

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Budget estimates 2020-21 (Pearson)

Melbourne—Tuesday, 1 December 2020

MEMBERS

Ms Lizzie Blandthorn—Chair

Mr Richard Riordan—Deputy Chair

Mr Sam Hibbins

Mr David Limbrick

Mr Gary Maas

Mr Danny O'Brien

Ms Pauline Richards

Mr Tim Richardson

Ms Nina Taylor

Ms Bridget Vallence

WITNESSES

Mr Danny Pearson, MP, Assistant Treasurer,

Mr David Martine, Secretary,

Ms Gayle Porthouse, Deputy Secretary, Corporate and Government Services Division, and

Mr Jamie Driscoll, Deputy Secretary, Budget and Finance Division, Department of Treasury and Finance.

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

I 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 this Inquiry into the 2020–21 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.

We ask that telephones 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 and your officials, some of whom have been with us all day—thank you—from the Department of Treasury and Finance. Minister, I invite you to make an opening statement of no more than 10 minutes. This will be followed by questions from the committee.

Mr PEARSON: Thank you, Chair. I am delighted to come before the Public Accounts and Estimates Committee today.

Visual presentation.

Mr PEARSON: I thought it might be useful just for the committee's benefit just to outline some of the primary responsibilities of the Assistant Treasurer's portfolio. Those of you who have been on the committee before probably have seen a slide similar to this when my predecessor held the position, but I thought it would be useful to give some sense in terms of the portfolio responsibilities which report through to me.

A lot of it is inward facing—so financial reporting and accountability, financial management, risk, the government fleet, procurement, landholding policies, superannuation policies, looking at government accommodation and shared service providers—as well as the VMIA, the Essential Services Commission from a governance perspective as well as the registrar of housing agencies.

Next slide please, David. 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 *Financial Management Act* 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.

Next slide please, David. A significant procurement reform program commenced in 2018 to simplify and streamline government procurement for buyers and suppliers, improve procurement technology and drive greater value for money. Significant achievements to date include developing and implementing the social procurement framework across all departments and agencies, supported by a measurement and reporting framework; developing an e-procurement strategy; launching the Buying for Victoria website and piloting a whole-of-government supplier portal; expanding procurement governance and oversight arrangements by bringing approximately 150 more public sector entities under the umbrella of the Victorian Government Purchasing Board's supply policy framework with compliance reporting required by 30 June 2022—this will be implemented through a scalable framework that aligns compliance requirements with an organisation's procurement risk and complexity profile; developing and implementing the guide to uniforms and personal protective equipment; developing a procurement capability framework; and developing a framework to encourage entities to harmonise their internal procurement arrangements for goods and services and construction procurement wherever the two policy frameworks overlap.

The 2020–21 budget provides funding of \$17.7 million to expand upon these achievements and enable government to continue to extract greater value from its procurement spend and improve procurement governance and oversight. This includes \$4 million in funding to better leverage the government's procurement spend through the social procurement framework to create employment and training opportunities for members of the community most disadvantaged by the coronavirus pandemic, in particular women and young people; implementing e-procurement systems to streamline procurement processes for suppliers and buyers, including the whole-of-government supplier portal and the procurement data analytics project—these will provide suppliers with a central system to maintain supplier information and empower government with data insight to drive better procurement decision-making and achieve procurement savings, such as establishing new state purchase contracts or reducing leakage from existing SPCs; continuing to implement the expansion of governance and oversight arrangements, including development of supporting materials, to support incoming entities to transition to the VGPB goods and services policy framework; and strengthening procurement capability and policy compliance across government.

Now, as I indicated at the outset, the whole-of-Victorian-government fleet management services fall within my portfolio, and the standard motor vehicle policy applies to passenger and light commercial vehicles up to 3.5 tonnes. Application of the standard motor vehicle policy was expanded to apply to all general government agencies in February 2018. Currently 78 per cent of general government agencies have transitioned to the new arrangements, and the fleet managed by VicFleet has increased from 8862 to 10 597 vehicles. The fleet is expected to increase to approximately 16 000 vehicles over the course of the next three years. Expanding the standard motor vehicle policy to apply to all general government agencies generates savings by providing greater visibility and centralised reporting, centralised core functions such as registration, purchasing and disposals and providing economies of scale that enable greater vehicle discounts.

The standard motor vehicle policy mandates the purchase of vehicles from an approved vehicle list, and the approved vehicles list is determined on safety, value for money and environmental performance. To encourage the take-up of low-emission vehicles the standard motor vehicle policy mandates the purchase of four-cylinder vehicles. Petrol vehicles have been removed from the approved vehicle list when the equivalent hybrid model has a lower whole-of-life cost, and the approved vehicle list includes all contracted hybrid, plug-in hybrid and electric vehicles. The AVL is reviewed quarterly and generates competitive tension between suppliers and greater discounts as the number of vehicles in each category is limited to a maximum of three vehicles. The AVL promotes the purchase of safer vehicles. In addition to a 5-star ANCAP rating, vehicles on the AVL must have a minimum of four of the safety features highly recommended in the SMVP.

The government continues to improve the quality and efficiency of services delivered through the public sector via its shared services provider. This includes aggregating the buying power of the shared services provider's client base to drive value through available scale benefits. Centralised accommodation management was announced in the 2019–20 budget and mandates that SSP is responsible for whole-of-Victorian-government accommodation strategies, policy and direction consistent with accommodation guidelines. In addition, SSP is responsible for managing whole-of-Victorian-government accommodation budgets, and the Victorian government offers accommodation leases on behalf of the Assistant Treasurer.

Real estate and facilities management services are delivered by outsource provider Jones Lang LaSalle under a six-year contract that commenced in 2017 to achieve savings over the life of the contract and standardise improvements in service delivery. Improvements and aggregation of services across the public sector are expected to deliver greater benefits and greater value to the shared services provider's clients. These are reflected in SSP performance measures, including cost savings, vacancy rates and efficient use of workplaces.

Departmental performance statements contained in chapter 2 of budget paper 3 provide information relating to outputs and performance measures, and it is expected that government services will be significantly impacted by the coronavirus pandemic in 2020–21. Therefore the performance targets set for 2020–21 are reflective of performance of government services in a standard year, given the difficulties estimating accurate performance targets. In order to achieve a standard year performance targets have in most instances been rolled forward from 2019–20 to 2020–21. Where targets have been changed or measures have been updated it is due to either changes having been agreed prior to the onset of the coronavirus pandemic or alternatively new performance measures being added and targets being revised to reflect new budget initiatives in chapter 1 of budget paper 3. Where new measures have been added as a result of funding decisions in 2020–21 the targets have similarly been set at what would be considered a standard year.

Good financial management systems and practices underpin quality services and infrastructure for Victorians. New standing directions under the *Financial Management Act 1994* have been issued to authorise implementation of the new central banking system designed to improve cash management efficiency across the general government sector and are currently being amended to also include the public financial corporations and the public non-financial corporations. Revised standing directions have been issued to implement the government's election policy to make departmental chief finance officers responsible to the Secretary of the Department of Treasury and Finance. This builds on expanded accountabilities to support whole-of-government financial objectives and decision-making and the principles of sound financial management.

The Department of Treasury and Finance released the resource management framework to replace the budget operations and performance management frameworks from 1 July 2019 and the financial operations framework from 1 July 2020. This new combined framework implements more comprehensive, streamlined and consistent procedures for departmental planning, budgeting, service delivery and accountability. *Labor's Financial Statement* of 2018 committed to transparent and accountable expenditure of public money, and we will consider further financial management reform opportunities as part of the 2021–22 state budget.

