

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into Budget Estimates 2016–17

Melbourne — 11 May 2016

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Mr Robin Scott, Minister for Finance,

Mr David Martine, Secretary,

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

Mr Joe Calafiore, Chief Executive Officer, Transport Accident Commission; and

Ms Clare Amies, Chief Executive, WorkSafe Victoria.

The CHAIR — I declare open the public hearings of the Public Accounts and Estimates Committee inquiry into the 2016–17 budget estimates. All mobile telephones must now be turned silent.

I would like to welcome the Minister for Finance, the Honourable Robin Scott, MP; Mr David Martine, Secretary of the Department of Treasury and Finance; Mr Joe Calafiore, Chief Executive Officer, Transport Accident Commission; Ms Clare Amies, Chief Executive, WorkSafe; Ms Gayle Porthouse, Deputy Secretary, Corporate and Government Services; as well as Mr Mark Johnstone, Acting Deputy Secretary, Economic, who is a witness in the gallery.

All evidence is taken by this committee under the provisions of the Parliamentary Committees Act, attracts parliamentary privilege and is protected from judicial review. Comments made outside the hearing, including on social media, are not afforded such privilege. Witnesses will not be sworn but are requested to answer all questions succinctly, accurately and truthfully. Witnesses found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty.

Questions from the committee will be asked on a group basis, meaning that specific time has been allocated to members of the government, opposition and crossbench to ask a series of questions in a set amount of time before moving on to the next group. I will advise witnesses who will be asking questions in each segment.

All evidence given today is being recorded by Hansard, and you will be provided with proof versions of the transcript for verification as soon as available. Verified transcripts, presentations and handouts will be placed on the committee's website as soon as possible.

All written communication to witnesses can only be provided via officers of the PAEC secretariat. Members of the public gallery cannot participate in the committee's proceedings in any way. Members of the media must remain focused only on the person speaking. Any filming and recording must cease immediately at the completion of the hearing.

I now invite the witness to make a very brief opening statement of no more than 10 minutes. This will be followed by questions from the committee.

Visual presentation.

Mr SCOTT — Thank you, Chair. I thank you for the opportunity to present to the committee. I will begin with a brief overview of the allocation of responsibilities within my portfolio before moving on to detail about better financial management, performance of the state insurers and the state superannuation liability.

The slide lists the key responsibilities of the finance portfolio in detail: the whole-of-government financial management and risk management frameworks; oversight of the Essential Services Commission and the Victorian Managed Insurance Authority; the Victorian Government Purchasing Board; land property and Crown land; WorkSafe and the Transport Accident Commission; government vehicle fleet; emergency services and state superannuation; regulation of housing agencies; DataVic and government intellectual property; CenITex governance and shared service provider.

Last year I reported the Andrews Labor government will review the service delivery and performance reporting framework to ensure outputs and performance measurements are meaningful to the Parliament and the community. As part of the review, the government has issued two new frameworks to support better financial management for the Victorian public sector.

Firstly the standing directions are designed to help the Victorian public sector achieve high standards of public financial management and accountability consistent with the Financial Management Act 1994. The new directions commence on 1 July 2016. The Department of Treasury and Finance undertook a comprehensive consultation process to ensure the revised standing directions would be fit for purpose. The Department of Treasury and Finance is supporting departments and agencies to prepare for implementation of the directions.

Secondly the Department of Treasury and Finance has also issued a new performance management framework. The new framework sets down mandatory rules and guidance for government and public sector planning, budgeting, service delivery, performance, monitoring, reporting and accountability.

Earlier I mentioned last year's commitment to seek better outputs and performance measures. As the Minister for Finance, I have engaged with lead ministers to improve departmental performance statements by realigning outputs to objectives, disaggregating outputs and improving performance measures. The Department of Treasury and Finance is engaged with departments to implement these changes. For example, in 2016–17 the Department of Justice and Regulation has already made some improvements to better align its outputs and objectives. Court Services Victoria has improved its performance measures. The Department of Health and Human Services has commenced a project to improve performance statements for the 2017–18 budget. The Department of Treasury and Finance has reformed its outputs to better align them with its objectives and departmental structures.

We will also consider reforms to the Financial Management Act to complement the new standing directions, increasing accountability for key financial management roles in agencies, such as accountable officer and the chief financial officer, and removing outdated and inefficient requirements.

Moving to WorkSafe Victoria, WorkSafe is in a strong financial position. Performance from insurance operations is a real measure of strength. The PFIO of 211 million was well above target, demonstrating good claims management practices and financial risk management. The accounting funding ratio at 30 June 2015 was 120 per cent, and the economic funding ratio was 155 per cent. The accounting funding ratio represents the extent to which assets are available to meet the accounting liability.

This liability is determined in accordance with the Australian accounting standards, which require the use of a risk-free discount rate derived from the commonwealth government bond yields. Under the state's prudential insurance standard, a risk margin is also included to provide a 75 per cent probability of sufficiency. As such, the accounting liability and associated accounting funding ratio are conservative measures that include both implicit and explicit margins.

The economic funding ratio has been measured since around 2011 and represents the extent to which assets are available to meet the economic liability. This liability is a best estimate value using the long-term expected investment return on assets as a discount rate. The economic funding ratio therefore provides a best estimate for a scheme's financial position without the inclusion of those margins. Since 2006–07 WorkSafe has reduced the average premium rate from 1.62 per cent to 1.272 per cent in 2015–16. This is the second-lowest premium rate in Australia.

Regarding WorkSafe performance, over the past nine years the number of claims per million hours worked in Victorian workplaces has reduced by 18 per cent. There were 26 757 reported claims in 2014–15, which is the second-lowest number of claims in 10 years since 2004–05. Despite the slight rise of 169 claims in 2014–15 when considering the number of hours worked, the rate of claims continues to decline. Victoria's rate of claims per million hours worked was reduced in 2014–15 by 0.4 per cent and confirms Victoria as the safest state in which to work. I am also pleased to report that there will be two new intakes of WorkSafe inspectors in 2016, which will allow more than 41 000 inspector visits per year. Workplace safety is a priority for the Andrews Labor government. Every Victorian deserves to return home safely from work at the end of each day.

Transport Accident Commission: the TAC is in a strong financial position with a performance from insurance operations of 413 million in 2014–15. The accounting funding ratio at 30 June 2015 was 92.3 per cent, and the economic funding ratio was 156.4 per cent. Again I reiterate the economic funding ratio is a more realistic measure, particularly in these times of very low interest rates.

The Andrews Labor government is committed to road safety and ensuring the long-term viability of the Transport Accident Commission. In 2015, 252 people were killed on Victorian roads and thousands were seriously injured. This is far too many. I am particularly concerned, along with the Victorian community, at the increase in road deaths this year. As a government we are committed towards zero. The Andrews Labor government will work to reduce the road toll and ensure we have a viable scheme that improves the outcome for those injured on our roads.

The TAC is investing \$30 million in the Residential Independence Pty Ltd, RIPL, project to create purpose-built apartments and units across Melbourne for seriously injured TAC clients. The project is an important initiative that addresses a shortfall in accessible housing for seriously injured TAC clients. It is designed around the principle that being dependent on others for simple everyday tasks is a major barrier to regaining quality of life following a debilitating injury. RIPL has completed four projects to date, which have created 21 individual

client apartments and units. These developments are located in Abbotsford, Lilydale, Glenroy and Frankston. RIPL is now proceeding with design and construction of three new developments. Each individual dwelling is fitted with a range of state-of-the-art technologies enabling people who have suffered severe transport accident-related injuries the opportunity to regain as much independence as possible.

The Victorian Managed Insurance Authority provides risk and insurance services to protect Victoria's assets and minimise losses from adverse events. The VMIA is in a strong financial position. The VMIA finished 2014–15 with a strong net result of \$403 million. Performance from insurance operations, which represents the VMIA's underlying financial performance, was \$331 million in 14–15. In 13–14 VMIA's PFIO was \$165 million. The improved result in 14–15 was due to a favourable claims experience for a number of insurance operations. The accounting funding ratio at 30 June 2015 was 133 per cent, and the economic funding ratio was 209 per cent. Again I reiterate the economic funding ratio is a more realistic measure.

This slide looks at the state's superannuation liability. The state remains committed to fully funding the unfunded superannuation liability by 2035, and the 2016–17 budget includes additional payments of at least \$1 billion in each of the years in the forward estimates to achieve this. The liability on a reporting basis — the solid line on the chart — is valued in accordance with the relevant Australian accounting standard, AASB 119, employee benefits, which requires a discount rate to be based on the yields of commonwealth government bonds. However, the actual funding requirements are determined based on the long-term expected investment return on superannuation assets. The liability on this basis is shown by the dotted line.

The superannuation liability on the funding basis is far lower on the reporting basis because the expected return on superannuation assets of around approximately 8 per cent per annum is considerably higher than prevailing commonwealth bond yields. As a rule of thumb, a 25 basis point reduction in the yield on the bonds that underlies the superannuation valuation is estimated to increase the reported liability by 1.4 billion and vice versa. However, it is important to note that changes in the reported superannuation liability that arise solely due to changes in the bond yields do not impact on the amount of cash that is required to fund the superannuation liability over time.

Thank you, and I look forward to taking questions from the committee.

The CHAIR — Thank you, Minister. I am aware, obviously, of the fact that you are not 100 per cent. Perhaps you would like to have 30 seconds. Are you okay?

