in the light of the circumstances that exist at the time.

The Hon. MICHAEL GALLACHER: So if the Government had adopted an aggressive investment strategy two years ago instead of obfuscating on the issue of private underwriting we may well have found our position far stronger than it is now?

Ms McKENZIE: Well, it may not necessarily have helped because, as you can see from the next graph, the share market dropped, so as a matter of fact--

The Hon. MICHAEL GALLACHER: Yes, but that was good luck rather than good management. There is a difference.

Ms McKENZIE: Well, to some extent, all of this is--

The Hon. JOHN JOBLING: If you look at the three year one there, my colleague's point is valid. If you extrapolate the three year one on an aggressive basis we conceivably should have had a much better general return over the three years and two years back to one year. The question I would like to put to you though is: Have you done a comparison, as generally the financial market does, with the five to ten top investment companies, extrapolating their returns over the one, three and five years, how you compare against those and how your mix compares on average to those?

Mr McINNES: The peer group average comparison is a comparison of investment funds with similar strategies to ours.

The Hon. JOHN JOBLING: That is good, I accept that.

Ms McKENZIE: But you cannot compare to a portfolio of investments that bears no resemblance to the sorts of thing--

The Hon. JOHN JOBLING: Well, yes, you can, you see. I would put to you the proposition that at the end

of the day both the Parliament and I would imagine you, for funding purposes, are interested in the bottom line return which is going to be 6, 7, 8, 9, 10 percent, after costs and after extras, and I accept the share market variations, but what I put to you is that in the private enterprise schemes they are very conscious of that. Irrespective of the mix, how do you compare at the end bottom line to many of the other private schemes because, in my mind, if you are greatly different, it suggests that either you or whoever is advising you has sent you into the wrong mix.

Mr McINNES: Again, I think you can only compare with similar mixes and that is really why that comparison is with the peer group.

The Hon. JOHN JOBLING: That is nonsense.

Ms McKENZIE: It is not nonsense.

The Hon. JOHN JOBLING: Yes, it is, because in private enterprise you do have to be able to look and if your share --

Ms McKENZIE: I do not think it is an argument about whether it is private or whether it is public. What we are trying to do here is match up our asset mix with our liability. So unless you are looking at somebody else who has a similar profile in terms of length of liabilities and that sort of stuff, you are not making a valid comparison.

The Hon. JOHN JOBLING: If your asset mix is not right, if your returns are not sufficient -

Mr McINNES: That is a different argument.

The Hon. JOHN JOBLING: That at the end of the day is where you assess the scheme, and if you want to call it strategy, so be it, but I am just interested, we have five States, well, four States and we look at those, that is fair enough, I am quite happy with that, but what I am actually trying to find out is how you would compare, if you were in the other part of the world and you did not compare to just the Government funds?

Mr McINNES: But that is what our peer group comparison is. It is a comparison with private funds that have a similar strategy to us.

The Hon. JOHN JOBLING: Great, we are slowly getting there. What I am interested in is seeing their funds in comparison to the peer groups for the same --

Mr McINNES: That is the yellow line up there.

The Hon. JOHN JOBLING: The yellow line?

Mr McINNES: That is the peer group, that is the private enterprise funds with a similar strategy to us over that period.

The Hon. JOHN JOBLING: That is the average peer group?

Mr McINNES: That is true, that is the average.

The Hon. JOHN JOBLING: Can you break down the peer groups, because that is obviously the tops and the bottoms. Some are going to be even humungously worse than that and some a lot better, but that is an average figure, is it not?

Mr McINNES: It is. I don't believe we can actually access, because part of the process of getting these - well, I don't know. I would have to look and see whether we --

The Hon. JOHN JOBLING: Consequential to what I am saying, it may make you look extraordinarily good.

Mr McINNES: I think it does.

The Hon. JOHN JOBLING: It makes you look even better. I am just interested in getting the broadest view to see what is there.

Mr McINNES: As I said, I am not sure whether we can access the individual results that make up that average, but I can certainly investigate that.

The Hon. JOHN JOBLING: If we could just get the tops and bottoms, it will give us some idea of the band spread. That is an average, which is very difficult to -

The Hon. TONY KELLY: But that might not take into account quantity. It might mean you put ten dollars in. Is the average based on an average of dollar invested or average of company?

Mr McINNES: It is the average return for all of the companies that submit to that survey.

The Hon. TONY KELLY: Say you have got 100 companies, there might be one company, instead of having an average amount on that which would be one percent, it might have 0.00001 percent, but they get figures. So it distorts it when you start to look at individual ones.

Ms McKENZIE: It would distort it. That is why we look at the average.

Mr McINNES: Again, I don't know whether it is a weighted average or just a straight average.

CHAIR: Who supplies it? Where does it come from, that figure for the peer group average?

Mr McINNES: Towers Perrin supplies that. They do a survey of a number of clients.

The Hon. JOHN JOBLING: What I was trying to allude to is to look at the other side and see is there one specific company that perpetually and regularly outstrips all the others. Obviously there is, and they can go bad, but to check our strategy against it and occasionally when you are reviewing your strategy that notice is taken of that.

Ms McKENZIE: There is never one company that consistently over 20 years does brilliantly. That is just the nature of this stuff. They come into fashion and go out of fashion.

CHAIR: You may have taken some bonds because they were doing very well for a while and suddenly they --

Ms McKENZIE: Yes, and obviously in providing this advice Towers Perrin and others look at what is happening out in the market place, and we keep a bit of an eye on what is happening out in the market place.

The Hon. JOHN JOBLING: You have also got to keep an eye on them too.

Ms McKENZIE: Absolutely, yes.

CHAIR: Have you finished your presentation?

Ms McKENZIE: Yes.

CHAIR: You mentioned the master custodian, Cogent. Who is Cogent? Is that a company name?

Mr McINNES: Cogent is a subsidiary of AMP that has actually just been sold to BNP Paribas, and I think that sale will have effect from 1 July from memory. So they are just in the process of being sold, but they have been a subsidiary of AMP.

CHAIR: How did you select them? Was that by tender?

Mr McINNES: That was an open tender process.

CHAIR: And you pay them a flat fee, do you?

Mr McINNES: Yes. It was a fee that was arrived at as part of that tender process.

The Hon. TONY KELLY: Do they give you quarterly advice?

Mr McINNES: We get reports from them on a monthly basis and also any exception reports.

CHAIR: And that would be commercially confidential. Is it based on a percentage of the investments or something?

Ms McKENZIE: No, it is a flat fee.

Mr McINNES: It was a fee that was arrived at as part of the tender process.

The Hon. JOHN JOBLING: If they make no money, they still get the same fee; if they make a lot of money, they get the same fee?

Mr McINNES: No, master custodian does not actually make any money. They are not making the money, if you like, they are just supervising the investments and administering them.

CHAIR: And it is not having a major impact on WorkCover's financial situation?

Ms McKENZIE: No. It is really just an extra layer of protection. That is how we would see it.

CHAIR: I am not against having it, but I was just wondering how much it costs.

Ms McKENZIE: I do not know the figure off the top of my head, but it is not a large sum of money compared to the amounts that we are talking about here.

Mr McINNES: We are talking about \$5.8 billion worth of investment, and there is obviously some interest in having a --

The Hon. JOHN JOBLING: So 500,000 or something like that?

Ms McKENZIE: It might be a bit more than that.

Mr McINNES: It is something in the order of about \$200 million and they charge about \$50,000 in fees.

Ms McKENZIE: Yes.

The Hon. JOHN JOBLING: Just in case the aside was not picked up, my comment was about 500,000 and the suggestion was it is a wee bit more than that?

Ms McKENZIE: Yes.

CHAIR: Just a little bit more, is it?

Ms McKENZIE: Yes. Well, I do not know. We should really go back and check what the actual figure is.

The Hon. TONY KELLY: Perhaps it is confidential.

Ms McKENZIE: There is some nervousness about this because at some point we might want to go out to tender again and we don't want people knowing too much about it.

The Hon. JOHN JOBLING: I would suggest to you you need not be. I am sure the industry has a very good idea what their other colleagues in the industry are doing.

Ms McKENZIE: Possibly.

Mr McINNES: Possibly, that is true.

CHAIR: Just to help Hansard, if we can have not asides. Make it a loud comment for Hansard. They are not too sure what they are recording.

The Hon. JOHN JOBLING: That is why I repeated that, so the question was there.

CHAIR: Just some general questions then. The new investment mandate states that it is effective from 1 February 2002. Has that investment mandate been implemented, and, if not, when do you expect it to become effective?

Mr McINNES: It has been fully implemented from 1 February.

CHAIR: And just to perhaps restate, who developed that new investment mandate? What level of involvement did the insurers- fund managers have in the development of the mandate?

Ms McKENZIE: Its review was by Towers Perrin, with input from WorkCover obviously, and it was approved by the board. There was not much involvement at all of the insurers' fund managers. I do not think we would regard that as particularly appropriate in setting this, because there could be potential for a conflict in terms of what they might think, and this is really about the best interests of the scheme.

CHAIR: How does the performance based fee structure for investment management by insurers compare with the previous flat fee scale?

Ms McKENZIE: We have not actually finalised our work on that. We are still talking to the insurers about that.

Mr McINNES: The previous fee was a flat fee which was just 25 basis points, which is 0.25 percent of the funds invested. So that was a fee that was paid regardless of the level of return. The proposed fee is a base fee plus a performance component, and as Kate said, we are still in discussions with the insurers to finalise that performance arrangement, but the intention is to move to a performance based arrangement, ideally from 1 July, so that there is some incentive for the insurers to improve their investment return and some reward if they achieve the targets.

CHAIR: So if the target date is 1 July, you would have to be working pretty quickly to get it all in place. You will not have to delay it later than 1 July?

Mr McINNES: The expectation is that we will not need to delay it beyond 1 July, but there is still some outstanding work that needs to be done to finalise that.

CHAIR: Apparently, Towers Perrin have provided a recent report to WorkCover on implementing the performance based fee structure.

Ms McKENZIE: Yes.

CHAIR: Can you table a copy of that report?

Ms McKENZIE: I do not have it here with me today, but yes, we can certainly make it available to the Committee.

CHAIR: You will take it on notice?

Ms McKENZIE: Yes.

CHAIR: Who decides the asset mix within the WorkCover portfolio?

Ms McKENZIE: Hopefully that is covered in the presentation. As I said, there are three aspects to it: the scheme investment strategy, which we are essentially responsible for, the tactical asset allocation and the stock selection, which the insurers are responsible for, in a nutshell.

CHAIR: So it is a combined effort?

Ms McKENZIE: Yes.

CHAIR: When you say "we", in the first part, is that you, the board or who?

Ms McKENZIE: The board.

Mr McINNES: The board ultimately makes the decision.

CHAIR: You make a recommendation to the board and the board discusses it?

Ms McKENZIE: Yes.

Mr McINNES: We make a recommendation based on the advice we get from our investment adviser, which was Towers Perrin in this most recent report.

