

# VERIFIED VERSION

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into Budget Estimates 2015–16

Melbourne — 14 May 2015

#### Members

Mr Danny Pearson — Chair

Ms Sue Pennicuik

Mr David Morris — Deputy Chair

Ms Harriet Shing

Dr Rachel Carling-Jenkins

Mr Tim Smith

Mr Steve Dimopoulos

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#### Witnesses

Mr Robin Scott, Minister for Finance,

Mr David Martine, Secretary, and

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

Ms Janet Dore, Chief Executive Officer, Transport Accident Commission; and

Mr Ian Sargent, Chief Financial Officer, WorkSafe.

**The CHAIR** — I declare open the public hearings for the Public Accounts and Estimates Committee inquiry into the 2015–16 budget estimates. All mobile telephones should now be turned to silent.

I would like to welcome today the Honourable Robin Scott, Minister for Finance; Mr David Martine, Secretary, Department of Treasury and Finance; Ms Gayle Porthouse, Deputy Secretary, Department of Treasury and Finance; Ms Janet Dore, Chief Executive Officer, Transport Accident Commission; and Mr Ian Sargent, Chief Financial Officer, WorkSafe.

All evidence is taken by this committee under the provisions of the Parliamentary Committees Act, attracts parliamentary privilege and is protected from judicial review. Any comments made outside the hearing, including on social media, are not afforded such privilege. The committee does not require witnesses to be sworn, but questions must be answered fully, accurately and truthfully. Witnesses found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty.

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

Departmental officers may approach the table during the hearing to provide information to the witnesses if requested, by leave of myself. However, 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 are to observe the following guidelines: cameras must remain focused only on the persons speaking; operators must not pan the public gallery, the committee or witnesses; and filming and recording must cease immediately at the completion of the hearing.

I invite the witness to make a very brief opening statement of no more than 5 minutes. This will be followed by questions from the committee.

**Mr SCOTT** — Thank you, Chair. Thank you for the opportunity to present here this morning.

#### **Visual presentation.**

**Mr SCOTT** — I will begin with a brief overview of the allocations and responsibilities within my portfolio before moving on to detail about the performance of the state insurers.

This slide shows my responsibilities as Minister for Finance compared to the previous government. The finance portfolio has assumed all the responsibilities of the former Assistant Treasurer and Minister for Finance with the exception of the Parliamentary Salaries and Superannuation Act 1968 and the Audit Act 1994, which have been allocated to the Special Minister of State.

This slide indicates my responsibilities in detail. I will not read through the list on the screen, but it indicates the responsibilities I have.

One of my key responsibilities is output performance measures. There is a need to review output measures. The capacity to make resource allocation decisions and hold departments to account is being reduced by poor specification of outputs and a gradual aggregation of activities into larger outputs. There were about 350 outputs when Victoria first introduced output budgeting in 1997–98, appropriation has grown almost fourfold and the number of outputs reduced by more than half. The average value of an output is now \$351 million compared to \$39 million in 1997–98. The Andrews government will review the service delivery and performance reporting framework to ensure outputs and performance measures are meaningful to the Parliament and the community.

Financial management is about using public resources efficiently and effectively to achieve what is best for the community. High standards of financial management rely on having clear accountabilities, appropriate governance arrangements and sound practices. The government intends to review the Financial Management Act to strengthen financial management accountabilities and improve the efficiency of public administration. Currently the accountabilities are limited to budget management and annual reporting. The Andrews government will give greater clarity to the roles of agency governing bodies, CEOs and CFOs so we get clarity and consistency across the Victorian public sector; revise the standing directions that are issued under the

Financial Management Act to bring them up to date with public resource administration practices, and introduce a tailored framework that applies to standing directions in a way that is commensurate with the size and risk of the agency.

Consistent with our election commitment, WorkSafe will not pay dividends in this budget. Moneys in future years will be applied to improving the health of the Victorian workforce, improving benefits for injured workers, lower premiums for Victorian businesses and funding programs to improve workplace safety. Due to the strong financial position of both the VMIA and TAC, both entities will make dividend payments to the state. Notwithstanding dividend payments, the three insurers are projected to remain within the preferred funding ratio ranges over the estimates period. By determining that the TAC and the VMIA pay dividends the government is ensuring funds used are used for services like hospitals and schools rather than just remaining on the balance sheet.

WorkSafe is in a strong financial position. Performance from insurance operations is a real measure of strength. The PFIO, as it is known, at \$483 million was well above target, demonstrating good claims management practices and financial risk management. The accounting funding ratio at 30 June 2014 was 116 per cent and the economic funding ratio was 154 per cent. The accounting funding ratio is determined based on the commonwealth bond yield used as a discount rate, which is at historic lows, while the economic funding ratio allows for the expected investment returns on scheme assets to determine the discount rate. Therefore the economic funding ratio is a more realistic indicator of the scheme's financial strength, particularly in times when we have got such low bond rates.

Over the past eight years, the number of claims per million hours worked in Victorian workplaces has reduced by around 17 per cent. Victoria's rate of claims per million hours worked for 2013–14 confirms Victoria as the safest state in which to work.

Over the last 10 years WorkSafe has reduced the average premium rate from 1.8 per cent to 1.272 per cent. This is the second lowest premium rate in Australia behind Queensland, which offers lower levels of compensation for injured workers.

The TAC is also in a strong financial position, with a performance from insurance operations of \$325 million. The TAC's accounting funding ratio at 30 June 2014 was 91 per cent, and the economic funding ratio was 145.7 per cent. I reiterate that the economic funding ratio is a more realistic measure.

Last year 249 people were killed on Victorian roads and thousands were seriously injured. Over the past 10 years Victoria has seen a steady reduction in the road toll. The Andrews government will work to further reduce the road toll and improve the outcomes for those injured on our roads.

The Victorian Managed Insurance Authority is in a strong financial position. The accounting funding ratio as at 30 June 2014 was 108 per cent and the economic funding ratio was 174 per cent. I reiterate that the economic funding ratio is a more realistic measure.

**The CHAIR** — Thank you, Minister. I might kick off with the first question. I refer to budget paper 3, chapter 1, page 108, and I ask: could you inform the committee how this budget acquits *Labor's Financial Statement*?

**Mr SCOTT** — Thank you. I will refer to *Labor's Financial Statement* itself as well. It is publicly available. In terms of the finance portfolio, the first thing to look to is on page 10 of *Labor's Financial Statement* and is referred to on page 105 of budget paper 3. It relates to efficiency and expenditure reduction measures, which is referred to in *Labor's Financial Statement* as savings and efficiencies. There are a number of measures there — four, I believe — which relate to my portfolio of finance. There is the disbanding of the construction code compliance unit, the implementation of electronic purchasing, the reduced use of labour hire firms, and more efficient government car fleet arrangements. If you go to page 111, there is also a reference — which is an election commitment, and which is an outstanding commitment, but I will make reference to it — to save Sunvale primary school site. So there are a number of measures.

If you go to the first of those, which is the disbanding of the construction code compliance unit, there is \$2 million saved in 15–16 and the total savings over the four-year estimates period are \$8.4 million. That is in accordance with *Labor's Financial Statement*.

In terms of implementing electronic purchasing, that is really about less paper-based and more electronic payment for the provision of goods and services from the state. In paper-based handling there is a lot more individual personal handling, so it is a more expensive process per transaction. The savings there are \$2 million in 15–16 and over the total period that scales up. It is going to be introduced gradually into the public sector because it is something you want to do carefully, so the total savings over the estimates period are \$48.1 million.

In terms of more efficient car fleet arrangements, that relates to such measures as increasing the proportion of four-cylinder cars. There is also work being undertaken in terms of improving fleet management and looking at lease arrangements. The savings expected in 2015–16 are \$9.3 million, with a total of \$38.1 million to be saved over the estimates period.