Mr SCOTT — I am okay, but if I do, I will let you know. We will work through it.

Mr D. O'BRIEN — No quarter given in here, Minister. No quarter given.

Mr SCOTT — No quarter.

The CHAIR — I think that is very uncharitable given that the minister for WorkCover is at the table, Mr O'Brien — occupational health and safety and the like. We have got government questions until 2.22 p.m. Ms Ward.

Ms WARD — Thank you, Chair. Welcome, everyone. Hello, Minister.

Mr SCOTT — Thank you.

Ms WARD — Thank you for coming along, despite your rotten head cold. Sorry about that. I want to go back to your presentation, which was very interesting — thank you. In particular I want to talk to pages 7 and 8 regarding the TAC. Can you please outline for us the financial and other impacts of the TAC's investment in Residential Independence Pty Ltd? It is an incredibly interesting program.

Mr SCOTT — Thank you for that. RIPL, as it is referred to, is wholly owned by the Transport Accident Commission, and it is really working to facilitate independent living. It is something that is really quite inspiring when you visit individuals who have moved into an upgraded facility. The development is of purpose-built wholly accessible housing. It has got integrated assistive technology to assist tenants to live independently. This is people who have generally lived either with their parents or sometimes in shared supported accommodation. This allows persons to essentially have their own place to live, and that is actually really critical in the life journey of seriously injured transport accident victims — to have their own place where there may be support

services provided, but it is in the context of a home that is theirs. The TAC has invested 30 million in the RIPL project to create these purpose-built apartments and units across Melbourne for seriously injured TAC clients. The RIPL project really addresses a gap in the market. There is a shortfall in accessible housing for seriously injured transport accident clients.

Ms WARD — Is this why the market is not addressed? Why has the market not addressed for this?

Mr SCOTT — Because there really has not been a non-government provider of this quite specialised housing. I might at some point get Joe to supplement, but it is quite specialised housing whereby in-built to the design are state-of-the-art technologies that enable people who have suffered transport accidents to regain as much independence as possible. I will give you a couple of examples. There is design of kitchens, design of blinds that adjust automatically during the day and move and do not require a person. There is lighting similarly designed, and the floors of course are at one level.

Ms WARD — Purpose built?

Mr SCOTT — It is very much purpose built. These design developments are not readily available, and it is something the TAC is doing in a collaborative way with those who have been working in the RIPL project, particularly builders and architects. This mirrors a broader issue across Australia. The RIPL model addresses market failure that is unlikely to be resolved in the short or medium term. There will obviously be developments in the market post the rollout of the NDIS, and we will be looking at that in an interested manner, but at this point in time there is no analogous housing provision that meets this need. It is also something that saves money for the Victorian community. It is not quite understood, but the — —

Ms WARD — So is there a financial return with this? It is great that it makes an immeasurable difference to people's lives, but is there a financial return?

Mr SCOTT — Yes, and I might get Joe to make some comments in a second, but there has been some work done in terms of, say, the Abbotsford RIPL site. There are four sites, from memory, with 21 clients. The liability associated with the cost to the four RIPL clients in Abbotsford prior to the RIPL project stood at \$28.3 million. As of October 2015 the liability had reduced in relation to the clients after they had been housed at the RIPL project at \$25.8 million, a drop of \$2.5 million of liability. So it is a really interesting model whereby there are actually better outcomes for the person if they are given agency in their own life. I cannot emphasise how important that is for individuals — that they have a place which is their own. I have visited a number of RIPL sites and seen that sense of self and agency, but I might get Joe to supplement on the financial aspects.

Mr CALAFIORE — I think that is right. As the minister said, RIPL is very much the virtuous circle for the TAC. Because the health outcomes, the return to work and the recovery outcomes are superior because you are in appropriate accommodation, what it actually leads to is a financial saving. So if you look at the TAC, our largest liability is actually attended care costs. As the minister indicated, what you have got is a cohort of probably a bit more than 50 clients who are in inappropriate housing. The RIPL model actually allows the TAC to construct some shared services arrangements on the attendant care service provision. So in a sense the intent of RIPL is really the quality of life and the health outcomes of our independent clients. An outflow of the model is actually a liability saving. So as I said, it is a virtuous circle — —

Ms WARD — So when it is done properly it could actually save you money.

Mr CALAFIORE — Indeed, and quite significantly. We are speaking about just on the one site alone that the minister referred to in Abbotsford reductions of \$2.5 million in liabilities. Remember these are lifetime clients, so very small savings in attendant care result in quite significant savings for the TAC in the long run.

Ms WARD — How many people does RIPL plan to house? How far will this project expand?

Mr SCOTT — There are 21 currently. There is a list of the current 50 priority clients who need highly accessible and affordable accommodation, so there is a second wave of investment. What is the total number?

Mr CALAFIORE — At the moment we would say about 50 high-priority clients, as you indicated, Minister, but it is something that we are obviously constantly examining because unfortunately on the road safety front, if we cannot prevent these accidents, on current projections we are looking at about 85 clients by 2020 that we will be examining how we can look after.

Ms WARD — And would they be included in the other sites you are looking at — in Glenroy, Wheelers Hill and Southbank?

Mr CALAFIORE — In part. We have certainly got two developments that in the planning process, but I suppose our model and our future investments in housing are things that the TAC very much sees as a priority as we go forward.

Ms SHING — I just have a supplementary to the question around residential requirements. How will the Towards Zero strategy, which is designed to minimise obviously fatalities but serious injuries as well, have an impact on the requirement for that residential uptake? You indicated around 85, but have you done any modelling in relation to how that might change over time with the success, hopefully, of the Towards Zero strategy?

Mr CALAFIORE — Yes. I am happy to answer. In short, the Towards Zero strategy is a prevention strategy, so what we would hope is that the need for RIPL or this type of housing actually diminishes over time. It is very much ‘prevention is best’ in terms of whether it is TAC or whether it is workers compensation. However, what we know is that we are dealing with a growing population in Victoria, so I think we can confidently say that there is going to be a need, at least for the 50 to 100 catastrophically injured people going forward, and the fact that there simply is not a ready market solution that is available. So investment in appropriate housing is certainly front of mind in terms of our future strategies, but to your question the absolutely best result would be not to have seriously injured people killed or injured on our roads in the first place.

Ms SHING — But it is contingent upon the success of the Towards Zero strategy, as far as that prevention goes.

Mr CALAFIORE — Indeed.

Ms SHING — Thanks, Mr Calafiore.

Mr DIMOPOULOS — Just a quick one to either the minister or the officers. Minister, when you were talking before about the RIPL program you seemed to be reflecting on people you have met who have benefited. Can you give us, without obviously using names, a tangible example of the difference it has made to someone’s life?

Mr SCOTT — Yes, I will give a couple. The one that first springs to mind is the individual I visited at Glenroy. He had a plaque up on his house that said, ‘My house, my rules’. That was the first time for a very long period of time that he had had agency over his life in that way — that he had a place which was his. He had been living in an environment whether it was family or institutional care where he was not in charge of that environment; he did not have agency in his own life. I will not go into the detail of their injuries, but they had suffered significant injuries and had dealt with significant issues in their life, but he had a place which he could call his own. He was defining how people related to that space in a way that had not happened in his life.

I think that sense of agency and empowerment, which is a word that is often — in fact, frankly, I suspect too often — used in the political discourse, in this case is a really genuine empowerment. This is a space that was created and where he lives his life. I met other clients who had been involved in serious accidents and who had been living with their parents. While their parents had been providing a caring and loving environment, they were an adult, an individual, who wanted their own space in the world. This allowed them to return to a house to study aged care at TAFE and begin to establish their own identity again. It is that sense of identity and empowerment.

Then there was a little thing with another client I met, and this was actually in Frankston. This was not just a home for them; it was a home for their dog — a home for their companion in life — and they felt pride about having this space that was theirs. It was allowing her to get on with her life, to enjoy pursuits such as pottery, art and photography based from her home. This is very important; this is people’s homes — —

The CHAIR — Order! The Deputy Chair until 2.32 p.m.

Mr MORRIS — Thanks, Chair. Welcome, Minister. It is interesting. We have been talking about all the good work the TAC can do. Of course the more money you take out of it the less capacity it has for doing good

work. Budget paper 5, page 26, is the reference, and that is the estimates for dividend revenue from the TAC. In the 2015 budget the Treasurer stripped out an extra 476 million in dividends from state-owned corporations, compared with the anticipated dividends from the pre-election budget update. He has persisted in this tactic with this budget, stripping even more funds from state-owned corporations. Of the extra half-billion dollars in dividends the Treasurer has pulled out, 420 million has come from the TAC. Why have you targeted the TAC?

Mr SCOTT — I am happy to respond to that. There is a little bit of information, which I hope will help clarify the matter, that I will provide. The 2015–16 budget, in 2015–16, made an allocation of \$433.6 million for dividends from the Transport Accident Commission. Actually in this year there was an adjustment to the dividend, and I am happy to place this information on the record, so I think it will be of assistance to the member and the committee. The dividend was actually \$132 million, so there has been a reduction in 2015–16. There has been a rephrasing of dividends — so that is correct — by the Treasurer.