CHAIR: And I assume the board normally endorses your recommendations?

Ms McKENZIE: Yes.

Mr McINNES: More often than not, which is reassuring.

CHAIR: If they chopped it around, you could blame them if you had any problems.

Ms McKENZIE: Like all of these things, it may well be that in some cases we put something to them and they ask questions and we go away and do more work and come back with something modified or the same.

CHAIR: It is a process rather than just one board meeting?

Ms McKENZIE: That is right, yes.

The Hon. JOHN JOBLING: Towers Perrin are principally the insurers that go out there and do the work and advise us accordingly. I presume we have a continuing number of partners with that company who are in fact attached to our portfolio in WorkCover that are giving us advice?

Ms McKENZIE: I am not quite sure I follow.

Mr McINNES: I am not sure I understand the question.

The Hon. JOHN JOBLING: If inside the company you were going to have a number of partners and a number of personnel -

Ms McKENZIE: Which company are we talking about?

The Hon. JOHN JOBLING: We are talking of Towers Perrin. Do we just go to them in general terms and we are handed around amongst the partners or do we have a set partner who handles ours?

Mr McINNES: We had a particular person who worked on that review for us.

Ms McKENZIE: But from time to time when the investment strategy is reviewed we go through a tender process. So we may not necessarily use the same people over time.

The Hon. JOHN JOBLING: I am just trying to satisfy myself that unlike a private investor out in this type of field where you may, unless you are large enough, be passed from partner to partner, that we have a regular contact with Towers Perrin and a partner to whom they and we find that they are answerable?

Mr McINNES: We have a person that we would normally deal with at Towers Perrin, and I suppose in terms of the process we went through to appoint somebody to do that review, he made a presentation and submissions, it was an open process. I think we had three or four people. Andrew Kirk was the person's name. Andrew is actually currently on a sabbatical I think. So he is not currently working at that office in Sydney.

The Hon. JOHN JOBLING: So we obviously have another permanent person replacing him for that advice, do we?

Mr McINNES: Well, we have not. That review is now complete.

The Hon. JOHN JOBLING: If we wanted that advice?

Ms McKENZIE: It depends what sort of advice. They were hired for a specific job, to review the investment strategy and we dealt with them closely while that was happening. That has now finished. In terms of the future, it depends what we are talking about. If we are going to do another review of the investment strategy, we would probably go out to tender again.

CHAIR: Mr Jobling's questions earlier were about trying to compare perhaps your investment return with private companies and you indicated that there was a reason why it was difficult to do that because of the long tail nature of the scheme. How does that affect investment policy in your mind; what impact does that liability have in your planning for investments and does it provide sufficient opportunities for growth in the fund?

Ms McKENZIE: Well, once again, I guess I just go back to what I said earlier that because we have that long tail we have to try and match up your asset allocation to the length of your tail and your liability profile, so yes, it does have an impact on the sorts of decisions that you would make about where you are going to put your investment. I mean obviously if you had no long tail you would have a different investment profile and you probably would have more assets in a growth portfolio, but I guess once again that is why we said earlier in response to Mr Jobling's question that you have to really compare yourself to somebody who has a similar profile because otherwise what are you comparing? If you are just doing speculative investment with no particular obligations to pay any money out to anybody, you obviously have a completely different investment profile.

Mr McINNES: The whole purpose of that review process is actually modelling your assets, the various asset mix against your liabilities and looking at the impact of variations in different economic climates and different returns from different asset sectors on your result. So I guess you are actually closely trying to model and, for example, just to explain the sort of thing I am talking about, if the interest rate goes up or down that has an impact on both our liabilities and our potential asset return, so if you assume interest rates move then it not only affects the valuation of your assets, if you like, it affects the valuation of your liabilities as well, so that is the modelling that Towers Perrin does to decide what your best asset mix is for your given scenario.

Ms McKENZIE: It is actually quite a sophisticated model that tries to take account of all the variables that you should be thinking about in deciding what the right mix is.

CHAIR: Interest rates obviously have a major impact and previously we could assume they were going down, but now it is pretty clear that there could be up to a 2 percent increase, it could get back to 8 percent or something like that, so does that mean a major review of your investment strategy to cope with that?

Mr McINNES: No, because in effect the way in which they have modelled that they have allowed for variation in interest rates in the share market and so forth and given an allowance. I mean, yes, there are assumptions behind that, but the fact that interest rates are now moving up instead of down is well within the bounds of the assumptions they have made.

CHAIR: It cancels out, in a sense, as you said earlier?

Mr McINNES: That is right. Obviously you can get some extreme results, I suppose, if interest rates returned to 17 percent or something. That would be an unlikely scenario in terms of their modelling, but they have assumed that interest rates would be at a certain level plus or minus a certain amount, plus or minus a certain standard error from that, so they are making assumptions about the level of the interest rate and allowing for variation from that and, so long as it is within the bounds of that variation, the model remains quite valid.

The Hon. JOHN JOBLING: I am sorry if I am going to go over old ground that may have been dealt with in other meetings, I apologise for that up front because obviously I am filling in for one of my colleagues, but just to assist me, in your presentation you referred to insurers making tactical asset allocation decisions, which is understandable, and insurers select individual securities to buy and sell. Who are the insurers? Obviously we have a number of them.

Ms McKENZIE: Yes, there are eight. NRMA, Suncorp Metway, GIO, EML, CGU, Allianz--

Mr McINNES: RSA and Zurich.

The Hon. JOHN JOBLING: From those, we have the same sort of adviser in each company, are they a continuing adviser with each group? How often do they change?

Mr McINNES: Towers Perrin is our adviser.

The Hon. JOHN JOBLING: No, but inside the insurers. Somebody inside those--

Mr McKENZIE: There is a range of arrangements across insurers. Some of them outsource their investment stuff, some of them do it in house, like in every other company, some of them have stable personnel.

The Hon. JOHN JOBLING: Have we actually been given an understanding and a list of how each of them work?

Ms McKENZIE: I do not know that we have a list, but certainly we have an understanding of how they work.

Mr McINNES: It does vary by insurer. As Kate said, some have in house, you have companies who have large in house investment funds themselves, so they would attach it to that. Other companies have no real in house investment so they would actually outsource it to a large commercial investment fund.

The Hon. JOHN JOBLING: Which sort of makes you ponder at the beginning, if they are going out, do we need to go around them and go straight to the commercial source they are going to. Is that something you have ever considered?

Ms McKENZIE: Like all of these things, I suppose if there is a virtue in having this set of arrangements it is that you have the opportunity for some competition amongst the insurers and some variation in the way that they manage these things and you have the capacity to assess over time what that is doing to their returns, but I do not know that you can form a particular view about whether outsourcing it as compared to doing it in house is better or worse. It depends a lot on who is involved--

The Hon. JOHN JOBLING: But surely you would be overviewing this on a continuing basis.

Ms McKENZIE: Absolutely, we keep a very close eye.

Mr McINNES: We certainly monitor individual insurer performance on a regular basis.

The Hon. JOHN JOBLING: So you would be very interested in that, I would have thought.

Mr McINNES: Organisationally, yes, we are interested and I guess it is not something that we would do personally, but certainly as an organisation we monitor the resources that they are allocating to it, who they are allocating to making those investment decisions, making sure from our perspective that they are adequately resourced.

Ms McKENZIE: But in the end, from our point of view, what we are really worried about is the bottom line.

The Hon. JOHN JOBLING: I accept that, but how would you go about reporting this, say, to the board? Do they get a regular report on performance?

Ms McKENZIE: Yes, they do.

Mr McINNES: A quarterly report goes to the board on performance.

The Hon. JOHN JOBLING: Of each of the eight performers?

Mr McINNES: Yes.

The Hon. JOHN JOBLING: Without it being totally commercial in confidence, it would be very interesting to see how the report to the board goes and how they comment on each of the insurers.

Ms McKENZIE: We have already made that available to the Committee.

The Hon. JOHN JOBLING: You have done that?

Ms McKENZIE: Yes, and certainly there would be some issues about commercial confidentiality in some of that material, but we have already made those board papers available.

CHAIR: Could you explain the concept of the liability bond and how it was used to measure performance of insurers investing WorkCover funds?

Mr McINNES: I will try. It is a theoretical bond, so it is a bond that you would purchase that would provide a return in line with when you expect to pay out the liabilities. Say, theoretically, you had to pay out \$100 next June and \$100 the June after and \$100 in June 2005. It would be a bond that would return you \$100 in June 2003-04-05, so in effect, because it is a government bond that is structured that way, it would give you what would be effectively a risk-free return and therefore it is a comparison against what would be a risk-free return, so it gives you a comparison basically for a particular risk-free return.

The Hon. MICHAEL GALLACHER: In terms of the overall approach to investment strategy, earlier this week there was a bit of discussion about the whole approach to increasing the risk in regard to this far more aggressive

strategy and I think even earlier today it might well have been Ms McKenzie who made reference to the fact that returns in the past were based on difficulties with the share market, there was reference to collapse of the share market. This approach was obviously with the approval of the Government, the minister?

Ms McKENZIE: This does not go to the minister, this is dealt with by the board.

The Hon. MICHAEL GALLACHER: So the minister has no say over this whatsoever?

Ms McKENZIE: No.

The Hon. MICHAEL GALLACHER: Well, where I have a problem with it is, taking the more aggressive movement, I can see where you want to go, you want to get a better return. That is going to affect the bottom line, as you said earlier, but equally, by taking such a risk, if it goes the wrong way, it has a detrimental effect on the bottom line. Is that correct?

Ms McKENZIE: Yes, and I suppose that is why in this discussion hopefully we have given the flavour of, in doing all of this, there is a very sophisticated model that was used to try and map all of that over time to try to maximise the capacity for us to increase our return at the same time as minimising, to the extent that we can, the risk involved and the strategy that we have come up with tries to do that, so yes, you are right, because you have more growth you have more volatility, so more risk of it going up and down, but we take a long-term view of it, because our liabilities are long-term, and try to balance that out.

The Hon. MICHAEL GALLACHER: Last year - please correct me if I am wrong - there was a big blow-out, there was a \$500 million increase of unfunded liability and about \$150 million was as a result of poor investment. Do you remember that? We have evidence before the Committee on that. There was a \$500 million increase.

Ms McKENZIE: I think "poor investment" is probably not a very fair way of describing it because what it really is is deviation from the earlier predictions of the actuaries about what would happen.

The Hon. MICHAEL GALLACHER: Where I am trying to work through with this, however, is that by taking an aggressive investment strategy, if it goes right, it will be a good thing, but if it goes wrong obviously there is a detrimental impact on the scheme--

Ms McKENZIE: And equally you could criticise us for missing out.