The reduction in the use of labour hire firms, which relates to my role in terms of whole-of-government contracting, because a number of the contracts are whole-of-government contracts, is \$7.4 million spread evenly over the estimates, giving a total of \$29.6 million.

The total savings of all the savings measures is \$334.5 million over the estimates period, but in essence the work undertaken in these areas, while not a direct expenditure in the budget, underpins the expenditure in areas like health and education, which are such important parts of the budget.

There is one where there has been work undertaken but it is still in progress, which is the save Sunvale primary site. Prior to the last state election, contracts were entered into for the sale of the Sunvale primary school site in the western suburbs. There has been a process of negotiation for the acquisition of the site from the purchaser, since coming to office. That has not yet been resolved. It is a complex matter but the primary consideration why it has not been resolved is in order to achieve good value for the state. That will be honoured, but it is about achieving good value for the state in terms of that process.

So in terms of my direct responsibilities, there are those four savings measures plus there is a measure which is underway and has not yet been finalised. It has been progressed during the period. It is not counted in the budget yet because it has not yet been acquitted, but I would hope over time we are able to both acquit that promise but also achieve good value for the state.

**Mr MORRIS** — On a point of order, since Mr Martine, the secretary of DTF, last appeared the federal budget has been brought down, and if media reports are correct, at least one announcement has been made which may have a significant negative impact on the budget, to the tune of \$1.5 billion, on the set of estimates we are currently considering. That is clearly a matter for this department but perhaps not for this minister. I was wondering whether the Chair would allow a question directly to Mr Martine.

**The CHAIR** — Thank you for your point of order. As has been agreed prior to these hearings, we are adopting the previous practice of PAEC, whereby questions are directed to ministers and ministers have the call in terms of whether they choose to refer a question on to a departmental representative. Obviously as we look at future years — perhaps next year and the year after — when we adopt more of a Senate-style approach, then that will be more likely to occur as a matter of course. But as we discussed before these hearings commenced, we will adhere to standard practice. It is up to the minister to determine whether he will hand a question from any member of the committee on to the department to answer.

**Mr SCOTT** — I am happy to answer a question.

**Mr MORRIS** — It is entirely outside your portfolio. That is why I have raised it with the Chair, with the intention of seeking an answer from the secretary.

**Ms WARD** — The ruling has been made, so I suspect we are up to your question.

**The CHAIR** — I have ruled. It is up to the minister to determine whether he will pass a question any member of the committee raises to a departmental representative to answer.

**Mr MORRIS** — I do not particularly want to waste the opportunity to ask a question if the minister is just going to say no.

**Ms WARD** — There is only one way to find out.

**The CHAIR** — You may wish to outline not the question itself but the area of focus, and we can ask the minister whether he would be prepared to refer that on to the department to answer.

**Mr MORRIS** — The area is the \$1.5 billion advanced to Victoria as the commonwealth's contribution to the east–west link.

**Mr SCOTT** — I am happy to answer a question on that.

**Mr MORRIS** — Minister, the federal Treasurer is reported to have determined that as a consequence of the Victorian government not proceeding with the construction of the east–west link the commonwealth will require the repayment within 14 months of the \$1.5 billion advanced to Victoria as the commonwealth's contribution to this project. What is the impact of the decision on the state's surplus in the 2015–16 budget, and is there any other impact across the forward estimates?

**Ms WARD** — Point of order: do we have a budget paper reference?

**Mr MORRIS** — No. That is why I asked the question.

**Mr SCOTT** — I am quite happy to answer the question. Yesterday the Premier indicated that Victoria will not be repaying the \$1.5 billion. There have obviously been a number of statements made by both the federal Treasurer and the Prime Minister relating to these matters. Obviously there will be a series of negotiations. I note the Prime Minister's comments regarding his preparedness to consider alternative projects, particularly the western distributor project proposed by Transurban currently under consideration.

As a government, the Andrews government will be acting in the best interests of the Victorian community, and there is not an intention to pay back one cent of that money. We will be negotiating in good faith with the federal government to achieve outcomes for the Victorian community, but we do not concede that we will have to repay that money. It has been made very clear by the Premier.

**Mr MORRIS** — By way of a supplementary and as a result of the minister's response, clearly the commonwealth has the upper hand here. They give us a lot of money every year, and if they want to try to recover \$1.5 billion — I am not talking about the politics of it and whether it would be wise or not — the report is that they will seek to try to recover the money. It is a very simple operation to simply withhold payments from one of the other many sources of funding we receive from the commonwealth, so the impact could well be the same: a bottom-line hit of \$1.5 billion. I am just wondering: what is the anticipated impact?

**Mr SCOTT** — The anticipated impact, from what has been said by the Premier — and we will enter into negotiations on behalf of the community — is that there will not be an impact, because we will not be paying back the money. But there are negotiations, and I think it would be unwise for me to conduct negotiations via the Public Accounts and Estimates Committee with the federal government, with all due respect to the committee, which I had been a longstanding member of.

I note the vast disparity in public infrastructure funding between New South Wales and Victoria, for example, and I would hope that the commonwealth government would have more regard over time to the Victorian position and the needs of the Victorian community. But we will be negotiating on behalf of the Victorian community with the commonwealth government, and we do not as a government concede — and the Premier has made it very clear — that we will be paying back that money. We do not concede one cent of that money to the commonwealth, because Victorian community needs need to be protected, and as a government we will be acting in the collective interests of the Victorian community.

**Mr MORRIS** — So, 'We hope it's okay'.

**Dr CARLING-JENKINS** — Further to the questions asked by the Deputy Chair and your response regarding your ongoing negotiations in this area, if it is okay to ask another question that kind of relates to the surplus, I guess — budget paper 2, page 43 — are you confident that these issues with the federal government will be resolved and that Victoria's budget will therefore remain in surplus?

**Mr SCOTT** — The question, in a way, is seeking an opinion about a matter, so it is a difficult question. I understand that it is a genuine question, but it is not a question that is usually answered in terms of an opinion. I would just reiterate what the Premier said: there is no intention of the state of Victoria to hand back the

\$1.5 billion, and we will negotiate as a government with the federal government in good faith but to maximise the interests of the Victorian community, who have been substantially short-changed compared to other states, particularly New South Wales, in terms of commonwealth funding. I am not going to pre-empt those negotiations or run a commentary on them beyond that, because I do not think it is in the interests of the Victorian community to do so.

**Ms WARD** — Minister, can I ask you to turn to budget paper 5, page 28, note 3, section (b), headed ‘Dividends by entity’. I note that in relation to the Victorian Managed Insurance Authority, which you also referred to in your presentation, the government is drawing down dividends over the next couple of years. Could you give us an explanation as to why the government has chosen to do that?

**Mr SCOTT** — Thank you, Vicki. The VMIA, as it is known, is in a very strong financial position. Its accounting funding ratio has recently been above the upper limit, or it has certainly been around the upper limit of its preferred accounting funding ratio of 82.5 per cent to 117.5 per cent, and its economic funding ratio as of 30 June 2014 was 174 per cent. In this context the government has determined the VMIA should commence paying a dividend. This will bring the VMIA in line with other public financial corporations, such as the Transport Accident Commission, Treasury Corporation of Victoria and the Victorian Funds Management Corporation. By determining it should pay a dividend, the government is ensuring funds are used for services like hospitals and schools, rather than just, as I referred to earlier, sitting on a lazy balance sheet. The payment of dividends will not result in any increased premiums for VMIA’s clients, which is very important to note.

