

# **PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE**

## **2021–22 Budget Estimates**

Melbourne—Wednesday, 16 June 2021

### **MEMBERS**

Ms Lizzie Blandthorn—Chair

Mr Richard Riordan—Deputy Chair

Mr Sam Hibbins

Mr David Limbrick

Mr Gary Maas

Mr James Newbury

Mr Danny O’Brien

Ms Pauline Richards

Mr Tim Richardson

Ms Nina Taylor

**WITNESSES**

Mr Danny Pearson, MP, Assistant Treasurer,

Mr David Martine, Secretary,

Mr Jamie Driscoll, Deputy Secretary, Budget and Finance Division,

Mr Chris Barrett, Deputy Secretary, Economic Division,

Mr Jason Loos, Deputy Secretary, Commercial Division, and

Ms Gayle Porthouse, Deputy Secretary, Corporate and Government Services Division, Department of Treasury and Finance.

**The CHAIR:** I declare open this hearing of the Public Accounts and Estimates Committee.

I would like to begin by acknowledging the traditional Aboriginal owners of the land on which we are meeting. We pay our respects to them, their culture, their elders past, present and future, and elders from other communities who may be here today.

On behalf of the Parliament the committee is conducting its Inquiry into the 2021–22 Budget Estimates. Its aim is to scrutinise public administration and finance to improve outcomes for the Victorian community.

We note that witnesses and members may remove their masks when speaking to the committee but must replace them afterwards.

Mobile telephones and computers should be turned to silent.

All evidence taken by this committee is protected by parliamentary privilege. Comments repeated outside this hearing may not be protected by this privilege.

Witnesses will be provided with a proof version of the transcript to check. Verified transcripts, presentations and handouts will be placed on the committee's website as soon as possible.

We welcome Minister Pearson, on this occasion in your capacity as Assistant Treasurer, and officers from your department. We invite you to make an opening statement, and this will be followed by questions from the committee. Thank you.

**Mr NEWBURY:** Chair, on a point of order.

**The CHAIR:** Yes?

**Mr NEWBURY:** I seek an urgent meeting with the committee at the most convenient possible time to discuss the witness list on Friday.

**The CHAIR:** Okay, well, that is not really a point of order, but we can deal with that at the appropriate time. We have before us the Assistant Treasurer, and I have just invited the Assistant Treasurer to make a presentation, so we will come back to your issue in a private meeting.

**Mr NEWBURY:** Terrific. Thank you, Chair.

**The CHAIR:** Minister?

**Visual presentation.**

**Mr PEARSON:** Thank you, Chair. To begin with, I would like to acknowledge the traditional owners of the land on which we are meeting, and I pay my respects to elders past, present and emerging and the Aboriginal elders from other communities who may be with us today as well as other First Nations people.

As you would be aware, chapter 2 of budget paper 3 contains departmental performance statements, and these statements outline the outputs that each department is responsible for and their associated performance measures. As Victoria has now come out of the coronavirus lockdown of last year, the performance targets in this year's budget are reflective of a business-as-usual approach. As a government, we need strong financial frameworks to underpin our financial operations and decision-making. These frameworks support the delivery of vital services and infrastructure to Victorians. An important part of my role involves ensuring that our framework remains up to date and supports good financial management; for example, through the standing directions I recently extended application of the resource management framework to entities which receive their own annual appropriations.

As a government we are also looking to reform and improve our approach to financial management. We are reviewing performance measures and looking for improvements that could be implemented in the 2022–23 budget. We are also looking at other financial reform opportunities to improve transparency and accountability. The first of these reforms, being the removal of the capital assets charge, or CAC, has been implemented in the 2021–22 budget.

The government continues to improve the quality and efficiency of services delivered across the public sector through its shared service provider, or SSP. This includes aggregating the buying power of the SSP's client base to drive value through available scaled benefits. The centralised accommodation management program announced as part of the 2019–20 savings initiatives confirms SSP's responsibility for whole-of-government office accommodation management and gives greater oversight and ability to deliver improved accommodation management outcomes and efficiencies. Real estate and facilities management services are delivered in partnership with provider Jones Lang LaSalle as part of a six-year contract that commenced in 2017. Services include a range of office accommodation management services, including facilities, real estate, project and security management. Improvements in aggregation of services across the public sector are expected to deliver greater benefits and greater value to the SSP's clients. These are reflected in the SSP's performance measures including cost savings, vacancy rates and efficient use of workspaces.

Under the *Financial Management Act 1994* the Assistant Treasurer is responsible for and has oversight of whole-of-government goods and services procurement. This is driven through the strategic sourcing group within the Department of Treasury and Finance. The Assistant Treasurer is also the minister responsible for public construction procurement under the *Project Development and Construction Management Act 1994*. The strategic sourcing group function supports the Victorian Government Purchasing Board established under the FMA to provide policy advice, oversight and compliance functions to mandated entities; the delivery and management of 17 non-ICT goods and services categories of state purchase contracts to achieve value-for-money outcomes; and the delivery of whole-of-government fleet management services.

To support Victoria's economic recovery the 2020–21 budget provided funding for procurement-related bids to further leverage our purchasing power and to support cohorts most affected by the pandemic. One of these is the expanded procurement reform. The expanded procurement reform maximising value from the government's procurement spend has assumed savings of \$36 million per annum from year four and ongoing. The savings are based on utilising technology to collect, aggregate and classify departments' procurement expenditure data. This will enable DTF to identify opportunities to establish new, and strengthen existing, state purchase contracts. This is important as state purchase contracts deliver many benefits, including assured continuity of supply and service; efficiency gains with terms and conditions already negotiated, which take into account risk mitigation, supply due diligence, serviceability and contract performance; ability to negotiate continuous improvement; and increased accountability and governance through monitoring and reporting to the lead agency.

Moreover, the government will continue to improve governance and oversight arrangements across the public sector as additional entities transition to the VGPB goods and services policy framework. About 150 additional entities are expected to commence transition on 1 July of this year. The VGPB goods and services policies aim to deliver efficiencies through good governance and accountability, maximising benefit of strategic procurement planning, early and thorough market engagement to maximise value for money, high standards of probity and transparency, and increased focus on procurement capability.

Another element of the 2020–21 budget is to support coronavirus recovery through procurement. Funding has been provided to better leverage the government procurement spend to create employment and training

opportunities and members of the community most disadvantaged during the coronavirus pandemic, in particular women and young people. The initial focus of the program has been in the establishment of a compliance function to support these commitments.

Turning now to the VMIA, as you would probably be aware, the VMIA is the state's insurer and provides contemporary fit-for-purpose insurance to protect the state. The VMIA can also be directed by government to step into failing markets. For example, the VMIA has been providing domestic building insurance since the market failed in 2010. VMIA is a provider of modern insurance solutions, but it behaves in a manner quite different to its commercial counterparts. The 2019–20 summer bushfires were devastating and the associated loss assessment process complex. To allow recovery works to get going as quickly as possible to assist communities in the rebuild, the VMIA worked with its clients to release funds as quickly as possible. For example, the VMIA made early payments to Parks Victoria to assist with immediate clearing work. The VMIA's insurance response to COVID-19 included the development of bespoke insurance products to cover communicable disease exposures that the market would not provide. For example, VMIA is providing insurance for the hotel quarantine program. VMIA also developed an app that allows virtual inspection of homes subject to a domestic building claim to occur. This meant home owners' claims were progressed despite restrictions to manage the spread of COVID-19.

VMIA is also supporting policy work across government. The building surveyor pathway program is a joint venture between the VMIA, the VBA—the Victorian Building Authority—and Domestic Building Dispute Resolution Victoria. The program provides a grad program type experience, exposing candidates to these key government agencies involved in the domestic building framework. Given the anticipated shortage of quality building inspectors and surveyors, this program is critical to ensuring we have an appropriately skilled workforce going forward. In collaboration with the Department of Environment, Land, Water and Planning, VMIA created resources to assist in addressing climate change risks. The resources will assist all decision-makers in an organisation to understand how to approach climate change risks. VMIA and the Department of Premier and Cabinet have developed a benchmark program so Victorian government entities can self-assess their cybersecurity maturity. The cyber maturity benchmark will enable departments and agencies to assess their current baseline cyber controls, identify areas of focus and support targeted strategies to increase maturity.