The Hon. MICHAEL GALLACHER: That is right, but what I am concerned about is that it gets moved across, it would be shown on the unfunded liability as an increase if the investment strategy is not a good one. If it is a good one it will cut that down. If it is not a good one it could potentially increase the unfunded liability, which still fails to fall within the Government's responsibility in terms of who has responsibility. It is the old adage. Who has responsibility for this unfunded liability? If we had an aggressive strategy like we have now that works well, the Government will bask in the glory of the aggressive investment strategy, but, if it goes belly-up: It is not our responsibility. By the Government allowing an aggressive strategy like this to take place--

Ms McKENZIE: Well, except that you have to take account of how this is set up. It is not the Government allowing or not allowing. There is a legislative regime. This is all taking place within the constraints of the legislative regime which sets out who is responsible for these decisions. There is a mixture of responsibilities in this part of the world. Partly it is up to WorkCover and the WorkCover board. Partly it is up to the insurers and how they perform. We do the best we can to manage all of that, but in terms of the investment strategy that is what the statute prescribes as to how it should be done at the moment and, whichever that is the case, they are the parameters within which we operate.

The Hon. MICHAEL GALLACHER: Whilst ministerial responsibility is the flavour of the month--

Ms McKENZIE: Well, I guess in the end if Parliament does not like that way of operating--

The Hon. TONY KELLY: Therefore it is Parliament's responsibility as well.

Ms McKENZIE: Well, in the end some of these issues no doubt will come up in the review of scheme design that the minister has announced. I think if you are going to look at it sensibly you have to do it within that context because if you are going to go for some different set of arrangements then you are talking about a differently designed scheme and I am sure there would be long debates about the merits or otherwise of various propositions for how else you might do this.

The Hon. MICHAEL GALLACHER: These sorts of investment strategies to me further underscore the importance of the Government having responsibility of the entire scheme. Do you agree with that?

Ms McKENZIE: You are asking me to comment on policy which I guess is really a matter for the minister and the Government rather than for me. We just do the best to operate as effectively and efficiently as we can.

The Hon. MICHAEL GALLACHER: So therefore it is the Government's policy to have an aggressive investment strategy.

Ms McKENZIE: Well, it is the Parliament at the end of the day. We have the legislative regime we have and we do the best we can to operate within it. If it changes --

The Hon. HENRY TSANG: You commented on the strategy of having some international shares, compared with other States having Australia-wide investment.

Ms McKENZIE: Yes.

The Hon. HENRY TSANG: You are not taking extraordinary risk?

Ms McKENZIE: No, I think that is right. Basically, we have done a lot of work and had a lot of expert input into this, and I personally would be reasonably confident that what we have come up is about the right mix of investments for the environment we find ourselves in. Obviously, if we had not made that judgment, we would not have gone for this kind of strategy.

Mr McINNES: We would not have recommended it. The other point is it is not out of kilter with the other States.

Ms McKENZIE: It is very consistent with what other similar schemes do.

CHAIR: Basically, the Minister would accept your recommendations?

Ms McKENZIE: I guess particularly in this.

CHAIR: It is not a hands-on situation, the Minister setting investment strategy?

Ms McKENZIE: No, and particularly in this part of the world you are reliant on the experts out there in the field to give you advice and to look at what other people are doing and try and make sure that you are not doing something completely aberrant and that what you are doing is appropriate for your circumstances.

The Hon. HENRY TSANG: You also comment that because your portfolio is quite big, you can no longer just look at the domestic market. It is such a lot of money, that you could influence the whole market just locally, so you need to go out of Australia to look at internationally so you are not affecting the market in Australia.

Ms McKENZIE: Yes, I would agree with that, and in fact in moving towards the new investment strategy, we did it in a phased fashion for exactly that reason, because they are comparatively quite large sums of money. So we do not want to be doing anything to distort the market by suddenly going out there with huge shifts in our portfolio. That is right, we do have to be careful about that.

CHAIR: We had evidence from Mr Britt from Towers Perrin, who was speaking about the ideal situation, a six step investment management cycle. He said, "All institutional investors need to be considered both initially and on an ongoing basis. An important step is to choose the type of manager to best implement the investment strategy. Another is to monitor the performance of investment managers and make sure they remain suitable, but, in fact, WorkCover is not in a position to choose or change its investment managers because they are the insurers." I suppose this relates to an earlier question that Mr Jobling raised. Do you believe insurers are the appropriate organisations to manage the funds?

Ms McKENZIE: Once again, I think there are arguments either way. Some people would argue you are better off centralising it all and running it all as one central portfolio with your own chosen investment managers. Other people would argue that there are benefits in the arrangement that we have currently got because we have got eight insurers taking eight - they cannot take wildly different approaches, but taking eight slightly different approaches, and therefore you get a bit of competition and you can judge over time diversity and competition, you can judge over time

how that goes. Basically our investment performance has been pretty good. So I think you need to be a little bit careful about making judgments about whether one way of doing it or another is better or worse.

CHAIR: Do you see any virtue in what has been raised at other times, to have specialist investment management firms handling the investments and not insurers? Would the insurers still stay there if they had no role in investments? That is an incentive for them to be involved, is it not?

Ms McKENZIE: Once again, I guess the answer is that under the current legislative regime that we have got that is not the way the thing is set up. So that would be a differently structured set of arrangements, and I guess it will be one of the issues that is looked at in the review of scheme design because it is fundamental. At the moment the insurers are licensed to insure us. This is part of their function. If you were going to go for a centrally managed set of investment arrangements with specialised fund managers, that is a different set of arrangements which may or may not

CHAIR: What are your views? Do you have any view on it within WorkCover?

Ms McKENZIE: I just repeat what I said earlier, that there are arguments both ways. Some people would say a centrally managed one with specialised insurers has got a certain set of virtues and a certain set of down sides and so has the competitive environment.

The Hon. JOHN JOBLING: You are the General Manager and if that was asked to you as a direct question, it seems to me to be a fair question. If you had that choice and you had to make a choice, what would you say?

Ms McKENZIE: But I do not have that choice.

The Hon. JOHN JOBLING: I am not asking whether you do or you do not. I am asking you in your professional capacity.

Ms McKENZIE: I am saying in my professional capacity, I think there are arguments either way. It is not a black and white thing.

The Hon. JOHN JOBLING: So you are saying that you would have no view?

Ms McKENZIE: I would not have a strong view one way or the other. I think there are benefits and disbenefits to both approaches.

The Hon. HENRY TSANG: It depends on the market?

Ms McKENZIE: Yes.

The Hon. JOHN JOBLING: Except at the end of the day I would have thought a professional manager would have an inclination or a feeling that ignoring the problems and the vagaries of the market - I do not want to overload the question - if you had to choose, if you were before your board, and the board said to you, "Well, Kate McKenzie, General Manager, we want you to tell us what are the options we should take", what would you say to the board, outside on this hand and that hand, which is to use the lawyers --

Ms McKENZIE: I would just repeat my earlier answer. I would give them a paper that said, "Here are your options. Here are the advantages and disadvantages of these options", and at the moment it is not a realistic question because we are operating with what we have got and that is what we operate with.

CHAIR: Why we are raising it is because with the scheme design it may become a future option and we are just trying to get some feedback.

The Hon. JOHN JOBLING: If I was sitting on the board and the General Manager comes in and gives the options, I would ask you for a recommendation.

Ms McKENZIE: If you ask me about the various problems that the scheme obviously confronts, this is not an area where we have problems. The current set of investment arrangements, demonstrated by the information we have given you, is not causing us any problems. Comparatively speaking we are getting quite good returns. Just by the very nature of that answer, you can conclude there is nothing wrong with this arrangement.

The Hon. JOHN JOBLING: I am not saying there is. I have sat on boards, and I would say to my General

Manager, "I see the paper you give us. I see the options you give us. What is your recommendation?" And the General Manager then before a board will say, "Well, board, chairman, this is what I would recommend you do."

Ms McKENZIE: Well, we are not in a board position and I don't have the parameters.

The Hon. JOHN JOBLING: But we are in this position, with the Committee asking you.

Ms McKENZIE: Well, I have given you my answer.

The Hon. JOHN JOBLING: Which is a no answer really.

CHAIR: You see no reason to change the system?

Ms McKENZIE: What I am trying to say, yes, there are options in this area, there are arguments for and against, there are various options. There is no particular problem with the set of arrangements we have got now. Basically our investment returns have been very good, but that is not to say -

The Hon. JOHN JOBLING: So the answer is really no change, isn't it?

Ms McKENZIE: Well, that is not to say that there may not be benefits in a change down the track, and as I said earlier, that is all going to depend on the sorts of conclusions that come out of the scheme design review, because if you had a different set of arrangements you might draw quite different conclusions about what is the best way of managing all of this.

The Hon. MICHAEL GALLACHER: At the end of the day, Ms McKenzie, who signs off on the strategy?

Ms McKENZIE: The board.

The Hon. MICHAEL GALLACHER: Who on the board is the last page that gets signed off on?

Ms McKENZIE: The whole board signs off.

The Hon. MICHAEL GALLACHER: Who signs the recommendations to take to the board?

Ms McKENZIE: I do.

The Hon. MICHAEL GALLACHER: But didn't you say earlier, Ms McKenzie - I cannot remember your exact words, but the inference was very much that the board will always take your recommendation?

Ms McKENZIE: No, I do not think that is the answer that we gave. I think we said this is an iterative process. Based on expert advice, which is what everybody does in this area, we would put a set of propositions to the board. In this particular case it was a review of the investment strategy. The expert advisers came in. There was a long discussion with the board. In fact, there may have even been more than one discussion. That is an iterative type of process, and in the end the recommendations that we gave to the board were consistent with the recommendations that we got from our expert advisers.

The Hon. TONY KELLY: So you actually had Towers Perrin there, and the board members individually would be able to -

Ms McKENZIE: Yes.

The Hon. TONY KELLY: And that is normal practice?

Ms McKENZIE: Yes.

CHAIR: We understand, in other words, someone would have to prove that there is a major problem with the current system to change it and that does not appear to be the case at this stage?

Ms McKENZIE: No.

The Hon. TONY KELLY: It would not be similar to the other States if it was you would think. You would be worried if you were a one out perhaps.

Ms McKENZIE: Yes.

The Hon. TONY KELLY: Like South Australia.

CHAIR: We thank you for giving us a copy of Tillinghast's latest actuarial report on the scheme as at 31 December 2001. I have one or two questions relating to that. Can you explain why the deficit did not decrease by either \$820 million or \$1.330 billion as the Minister, WorkCover, Tillinghast indicated in the past?

Ms McKENZIE: I do not think that we ever indicated in the past that that would be the exact number. Those figures were estimates of the savings that would be made from the scheme reform. As we have discussed before, in pulling all of this stuff together in the valuation report, which is the report that you have referred to, there is a whole lot of other factors that come into play that make up - this is what you have now got in assets and this is what you have now got in liabilities and therefore this is what your deficit is, and there were deteriorations in other areas which led to a different number coming out.

