



Speech by

Mr T. MALONE

MEMBER FOR MIRANI

Hansard 14 April 1999

WORKCOVER QUEENSLAND AMENDMENT BILL

Mr MALONE (Mirani—NPA) (4.51 p.m.): In supporting the shadow Minister for Employment, Training and Industrial Relations in opposing the fiscal vandalism that this can't do Labor Government proposes to inflict on Queensland's WorkCover scheme, I am reminded that, in the area of compliance, as in much else the devil is in the detail. It is by no means clear whether the honourable member for Kedron is fully across the Bill. From his comments so far, we have all been able to deduce that he is a willing partner in the sacrifice of financial principle to union demands and Labor's policy of trying to reinvent the past.

It is a fact that the workers compensation reforms that were introduced by the coalition Government in 1996 are among the many great achievements of the Borbidge/Sheldon Government. They not only created an efficient and workable compensation scheme fit for the 21st century but also they reversed the slide into the black hole of Labor's financial administration that we found when we came to office. Members would recollect that, at that time, the scheme was millions of dollars in debt and was heading south at a great rate of knots. Members would also remember that at that time the coalition Government had to supplement the funds of the workers compensation scheme to the tune of \$35m a year so that employees were properly covered.

Labor now desires to again wreck the workers compensation scheme. As I understand it, it wants to do that to accommodate its union mates. It also wants to do it so that it can reinvent the compo club, as it is known, and to benefit the ambulance chasers of the legal profession. Labor wants to do this so that it can bolster its credentials as a Government of social manipulators and meddlers. It also apparently wants to do this so that it can demonstrate to its friends and to the wider community, which will rightly be horrified, that it really has not learned a thing.

In his second-reading speech, the Minister said that this Bill is all about compliance. He stated—

"The projected cost of the package has been actuarially estimated to be in the range of \$17.35m to \$20.25m per annum, which will be more than offset by improved premium collection compliance."

The Minister went on to say that, although it was not included in the Bill, compliance must be mentioned as it is a fundamental part of the workers compensation package. The Minister said further that poor compliance means that some employers are paying artificially high premiums because others are not paying their fair share and workers' benefits are held at levels that reflect the premium income.

The Minister is right as far as he goes, but he goes nowhere near far enough in the direction of commonsense or genuine equity. He lays all the blame on employers and fails to mention the other side of the coin which, unfortunately, is a large ticket item, namely, employee fraud. At this juncture, I have to say that the vast majority of employers and employees are decent people who pull their weight. Unfortunately, there are people out there on both sides of the fence who do not always do that.

The latest annual report of the WorkCover board states that, in 1997-98, WorkCover's investigations resulted in 92 fraud convictions with the court ordering \$450,000 in fines, costs and restitution. WorkCover estimates savings to the scheme during the year at more than \$3m. For the first time, several individuals received terms or suspended terms of imprisonment. WorkCover believes that its premium income and claims areas are those most susceptible to fraud. Despite extensive efforts by

WorkCover and the enhancement of the fraud division, this amount is small. While I am talking about fraud, I am not referring to inadvertent mistakes that people such as I and other members might make; I am referring to systematic and premeditated evasions of the payment of premiums required by law.

One of the great deterrents for those benefiting from premeditated and systematic fraud is not just the risk of detection but the public exposure and shame that it brings. Over the past three years or four years, WorkCover has adopted a definite policy, substantially bolstered during the coalition's term in office, of achieving greater publicity of fraud cases. This policy brought home to those who are practising such fraud that it was being detected, that it was a social stigma, that it was rightly frowned upon by society, and that the names of the perpetrators would be published for all the world to see.

This is a very effective remedy. The risk of exposure has always been a great deterrent to those who might be tempted to break the law or for those who seek unfair advantage for themselves at public expense. However, we now understand that the WorkCover board, which was given a hefty bias away from employers who pay the premiums when Labor won office last June, has decided to unilaterally disarm, in the face of the continued risk of malefactors who are making monkeys of the taxpayer. It has been decided to eliminate this deterrent publicity. That can only be interpreted to mean two things: that the WorkCover board wants to hide the names of those who are practising fraud and that the Government sees compliance in only one dimension, that is, compliance by the employers.