Recently actuaries Finity completed an assessment of matters that materially affect the overall financial sustainability of the VMIA. The assessment confirmed there may be headwinds ahead, including the low interest rate environment where achieving long-term investment targets may be relatively more difficult and a relatively more uncertain financial outlook due to COVID-19 and related economic stimulus that could be distorting the normal historical trends, particularly in relation to domestic builders insurance and medical indemnity. Finity found VMIA is in good shape and has a strong commitment to maintaining financial discipline to ensure long-term sustainability, and this is reflected in the VMIA's preferred insurance funding ratio. In 2019–20 VMIA maintained its solid financial position. So this chart shows overall net result and PFIO. PFIO stands for performance from insurance operations, and it in many ways is a more informative measure. PFIO is a measure of underlying insurance profitability, and it is calculated by removing the effects of external factors from the overall net result, such as the extent to which actual investment returns differ from an insurer's long-term investment return objective—that is, any investment loss or gain relative to the expected return is removed from an insurer's operating result when deriving PFIO such that PFIO only includes the expected investment returns; the impact of changes in the inflation and discount rates that are used to value claims liabilities; and legislative changes and government-directed changes, such as dividend payments to the state.

For the financial year ended 30 June 2020 the VMIA recorded a performance for insurance operations deficit of \$180.1 million, and this was \$214.5 million less than the budgeted surplus of \$34.4 million. PFIO is a financial measure of the state's insurance system that attempts to broadly reflect the VMIA's underwriting performance and is heavily influenced by claims volatility.

**The CHAIR:** Thank you very much, Minister. I will pass to the Deputy Chair, Mr Riordan.

**Mr RIORDAN:** Thank you, Chair. Welcome, Minister and Assistant Treasurer team. Just a first question. I refer to your presentation, Minister, where you said after the lockdowns from last year your department is now taking a business-as-usual approach. How do you think that sits, considering we are back in what seems an unending lockdown again at the moment? Should Victorians have confidence or this Parliament have

confidence that you are just operating as business as usual when there are still thousands of businesses with their doors closed and rampant uncertainty in the community?

**Mr PEARSON:** Well, I think that what is different this year to last year is that last year was a protracted lockdown, as you would expect, because we needed to fight the virus first and foremost, and what we are currently experiencing now is a much shorter lockdown, and I think that has been reflected by the relaxation of restrictions progressively over recent times.

**Mr RIORDAN:** When you walk out the front doors here at Spring Street and see everything still closed and trams empty and no-one about, do you think Victorians are viewing it as a short, sharp lockdown?

**Mr PEARSON:** Well, I think, Deputy Chair, what I mean by that is that we have seen restrictions lifted progressively in recent times. We had that initial lockdown period, which to begin with probably was not dissimilar to the longer lockdown we experienced last year. But certainly I think if you look at the settings currently, people have got the capacity to go to work if they need to, which was not the case last year.

**Mr RIORDAN:** There are a lot of businesses that still cannot open, Assistant Treasurer. You do acknowledge that, don't you?

**Mr PEARSON:** Well, we are all bound to follow the directions of the Chief Health Officer, Deputy Chair, and as a consequence of that the Chief Health Officer has made recommendations and determinations in relation to what we need to do to fight the virus. Yes, without a doubt, this is a really challenging and difficult time for many Victorians.

**Mr RIORDAN:** So it is not business as usual for a lot of Victorians at the moment, is it?

**Mr PEARSON:** No, I think in relation to my presentation what I was referring to was that the circumstances which we find ourselves in now, in that longer term trajectory of the upcoming financial year, so 2021–22, are that it will be more of a business-as-usual approach as—

**Mr RIORDAN:** So are you ruling out—I mean, you are on the little cabinet of eight. Are you saying that we are not going to see any more lockdowns this year?

**Mr PEARSON:** Well, Deputy Chair, I am not quite sure how that relates to my portfolio responsibilities as the Assistant Treasurer.

**Mr RIORDAN:** Well, the Assistant Treasurer said it is business as usual this year. Business as usual—I think to most Victorians and this Parliament—certainly does not mean we are locking everyone up every 5 minutes, so are you ruling out any more lockdowns?

**Mr PEARSON:** Well, we will always follow the advice of public health officials.

**Mr RIORDAN:** Okay. Minister, budget paper 3 on page 360 gives the government's level of major state capital projects. Why has the number of high-value, high-risk plans gone from 14 in 2021 to six in this budget?

**Mr PEARSON:** Deputy Chair, I am not responsible for managing that framework. I think that fits more within the responsibility of the Treasurer.

**Mr RIORDAN:** So you have nothing to do with the high-value, high-risk projects?

**Mr PEARSON:** No, Deputy Chair. In relation to the management of that framework, that is a matter for the Treasurer.

**Mr RIORDAN:** Right. Are you responsible then for full business and investment cases for the Suburban Rail Loop project?

**Mr PEARSON:** No, I am not.

**Mr RIORDAN:** You are not responsible for those. Are you responsible for market-led proposals that come to the government?

**Mr PEARSON:** No, I am not.

**Mr RIORDAN:** You are not responsible for those. Minister, the Victorian government's risk management framework has been updated and will come into effect from 1 July 2021. How much will it cost to implement these changes—or are you not responsible for that either?

**Mr PEARSON:** No, risk management fits within my role in the context of managing these issues. I mean, I think what we have tried to do with our risk management framework is—the risk management framework sets out those mandatory requirements that departments and agencies must meet to manage risk and their insurance arrangements. The revised framework was finalised in August of last year, and as you have indicated, Deputy Chair, it does come into operation as of 1 July of this year. I mean, we would expect all departments and agencies to adhere to that framework and be responsive to that framework. In relation to whether we have done any modelling of additional costs in relation to compliance, I might see if the Secretary can add to it. But I would imagine, Deputy Chair, that on these—

**Mr RIORDAN:** Just on that, Minister, I do not actually want you to imagine the answer. We are in a very risky and difficult time at the moment. Risk management, I think, this Parliament assumes this government is well on top of—you know, have you got an answer? Is your new framework going to cost more money?

**Mr PEARSON:** Before throwing to the Secretary—

**Mr RIORDAN:** I would have thought that you would be up on that.

**Mr PEARSON:** Well, what I was going to say, Deputy Chair, was if you look at some of the standing directions that I issue as Assistant Treasurer, which are regularly updated, the expectation is that departments and agencies respond to those directions accordingly and update their systems and processes to reflect that, and that would be funded through their normal operations. That would be my understanding and expectation—

**Mr RIORDAN:** So is your answer: 'It is not costing us more to update this'?

**Mr PEARSON:** My understanding would be—and I will throw to the secretary in a moment—that in relation to compliance costs in relation to the risk management framework that departments would need to incur, that would be funded I would imagine through their normal business's usual operations, in the same way that whenever we update—

**Mr RIORDAN:** Well, it may be funded; I am wanting to know if it is costing us more. So Mr Martine—

**The CHAIR:** Mr Riordan—

**Mr RIORDAN:** The minister is struggling to answer this. Can you answer it for us?

**The CHAIR:** Mr Riordan, I think the minister is being interrupted by yourself. If you could allow him and the secretary to complete the answer, that would be appreciated.

**Mr RIORDAN:** I am now asking the secretary. Thanks.

**Mr MARTINE:** Thanks, Deputy Chair. The intent of a good risk management framework is actually to do the reverse than to cost more—it is actually to better manage risks to reduce costs that you might incur further down the track. So as the minister indicated, the actual costs incurred by departments and agencies in implementing the framework would just be met within your normal departmental allocations, and they would be considered pretty marginal. But the more important point is using the framework to better manage risks and therefore minimise future costs is really the intent of a good risk management framework.

**Mr RIORDAN:** Okay. Mr Martine, can you tell us, given the stringent risk management framework that you are overseeing: why are we continuing to see billions of dollars of taxpayers money wasted on the blowouts in the various major projects that the state is undertaking?

**Mr MARTINE:** Well, Deputy Chair, as you would probably realise, the issues around infrastructure projects are really the responsibility of the minister for transport or the minister for infrastructure.