As I have said to the Committee before, it really reinforces the potential difficulty in relying on a particular bottom line number. I am sure you would have all picked up from reading the last valuation report that the actuaries have put even more qualifications than usual about your capacity to rely on the bottom line figure. Because we have made so many changes to the scheme, that introduces a lot of uncertainty. So they have made the best estimate that they could. In some areas they have even given a range of estimates because there is so much uncertainty about what assumptions they should be using. It is very early days in terms of the reform kicking in and very difficult to predict what the future might hold. So they have done their usual thing of taking a fairly conservative view of that, and in the light of other deteriorations in the scheme, in the end they have given us \$757 million credit, one-off impact on the deficit from the scheme reform, and made some fairly conservative estimates about what the future holds.

CHAIR: Is that the problem that we have discussed before with legislative changes, that you cannot see the impact within 12 months, it is a five year pattern?

Ms McKENZIE: That is right. I think we would say ourselves that we really cannot put too much reliance on that last scheme valuation report. I should rephrase that. It is a best guess at the moment, but in the light of the amount of change that has been made, you would really want to see a pattern over the next couple of years before you draw any serious conclusions about what the real impact of that is going to be.

The Hon. MICHAEL GALLACHER: Is that your instruction to the Government, therefore they will not be in a position to give any clear indication of the impact of the scheme for the next couple of years?

Ms McKENZIE: Yes. We will see a trend over time and the emerging picture should get clearer over time, but really it is going to be at least a couple of years.

CHAIR: Just to get this figure on the record, despite the 2001 scheme reforms, it appears the deficit has not fallen by much from \$2.756 billion at June 2001 to \$2.558 billion at December 2001 or by \$198 million. Would that be an accurate way of summarising it?

Ms McKENZIE: Yes.

CHAIR: Does it concern WorkCover that the deficit did not reduce by more?

Ms McKENZIE: Obviously, we would have much preferred to see it reduce by more.

CHAIR: Were you surprised or disappointed?

Ms McKENZIE: Probably not disappointed. I guess we would have liked to have seen a bigger number and probably we would have been expecting to see a bigger reduction than we got, but I guess not really all that surprised in the light of what I have just said about the uncertainty attached to this and the difficulty for the actuaries in trying to predict the future when we have made so many changes and we have not really seen what that has led to in terms of changed behaviour in the scheme, and we probably will not for a couple of years. I would not want to place too much reliance on one evaluation report. I think we need to see what the trends and the patterns are over the next couple of years.

CHAIR: In a sense you have got a train charging in one direction with a growing deficit. You have had to reverse that and start it going in the other direction.

The Hon. MICHAEL GALLACHER: Is the point turning it around or have we simply slowed the train down from 100 kilometres an hour to now 80 kilometres an hour. It is a silly question, because we would have to show a significant turn around to pull back 2.5.

Ms McKENZIE: I think we do not know the answer to that yet. I think we have to wait a bit longer to see what the pattern is as it emerges.

The Hon. JOHN JOBLING: The best we have got then is virtually a crystal ball as to what is going to happen. You cannot say it will improve, but you equally cannot disprove that it will not improve.

Ms McKENZIE: Sadly, that is right.

The Hon. JOHN JOBLING: Is that a reasonable assumption?

Ms McKENZIE: Yes.

The Hon. MICHAEL GALLACHER: Did you ask for your money back from Tillinghast?

CHAIR: Putting it another way, it will improve, but just how much, it may not be as dramatic as everyone would hope. It certainly will not go back into a deficit going back up again, it should not.

The Hon. JOHN JOBLING: Well, it might.

CHAIR: Perhaps I am just posing the question.

Ms McKENZIE: I think we do not know at this stage. Obviously, all we can do is be as vigilant as we possibly can, try to make sure that we are concentrating a lot of effort and energy, as we are, on the implementation of the reforms, doing whatever else we can from an administrative point of view to make this work as well as we possibly can and keep an eye on how that pans out.

The Hon. JOHN JOBLING: When do you think, with just a reasonable degree of luck, we might get some indication that the trend is going to continue downward. Would two years be beginning to show a pattern?

Ms McKENZIE: You would hope that within two years you would see that sort of pattern.

The Hon. JOHN JOBLING: I would imagine you would have to be very concerned, in view of the reports at this stage, with your best endeavours and doing everything that you can, you really cannot be 100 percent confident that it is all going to work and it might just be an aberration that it has gone down and will pick up again. It has left you in a difficult situation, I take it.

Ms McKENZIE: Well, I guess the answer to that is that no one can ever be certain about these sorts of things. You have to do the best that you can in the environment you find yourself in. Obviously we will be keeping a very close eye on all of this over the next few years.

The Hon. JOHN JOBLING: It is something that has obviously got to concern you, though; really you have to be worried.

Ms McKENZIE: Of course, I always worry about this.

(Short adjournment)

CHAIR: One question you were asked was in regard to the implementation of the 2001 reforms and you have discussed those in some general terms and they are still being implemented. Do you have some summary of where you are in relation to those reforms?

Ms McKENZIE: Yes, we have actually just produced the quarterly report on the first quarter which we would be happy to make available to the Committee if that was useful.

CHAIR: Do you have it now?

Ms McKENZIE: I do have a copy with me.

CHAIR: You could table that then?

Ms McKENZIE: Yes, I would be happy to table that.

(Document tabled)

CHAIR: The Committee will study that in detail.

Ms McKENZIE: The only thing I would say about that is that we do need to be careful because it is the first quarter, so I think not drawing too many conclusions from a very short period of time in terms of activity.

CHAIR: For the Committee's information, are early indicators of the claims experience since 31 December favourable or adverse?

Ms McKENZIE: On the whole I would say reasonably favourable, but just with an air of caution. I would not want to get too carried away with that because it is very early days and the problem is that there has been so little activity that you could not confidently say that it is a trend that is going to continue, but generally speaking it is pretty much in line with what we would have expected.

The Hon. JOHN JOBLING: Accepting your comment on the first quarter, what area in that first quarter would be the area that might cause you some concern?

Ms McKENZIE: I am not sure that there is anything that causes particular concern. I guess there was, unsurprisingly but probably not all that helpfully, a big increase in the number of commutations until the date for commutations phased out. Towards the commencement of the new legislation, we got a big rush-on of both common law claims and commutations and obviously once they are in the system they are in the system, so from the point of view of the financial health of the scheme that was a bad thing.

The Hon. JOHN JOBLING: That is the only bad one that you perceive?

Ms McKENZIE: Yes, I think that is probably the stand-out bad thing. Is there anything else that you would want to highlight, Rod?

Mr McINNES: Not in a negative sense. There are obviously a lot of unknowns. We do not really have any clear indication of what the level of disputes will be going into the new commission and that is going to be a key factor for us, but again it is very early days with that. We have talked about common law and so forth taking a long time to settle down and resolve and you will see from the report that there is some expectation of disruption to normal patterns.

Ms McKENZIE: As we get this big bulk of common law and commutations going through the system.

Mr McINNES: That just increases the uncertainty, I suppose, surrounding these very early results.

The Hon. JOHN JOBLING: With the second quarter and looking at the big difference coming in, where might you anticipate any other problems occurring, that purely might show up in the second quarter?

Ms McKENZIE: Well, I guess it is potentially in any area. As we have discussed with the Committee previously, we are hoping for a reduction in the number of disputes. That was part of the purpose of the review and the reforms.

The Hon. JOHN JOBLING: But you accept it could.

Ms McKENZIE: Well, we need to keep a very close eye on that.

Mr McINNES: We are not anticipating any problems at all at this point. We are actually trying to anticipate positive results.

Ms McKENZIE: That is right.

Mr McINNES: And work towards those positive results.

Ms McKENZIE: So far the rate of disputes is quite low, but we would want to see that continue.

The Hon. MICHAEL GALLACHER: What is the expectation in relation to the spike in common law?

Ms McKENZIE: Once again, I hate to not give a nice black and white answer, but I think it is a bit difficult to tell because, although we have a huge number of claims that have gone into the system, they are at too early a stage of development to know how many of them are likely to turn into - you know, how much of this is just a bringing forward of those liabilities and will make no difference longer term, or how much of it might fade from the system, how much of it is going to translate into real--

The Hon. MICHAEL GALLACHER: Sorry to interrupt, but does the actuary give you any information in terms of the worst/best scenarios that we have seen before, this way that they determine things, have you seen any worst/best scenarios in relation to the spike?

Ms McKENZIE: In the valuation report I think that is covered.

CHAIR: That is the one you have just tabled.

Mr McINNES: Also in the report we have tabled we actually have projections in relation to what they have assumed for valuation purposes and what they have assumed in relation to the targets mostly achieved scenario that we talked about before, so they have actually tracked what you would expect if we were to achieve both outcomes so we will know where on that spectrum we are actually tracking, and again it is not going to be a nice smooth line, there will be some variability from quarter to quarter and so forth, particularly initially.

Ms McKENZIE: When you have had a chance to look at that report, there are graphs describing all of that.

The Hon. MICHAEL GALLACHER: The problem is we will not see it until afterwards and we will not get a chance to talk to you about it.

CHAIR: We might just have the IT presentation now and you can be looking through that, because we will have time for general questions and we can ask questions then.

The Hon. JOHN JOBLING: There is obviously a great disjuncting when we move into the other one and come back.

CHAIR: Well, that is the way we have scheduled it.

The Hon. JOHN JOBLING: I accept that, but we are going to have to try and read it during the presentation and I was wondering if Ms McKenzie could indicate briefly to us what the figures show as the two ends of the spectrum in that report? It should only take a moment.

The Hon. TONY KELLY: Would it not be better to have--

The Hon. MICHAEL GALLACHER: Well, we are going to have to read that during the presentation.

The Hon. JOHN JOBLING: And that is rude.

CHAIR: We do not have copies of that report yet.

The Hon. JOHN JOBLING: That is why I was asking if we could put it on the record now, please.

Mr McINNES: You cannot quickly, with a 24 page report, summarise that.

The Hon. MICHAEL GALLACHER: How are we expected to do that?

Ms McKENZIE: You just asked us did we have a report and we said yes. We were not anticipating that there was going to be--

The Hon. MICHAEL GALLACHER: What I was asking was what information is contained in there from the actuary in terms of what they can foresee as occurring from the spike.

Mr McINNES: Again, in terms of the spike, which is the historical spike, there is actually not any reference to that in this report. What they are looking at is future trends post the reforms.

The Hon. MICHAEL GALLACHER: Therefore there is nothing on the common law spike.

Ms McKENZIE: In terms of history and the impact of that, that is covered in the valuation report that we have made available to the Committee. In terms of projections for the future and the current activity that we are seeing post the reforms, that is covered in this report which we have just tabled.

The Hon. JOHN JOBLING: So what is the worst projection and what is the best projection? If it is covered in the report obviously it is there.

Ms McKENZIE: We are looking at two different things.