The Essential Services Commission—

The CHAIR: Sorry to cut you off there, Minister, but the time for the presentation has expired, and I will pass to the Deputy Chair, Mr Richard Riordan, MP.

Mr PEARSON: Thank you.

Mr RIORDAN: Thank you, Chair. Assistant Treasurer, welcome to the other side of the table. First, I would like to talk about budget paper 4, page 21. It notes that in 2021–22 \$500 million is to be paid as part of grant revenue from the TAC, \$500 million in 2022–23 and \$500 million in 2023–24. The equivalent figures in last year's budget paper 5, page 23, were for 2019–20 at \$890 million, 2020–21 at \$982 million and for 2021–22 \$1 billion. The financial statements of the 2019–20 TAC show that for both the 2018–19 and 2019–20 financial years no dividends were actually paid. Can you tell us why?

Mr PEARSON: Thank you, Deputy Chair. So just for clarification, why no dividends were paid in 2019–20?

Mr RIORDAN: Yes. You have recorded them in the budgets, but they were not actually paid. Can you tell us why they were not paid?

Mr PEARSON: Probably at the outset I would say, from the government's perspective, we are committed to ensuring that all three insurers remain financially viable and are able to continue to deliver their services to the community. Their capacity to make proposed and future payments to the state are assessed on an annual basis or as required. The Treasurer has primary carriage for responsibility in relation to the payment of dividends or grants, and I might throw to Mr Martine in a moment, because he would have more line of sight in

terms of what has happened for the 2019–20 financial year. But under accounting standards it depends upon the status of the financial situation of the organisation. So under accounting standards, I think it is AASB—I will have to come back to you in terms of the precise number—

Mr MARTINE: 1023.

Mr PEARSON: 1023. It depends whether it is a dividend or a grant, depending on the status of the entity.

Mr RIORDAN: I guess the point I am getting to, before you perhaps can throw to Mr Martine, is these are vast sums of money that you are putting in the budget that are not coming to fruition. And you have done it again this year, and this year every penny counts. The state of Victoria is going into huge hock, and that hock is even going to be worse if considerable payments that you have put in are not going to come to fruition. What confidence can we have in this year's figures of these dividends that you are going to pay, when last year—when there was no coronavirus and we did not have bushfires—you could not do it. So why can we expect to see it this year?

Mr PEARSON: I will answer the question in two parts. The first issue is that we need to take an account of the circumstances we are operating under and to take into account the current environment we are in and to be mindful of the impact that, for example, the decline in the equities market might have in relation to the valuation of the current or non-current assets of a particular entity. We also have to give consideration to what we estimate to be the value of the liabilities in relation to those entities. In order to try and use a discount rate to value a liability, we need to give consideration to what we think the economic return of the assets will be and the economic value of those liabilities will be, discounted, in order to make a determination as to whether you can make a payment or not. So we are guided by the circumstances in which we find ourselves, Deputy Chair.

One thing I would say is that if you look at the 2019–20 financial year, I think there was approximately a \$1.1 billion downturn in the value of TAC's investments. I think it was in that order, and I think that was primarily driven by turmoil in the equities market. The market has responded quite well this current financial year, and we are modelling the fact that the state economy will grow by about 7.75 per cent in 2021–22. So I think that gives us some degree of confidence that with a strong economic rebound we will be in a stronger position.

Mr RIORDAN: Okay. Well, just continuing on this theme. In budget paper 3, page 376, you have got there, in relation to 'Performance measures', 'Dividend collection in accordance with budget decisions', 100 per cent achievement in all four columns. Given what we have been talking about—which is that we were hundreds of millions of dollars out last year and you have popped it in the budget again this year in what would clearly be a more uncertain year than last year—given these differences from the TAC, how can the 2019–20 actuals be at 100 per cent?

Mr PEARSON: As I indicated earlier, Deputy Chair, these matters are ultimately within the province of the Treasurer to make these decisions. I understand the Treasurer was with you earlier today, and I am unsure whether he has provided already an answer to you on this particular question. I might throw to Mr Martine.

Mr RIORDAN: Well, when you throw to Mr Martine, because he can hear that, I will just add one little point there, Mr Martine, that you might be able to answer for us. Given the latest annual report of the TAC shows on page 68 that the TAC continues to be insolvent, with a total negative equity of some \$4.5 billion, on what realistic basis have we got that the \$500 million has any hope of being paid this year?

Mr MARTINE: Okay. Thanks, Deputy Chair. There are a few questions and issues to cover, so perhaps I will start with your questions around budget paper 4, page 21. And, as you would recall, the 2019–20 budget was put together some time ago. So we are talking about May of 2019. In making decisions about payment of dividends or asking entities to pay dividends, you do not just think about what is financially achievable in that particular financial year; you also need to look at their future projections. So through the course of particularly this calendar year—the first part of this calendar year, where the global pandemic starts taking hold in March, equity markets fall et cetera—it is not an unremarkable thing for decisions to be made not to extract money out of these particular entities. So it can affect 2019–20 along with, as you would see on page 21 in that table, there is a series of dashes against WorkSafe, TAC and VMIA.

Mr RIORDAN: I guess the heart of my question is—you were really confident last year—I understand why you would be less confident this year, but you have still got some pretty sizeable dividends showing this year when last year, when it was generally better than this year, you could not.

Mr MARTINE: Well, you might, Deputy Chair, note that the dividends for this financial year are reasonably small in the table—in fact the bulk of it is the Treasury Corporation of Victoria. The footnote which makes reference to the TAC talks about the \$500 million being paid not this year but from 2021–22, which is consistent with the government’s election commitment as part of establishing the Delivering for All Victorians Infrastructure Fund.

The CHAIR: I am sorry to cut you off there, Secretary and Deputy Chair. The call is with Mr Gary Maas, MP.

Mr MAAS: Thank you, Chair, and thank you, Assistant Treasurer, for your appearance today. Assistant Treasurer, if I could take you to table 1.24 on page 141 of budget paper 3, it says that the government is making a total investment of \$59.9 million in the Greener Government Buildings initiative. I was hoping that you would be able to inform the committee why the government has determined to invest in this program.

Mr PEARSON: Thank you, Mr Maas, for your question. The government is committed to reducing our own carbon footprint and thereby reducing the carbon footprint for Victoria. This is a great program. It was established in 2009. It in fact was awarded a Premier’s Sustainability Award by Premier Baillieu I think back in 2011. Unfortunately it was discontinued in 2013 by the Napthine government. We are looking at making a further investment because it just makes sense. This sort of investment ensures that government buildings can be retrofitted with more energy-efficient equipment—LED lights, for example—and it saves money. So I think we are estimating that in terms of the benefit that will flow from this—if you look over the last 10 years, I should say, there has been about \$200 million of energy-efficiency improvements made to over 400 government buildings, and we expect that this investment will see a reduction of greenhouse gas emissions by approximately 5.5 per cent, and there are ongoing savings of around about \$25 million each year through reduced energy and maintenance expenditure. So effectively you invest the money, you encourage these buildings to be retrofitted, the savings they make effectively repay the loans and it can be reinvested for further advancement. So it is a really smart investment and it will significantly improve the energy efficiency of our underlying assets. I think also too, as the Assistant Treasurer and effectively the landlord of the government, these sorts of capital improvements significantly enhance the value of these assets as well. So on a number of levels it makes a lot of sense, and it is something that I am certainly really proud we have been able to do.