It is useful to describe the process by which dividends will be taken. The VMIA’s governing act does not provide for the payment of dividends. However, there is a facility under the State Owned Enterprises Act — and this has already occurred — where through a Governor in Council process the VMIA has been declared a reorganising body. This process, which took place, in fact, earlier this week, enables the Treasurer to require the payment of dividends after consultation with myself, the Minister for Finance, and the VMIA. The VMIA is projected to remain within its preferred accounting funding range over the estimates period, 2015–16 to 2018–19, after the payment of dividends.

It is important to note, as I said earlier, that the accounting funding ratio is used as the standard, including in reporting, which includes the requirement of the Auditor-General to report based on the accounting standards. But that actually understates the situation currently, particularly where there are lower interest rates on commonwealth bond rates, because the discount rate to make a determination about the ratio between assets and liabilities is based on the very low discount rates. The discounting effect of liabilities versus assets means that the low bond rate — —

We often get the same answer in relation to the superannuation liabilities. It is an analogous situation, as described in budgets, and changes in bond rates can lead to very large changes in the superannuation liability. Whereas if you look at what is called the economic funding ratio, which is a much higher figure, which uses the expected return on investments as a discount rate, which is actually over time more reflective of the sort of asset mix that the VMIA and, in fact, all of the large insurance bodies within the state of Victoria use.

Even using the accounting standard based funding ratio, which uses the commonwealth bond rate as the discount rate, it is still being kept within its allowable funding ranges, which, as I said earlier, is 82.5 per cent to 117.5 per cent. However, as I said, I think it is important, particularly in a period of low interest rates, to understand that there is a distortion that is built into that accounting standard. If I could give an example, it is useful to contemplate that there are actually jurisdictions that have a bond rate of zero. In fact there is one jurisdiction that has a negative interest rate as the official interest rate, so that can lead to quite unusual outcomes in terms of what the accounting standard produces, which does not have a direct correlation with the sort of asset mix that underlies as strong a correlation as the expected return on the investment.

We are doing it because the finances of the VMIA are very strong. We make no apology for using the money that exists within the agency for the benefit of the Victorian community, not just sitting it within the agency itself. There have been steps taken already procedurally to allow that to take place.

**Mr MORRIS** — Minister, if we could move to the Transport Accident Commission, the reference is budget paper 5, page 28, but I also refer you to the pre-election budget update, page 44 — —

**Mr SCOTT** — Sorry, budget paper — —

**Mr MORRIS** — The budget paper reference is BP5, page 28, and the pre-election budget update, page 44. Dividends from the TAC for the period 2015–16 to 2017–18 were projected in the pre-election budget update to be \$681.6 million, and yet in this budget the figure has risen to \$1.18 billion. Given the extraordinary increase in the level of dividends to be extracted from the TAC, which is almost \$500 million over three years, or a 173 per cent increase on what was intended some six short months ago, can the minister advise the committee what advice he received from the commission, or indeed from his department, or perhaps both, by way of an assurance that this cash grab will not financially compromise the commission?

**Mr SCOTT** — Firstly, there were meetings with both the TAC and the department in relation to the dividends, and I was given projections that showed that the TAC would remain within the desired funding range. However, I would note, as I have stated previously, that the funding range itself is based on the accounting standard, which has at its heart as a discount rate the no-risk commonwealth bond rate. As that bond rate has gone to relatively low levels historically, that produces a lower ratio than otherwise would be the case. This is often commented on when there are large movements. It is an analogous issue when there are large movements in the superannuation liabilities. In fact I can remember the former government making such comments on a number of occasions.

Not only has there been advice given to me, but also the advice is that it will remain within the preferred funding range for the Transport Accident Commission. On top of that I would make the point again that that funding range has at its heart an issue in relation to the discount rate that is used, which in times of low interest rates creates a circumstance where the funding ratio is lower than it otherwise would have been. I have made reference previously to the economic funding ratio, which is based on the expected return on investment, which I regard as a more realistic measure of the funding and which is in a very healthy state.

I think this is a particular issue in the TAC because the TAC has quite a large number of long-term catastrophically injured people — and when I say ‘long-term’ what I mean is that they have suffered catastrophic injuries and require care often for decades in many cases, sadly. That is a significant cost for the Transport Accident Commission. From the advice I have received, it is a greater issue for the Transport Accident Commission than say WorkCover because a large proportion of the claimants are catastrophically injured and require care over a long period of time, therefore the effect of the difference between the discount rates and how they affect the ratios of the liabilities to assets is actually greater.

The impact is actually greater in the TAC than for WorkCover because of the nature of the claimants. Other jurisdictions, such as New South Wales, have separated, in effect, the treatment of long-term claimants into a separate body for which different accounting standards apply, which are more analogous to the economic funding ratio in terms of how they make determinations. There are public policy arguments on why you would want to do this in terms of whether you want a separate agency, and my honest view, if I was speaking frankly to the committee, is it does mean that the funding ratio in terms of the TAC is problematic — but I think we should be careful not to make decisions about how we treat clients based on the funding ratio. I will just make it clear that I think they should be made on the merits of whether it is a good idea or not to treat the clients. But in terms of the advice, I can confirm that I received advice from those two bodies.

**Mr MORRIS** — I would certainly observe, before I ask the supplementary, that it would be helpful to the committee if the minister made that advice available, but I will leave that decision to him.

Minister, however you dress it up, this is a half-billion-dollar raid on the TAC. No matter the fine words and the absolutely important issues that you raise, the bottom line is that over three years you are taking virtually half a billion out of the TAC, and clearly that burden will be borne by Victorian motorists. Can I ask you: how do you reconcile this outcome with the government’s pre-election commitment of no new taxes and no increases in taxes, fees, charges or fines? There is only one way this can go. How do you reconcile it?

**Mr SCOTT** — With all due respect, Deputy Chair, I do not agree with the proposition, because as has already been in fact raised, as I understand — I think it was raised in the Legislative Council; it might have been in relation to the VMIA — there will be no increase. In fact there is legislation around the indexing of charges to motorists in relation to the TAC, and the increased dividends from the TAC will not result in increased charges to motorists.

**Mr MORRIS** — You will guarantee that?

**Ms WARD** — Supplementary question!

**Ms PENNICUIK** — Welcome, Minister, and representatives from the department. Minister, my question is in regard to your oversight role of the ESC. In budget paper 3, page 98, there is a table which refers to funding for the ESC regarding regulation of retail energy. My question is in regard to the ESC's review of the rate-capping framework. You have asked them to consider options for ongoing funding to administer the rate-capping framework, including the potential costs for cost recovery. Since that framework is set to commence in time for the 2016–17 council budgets, what additional funds have been provided to the ESC to carry out the review of 79 council budgets with proposed rate increases in a couple of short months? Alternatively, what is your estimate of the costs of this exercise, which the ESC may or will seek to recover from councils?

**Mr SCOTT** — I thank you for your question, Sue. I understand that there is work currently being undertaken within the ESC in relation to rate capping and the valuation review. My understanding is that a final report on the framework is due, I think, at the end of October, but I might seek further clarification, because it is my understanding that there was some further advice that was being sought or work that was being undertaken within the department in terms of the payment and the way it was to be funded.

Yes, there will be government consideration of the report, in terms of how the ESC will receive funding in order to undertake the rate capping and valuation review. My understanding is that the report will address those matters and then there will be a decision made within government upon receipt of that report from the ESC itself. There will be a government decision about how to fund the activities of the ESC in terms of its role in rate capping and valuation, and that will take place after the final report is received on 30 October.

**Ms PENNICUIK** — Minister, I suppose your response begs another question, and that is: what is actually happening now in terms of the funding of that review in the ESC? Is it coming out of its existing budget to be reimbursed later?