Mr McINNES: We can answer that if you like, but there is not a short answer. In relation to disputes, they are actually projecting a range plus obviously projections out over time, so they have projected forward plus projected a range. I am trying to read off a graph here, which is difficult, but longer term the upward bound of that is just over 8,000 disputes per quarter. The lower bound of that is just under 4,000. There is also the short-term effect. That is the long-term, that is post-December 2003. Again, that is the two years that we have talked about, so that is when things are expected to stabilise in relation to disputes, so for the first two years they have a much broader range as to what might happen because of those transitional effects. To actually put detailed numbers on that we would need to look at the report. So that is one issue, that is dispute prevention. There are any number of measures we have here, so we can go through all--

The Hon. JOHN JOBLING: You should be able to pick out the two or three important ones.

Ms McKENZIE: They are all important.

The Hon. MICHAEL GALLACHER: Can I simplify it perhaps: Is it true to suggest that you have no information to indicate to WorkCover what the anticipated cost of what is commonly referred to as the spike in common law claims will be?

Ms McKENZIE: No, it is not true.

Mr McINNES: That is not true.

The Hon. MICHAEL GALLACHER: Can you tell me what the anticipated financial cost of the spike will be? Give me a range of the bottom figure and the top figure or give me an actual figure, but there has got to be a figure if I am not correct.

Mr McINNES: You are not correct.

The Hon. MICHAEL GALLACHER: If I am not correct --

Mr McINNES: Well, I do not have that figure in front of me. That is not in that report, as I said.

The Hon. JOHN JOBLING: But you do have it?

Mr McINNES: Well, it is done as part of the valuation work. It is just that I cannot put my finger on it.

The Hon. MICHAEL GALLACHER: Why is that not in that report? That is such an important part of -

Ms McKENZIE: Because this report is monitoring activity since 1 January when the new scheme came in. In terms of the impact on the scheme overall, the valuation report is the appropriate place for that to be factored in.

The Hon. JOHN JOBLING: Could you supply those figures that my colleague asked for to the Committee?

Mr McINNES: Yes.

Ms McKENZIE: Yes.

CHAIR: It was in the valuation report already, was it?

Ms McKENZIE: There is information included in the valuation report. I don't think that is all numbers on

common law.

Mr McINNES: There are numbers on common law but we would have to look at separating out the pre and post reform effects, which I don't know is readily in the report. We can find those and come back to you.

CHAIR: We will move on to the presentation, so we do not run out of time, have that completed and then we will go back to general questions.

Ms McKENZIE: I might just run through the presentation. Information management and technology strategic plan, obviously a very important and significant part of what we are trying to do.

CHAIR: Before you go too far, just for Mr Jobling's benefit, the Committee has been, I suppose you could say, critical of what was the WorkCover IT situation and that is what why this presentation is being done, to remove some of the concerns we had.

The Hon. JOHN JOBLING: Thank you, Chairman. I appreciate that.

CHAIR: You might wonder why we are doing it.

The Hon. JOHN JOBLING: No.

CHAIR: This is in response to our Committee's concerns.

Ms McKENZIE: Once again, in this presentation I am trying to focus on the future and the efforts that we are putting in to try to improve our performance in this area, particularly in light of some of those criticisms.

We produced a new strategic plan early in 2001. The plan aims to support the initiatives of the WorkCover corporate plan. You might think that is an odd thing to say, but historically one of the difficulties we have had is that the IT effort has not matched up very closely with the priorities of the organisation in terms of business priorities. So a major aim of this strategic plan has been to correct that and to make sure that the investment of resources and time and money in the IT area is matched very closely with the business priorities of the organisation, including supporting the implementation of the reform.

Other aims are - to improve access to information for WorkCover and its stakeholders. Once again, historically we have been quite justifiably criticised for not being able to make a lot of information available, and certainly not being able to make a lot of information available in a timely fashion. So that is one of our aims to improve in the future. Improving the quality and the timeliness of the information available, and once again, historically we have had lots of data but difficulty translating the huge amounts of data that we have in the scheme into useful information. So that is another aim. To utilise current technology; to increase efficiency, both within WorkCover in our own internal processes and with our business partners, obviously insurers, but also other players in the scheme; and to provide a stable but flexible platform on which future initiatives may be built.

The key drivers for change. As I said, we want better information, not more data, we need better information to manage smarter. Inconsistent and poor quality of data has been restricting our analytical capabilities and we are working hard to turn that around.

A new workforce. We do have 48 percent potential loss of staff in corporate knowledge, partly because of relocation plans and partly because we are actually trying to get a stable workforce back into our IT area. A few years ago there was a plan in the organisation to outsource the entire IT function. So a lot of infrastructure and a lot of staffing was not kept up to what we actually need to perform these functions properly. The result of that has been a lot of loss of staff in corporate knowledge which we are going to have to try and rebuild. It is very difficult at the moment with the move to Gosford looming, but we are busily recruiting and implementing a new staffing structure in that part of the organisation, and in that process we are trying to avoid the retraining of new staff on legacy systems. We do have a lot of legacy systems that we are in the process of phasing out and we are trying to make sure that in bringing on the new set of arrangements we are focused on the future, not the past.

There is growing demand for internet based services, "b2b" and "b2c", that is business to business and business to consumer. We have got a number of projects going on at the moment, particularly with the insurers, trying to move towards real time exchange of information over the internet with the insurers. We have got a lot of ageing hardware that is at the end of its useful life, isolated and overloaded systems and too many small and disparate data bases that we need to address from a whole of WorkCover perspective.

Our new directions - we are redeveloping WorkCover systems into a single virtual data base. We can go into explaining what that means. In doing this one of the things we are trying to do is combine the data from the occupational health and safety side of the organisation and the insurance side. At the moment there is lots of duplication. We figure if we can stop that duplication and have systems that can operate more seamlessly, our capacity to have useful information, as opposed to a whole lot of data that does not help very much, should be dramatically improved. We want to leverage data from a range of different sources, such as claims, licensing, accidents and notices, with the aim of having a much more complete picture about what is happening out there in the world with individual businesses, particularly with a view to trying to target our resources a bit better down the track and for us to be able to make better and faster judgments about what is happening with the scheme.

The development is based on web technology to allow access from within and outside the organisation. Historically, one of our problems has been because we have not had a lot of confidence in the accuracy and the timeliness of the data. There has been a reluctance to make a lot of it available, quite rightly, because we do not know if it is right or not. But what we are aiming to do in the future is, using the web technology so that we do not get as many errors in the transmission of the information, be able to make a lot more of that information available to people who are interested in tracking what is going on in the scheme.

We have got a new system concept which we are calling e-Life. You might love or hate that term. In hindsight, I think maybe I would have liked to think of another one, but this is what we have called it - exchanging living information for employment. It is a single, integrated system initiative which is aiming to have a single store of insurance and occupational health and safety data, where we can get multiple business views of the data. Using data warehouses and that sort of thing, we hope that we will be able to get to a point where for different users they can have a different interface into the system but without having to maintain a whole myriad of separate data bases with separate front ends to them, a modern and flexible technical platform that will enable us to take component parts and move them from place to place.

This is a diagrammatic representation of what we are trying to do here. On one side there you see the customer contact end of it, and that includes initiatives like the claims advisory call centre, which is part of our reforms that commenced on 1 January; notification and early incident reporting; on-line licensing. All these things on this side of the diagram are essentially initiatives that are under way at the moment, all aimed at trying to improve our contact with our customers and the efficiency with which we deal with them.

The Workers Compensation Commission, which is the IT system that backs up the new Workers Compensation Commission, where we tried to make that as electronic as we can, moving away from paper based systems, and we are also trying to make sure that we can get transfer of relevant data about number of disputes and those sorts of things that we need from the point of view of monitoring the scheme, being able to get those on-line without too much effort going into the transmission of the information; and we are moving towards internet lodgement.

In the centre bit there are our business operations, which is mainly our internal stuff, trying to manage our contacts and looking at case management systems. WSMS is workplace services. At the moment that is our main occupational health and safety data base and we are improving the speed and efficiency of that, trying to link it in better with our other systems. Inside is our main workers compensation data base. Once again, that is overloaded and on its way out and we are in the process of trying to rebuild that in a more integrated way.

SCID, which is the next graph, shows basically our licensing data bases. Once again, they are old, they are not linked in properly to the rest of our systems and we are rebuilding all of those with the same aims in mind. And TRIM and HR are very much our internal administrative systems, and, once again, we are trying to bring those into a modern world so that we have got more efficiencies, less time going to that.

At the same time as doing all of this, we are trying to make sure we do the process re-engineering that you need to do if you want to get real efficiencies out of investment in these systems up front, so we are not just putting an inefficient paper based system onto a computer. We are looking at all of our processes, seeing where they can be systems streamlined, seeing where we can cut down on the amount of information we need, seeing where we can cut down on inputting the same information 42 times, so that we can do it much more quickly and efficiently with less room for error, and all of those systems are in the process of being rebuilt.

On the other side of the chart you see our reporting channels, and this is focusing very much on improving our capacity to improve the sorts of information we have got as opposed to data and enabling us to do better analysis of the data that we have got. The first one of those is the accessible management information data warehouse. The process of getting that up and running has actually given us heaps of really useful information in terms of where we need to be looking to improve our processes and we have got a lot of work and activity going on in that area at the

moment across a whole range of functions inside the organisation. It has been a very useful exercise I think, the development of that, but once again the aim is ultimately to have a data base that people from outside the organisation can access to get relevant information about what is happening in the scheme.

Crystal report writer and SAS Miner Cognos I will not go into too much, but fundamentally they are just other aspects of the same interface with the outside world, if you like, and, once again, the focus is on improving the accessibility of them and making sure that the information in there, external users who should and need to have access to it can do it in an easier fashion than they can at the moment.

Mr HOLE: Just to break in for a second there, there is also a bit of meaning in the colours there. The blue shapes are the ones that we are working on as stage one. We are concentrating on the input side of the organisation and the output side and leaving the core systems to the second stage. That is to give us some wings up front. What the world will see and what information the world can get are the first things we are concentrating on, and improving service outside of the organisation, this is headed stage 2 in the longer presentation. All of this is stage 1 and the longer presentation, stage 2, shows you how those internal core systems are going to be redeveloped.

Ms McKENZIE: That was a very conscious decision to try and concentrate on the external service providers, rather than a lot of effort going into our internal stuff, but mostly it is about prioritisation, because there is a big job to do here and it is going to take a number of years. I guess the mistake that has been made in the past, not necessarily in WorkCover, but generally speaking with these sorts of strategies, is that there are lots of grand plans that you can have, but where they often fall down is getting from where you are to where you want to be. So we have very consciously and deliberately tried to break the overall aims of the strategy down into component parts and tried to develop a bit of a road map with some rational priorities that are going to hang together at the end of the day to move us from where we were to what we want to be able to do down the track.

CHAIR: So if that blue is the first stage, do the other colours indicate the second and third stages?

Mr HOLE: Yes. The mauve block in the middle will be the second stage, rebuilding the internal systems. There is a little box on either side called connector, and that is the technology that will enable us to build the front and the back end and connect them to the original centre with those connectors, and then when we build the new centre piece, it will still work with the same front and back end because it is going through that connector layer. So that gives us that level of flexibility. We do not have to replace the entire thing at once; we can replace it in pieces.