Mr MAAS: Thank you. What buildings are in scope for the current round of investment and what future benefits will arise from the self-sustaining model?

Mr PEARSON: Look, in the past we have done the MCG, we have done Federation Square, we have done MSAC, we have done a number of TAFE facilities as well, so they are some of the assets that have been retrofitted. We will be looking at doing this across a wide number of government buildings, Mr Maas. We will be looking at hospitals, schools, TAFEs, police stations, transport and other infrastructure. I think it is important when you have got a program that is quite efficient, quite effective, and that can drive real savings, it makes sense that you try and spread the benefits across a wide number of asset classes and a wide number of portfolios so that the benefits as they are generated and realised can be enjoyed and can be experienced by a number of different departments and entities. With this sort of investment it makes sense to try and spread it across a large number of entities. You would not necessarily want to have a series of departments or agencies which have got all the bells and whistles and the rolled gold treatment and then a lot of departments and agencies that are missing out. With this sort of investment, we think that it will be spread across a wider area, and that will drive real, tangible and significant benefits to a number of these entities.

Mr MAAS: Thank you. If I could take you to the topic of procurement now, and to that end I will refer to budget paper 3, pages 137 and 140. Would you be able to explain for the committee how the procurement initiatives in table 1.23 will help provide jobs for Victorians?

Mr PEARSON: Certainly, Mr Maas. In the 2020–21 budget we are looking at providing \$4 million to ensure businesses contracted by government are providing training and employment opportunities for young people and women returning to the workforce. The reality is that the great sadness of 2020, in many respects—

and there are many points of sadness and distress in the year that has been—is that so many women have lost their jobs, and it has been called a ‘shecession’ by some commentators. We need to try and find a way where we can use the power of government and use the power of our spend to find ways in which we can encourage and foster more women into the workforce to try and bridge that divide and ensure that women are not left behind as a consequence of these terrible events.

If you think about it, government spends in the order of around about \$32 billion a year in terms of procurement. We spend \$19 billion on goods and services, and we spend \$13 billion in relation to construction. I think the general government sector as a percentage of the economy is probably about one-seventh of the state economy, or we were pre COVID. I think that when you contemplate for a moment that the economy has contracted—and we expect that the economy will contract by about 4 per cent this financial year off the back of a modest decline last year of about 0.5 per cent of gross state product—the value of that spend actually increases as a proportion of the economy. As the pie gets smaller because of an economic contraction, the value of government spend actually increases, and I think there are great opportunities for us to try and find ways in which we can foster and encourage that level of investment into ensuring really good, tangible, meaningful outcomes for women and young people in particular—but not just exclusively women and young people. I think that if you are serious about diversity you absolutely need to meet the targets espoused by gender diversity, but you then need to also expand beyond that and think about cultural and linguistically diverse groups and you need to think about First Nations people as well.

In terms of what we are looking at doing, we really want to try and start that process of encouraging more women and younger people in. We also want to try and find ways where we can actually make it easier for suppliers to do business with us. We want to be a customer of choice for these suppliers. Mr O’Brien has certainly heard me talk about this at length a number of times. I am really attracted to digital. I think digital has got enormous capacity, enormous ability, to try and improve our efficiency and our services. I think that if we can find a way where we can engage better with our suppliers then we can get a really much better outcome for the taxpayer.

The CHAIR: Sorry to interrupt you there, Minister. The call is now with Mr David Limbrick, MLC.

Mr LIMBRICK: Thank you, Chair. And thank you, Minister and team, for appearing today. I would like to start with a couple of questions around the VMIA. In budget paper 4, from page 192 there is a series of potential liabilities, I suppose, that could arise. How does one of these potential liabilities end up on this list? Is it because there is a possibility that it would exceed the limit—

My understanding is that VMIA will re-insure in the private market between \$50 million and \$950 million and anything above that is borne by taxpayers. Is that because we think that these things might have a liability greater than \$950 million, or how does that work?

Mr PEARSON: I will make some preliminary comments and then I might ask the Secretary to supplement my comments. I think part of the issue is that it has to be determined as being material to the books. So there is a question of accounting treatment. I think that is one factor. I think that where there has been commentary about people threatening legal action or class actions, where there might be proceedings on foot or about to be on foot or subject to legal proceedings or subject to a judicial inquiry, then that I would imagine, I would guess—and the Secretary might add to this—would trigger a red flag in terms of saying, ‘Well, we might have a contingent liability and therefore we need to factor that in as a possibility, just from good accounting practices’. Again I would imagine that it would need to be material in order for it to occur. So, for example, if I was going to my child’s school and I fell over and I broke my elbow and I said, ‘Well, I tripped over a bit of equipment that was in the school grounds and I busted my elbow. I’m going to sue you’, I do not necessarily think that would then trigger a contingent liability in the books. So I think that it would probably come down to an accounting standard and for it to be regarded as being material from that perspective. But I might see if the Secretary has got anything to add.

Mr MARTINE: Thanks, Minister. I think the text you are referring to in budget paper 4 relates to all of the non-quantifiable contingent liabilities, so obviously to make that list it has to be something that we cannot quantify. Otherwise it would be part of the financial statements. Materiality is an issue. I have to take on notice—you are testing my memory on the materiality test in the accounting standards, but materiality is definitely an issue. Otherwise you would potentially have quite a long list there.

Mr LIMBRICK: Yes, I imagine there are lots of small claims.

Mr MARTINE: Yes. But the test is not about VMIA's ability to insure in the secondary market. What appears here is quite independent of the VMIA.

Mr LIMBRICK: Okay. And these—

Mr MARTINE: Sorry, I have just been advised: it is generally over \$50 million.

Mr LIMBRICK: Okay. That makes sense.

Mr MARTINE: So that is sort of the rough test.

Mr LIMBRICK: Yes. There are two coronavirus-related class actions. Were these lodged under the recently passed changes to class action legislation, or is this something existing?

Mr MARTINE: I would need to check. What is on page 193 essentially just reflects, as you have pointed out, the two class actions that were lodged and filed with the Supreme Court. I am not fully across the basis on those class actions at all. But I think regardless of any recent changes, if it is a class action, it cannot be quantified and it is material, then you would expect to see it in this chapter.

Mr LIMBRICK: Okay, and there is another potential action which looks like the government was looking forward, related to the Royal Commission into the Management of Police Informants. How did it actually come about that we would anticipate that there might be claims for compensation? Have there actually been claims for compensation already logged here, or is this referring to just 'We suspect there will be'?

Mr MARTINE: I think it is more the latter. On page 194 of chapter 6 you would see under that heading it mentions:

Victoria Police anticipate it may receive claims for compensation.

So it has made it onto this list because it is potentially material and there are potential future claims. So you do not need to necessarily just have the test that you have to wait for an actual claim to appear in court.

Mr LIMBRICK: Okay. Thank you very much for that. I would like to ask the minister as well, so on a different topic, on the social procurement policies it states around budget paper 3 on page 94 that businesses will be supported to create jobs, and then it talks about this \$150 million of subsidies for women and then enhanced engagement with the social procurement framework. How does this subsidy and engagement with the social procurement framework actually work?

Mr PEARSON: Thank you, Mr Limbrick. With the subsidy, so the Working for Victoria program, that sits under Minister Pulford.

Mr LIMBRICK: Yes.