**Mr RIORDAN:** But the money has got to come from you.

**Mr MARTINE:** The money—and the Treasurer has responsibilities at our end, rather than the Assistant Treasurer, on capital.

**The CHAIR:** Thank you, Secretary. I will pass to Mr Maas.

**Mr MAAS:** Thank you, Chair. Thank you, Assistant Treasurer, and thank you, departmental Treasury team, for your attendance this morning. Assistant Treasurer, if I could take you to the topic of the construction supply register, and I will refer you to budget paper 3, chapter 2, and the tables on pages 122 and 126. What is referred to there as a part of the budget is that the government is providing \$5.2 million in output funding and \$1 million in asset funding to boost efficiency in infrastructure procurement by resourcing the construction supplier as well as the residential cladding rectification register. I was hoping that you would be able to inform the committee about the construction supply register and what it does.

**Mr PEARSON:** Thank you, Mr Maas. Look, the construction supply register is Victoria's open public construction pre-qualification register approved for whole-of-government use. So suppliers registered on the CSR have been assessed and approved as pre-qualified, having demonstrated their expertise and capability in their categories of works and services. So that might be in construction work itself—so head contractors, demolition contractors—and construction-related services such as architects, engineers and surveyors. Each supplier is rigorously assessed against transparent and nationally accepted criteria, including financial capacity, occupational health and safety management, experienced licensing and registration, and past performance. Based on this assessment suppliers are allocated to categories based on their capability and work experience, and these categories cover the different types of public infrastructure; for example, a new build, fit-out, demolition. Suppliers are also assessed based on their financial capacity and allocated maximum project limits within which they can operate, and that is the size of the projects the supplier has the financial capacity to successfully deliver. Victorian government departments and delivery agencies in the role of government purchasers access information on the construction supply register to identify and short-list suitably qualified suppliers to submit competitive offers, reducing the cost and time burden associated with tendering for out-of-construction work.

So I think this is a really important observation, Mr Maas, because by having that pre-qualification in place we can quickly look at engaging those companies to do that work rather than having to go out repeatedly to the market. I think for business as well it is important that it de-risks some of these projects. The fact is that they are on the panel so they do not have to keep using their own internal resources to bid for each individual project: they go through that pre-qualification process, they are on the panel and they can be used. This assurance helps delivery agencies to better manage the project risk based on centralised intelligence regarding the capability and capacity of suppliers to successfully deliver projects on behalf of government. These are really important steps, Mr Maas, to de-risk some of these projects and to provide a level of certainty to the private sector that they can get appointed to these panels and they can start to do that work.

**Mr MAAS:** Thank you. So if the construction supplier register has been given that additional funding, I am just interested to know what the problem is. What is actually being addressed with that additional funding?

**Mr PEARSON:** This is about continuing to expand the supplier register and continuing to provide opportunities for businesses to bid accordingly, and it is about enabling businesses to be able to really look at expanding that work. I mean, I think that if you look at the government at the moment, we are spending in the order of, on average, around about \$13 billion to \$14 billion a year in terms of construction, so it is a very big spend and it is essential to try and provide a bit of fiscal stimulus into the economy to inflate the economy. This will continue to support that good work and make sure that business has got that level of confidence and the ability to engage in these processes.

**Mr MAAS:** Thank you. If I could take you to the residential cladding rectification register, the budget initiatives are also about that. Could you please explain a bit about what that is and how it is a bit different from the construction supplier register?

**Mr PEARSON:** Thank you, Mr Maas. The residential cladding rectification register was established back in 2019, and that was to support the government's \$600 million cladding rectification program for private residential buildings, which is administered by Cladding Safety Victoria. So this sits squarely within the

responsibility of the Minister for Planning, but I support him through having carriage of the residential cladding rectification register, which, like the construction supplier register, is administered by the infrastructure delivery group within the Department of Treasury and Finance.

So the residential cladding rectification register is an open register of suppliers that have been assessed and prequalified as having demonstrated expertise and capability in cladding rectification works and related services. Like the CSR, the residential cladding rectification register provides the assurance that each registered supplier has the appropriate accreditation, licences, experience, financial capacity and capabilities to deliver on the contracted project outcomes. I think this is a really important observation, Mr Maas, because in setting up this scheme we absolutely need to make sure that if you are removing cladding, you are replacing it with a non-flammable material, that it is work done to a high standard and that you really de-risk the project. So that is, I think, a really important point to make.

The residential cladding rectification register is set up to reinforce public safety and industry accountability in the program, and to achieve this the register includes a requirement that a supplier has not been part of designing or installing non-compliant combustible cladding on the same residential building on which rectification work is undertaken. As of 1 January this year the register had 298 suppliers who had been prequalified to rectify combustible cladding on private residential buildings. After the initial peak in supplier accreditations to establish the register, the residential cladding rectification register averages around about 25 new applications per month.

**Mr MAAS:** So is it really just about increasing the capacity—about boosting capacity?

**Mr PEARSON:** Yes, well, look, prior to the decision in this budget there was no funding to support the residential cladding rectification register beyond June 2021. Even though the residential cladding rectification program is not scheduled to be completed until at least June 2024, it will most likely go beyond that date, so in this budget we have been providing funding for the ongoing operation of the residential cladding rectification register from annual appropriations, including funding for staff to complete this important work.

**Mr MAAS:** Thank you.

**The CHAIR:** Thank you, Mr Maas. Thank you, Minister. Mr O'Brien—sorry, Mr Limbrick. My apologies.

**Mr LIMBRICK:** Thank you, Chair. I was confused for a moment. Thank you, Minister and team, for appearing today. I would like to start with a couple of questions about procurement and what is happening there. You would be familiar with some reporting and concerns about forced labour in supply chains. What is the government doing to ensure that the supply chains of people on the register are not tainted by forced labour?

**Mr PEARSON:** Let me start off by saying, Mr Limbrick, that this government of course condemns forced labour and modern slavery in all of its forms. I think your question goes to comments published in the *Age* yesterday about the HCMT project, so in my—

**Mr LIMBRICK:** I am speaking more generally, though.

**Mr PEARSON:** More generally?

**Mr LIMBRICK:** Yes.

**Mr PEARSON:** Okay. If it is in relation to the trains, that would be obviously a question best directed towards the Minister for Transport Infrastructure, but what I can say is my responsibilities for procurement are more for that whole-of-Victorian-government policy perspective, so in this vein let me say that the Victorian government of course expects and requires that all our suppliers comply with all the relevant laws, rules and regulations, and in addition to this, the government expects all of its suppliers to comply with the supplier code of conduct. This code is a set of minimum standards of ethical behaviour for suppliers to the Victorian government. This was implemented back in 2017 and was revised in July of 2019 to explicitly address the issues of modern slavery.

In relation to this code of conduct, we have set a range of expectations across a range of areas, including integrity; ethics in conduct; conflicts of interest; gifts, benefits and hospitality; corporate governance; labour and human rights; health and safety; and environmental management. The code also includes expectations that

suppliers proactively identify, address and, where required by legislation, report on the risks of modern slavery practices, defined broadly to include all forms of human trafficking, forced labour and slave-like practices in their business operations and supply chains.

This is a non-negotiable issue for us as a purchaser, and we are really clear that we are not going to reward such appalling behaviour through our contracts and our procurement processes, Mr Limbrick.

**Mr LIMBRICK:** Thank you, Minister. I understand that there are these contracts in place, you know, requiring ethical behaviour of the supplier that the government deals with. From my understanding of where these problems arise, it is far further down the supply chain—often it is not the company that you are dealing with. And therefore, I would imagine, for the government to be confident that they are fulfilling their obligations under the modern slavery provisions and other contracts, you would need to have some sort of visibility of that supply chain or some sort of audit of that supply chain or something to ensure that the company that you are dealing with, their supply chain is not tainted. What sort of controls or auditing or transparency of the supply chain does the government actually have of the suppliers that it is dealing with, or does just have a contract with that particular company and that particular company says, ‘Yes, I’m doing everything right’, but you would need to look deeper, right? That is what I am getting at.