In February 1992, the Workers Compensation Board established a compliance section to review the level of compliance under the Act. I turn now to what the Workers Compensation Board has been doing in regard to compliance. The board's annual report in 1992 indicated that those activities uncovered a degree of underdeclaration of wages, resulting in the issue of additional premium assessments of more than \$1m. In 1993, it had achieved 18 convictions, with a further 103 cases under investigation. The fraud hotline had taken more than 400 calls and a Fraud Squad detective was working with the board on criminal matters.

In its annual report of 1994, the board stated that it—

"... strongly believes the reduction of loss through the prevention of fraudulent activities by claimants, employers and service providers is integral in maintaining a system for Workers Compensation insurance with equity for all injured workers and employers. Accordingly, greater efforts were made in loss investigation focusing on deterring and detecting fraudulent activity."

The fraud hotline received more than 154 calls and 39 convictions resulted from matters brought before the court. A total of 196 cases were under investigation.

In its 1995 annual report, the board recorded the passage of legislative amendments designed to assist the investigation of possible fraud. Those measures included higher monetary penalties and imprisonment. The board reported 48 convictions and 499 cases under investigation. The Loss Investigation Unit had been responsible for approximately \$1.85m in savings in workers compensation as a result of claims ceased during investigation by the unit.

Reporting after the Kennedy inquiry in 1996, the board said that considerable effort and resources were focused on deterring and detecting fraudulent activity against the Workers Compensation Fund. It was noted that a new database system—fraud activity investigation and recording—had been introduced. The fraud hotline received 313 anonymous calls and the board prosecuted 81 employers and injured workers for fraud. That was a 69% increase on the previous year. A total of 722 cases were investigated, resulting in \$314,000 recovered in fines, costs and restitution. The board's 1996-97 annual report stated that the division's investigation resulted in 91 convictions for workers compensation fraud, an increase of 12% on the 1995-96 figures. The division estimated a total saving to WorkCover of \$2.22m in 1996-97. Staff improved their use of specialist computer programs to identify and investigate fraudulent activity.

We now come to the most recent report of the board, which states—

"In 1997/98 WorkCover's investigations resulted in 92 fraud convictions with the Courts ordering \$450,000 in fines, costs and restitution. WorkCover estimates savings to the scheme during the year at more than \$3M. For the first time, several individuals received terms or suspended terms of imprisonment. WorkCover's premium income and claims areas are those most susceptible to fraud. WorkCover is committed to minimising the cost of fraud to Queensland's Workers Compensation scheme."

This result comes two years after the Kennedy inquiry report, which was scathing in its criticism of fraud against the workers compensation scheme. Jim Kennedy described it as the compo culture.

Since the Kennedy inquiry, WorkCover has considerably beefed up those areas of the organisation responsible for the investigation and detection of fraud. With all those enhanced efforts, the organisation has produced savings of more than \$3m a year. This is particularly relevant to the provisions of the Bill. With the build-up of expertise in the organisation after six years of experience, the

resultant savings are \$3m. That is a pretty tidy sum and no doubt the staff were working at capacity to produce that sum. No-one is suggesting that they are doing anything less than their absolute best.

However, in his second-reading speech the Minister said that the projected cost of the Government's changes to the WorkCover scheme will be in the vicinity of \$17.35m to \$20.25m. We on this side of the House, the actuarial side of the House, believe that this is understated and that it would be more than offset by improved premium collection compliance. It seems like another Labor accounting triumph! Can members think back to the time when the Labor Party was last in Government and the situation that existed with WorkCover at that time? It seems that they think of a number, triple it, multiply it by two and, at the end of the day, pretend that they have sold the Sydney Harbour Bridge to us.

