

Victorian Government Response

June 2013

Efficiency Review of
the Transport Accident Commission
and the Victorian WorkCover Authority

The Secretary
Department of Treasury and Finance
1 Treasury Place
Melbourne Victoria 3002
Australia
Telephone: +61 3 9651 5111
Facsimile: +61 3 9651 5298
www.dtf.vic.gov.au

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Response to ESC recommendations

The Government's Response to the Essential Services Commission's (ESC) final report on the *Efficiency Review of TAC and VWA* will enhance the operations of the Transport Accident Commission (TAC) and the Victorian WorkCover Authority (VWA).

The review looks at the function of each organisation, scheme pricing and business synergies.

The report's recommendations focus on greater scrutiny, more specific government guidance and legislative changes to ensure core TAC and the VWA objectives are met.

Implementing these recommendations will not only benefit these organisations and their clients but Victoria's business competitiveness and the cost of living.

The review recommends:

- a greater focus on 'customers' (employers and vehicle owners), not just 'clients' (injured workers/motorists);
- an emphasis on efficient premium pricing; and
- ensuring investments and expenditure by the TAC and the VWA are better aligned with the insurance objectives of the schemes, thereby delivering better returns.

Other recommendations, such as periodic market testing and the submission of business cases to the Department of Treasury and Finance, will promote cost savings and efficiency.

In particular, expenditure and investments made by the TAC and the VWA will be evaluated in terms of the returns they produce for their insurance schemes.

The Victorian Government supports the three broad strategies and the majority of the 20 recommendations in the report.

These recommendations offer the greatest scope to improve transparency in policy development, regulation, premium pricing and scheme administration.

The majority of the recommendations will be implemented this year.

The Government appreciates the work undertaken by the Essential Services Commission and the participation provided by the TAC and the VWA in delivering this important review.

THE HON GORDON RICH-PHILLIPS MLC
Assistant Treasurer

Recommendation 1	Consultation should take place with key stakeholders to assist with the implementation of the recommendations made in this review.
Response	Supported The Government, through DTF, will consult senior management at the TAC and the VWA, and other key stakeholders, as required.
Recommendation 2	The VWA should make transparent the costs it incurs in undertaking its role as Victoria's OHS regulator by 'ring fencing' (or separately identifying) these costs in its budgets and financial statements.
Response	Supported Implementing this recommendation will increase risk reflectiveness of premiums. This will improve the incentives faced by customers.
Recommendation 3	Within existing reporting frameworks (public and directly to DTF), the TAC and VWA should be clear and transparent about how the costs and benefits of their activities are determined. If broader benefits are intended then these should be identified and the additional costs associated with them made transparent in corporate plans, business plans and annual reports. DTF should review from time-to-time the organisations' business cases of relevant programs or projects to ensure compliance with the required level of rigour.
Response	Supported Implementing this recommendation will increase scrutiny of insurers' costs thereby focusing management's attention on introducing efficiencies and reducing expenses.
Recommendation 4	The Government should play a stronger role in assessing the organisations' annual corporate plans, budgets and business cases (where relevant), e.g. by: <ul style="list-style-type: none"> • requiring a greater level of scrutiny of the business cases used by the TAC and the VWA to justify their key initiatives; and • ensuring key performance indicators are appropriate and sufficient to assess whether required objectives and desired service outcomes are being achieved.
Response	Supported As per Recommendation 3 above.
Recommendation 5	The responsible Minister should provide the TAC and the VWA with a statement of expectations to clarify government objectives, expectations, responsibilities and lines of accountability between the Minister and the organisation.
Response	Supported Implementing this recommendation will improve governance by providing clearer guidance on expectations that drives management decisions.