**Mr PEARSON:** Yes, and I appreciate the question, Mr Limbrick. From my perspective as the Assistant Treasurer, my responsibility is about setting the right policies and getting the framework established. I suppose in one term, and I might get the Secretary to supplement my answer, I think my job is to really set the ballpark, you know. That is the remit: that is what is in and what is out and what is permissible and what is not. Individual line ministers then go about running their own tender processes and their own procurement processes. It is probably more at that layer down, where individual line ministers have that contractual relationship with that contractor, that those questions around compliance and enforcement sit. So I think for me it is more about trying to make sure, you know, what is permissible, what do we think is fair and reasonable behaviour, and setting those policy expectations of businesses that wish to tender for government business. As you start to look at individual line agencies or individual departments and agencies engaging with a contractor, that sort of more detailed approach about what is happening in your business, what is happening within your supply chains, that is more an issue for the line minister rather than me at a central level setting the policy and getting those policy settings right.

I might see if the Secretary might want to supplement that answer just to provide a bit more clarity to you, Mr Limbrick.

**Mr MARTINE:** Thanks, Minister. I guess the only additional point I would add is the supplier code of conduct does put the onus on businesses to look at the supply chain, their supply chain, to ensure that they are meeting the requirements that we set about integrity, ethics, conduct, conflict of interest, labour, human rights—those sorts of things. Obviously the best time to do that is at the contracting stage. I cannot really comment on particular contracts, but in dealing with these issues, particularly at the supply chain end, that is the time to sort it out as best you can using the supplier code of conduct requirements.

**Mr LIMBRICK:** Thank you, but surely there must be some sort of auditing of that. A supplier can sign a code of conduct, but surely there must be some sort of auditing. Or if you are in charge of setting policy framework, you would expect the ministers who are responsible for that area to conduct some sort of transparency or look at what is happening in the underlying supply chain. How do we know that these supply chains are not tainted? It seems like it is a big issue.

**Mr PEARSON:** Mr Limbrick, again I think that a lot of that work tends to be more done with the individual ministers themselves. That tends to be more their focus. But it is a good point that you raise, and one of the areas I am interested in in relation to social procurement is about making sure that if a business says that they are going to achieve certain social procurement outcomes it actually is followed through and it is delivered down the line through the subcontractors, because we are trying from a procurement perspective to look at achieving value for money for the taxpayer. We want things to be run efficiently and effectively, but we also want to make sure that our policy aspirations are being met by our contractors and suppliers. If I flip it round another way, there was a Somali Australian who I met who was a civil engineer, and he just said, ‘I can’t get a job, because every time I put my real name down on the application form, I don’t get a call back’. This

gentleman ended up working on our Big Build, and he has got some fantastic experiences that will last him for life. So it is really important.

**The CHAIR:** Thank you, Mr Limbrick. Now I will call Mr O'Brien, thank you.

**Mr D O'BRIEN:** Thank you, Chair. Good morning, Assistant Treasurer and team. Minister, budget paper 5, page 21, shows that you are projecting to rip \$217 million out of the Treasury Corporation of Victoria for the forward estimates. What impact will this have on TCV's ability to protect the financial interests of Victoria?

**Mr PEARSON:** Thank you, Mr O'Brien. TCV does not sit within my remit, my policy responsibility. That is a matter for the Treasurer. Those questions around dividends and capital repatriations again are decisions made by the Treasurer and not by me.

**Mr D O'BRIEN:** What do you have responsibility for, Assistant Treasurer?

**Mr PEARSON:** Well, I am happy to go back over my presentation again to refresh you, Mr O'Brien.

**Mr Riordan** interjected.

**The CHAIR:** Mr Riordan.

**Mr D O'BRIEN:** Are you responsible for the Victorian Funds Management Corporation?

**Mr PEARSON:** That is a matter for the Treasurer, Mr O'Brien.

**Mr D O'BRIEN:** In relation to your overall responsibility for the state's financial accountability framework—and I note in your presentation you talked about transparency of information and efficiency—in the 2019–20 financial year the CEO of the Victorian Funds Management Corporation was paid more than \$1 million. How many other Victorian public sector executives are paid more than \$1 million?

**Mr PEARSON:** Again, the VFMC falls within the responsibility of the Treasurer, not with me, and so in relation to those questions about remuneration I could only provide a guess, Mr O'Brien.

**Mr RIORDAN:** Not responsible.

**Mr NEWBURY:** Not responsible.

**The CHAIR:** Mr Riordan, Mr Newbury, the minister is here to answer questions in relation to his portfolio.

**Mr Newbury** interjected.

**The CHAIR:** Mr Newbury, you have had an opportunity to ask questions of the Treasurer. This is an opportunity to ask relevant questions of the Assistant Treasurer, and I would ask that Mr O'Brien have the call, not Mr Newbury, not Mr Riordan.

**Mr D O'BRIEN:** Again, Assistant Treasurer, with your primary responsibility for the state's financial and accountability framework, how can the government justify paying one public servant \$1 million given the carnage to business, particularly small business, over the past 18 months?

**Mr PEARSON:** I think that from a government's perspective the setting of a CEO's salary would normally be determined by the board and that would be communicated through to the responsible minister. In this particular case I am not the responsible minister in relation to the payment of those salaries. That would be a matter for the Treasurer.

**Mr D O'BRIEN:** On process then, Secretary, can I confirm that that is the case—that salaries for TCV and the Victorian Funds Management Corporation are set by a board?

**Mr MARTINE:** That is correct. Just a point of clarification: the number you are referring to may relate to the chief investment officer, not the CEO.

**Mr D O'BRIEN:** Right. Well, I am going on the—

**Mr RIORDAN:** It will be more.

**Mr D O'BRIEN:** Yes. I am going on the annual report. You may well be right, Secretary. Because it is the annual report, naturally it does not say who it is, but it is—

**Mr MARTINE:** Then I suspect the number you are referring to is the chief investment officer. That number, if you pull out annual reports going back for 10, 15 years, is not an unusual number that you see in that annual report, the most recent annual report.

**Mr D O'BRIEN:** So they have been paid more than \$1 million for some time. Is that what you are saying?

**Mr MARTINE:** That would be correct.

**Mr D O'BRIEN:** Are there any other public servants, including in the VFMC, that are paid over a million dollars?

**Mr MARTINE:** Sorry, at VFMC?

**Mr D O'BRIEN:** Public servants generally, including at VFMC.

**Mr MARTINE:** I do not personally monitor public sector pay—that is set by others—but I can comment on that particular one.

**Mr D O'BRIEN:** Right. Okay. Minister, are you responsible for dividend and grant payments specifically in relation to TAC?

**Mr PEARSON:** In relation to the determination of whether a dividend is paid or a grant is paid, that is the responsibility of the Treasurer.

**Mr D O'BRIEN:** Right. Do you have any responsibility for the TAC?

**Mr PEARSON:** In relation to both TAC and WorkSafe I share responsibility with the relevant ministers in relation to budget and financial management.

**Mr D O'BRIEN:** Okay. So in terms of financial management then, TAC is going to cough up \$2.35 billion over the forward estimates under this government's budget. How can you be assured in your discussions with the relevant minister that TAC will be able to continue to do the work that it does in keeping Victorians safe and reducing the road toll when the government is ripping \$2.35 billion out of its forecasts?

**Mr PEARSON:** I think probably the way to respond to that comes down to looking at the insurance funding ratio. So that is a ratio just to work out in terms of the financial viability of the entity in question. So in relation to the TAC, if we look at the insurance funding ratio for 2021 it is 146.2 per cent, for 2021–22 it is 140.3 per cent, for 2022–23 it is 134.9 per cent, for 2023–24 it is 129.8 per cent and for 2024–25 it is 124.9 per cent. So the key here is to make sure that it sits up above over 100 per cent, and as a consequence of that we have got that well of confidence that we can make those dividend payments from the—

**Mr D O'BRIEN:** Minister, the question, though, was about the TAC being able to do its job. Why aren't we spending this money on doing more to reduce the road toll, fixing the debacle with booze buses and doing more to improve our roads if there is all this money that can be ripped out of TAC?

**Mr PEARSON:** Mr O'Brien, I do not think it is a binary proposition. I think that governments of all persuasions have been able to seek and obtain a dividend or a grant from these public financial companies, and that has been custom and practice, I think, on both sides of politics for many, many years.