The Minister's arithmetic is not even backed up by the departmental papers, which indicate that the tougher compliance measures that are being considered will recoup up to \$10m a year. If history is any criterion, as it stands WorkCover will be unable to produce the extra \$10m from this area. Departmental papers indicate that WorkCover, in conjunction with KPMG consultants, is developing a more effective auditing process. Regardless of what else it does, audits and the detection of fraud take time and cost considerable amounts of money. Additional staff will have to be employed to achieve even half of the figure that the Government is claiming will be recouped. This will be another considerable impost on the cost of administering the Workers Compensation Fund, which last year ran at a cost of \$83,053,000. That was a 40% increase on the cost of running the scheme in 1997.

The Minister says that two key strategies are being developed to address non-compliance. I have talked about the first and now I turn to the second, which he describes as an activity-based premium collection model for the building and construction industry. This strategy is very much related to the change in the definition of "worker", which brings contractors and subcontractors within the definition. Those people were not included in the present Act, mainly because when some of them were included in the previous Act their premiums were never paid, yet claims were made by them on the fund. The departmental papers say that anecdotal evidence from the building and construction industry suggests that the level of compliance in premium collection could be as low as 30%. Preliminary estimates suggest that if that were the case, over the past five years WorkCover has failed to collect approximately \$700m in premiums. If a more conservative estimate of 70% compliance was used, WorkCover failed to collect approximately \$130m in premiums over the same period. Those calculations relate only to the building and construction industry.

The Government proposes a new levy-based premium collection process to be introduced into the building and construction industry. This is being developed within the industry and is planned to commence on 1 July 2000. Departmental papers suggest that this scheme will net \$50m to \$60m in additional premium income. From the point of view of assessment, this is leaping into the dark. The detail of the levy in the building and construction industry is yet to be worked out. Summary information has been provided in reform documents, but detail on how the scheme will operate practically has not been released or discussed with employer associations generally.

Apart from the undisclosed practical detail of this scheme, a very significant issue for employers outside the 100% building and construction industry involvement is the compliance issues where workers or employers operate across industry boundaries. A fairly typical example would be a fabrication shop or factory that prefabricates certain items and installs on a building site. While this proposal will likely overcome substantial compliance issues in the payment of premiums in the building and construction industry, it will likely substantially increase the administrative burden and complexity for those employers who operate across industry boundaries.

The financially dangerous leap into the dark by the Government on this proposal is further shown by the departmental papers which state that a number of industries are particularly affected by these changes. These include building and construction, transport, hospitality and retail. The departmental papers go on to say that due to the complex and differing natures of each industry, it may not be possible to adopt the same strategy for each industry. I think that is fairly clearly understood. We now have some half-baked scheme to cover the building and construction industry, the details of which have not yet been spelt out, and we have the Government admitting that other schemes may have to be adopted for industries other than the building and construction industry.

The change to the definition of "worker" also introduces premium compliance problems in a range of industries, namely, in respect of professional modelling, professional musicians and other cash payment based arrangements.

Another area worth noting is that under the Bill labour hire agencies and group training schemes are deemed to be employers irrespective of the arrangements with host employers. This provision will remove the opportunity for flexible arrangements to apply in the coverage of group apprentices. Employers, subcontractors and contractors have recently been put to a great deal of trouble and expense in sorting out insurance arrangements covering subcontractors and contractors working on the premises of employers. These arrangements will have to be unravelled at a considerable cost to those

involved. In the meantime, the Government will bring into the scheme subcontractors, contractors and other workers while not knowing whether these premiums can and will be collected in respect of those persons. There seems to be little doubt that the collection of premiums for the additional workers will follow a liability being imposed on the fund, rather than being paid in advance. If the additional levies can be extracted from the building and construction industry, and indeed other industries, there seems little doubt that these costs will be passed on to the public by way of higher building costs. In some cases, this can result in a slowdown in building approvals and job losses.

We on this side of the House have no objection to a process of continual review, especially when large sums of public money are concerned. Indeed, we view continual review as an essential tool of management. In our view, the WorkCover scheme, as reformed by the coalition Government, has worked well. That does not mean that it cannot work any better. Any genuine measures that the Government might produce to make it work better will be supported. However, the Government's record is not a good one. WorkCover is a vital insurance scheme that must be run with maximum efficiency and financial soundness. However, it is not part of the welfare system.

Time expired.
