

Questions taken on notice and further information agreed to be supplied at the hearings

Portfolio:	Assistant Treasurer
Witness:	Mr SCOTT
Committee member:	Mr RIORDAN
Page/s of transcript:	6,7

Relevant text:

Mr RIORDAN: Budget paper 5, page 23, notes \$890 million is to be paid as part of a grant revenue from the TAC, and \$982 million in 20–21 and \$1 billion in 21–22, so \$2.8 billion will be coming out of the TAC. Minister, given the latest annual report of the TAC shows on page 40 that the TAC is, by some accounting recollections, almost trading while insolvent, with a total negative equity of \$433 million, on what basis is an \$890 million payment in 2019–20 being made?

Mr SCOTT: Okay. I would refer you to budget paper 2, page 72, where it is very detailed, but I am happy to take the committee through it at some length because I think it is a very important subject matter that you have raised. I have raised—and you were not a member of this committee—on a number of occasions the issue of the anomalies which were created by the discount rate used to calculate assets versus liabilities in relation to the Transport Accident Commission for other entities, other insurers, within the Victorian public sector, because this is actually an important matter.

The accounting standard that you refer to uses as a discount rate effectively the commonwealth bond rate most analogous, if my memory serves me correctly, to the average period of liabilities, which is around the 10-year bond rate, and that is sort of in the order of 2.5 per cent. Whereas the Transport Accident Commission holds a very different mix of assets from solely holding government bonds, and there is a different calculation which is undertaken by government, which is the economic funding ratio. So there is an anomaly created, and we are going through a period of a historically low interest rate. In fact, without getting too arcane, by some measurements the interest rates at the moment across the world are the lowest in human history. What this creates is an anomaly. This is a very important point. The assets held by the Transport Accident Commission have in the last 10 years earned a return of I think it was 8.8 per cent of that order—

Mr RIORDAN: Quite simply, Minister, we do not need the history on—

Mr SCOTT: But we do need to understand the issue. There has been a decision made—

Mr RIORDAN: Yes, but what these members of the committee want to know is that everything that you are doing by taking those substantial increase in funds complies with all laws and standards.

Mr SCOTT: It certainly complies with laws. The accounting standards—

Mr RIORDAN: And accounting standards?

Mr SCOTT: Let me just talk around the issue because actually there is a very good exposition—

Mr RIORDAN: So that is not a yes to accounting standards?

Mr SCOTT: Well, it complies with accounting standards because they are reported in terms of our reportage, but the accounting standard creates a significant anomaly because the discount rate that is used to determine the liabilities in relation to assets is going to likely over time—in fact it has previously and will into the future—almost certainly produce different results than the assets that are held.

Mr RIORDAN: Minister, we have got limited time, and there are some more important questions.

Mr SCOTT: But this is actually a very important question, and our asset—

Mr RIORDAN: We will take on notice your long accounting sense—

Mr SCOTT: There is actually a good exposition of this issue on page 72, but I am happy to speak to it.

Mr RIORDAN: Okay, we will take that on notice as to what standards have been changed.

Answer:

No standards have changed. The LFS stated that it would be the Government's policy to calculate target funding ratios for the State insurers using an actuarial estimate of the long-term returns of invested funds minus a conservative bias. As a result, a new measure which uses long-term investment returns (as opposed to the current measure which uses long-term Commonwealth government bond yields) to value claims liabilities will underlie the assessment of an insurer's financial position.

On this basis, the insurers have been assessed as holding capital in excess of what is required to fund claims liabilities and a decision was made to use this surplus capital to fund priority projects.

The Treasurer then has the power to declare a payment to the State under the TAC enabling legislation.

Portfolio:	Assistant Treasurer
Witness:	Mr SCOTT
Committee member:	Mr HIBBINS
Page of transcript:	9, 10

Relevant text:

Mr HIBBINS: One of the parts is that government departments need to prepare a social procurement strategy. Has that occurred or how many have actually achieved that?