**Mr D O'BRIEN:** Okay. Can I perhaps come at it from a different angle, then? If the funding ratio is fine, if it is fine how much we are spending on road safety, then therefore Victorians are paying—their third-party insurance on their car rego effectively—an excess tax to this government of \$2.35 billion over the next four years. It is one or the other: either TAC is actually doing enough to look after road safety—it is covering its insurance requirements—or it is an extra tax on Victorians. And why wouldn't you be reducing the burden on Victorian motorists, particularly given the difficult last 18 months?

**Mr PEARSON:** Well, on these questions, Mr O'Brien, I think that every budget is a moment in time, and you make a determination in relation to the financial health of an entity. And I think that it is about trying to get that balance right. It is about trying to make sure that you have got sufficient revenue in. You have obviously got to rely on actuarial advice in terms of where you think your claims are going to. I think that we get the balance right here.

**The CHAIR:** Thank you, Mr O'Brien. Ms Richards.

**Ms RICHARDS:** Thank you, Assistant Treasurer and officials, for your time here this morning. I am going to take you to budget paper 3, and in chapter 2 for many of the output costs they are reported both inclusive and exclusive of the capital asset charge. So I am going to start by drawing your attention to page 352 of budget paper 3, and it shows the outputs for budget and financial advice provided by the department, by your department, as Assistant Treasurer, the Department of Treasury and Finance. There is a target total output cost for 2021–22 of \$36.8 million, or \$37 million when we include the capital asset charge. So we are told in the footnote there on page 352 for this and many of the other tables that 'The CAC'—the capital asset charge—is discontinued from the 2021–22 Budget'. I am interested in understanding, first of all, whether that falls within your responsibility as Assistant Treasurer, and if so, if you could explain to the Public Accounts and Estimates Committee what the capital asset charge is and why the government has chosen to discontinue it.

**Mr PEARSON:** Yes, thank you, Ms Richards. It is something I am really proud of, actually. This capital asset charge has been around for a very long time, and it has not really been doing particularly much, I think. And I think, for me, trying to find those opportunities to modernise, to update and to reform our budget papers is something I am really interested in. I really want to try and find ways where we can improve the efficiency and the effectiveness.

So the capital asset charge actually came out of a recommendation from the Victorian commission of audit in May 1993. It was commissioned by the Kennett government, and I think Bob Officer was the author. He said:

A capital charge based on the Government's cost of capital, should be levied on all existing capital assets to allocate the cost of using capital to operating agencies. At the same time, operating agencies must be given discretion to sell or find alternative uses for the capital assets owned by them.

So what it was trying to do, as a policy, was to really put the onus on departments to say, 'Well, do you really need these assets?', as a way of trying to encourage them to free up those assets. Now, what happened and the way in which it was operationalised was in the *Budget Performance and Outlook* of 1994–95, and I think at that stage the then Minister for Finance would have been Mr Riordan's predecessor's predecessor. It would have been Ian Smith who did that. I think he was still in the cabinet when this was done, and so that said that:

As announced in the *Autumn Economic Statement 1994*, a departmental capital charge is to apply to all departments from the 1994–95 financial year, in order to distribute part of the centrally-funded annual cost of capital to departments. This is to be an interim arrangement—

you know, an interim arrangement, and this was in 1994, and we have still got the thing—

applying only in the 1994–95 and 1995–96 financial years, pending the completion of asset registers for the introduction of accrual reporting by all departments in 1996–97. A comprehensive charging scheme, based on departmental balance sheets, will then be introduced.

It is interesting to note too, I think, that poor Bob Officer started the process whereby we abandoned cash accounting and we started adopting accrual accounting. So I think aficionados would probably argue that we do not necessarily have true accrual accounting today, but nonetheless the books are written in a more aggressive and modern way now than was the case.

In addition to that, it was said by I believe it would have been Mr Smith:

Although departmental outlays will increase by an amount equal to the capital charge, there will be no net change in budget outlays as a result of the change. In 1994–95, Departmental global budgets will be fully compensated for the effect of the charge with departmental planning estimates and net appropriations adjusted accordingly.

This budget addition will be ongoing and will ensure that no department's service delivery or building program in 1994–95 is adversely affected. In 1995–96, the arrangement will be that the capital charge for outlays to provide new or improved services will be fully compensated to departments, but they will be expected to meet the capital charge for outlays intended to provide them with internal efficiency gains.

So really the idea was the sense that the CAC would demonstrate the opportunity cost of utilising government assets and incentivise departments to increase the performance of their asset base. But in reality what happened was that in many a case departments were funded in the budget for their CAC expense because they could not necessarily release those assets. So it did not ultimately affect or change the behaviour of departments because effectively it became a round robin—you know, the department would levy the capital asset charge against a department, those funds would be provided to the Consolidated Fund and then the DTF would provide a top-up back to the department. It is a bit anachronistic.

I understand what the former government was trying to do, but the reality is it has just been an accounting exercise for well over 20 years, and I think that, for me, this is an important step because you want to try and make sure that the budget papers are modernised and reflective and then reflect good accounting practice. The budget papers regularly take into account the changes in relation to policy decisions made or determinations made by the Australian Accounting Standards Board. You would have seen in last year's budget paper the implementation of AASB 15 in relation to financial leases—I think it is 15 or 16—

**Mr DRISCOLL:** Sixteen.

**Mr PEARSON:** Sixteen—AASB 16—to reflect the cost of entering into financial leases. I think really this is about making sure that we continue to drive those efficiencies and that we make sure that the budget papers reflect what is good custom and practice, Ms Richards.

**Ms RICHARDS:** It is terrific to have aficionados entered into Hansard and having us have this opportunity at this committee. In your presentation you noted that government procurement is part of your portfolio, and I am assuming that procurement includes procurement of electricity. I am interested in the short time you have if you could tell me a bit about what the government is doing to reduce emissions from the government energy use.

**Mr PEARSON:** Thanks, Ms Richards. Look, the government has, say, purchased contracts for electricity—I think there are actually three. Health Purchasing Victoria has its own procurement of electricity, and that is responsible to the Minister for Health. I have got two contracts, so there are two electricity SVCs based upon size—or related I think to usage actually, I should say. So they relate to more than 13 000 sites, including Metro Trains, Yarra Trams, schools, police stations and departments and have an approximate average annual load of 1300 gigawatt hours. Really what we are trying to do is we have the first tranche and now we have recently gone out to market for a second tranche, and the idea is that we want to try and make sure that we have 100 per cent renewal electricity for all government operations by 2025.

**The CHAIR:** Thank you. Thank you, Ms Richards. Mr Hibbins.

**Mr HIBBINS:** Thanks, Chair. Thank you, Minister, Secretary and your team for appearing this morning. Now, you are responsible for the government fleet. In budget paper 3, page 125, there is a new initiative in terms of funding provided to encourage zero emission vehicles. Can you provide some further detail in terms of that initiative: the types of EVs—electric vehicles—that you are going to purchase and the number—

**Mr PEARSON:** Sure.

**Mr HIBBINS:** and then further details in terms of where any associated infrastructure would be installed? Yes, if you can provide those details to the committee.

**Mr PEARSON:** Certainly, Mr Hibbins. Thank you for your question. It might be useful just to provide a bit of background in terms of the current state of play, and I know that you asked this question when we last caught up last year. As of 31 March this year VicFleet managed a total of 11 324 active vehicles. The fleet included 2052 hybrid vehicles, which is one of the largest government hybrid vehicle fleets in Australia. We have got 33 plug-in hybrid vehicles and five electric vehicles. So what we have outlined in this budget is 400 vehicles in the fleet will be replaced by electric vehicles by 2023. Of this funding, \$15 million will be focused on procurement and specifically for VicFleet to support the replacement of 400 vehicles with zero-emission vehicles and to coordinate the associated infrastructure upgrades program across the general government sector's government-owned and leased buildings.

So what we are doing at the moment is we have commissioned a zero-emissions vehicle strategy to examine how best to place ZEVs within the government fleet and to look at all options as we transition that fleet to zero-emissions vehicles. So I think really for us at this stage it is about trying to make sure that we have got the policy intent, that we are providing funding to realise that, and, as you would appreciate, there will be that need to step your way through and put the infrastructure in place to enable that and then we will have to start the process of the actual procurement of those vehicles. So it is an important initiative. I think it builds on our strong legacy of having one of the largest hybrid vehicle government fleets in the country, and this is a really exciting next-step initiative.