Mr PEARSON: So Minister Pulford has that level of responsibility and that is within the minister's bailiwick. With social procurement, we released the social procurement framework last year, and what we are trying to do here—it came into effect on 1 September—is really trying to find ways where we can leverage our buying power to deliver certain good deeds, I suppose, or policy outcomes in relation to the successful tenderer. There are 10 particular policy objectives that we have set out: opportunities for Victorian Aboriginal people; opportunities for Victorians with disability; opportunities for disadvantaged Victorians such as long-term unemployed, disengaged youth and workers in transition; women's equality and safety; supporting safe and fair workplaces; sustainable Victorian social enterprise in Aboriginal business sectors; sustainable Victorian regions; and there are also three environmental objectives as well. So that gives you some sense in terms of the work that we are doing.

A case in point I can point to specifically in terms of some of the work we have done is the number of Aboriginal Australians who obtained an apprenticeship on the CD9 project during the course of the last parliamentary term. That was an opportunity for I think the figure might have been 200 Aboriginal Victorians getting a trade. And I know certainly from my experience, I met a young Somali male in the last parliamentary

term who was a civil engineer who could not get a job. If he applied as John Smith, the phone rang. If he applied as Mohammed Mohammed, the phone never rang.

The CHAIR: Sorry to cut you off there, Minister, but the member's time has expired. I will pass the call to Mr Danny O'Brien, MP.

Mr D O'BRIEN: Thank you, Chair. And thank you, former Chair. Welcome back.

Mr PEARSON: It is great to be back, Mr O'Brien. I have missed you.

Mr D O'BRIEN: I am disappointed that you are not on this side—literally this side. But I would like to just continue on the grant issue that we were talking about a moment ago, and as we pointed out, Mr Martine, you said BP4, page 21, notes grants from VMIA of \$75 million over the next three years. The question I have, probably first to you, Minister, is: given the government ripped \$408 million out of the VMIA in 2018–19 and VMIA made a loss in 2019–20 of \$389 million and it had a deficiency of \$261 million at 30 June, how will VMIA be able to make the proposed dividend payments that are listed in the budget?

Mr PEARSON: Thanks, Mr O'Brien, for your question. I think again I will state my previous point that in terms of the determination about dividend policies, that is more firmly within the Treasurer's remit than mine. But what I would say is that governments of all persuasions have extracted capital repatriations from the public financial sector over probably decades would be my guess. These are insurers that provide a service to market and they will from time to time produce profits, and the government, as the sole shareholder, is entitled to take a profit from those insurers where they are able to pay. I think the other point I would make too is that there is a lot of volatility in the 2019–20 figures, as you would expect. You are effectively looking at six months of turmoil on the equities market, which caused a significant writedown in terms of the value of some of particularly their current assets like cash and equities that they invest in, and I think you would find that the valuation—you just have to look at your own superannuation balance, Mr O'Brien, how that is on 1 December this year compared to, say, 1 July or for that matter 1 September. So I would anticipate with the combination of a rebounding equities market coupled with an expanding economy—and again we are projecting that the state economy will grow by 7.75 per cent—we will be looking at a pretty strong rebound, and I think that it is not really surprising, because if you think about it, for those of us who were lucky enough to be gainfully employed this year, many of us actually did not have a lot of capacity to spend money. The savings rate, when I checked it, probably around about October, was the highest it has been since 1974, so there is a lot of pent-up demand. So I would be confident that the economy will be able to rebound.

Mr D O'BRIEN: I get that, but we are probably getting a little bit off the topic now. I appreciate your opening comment about past dividends being taken, but your point is correct that they need to be sustainable. So can I ask perhaps a further question—

Mr PEARSON: Sorry, just on that point too, because it is a very good point, Mr O'Brien, probably the key is the funding ratio, which is looking at assets divided by net liabilities discounted based upon the projected economic growth rate of those liabilities, and so the range that we have established is between 100 and 145 per cent. And the insurance funding ratio for the VMIA as at 30 June, notwithstanding some of the challenges, was actually 118 per cent, so it is right in the spot.

Mr D O'BRIEN: So are you telling us then that the dividends being taken out over the next few years, despite the big losses that the VMIA has had, will not actually impact on its operations day to day?

Mr PEARSON: Well, what I am saying to you, Mr O'Brien, is that in terms of the determination of whether a dividend is or is not going to be paid, first of all it is a matter for the Treasurer, but secondly, we take this on an annualised basis. As you would expect, it is only fair and prudent and it is responsible and respectful to the Parliament that those determinations are published in the forward estimates because you have got to call it as you see it at that particular point in time and you have got to make an estimation of what you would expect across the forward estimates. You certainly would not want a situation where the government either does not produce that sort of information or only provides, say, one year. But I think that the funding ratio is very solid at 118 per cent, and I feel confident that the equities market will rebound and their underlying assets will improve significantly.

Mr D O'BRIEN: Can I jump ahead to WorkSafe, which is the same budget paper reference. Last year we had two tranches and a total of \$700 million to be taken from WorkSafe, yet they are not mentioned this year. Why is that?

Mr PEARSON: I think, again, because of the nature of the environment that we are in and the time which we are in, it was prudent to determine not to do that at this particular point in time, because of the volatility of the market and the writedown of the assets—well, not so much the writedown but the valuation of the assets—as of 30 June 2020. Again, I think that as we look beyond 2020 into 2021 and beyond, the government and the Treasurer in particular will turn their mind to these issues in the preparation of the next budget, as you would expect.

Mr D O'BRIEN: Given the annual financial statements of WorkSafe for 2019–20 show that WorkSafe is technically insolvent, is that part of the concern in not taking the money out this year?

Mr PEARSON: Look, I would not agree with your thesis, Mr O'Brien.

Mr D O'BRIEN: Well, it is in the annual report.

Mr PEARSON: I am mindful of the fact that the Minister for Workplace Safety has overarching responsibility for the policy levers in relation to WorkSafe, and I am somewhat a passive shareholder, as it were, on these sorts of questions. But I have got great confidence in the leadership of WorkSafe, and again, I think that some of the trials and tribulations that the public financial corporation sector has been experiencing over the course of the 2020 calendar year are broadly consistent across the board because of the challenges we are facing.

Mr D O'BRIEN: Okay. Can I just wrap up with: given that WorkSafe has lost \$3.8 billion in the last two financial years and those challenges that you were just heading to, what guarantees can employers have about WorkSafe premiums over the next two years in particular? Will they be kept within CPI?

Mr PEARSON: Mr O'Brien, I would encourage you to pursue that line of questioning with the minister responsible for workplace safety. I am not responsible for setting premiums.

Mr D O'BRIEN: You are sending things either to her or to the Treasurer. Is there anything you actually are responsible for with respect to these insurance agencies?

Mr PEARSON: Well, Mr O'Brien, I thought you were going to ask me if I am responsible for anything. I thought we could talk about performance measures or we could talk about procurement or fleet management.

Mr D O'BRIEN: I have got hours to do that.

Mr PEARSON: I respect the work of this committee, as you well know, and I respect that it is a great privilege to be a minister of the Crown to come before this committee to explain your responsibilities as part of the appropriation process. In this particular case it would be unwise to be trying to provide factual and truthful evidence to the committee of an area I do not have responsibility for. I just simply do not have responsibility in terms of setting workplace premiums, nor do I have responsibility in terms of determining the allocation of any capital repatriation from any of the entities listed. As indicated, you can characterise me as a passive shareholder on these sorts of questions—look, an interested shareholder—but in terms of these questions around capital repatriations and dividend strategy and claims management or premium levels, they are best diverted to the relevant responsible ministers.

The CHAIR: Thank you, Minister, and sorry to cut off the dialogue there but the time has expired. I will pass the call to Ms Pauline Richards, MP.