The Hon. JOHN JOBLING: What it suggests to me, and tell me if I am wrong, you are getting the blue areas, in other words the public interface, in. What you actually get out through that and how efficient and how good it is ultimately is going to depend on the structure and capacity of the mauve-pink section to have the right information to put it out. So ultimately it will work in an improved limited form, as I understand it, with the blue bits, but it really will not be up to the speed you want until the pink-mauve section is actually in place.

Ms McKENZIE: Absolutely correct.

The Hon. JOHN JOBLING: What I am interested in then is what is your timeframe that you perceive for getting the pink-mauve into place?

Mr HOLE: We are looking at deliverables for that in 2003 and completion 2004. That is the current timetable.

The Hon. JOHN JOBLING: Is that an optimistic one do you think or a hopeful one or do you think you can meet it?

Ms McKENZIE: We have certainly got very detailed plans to support it. Having said that, I would say it is a very ambitious target because there is a lot of work involved in it. We have tried to set ourselves an ambitious target. I would be hopeful that we can get there.

The Hon. JOHN JOBLING: So if things did not go according to plan perhaps 2005 might be near enough.

Ms McKENZIE: Well, hopefully we can stick with it. We are doing our best.

CHAIR: And there will be corresponding improvements in computer systems or equipment in that period of time.

Ms McKENZIE: That is true.

Mr HOLE: The bottom layer, the infrastructure layer, the long box on the bottom, is the computer equipment foundation type level and we are never going to stop working on that. That is also part of the design. Every two years things like these are totally obsolete, so we have to have that in the plan.

The Hon. Dr PETER WONG: In the past insurers, as you know, have been very concerned about your IT management. Have you consulted the insurers on this development and are they happy with the system?

Ms McKENZIE: Yes, we have done quite a lot of consultation with the insurers and certainly on the aspects that most closely concern them we have run a couple of workshops with them, got on board their ideas about what things could be done, explained to them what our strategy is. There are still a lot of issues. Some people have said that we should build a central database which we have never had, and I guess insurers have mixed views about that. Rather than having a philosophical view about whether you should have a central database or a decentralised thing, we have tried to focus on the practicalities of how can we just make it so that it does not actually make that much difference because really the argument in favour of that issue is that you need standards for what sort of data you are going to keep, standards for what sort of format you are going to keep it in and systems in place that mean the interface is automatic, so you do not have all these difficulties with transmitting the information from us to them, and that is really what we are focusing on at the moment. Those workshops with insurers have been very constructive and positive. We are still seeing some of the outputs of that and that work will continue.

There are a lot of the projects underpinning this overall strategy and one of those is focusing on the b2b exchange of information with insurers and that is coming along nicely. There is a hardware component to that, but there is also a front end, if you like, which is what the workshops have been about, which is trying to get some agreement with the insurers about the kind of data we keep, what format we keep it in, what they need for their systems, what we need for our systems, getting agreement about consistency where we need to have that, but also where insurers want to have extra or different sort of systems for their internal purposes that can be accommodated as well.

The Hon. Dr PETER WONG: What is the limitation that you are not able to double the two separate parts in parallel. Is it time, staff, technology or what?

Ms McKENZIE: I guess the fundamental problem is that we have to keep operating while we are rebuilding all of this stuff, so we cannot afford to close down the databases that we have, we need them to function on a day to day basis. The critical problem and the reason why it takes so much time is we have to be maintaining all of that at the same time as making a lot of changes to the scheme that mean we need to make modifications and try not to let that distract us from the longer term aim of rebuilding them all, so every time we have to make changes to the systems because we are changing something about the way we are operating or we are doing reforms to the scheme we have to factor that in to all of this and try to make sure, to the extent that we can, all of that stuff gets grafted on to the new systems rather than the old systems, but there is a constant balancing act because we have to keep the old systems going as well. If we could just shut down for six months--

The Hon. Dr PETER WONG: I am not saying that, I am saying the other way around, if you double the blue part and discover suddenly you could not double the central part, that is even worse, is it not?

Ms McKENZIE: We are doing the work and that work has been done, so I do not think there is a big risk that we cannot do the centre thing. We will be able to do it, it is just a question of trying to take account of the practical realities that we confront that we have to keep operating the business at the same time as trying to rebuild these systems, so really, although we have described it that way diagrammatically, in practice it is a bit more complicated than that because it is all happening incrementally. This, I suppose, is our conceptual representation of how we are going to get to where we want to be, but the practical reality of it is some new bits are being built, some things are being grafted on to old systems still, and we are trying to move towards the point, which is part of the strategy, where nothing gets grafted on to the old systems any more, but it is going to take us some time to get to that point, if that makes sense.

The Hon. Dr PETER WONG: It does. I know even looking at the Parliament system, which is a small system, there are plenty of bumps and I can imagine how difficult a task it would be to try and link two together. I am sure it would take years to iron out all the bumps.

Ms McKENZIE: When you look at the number of databases we have, it is a very data dependent organisation, so these are big systems and it does take a long time and a lot of effort. At one level you have to get right down to the micro-level of exactly what bits, each little tiny bit of information you are going to keep on each one of these systems and how does that sort of add up. It does get quite tricky.

CHAIR: It is a challenge to get the system lined up with those eight insurance companies to start with and

have compatible material.

Ms McKENZIE: Yes.

CHAIR: The commission is setting up their own material I assume.

Ms McKENZIE: Well, this is one area where there has been a lot of close cooperation between the commission and us to make sure that the systems that they are developing can speak very readily to our systems and vice versa.

CHAIR: They should be doing what you want, in a sense.

Ms McKENZIE: Yes.

CHAIR: Rather than setting up a separate system.

Mr HOLE: We have provided a lot of technical expertise to help them achieve that.

The Hon. JOHN JOBLING: Looking at the structure as I understand it on the slide before us, when you have discussed this with your people and the insurers who will be both inputting and outputting, have you got agreement on the order of procedure of bringing down that mauve-pink business operation section and the order in which you bring it on line?

Ms McKENZIE: I guess in terms of the pink, because that is all our internal databases, the rest of the world probably is not all that fussed. We have certainly described to them what the strategy is and how we are doing it, but they are much more interested in the blue bits.

The Hon. JOHN JOBLING: I accept that. On the mauve-pink section, what are the first two or three segments you hope to see fully integrated with the blue section?

Ms McKENZIE: I would say the licensing bit, and I guess, going back to what I said earlier, what we have tried very consciously to do here is to line it up with our business priorities, so if there are bits that are going okay where we do not have major problems and we think they can - you know, they may not be perfect but they are good enough to get us through for the next couple of years, they go down the list of priorities, whereas in the licensing area I think we would have the most significant problems and we are focusing the effort and energy on that first.

The Hon. JOHN JOBLING: You have some sort of order then, I take it?

Ms McKENZIE: Yes, but it is not that straightforward because bits of work are happening on different parts of those bars at the same time.

The Hon. JOHN JOBLING: And new things will come in.

Ms McKENZIE: And also in the licensing area we are linking in very closely with the Office of Information Technology and the whole of government project trying to move towards internet based licensing, so that is being done in conjunction with them.

The Hon. JOHN JOBLING: There is obviously a general plan on how you want to bring it on.

Ms McKENZIE: Yes.

The Hon. JOHN JOBLING: You may have already given the Committee some idea of what order there is.

Ms McKENZIE: I am not sure.

The Hon. JOHN JOBLING: If you have not, would it be possible?

Ms McKENZIE: We certainly do have the full IT strategy. We may have already made that available, I am not sure.

CHAIR: I think we might go on and finish the presentation because some of these questions relate to what is actually in the presentation.

The Hon. JOHN JOBLING: Well, could we get that, if it has not been made available?

Ms McKENZIE: Certainly.

The Hon. MICHAEL GALLACHER: Do you normally forward information to the Committee that you believe the Committee should have as relevant or do you only wait until we request it?

Ms McKENZIE: Well, mainly we wait until you request it because I am not sure that I necessarily know everything about what the Committee wants.

The Hon. MICHAEL GALLACHER: But if there was a document that you felt we should have, it was important, would you automatically send it to us?

Ms McKENZIE: Yes, in fact we just had a chat at morning tea about a document that we think would be relevant to you that we thought we would table at the end of this session.

The Hon. MICHAEL GALLACHER: It is normal practice then, if it is relevant, you will send it to us.

Ms McKENZIE: Well, yes, generally speaking. I mean it depends what it is. We do not send you every piece of paper that we produce because that would obviously be useless from the Committee's point of view.

The Hon. Dr PETER WONG: May I ask, number 2, reporting channels, is that part of the blue, pink, chocolate or what?

Mr HOLE: The reporting channels are that blue oval - I am not sure what shape to call it. The rounded brick in blue is the reporting channels.

The Hon. Dr PETER WONG: Earlier we were talking about early reporting. The insurers seem to be concerned that even with such a system there is no way that WorkCover can monitor it. Do you think that would enhance early reporting systems?

Mr HOLE: Yes, and that actually goes to the two outside boxes because the internet lodgments part of customer contact enables us to get that information from the insurer faster and easier than them sending us an email or an envelope.

CHAIR: I think we might move back to the presentation.

Ms McKENZIE: I might just conclude by saying that this is the overall conceptual picture. Underneath all of this there are a myriad of much more detailed individual project plans and projects that are going on that basically add up to this big picture.

Progress to date: We have briefly discussed the Workers' Compensation Commission, so the paperless case management system for the Commission went live in January and, as Peter has already explained, WorkCover had a lot of technical input into that system to try and make sure that the systems are compatible and work smoothly.

The claims advisory service: Phase 1 of that project went live in January and that is a call tracking and answering database that was part of the reform process and we will certainly be looking to further development of that system down the track.

The new hardware roll-out is in progress. This is very important because it is the underpinning infrastructure for a lot of those things that were just explained in that diagram, so SAN, servers, WAN (the wide area network), laptops, desktops, printers and telephone systems are all being rolled-out. Obviously Gosford is an important factor there, so we have built that into the strategy to try and make sure that we are not investing in two lots of hardware but that we are ready for Gosford when it arrives. The web sites have been moved in-house and upgraded. We have done a large number of modifications to the legacy systems, almost all of them associated with the reforms to the scheme that were done last year, particularly in relation to provisional liability. We have also done a lot of work on data mining and the wage audit system which is relevant to the compliance area that I think the Committee has been interested in. The TRIM records management system is being rolled out. We have established an IM&T board to try to make sure that over time we keep that connection between the business priorities and the IT priorities. The IM&T board has two external people on it from outside the organisation who have expertise in the area as well as the senior management of WorkCover, so we get the opportunity to cross-examine Peter and his people about exactly what their IT projects are

involving and I must say for myself I think there has been great value in that because we have had a problem, like every other organisation historically, with the IT people not being able to speak to the business people, so you get that separation and mismatch of priorities because - no offence, Peter - IT people use a lot of jargon I think and it is very difficult sometimes for senior managers to keep up to speed.