**Mr HIBBINS:** So you have not made any decisions about what type, what models the EVs will be or where the infrastructure will be based?

**Mr PEARSON:** Mr Hibbins, the funding for this will flow from 1 July, so it is for the 2021–22 financial year as I understand it. We will need to do that work about trying to work out where you would put the infrastructure, where you think the take-up would be, what sorts of vehicles you would be looking at, who would be the typical user of those vehicles. So we have got a bit of work in front of us to step our way through it, but I think the important thing to note and the thing I am proud of is the fact that we have started this step, we have started this journey and we have started to make these investments so that we can start to roll it out. I am just looking at the funding profile, because that might assist—

**Mr HIBBINS:** No. I can see it; I can read it.

**Mr PEARSON:** Yes, so there are—

**Mr HIBBINS:** Sorry, I can read the funding profile. Are you thinking it is going to be specific to a certain department or a certain building, the infrastructure, or are you going to spread this across the whole of government?

**Mr PEARSON:** Well, I think we will work with VicFleet on that. I mean, I think that you would probably want to—I am always mindful, Mr Hibbins, when people decree from on high that it should be in a certain way. I think there is a need to try and engage with departments and agencies about what their uses might be and what their requirements might be. I think it would be reasonable to argue that some departments might have a greater appetite or interest than others, and geographically there might be a dollar—

**Mr HIBBINS:** So a work in progress.

**Mr PEARSON:** It is a work in progress, yes.

**Mr HIBBINS:** Previously I asked about the emissions for the entire government fleet, and you seemed to indicate that that was not something that the department or yourselves kept. But the reality is that that information is actually passed on from the shared service provider to each individual department and published through their annual reports. Do you see the emissions as one of your core responsibilities? Is that one of the key performance indicators of managing the government fleet?

**Mr PEARSON:** So you are referring to specifically that VicFleet measures the emissions for individual vehicles allocated to different departments and provides that back to departments. Is that your contention?

**Mr HIBBINS:** Correct.

**Mr PEARSON:** I might need to seek some advice on that. I mean, I did not think there was that capacity or ability for us to make that level of granular assessment on individual vehicle use, Mr Hibbins. I mean, my sense would be that you would have a situation where you could estimate—I mean, you could estimate, I suppose—

**Mr HIBBINS:** My understanding is that the shared service provider provides that information to government departments and it is published within their annual reports. But notwithstanding that, is one of the key performance indicators or measures of managing the government fleet the total emissions from the fleet? Is that part of your responsibilities?

**Mr PEARSON:** I think the way I would answer it would be to think about VicFleet as being run efficiently and effectively, and I think that that would cover a range of issues, Mr Hibbins. I think it would come to the

cost of the fleet, I think it would come to the maintenance, I think it would come to fuel costs, and I think therefore you could extrapolate from that that emissions would form part of that. As I was reflecting on it, I do not think our data collection at this stage is to the state where we could go to an individual vehicle and model its individual emissions, and then you would aggregate that up and then pass that on to departments. I do not think we are there yet in terms of having that level of data insight. I think we would have an ability to potentially look at, 'Well, this department's got 1000 vehicles. This department spent X on fuel last year. Extrapolating from that we would assume that this department had this amount of emissions'. You could make a guesstimate—

**Mr HIBBINS:** I appreciate that. Give me the breakdown in terms of EVs and hybrids and plug-ins. Do you have a breakdown of vehicles by emission standard across the fleet? Perhaps you can take that on notice.

**Mr PEARSON:** Well, I mean, as I indicated we have got 2052 hybrid vehicles, 33—

**Mr HIBBINS:** When I say emission standards, I mean we are looking at, I think, the general global figure of, say, your EU5, EU4, standards. I mean, I am happy for you to take this on notice, but I am looking at emission standards for fuel vehicles across the entire fleet.

**Mr PEARSON:** Yes. Well, I suppose what I would say—I mean I am just trying to indicate that if you have got a bit over 11 000 vehicles, 2000 of which are hybrids and the like, of those remaining 9000, they would all be new vehicles. Therefore their standards in terms of emissions would be higher, because newer cars are just more efficient and effective. But look, if I can provide any additional information on that for you, Mr Hibbins, I am happy to look at doing so.

**Mr HIBBINS:** Thanks.

**The CHAIR:** Thank you, Mr Hibbins. Ms Taylor.

**Ms TAYLOR:** Thank you, Assistant Treasurer, department officials. Keeping on the theme of energy, will the Victorian renewable energy target 2 auction get us all the way to 100 per cent—you can see I am excited about this. I cannot wait for the answer, actually.

**Mr PEARSON:** Thank you, Ms Taylor. So we have recently committed to having 100 per cent renewable energy for government operations by 2025. This builds on \$59.9 million that was allocated in last year's budget for the Greener Government Buildings program, which, again, is about trying to drive those efficiencies across our footprint.

So as I have indicated previously, state purchasing contracts are within my responsibility, and these are centralised whole-of-government contracts through each department and agencies buying common goods and services. I think it is important that you can actually use your buying power effectively to try and get good outcomes. I think that for the private sector, if you cannot give them certainty and you cannot give them volume, it is very hard for them to be able to give you a price or to give you the service that you are seeking.

So just in relation to state purchase contracts more broadly, these cover a range of services, but the ICT goods and services is actually managed by DPC, not DTF, and legal services sits with the Attorney-General. But in relation to the two SPCs, as I was indicating to Ms Richards, they cover 13 000 sites, they have got an annual load of about 1300 gigawatt hours—we are a pretty heavy user of electricity—and in 2019–20 we spent in the order of \$275 million on electricity across those two purchase contracts. That does not include the contract that Health Purchasing Victoria has. What we are looking at doing is to be able to provide a bit more certainty to the market around what we are trying to achieve. The energy sector is the largest single source of Victoria's greenhouse gas emissions, and it accounted for about 70 per cent of the state's total emissions in 2019. What we want to try and do is to find a way where we can go out to the market. We have recently gone out for a second VRET auction, which is to ensure that we can have 100 per cent renewable energy for all government operations by 2025. We undertook the first VRET auction back in 2017, and the VRET 1 auction was the largest ever reverse auction held in Australia. A reverse auction is where you have got one buyer and you have got multiple sellers. In that particular case we brought forward six wind and solar farms across Victoria to deliver 928 megawatts of new renewable electricity capacity and also underpinned about \$1.1 billion in investment Victoria.

So what we are looking at doing is to now look at VRET 2, and VRET 2 will present the opportunity to go back out into the market to say, 'We want to purchase more energy. We want to purchase more renewable energy', and to have the private sector bid accordingly. We are investing about \$12.6 million to fund the design and delivery of that. It is expected to bring online at least 600 megawatt hours of new renewable energy capacity, which is enough to power Victorian public hospitals, schools, Melbourne's train network and a range of other government infrastructure. So we have come a long way in a short period of time is the other point I would make, Ms Taylor. You know, I will be hopeful and confident that by us going out into the marketplace and saying, 'Well, we want to look at having a bulk purchase of renewables', that will give the private sector some degree of confidence to bid. I think that then we can look at bringing more renewables on stream and that we can try and then be in a position where, come 2025, all of our operations are being powered by renewable energy. I think that is something to be really proud of. I mean, we have to tackle climate change.

**Ms TAYLOR:** Excellent. I could not agree more. You mentioned earlier regarding the second focus of the pledge, which is managing energy demand. Could you explain, in relation to your portfolio, how that is happening?

**Mr PEARSON:** In terms of managing energy demand?

**Ms TAYLOR:** Yes.

**Mr PEARSON:** Yes. I think in terms of managing energy demand it is about making sure that we are not just taking steps to ensure that energy is coming from renewable sources but we are also taking steps to reduce the amount of energy we are using in the first place. I mean, this obviously has the dual benefits of reducing the use of our non-renewable electricity but also it is going to reduce our power bills as well, so it is something that I think is really important. Again, it is going to support more jobs in the green economy and support the economic recovery.