Ms RICHARDS: Thank you very much, Assistant Treasurer.

Mr PEARSON: Lovely to see you, Ms Richards.

Ms RICHARDS: Yes. I am also very grateful to the officials for being here for this marathon this afternoon. I would like to take you back down the path that Mr Limbrick was taking you down and refer you to budget

paper 3, page 140, and the description that refers to the benefits to women and young people in particular from the social procurement policy. How will this \$4 million initiative support their employment opportunities?

Mr PEARSON: Thank you, Ms Richards. Well, as I indicated, women and young people have copped the brunt of this recession. Now, as a government you have got two choices: you can turn around and wash your hands of it and say, 'Well, we'll sit idly by and let the free market reign and we won't really turn our minds to these things', or you can look at trying to tackle that issue head-on. That is exactly why we are putting workers front and centre in terms of our recovery, and we have got a real focus in terms of job creation and employment support. We have set a target of 200 000 jobs by 2022 and 400 000 jobs by 2025.

As I indicated previously, we spend \$32 billion a year on average—roughly—in terms of procurement, and the value of that expenditure as a proportion of the size of the economy has increased with the recession as the economy has contracted. So to put it in simple terms, there will be more people vying for our business in December of 2020 than was the case in 2019. So what we are trying to do is to look at leveraging our significant buying power to government, and we want to drive the prices down where we can, we want to build the infrastructure and we want to maximise the social, economic and environmental benefits for all Victorians, because that is the right thing to do.

In terms of the \$4 million across the forward estimates that you referred to, this is about the government's commitment that all procurement associated with the budget must prioritise outcomes for women and young people as part of our social procurement framework. It is about ensuring that businesses who commit to the objectives of the social procurement framework deliver those outcomes. Now, this is a really important point, because sometimes you might have an instance where in order to win the business the company bidding for the work has got a shiny presentation, 'We're going to do all this. We're going to put our best foot forward. We absolutely want this', and then when it comes to actually delivering, those people who gave those promises might be moving on to the next bid, the next project, and the people delivering those projects who may be required to honour those commitments given may be absent, may not really know or may turn around and say, 'Well, I said that, but I'm going to do something else'. So we are really keen about making sure that if you say you are going to do something, you actually follow through and you do it, because for the reasons outlined there is just so much at stake in trying to get women and young people back to work. Certainly from my perspective it is about that. It is also about finding other opportunities for culturally and linguistically diverse people as well to be able to have those opportunities.

In addition to this, we are also looking at any new, refreshed or extended state purchasing contracts signed over the course of this current financial year will prioritise outcomes for women and young people as well. I think it is important that a state purchasing contract reflects the time in which it is signed and it is executed. We have got an opportunity. It is a great honour and it is a great privilege to be in government and to be tackling these issues, but we have got a great responsibility to be able to try and find ways in which we can get people back into work—you know, the dignity of work and making sure that people are not left behind. It is about standing with people to guide them through these great challenges, because it has been an awful year and what this government has sought to do is to make those necessary investments right across the board about trying to take people with us.

I think, and I referred to this earlier with my answer to Mr Maas's question, that digital can play a really important role as well. Where we have got centralised procurement contracts, where we can look at driving a streamlined procurement, we can not only use the benefit of our purchasing power but we can actually make it easier and more efficient for business to do business with us. Why that is important is that if we can start to strip out some of the costs that businesses have to experience, then it is intuitive and it follows that the price will be potentially driven down by that or they will have a better experience. Then you start to get into that virtuous circle where they start to engage with us more, they get to know us better, things start to improve, they become more efficient, we get to know their business better, and you can start to flatten some of that expenditure and then you can start to make those realisations of savings. Then you can turn around and start to say, 'How can we actually try and do this better, and how can we try and acquit some of these objectives that we want to achieve? How do we try and find a way where we can get more women into work and more young people into work?'

It is a great privilege being a member of this place, and for me being able to encourage and support Mohammed Mohammed, who is a Somali civil engineer from Melbourne University who could not get a job—I actually

saw him working on one of the tunnels—but worked on the Ballarat line. This guy is going to get transferable skills, skills that will last him a lifetime. He will never look back. It is a great privilege, because you are part of something, and you are giving people a chance. You are giving people that opportunity to achieve their potential, to reach for their dreams and lead a dignified, meaningful existence, and we can do that because we have got the capacity to make the smart investments and to be efficient and to be driven and to be focused, and it leads to really great outcomes.

In many of the conversations I had when I was on PAEC with the former Deputy Chair we were often of the same view. We wanted an efficient government. We wanted those efficiencies. We wanted things to be operating as well as they could. We might have had an argument in terms of the dividends that you realise, where those dividends are allocated or how those moneys are spent, but this is really important work, and I think that where we can better at governing, we can get better at being more efficient in terms of these sorts of processes, then we have got the opportunity of driving real, meaningful reform, and the benefit will be the women who lost their jobs this year and the young people who are out of work and who just want a leg-up. They just want someone to believe in them and give them a chance.

It is a wonderful, noble objective, and it is something that I am so proud of as a government. But I have no doubt that the Minister for Employment will be able to talk at length on this when she comes before you in due course, Ms Richards.

Ms RICHARDS: Thank you, Assistant Treasurer. In the very little time I have got left, you have provided some examples of the social procurement framework and how it works, but I am interested in how the budget initiative improves access to paid employment. If you have got anything more to add to those insights you provided before, I would be interested in having that entered into evidence.

Mr PEARSON: Yes, yes. Look, it is a good point. An example I can put forward is Orana Commercial Relocations. This was started in 2018 by Jason Baird and Charlie Maynard, who is a proud Boon Wurrung man. Their focus was about trying to close that gap between Aboriginal and non-Aboriginal communities and to help break that cycle of unemployment. Now, Orana is an Aboriginal-owned business that provides sustainable employment opportunities for Aboriginal people—

The CHAIR: I am sorry to cut you off there, Minister. I will pass the call, though, to Mr Sam Hibbins, MP.

Mr HIBBINS: Thanks, Chair, and thank you, Minister and your team for appearing this evening. I really want to follow up on some questions I asked your predecessor in regard to the government fleet at the last hearings and get some updated figures. Can I get the breakdown in terms of the percentage of the fleet that is electric vehicles and hybrid vehicles, both plug-in and non-plug-in hybrids?

Mr PEARSON: Yes. Let me just try and find that information, Mr Hibbins. I am advised that the government has 1812 hybrid vehicles, which is the largest government hybrid fleet in Australia. We have got 29 plug-in hybrid vehicles and five electric vehicles.

Mr HIBBINS: Thank you. Are you able to give me that as a percentage of the total fleet?

Mr PEARSON: Yes. Well, we have got 10 059 vehicles in total in the fleet, so, you know—

Mr HIBBINS: We can do the sums offline if that would help.

Mr PEARSON: A bit under 20 per cent, Mr Hibbins.

Mr HIBBINS: Great. Thank you. Now, I did notice in the budget under the environment and climate change portfolio there was the development of a business case for the procurement of zero emission vehicles for the government fleet. Do you have any oversight of or any involvement in that particular initiative?

Mr PEARSON: I think from recollection, Mr Hibbins, because that sits within the department of energy, environment and climate change that is a particular area of interest for that department and the minister in terms of that policy aspiration that the minister has. In relation to the procurement of those vehicles, in terms of signing on the dotted line to deliver any number of vehicles in terms of the government fleet, that fits within my portfolio.