**Mr SCOTT** — In terms of the capping, my understanding is the framework will start for the 2016–17 year. It is in another portfolio but I have some responsibilities in relation to the ESC, and my understanding is that the implementation of the framework is to start in 16–17. There is not a specific appropriation for this, but there is a decision to be made about the funding after the report comes back from the ESC at the end of October.

**Mr DIMOPOULOS** — Good morning, Minister, and thank you for the explanation of the economic funding ratio. I would feel very comfortable at the DTF Christmas party after that explanation. I just wanted to bring your attention to WorkSafe and the government's pre-election commitment not to take a dividend — BP5, page 28, note 3(b). I can see it is obviously consistent with the election commitment, but I was more interested in the rationale for the government's commitment to change the name of that important organisation to WorkSafe Victoria.

**Mr SCOTT** — This is actually a very important issue for a couple of reasons. It has an impact over the estimates period on the capacity of the organisation to undertake its work. There was a decision that I made on 23 January 2015 to announce that immediately the WorkSafe Victoria name and brand would be reinstated. This is a brand that I would say is actually beloved by the WorkSafe workforce. It is something they take great pride in, but it is also something that literally millions of dollars of public funds has been invested in through advertising campaigns over a very long period of time, and it has very high recognition in terms of its recognition both in the community but importantly amongst key stakeholders such as employers. People know who WorkSafe are. If a WorkSafe inspector comes, people know who they are. If someone turns up from the VWA, there is, to say the least, some confusion about who it is that is coming or what it is they are dealing with in the business.

It has been a really important change that has come up in the consultations when I have been going around visiting WorkSafe worksites, which is a really fabulous part of my job. It has really given a fillip, particularly for those involved in the inspection side of the business and the occupational health and safety side of the business, because WorkSafe is a brand that has been associated over a long period of time with making Victorian workplaces safer. WorkSafe has an insurance function, which is very important to ensure that injured workers are duly looked after, but the occupational health and safety side is absolutely critical. It is really critical, firstly, that that work can leverage off the longstanding, well-known and beloved WorkSafe brand,



which has great respect in the Victorian community, and that when people, particularly those involved in the inspectorate, visit worksites they can use the WorkSafe name and the trust and goodwill that that brand has built up over a long period of time, based on the hard work of those individuals.

It also means that there is stronger value for money, and there are also in fact some savings. I asked questions about the change of the brand previously when I was in opposition, in this very committee, and I was assured there was minimal cost, but actually what had been done was that a lot of the branded material had been kept as WorkSafe. In the range of sponsored material that will be produced by WorkSafe over the coming years, in fact a lot of the existing material can still be used because it was not thrown out at the time of the name change. Material was stored, and that will actually mean that some money can be saved that otherwise would have had to have been spent on printing new material. I note that WorkSafe sponsorship and other activities, stationery, branded building signage and employee uniforms had all been kept with the WorkSafe brand, so there are actually some savings.

But the really important part of the change is twofold. One is the value to the organisation itself and the sense of purpose that it has. People in WorkSafe are passionate and really care about their work making workplaces safer. It is also in terms of expenditure on advertising and other published material so that the WorkSafe brand, which has been built up over such a long period of time, can be successfully utilised on behalf of the Victorian community. All the stakeholders involved — whether it be inside WorkSafe itself, the employees there, trade unions or employers — have welcomed this change, because the WorkSafe brand is something that they trust and it has built up a very strong reputation in the community.

I note that there have been very strong reductions in claims per million hours of work, which is a good measure of the safety of Victorian workplaces. There was a slide that I showed previously. That has been on the back of the hard work of people, and that safety element to WorkSafe — the hard work of the people who work at WorkSafe, trade unions, other workers and also employers who have changed cultures within workplaces — has been critical, and it is encapsulated in the name WorkSafe.

**Mr MORRIS** — I would like to stay with WorkSafe but move to a slightly different aspect, in particular corporate governance. At whose direction and on what grounds did you seek the resignation of the chairman and the chief executive of WorkSafe? Who did you discuss that action with prior to seeking those resignations, and were you directed by the Premier or his office to take that action?

**Ms SHING** — On a point of order, can I ask for a budget paper reference from the Deputy Chair?

**Mr MORRIS** — Have a look at the minister's presentation. You might find WorkSafe mentioned there. Apparently you were not paying attention.

**Ms WARD** — There is no reason for that. We have all been playing quite nicely so far today, apart from one little bit. I would like it to continue that way, Mr Morris.

**Ms SHING** — Are you talking about Minister for Finance responsibilities or a specific element of the presentation?

**Mr MORRIS** — He is responsible for WorkSafe.

**Ms SHING** — Okay, but have we got a budget paper reference?

**Mr MORRIS** — He is responsible for WorkSafe.

**Ms SHING** — I understand that, Mr Morris. I am just seeking to understand the particular part of the budget that you are referring to.

**Mr MORRIS** — I actually referred to the handout from the minister, but if you want a budget paper reference: BP2, page 51.

**Ms WARD** — Mr Morris, please stop speaking over the top of people. It is becoming a very bad habit of yours.

**The CHAIR** — Order!

**Ms SHING** — Thank you. That is all I was after.

**Mr MORRIS** — I would have thought you could find your way around the budget papers by now.

**The CHAIR** — Order!

**Ms WARD** — It is amazing how easy it can be when you just answer things simply.

**Ms SHING** — I just want a budget paper reference. I am just asking for assistance.

**Ms WARD** — And she asked politely, too.

**The CHAIR** — Order!

**Mr SCOTT** — I can answer the question. It does not appear to relate to the estimates period, but if the Chair so rules, I will answer the question. If I understood the question correctly, it was in relation to what the grounds were under which the resignations were sought of the chair and the CEO of WorkSafe and also whether I was, in effect, directed to do so by a third party. I can — —

**Mr MORRIS** — And who you discussed it with prior to — —

**The CHAIR** — Order! The minister is seeking to answer your question.

**Mr SCOTT** — In terms of the reasons given, there was a series of issues relating to the Fiskville training facility. There was a meeting that took place. I am trying to remember the exact date, but it was in March of this year. I can check the date.

**Mr MORRIS** — The media release date is 3 March.

**Mr SCOTT** — Yes, 3 March. It was certainly in March. There was a series of concerns over a long period of time over Fiskville. There was a meeting that took place on the morning of 3 March between myself, the CEO and the chair. There was an explanation given for WorkSafe's actions in relation to those matters. I was not satisfied with that response, and I sought and received the resignations of both the chair and the CEO. In terms of communication, I was not instructed by the Premier or anyone else to seek the resignation of the chair. That was a decision made by myself as the minister.

**Mr MORRIS** — And the question also referred to the discussion — —

**The CHAIR** — Order!

**Ms WARD** — Is this your supplementary question?

**The CHAIR** — Supplementary question, Deputy Chair?

**Mr MORRIS** — No, it is getting an answer for the substantive question, which was — —

#### **Members interjecting.**

**The CHAIR** — Order! Mr Morris! The minister has answered the question. I have ruled — —

**Mr MORRIS** — The minister has not answered the question.

**The CHAIR** — Order! Do you want to raise a supplementary? I have ruled that the minister has answered the question.

**Ms SHING** — Mr Morris, can you please stop arguing with the Chair? It is actually just descending us into a chaos that I thought we would avoid today.

**The CHAIR** — Order! I have ruled that the minister has answered the question. Mr Morris, I will allow you a supplementary, but please can you be courteous to the minister?

**Mr MORRIS** — Certainly we will all be very easy to get along with if we get an answer to the question that is asked.

**The CHAIR** — Mr Morris, are you asking your question?

**Members interjecting.**

**Mr MORRIS** — Chair, I am not going to sit here and not respond to baiting from the government members.

**Members interjecting.**

**The CHAIR** — Order! The Deputy Chair on a supplementary question.

**Mr MORRIS** — By way of a supplementary, is the selection of the new chief executive for WorkSafe being undertaken by the Victorian WorkCover Authority board independently of you and the government, and will you rule out installing a Trades Hall puppet as the chief executive?