<p>Recommendation 6</p>	<p>The Transport Accident Act 1986 and the Accident Compensation Act 1985 should be amended to:</p> <ul style="list-style-type: none"> • narrow the scope of the organisations’ legislative objectives to focus on the management of their respective statutory compensation schemes; and • require the organisations to manage their schemes in a financially viable manner; <p>if the Government assesses that our other recommended actions (recommendations 4 and 5) will not deliver the sought after focus on efficiency in the two organisations.</p>
<p>Response</p>	<p>Supported-in-principle</p> <p>The Government will consider streamlining insurers’ legislated objectives if necessary, to reduce their open-ended nature and to ensure investments and expenditure by the TAC and the VWA are focused primarily on improving scheme outcomes.</p>
<p>Recommendation 7</p>	<p>A stronger reporting framework should be introduced to provide greater transparency to the Government (through the Minister and DTF) about collaborative efforts between the two organisations. This framework might include:</p> <ul style="list-style-type: none"> • timeline KPIs for the implementation of current and future collaborative efforts; • establishing KPIs that would cover service delivery as well as targets for cost savings for collaborative efforts; and • reporting (to the Government) against the KPIs to demonstrate the value of the collaboration.
<p>Response</p>	<p>Supported</p> <p>Implementing this recommendation will promote a focus on measuring the benefits of collaboration and enhance cost management.</p>
<p>Recommendation 8</p>	<p>The VWA should adopt a more commercial approach to its specialised agency agreement with the TAC — e.g. by: linking annual budget increases to workload, the consumer price index and average weekly earnings; increasing the transparency of bonus maximums and payments; and introducing adverse consequences for failing to meet performance targets.</p>
<p>Response</p>	<p>Supported</p> <p>Implementing this recommendation will expose the insurers to greater market discipline.</p>
<p>Recommendation 9</p>	<p>The service fee paid by the TAC to VicRoads for collecting the transport accident charge should be set at a fixed amount per vehicle registration; with the service fee paid to VicRoads to be benchmarked against other comparable collection arrangements to ensure value for money.</p>
<p>Response</p>	<p>Supported</p> <p>As per Recommendation 8 above.</p>
<p>Recommendation 10</p>	<p>The TAC and the VWA should periodically market test the cost effectiveness of internal and outsourced activities.</p>
<p>Response</p>	<p>Supported</p> <p>As per Recommendation 8 above.</p>

Recommendation 11	<p>A stronger reporting framework (e.g. through details in the annual reports of both organisations) should be introduced to provide greater transparency about the funding provided by the TAC and VWA to other organisations.</p> <p>As part of this framework, DTF should develop a set of principles that determine the basis for the level of contributions made by the TAC and the VWA to other organisations.</p>
Response	<p>Partially supported</p> <p>While the implementation of stronger reporting frameworks is supported, this will not include the specification of external funding principles. The respective Boards will remain responsible for developing such principles.</p>
Recommendation 12	<p>The Government (in its role as both underwriter and policy maker of the TAC and the VWA schemes) should strengthen the reporting and data verification requirements expected of the two organisations in their corporate plans and annual reports — potentially in the statement of expectations (see recommendation 5).</p>
Response	<p>Supported</p> <p>Implementing this recommendation will improve governance by providing clearer guidance on expectations while also increasing the scrutiny of the insurers’ cost structures.</p>
Recommendation 13	<p>A public performance reporting framework (including clearly articulated requirements for data verification) should be independently established and overseen. In establishing this framework, consultation should take place with the TAC, the VWA, and representatives of the premium payers and injured parties of both schemes.</p>
Response	<p>Supported</p> <p>Implementing this recommendation will improve governance and increase the transparency of insurers’ performance against objectives.</p>
Recommendation 14	<p>The TAC and the VWA should be required to report to the Minister on a regular (e.g. annual) basis on the status of the implementation of their responses to recommendations made by independent bodies, such as the Ombudsman and the Auditor-General. Explanations should be provided for any delays or failures to implement any aspects of the responses.</p>
Response	<p>Supported</p> <p>Implementing this recommendation will improve governance by enhancing the monitoring of the progress made toward addressing matters raised by independent bodies.</p>
Recommendation 15	<p>The TAC and the VWA should be required to reduce real non-claims expenditure by an efficiency factor. The efficiency factor and its basis for application should be determined independently after benchmarking each organisation’s costs.</p>
Response	<p>Not supported</p> <p>The recent introduction of measures to assess insurers’ cost effectiveness requires insurers to include efficiency measures and a ‘price path’ in their corporate plans. As such, the recommendation to introduce an independent ‘efficiency factor’ is no longer required.</p>