The Hon. JOHN JOBLING: Do you know who the two people are; has that been made public?

Ms McKENZIE: John Leek, and actually our previous member has just resigned and we are looking for another external person, but that is a pattern that we would want to continue because it helps us to keep ourselves honest about whether what we are doing is consistent with best practice out there.

As I say, the other great virtue of this arrangement, which I think Rob would agree with me about, is that for me and the senior executive team it gives us a chance to ask our questions about what is this exactly to be sure that what we are getting out of some of these developments is what we thought we were getting. That is working very well,

I have to say, we are all being educated about what is and is not possible out of all of these rebuilt systems. We have developed a new standard operating environment and, once again, that is aimed at, over time, improving our capacity to be able to not record things 35 times and to have agreed standards as to how we are going to do things. We have brought in a web enabled statistical information database, multiple new intranet sites, newsletters, bulletins, forums, all aimed at improving our information.

Current projects that we have under way: The enterprise data warehouse and business data marts, which is basically what I was talking about before about having - how would you describe this - a consistent way of storing our information so that we can put front-ends on it that are appropriate for different users, but so that we get away from the historical problems we have had with a whole lot of separate databases that could not readily speak to each other.

Mr HOLE: The data mart concept gives the individual departments their own view of that data so they see the stuff that is relevant to them and not the stuff that is not relevant to them.

Ms McKENZIE: A lot of effort going into the on line licensing system in conjunction with the Office of Information Technology, as I mentioned earlier, further developing on line systems for inspectors so that they can be out in the field and log on to their computers and get information about the workplaces that they are visiting. Once again we are hoping that in the next phase of development of that it is going to be even more helpful in terms of helping us to target our field inspection effort to the places where we need to be rather than just wandering around without some consistent framework.

Mr HOLE: And also improving the process there. At the moment when they write out a notice to an employer it is a carbon paper handwritten form that about six weeks later eventually gets keyed into a computer system by a data entry operator. With the new system they will do it on their laptop and when they hit the print button it will appear on the fax machine of the employer they are sitting with, which means that we are using their paper and their ink as well.

Ms McKENZIE: But, it should actually be a big saving in terms of time and it should help the inspectors to spend a lot more time out in the field, rather than having to come back to the office and process all of that after the event.

The co-operative project with the insurers, which I have already discussed in response to the Hon. Peter Wong's question, is about trying to get agreement about what data, what data standards and get much easier interface with the insurers so that we improve capacity to monitor the scheme and to understand what is going on in the various insurers.

The Gosford relocation is obviously a key milestone, if you like, for us in terms of the development of the new system and a lot of things have been timed and prioritised to try to make sure that we maximise the extent to which we do not have to double do things but that we are ready when we get to Gosford with as much of the new system as we can possibly have in place by then, and that includes a new data centre, a new telephone network, video conferencing. Given that we will be geographically separate from the city, we are putting quite a lot of effort into trying to make sure that we have the capacity. We will have to change some of the ways that things are done and things like video conferencing and IT tools are going to be very useful to us in doing that, so we are putting quite a lot of effort into that. 500 staff expect services on day 1 at Gosford, so we are trying to make sure that we are well and truly ready for that.

Other current projects - at the moment we are redesigning the WorkCover web site. We have done something quite radical here; we have asked our users what they would like to have. The web site is so information rich at the

moment that the main complaint people make about it is it is very hard to find the information because there is so much material on it. So we have gone out and done a user needs analysis and we will be looking at how we can reorganise all of that information to make it a little bit more accessible for the users of the web site. It is quite a well used web site and we have a number of different sorts of users, so we need to accommodate their needs, everybody from members of the general public wanting questions answered to quite specialised users of the web site like health professionals who are only interested in particular bits of information.

The legal case management system, once again, is about trying to improve our management, particularly of prosecutions, making sure we have got a proper case management system that tells us when dates are coming up and keeps us on top of all of that. Upgrade of our financial and HR systems needs to be fairly and clearly focused. That is probably not so interesting. In the IT area, I am looking at providing services for the long service payments corporation, which is also moving to Gosford, so we are going to try and get some efficiencies from a whole of Government point of view by providing some services to them. Business continuity is a big issue for us at the moment that we are putting a lot of work into, trying to make sure that in the shift to Gosford we have mapped out everything that we need, and that if personnel are going and coming, that we do not lose anything in that translation, so there is a big project under way in relation to that, and electronic document management. That is it.

CHAIR: We are glad it is you and not us.

Ms McKENZIE: Once again, there is a massive amount of activity taking place in this part of the organisation. We are very busy.

The Hon. Dr PETER WONG: Is it disruptive? It would delay your reform, would it not, for a further period of time, relocating to Gosford?

Ms McKENZIE: We are doing our level best to ensure that that does not happen. Inevitably we will lose staff. There is no question about that. I guess we have had the advantage of a relatively long lead time. I am not saying it is perfect and there are difficulties, clearly there are. There are a number of people leaving the organisation that we really wish would stay, but having said that, we have put a lot of effort into trying to map all our processes, making sure we have proper business continuity plans, we are phasing it to the extent that we can, encouraging as many staff as we can to come with us to Gosford, and, hopefully, with all of those things in place, it should not disrupt our implementation of the reform effort, and certainly that is our aim, to ensure that it does not.

Mr HOLE: It has actually had some positives as well. It has engendered a culture of change into the organisation. People are actually ready for change. When you are talking to an individual department and they say "Six of our people are not going to go to Gosford, therefore we are going to have staff turnover", you say, "Well, that is an ideal time to look at what you are doing and re-engineer your process to be more efficient".

Ms McKENZIE: That is very much the way we have actually approached it. We have tried to see this as an opportunity, and an opportunity in terms of giving us a chance to have a look at all of our processes, the way that we do things, is there a smarter way of doing it, and the fact that we have got that amount of turnover and readiness for change gives us that opportunity. We have run change management seminars for all the staff to try to get them ready for all of that, and just even at the micro level, we have attracted some excellent staff in recent times who probably would not have come to the organisation except they are Gosford residents. So that has been a positive as well.

CHAIR: I just want to get on the record some questions that we were discussing earlier. What amount of additional premium has been collected so far this financial year 2001-2002 as a result of WorkCover's compliance initiatives and what is the 2002-2003 target for premiums collected?

Ms McKENZIE: This financial year I don't think we have figures on, but our aim for this financial year was to collect \$25 million additional as compared to last year where the target was \$15 million - the actual was 15 million.

CHAIR: That is extra?

Ms McKENZIE: Yes.

Mr McINNES: Additional premium from client activities 2000-2001 was \$15 million and we are targetting \$25 million for this year and we are on track to achieve that.

Ms McKENZIE: For next year we have not yet set a target. As the Committee would be aware, we have been doing quite a lot of work in the compliance area. We had a green paper at the end of last year and we have also had a further report which I was planning to table for the Committee that you might be interested in that the Minister is

releasing today, which is the next stage of development of ideas for both legislative and administrative change.

CHAIR: Can you table that?

Ms McKENZIE: Yes.

CHAIR: We realise the Minister will be releasing it. We will not be making any comments until he actually releases it.

Ms McKENZIE: I think he is releasing it as we speak virtually.

(Document entitled Review of employers' compliance with workers compensation premiums and payroll tax in New South Wales tabled)

Ms McKENZIE: When we see what happens with that report, because it is still an interim report at this stage, the plan is to go out and do further consultation with both employers and unions to see what they think of some of these propositions. We have two experts, Neil Warren, who is a tax expert, and Penny Le Couteur, who is an insurance expert, to take the green paper and the input from the green paper and try to come back to us with some practical, implementable propositions about how we can improve compliance. It is at a fairly strategic level. They looked at it in conjunction with payroll tax. There are obviously quite a lot of ideas there about how we might streamline and make more consistent the definitions that we use and how we might link it in with OSR and use the Office of State of Revenue to help us improve our performance in the compliance area. No doubt members will be interested in that.

CHAIR: From evidence we have had from insurers, there seems to be some delay in the remuneration agreement. As far as we understand, you can correct me, but it has not yet been finalised. Why has it not been finalised when we are now almost at the end of the 2001-2002 financial year?

Ms McKENZIE: I think all the short-term measures have been finalised, but some of the longer term measures, like hail claims, the loss ratio and return to work measures are not quite finalised yet. It has been a fairly long and painful process and it is fairly complicated to try to balance up the views. The insurers have had disparate views about what is a fair way of measuring all of this. They have had a lot of legitimate issues that we have had discussions with them about, people saying, "It is unfair to judge us because we have a different portfolio and a different client base to this insurer over there and we are going to be disadvantaged by this way of measuring it". So it has been quite difficult to come up with, particularly for the longer term measures, a consistent and fair set of arrangements that is going to be fair across the insurer portfolio. We have also taken the view that if we want the new insurer remuneration package to work, we need to take the insurers with us and they need to understand at a quite detailed level how it is that we will be measuring their performance, because what we hope to do is change the way that they behave so that they can reach the kind of levels of performance that we are hoping for, and if we want that to happen, the reality is we have taken the view that we have had to persevere with some quite long and detailed discussions with them.

CHAIR: A co-operative effort, rather than you saying, "Here is the agreement. Sign it"?

Ms McKENZIE: That is right.

Mr McINNES: And some of those longer term measures are actually looking at outcomes up to five years down the track in terms of what actual results are achieved with managing those liabilities up to five years after the period in question. We are really wanting to make sure that the insurers are ultimately rewarded, at least in part, for the longer term management of those claims, rather than just focusing on the shorter term outcome, and obviously if you are looking at a five year horizon for those measurements, it is not as critical to complete the --

CHAIR: Unless you have a part 1, part 2 agreement, and have all the things that you have agreed on signed up. It just seems that they are not signed up to an agreement and it is now June.

Mr McINNES: They have signed up to an agreement to the extent that we have agreed what the elements will be, but to actually set up a modelling and the rules in relation to those longer term things requires more work and obviously takes the time.

CHAIR: What is the timetable now?

Ms McKENZIE: Pretty close I think.

CHAIR: Another month?

Mr McINNES: There is still a range for some of those things. The longest one is the five year one, which we have got up to another 12 months worth of work to complete all the modelling for that, but again, the rest of those should be progressively completed in the meantime.

CHAIR: So you are doing sections of the agreement in a sense?

Mr McINNES: That is right.

Ms McKENZIE: We focused on the short-term measures first because we need those now.

Mr McINNES: And we are progressively working through to the longer term measures, which, as I said, the longest one runs out for five years.

Ms McKENZIE: But we need to say too that although it is true that the detailed work is not finalised, the direction is clear and the principles of what we are judging and measuring are agreed and are in place. It is just the very detailed sort of modelling about exactly how that is going to be judged is still requiring a bit more work. It is not as though we are inventing some new system. The system is clear and the insurers understand exactly what the measures are. It is just the very detailed level.

CHAIR: You are actually implementing the agreement?

Ms McKENZIE: That is right.