The process is the Treasurer, as you have correctly identified in the question, makes the determination about the quantum of the dividend. This is not immediately apparent in the budget paper; this is why I am providing it. But there has been a lesser dividend taken in 2015–16. So if you examine the period between 2015–16 through to 2018–19, which is the estimates period as it appeared in the previous budget paper, which is what you are making reference to, there has been a rephrasing of dividends whereby there is an increased dividend in 2017–18 of what was previously allocated in the 2015–16 budget from 405 million to 629 million, and the dividend is essentially the same in 2018–19. However, because there is a lesser dividend taken in 15–16, the total amount taken, by my estimate, is just under \$80 million less during that period. So the statement that there has been an extra amount taken during that period is not accurate, but I understand that material is not immediately apparent, because of the lesser dividend that has been taken in 2015–16, which does not appear directly in the budget paper table that you refer to. So I can understand the genesis of that question.

Mr MORRIS — Okay, so we take 80 million off that. There is still an extra 360 million coming out of the TAC.

Mr SCOTT — I do not believe there is an extra 360 — —

Mr MORRIS — Against PEBU.

Mr SCOTT — Okay. Against PEBU.

Mr MORRIS — Yes. Sorry, my arithmetic mistake — 340.

Mr SCOTT — Three-forty. — because I am working from figures from the 2015–16 budget, so I will take that element on notice.

Mr MORRIS — Just coming back to that adjustment, when will that be reported?

Mr SCOTT — I am making it available now, and I can make the detail of that from 2015–16 available to the committee as well. Just for clarity, I think that is appropriate. It would normally be reported in the end-of-year accounts, but I am obviously making it available at this meeting.

Mr MORRIS — As we know, you stopped taking dividends out of WorkSafe, but you have ramped up the take from the TAC by \$340 million. Why the double standard? If you are going to chase one, why not chase the other one?

Mr SCOTT — We gave an election commitment around the utilisation of funds in WorkSafe. At the last PAEC I indicated that there would be future allocations taken, in terms of funding, from WorkSafe, so there has been a decision in this budget not to take dividends from WorkSafe, but there is certainly an intention to take money from WorkSafe in the future — over future years. But the caveat that I put on that, which I did last year, and it is reflected I think in the Hansard transcript of the PAEC hearing last year, is that from any funding taken, the expenditure would be in accordance with criteria that have been established in the election commitment prior to the election.

Mr MORRIS — So we have still got this double standard: we take money out of the TAC with dividends, but there is an entirely different criterion for taking money out of WorkSafe.

Mr SCOTT — But I would indicate, and I do not want to be misleading, that there is money to be taken from WorkSafe. There is not in 2016–17, but it would be — —

Mr MORRIS — Nor was there the year before.

Mr SCOTT — It would be inappropriate for me to mislead the committee and say there will not ever be money taken from WorkSafe. I am not going to do that. But the money will be allocated in accordance — and used for purposes in accordance — with the election commitment.

Mr MORRIS — In a speech to the Melbourne Press Club in October 2012 the now Premier said, quote:

Fighting for fairness takes many forms.

And he talked about, again to quote:

... investing WorkCover surpluses in safer workplaces instead of plundering the scheme ...

But what is fair about ripping \$340 million out of road safety? A safer workplace is more important than safer roads?

Mr SCOTT — I have indicated that in future years money will be taken, and I have indicated the purposes. So I think the premise of the question — —

Mr MORRIS — The difference, with respect, Minister, and the now Premier's quote ties into this, that whatever comes out of WorkSafe will be for specific purposes — workplace safety. The money that comes out in dividends is money that is not available for investment in road safety; that is my point.

Mr SCOTT — I would make a couple of comments in response to the Deputy Chair. Firstly, that was an election commitment in relation to WorkSafe, so it is something we took to the Victorian people. The criteria were a little broader than just workplace safety: there was the health of the Victorian workforce. People may be aware in the committee that there is a commitment to re-establish WorkHealth. There is currently ongoing work that is actually fairly advanced within WorkSafe on that particular issue, so it is a bit broader than the issue that you have indicated. But I do not make an apology for the Labor Party honouring election commitments in the terms that we took to the Victorian people in relation to these matters. I would say that — —

Mr MORRIS — I do not believe you are taking to the Victorian people your intention to rip 340 million out of the TAC.

Mr SCOTT — I have indicated that we will seek further detail on the figures, because the information that I have from the rephrasing of the — from the 2015–16 budget, in the period 2015–16 to 18–19 — indicates that in fact dividends that would be paid are around \$78 million less, but again I promise to come back on — —

Mr MORRIS — I think we are working on a different basis. I am working off PEBU.

Mr SCOTT — I understand that, that we are working on a different basis, and the dividends were certainly announced in the last budget, so I am working from those figures. I do not have the PEBU information available to me. But we gave a commitment around the allocation of funding for WorkSafe and the purposes for which it will be used, and I think it is appropriate that we have honoured that commitment.

Mr MORRIS — Okay. Another quote from the then opposition leader, this time in October 2013, from a media release. He said:

Last financial year the TAC recorded a profit of \$973 million and the Napthine government have taken dividends out of the TAC's coffers —

every —

year since coming to office ...

This is an attempt by Denis Napthine to save money from a well-performing scheme at the expense of grieving families and injured road users.

Yet you are taking dividends from the TAC. You are taking dividends from the TAC every year and they are rising by my figures 340 million against PEBU. Are you aware of the statement that the now Premier made, and if you are aware, can you explain to the committee the apparent inconsistency?

Mr SCOTT — Well, that statement has just been put to me now. I was not at the press club at that time, so I — —

Mr MORRIS — It is a Labor media release.

Mr SCOTT — But in terms of the rising, my read of the dividends as they were announced in the 2016–17 budget indicates that in 2018–19 the dividend is down to \$187 million, which is less, so I think there is some issue about the characterisation.

Mr MORRIS — It might be down on your forward estimates, but it is up on PEBU overall.

Mr SCOTT — Well, that is an issue that, I mean — —

Mr MORRIS — No, there is no doubt about it.

Mr SCOTT — We announced in the budget in 2015–16 that was the budget, and now we are up to the 16–17 budget, and the dividend — —

The CHAIR — Order! Dr Carling-Jenkins until 2.41 p.m.

Dr CARLING-JENKINS — Thank you, Chair. Welcome, Minister, and I am sorry that you are not feeling well. It is a difficult session in the afternoon to deal with at the best of times, I am sure.

I would like to continue a little bit on the vein that Mr Morris was referring to, around the dividends in budget paper 5, page 26. I am coming at it from a different angle, however, because rather than wondering why money is being taken away from organisations, as Mr Morris seems to be alluding to, I would like to ask from the perspective of why these organisations seem to be expecting to be performing worse. So I am looking at the dramatic fall-off in dividends from the TAC, but especially from the Victorian Managed Insurance Authority. So as we can see from the budget papers, the VMIA goes from a dividend of \$165 million to just \$13 million over the course of that time. I just wonder if you can outline for the committee the reasons why there is such a sharp decline in those projections?

Mr SCOTT — Thank you. I might just get some further information, but I think there are two issues about which I would be careful, because the Treasurer makes the determination about the size of the dividends. Actually my responsibilities in the process relate to a consultative process that occurs, both with myself and with the organisation itself, and that revolves essentially around the financial impact and the capacity of the organisation to perform its function. The VMIA is not expected to significantly decline in terms of its profitability, from memory, but I might seek some further information on that. So I do not think you can draw a direct relationship between — —

Dr CARLING-JENKINS — It is not a direct correlation?

Mr SCOTT — No, there is not a direct correlation between the two. So there is a capacity to take dividends in such a manner that there is not a direct correlation, and I believe that in the outer years there is certainly a drop-off down to 43 and \$13 million. But I do not think you can draw the conclusion from that of a declining performance of the VMIA. The VMIA is in very strong financial health, and particularly its accounting funding ratio at 30 June 2015 was 133 per cent. I should have information here about the economic funding ratio; in fact I think it was in the presentation. The VMIA, particularly because a range of its liabilities relate to medical indemnity liabilities, which are particularly long tail — —

Dr CARLING-JENKINS — Sure.

Mr SCOTT — You can have an injury, including in childhood or at birth, and that lasts — —

Dr CARLING-JENKINS — Very long term.

Mr SCOTT — Very long term. The VMIA is particularly subject to the issue around what is called the economic funding ratio versus the accounting funding ratio, which relates to which discount rate is issued to determine liabilities versus assets. So on 30 June 2015 the accounting funding ratio was 133 per cent and the economic funding ratio was 209 per cent. And there is a particular issue at the moment because, as I am sure members are aware, we are at a historically low period of interest rates, and therefore the anomaly between the expected performance on return on assets and those of the low commonwealth bond rates mean you get a magnification compared to normal times, with the anomaly between the two accounting standards. So the information I have is that there is not going to be a significant deterioration in performance expected. I am happy to provide some further information, Dr Carling-Jenkins, if that would be of assistance, because it is a genuine question and a genuine issue. Although it is the Treasurer's decision, I do not believe there is a direct correlation that you should draw between the two, and also my advice is not that there is a direct drop-off in performance that could be drawn as an analogy from that change in dividends.

Dr CARLING-JENKINS — Okay. Thanks, Minister. I appreciate the assurance there, and I would appreciate further information, if you can supply that on notice.