An example of that is the Greener Government Buildings program, which was established by the Brumby government back in 2009. What it looks at doing is trying to invest in government buildings to reduce their energy use, and thereby emissions and operating costs, and creating more jobs. It is about trying to get as much bang for your buck as possible and focusing on the most cost-effective greenhouse gas emission abatement technologies. That might be, for example, putting LED lighting into a building. You know, LEDs are expensive, but they have got a much longer life span and they significantly reduce greenhouse gas emissions. So certainly energy-efficient lighting upgrades are an area of focus for us as well as installing solar panels; looking at more energy-efficient heating, ventilation and cooling; and building automation and controls, which are about automating and improving the timing and management of heating, ventilation, cooling and other systems that can affect the amount of energy used in government. It is about really trying to find the way in which you can make sure these buildings are reducing their carbon footprint but you are also saving money for the taxpayer. Since 2009, just in relation to the Greener Government Buildings program, we have cut government greenhouse gas emissions by around about 5.5 per cent, and that has led to ongoing savings of more than \$25 million every year through reduced expenditure on energy and maintenance. So we allocated that \$59.9 million in November last year. We are budgeting to have \$5 million spent this current financial year, increasing to \$19 million next financial year and then \$15 million and \$12 million over the following two years. We are also looking at establishing a revolving fund, whereby the savings achieved from each program can be reinvested in the program and then used to fund new projects. That way it becomes almost self-sustaining in driving those efficiencies.

**Ms TAYLOR:** Excellent. Thank you.

**Mr PEARSON:** Thanks.

**The CHAIR:** Thank you, Ms Taylor. Mr Newbury.

**Mr NEWBURY:** Thank you, Chair. Secretary, earlier the Assistant Treasurer referred to the current lockdown and described it as, quote, 'not dissimilar' to last year's lockdown. Do you agree with the Assistant Treasurer's assessment?

**Mr PEARSON:** Sorry, on a point of order—

**Mr NEWBURY:** I asked the Secretary a question, and I directly quoted you.

**Mr PEARSON:** No, hang on. I think you have heard—

**Mr NEWBURY:** You may not like being quoted, but you were quoted.

**The CHAIR:** Mr Newbury!

**Mr PEARSON:** I think, Mr Newbury, I did not say it was not dissimilar—

**Mr NEWBURY:** But those were the exact words.

**The CHAIR:** Mr Newbury, if the minister could speak, please.

**Mr PEARSON:** Sorry, I think the context I was trying to say was that because last year was an extended stage 4 lockdown, what we have seen over this lockdown is not like that. Yes, certainly in that first week we had a stage 4 lockdown, but you cannot characterise this—

**Mr NEWBURY:** Assistant Treasurer—

**The CHAIR:** Mr Newbury!

**Mr NEWBURY:** Chair, you are trying to protect the Assistant Treasurer, but your job is not to protect your Labor colleagues.

**The CHAIR:** Mr Newbury, if you could conduct yourself with respect, please, and not speak over the top of the Chair.

**Mr Newbury** interjected.

**The CHAIR:** Mr Newbury, you are continuing to speak over the Chair when the Chair is talking, and that is not respectful.

**Mr Newbury** interjected.

**The CHAIR:** Mr Newbury, the minister is trying to clarify. You put words in the minister's mouth.

**Mr NEWBURY:** I did not. I used the minister's words.

**The CHAIR:** Mr Newbury, we can go back to Hansard when Hansard is available and check.

**Mr Newbury** interjected.

**The CHAIR:** Mr Newbury, if you could allow me to finish, please. The minister has every right to correct a proposition that is put to him by you. If you want to put a proposition to the minister, the minister has the right to correct it.

**Mr NEWBURY:** He absolutely has the right—

**The CHAIR:** So if you could allow him to do that.

**Mr PEARSON:** I was just trying to provide that clarification and context, Chair. As the member knows, he is certainly entitled to ask the Secretary a question if he wishes, but I was just trying to provide that context.

**The CHAIR:** Thank you. And I would ask the member not to put words in witnesses mouths.

**Mr NEWBURY:** Sorry, I think referring to the minister's own words is entirely within my remit. Secretary, referring to the Assistant Treasurer's own words, which were that the current lockdown, quote, is 'not dissimilar' to last year. Do you agree, Secretary, with the words that came out of the Assistant Treasurer's mouth only several minutes ago?

**The CHAIR:** Mr Newbury, it is not your role to put words in the mouths of witnesses. The Hansard record will speak for itself. You can ask questions. It is not your role to put—

**Mr NEWBURY:** I think politicising your role is not within your remit. Secretary, would you mind answering my question?

**The CHAIR:** Mr Newbury, you have been extremely rude. If you could stop putting words in witnesses mouths and ask questions and allow them to answer them, that would be appreciated.

**Mr NEWBURY:** I am perfectly entitled to refer to Hansard. Secretary, would you mind answering my question?

**The CHAIR:** Well, we do not yet have the Hansard available. You are—

**Mr NEWBURY:** If you did not take notes, that is your issue. Secretary, would you mind answering my question?

**The CHAIR:** Mr Newbury, you are being extremely rude.

**Mr NEWBURY:** You are politicising your role. It is clear for all to see. We have got an Assistant Treasurer who has got no remit today—he is not responsible for anything—and now you are politicising your role to stop answering the question. He made a mistake. He had a moment of honesty. I know it was a weakness from him. But, Secretary, would you mind answering the question?

**The CHAIR:** Mr Newbury, if politicising my role is asking you to be respectful of the Chair, then I make no apologies for it. You are being extremely rude, speaking over the top of both the witnesses and me, and you are putting words in the mouths of the witnesses.

**Mr NEWBURY:** No, I am using their own words.

**The CHAIR:** Mr Newbury, you are interrupting me again. If you would allow the minister and the Secretary to answer the proposition rather than tell them what the answer is, then that would be appreciated.

**Mr NEWBURY:** You are wasting my time. Secretary, would you mind answering my question?

**Mr MAAS:** Chair, if I could raise a point of order—

**The CHAIR:** Thank you, Mr Maas.

**Mr MAAS:** The point of order I would like to raise is that the question is completely out of the scope of this inquiry. We are here for an inquiry into the budget estimates. The comment that was provided by the Assistant Treasurer was in relation to something that fell within that scope. What Mr Newbury is attempting to do is to separate it from the scope and to ask another member of the committee, and on that basis I would seek that the question not be allowed.

**The CHAIR:** Would anyone else like to contribute on the point of order? No? I uphold the point of order. I think Mr Maas is exactly right, and I would ask Mr Newbury to respectfully put a question to the witnesses that is within the scope of this inquiry.

**Mr NEWBURY:** Secretary, I refer you to the testimony earlier, quote, from the Assistant Treasurer that the lockdown, quote, was ‘not dissimilar to last year’s’. Do you have—

**The CHAIR:** Mr Newbury, I have already ruled your question out of order.

**Mr NEWBURY:** I am perfectly entitled to refer to the specific words that the Assistant Treasurer used.

**The CHAIR:** Mr Newbury, I have—

**Mr NEWBURY:** This is a farce.

**The CHAIR:** Mr Newbury, if you could allow me to speak without interrupting, please.

**Mr NEWBURY:** You have—there is—

**The CHAIR:** No? You are not going to allow me to speak without interrupting?

**Mr NEWBURY:** Please.

**The CHAIR:** Thank you. Mr Maas has taken a point of order in relation to your question. I invited other people to submit on the point of order; nobody else did. I upheld Mr Maas's point of order. As such, your question is out of order, and I ask you to put a question that is within scope to the witnesses.

**Mr NEWBURY:** And I am perfectly entitled to ask a different question and rephrase that question.

**The CHAIR:** Well, ask a different question, but you did not ask a different—

**Mr NEWBURY:** Excuse me, I am perfectly—

**The CHAIR:** Mr Newbury!

**Mr NEWBURY:** This is a farce. If he made a mistake in a moment of weakness, that is fine, a moment of honesty. We all know what you said. You said that the lockdown currently is not dissimilar to last year.

**The CHAIR:** Mr Newbury, you are out of order. Your question has been ruled out of order.

**Mr NEWBURY:** I have asked—

**The CHAIR:** I ask that you put a new question within the scope of this inquiry, which is an inquiry into the budget estimates.