Mr HIBBINS: Okay. Thank you. Just another question I asked last time as well was the total emissions emitted by the fleet, and the response that I got was that data on total emissions is not held by the Department of Treasury and Finance. Should I read that as it is held by another department or that data is not actually collected?

Mr PEARSON: I might ask the Secretary to supplement my answer. I do not think we would hold that data, Mr Hibbins. I think, if I turn my mind to it, you would go to a service station, you would fill up a VicFleet vehicle, you pay with your fleet card, you provide your odometer reading and that payment is deducted. I just do not think you would then be in a position to extrapolate all those transactions to what that would equate to in terms of CO₂ emissions and then use that on an annualised basis. I mean, I think that what you could do is tackle it another way, which is looking at the CO₂ emissions for hybrids and electric vehicles and what they produce and you compare and contrast them with if we did not have them and we had an ICE vehicle—an internal combustion engine—what that would produce and you would deduct the two.

Mr HIBBINS: Okay. If it is not collected, that is okay.

Mr PEARSON: I will throw to the Secretary. What I am saying to you, Mr Hibbins, is I do not think it is collected, but I am also saying I am not sure whether it could actually be calculated.

Mr HIBBINS: Okay. That is fair enough.

Mr PEARSON: I am not sure if the Secretary has got anything to add. Do you have anything to add, Secretary? No.

Mr HIBBINS: Okay. Fair enough. What you stated earlier in terms of the uptake of EV vehicles and encouraging any uptake of EV vehicles in the fleet was that when they become cost comparable you then adopt the hybrid or the more environmental measure within the fleet, or the vehicle in the fleet. Does that mean if there are additional costs like a tax—for example, the EV tax—that will actually add costs to an electric vehicle and actually slow down the transition then to electric vehicles in the fleet?

Mr PEARSON: I would not imagine so, Mr Hibbins. The Treasurer was here before you earlier today and I think you may have spoken with him about this. My understanding is that the mileage cost for an EV works out to be about 2.5 cents per kilometre, versus 5 cents for a fossil fuel vehicle. So I do not think that that would be—

Mr HIBBINS: It has been bandied around about 300 bucks per vehicle, if you are going to the full, I think, 13 000-odd mileage. I mean, that is not insubstantial.

Mr PEARSON: Well, again—and I am happy to seek some advice from the department and the witnesses at the table on this—I do not think, if you are looking at \$300, if the delta is \$300 between an ICE versus an EV, I do not think that would be material enough to sway a decision to basically buy an asset which might be a stranded asset within three years or five years. Because I think there is a number of factors you have to take into account. It is not just the purchase cost but it is also the resale value. I know in my conversations—I had a very good conversation with car sales, someone over there, and they indicated to me that some people, particularly for the high-end ICE vehicles, they are now wondering whether it is actually a smart move to buy it, because of the worry that you will have a stranded asset. So if you think about it for a moment, if I turn around and buy a \$40 000 ICE vehicle, the resale value might be \$20 000—

Mr HIBBINS: Minister, I appreciate you want to go into a bit more detail, but I am just—

Mr PEARSON: Okay. I will round out by—

Mr HIBBINS: You just indicated that you would look into the total life for the costs—

Mr PEARSON: What I am saying is the resale value I would imagine would be a factor—

Mr HIBBINS: That would be taken into consideration.

Mr PEARSON: that would be brought to bear, and if you have got a stranded asset the value of that would be less.

Mr HIBBINS: I note that New South Wales and Tasmania have actually got set targets for the uptake of hybrid vehicles within their fleets. Is that something that you are considering?

Mr PEARSON: Look, it is not something that has crossed my desk in the brief time I have been here. I think that with all these things, with all these factors, you need to think about where do we see the future and where do we get a sense in terms of what is the best use of taxpayer funds. Clearly, as I was indicating earlier, if you get to the point where you have got an asset that becomes stranded and that becomes significantly devalued, well, you are probably not going to buy that asset to begin with, because the retail is going to inhibit you. So I think certainly from my perspective it is about thinking about where the future goes, and what we do. I am very focused on trying to find ways where we can drive efficiencies in terms of the way in which we procure. I think there are great things we can do, and I know certainly New Zealand has got a really strong track record. In fact they won an award recently on their procurement system, so that is a thing I am very keen on pursuing.

The CHAIR: Sorry to interrupt there. The member's time has expired. I will hand to Mr Tim Richardson, MP.

Mr RICHARDSON: Thank you, Chair. Thank you, Assistant Treasurer, and Treasury officials who are doing the hard yards today. Assistant Treasurer, you were going through, before the time ran out, an important example about a budget initiative that improves access to paid employment. I think it is important for our evidence that we hear about that provider, so I just wonder if you could carry on your answer for us.

Mr PEARSON: Sure. Well, thank you, Mr Richardson, and thank you for your indulgence and for letting me talk about the great success story of Orana. As I was advising Ms Richards, Orana is an Aboriginal-owned business that provides sustainable employment opportunities for Aboriginal people as well as mentoring, training and pathways to upskill Aboriginal people from entry-level to professional roles. I was really delighted by the fact that Bendigo Kangan Institute engaged Orana to provide office relocation services during their Bendigo city campus revitalisation. That project alone resulted in the employment of 36 Victorian Aboriginal people, with 30 of these employed from the Bendigo region. Orana have also provided those sorts of services to both Cenitex and WorkSafe. So it is really great work, it is really important work, and it just gives people that opportunity to get back on that employment—I was going to say tread wheel, but that is a negative connotation—just that employment pathway. I mean, I think the evidence shows that if you can work and hold down a job for six months, the odds are that you are going to keep that job. It is so important, and it is something certainly I have seen in my community, where I really pushed for public housing tenants and people from the Horn of Africa to have those opportunities, and you can just see it—once they have that opportunity to get that work and to have that confidence and they build up that trust and that knowledge, it is terrific.

Probably another example I can also point to would be that Melton City Council recently went to market for the provision of open space services, and as part of their procurement process the council included a 10 per cent target for suppliers to offer employment for young people. In responding to the tender Citywide Service Solutions partnered with the Brotherhood of St Laurence, and 12 months on 10 per cent of that workforce has been filled with people who have had trouble finding work.

So it is about just trying to support people through a really challenging time. I think that if you look at it for a moment, when Australia went into a recession in the early 1980s it took around seven years before the unemployment rate got back to where it was beforehand. So the unemployment rates when you have economic contractions go up pretty quickly but they take a while to drop. In the early 1990s it was about 15 years, and in many cases I think that in the contraction of the early 1990s you had people lose their jobs and they just never worked again. I just think that that is an absolute tragedy for the individuals, but it is a tragedy for our state and it is a tragedy for our nation that you have got people who have got the capacity, people who have got the will, the drive, the aspiration, and they are locked out and they are excluded. That great book called *Why Nations Fail* talks about how nations fail when you have got exclusive economic institutions and when you have got exclusive political institutions. You have always got to try and find ways where you can include people in the political discourse but also in the economic discourse, provide people with that opportunity to be able to have meaningful work and decent work and have the opportunity to grow and thrive and expand their horizons.