<p>Recommendation 16</p>	<p>The following matters should be the subject of an independent public review (possibly as part of the broader oversight of premiums proposed in recommendations 20a and 20b):</p> <ul style="list-style-type: none"> • the effectiveness of the premium system in providing incentives for employers to improve their OHS performance (including an assessment of the remuneration threshold used to determine when claims experience should be taken into account in the premium calculation); • the use of — and allocation by the VWA of individual employers to — industry classifications for the purposes of VWA premium calculation; and • the complexity of the premium system.
<p>Response</p>	<p>Supported</p> <p>Implementing this recommendation will increase the focus on the ‘customer’ (i.e. employers and road users) through independent oversight of service standards and premium-setting processes.</p>
<p>Recommendation 17</p>	<p>Self-insurers’ contributions to the VWA scheme should be based on full cost recovery, using an approach such as the Efficient Component Pricing Rule model. In order to implement such an approach, the VWA will need to improve the quality of its cost data so that the costs attributable to self-insurers can be appropriately assigned.</p> <p>In particular, the Commission recommends that the VWA ‘ring fences’ and makes transparent the costs it incurs in undertaking its role as the regulator of OHS (see recommendation 2).</p> <p>Where assumptions are made on the distribution of costs, these assumptions should be reviewed by the VWA annually and independently reviewed from time to time.</p>
<p>Response</p>	<p>Supported</p> <p>Implementing this recommendation will improve the transparency of the costs of the OHS services provided by the VWA and the incentives provided to customers in this respect.</p>
<p>Recommendation 18</p>	<p>In the short term, the cost reflectivity of TAC premiums should be improved by updating the existing geographic zone and vehicle class parameters on the basis of more recent actuarial data.</p> <p>To mitigate the impact of any price shocks, adjustments to premiums arising from the updating of the parameters should be introduced in a staged approach over a number of years (e.g. any increases to premiums could be subject to annual caps).</p> <p>Data should be collected and analysed to inform further changes in the TAC premium structure to improve both cost and risk reflectivity beyond the short term. This analysis should include: consideration of additional or amended geographic zones and/or vehicle classes; and an assessment of options for introducing driver characteristics into the calculation of TAC premiums.</p>
<p>Response</p>	<p>Supported</p> <p>This will be implemented in a staged manner and, over time, will increase the risk reflectiveness of premiums and improve the incentives provided to customers.</p>

<p>Recommendation 19</p>	<p>The Government should clarify the purpose of the TAC concession for pension card holders.</p> <p>If the concession is designed to meet income distribution objectives, then the Government should consider funding the concession from outside the TAC scheme.</p> <p>If one of the objectives of the concession is to reflect the lower cost profile of older drivers, then further analysis will need to be undertaken to ensure the size of the concession accurately reflects the claims experience of pension card holders.</p> <p>Policy makers might also want to explore opportunities for constraining the growth in concession payments — e.g. by capping the total amount of the ‘cross subsidy’ to a specified percentage of net premium revenue.</p>
<p>Response</p>	<p>Partially supported</p> <p>While structural changes to subsidies are not proposed, implementing this recommendation will provide greater clarity about the use and objectives of subsidies.</p>
<p>Recommendation 20a</p>	<p>The TAC and the VWA should be required to publish a price path of expected average premiums over a 3 to 5 year period. Any discrepancies from this path should be explained by the organisations. The TAC and the VWA’s proposed price paths should be independently reviewed. These reviews could cover issues such as:</p> <ul style="list-style-type: none"> • the efficiency and prudence of scheme costs; • the methodology and assumptions underlying premium-setting; • the adequacy of the overall level of premium collected; and • the structure of premiums.
<p>Response</p>	<p>Partially supported</p> <p>This recommendation will be partially implemented by requiring price paths to be reported to Government as part of the annual corporate planning process.</p>
<p>Recommendation 20b</p>	<p>In the absence of price paths, the TAC and the VWA’s premiums should be independently reviewed. These reviews could cover issues such as:</p> <ul style="list-style-type: none"> • the efficiency and prudence of scheme costs; • the methodology and assumptions underlying premium-setting; • the adequacy of the overall level of premium collected; and • the structure of premiums.
<p>Response</p>	<p>Supported</p> <p>Implementing this recommendation will increase focus on the ‘customer’ (i.e. employers and road users) through independent oversight of service standards and premium-setting processes.</p>