**Ms SHING** — On a point of order, I fail to see how the supplementary is related in any way either to the forward estimates period or indeed to the principle question which was asked in relation to the meeting which led to the resignation of the person concerned.

**Mr MORRIS** — On the point of order, Chair, by way of a media release from the minister on 23 January —

**Ms SHING** — It is not part of the budget paper.

**The CHAIR** — Order! Ms Shing!

**Mr MORRIS** — where he announced the changes that he referred to in response to Mr Dimopoulos's question, the last quote there — under 'Quotes attributable to the Minister for Finance, Robin Scott' — is:

The Trades Hall Council worked hard to bring this change around.

I think it is perfectly reasonable to try to establish the extent of influence of the Trades Hall on WorkSafe.

**Ms WARD** — So you are interested in running a commentary not relating to the budget?

**The CHAIR** — Order! While I appreciate the fact that WorkCover does form part of the estimates hearing, and while I will allow the Deputy Chair to have some degree of latitude in asking questions around governance, I think gratuitous reference to 'Trades Hall puppet' is not helpful.

**Ms SHING** — You did not use the word 'thug', though, which is unfortunate.

**The CHAIR** — Order, Ms Shing! I am handing down a ruling. What I would encourage the Deputy Chair to do in terms of his supplementary question is to confine it to what the process will be for the appointment of a CEO of WorkSafe. I think would be appropriate.

**Mr MORRIS** — Certainly, given that obviously we will not get any assurances on the last point, I will ask — —

**Mr SCOTT** — No, I am happy to — —

**The CHAIR** — Does the Deputy Chair wish to ask a question or not?

**Ms Ward interjected.**

**The CHAIR** — Order, Ms Ward!

**Mr MORRIS** — Chair, I am saying given that I am not going to get a response to the last part I am certain happy to ask the first two parts.

**Members interjecting.**

**The CHAIR** — Order! The minister, to answer the question.

**Mr SCOTT** — As I recall, at the time of the resignations there was a unity ticket from the Leader of the Opposition, but I will deal with it. In terms of the CEO position — because there was a bit of back and forth — it was the CEO that you were seeking?

**Mr MORRIS** — The CEO is the subject of the question, yes.

**Mr SCOTT** — Yes, the subject of the question. The advertisements were placed in the *Age*, the *Financial Review* and the *Australian* on the weekend of 28 March 2015, with a closing date on 13 April 2015, and the position was also advertised in careers.vic.gov and on seek.com. Applications are now being considered by a selection committee that consists of a representative of the Department of Treasury and Finance, the acting WorkSafe chair and a former WorkSafe chair. The executive search consultant has also been engaged to assist with this process. The selection committee will interview short-listed candidates before making a recommendation to myself as minister. This is a very standard process.

**Mr MORRIS** — The board is not making the decision.

**Ms SHING** — Good morning, Minister. Good morning, departmental representatives. Minister, I would like to take you if I may to budget paper 5, page 28, and I have an actual budget paper reference for you this time, as opposed to the long bow drawn by my predecessor questioner. I note at note 3(b), ‘Dividends by entity’, and footnote (a) there is a statement that no dividend will be taken from WorkSafe, in accordance with the government’s pre-election commitment, but the moneys will be returned to the state in future years in order to re-establish and expand WorkHealth and for ‘other purposes’. I would ask you, Minister, to explain what ‘other purposes’ are for the purpose of this line item.

**Mr SCOTT** — I am very happy to, Harriet, through the Chair. Consistent with our election commitments, as I have previously outlined, WorkSafe will not be paying dividends in this budget. However, there is a commitment — if you read that footnote, it is very clear, and I will go to the footnote — that moneys will be returned to the state in future years and be used for specific purposes. The platform which the Labor Party took to the last election made clear reference to the purposes which the government saw as appropriate for WorkCover funds to be expended on, and they were to fund appropriate improvements to benefits and access to benefits for injured workers; to lower Workcover premiums for Victorian businesses; to support programs to improve workplace safety, including an expanded and well-resourced occupational health and safety inspectorate within WorkSafe; and to support initiatives to improve the health of the Victorian workforce.

As you would be aware, there are some commitments already that look to improve benefits and access to benefits to injured workers, particularly in terms of access to benefits for injured workers that the government has committed to, which include what is essentially presumptive rights for firefighters, both career and volunteer, which is an election commitment that will be honoured by this government. There will be improvements, and I expect that we will be able to lower WorkCover premiums for Victorian businesses.

Importantly — and this is outside of the expenditure of funds of WorkCover itself — there has recently been an increase in numbers. I attended the graduation of, from memory, 20 new inspectors coming on, and there are two more tranches. I think it was 16 health and safety inspectors and 4 return to work inspectors, and there are another two tranches in the coming year, in terms of those who will be trained to be inspectors and coming through and graduating. That was a very inspiring group of young people, dedicated to improving occupational health and safety, and return to work, and also in terms of supporting initiatives to improve the health of the Victorian workplace.

It is important to note that there has been an announcement of a WorkHealth Advisory Group, with Todd Harper. People may be familiar with Mr Harper’s work as the executive director of Quit from 1999 to 2007, CEO of VicHealth from 2007 to 2011 and now CEO of the Cancer Council Victoria. Mr Harper is a very dedicated public servant who has served under a number of different governments in various capacities in terms of assisting and in community agencies. He has been a dedicated servant, working hard to improve health, particularly in terms of primary health care; there is often a focus on acute care. Joining Mr Harper on the WorkHealth Advisory Group will be Tim Piper, the Victorian director of the Australian Industry Group; Jerril Rechter, CEO of VicHealth; Mark Stone, CEO of VECCI; the Parliamentary Secretary for Health, Mary-Anne

Thomas; Anna Peeters, a public health researcher; Diana Taylor, a lawyer and director; and Luke Hilakari, secretary of the Victorian Trades Hall Council.

It is important to see that the new WorkHealth group can build on the work undertaken in primary health care under the previous WorkHealth program. Part of that role will be looking at ways the WorkHealth program, which was such a success previously but really a program that was about identifying problems in health in the workplace, can be expanded and issues that may be of interest to and include disease prevention and the management of chronic illness. The intent in government is to try to help to ensure that people can remain in work or return to work after an injury when it is safe to do so. Increasingly in society there are issues such as diabetes and other health conditions. Part of the process is not just preventing ill-health but also the management of chronic disease. Ensuring that people can remain healthy and remain in a workplace benefits the person themselves, the employer and the community more generally.

There is going to be a focus on expanding, but we are committed to ensuring that WorkHealth, and WorkSafe more broadly, will have a positive role and that moneys expended meet the needs of the community and also meet the pre-election commitments that the Labor Party took to the election.

**Mr MORRIS** — Minister, can we move to the subject of land sales, and the reference is BP3, page 329, and the associated output there for revenue from the sale of surplus government land, including Crown land. I note that the 2015–16 target for that output — —

**Mr SCOTT** — Sorry, the page reference, Deputy Chair?

**Mr MORRIS** — 329. BP3, down the bottom of the page there. I note that the 2015–16 target for revenue from the sale of surplus government land, including Crown land, is \$124 million — exactly the same target as the target of the Napthine government for 2014–15. I also note that the 2014–15 expected outcome of \$80 million is some \$44 million short of the target. Can the minister advise the approximate value of surplus government land that has been sold since 1 December 2014? While he is doing that, he may talk about the transparency measures that you have in place for those sales as well.