So I think a real focus for us and a real focus for me is to think about, 'All right, well, how can we try and use our spend? How can we be better?'. And I think broadly we all feel this way—we all want to leave the place

better than we found it. It does not matter whether you are a member of the government or you are a member of the opposition or you are a member of the crossbench, you want that sense of, 'We have done some good things. I have left it in a better shape than I found it'. So the notion that you can start to think in a very creative way, in a thoughtful, considered and methodical way, about how you can try and use this expenditure, this procurement, to drive those efficiencies, drive those reforms and drive those great social outcomes is really important. And it is social, and social is something for me that I am very passionate about, I am very focused on, but it is also environmental. It is about, as part of this social procurement, finding environmentally sustainable outputs, environmentally sustainable business practices, the implementation of climate change policy objectives. They are all really good objectives. We are in just such a privileged position to be in a place where you have got the capacity to use the power of the state, to use the power of government expenditure, to drive greater efficiencies, to drive greater reforms and to achieve greater social outcomes.

The Premier said when he handed down the budget—the Treasurer too, I should say—that this is about making sure that we do not leave people behind and that we make these fundings and we make these commitments right across the state to support people through. For so many people, this year has been a dreadful year, but I think that with these sorts of policy settings, with the procurement spend and with our drive and our focus and our determination there is something really special that can emerge from this. And the power of digital—being able to really have a more targeted, nuanced response in the way in which you deal with the citizens. How do you try and make citizen engagement better? How can you try and make sure that when a citizen seeks to engage with their government it is a really good experience? Because do you know what happens? The more they engage with us, the better we get as a government in terms of responding to that, and then we provide better services and then they have a better experience and you build up that trust.

So I think Minister Pulford will speak at length, I dare say, when she comes before you about the Working for Victoria program and its vision and its expanse, but there are things in here that we can do which can be really, really special, really creative, really imaginative, and we can drive greater efficiencies and greater reforms. How can we be better? It is always a thing you have got to focus on, I think, this stuff. How can we try and be better, how can we improve?

Mr RICHARDSON: Assistant Treasurer, I will take you to government accommodation now. I note that in table 1.23 on page 137 of budget paper 3 centralised accommodation management has been funded over the forward estimates. Are you able to explain to the committee how this has been designed as a savings initiative?

Mr PEARSON: Yes. Thank you. One of the great benefits, I think, of the centralised accommodation management program is to look at driving greater efficiencies and coordination. It is again, a bit like in the comments I made earlier, about aggregating your bulk spend, trying to drive greater levels of efficiency and trying to have those targets in place as to what you think would be an appropriate square metreage per worker, per FT employee, and how you can drive those efficiencies. It is things like removing duplication and using your economies of scale in portfolio management to drive those greater levels of efficiencies so you can try and get a better outcome. Before COVID we had been quite successful in terms of driving down the numbers. We landed on—I think the most recent figure is—12 square metres per full-time employee, so that is on target. That is just an average, though. Clearly there would be workplaces which would have a higher square metreage, which could be driven down. Again this is probably more in the pre-COVID world, but it is about trying to minimise vacant space.

The CHAIR: Thanks, Minister. I will pass the call to Ms Bridget Vallence, MP.

Ms VALLENCE: Thank you, Chair. And thank you, Minister and team. First I will just go to budget paper 4, page 193, which refers to COVID class actions filed against the Andrews government by Victorian businesses and Victorian residents. What I am after, for the benefit of the committee, is: how much is the state provisioning for this in terms of legal costs associated with that process, potential likely compensation claims and potential payouts?

Mr PEARSON: Thank you, Ms Vallence. I think it is probably useful just to provide a bit of background context in terms of the vital work that the VMIA does in terms of providing—

Ms VALLENCE: No, no, I am not after the types of work that VMIA does. It is quite a specific question in relation to page 193 of the budget paper. Obviously there have been two class actions brought against the state

government, against the Andrews government. I am sure—well, I hope—that there is some provisioning in relation to that process. I am after the costs, the legal costs, associated that you are provisioning for having to spend on that process and compensation claims and payouts.

Mr PEARSON: Yes. Well, look, Ms Vallence, as you would know, these matters are currently before the courts.

Ms VALLENCE: I am not asking you to comment on—

The CHAIR: Ms Vallence, could you allow the minister an opportunity to attempt to answer your question.

Ms VALLENCE: Yes, I will. Thank you. Might perhaps I clarify: I am not asking you for any commentary on the nature of the court process. What I am asking for are the costs. You have surely provisioned something. If you could let us know what that is.

Mr PEARSON: Well, Ms Vallence, there is an inherent inconsistency with your statement, because if I were to indicate a number then it would prejudice the case before the courts.

Ms VALLENCE: I cannot see how that would be. Surely there are going to be lawyers and you need to spend money on them. What have you provisioned? Obviously nothing.

The CHAIR: Ms Vallence, could you allow the Assistant Treasurer the opportunity to answer the question rather than attempting to answer your own questions, please.

Mr PEARSON: No, we do not provision for those sorts of contingencies, Ms Vallence.

Ms VALLENCE: No provisions?

Mr PEARSON: No provisions.

Ms VALLENCE: Not provisioning at all for that process? Secretary, perhaps?

Mr MARTINE: Well, effectively that is a list of non-quantifiable liabilities that are contingent on something happening. Standard practice is you would not provision for the possible outcome of a court case. I cannot answer what the relevant parts of the public service are spending on legal costs; I do not have visibility of that. But as a general rule you do not provision on what may result from a court action.

Ms VALLENCE: Okay. Well, then, in terms of the legal costs, is that something that you are anticipating a budget for?

Mr MARTINE: Well, I am not aware off the top of my head of any extra funding provided to the relevant department.

Ms VALLENCE: Is there a budget for these class actions—the legal costs?

Mr MARTINE: Well, that would be really up to the DJCS, who would be managing this. I am sure they have made an internal allocation for it.

Ms VALLENCE: Okay. You have taken us through how you are responsible for the whole-of-government purchasing and procurement. Will you be responsible for procurement contracts for all third-party suppliers for the new COVID-19 Quarantine Victoria?

Mr PEARSON: I am not sure whether they would be subject to a state purchasing contract, Ms Vallence. From the point of view of procurement, I am in charge. I am the minister responsible for all state purchasing contracts. I am not—

Ms VALLENCE: Is the state engaging suppliers to deliver this next hotel quarantine program or this next Quarantine Victoria program?

Mr PEARSON: Well, I suppose if I put it to you in these terms, Ms Vallence, the state engages with a myriad of suppliers and companies for a range of goods and services on any given day. In relation to what falls

within my responsibility, if that forms part of a state purchasing contract, then that certainly is something that is within my responsibility, but I am not—

Ms VALLENCE: Minister, it is starting next week. Are you—

The CHAIR: Ms Vallence, would you allow the minister the opportunity to complete what he is saying before you go on.

Ms VALLENCE: Minister, it is your—

The CHAIR: Ms Vallence, would you allow the—

Ms VALLENCE: It is starting next week. I just want to know if it is your responsibility. You said in your presentation quite explicitly—

The CHAIR: Ms Vallence, could we have a budget reference for your question, please?

Ms VALLENCE: It is related to, and as we have always had—the situation related to something that has arisen from the presentation provided by the minister. It is within his portfolio responsibility, as he expressly points out on page 1 of his presentation, that—

The CHAIR: If you could then allow him the opportunity to answer, that would be appreciated.

Mr PEARSON: I think, Ms Vallence, what I would say is that if it falls within a state purchasing contract, and there are a number of these—so if you are talking about fuel, if you are talking about electricity for less than 40 megawatt hours per annum, electricity for more than 40 megawatts per annum, if you are talking about the Master Agency Media Services contract—

Ms VALLENCE: I am not talking about any of those. I am talking about—

Mr PEARSON: Well, I am just trying to help you, Ms Vallence, in terms of understanding what is within my remit in terms of the list of state purchasing contracts which I have got carriage for. Those sorts of contracts are firmly within my responsibility because they are contracts which are derived and emanate from the Department of Treasury and Finance and fit within my responsibility. Anything that is a state purchasing contract—you know, fleet management—Mr Hibbins and I had a very good discussion earlier about the benefits of electric vehicles and hybrids. That again is certainly something within my responsibility. State purchasing contracts are definitely within my responsibility.