Mr SCOTT: on notice about the progress in relation to that.

Mr HIBBINS: are you able to provide the committee with information in terms of what is the actual value of procurement set to take place over the next financial year and over the next budget?

Mr SCOTT: I would take that question on notice in its detail because obviously I do not have that information available to me

Mr HIBBINS: Any information in terms of the value, the size, the nature of the social outcomes that are set to be targeted from those particular contracts to the committee—that would be appreciated.

Answer:

The requirement for departments and agencies to develop a Social Procurement Strategy is being phased in over a 12-month period. All departments and several agencies have submitted a draft strategy for review by the Department of Treasury and Finance. Remaining agencies are expected to submit a draft strategy by 1 September 2019.

In 2017-18, the Victorian Government spent approximately \$17 billion on goods and services to support service delivery and operations and approximately \$12 billion on infrastructure.

The Social Procurement Framework is subject to annual reporting, with the first reporting period ending on 30 June 2019.

Portfolio:	Assistant Treasurer
Witness:	Mr SCOTT
Committee member:	Mr HIBBINS
Page of transcript:	11

Relevant text:

Mr HIBBINS: I wanted to turn to the government fleet, the vehicle fleet. Do you measure emissions from the government fleet? Is that reported?

Mr SCOTT: There is certainly measurement of emissions in relation to a range of government activities within departments and agencies. It is not particularly my direct area, that aspect of it. In terms of my responsibilities—it would sit under some other ministers as well, so it is not principally my area of responsibility in terms—

Mr HIBBINS: The government fleet—

Mr SCOTT: No, the government fleet is, but in terms of the climate change response. But there is some measurement of government vehicles. I will say a couple of things: there is measurement of government carbon dioxide emissions undertaken across departments. That said, there certainly is—

Mr HIBBINS: Well, it would be good to get information about just the level of carbon emissions from the government fleet.

Mr SCOTT: I will again endeavour to provide you some information. I would say that we have had a focus on the procurement of hybrid vehicles. Victoria has 1636 hybrid vehicles, which is the largest government hybrid fleet in Australia.

Answer:

The VicFleet passenger vehicle fleet emits an average of 163 grams of CO₂ per km travelled.

Average grams of CO₂ per km travelled is based on laboratory testing by vehicle manufacturers. Data on total emissions is not held by the Department of Treasury and Finance.

Hybrid vehicles make up 23 per cent of the VicFleet passenger vehicle fleet. The passenger vehicle fleet excludes light commercial vehicles and motorcycles which are not available as electric or hybrid.

Portfolio:	Assistant Treasurer
Witness:	Mr SCOTT
Committee member:	Mr HIBBINS
Page of transcript:	11

Relevant text:

Mr SCOTT: There is criteria that is used on the standard motor vehicle policy, which is not exactly as you have outlined, Mr Hibbins, which is high safety ratings, particularly in relation to the pedestrian ratings, auto emergency braking and a range of others—but there is also cost—requiring certain number of safety features. There is also—

Mr HIBBINS: So there is a range of measures.

Mr SCOTT: But there are requirements on agencies in relation to four-cylinder vehicles as well, which is another aspect of it.

Mr HIBBINS: why isn't it just par for the course to have a hybrid fleet, if that suits and if they can meet the needs?

Answer:

Departments and agencies are required to purchase vehicles from the Approved Vehicle List which is drawn from contracted suppliers, and determined by safety, value for money and environmental performance.

All contracted hybrid or electric vehicles that meet the safety requirements are included on the Approved Vehicle List.

The total fleet of 9 519 motor vehicles includes, trucks, buses, motorcycles, light commercial vehicles, station wagons and police vehicles.

Currently there are 14 hybrid and electric vehicles available on the Approved Vehicle List in the small and medium passenger sedan categories, and one plug in hybrid wagon. These vehicles do not meet all operational transport requirements. However, hybrid vehicles represent 16 per cent of the total fleet, and 23 per cent of the total passenger vehicle fleet. This number is expected grow as the range of hybrid vehicles increases.