The Hon. MICHAEL GALLACHER: You indicated in the presentation there were increased staff numbers, up to about 500 you said were going to Gosford.

Ms McKENZIE: Yes.

The Hon. MICHAEL GALLACHER: Originally, we were given figures closer to 400. Could you explain the increased number from 400 to 500?

Ms McKENZIE: I think the 400 was always an estimate. 500 is our most recent estimate and a much more accurate estimate because we have done the work of going through and working out how many desks we are going to need and who is going to sit at each desk.

The Hon. MICHAEL GALLACHER: That is 500 are going to be there on day one?

Mr HOLE: No. I am actually on the relocation committee. One of the floor plans has been altered more recently than the others and the builder will not have it finished on day 1 in terms of putting the desks up. That affects about 60 or 70 people.

Ms McKENZIE: It will be a staged sort of move, but the plan is everybody who was originally intended to go is going and eventually they will be there, but it might not all be on day 1.

The Hon. MICHAEL GALLACHER: How long is the lease at Gosford?

Ms McKENZIE: Ten years.

The Hon. MICHAEL GALLACHER: For the full complement of 500?

Ms McKENZIE: Yes.

The Hon. MICHAEL GALLACHER: Ms McKenzie, where will you be permanently based?

Ms McKENZIE: I will be part-time in Gosford and part-time in the city. I am going to have to work out exactly how many days I spend where, and that will probably vary over time, but it is probably likely to be three days in Gosford and two days in the city. Some things will still have to be done in the city. I am also, as you know, the Director General of the Department of Industrial Relations, which is staying in the city.

The Hon. MICHAEL GALLACHER: How many staff will stay in the city?

Ms McKENZIE: WorkCover staff?

The Hon. MICHAEL GALLACHER: Yes.

Ms McKENZIE: I don't have the numbers off the top of my head. I can probably give you a closer estimate. There will still be the Sydney office of the inspectorate, and that was always part of the plan, and I think that is around about 70 odd people.

Mr HOLE: 76.

Ms McKENZIE: 76, but if I can just qualify that by saying that may not be the exact right number but it is of that order. The legal branch is staying in the city, and that was always part of the plan. The prosecutions people are based in Elizabeth Street. The rest of the legal branch is moving there. That is not a large number. It is probably of the same order, about 60. Whilst we are rebuilding the IT system, we will have to keep some IT people based in the city for some of the projects that we are working on, because it is not practicable or feasible for them to be doing them from Gosford and that is of the order of 75 at the moment. That will change over time.

Mr HOLE: They are largely contract personnel, they are not staff, so they are working on a three or six month contract and it is difficult to get them to move to work from Gosford and those sorts of things.

Ms McKENZIE: And those numbers will change depending on what projects we have on the books.

The Hon. MICHAEL GALLACHER: Do you have WorkCover offices around the rest of the State?

Ms McKENZIE: Yes, we have 23 regional offices.

The Hon. MICHAEL GALLACHER: Are the workers from there going to be shown as being on the Gosford books?

Ms McKENZIE: No.

The Hon. MICHAEL GALLACHER: Or are they going to be separate entities?

Ms McKENZIE: Yes, as they are now.

The Hon. MICHAEL GALLACHER: The claims assistance service in this report that we have been given today - can you give us an indication of how much the overall cost has been to this date in running the claims assistance service? It is on page 16.

Ms McKENZIE: I do not actually have those numbers with me, but could I take that on notice and get back to you?

The Hon. MICHAEL GALLACHER: Thank you. Could you also provide to the Committee a breakdown of which organisations have been given financial assistance to assist in claims assistance?

Ms McKENZIE: Yes. Once again, I do not have that with me. You mean the WorkCover Assist program?

The Hon. MICHAEL GALLACHER: Claims assistance service it has here.

Ms McKENZIE: Yes.

The Hon. MICHAEL GALLACHER: You mentioned earlier, Ms McKenzie, that when you have information that you believe is relevant to the Committee you would send it to us. What information have you sent to the Committee that we have not asked for?

Ms McKENZIE: I have no idea is the real answer. Generally speaking, I think what has been happening is that at officer level there have been discussions between the commission's secretariat and my staff about what sorts of things the Committee might be interested in and we have done our level best to be cooperative.

The Hon. MICHAEL GALLACHER: But do you know if they have proactively forwarded any information to us?

Ms McKENZIE: We have not sort of gone around digging through our files saying the Committee might be interested in this, so let's send it to them, but generally speaking, in terms of what we understand the Committee is interested in and the sorts of questions that we have been asked, there has been discussion between the secretariat and my staff about these sorts of things and we have tried our best to be cooperative and give the Committee anything that they might be interested in, but I would not want to go so far as we have proactively had a program of, you know--

The Hon. MICHAEL GALLACHER: Can you explain to the Committee why this report, which was publicly released by the minister on Monday in a media report - this is the quarterly report of March - was only delivered to us this morning. We have not had a chance to sit down and examine this in any way. Why was the Committee not forwarded this on Monday at the same time the minister was out giving copies to the media and making press statements about it?

Ms McKENZIE: It has only gone out to anybody else who was interested in it today as well. We are actually today sending it to the advisory council, which is the normal course of events, it is only a couple of days.

Mr McINNES: I do not think the media got access to the actual report.

Ms McKENZIE: No.

Mr McINNES: The minister did issue a media release but the report itself--

Ms McKENZIE: Nobody else has had the report until today.

The Hon. MICHAEL GALLACHER: So he has only been making commentary on it but he has not been releasing anything from it?

Mr McINNES: Well, the report was only released today.

The Hon. JOHN JOBLING: It could have been of great help to the members if we had it to read - it was a bit difficult to read while you were doing the presentation - just in case there was something in there we might have wanted to get some information on.

CHAIR: We may have some questions on notice after reading it from individual members.

Ms McKENZIE: Sure, I think if members had questions on notice we are more than happy to take those questions.

The Hon. MICHAEL GALLACHER: Could you look at page 13 and look at the graph there. It says "Reasonable Excuses March 2002". It says "Injury not significant" or "Injury not work-related". What exactly do they fall under the category of? Do they fall under the category of perhaps an exaggerated claim or a fraudulent claim in terms of the dispute?

Mr McINNES: There are a number of reasons that insurers can use to not pay provisional liability and that is really listing those and just indicating what proportion different reasons were used. "Injury not work-related" was that the insurer formed a view on the basis of the information that they received that the injury was not work-related, so therefore they did not pay the claim, they did not pay it provisionally.

The Hon. MICHAEL GALLACHER: So they are disputing the fact that the employee is saying it is work-related. The insurer is saying it is not work-related?

Mr McINNES: That is correct.

The Hon. MICHAEL GALLACHER: So there is a dispute in terms of fact.

Mr McINNES: As to whether it is work-related or not.

The Hon. MICHAEL GALLACHER: So that is fraud.

Ms McKENZIE: No.

Mr McINNES: No, not necessarily fraud. It could just simply be a dispute over the facts.

The Hon. MICHAEL GALLACHER: The insurer is saying we disagree that it is a work-related injury.

Ms McKENZIE: It might not even be a dispute, it might just be a misunderstanding.

Mr McINNES: For example, it could be a stress claim where the worker has alleged it related to stress, there was some evidence provided that it was in fact their home situation or some pre-existing condition; there is some dispute over the balance of those two things and therefore the insurer formed the view that on the balance of that they think it was not work-related, so they have not paid provisionally. Obviously there is a whole range--

CHAIR: But the worker honestly thought it was.

Ms McKENZIE: Yes.

CHAIR: So it was not fraud; he thought it was.

Ms McKENZIE: Yes.

Mr McINNES: Well, at this point we do not know.

CHAIR: In some cases it could have been an honest mistake.

Ms McKENZIE: Absolutely.

The Hon. MICHAEL GALLACHER: The worker is purporting that it is work-related; the insurer is saying no, it is not work-related.

Ms McKENZIE: But you cannot jump from that to say it is fraud. It could just be a mistake.

The Hon. MICHAEL GALLACHER: No, I am asking: Is fraud included in that part? Would fraud be saying, no, it is not work-related?

Mr McINNES: I guess potentially is the answer.

The Hon. Dr PETER WONG: Possible fraud.

The Hon. MICHAEL GALLACHER: "Injury not significant" - who is making the determination? Are the insurers saying it is not a significant injury?

Mr McINNES: That simply means that, if it is less than a week, it is classed as not significant and normally that would be cases where, by the time the notification has occurred, the worker is actually back at work.

The Hon. MICHAEL GALLACHER: So it is classification rather than the insurer saying, no, we do not believe it is a significant injury.

Mr McINNES: Yes, it is a question of fact as to the duration of injury, return to work or not.

The Hon. JOHN JOBLING: It appears that we have about 500 people moving over a period of whatever time it is. When do you actually foresee that you will be fully established and all those that are moving will have in fact moved to Gosford?

Ms McKENZIE: By the end of October.

The Hon. JOHN JOBLING: You are pretty confident that will be able to be met?

Ms McKENZIE: Yes, well, as far as we can judge by progress so far, yes.

The Hon. JOHN JOBLING: In the presentation you were dealing with obviously the capacity to move, IT, and I noticed you referred to telephone capacity. Are you satisfied that the interlinks between Gosford and Sydney and the cabling requirements are of the capacity to meet your needs or are they being upgraded? What sort of problems are you anticipating?

Mr HOLE: We still have not let the contract for which supplier will actually provide the link into the building

at Gosford, so we are working with both Telstra and Optus on that, and they have both promised us that they have sufficient capacity and have already done some work. They have laid the cables from the street into the building during the construction phase of the building, so the capacity is not a problem. We are still debating the cost issues of it because they treat it not as a metropolitan centre so they want to charge us more money and we are talking deeply to them about that.

The Hon. JOHN JOBLING: That strikes me as a fairly standard commercial argument that most people will encounter but, from your point of view, you have made your own inquiries to satisfy yourself that the capacity is as they say?

Mr HOLE: Yes, we went around their sales force to their technical people and got them to actually tell us what was there.

The Hon. JOHN JOBLING: Do you foresee a fairly substantial increase in your capacity needs over a three or five year period?

Mr HOLE: Yes, we are looking at about 300 percent capacity growth over that period in terms of what might be needed.

The Hon. JOHN JOBLING: So what capacity have you factored in to your input cabling?

Mr HOLE: I think they have put ten 34meg fibres into the building. Comparing that to what is in our current Kent Street building, that is about 80 times what we currently have.

The Hon. JOHN JOBLING: So the rest of the lines going down can take this 300 percent increase. They have a bad habit of telling you you can do it with what you have and when it comes to the increase it does not work. I am just making sure that you have satisfied yourselves that you have no on line continuing problems.

Mr HOLE: No, I cannot see that as a current issue.

CHAIR: We might have to take further questions on notice. Obviously there may be some questions arising from the reports you have tabled here today.

Ms McKENZIE: And I think we have indicated that we are happy to take any of those questions on notice.

(The witnesses withdrew)

(The Committee adjourned at 11.45 a.m.)