**Mr SCOTT** — In terms of the sales in that period, I may have to provide further information subsequent to this meeting to the committee. That is a very specific question which I do not have the exact answer to, and I do not want to speculate. In terms of transparency, as far as I am aware there has been no change in terms of the transparency processes relating to government sales from the previous government.

**The CHAIR** — The Deputy Chair on a supplementary.

**Mr MORRIS** — Just a clarification first, if I may, Chair. You do not even have a ballpark figure of land sales since 1 December?

**Mr SCOTT** — It is not how it has been reported to me. It has not been disaggregated in that way. I can provide that information on notice.

**Mr MORRIS** — Okay. The DTF website is reporting — and this is one of the things I am keen to find out — total sales of less than \$400 000; \$380 500 since 1 December, and all of those have occurred in this month of May. I am just wondering whether we are going to have a rush of sales in the last month of the financial year.

**Mr SCOTT** — I can provide further information on notice.

**Ms WARD** — Minister, if I can I would like to refer you to budget paper 5, page 28. I am taking you back to my earlier question regarding dividends by entity. This time I ask the minister to assure the committee that this decision will have no impact on WorkSafe's relocation to Geelong.

**Mr SCOTT** — Thank you, Vicki. Yes, I certainly can give that assurance. I know there has been a bit of a mischief, and with all due respect to opposition members I can understand why opposition members would seek to make mischief about decisions of the government. We all play our roles in this grand play, without getting too Shakespearian.

### **Members interjecting.**

**Mr SCOTT** — But the government is fully committed to moving WorkSafe headquarters to Geelong, so I can certainly give that assurance to the committee. I have had, as the minister, some very useful meetings down in Geelong. I have to say that it is a very enthusiastic community down there, who is eagerly looking forward to WorkSafe joining the TAC. The original move to Geelong of the TAC was a measure of the former Labor government.

A key consideration in WorkSafe moving to Geelong is ensuring a knowledge transfer and the capability of management and keeping those skills and the ongoing work and viability of the Victorian workers compensation scheme and OHS regulation in the state. WorkSafe is planning and there is work going on around the exact location of the building in Geelong, and there is potential, which is being explored, to co-locate with the National Disability Insurance Agency. There is soon going to be a competitive expression of interest process to test the market to ensure as good an outcome as possible for the Victorian community. The staff are being informed and consulted, and we make no apologies for consulting both the staff and the relevant trade union, the CPSU, which have responsibility and coverage of workers at WorkSafe.

There has been the establishment of a broad engagement framework with its staff — an employee reference group, which I understand can accommodate up to 90 employees — to help facilitate wider input into planning, development and implementation of the relocation. There has been the development of a consultation negotiation framework to support negotiation and the relocation agreement and to meet obligations under the enterprise agreement with the staff. As I said, there is also work going on with the CPSU to establish agreed negotiation and consultation arrangements, including resourcing, to ensure the needs of WorkSafe, its employees and the union partners are met, because it is important we take the union, as the representative of the workers down there, into a process and ensure they are consulted. Again, as I said, we make no apologies for that consultative process.

WorkSafe is also working closely with the Transport Accident Commission and the national disability insurance network on implementing the Australian injury and disability insurance network, which is envisaged as a collaborative network of personal injury insurance agencies, co-located in Geelong, and it is looking really at what synergies can be created. What you are going to have is three large public sector insurance agencies dealing in personal injury and rehabilitation, so the network will look at how those can work together to ensure that the best outcomes can be had, both for the community of Geelong but also for the agencies and the clients of those agencies. So there is a really exciting opportunity, and there is engagement with partners which is being worked on, such as Deakin University and Gordon Institute of TAFE. There is also work beginning to be undertaken with the local business community. I think there are real opportunities in the move to Geelong to create a hub of excellence and a centre that will exist with no other equivalent across Australia. There is lots of research about the benefits that accrue from an agglomeration effect, where you have got a particular expertise in an industry gathered together, so I think this is a very exciting move.

There has also been a knowledge retention strategy developed to ensure that the expertise and knowledge within WorkSafe that has been built up over a long period time is retained. The truth is not everyone from within the organisation will move down there, but we want those skills to be retained. The ideal is to have the number of the existing workforce who transfer down there to do so in such a way that protects the financial interests of the organisation, but also so we can get synergies with the other organisations, particularly NDIA and TAC, and also partners such as Deakin and Gordon TAFE. I think this is a really exciting outcome and something the government is fully committed to, and I am sure it will end in a very positive outcome both for the organisations, not just WorkSafe but TAC and NDIA, and the community of Geelong.

**Mr MORRIS** — For the benefit of members, budget paper 2, page 51 is the reference. I am sure the minister knows where it is. Minister, given the Victorian WorkCover Authority was the subject of a wide-scope review by the Essential Services Commission in 2012, why have you commissioned James MacKenzie to undertake another review, and given the relationship between the VWA and the TAC, why is the review limited to WorkSafe?

**Mr SCOTT** — I will happily respond to the questions. It is not limited to WorkSafe. It is a review of both WorkSafe and the TAC. I would say that one of the reasons that Mr MacKenzie was chosen was in fact the experience that he had, and unique experience in fact, in his governance role at the Transport Accident Commission during the period in which the Transport Accident Commission actually moved to Geelong. Mr MacKenzie, who served as CEO of TAC during 1994 to 1997 and chairman of TAC and WorkSafe from

2000 to 2007, had a critical role in the move of the Transport Accident Commission to Geelong. One of the reasons he was chosen was in relation to one of the terms of reference relating to the move to Geelong. He is a person of unique experience who has served under both coalition and Labor governments in positions of significant authority and responsibility in relation to both WorkCover and the Transport Accident Commission.

**Mr MORRIS** — Given that this is supposed to be an independent review — —

**Ms WARD** — Supposed to be or is?

**The CHAIR** — Order!

**Mr MORRIS** — supposed to be an independent review, it appears to me that Mr MacKenzie has a direct conflict of interest as a director of Maurice Blackburn. How do you reconcile — —

**Ms SHING** — On a point of order, Chair, I fail to see how it is actually permissible for the opposition to raise concerns about conflicts of interest, when indeed they and their stakeholders and supporters operate frequently in a commercial environment where Chinese walls and the like are required in order to make sure that transactions can occur, despite the fact that there may be actual or apparent conflicts of interest. Again, the aspersion being cast is that there is no capacity for an independent review based on a non-related role as a director of another company. On that basis I would seek that the Chair direct Mr Morris to rephrase the question to remove the imputation.

**Mr MORRIS** — On the point of order, Chair, the VWA is not a commercial organisation.

**Ms SHING** — Maurice Blackburn is, Mr Morris.

**The CHAIR** — Order, Ms Shing!

**Mr MORRIS** — Participation in its activities is not optional. It is a public authority, and this review was claimed to be independent. It cannot be independent if the person conducting the review works clearly and closely in the industry as a director of Maurice Blackburn.

**Ms SHING** — Further to the point of order, Chair, I would put it that Mr MacKenzie is in a position to be able to manage any actual or perceived conflicts of interest and has gone through the appropriate process to make sure that there is no infection, whether you might choose to contrive it or not, in relation to a review which is clearly set out to be independent.

**Mr MORRIS** — Set out to be and to be independent are two different things.

**Members interjecting.**

**The CHAIR** — Order, Ms Shing!

**Mr DIMOPOULOS** — On the point of order, Chair, while it is probably something for the minister to answer, I think the Attorney-General's response to a similar question yesterday, because it is quite a formulaic question from the other side, about independence was that the person reviewing — the question related to another review — is not employed by the department that reports to the minister and in that sense it is independent. That was the whole purpose.