**Mr NEWBURY:** Secretary, I refer you to specific language that was used earlier and ask within the scope of the budget, the impact on the budget: noting the Assistant Treasurer's role and responsibilities, including risk management, do you have a view on the current lockdown not being dissimilar to last year?

**Mr MARTINE:** Thanks for your question, and I am more than happy to talk about issues in the context of the Assistant Treasurer's portfolio. The Assistant Treasurer made a reference in his presentation to a standard year, which prompted the Deputy Chair's question. The reference that the Assistant Treasurer was talking about in the context of a standard year is outlined on page 145 of budget paper 3, which is in reference to how we handle performance measures in this particular year. So rather than adjust them for COVID impacts, we treat the performance measures as standard, what you would expect in a standard year, and then outcomes are measured against those, which is why you will see in this budget and probably even in the next year's budget a number of performance measures that do not meet their target because of the impact of COVID. This is the reference that the Assistant Treasurer made in the context of his portfolio in his presentation about a standard year.

**Mr NEWBURY:** Thank you, Secretary. In relation to budget paper 2, page 8, where it talks about risks to the budget of increased—effectively we are talking about debt and the risks to the budget of the debt and the ownership of that debt. Can I ask: have you provided any advice to the Assistant Treasurer on the current ownership of Victoria's debt, noting that 26 per cent of it is owned by overseas interests?

**Mr MARTINE:** That particular issue, debt, is a portfolio responsibility of the Treasurer, not the Assistant Treasurer.

**Mr NEWBURY:** Secretary, I note the budget paper specifically says that there is a risk in the current profile, and risk management is completely within the Assistant Treasurer's remit; it is on your own website. Are you suggesting that risk management frameworks are not in the Assistant Treasurer's responsibility?

**Mr MARTINE:** The risk management framework is within the responsibility of the Assistant Treasurer, but particular risks about any issue across government are the responsibility of the relevant minister, and in this case it is the Treasurer.

**The CHAIR:** Thank you, Mr Newbury. Mr Richardson.

**Mr RICHARDSON:** Thank you, Chair. We will take a different approach. Rather than the question and answer on what is responsible and what shadow ministers should have prepared this morning and the aggression, we will tone it down a bit and go to procurement reform and programs.

**Mr NEWBURY:** Why don't you read out the talking points?

**Mr RICHARDSON:** Well, when you get into government you can read out whatever points and questions you choose to do, Mr Newbury, as you have with the shadow ministers this morning.

I want to take you to the primary question here around this procurement reform program, Assistant Treasurer, and thank you to your team for joining us this morning. In your presentation you talked about the procurement reform program. I am wondering if you could explain for the committee's benefit a bit on what you were doing in the reform procurement space.

**Mr PEARSON:** Thank you, Mr Richardson. As I indicated previously, the Victorian public sector is a significant buyer of goods, services and construction. For example, in 2019–20 total procurement of goods and services was \$31 billion—\$19 billion of that was on goods and services and the balance was on infrastructure. In relation to infrastructure expenditure, that is rising to \$14.5 billion in the current financial year and is expected to average \$22.5 billion a year over the four years of the forward estimates.

So what we are trying to do is to streamline and simplify the procurement landscape for both buyers and suppliers, improving procurement technology and leveraging the government's \$30 billion-plus annual procurement spend to achieve greater value. So three years ago, as a part of the 2018–19 budget, two years of funding was provided for the first phase of the procurement reform program, and in the 2020–21 budget four more years of funding has been provided.

So over its first few years the procurement reform program was looking at things like the social procurement framework, three new procurement guides, a harmonisation framework to streamline goods and services and construction procurement, an e-procurement strategy and the Buying for Victoria website. The continued program of reforms will enable government to continue to extract greater value from its procurement spend and improve governance over procurement activities, including by utilising technology to collect, aggregate and classify departments' procurement-spend data, simplifying and streamlining government procurement processes for suppliers and providing creating greater visibility in the supply base by establishing the master supplier database.

We are also looking at providing ongoing web hosting and support and staff for the Buying for Victoria and the whole of Victorian government procurement website and a telephone line that provides a single source of support to both buyers and suppliers for all goods, services and construction related procurement. These are some really important initiatives to try and provide that ability to start to get better visibility of what departments are spending. I think that traditionally Victoria has had a more a devolved structure, and I think that using data, using technology, to have enhanced procurement processes and to really understand why departments might be spending more or less on a particular item is really important. I think it is going to improve our overall efficiency.

We are also going to be looking at expanding the goods and services supply policy framework to cover all departments and agencies subject to the standing directions of the *Financial Management Act 1994*, and this will provide greater oversight, improved governance over government procurement and the potential to extract greater savings from procurement by leveraging the government's buying power as well. And we will continue to support the implementation of the social procurement framework across Victoria, noting that ongoing support through particular cohorts through the social procurement framework, such as women and young people, will be a really important step in that recovery process. There is this great book called *Why Nations Fail*. Nations fail when you have got exclusive economic institutions and exclusive political institutions. I think it is finding ways to ensure that people have the opportunity to not just get employed by the government or work on a government contract but to develop life-changing transformational skills, like the Somali Australian civil engineer who I got to know—those skills will last a lifetime. They might only work on a project for a few years, but it gives them a chance.

We have got to try and make sure that we use the opportunity of this spend and leverage this spend to make sure that disadvantaged cohorts have the opportunity to participate and to be able to start to find those

opportunities to develop some meaningful skills that will last them the rest of their working life. It is really important work, but you have got to send a signal, and you got have the right framework in place to ensure that occurs. Otherwise it is just a race to the bottom in terms of being purely focused around price. Now, price is an important factor—make no mistake—but when you are looking at the sort of investment that we are making, the opportunity it provides disadvantaged cohorts to be able to get a look-in and get a chance to participate I think is really important, Mr Richardson.

**Mr RICHARDSON:** I have seen that benefit on the level crossing removal projects and the Mordi freeway—substantially—and it makes a massive difference to people’s lives and outcomes. Assistant Treasurer, I want to take you to what you mentioned around technology and the better use of it to collect better data on procurement. Are you able to expand, for the committee’s benefit, on the opportunities these improvements have in that area?

**Mr PEARSON:** Yes. Thank you, Mr Richardson. I think this is about trying to get a better picture and a bigger picture in our understanding in terms of what goods, services and construction is being procured. I think when you have got that old story—you know, garbage in, garbage out—if you have got poor data coming in, it will lead to poor decision-making on the other side, or imperfect decision-making. What we are trying to address is, for example, missed savings opportunities. So departments and agencies are likely to be purchasing the same or similar goods and services and construction items at different prices, and I think that where we can try and start to signal a more consistent approach, that helps.

I think also too New Zealand does this very well. New Zealand actually won an award from Oxford University for being the best public sector procurement organisation in the world. New Zealand is very similar to us; they have got a devolved system of government and they have got a budget of a similar size. What they have tended to do is have really good, robust information-sharing processes and data-sharing processes so that if you and I are purchasing officers—you are in department A, I am in department B, and you have just gone out and landed a deal—there is the ability for me to say, ‘Well, how did you structure your tender? How much did it cost? What were the benefits? How are they going as a supplier?’. And it might mean that that can then inform what I do, or it might be that I try to piggyback off your contract.

So technology is really important. I mean the reality is that, you know, digital is here to stay, and digital presents a really great opportunity for us to start to look at driving those internal efficiencies and those reforms, and having that level of transparency where there is that visibility across departments and agencies I think is really important. I think this is in line with some findings that VAGO made. VAGO found that different departments are paying different prices to purchase equipment, goods and services, so being in a position where you are able to have this visibility I think is really important.

**Mr RICHARDSON:** Thank you.

**The CHAIR:** Thank you, Mr Richardson, and thank you, Assistant Treasurer. That concludes the time we have available for consideration with you today of the assistant treasury portfolio. The committee will follow up on any questions taken on notice in writing, and responses will be required within 10 working days of the committee’s request. The committee will take a short 15-minute break before resuming with you for consideration of your regulatory reform portfolio. Thank you.

**Witnesses withdrew.**