I would like to direct your attention now to your role as the oversight of the Essential Services Commission, and to budget paper 3, page 109. Here we see that the Essential Services Commission is going to implement pricing regulations for port users following the port of Melbourne lease. We can see then in the same budget paper, on page 309, in the table 2.20, the relevant table of output costs, a significant climb in the cost of economic regulatory services, in the order of 40 per cent. Now there is a footnote there that attributes part of that to this new port of Melbourne regulation. So I just wonder if you could clarify for the committee how much the new port of Melbourne regulation contributes to this increase, and secondly, to what extent is this increase in annualised cost mitigated against the lump sum benefit received from the sale?

Mr SCOTT — Okay. I will provide some information to you. There is certainly increased funding for the Essential Services Commission. That is outlined in the table you referred to.

Dr CARLING-JENKINS — So that is page 309?

Mr SCOTT — Yes.

Dr CARLING-JENKINS — I know it is very hard to flick through.

Mr SCOTT — So there is 2.7 million but then \$6.5 million in 16–17. There are additional responsibilities that relate to a number of new output initiatives. So there is completing the port of Melbourne lease transaction. Sorry, if you just bear with me, because there are a number. Yes, it is here. The fair go rates system. There is also another regulation. I can — —

Dr CARLING-JENKINS — Is it the Victorian energy efficiency target scheme?

Mr SCOTT — Yes, the consumer protection for electricity and gas consumers as well. There has been funding provided that in effect bundles those three elements together — \$6.5 million. It is 2.7 in 15–16, and then it goes forward at 5.3, 4.9, 4.9. So that funding is in effect to deal with all of those three functions.

Dr CARLING-JENKINS — Sure. Can you separate out for me to what extent the new port regulation contributes to this increase? The increase overall, I understand, is around 40 per cent. What part of that is from the port?

Mr SCOTT — I do not have that information. Again, I can seek to check that in further detail.

Dr CARLING-JENKINS — Fantastic. In taking that on notice, could you also answer the second part of my question there, which was around to what extent this increase in annualised cost is mitigated against the lump sum benefit received from the sale? You can supply that.

Mr SCOTT — Okay. There is a large sum of money coming to the state, but that is for an asset sale, so we are talking about two different elements in the budget. There is the money that is achieved as an asset sale, which is an asset sale, and it sits in another part of the balance sheet, in effect, of the budget, and an operating expense. These are operating expenses.

Dr CARLING-JENKINS — I understand that. I just want to see the overlay or the correlation between them. But if that is not possible, I can — —

Mr MARTINE — As the minister indicated, these are output costs, so they will flow through to the operating statement. The actual long-term lease of the port of Melbourne will come in on the balance sheet, effectively switching one asset for another.

Dr CARLING-JENKINS — I understand that. So it is not possible to do that calculation? That is fine.

Mr SCOTT — As I understand it, it is just different parts of the assets.

Dr CARLING-JENKINS — We will do it ourselves.

The CHAIR — Order! Ms Shing until 2.51 p.m.

Ms SHING — Thank you, Minister, for your presentation and for answering the questions with other witnesses today in the course of the hearing. I would like to take you to page 2 of your presentation relating to better financial management and the new frameworks that have been referred to in standing directions for the Minister for Finance in 2016 and the performance management framework and also to budget paper 3, page 311, and ask you in particular what proportion of the VPS agencies were in fact compliant with the rules for public sector financial management prior to the introduction of these changes?

Mr SCOTT — Yes, I can provide further information on that. In 2014–15, 95 per cent of Victorian public sector agencies certified full or partial compliance with all direction requirements. That was broadly consistent with results from the past three years. Compliance levels are monitored internally by agencies and externally by portfolio departments, the Department of Treasury and Finance and auditors. So there was partial or full compliance by 95 per cent of agencies.

Ms SHING — What does partial compliance mean in that context, Minister, or indeed any of the other witnesses who can provide a bit of further information?

Mr SCOTT — There is some further information that can be provided. I can in fact granulate down further: 47 per cent of certifying agencies — that is 118 agencies — indicated they were fully compliant with all applicable directions; 48 per cent of certifying agencies — that is 121 agencies — indicated they were fully and/or partially compliant with all applicable directions; and there were 5 per cent who indicated they were non-compliant with one or more of the applicable direction requirements. Would you like to supplement that, Mr Martine?

Mr MARTINE — So in terms of partial compliance, it may be where the department has recognised that there is further work that they might need to undertake.

Ms SHING — As part of that self-regulation process?

Mr MARTINE — Yes. So they may then report that they are partially compliant with the particular requirements outlined in the directions. That is kind of where that comes from.

Ms SHING — Okay, good. Thank you for that clarification. So what was the consultation process that was conducted that precipitated the revision of the standing directions under the Financial Management Act?

Mr SCOTT — In early 2015 I instructed the Department of Treasury and Finance to conduct a detailed consultation on the revised standing directions with the Victorian public sector. The Department of Treasury and Finance consulted with all agencies subject to the directions, which is around 250 agencies in total. There was then an exposure draft of the revised directions published. There was then a process where the Department of Treasury and Finance received written feedback from over 60 agencies. The department also presented to relevant forums and regularly met with stakeholders. Much of the feedback from agencies was supportive of the policy rationale behind the key changes. Most of the feedback focused on the implementation issues. The directions were amended and further guidance was provided to clarify the directions.

Ms SHING — The directions were amended as a consequence of that consultation process?

Mr SCOTT — Absolutely. And this process of consultation significantly improved the directions themselves.

Ms SHING — In relation to the way in which that consultation process was undertaken and completed, can you tell the committee a little bit more about how the new standing orders will in fact modernise financial management and accountability in the VPS as referred to on page 2 of your presentation?

Mr SCOTT — Happy to do so, Chair. The key changes to the directions include implementing a tailored framework to address agency size and risks. Obviously smaller agencies by their nature require — in fact do not have often the capacity — less onerous responsibilities than larger agencies that are responsible for larger amounts of public funds. There is an increasing accountability of key financial management roles, such as the chief financial officer; making clear authority and accountability rests with the chief financial officer, which is generally in a department a deputy secretary of the department — sorry, generally the next level down; introducing new requirements for all agencies to plan and manage performance; strengthening reporting to government and portfolio; better controls and reporting for fraud and corruption; public attestation in annual reports and better compliance requirements; and improving the structure of protections to increase usability and cohesiveness.

Ms SHING — Do you have any views in relation to how machinery of government changes may impact upon the capacity to implement those changes as part of reforms to the standing directions?

Mr SCOTT — That is actually a very good question.

Ms SHING — I live to surprise.

Members interjecting.

Ms SHING — The last ones were awful, Ms Shing, but you are improving!

Mr SCOTT — The machinery of government changes will not have significantly altered, I think, the fundamental responsibilities as they exist under the standing directions. At a department level, similar responsibilities attenuate to departments, so the machinery of government changes I do not believe would have significantly altered the responsibilities or changed the implementation significantly. There are obviously issues for any organisation when you are bringing together machinery of government changes, and that can be a process that creates challenges, particularly in the first year of a process around machinery of government, but in terms of implementing in the time frame that we are talking about, starting from 1 July 2016, I do not believe that that would have a significant impact on the implementation.

Ms SHING — So those machinery of government changes would be subject, then, to the same amendments created by changes to the standing directions to modernise financial management?

Mr SCOTT — The standing directions would not themselves have been modified. There is not a necessary modification because of the machinery of government changes.

Ms SHING — Not as a consequence of MOG?

Mr SCOTT — No, not as a consequence.

Ms SHING — Thank you. That is what I was after. Are there any legislative reforms proposed to complement those standing directions as part of improving financial management?

Mr SCOTT — Yes. As I referred to in my presentation, we are looking at reforms of the Financial Management Act. I would say that the Financial Management Act is not considered the most newsworthy of legislation usually, but it is very important for the smooth running — I note even the Deputy Chair is laughing at my aside on that matter.

Mr MORRIS — Agreeing.

Ms SHING — He does not really agree, Minister; he loves it.

Members interjecting.

Ms SHING — I did not want to verbal the Deputy Chair but right now he is not sharing a view.

Mr SCOTT — As I have mentioned in passing, but I will provide some more information, the planned reform to the Financial Management Act is designed to increase the accountability of the key financial management roles in agencies such as accountable officer and chief financial officer and removing outdated, inefficient requirements. There has been an issue where the Financial Management Act, although at its time — and I will say this, that in fact it was under the Kennett government that it was introduced and there were some significant reforms that were undertaken in that period. Having been brought up perhaps campaigning against the Kennett government into politics, it is not always I say such things, but there was a significant reform to the Financial Management Act at that time.

However, it is now over 20 years later. I know there has been work over a period of time and in fact I would indicate that that process is something which I would hope would sit outside the normal cut and thrust of politics that we could have. I would welcome engagement with members of committee and in fact other members of the Parliament around improvements, because the effective expenditure of public funds, which is what lies at the heart of the Financial Management Act and its accountability both to government and the community, is something that really is important for all participants in the political process and it has a measurable impact over time of improving the delivery of services, which is what the appropriations for funding are for.

There are issues. The act was originally drafted on a cash basis rather than an accrual basis budgeting and financial management environment and retains outdated requirements and procedures that do not contribute to effective financial management. I am not sure how many journalists are in attendance. I am not sure that they will be diving for their telephones to ring their editors, but nonetheless it is actually a very significant — —

Members interjecting.

Mr SCOTT — All jokes aside, this is actually a very significant area of public policy and it is important that we have a Financial Management Act that appropriately reflects the needs of 2016 and forward. That is something that should be undertaken in the sort of spirit of the best elements of the Westminster system, rather than some of the worst, which we all participate in at times. But it is important to get right.