**Members interjecting.**

**The CHAIR** — I ask the Deputy Chair to rephrase his question.

**Mr MORRIS** — Chair, it was pretty simple. It was about an alleged conflict of interest.

**Members interjecting.**

**The CHAIR** — Order!

**Mr MORRIS** — If you want to seek rephrasing to prevent the opposition raising a legitimate matter, I am not going to assist you. Either we ask the question as it is, or we move on. But if you want to hide, you do not want to explain what is going on, this is public money, this is publishing, people are compelled to — —

**Members interjecting.**

**The CHAIR** — Order, Ms Shing!

**Ms SHING** — On a point of order, Chair, Mr Morris is more than a little inclined to verbal the Chair and to verbal ministers in relation to the responses that he gets where he does not like them. It is unfortunate that he sees fit to do that.

**Members interjecting.**

**The CHAIR** — Order! Ms Shing was speaking, so, Ms Shing, if you can finish your point of order.

**Ms SHING** — Yes. Mr Morris is seeking to impugn the minister and the Chair by verballing the basis upon which questions have been asked, where the questions are asked and an answer is given that you do not like.

**Mr MORRIS** — We have not had the answer because you do not like the question.

**Ms SHING** — It is unfortunate that — —

**Members interjecting.**

**The CHAIR** — Order! Mr Smith, on the point of order.

**Mr T. SMITH** — I was just seeking what Ms Shing's point of order was, Chair.

**Ms WARD** — If Mr Morris was not interrupting her continually, we might be able to find out.

**The CHAIR** — I am going to rule on this. As we discussed yesterday when a similar question was raised about another person conducting a review on behalf of the government, I asked yesterday whether Mr Smith was prepared to rephrase his question, and in that case Mr Smith declined. I have similarly asked Mr Morris whether he is prepared to rephrase his question; I believe Mr Morris has declined. Is that correct?

**Mr MORRIS** — When the question is neutered, there is no point in asking it.

**The CHAIR** — Okay. That is fine. We will move on. Dr Carling-Jenkins.

**Ms Ward interjected.**

**The CHAIR** — Order, Ms Ward!

**Mr MORRIS** — What have you got to hide?

**The CHAIR** — Order! Keep going, and you will lose another supp. Right, Dr Carling-Jenkins.

**Mr Morris interjected.**

**The CHAIR** — Order! Right, forget the next supp.

**Ms Shing interjected.**

**The CHAIR** — Order, Ms Shing! Dr Carling-Jenkins.

**Dr CARLING-JENKINS** — Thank you, Chair, and thank you, Minister. I would like to go back to WorkSafe Victoria. It sounds like you have undertaken quite a bit of analysis and that you have put a lot of work into this area in the budget, and I commend you for that. I am looking particularly at the graph that you presented in your presentation. WorkSafe is also referred to on page 51 of budget paper 2. I am looking at the claims per million hours worked and the decline that has been seen over the past few years. I was just wondering if you could clarify for the committee from the work that you have done whether this decline is



because of a movement of the workforce to safer jobs, so from manufacturing to service jobs, for example, or if WorkSafe has undertaken some tougher criteria for initial assessments.

**Mr SCOTT** — I might get this supplemented. The advice that I have is that there is a bit of a combination of a number of factors. So there is a change in the Victorian workforce in terms of a shift away from more dangerous industries, particularly with a shift towards the service sector, which has traditionally a lower rate of injuries. But my understanding is that there has not been a change in the criteria by which, so this measure —

As I understand it, there has not been a change in the criteria on which the assessments are made.

**Mr SARGENT** — That is right.

**Mr SCOTT** — I would say within industry itself there has also been a commensurate reduction in accidents. So there are two combined factors going on, in essence, is how I would describe it. I will get Mr Sargent to supplement, because I think it is a very good question.

Refreshingly for PAEC, it is a question seeking information, but it is a very genuine issue because there is an effect based on the change in the structure of the economy. There is no doubt about that, and I think it would be wrong to try to pretend otherwise. But there has been a lot of work, and I pay credit not just to, say, unions and employees, but there has been a significant cultural change in employers as well. There are some that are better than others, but there has definitely been a change over time in the culture of Victorian workplaces, with a greater emphasis on safety and a greater emphasis on ensuring that people return home, after each day at work, safe. But still, sadly — I think it changes a little bit, the rate of accidents, but a bit over 20, I think it is 22 at the moment — 22 persons have died in the last 12 months. But there has been a change. I will get Mr Sargent to supplement the information.

**Mr SARGENT** — Thank you, Minister. We can certainly provide more information on this, but over the last few years the number of claims have remained largely the same, about 30 000 a year, and the mix of injury has also remained largely the same. What has happened is as the workforce has grown the number of claims have remained much the same. So the minister is correct that we do feel that people are entering into less risky work, but the number of claims remain much the same, and the mix of injury is much the same as it has been for about five years.

**Dr CARLING-JENKINS** — What action are you taking to ensure that this cultural change that you have described is going to continue over the next term?

**Mr SCOTT** — Thank you for that. There have been a number of actions, and again I might have Mr Sargent supplement, but there has been a recent intake of a larger number of inspectors. My memory is 16 occupational health and safety inspectors and 4 return to work inspectors were the most recent.

**Mr SARGENT** — That is correct.

**Mr SCOTT** — And there are another two cohorts. So there is a conscious decision within WorkSafe to increase the focus on occupational health and safety and to increase the resources that are available to the organisation in terms of ensuring that workplaces are subject to inspection. It is not just a sort of a bad cop on the beat; there is also an educative function, which I think is quite important, that the inspectorate carries out. I might get further supplementation, but in terms of actions taken, one of the clear actions that has been taken is to increase the resources that are available in terms of the numbers of inspectors that can assist to reduce the number of accidents in Victorian workplaces.

**Mr SARGENT** — That is correct. Certainly a key thing here is we are increasing the front line, which is the inspectors and investigators, and, as the minister said, over the next 12 months we expect to have three new intakes to bring the front line up from about just under 200 inspectors to about 220 inspectors, so we are increasing it there. The thing is what we are also doing is putting much more work into a strategy of where we visit, so we are putting the resources into where the high-risk work is. So rather than having a broader approach it is really putting our resources to where the risk is.

**Mr DIMOPOULOS** — Minister, I just want to ask you about the Sustainability Fund and water efficiency. You talked a bit about the efficiency measures in the budget around vehicles going from six to four cylinders

and other measures. I am not sure if you touched on water efficiency. It is on BP3, page 98, table 1.18, and it is one of the line items — the last one in fact — in that table, the 300 000 in 15–16. I am sorry if you did touch on it, but I cannot recall.

**Mr SCOTT** — No, I did not.

**Mr DIMOPOULOS** — Would you be able to explain a bit more about what that efficiency line item will be used for?

**Mr SCOTT** — Okay. It is \$0.3 million, but there is a rounding issue, so it is actually \$250 000. That is actually not uncommon in terms of how budget papers are structured, but I think it is important to give the committee clarity around those matters, because the norm is to round 50 000 up to the nearest. So it is actually \$250 000 that has been allocated in 2015–16. It has been allocated for Department of Treasury and Finance, and it has been done to identify and support opportunities for the water industry to be more efficient. This is a collaborative project. There is a collaborative project with water corporations now underway which is across departments to realise further savings from collaborative initiatives, including coordinating procurement. I have got responsibilities in terms of procurement for whole-of-government, so that is partly where myself as the Minister for Finance fits in as well as the departmental responsibilities, but collaboration and also shared services is the responsibility of myself across government.

Previously in 2014 there was an independent review that water corporations participated in to look at their efficiency. That approach identified more than \$1 billion of savings, of which more than \$900 million has been returned to customers between 2014–15 to 17–18, but there are always further opportunities that exist within organisations. This is in effect a small amount of money that comes out of the Sustainability Fund, which is a fund held within another department but its expenditure relates to activities and so it has been applied to the Department of Treasury and Finance and it relates to activities.