Ms VALLENCE: Okay. Alright. Thank you. For budget paper 3, page 375, high-value, high-risk projects, Assistant Treasurer or Secretary, can you provide to the committee a list of projects that have been categorised as high-value, high-risk—or HVHR? And you can take it on notice, perhaps, if you do not have it. It is on page 375 of BP3. Can you provide to the committee on notice—

The CHAIR: Ms Vallence, could you allow the Secretary the opportunity to say whether he can or cannot provide information now before you demand it on notice, please.

Mr MARTINE: A partial answer, Ms Vallence, to your question: budget paper 2, page 96, lists the major new high-value, high-risk projects that are included in the budget. So we can take on notice to report back on all of the others, but there is a little bit of information on page 96.

Ms VALLENCE: That is great. Thank you. And, Minister, of the current HVHR projects, how many are over budget?

Mr PEARSON: Ms Vallence, I do not have responsibility for the high-value, high-risk framework. That is a matter I believe that would fall within the responsibility of the Treasurer.

Ms VALLENCE: Okay. In terms of the contracts, are you saying that in terms of your responsibility—you have mentioned that you look after—

Mr PEARSON: I do not have responsibility for high-value, high risk. That is a matter for the Treasurer.

Ms VALLENCE: Okay. So expressly, completely—

The CHAIR: Sorry to interrupt, Ms Vallence, but your time has expired. I will now—

Mr PEARSON: It is not mine—not me.

The CHAIR: Sorry, Assistant Treasurer, but the member's time has expired. I will now pass the call to Ms Nina Taylor, MLC.

Ms TAYLOR: Hello, Assistant Treasurer and officials. I am just wondering if you could flesh out a bit more how a centralised shared service provider reduces the accommodation costs of government—perhaps outline some of the ways it does this.

Mr PEARSON: Yes. Thank you, Ms Taylor. Thank you for your question. Look, I do get excited by centralised accommodation management. I think that it is important that we can drive greater efficiencies and reforms. I loathe waste and mismanagement. I think that where there is capacity for us to try and find better ways we can operate, that is really valuable and important.

I think partly, too, one of the issues we confront as a government is just the traditional method and model of operating as a government. I think if you look at Victoria as a government, we have been traditionally quite decentralised, and that has been a function of all governments of all persuasions. We have a much more decentralised model and decentralised approach where traditionally you would have departments and agencies going off, doing their own thing. We have not had that level of structured coordination that other jurisdictions would have.

So I think what we are seeking to do in terms of providing funding for this initiative, which is \$10.9 million, is about trying to invest to provide and empower DTF with greater levels of oversight and responsibility for government accommodation. Mr O'Brien can attest to this: I love data; the bigger the data, the better.

Mr D O'BRIEN: I have never heard you mention it before in my life.

Mr PEARSON: Now you are misleading the committee, Mr O'Brien. Data will be to the 21st century what oil was to the 20th century, and I know Mr Hibbins will probably take exception to that particular analogy, but the reality is that data—

Mr HIBBINS: Oil is in the past. I wholeheartedly support you.

Mr PEARSON: Oh, right. Good. Excellent—nothing like a convert. So I think data plays a really important role. I think where we have got those greater levels of visibility about the way in which departments and agencies are procuring, that is really good—sharing that knowledge, sharing those insights. New Zealand has done some fantastic work in this space. They won an award from Oxford University last year for being the best public sector procurer in the world. And the really interesting thing about New Zealand is they have got a similar model to ours—they have got a similar devolved model. The size of the New Zealand budget is roughly comparable to the size of our state budget. I think theirs is about NZ\$70 billion or thereabouts—so not dissimilar to ours. And it is about trying to find that ability to share knowledge and share information and to use data to drive greater levels of insight and to think about: how do we try and maximise the opportunity to more efficiently utilise our footprint? Where do we think it is most efficient to have accommodation—which buildings, which location, which floors? Because, for example, the upper floors of a building traditionally cost more than the lower levels. So are there ways in which we can turn around and say, 'Well, do we really need to be on the 20th floor when we could be on the fifth floor?'. And are there benefits associated with that? So having DTF being able to be in the driver's seat for that I think is really important.

I think it is also important to think about the workspace ratio, and, as I indicated in a previous answer, we have managed to drive that down to about 12 square metres per FTE. That is an average, so clearly there are outliers at either end. So where are the outliers, and why are they outliers and can we drive greater efficiencies? How can we try and think about, for example, where you have got greater levels of occupancy rates, driving that down and being better at it? As leases come up how can we take advantage of the situation we find ourselves in to try and drive a better outcome for the taxpayer? With that you have got to be careful. You do have to be careful. It is almost low inflation. We are in a recession, but I think it is incumbent on us to demonstrate to the

taxpayers that we are taking this really seriously. How can we try and free up greater levels of budget capacity by just being more efficient? How can we try and drive greater levels of efficiency and reform by doing this more effectively, and how can we also ensure that the fit-out is done in such a way that it is cost-effective and that it saves money?

So I think with these things my experience is that if you are on the front foot and you are more hands-on with your management and your focus and you are not lazy and indolent, then you are more likely to derive better outcomes and achieve better efficiencies than if you are quite passive and held back. So I think having this level of funding that empowers us to go off and do this really important work and to drive those changes and to make sure that we have got the right settings is important.

Ms TAYLOR: Very good. If we could move along to financial management, you did mention in your presentation that you are responsible for whole-of-Victorian-government financial management. Sums of this size being outlaid in a short space of time will be a lot to oversee. What has the government been doing in this area to improve the way that government financial management operates?

Mr PEARSON: Yes. Look, thank you, Ms Taylor. One of the key elements of this particular area of work is the central banking system. This was something that was set up under this government—about trying to have a more coordinated approach to capital management. So rather than having money just sort of squirrelled away in a savings account earning 0.1 per cent interest, how can we try and aggregate those moneys and get a better outcome and a better return? How can we be more efficient in the way in which money is utilised?

The central banking system is something that we as a government have achieved and something I am really proud of. I think it goes to that point about just having good financial management systems and practices to make sure that we have got better quality services and infrastructure for Victorians. One of the other issues that we have done in addition to the central banking system is to release a new combined resource management framework, which has replaced the budget operations and performance management frameworks and financial operations frameworks as of 1 July 2020, and making departmental chief financial officers responsible to the Secretary of the Department of Treasury and Finance.

If you unpack those three areas of reform, as I said, central banking is about trying to drive greater levels of efficiencies across the general government sector. We are looking at expanding it to the public financial corporations, the PFC sector, as well as the public non-financial corporation sector. If you think about it, again, this comes back to my earlier commentary around aggregating our scheme to drive a better outcome. If we can start to aggregate this funding, then we are going to get a much better percentage return from our banker than if we just basically have it dispersed far and wide without any proper oversight or management. So I think that is incredibly important.

The CHAIR: Sorry to cut you off there, Assistant Treasurer. That concludes our time for consideration of the Assistant Treasurer portfolio. We thank you very much and your officials for appearing before us in that capacity today. 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 now take a short break and resume consideration with you of the regulatory reform portfolio at 5.45 pm. Thank you.

Witnesses withdrew.