Ms SHING — Are we then keeping pace or outpacing changes in other jurisdictions at a state or federal level in relation to the rigour of financial management and the statutory framework more generally? Mr Martine, this might be one that you can either take or indeed take on notice in terms of how we compare with other jurisdictions.

Mr MARTINE — Happy to make sort of a general comment. As the minister indicated, it has been a long time since we have reviewed the legislation. Therefore it is not unusual for legislation at a particular point in time — —

The CHAIR — Order! The Deputy Chair until 3.01 p.m.

Mr MORRIS — Thanks, Chair. It might be helpful if those comments were on notice, if that is not too much an imposition. Minister, can I ask you about the Victorian Asbestos Eradication Agency?

Mr SCOTT — Yes, you can.

Mr MORRIS — Budget paper 5, page 42. Basically I am seeking information here.

Mr SCOTT — Yes. I am happy to provide what information I can.

Mr MORRIS — Because the information is obviously pretty scant. We have got a media release and, as far as I can find, one line in the budget papers. Apart from noting that it will be established as a PFC, I cannot see any appropriation, and I am just wondering exactly what the role of the agency is and how it will carry out its functions.

Mr SCOTT — I thank the Deputy Chair. This is actually an important issue you raise and so I will just make one general comment. I recently attended a commemoration for those workers who have lost their lives and there was a very moving tribute made by a worker who was suffering from asbestos-related conditions.

As you said, the Victorian Asbestos Eradication Agency will be established as a state body under the State Owned Enterprises Act as a subsidiary of WorkSafe Victoria. However, it will be a legally separate entity from WorkSafe Victoria. Its key functions are an aggregate register of asbestos in government buildings outlining the presence and condition of asbestos and a report to cabinet that plans for and advises government on prioritising the removal of asbestos in these buildings. This will be based on risk management principles. These deliverables will be due approximately 18 to 24 months after the establishment of the Victorian Asbestos Eradication Agency. The actual removal of the asbestos following the advice to government will be undertaken by the relevant department and agency, so it is not a body, in a sense, that is a delivery agency in that way. I think it is important to clarify where roles start and finish.

The Victorian Asbestos Eradication Agency will have a board of one director. It is likely — this is not the final decision, but I am happy to share with the committee the thinking on the matter — that this could be chosen from the existing WorkSafe board. That is the likely thinking at this point, but a formal decision has not been made, so I characterise it in that way. The funding required is expected to be approximately \$3 million to \$5 million per annum for the initial set-up and planning phase. This may be subject to a funding bid from the Consolidated Fund from WorkSafe Victoria. There is a decision around the funding which is yet to be made, so there are a couple of different options. There is an option of there being funding from consolidated revenue, there is an option of funding from within WorkSafe — there is not a decision at this point about that funding, but I would flag that that is the sort of level of cost associated with the establishment, particularly in its initial phase and set-up and planning phase.

The Victorian Asbestos Eradication Agency will have an ongoing liaison with the asbestos regulators and key departments in developing key deliverables through the Victorian asbestos forum. There is of course a commitment in the 2015–16 budget of \$100 million to implement an election commitment in relation to the Department of Education and Training to audit government schools, remove current high-risk asbestos and replace relocatable school buildings containing asbestos. The essential role of the Victorian Asbestos Eradication Agency as it is defined now will be to develop an aggregated register and prioritise removal advice of asbestos in government buildings.

The Victorian Asbestos Eradication Agency will take the Department of Education and Training asbestos works program into account when developing these deliverables. There is a relationship between the existing commitment and the authority — they do not exist in complete isolation because the work being undertaken at the department will be taken into account by the Victorian Asbestos Eradication Agency. I think this is a really valuable addition because it is important to note that this is a new agency, but that sort of work — to deliver and to audit, to do the audit function and to do a significant audit of Victorian government buildings and the asbestos contained within — is a really important, in fact a necessary, step in asbestos removal into the future.

Mr MORRIS — I am interested in the relationship between the work that this body will do and the education department particularly. Minister Merlino yesterday indicated that the audits of school buildings were now complete. He also indicated that the audits had not covered the school grounds. Obviously this is the body that is going to look well beyond education, but is it likely to cover shortcomings like that one?

Mr SCOTT — I will be careful what I say, because obviously I am taking you in good faith to be reporting what — —

Mr MORRIS — You have not got the transcript; I accept that, yes. I have endeavoured to — —

Mr SCOTT — And I am sure you have.

Mr MORRIS — I am sure I would have been shouted down had I not been.

Ms SHING — I would not shout at you, Mr Morris.

Mr SCOTT — It is certainly intended that the Victorian Asbestos Eradication Agency will take the work program of the department into account in establishing the register and working through the audit. I would be working from the presumption that it will be interrelated work and the work that has already been undertaken, in the context of your question, would be taken into account. It is really designed to establish a quite comprehensive register across the Victorian government, if that provides a useful response.

Mr MORRIS — That is good. Just one final one on that matter: will the agency be operational as opposed to established by the end of 2016?

Mr SCOTT — It is expected to be established by the end of 2016 — —

Mr MORRIS — Can I ask that another way — when do you anticipate it will be operational?

Mr SCOTT — It would be dependent on the ability that it has upon being established to get underway. Is there any advice you can provide?

Ms AMIES — No.

Mr SCOTT — I can provide some further advice to you on that.

Mr MORRIS — That would be helpful.

Mr SCOTT — The public commitment has been the establishment by the end of 2016.

Mr MORRIS — I understand. I am just interested in what happens after that.

Mr SCOTT — In terms of the further work that it would undertake and the time frame in which it would be operational, again, I will see what we can do.

Mr MORRIS — Okay, that would be useful. Just on an entirely different matter — the matter is the Essential Services Commission. I do not have a budget paper reference directly in front of me, but I just wanted to ask a question on behalf of — not at the request of, but seeking an answer to an issue that was raised by — the municipal association with regard to the Essential Services Commission and the allocation of funding for the rate capping framework. They have a figure in their media release of 24.3 million. I think that included the 15–16 year, so it is a little bit inflated, but they say that money has been provided over five years for administration of the rates capping framework and other regulatory functions. The allocation does not indicate whether the government will pay for applications for rate variations beyond year one of the framework. Are you in a position to respond to that?

Mr SCOTT — I can provide some advice. There is certainly funding in this current financial year; I can confirm that. There is not a cost recovery, in effect, on councils, and there is funding to make a determination. I can provide some further information. There is a DELWP role obviously in terms of public policy decisions, and this is one of the issues with the Essential Services Commission — I am not seeking to avoid the question — because it has a central function and then it relates to a series of agencies and departments in how it operates. An analogous situation is there are often reports that are undertaken, and those reports relate to a public policy area outside. The function that I have as the finance minister is for the operation of the — —

Mr MORRIS — I understand the distinction, yes.

Mr SCOTT — There would be a public policy decision made within the local government portfolio about future years, but certainly I can confirm in 2016–17 that it is effectively being funded by the central government.

Ms PENNICUIK — Thank you, Minister. I hope you are going okay there and not struggling too much with your cold. Welcome, this afternoon.

Mr SCOTT — Fisherman's Friends do wonders. I do not want to give a gratuitous — or similar products.

Ms PENNICUIK — Lozenges, you mean, in a general sense.

Mr SCOTT — In a general sense. I am not here to give product placement.

Ms PENNICUIK — Welcome to Mr Martine and everybody else from WorkCover, TAC and the department. Thank you for coming along. If I could start, I just wanted to make a comment on your answer to Mr Morris's question about the asbestos eradication agency, just to say it is good to see that issue making some progress. It is one that I have been following and advocating for a long time, but just to say also that we need to

move it into the whole consumer realm because we have a very large problem with asbestos in situ in buildings that are not government buildings.

If I could also begin by following up on Dr Carling-Jenkins's question and Mr Morris's question as to the breakdown of that costing for the Essential Services Commission. Because if you look on budget paper 3, page 309, the economic regulatory services increased from 17.6 million to 24.6 million, and then you referred us to page 108 where there are the breakdown figures: 2.7, 6.5, 5.3, 4.9 and 4.9. That comes to actually 24.3, not 24.6, so it is all a bit confusing, what the breakdowns are there between rate capping, the Victorian energy efficiency target and the port of Melbourne. Anyway, I think that is what we are all trying to get, and if we could get that on notice.

Mr SCOTT — Yes.

Ms PENNICUIK — Just following up on that issue, the oversight of the Essential Services Commission, if I could refer you to budget paper 3, pages 316 to 317, and if you could just bear, I have got sort of a detailed introduction to my question. There the target set for the number of reviews, investigations and advisory projects in 2016–17 is two, which is down from the target of four for the current year. One of these investigations I am presuming is the Essential Services Commission inquiry into distributed generation. That inquiry will explore the different opportunities through which a redesigned feed-in tariff can signal to investors and potential investors the true value of the electricity they may have available for export into the system.

This is all well and good; however, the ESC has been given an extension by you, the Minister for Finance, to provide its final report in February 2017. This is problematic because three of the existing four feed-in target regimes will expire on 31 December this year, and they are: the transitional feed-in target, which closed to applicants on 31 December 2012, which pays 25 cents per kilowatt per hour; the standard feed-in tariff, which closed on 31 December 2012, which pays the one for one to households based on their retail prices; and the minimum feed-in tariff, which applies to all systems installed since 1 January 2013. That has been cut from 6.2 to 5 cents per kilowatt hour.