Portfolio:	Assistant Treasurer
Witness:	Mr SCOTT
Committee member:	Ms VALLENCE
Page of transcript:	19,20

Relevant text:

Ms VALLENCE: why did the VicFleet number increase substantially in the 2018–19 period—the volume of vehicles? And also just a corollary to that: which departments and agencies were those additional vehicles acquired for?

Mr SCOTT: I might come back to you with some of the detail. I can provide some information though. There have been some changes in relation to how vehicles are financed and whether they are owned by VicFleet or leased—and I will check on the detail, but this may be part of the explanation—because the state of Victoria can obtain finance effectively at a cheaper rate than car leasing arrangements. So there was a decision made to effectively own more vehicles. Whether that is exactly the issue that you are referring to I would have to check on notice, but that had been a decision made—though the timing of that should have occurred at an earlier juncture. **So I will take the detail of the question on notice.**

Ms VALLENCE: Okay. It would be good to know, then, what proportion of the total fleet is capitalised or owned and what is on lease. That can be taken on notice.

Mr SCOTT: Principally now there is very little leasing. There should be certainly less leasing than previously because there is a saving to the state, because the cost of capital to the state of raising funds is cheaper than, say, a private company would be able to source on the market. So there was an active decision made to effectively source—I can give you some general details, but in terms of the financing, there has been a process to bring that in-house. I can provide some further information—for example, there are 6514 passenger vehicles operational in the executive, 2908 commercial vehicles, 88 motorcycles and nine heavy vehicles. So I will seek to find—

Ms VALLENCE: Yes, take it on notice and which departments—

Mr SCOTT: Sorry, I may have confused you slightly. VicFleet in effect leases the vehicles to the organisation, is my answer. But I will provide some further information.

Ms VALLENCE: Yes. So which departments have those vehicles and the numbers of vehicles at each of the departments where the increase has been.

Answer:

The Standard Motor Vehicle Policy was amended in February 2017 and now applies to all General Government sector departments and agencies. New agencies, including public hospitals, TAFEs, fire services, Parks Victoria, VicRoads and the State Emergency Service, will progressively join the Finance Lease Facility over three years.

The motor vehicle fleet funded under the Finance Lease Facility grew by 657 vehicles over the last 12 months. In that time, 24 additional general government sector agencies added 258 vehicles, and additional growth included Victoria Police (121 vehicles), the Department of Health and Human Services (158 vehicles) and the Department of Education (88 vehicles).

Portfolio:	Assistant Treasurer
Witness:	Mr SCOTT
Committee member:	Mr MAAS
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Relevant text:

Mr MAAS: In terms of the social enterprises themselves, what has the response from social enterprises been with regard to the social procurement framework?

Mr SCOTT: I have to say there has been a very positive response, and members I am sure will have varying engagement with social enterprises. This is a sector where beyond the specific commercial purpose of the organisation there is a broader social purpose. The response has been very positive, because this is a really important government initiative where there is a focus on ensuring that there is a chance for social enterprises to have access to government procurement. While there has been engagement, particularly in terms of some of our larger construction projects, and the railway level crossing removal program is an example of where social enterprises, particularly disability social enterprises, have been heavily engaged—

The CHAIR: Minister, I am loath to interrupt you at that point, given that I believe the content of the answer is actually probably some of the most important material that you have presented us with. But I do look forward to you having the opportunity to provide that as a question on notice.

Answer:

Through a range of internal and external forums, the Victorian Government has received positive feedback and support from the social enterprise sector regarding the Social Procurement Framework. This is consistent with feedback provided by Government's social procurement partner, Social Traders, that there is an increase in both the number of certified social enterprises and opportunities for these enterprises to participate in government procurement. The extent to which social enterprises are participating in government procurement will be reported annually under the measurement and reporting framework.