Minister, by approving the request for the extension, it appears that you would be leaving the 245 000 households and small businesses that have rooftop solar without any overarching price.

The CHAIR — Sorry, Ms Pennicuik, is there a question?

Ms PENNICUIK — How do you propose to ensure that those households that have rooftop solar in Victoria are provided a fair price for their exported electricity come 1 January, the day after their feed-in tariffs expire? What regime will they be covered with? I did say it is a detailed intro, but it is important to lay it all out.

Mr SCOTT — I accept that it is a detailed question. This goes to the issue in fact that I was discussing with the Deputy Chair about the relative roles in relation to the Essential Services Commission. It exactly pre-empts — the report itself is at the request of another minister, Minister D'Ambrosio, who is appearing on Friday, 20 May, and the public policy response to the report in fact would be undertaken by that minister. I note that your question relates to a procedural matter. I think in terms of the issue that you are raising, the substance of it falls within the responsibilities of the Minister for Energy and Resources, whereas my role is much more a procedural role and a role in terms of ensuring the effective operation of the ESC. I am not seeking to avoid answering the question, but it is a question that is better put to the Minister for Energy and Resources in terms of the response. It is exactly what I was discussing with the Deputy Chair in terms of the responsibilities as they lie in response to the Essential Services Commission.

Ms PENNICUIK — So, Minister, just in terms of the extension for the reporting by the Essential Services Commission, which I would have thought is the underpinning of any future policy on the feed-in tariff, why did you, because you are the oversight minister, allow that extension?

Mr SCOTT — I can provide some further information. I have not got that material immediately before me, but I can provide some further information in terms of the context, if it is appropriate. I can provide some general information on the report, but that is not what you are really seeking.

Ms PENNICUIK — Well, I hear what you are saying about the Minister for Energy and Resources but, as I understand it, it is you as the minister overseeing the ESC that gave the extension that has caused this sort of gap — policy gap.

Mr SCOTT — I can endeavour to provide you with some further information on that issue, but some of the substance of the response as it relates to the energy transmission and the issues that attenuate for the household rooftop solar that you are indicating really fall within the purview of the Minister for Energy and Resources.

Ms PENNICUIK — I do not think we need to go over this one any further, so I will look forward to that information. Minister, if I could just raise a different question. I have raised it with the Minister for Education — the issues coming out of the IBAC Ord inquiry and the recommendations there with regard to financial oversight of the departments. I understand that the DTF has an oversight role there, or should have an oversight role there, and I just wonder if you could make any comments with regard to what DTF is doing in terms of that and how the lessons learnt there may be informing your actions and how that may apply to other departments.

Mr SCOTT — We are introducing, as I was outlining previously, new standing directions in order to strengthen accountability. There has also been work that has been undertaken, and there is ongoing work. I have got to be careful. I am happy to provide some further information on this, but procurement itself — there are responsibilities I have for procurement, but procurement in the education sector is actually conducted outside of my direct responsibilities with government. It is not a responsibility for the Victorian Government Procurement Board, which I have responsibility for. There is a body within education which, although it is out my responsibilities, I am certainly aware of.

If you could just hold on for 1 second, because I can provide some further information on that which relates to the structure of procurement. The Victorian Government Procurement Board, which I have direct responsibility for as the minister — there is some education procurement which has taken place. It was actually outside of the Victorian Government Procurement Board previously, but in terms of the actions the DTF has been establishing, there is both the work that is undertaken in terms of better financial management and:

... strengthened controls and reporting for fraud and corruption to improve processes and ensure that government is informed appropriately —

which is direction 3.5. The previous directions included prescriptive requirements for thefts — to report them at a certain threshold — but were silent on broader issues such as corruption.

Ms WARD — I will keep my question brief. What I would ask you to do, Minister, is hop onto budget paper 2, page 20, where just under the graph there is a sentence that says that we will make ‘a series of commitments to support jobs growth in the Victorian economy’ and there is reference to the \$200 million for the Regional Jobs Fund. Is the government on track to deliver the job opportunities for people within our regions, and how does this work with WorkSafe’s move to Geelong?

Mr SCOTT — Oh, okay. WorkSafe moving to Geelong really is a good news story. I know that we have had a lot of work that has been undertaken within WorkSafe but also with the Geelong community in terms of the move by WorkSafe. I might get Clare to supplement. There is over 700 jobs that will move in effect to Geelong, and that will have a multiplier effect.

Ms WARD — Where are they moving from? Mainly Melbourne CBD?

Mr SCOTT — Essentially they are based in the Melbourne CBD — in fact about a kilometre down the road, or a bit less than a kilometre down the road from us here today.

There are a couple of elements to it. There is a building that is being built at 1 Malop Street, Geelong, which is being developed by Quintessential Equity. The building is on the edge of the Geelong central business district, close to the Geelong train station, and the view in Geelong is not only will the construction of that building create jobs through the construction process itself but it will also revitalise, so you have a large number of persons coming down.

Ms WARD — Do we know how many jobs will be created by the building?

Mr SCOTT — I might get Clare to supplement, because there is a couple of different ways you can measure this. There is the number of jobs at any one point in time and there is also the total number of persons who would be working on the construction site.

Ms AMIES — That is correct. Part of the tender process and the contract for Quintessential Equity is to ensure that they are using locally sourced contractors. The builder is Built construction. They have done work in Geelong previously, and also at the same time the first phase of the Epworth hospital at Waurin Ponds has been completed, so the number of contractors available in the Geelong region as we are starting building, as we speak — we have just started the first phase of demolition to begin building — most of them will be contracted from the Geelong region. So in terms of numbers, we can come back to you with more specific numbers if you would like in terms of contractors as well as Quintessential Equity and Built.

Ms WARD — Thank you. Are we able to project how this will benefit Geelong? Are there some real benefits here in an economic sense?

Mr SCOTT — Yes, there is the building itself and the injection of around \$120 million through the construction of the building itself. I can give some further information in terms of during construction and the creation of new jobs that do not currently exist, because there is a couple of different metrics you can use — the construction, which is 22 new full-time jobs and 3 new full-time apprentices to support local suppliers and contractors. That will be a direct benefit for the Geelong community. There is also an understanding that this is not going to be the only tenant in terms of the building, so there will be attraction of other businesses.

Ms AMIES — There will be.

Mr SCOTT — So while WorkSafe is the anchor tenant, with a 15-year lease that allows the construction to take place, WorkSafe will not be the only tenant. In terms of the time line of when this benefit will accrue to the Geelong community, the first employees will be relocated in 2016. Although the building will not be constructed — because the relocation is expected, the building is expected to be completed in 2018 —

Ms AMIES — That is right.

Mr SCOTT — There is potential for accommodation at the Transport Accident Commission building — about 150?

Mr CALAFIORE — That is right.

Ms AMIES — One hundred and fifty.

Mr SCOTT — Yes, 150 workers can move down prior to the construction being completed on the Malop Street building. That means the injection and the benefits that will accrue to Geelong generally will start occurring at an earlier juncture. So this is a staged process — that would be the best way to describe it — and one of the critical elements is that there will be people who move from Melbourne to Geelong and that will obviously increase economic activity in Geelong. There are some persons who will commute to Geelong and it is very conveniently located near the Geelong railway station. They will, of course, spend money in the Geelong economy. You will also have the recruitment of staff from the Geelong area.

I think it is important in the context of the challenges facing Geelong currently — and there have been a range of terms used — that you will have an insurance centre of excellence being created where you have got the Transport Accident Commission, a move that took place under the former Labor government. We are then going to have the NDIA being relocated; there is still work going on about where they will be located, but they will be located in the Geelong area. And you will have WorkSafe located in Geelong.

So you will have something which is really important in the modern economy, which is that you will have a cluster of economic activity and a real sort of centre of gravity around insurance being created in the Geelong area. There is work being undertaken with Deakin University. There is also other work being undertaken with business and other educational providers.

Mr DIMOPOULOS — Minister, thank you. Can I take you somewhere else now?

Mr SCOTT — Yes.

Mr DIMOPOULOS — Thank you very much. Budget paper 3, page 322 — shared service providers.

Mr SCOTT — I was only getting started.

Mr DIMOPOULOS — In relation to shared services, you touched on it in your presentation. I just want to get a sense, essentially, of what the benchmark is, how you measure the value it delivers for the Victorian government in a whole range of different areas — maybe starting with procurement. Do you have a bit more detail?

Mr SCOTT — All right. Procurement is a very complex area as we started to work through previously. Shared services look at a number of services that are provided across government. So you have individual departments allocating resources, but you have shared services. I can get some figures for the benefits of shared services. There are contracts where we have shared services, and there is a figure I can get. If you just hold on for one second.

Mr DIMOPOULOS — Of course. While you are looking for that, there is a governance arrangement that comes with shared services. So Treasury and Finance runs some kind of governance arrangement and each department has responsibility as well. I asked something similar last — —

Mr SCOTT — I have got some figures, sorry. Please continue.

Mr DIMOPOULOS — Sure. If you could address governance after that?

Mr SCOTT — Yes. So in terms of shared services, shared services providers has realised approximately \$50.2 million in benefits and there is a management of spend figure — the sort of scale of it — in 14–15 of \$760 million that relates to shared services. There was establishment in 2009. It is within DTF, and it was designed to aggregate services such as accommodation, libraries, carpooling services and designed to create savings and efficiencies for the public sector, deliver more strategic coordinated shared services to support further innovation efficiencies, aggregate procurement opportunities and ensure central areas of expertise and shared service delivery and allowing agencies to focus on their core business.

One of the problems in government — and this is an issue — without there being shared services, and there are also issues around the Victorian government procurement board, you can have decisions being made at an individual level where there is not efficiency being achieved.

Mr DIMOPOULOS — So, Minister just on that, and maybe on notice — —

Mr SCOTT — I can get to the governance.

Mr DIMOPOULOS — Governance, yes, perfect, thank you.

Mr SCOTT — So through the Department of Treasury and Finance the governance is provided for shared services. Do you want to provide any information?

Ms PORTHOUSE — In terms of the governance?

Mr SCOTT — Yes.

Ms PORTHOUSE — There is a governance board. The governance of the SSP, Shared Service Provider, is through the DTF Board and that also answers through to the VSB, the Victorian Secretaries Board.

Mr DIMOPOULOS — So how does the procurement board fit into that?

Ms PORTHOUSE — The VGPB?

Mr DIMOPOULOS — That sets broad policy, does it?

Mr SCOTT — That is more a policy generator. This is where there is a little bit of confusion. The Victorian government procurement board sets up policies rather than providing direct services.

Mr DIMOPOULOS — Okay. I understand.

The CHAIR — The Deputy Chair until 3.31 p.m.

Mr MORRIS — I want to return to the issue of WorkSafe and the TAC. You referred to both in your presentation, so I will use that for the reference. On 30 January last year, and we did discuss this briefly in the last estimates hearing, you announced a review of WorkSafe and the TAC. You indicated in your media release in fact that the report would be received by the government in the middle of that year — that is, the middle of 2015. The terms of reference for the review were not disclosed. Half of the release basically rehashed information that was already well known to the public and the balance identified that the chair of the review was to be Mr James MacKenzie. The release listed a number of appointments that Mr MacKenzie has held over the years, in fact at length, but it failed to disclose that he was a director of Maurice Blackburn. Minister, why did you not disclose Mr MacKenzie's directorship of Maurice Blackburn when you announced his appointment?

Mr SCOTT — I think this is a matter that has been canvassed previously. Mr James MacKenzie — the terms of reference did not go to legal policies or procedures of WorkSafe, nor to common-law rights of injured workers. Mr MacKenzie put in place steps to ensure that any conflict of interest was managed, and I am quite comfortable with the steps that he put in place. He excluded himself at Maurice Blackburn from WorkSafe-related discussions. I do not believe that the issues relating to Mr MacKenzie's role at Maurice Blackburn — I think that they were handled appropriately by Mr MacKenzie and I do not believe that that matter created significant issues in relation to the report because of the nature of the terms of reference not going to legal policies.

Mr MORRIS — But, Minister, in your press release, which as I have indicated was extensive in terms of Mr MacKenzie's former career, you have disclosed he had been CEO of the TAC, of Norwich Union Australia, managing director of funds management and insurance at the ANZ, chair of the TAC and WorkSafe, director and chairman of MIRVAC, a member of the COAG Business Advisory Forum, but you did not disclose that he was a director of Maurice Blackburn. You gave us a whole lot of information, but you, presumably deliberately, withheld that information about his directorship of a firm that has an interest in this matter. I am asking you not whatever steps Mr MacKenzie may have put in place; I am asking you why you chose not to indicate publicly that he was a director at Maurice Blackburn?

Mr SCOTT — I reject the inference — it is not just the inference, the explicit indication that there was an overt decision to exclude that information. Information is included in terms of people's CVs. He is a very eminently qualified individual who has served the Victorian community very well over a number of years, and I — —

Mr MORRIS — I am not disputing his qualifications. I probably would not have appointed him personally, but I am not disputing that he was probably an appropriate person in terms of his background. I am asking why you did not disclose his directorship of Maurice Blackburn, when by your own admission on a question on notice last year you indicated that you had become aware of that prior to appointing him yet you did not make that information known to the public.

Mr SCOTT — It is certainly known to the public now. It was not a conscious decision. To go to the question — —

Mr MORRIS — The question is: why did you not make it known to the public? Why did it have to be dragged out?

The CHAIR — Order! The minister is answering your question, Deputy Chair.

Mr SCOTT — I can assure the Deputy Chair there was not a conscious decision to remove that information. This is a matter that took place over a year ago, but I certainly do not believe there was a conscious decision to remove that information from any material provided to the public.

Mr MORRIS — There is a tactic sometimes known as lying by omission. I am not suggesting that you have lied, but clearly there is a serious omission. I am wondering what credibility the result of this inquiry can have when this information right at the outset — a relevant, serious piece of information — was not brought to the attention of the public. Some might say concealed from the public, but I will take you at your word.

Mr SCOTT — I am not sure there was actually a question in that, more an observation.

Mr MORRIS — I am asking what credibility the inquiry can have.

Mr SCOTT — The credibility in relation to work undertaken in terms of WorkSafe and TAC that Mr MacKenzie undertakes relates to the experience and unique insights through the many years of experience he has had in relation to both organisations and the extended period of distinguished service to both the Victorian community and the public and private sector.

Mr MORRIS — You read that beautifully, I must say.

Mr SCOTT — I did not actually read a word of it.

Mr MORRIS — Minister, we have, as you know, rules around conflict in this place. There are rules around conflict in most workplaces now, as there should be. You say in that answer, and you reiterate it now, that you think he took appropriate measures. You say that, ‘No, there wasn’t a conflict’, but there is no evidence that there is not a conflict. Basically I have got to take your word for it, because the terms of reference of the inquiry are still cabinet in confidence, still not known to the public.

Mr SCOTT — As I indicated, Mr MacKenzie handled the conflict of interest at the time at Maurice Blackburn by excluding himself from WorkSafe-related discussions. The terms of reference did not go to legal policies or procedures of WorkSafe, nor common-law rights of injured workers. With all due respect, Deputy Chair, I understand the inferences you are seeking to make but I do not accept them.

Mr MORRIS — As I mentioned a couple of minutes ago, the terms of the reference were cabinet in confidence. Why?

Mr SCOTT — Obviously decisions made by cabinet are of themselves cabinet in confidence, but a decision has been made in relation to both the terms of reference and in fact the report is still subject to cabinet-in-confidence consideration. I will say this: there are matters in relation to the report that still require further consideration by the cabinet, so I am not at liberty to give those details since it is a cabinet-in-confidence document. I can say this: there are still matters which would relate to further decisions of government.

Mr MORRIS — I was going to ask you had you received the report. It would appear that you have. How long have you had it?

Mr SCOTT — It was certainly mid last year but I do not have an exact date of when it was received. That again relates to a cabinet document. I am a little bit wary about what cabinet information should be received, but I certainly can confirm it had been received by myself.

Mr MORRIS — You have had it, by your own admission, for the best part of 11 months. What is taking so long?

Mr SCOTT — There are matters relating to the report for which there will be future cabinet decisions.

Mr MORRIS — Presumably on this time line it took 5 months to prepare the report, but you have had it for 11 and nothing has happened.

Mr SCOTT — As I said to you, Deputy Chair, there are matters in the report that will be subject to further decisions of government and therefore the report remains a cabinet-in-confidence document.

Mr MORRIS — Minister, I understand from your response to the question on notice last November that Mr MacKenzie consulted with the boards of both organisations, with the CEOs, Trades Hall, plaintiff lawyers and with some employer groups. Do you intend to consult with the Victorian community, or can we expect another fait accompli, with a report simultaneously released — that is, if it is ever released — and then implemented without the opportunity for actual public discussion about the matter before it is implemented?

Mr SCOTT — Well, it is hard for me to answer that question since there are still cabinet decisions that relate to matters, so I cannot respond to the substance beyond saying they are still subject to cabinet in confidence. But I would say that as a general proposition in relation to WorkSafe, the consultation processes have been significantly enhanced during the period of this government. There have been a number of — —

Mr MORRIS — I am talking about consultation with the community beyond the WorkSafe club, which clearly has not been undertaken at this point.

Ms SHING — WorkSafe club?

Mr SCOTT — I would not accept the characterisation, Deputy Chair, of a WorkSafe club. I think that there are dedicated — —

The CHAIR — Order! Ms Shing, until 3.38 p.m.

Ms SHING — Thanks, Minister. It is good to know there is not an accepted terminology around the WorkSafe club. Minister, I take you to budget paper 2, page 11, in relation to the allocation of \$247 million across a range of mental health services, including \$28 million for expanding suicide prevention initiatives to reach out to people who need support. I note that this is part of a broader commitment to improving poor health and safety records for people across the Victorian workforce. In relation to the public sector and its experience of non-physical injury around poor health and safety, how is WorkSafe actually taking action to improve health and safety across the board?

Mr SCOTT — Thank you for that question. Occupational health and safety in the public sector is actually a very important issue for a couple of reasons. Firstly, for the reasons you alluded to, of the health costs of individuals who are members of the public sector. There is also another element in terms of a PAEC process, which element is of course that the more unsafe and the worse that occupational health and safety is in the public sector, the higher the cost to government of WorkSafe premiums because of the way in which premiums are derived. So there are two, but I think the way in which you framed it around the welfare of individuals and the expenditure of public funds is a reasonable one.

WorkSafe is working with government on a number of initiatives, one of which is the Occupational Health and Safety Compliance and Enforcement Review, which was an election commitment to review WorkSafe's administration and enforcement of Victorian occupational health and safety laws and regulations. It consists of an expert panel whose task it is to review and strengthen occupational health and safety standards across the state. There will be recommendations made to improve health and safety outcomes for Victorian workers, ensuring that Victorian workplaces, including the public sector, remain safe, and particularly relatively safer than other workplaces.

There is also the public sector occupational health and safety leadership group, which very directly relates to the issues you have raised. The government established the public sector occupational health and safety leadership group in August 2015 to drive improvements in key areas of health and safety across the public sector, including emergency services. I am pleased personally to chair this group, which includes senior representatives from the public sector, often at the secretary level, and key stakeholders.

The purpose of the leadership group is to provide a forum for public sector heads to share insights and foster commitment to improved occupational health and safety outcomes in the public sector. The role of the leadership group is to focus on identifying key trends, issues, barriers, innovations affecting public sector occupational health and safety culture and performance. I would praise the work that WorkSafe has undertaken in supporting the public sector occupational health and safety leadership group and the commitment from within the government at both a policy level but particularly at an implementation level within departments to work on these issues. There is a — —

Ms SHING — Sorry, Minister, just to take you to what is happening at departmental levels, does that include a continuation of data analysis around things such as the People Matter survey? And could you also take us to the way in which implementation of recommendations from the VAGO review of occupational violence in the workplace is occurring as we move to bring about better, healthier workplaces as a consequence of these initiatives?

Mr SCOTT — I will deal with the second part of your question first. Occupational violence is a very serious issue which the Andrews government is committed to addressing, particularly in the context of healthcare workers — this is the context in which the VAGO report arose — including implementing the recommendations made by VAGO. WorkSafe continues to support the healthcare industry in making significant cultural changes required to improve worker safety. The actions to date include funding 16 health

services to pilot improved programs in their workplaces, evaluating WorkSafe guidance on occupational violence, commissioning independent research to analyse all Victorian hospital OHS incident data, research support to improve the Department of Health and Human Services risk reporting system, and developing a customised strategy for Ambulance Victoria. There has also been the establishment of a dedicated health practice team in WorkSafe with a three-year strategy, and enforcement action has increased, with 400 inspector visits planned for 2015–16 Could you supplement, Clare?

Ms AMIES — I would also say that part of the strategy that we are looking at in responding to this is that we have also begun meeting with all the public health boards across the state. Those conversations are talking to them about their health and safety, what they can do better to improve what we see as key risks, so really extrapolating data for them.

Ms SHING — Would that include culture and understanding culture?

Ms AMIES — I think that the most important thing that we recognise in terms of improving health and safety is the leadership and culture of an organisation, so it does include that. It also includes key research and improved guidance material that is quite specific to certain hospitals. We have also done some work to help them understand what the implications are for premium for each hospital, as well as how they can improve return to work, particularly around occupational violence or more mental health or mental injury-type claims, because they are usually more challenging. So there is quite a big program of work that is occurring within the Department of Health and Human Services but also directly with the hospital boards across the state.

Ms SHING — Thank you. If I could get any further information in relation to the way in which information is gathered and collected at a departmental level, including but not limited to People Matter and other initiatives that might be taken to proactively identify areas of risk or potential injury in workplaces across the VPS, I would be grateful.

Mr SCOTT — There is work being undertaken. WorkSafe itself in fact has been presenting to the public sector occupational health and safety leadership group on statistical work that has been undertaken by WorkSafe itself.

Ms AMIES — Yes, we have. Part of that work for us is to have a very close look at how do you determine what are the key attributes and how do you measure them. We are at a point where we have presented what we believe the key lead indicators would be across government in terms of determining an improvement and a response to mental injury claims across government. So we are currently working through how that would be implemented so we would have a consistent dataset so we could compare all departments.

Ms SHING — Including as it relates to employee numbers in the way in which they may have affected the instance of injury.

Ms AMIES — That is correct.

Ms SHING — Thank you very much. That is very helpful.

Mr MORRIS — Minister, budget paper 3, page 320, and the issue is land sales.

Mr SCOTT — Thank you. Happy to provide further info.

Mr MORRIS — I note that this year's budget, the 2016–17 budget, anticipates land sales of the value of \$200 million. The expected revenue outcome for the 2015–16 year had sales to the value of \$124 million. When I checked the DTF website yesterday, the last update was, I think, 21 April. It identifies a total of 26 sales for the financial year to date with a total value of just under \$46.3 million. That appears to be a very long way short of the target — something like \$77 million short of the target as of yesterday.

I then had a look at the register of land that is currently being marketed. It lists five properties that have a price on them, and in total that adds up to \$967 500. There are three further properties — more substantial properties — without any indication of value. I am just wondering: with sales so far of 46 million, how are you going to get to the 124 million by the end of June?

Mr SCOTT — Okay, I am happy to provide information on that, and I can assist the Deputy Chair and the committee on that matter. So I just seek clarification in terms of money received. Just on the background to this, the target in BP3 is an accrual target, so it counts the total value of all land sales contracts signed within a financial year regardless of when the resultant revenue is received — just to put that in context, because there is sometimes a little bit of confusion around cash payments and the accrual target.

Now, in achieving the BP3 target in 2015–16, this is reliant on the sale of a number of high-value sites, including a prime industrial site in Knoxfield. I probably will not give the values, if you can understand in terms of commercial sensitivity around sales, but there is a primary industry site in Knoxfield and also former Altona Gate and Altona West primary school sites that would make significant contribution to meeting the target. And you can understand why at this stage I may be unwilling to provide an exact — —

Mr MORRIS — Absolutely, and I do not press you on that. I am curious, though, to know when these things are reported, because we have got, as I mentioned, from the website yesterday \$46 293 500 in reported sales under the heading ‘Recent sales history’. We have then got a list of land being marketed, and I do not believe any of those sites that you just referred to are on it. There are, as I mentioned, three substantial sites, but one is res 1 land in Norlane — some 6.32 hectares — and there is 441 square metres in Footscray and one other one.

Mr SCOTT — As I said, the information that I have is that the meeting of the target primarily relates — and there may be other smaller parcels of land involved as well, so I will be careful in answering it — to the former primary industry site in Knoxfield and the former Altona Gate and Altona West primary schools. So in terms of the reporting of it, I do not believe there has been any substantive changes to the way in which land sales have been reported. I certainly have not been responsible, no. So there has not been a change in terms of how the land sales have been reported. As I said — —

Mr MORRIS — Could I ask, and Mr Martine may take this up, you to perhaps come back to me on the apparent discrepancy. I am not saying there is an issue. I would just be interested in the explanation.

Mr MARTINE — I think, Deputy Chair, as the minister indicated, while the target for 15–16, as outlined on page 320 of budget paper 3, is 124, we are still confident that we will achieve that, even though, as you indicated, we are sitting in about the mid-40s. We are still confident to achieve that target with the sites that the minister has outlined.

Mr MORRIS — I will accept that, but I am now interested as to why apparently not all the sites that the minister has identified in evidence are listed on the register of sites currently on the market.

Mr MARTINE — I guess the simple answer to that question is that we have not quite got to that point. So we are expecting between now and 30 June — —

Mr MORRIS — So they are not on the market. You are expecting to get them on the market and sell them — not necessarily receive the money, but sell them — prior to 30 June.

Mr MARTINE — Remembering though that, as the minister indicated in the first part of his answer, there is a difference between the accrual revenue and cash. So these targets in BP3 are accrual measures.

Mr MORRIS — As I said, sell them but not get paid for them.

Mr MARTINE — Yes, so the cash may come over the following 12 months.

Mr MORRIS — But the contract of sale would have to be signed, would it not?

Mr MARTINE — Yes.

Mr SCOTT — The basis is for the contracts signed within a financial year.

Mr MORRIS — It is still a very quick sale. One final question, given we have got about a minute and 20 seconds to go: last year in answer to a question on notice, you indicated — and I think the question was on notice from this committee hearing — that not all the transactions are listed on the DTF website and then listed some exceptions. Three of them were value uplift transactions, sales under 100 000 and sales on behalf of

VicTrack. Notwithstanding that the process may not have changed, I am wondering why those categories of sales are not listed.

Mr SCOTT — Sorry, and I am not trying to wind out, but it was VicTrack and the other category — —

Mr MORRIS — VicTrack, those under 100 000 and value uplift transactions.

Mr SCOTT — Well, I am a little restrained in answering it, because there has been no public policy change since the former government. And in fact, I could not offhand make a determination of when exactly that policy came into effect. It certainly was the policy as enunciated under the former government, because I have made no positive decision, I believe.

Mr MORRIS — I do not think there has been a change for many years.

Mr SCOTT — I have not made a positive decision to change the criterion by which that information is released.

Mr MORRIS — Can I use my last 10 seconds to ask you to have a look at that?

Mr SCOTT — I will endeavour to have a look at that. It certainly predates my time.

The CHAIR — Order! I would like to thank the witnesses for their attendance: the Minister for Finance, the Honourable Robin Scott; Mr Martine; Mr Calafiore; Ms Amies; and Ms Porthouse. The committee will follow up on any questions taken on notice in writing. A written response should be provided within 14 calendar days of that request.

Witnesses withdrew.