It really goes to the heart of, in part, what a finance minister's role is. The role is to ensure that you get efficient procurement and efficient shared services in order to maximise the capacity for a public organisation to deliver goods and services — in this case with water being a good — to the community in such a way that it minimises cost. This should be seen in effect as a small investment being made in order to leverage a greater benefit. That I think is at the heart of how, in a good way, moneys can be expended within central government, which is often not seen if it is not a direct service, in order to ensure more effective delivery of goods and services and therefore with that a greater effectiveness through improvements in things like coordinated procurement, collaboration and shared services.

There is a commensurate benefit to the community because the cost of the delivery of these goods will be less and therefore the community benefits. It is a simple \$250 000 investment from that fund, which will through a collaborative process between departments and agencies look at new ways to realise further savings, particularly with a focus on procurement collaboration and shared services for the benefit of the community.

**Mr MORRIS** — Minister, I move to BP3, page 105, and the question is regarding the construction code compliance unit, which is identified in the table headed 'Efficiency and expenditure reduction measures'. That organisation has obviously been disbanded, and you referred to that in your opening comments. By way of editorial, while I agree it is certainly an expenditure reduction measure, I do not consider it to be an efficiency measure and even less an action intended to improve productivity and promote jobs growth, but we will have to agree to differ on that, I guess. The abolition of the unit of course follows the announcement by the Premier of that decision, rather bizarrely in a media release on the whooping cough vaccine.

Minister, as you are aware, the unit last year embarked on a program of drug and alcohol testing on government construction sites. That has now apparently been terminated, along with the unit. In the absence of the abolished CCCU, what steps are you taking or what steps do you intend to take to ensure that workers on government construction sites are not subjected to potential workplace risks posed by drug or alcohol affected workmates?

**Ms SHING** — You agree with the CFMEU on something, Mr Morris. How fantastic!

**The CHAIR** — Ms Shing!

**Mr SCOTT** — I think it is important to make a few comments in response and the issue of impairment — and it is drug and alcohol — testing is an important issue. Under our current occupational health and safety law there is a requirement on both employers and employees. I would make clarification on another point. The construction code compliance unit itself had been mischaracterised. I note government and construction sites. It applied to those who are tendering or had tendered successfully for government construction — —

**Mr MORRIS** — Yes, I agree.

**Mr SCOTT** — I note the Deputy Chair has not done it, but it had been characterised as a blanket. The proposal did not cover much of the construction industry with the remit.

In terms of the responsibilities under the Occupational Health and Safety Act, both employees and employers have a responsibility to ensure a safe workplace, and drug testing forms quite rightfully an important tool in that. I note that both major employer groups and the CFMEU have both indicated that they wish to have drug testing — impairment testing, I should say, because it is drug and alcohol impairment testing — on construction sites.

There is a bit of a misconception that somehow that requires government to intervene. In fact under the current occupational health and safety legislation, where employers and employees agree to have impairment testing, the legislation allows for that. The government has in fact welcomed the desire for both to have impairment testing and there is no impediment under the legislation or the regulation to that testing currently being undertaken. There is not an impediment for those in those industries.

The issue, if we are going to be honest about it, is something which is much broader than simply construction sites. I note in the transport industry these matters have been raised. The government welcomes both employers and employees making cooperative arrangements to ensure that there is impairment testing and there is in fact no impediment to those cooperative arrangements being made.

**Ms PENNICUIK** — If I could follow up a question that I think was raised by Ms Shing with regard to the note on page 28 of budget paper 5 which states:

The government expects moneys will be returned to the state in future years for a re-established and expanded WorkHealth scheme and other purposes ...

In your answer to Ms Shing you mentioned 16 inspectors and 4 return to work inspectors and you are inspected expecting another two tranches of those. You also mentioned presumptive legislation. If I could go to the first, which was about OHS inspectors and return to work inspectors, I just wanted to clarify whether you were saying that a future return to government of dividends from WorkSafe would pay for that, or would that come out of WorkSafe — —

**Mr SCOTT** — That would come out of the normal budget.

**Ms PENNICUIK** — Because in your answer to Ms Shing, you seemed to imply that that was — —

**Mr SCOTT** — No, I am happy to clarify that that comes out of the existing budget, but it was a policy statement principle, so there is expenditure within the organisation. But I will clarify that.

**Ms PENNICUIK** — So no further expenditure — —

**Mr SCOTT** — Further expenditure within the organisation, but not to government and then back to the organisation.

**Ms PENNICUIK** — I am still on my first question, Chair, which is: what are the other priorities for which you would expect money coming that is not within the WorkSafe budget, as your note is implying, apart from WorkHealth?

**Mr SCOTT** — I think it was referenced in your question. We would certainly be looking, as a government, at both improvements in benefits. We have publicly flagged an improvement to benefits, which is the presumptive rights for firefighters, but there would potentially be an examination of other benefits as well. We would also be looking at reductions in WorkCover premiums.

In answer to the question of expenditure beyond WorkHealth, I would want to be careful with WorkHealth. One of the things that I was seeking to communicate — and I am happy to expand on — is that the WorkHealth that has been envisaged is a much broader concept than the original WorkHealth. The original WorkHealth was largely focused on testing of individuals within the workplace. A relaunched WorkHealth — because it was essentially allowed to atrophy completely under the former government — is intended to have a much broader remit in terms of providing assistance to people in the Victorian workplace around their health. So the concept is a broader one, and also, I would say, there would be an examination. I will try to keep to any expenditure that exists only outside of WorkSafe itself, so I will be careful, if I understood your question correctly, that is what you are seeking information on.

Certainly an examination of the potential for examination of improved work benefits and access to benefits, because there are two interrelated concepts. It is both the benefits you receive, but also the ability to access benefits. So in terms of, say, presumptive rights, that really relates to the second concept, the access to benefits. So presumptive rights do not in themselves give you more benefits under the legislation. What they are doing is giving a worker who has been in the case of firefighters protecting the Victorian community and placing their own life at risk on many occasions greater access. There are two interrelated concepts there. There is the improvement to benefits, but there is also the improvement to the access to benefits, which really, as I said, presumptive rights relates to.

**Ms PENNICUIK** — I am not quite sure why that would be outside the WorkSafe workers comp system, but perhaps you could provide me with some more information about that following the hearing. My question then is: has the government done any costing of the introduction of presumptive rights for firefighters? You would understand that the Greens have been campaigning on that issue for a very long time. We welcome the government suggesting that it is going to act on this issue and ask whether there has been any work done on the costs of that.

**Mr SCOTT** — Yes, and there has been some work undertaken, but that is a sort of a continuing process that has been undergone. I will speak in terms of my responsibilities for presumptive rights, so I will take a broad view of the question. My responsibilities as Minister for Finance relate to presumptive rights for career firefighters. Another minister has responsibilities in terms of volunteers, in terms of answering the question. In terms of the work, there had been work undertaken, which is in the public domain, under the previous government. The model for which we had taken a commitment to the election related to the introduction for career firefighters of legislation based on Tasmanian legislation, including the cancers that were listed in the Tasmanian legislation and their periods of service. There was a direct commitment, and that commitment has formed the basis of work that has been undertaken in terms of the costings.

In terms of what that would cost, it was certainly, from memory, within the sort of costings that were assumed from opposition, but I am happy to provide further information in relation to those matters to the committee at a later point. But in terms of career firefighters, there has been some work. I have to say that is a bit of an iterative process because there is discussion about exactly how the commitment, in terms of meeting the Tasmanian legislation, would be undertaken. But there is work that has been undertaken, and I can provide some further information to the committee.

**Ms SHING** — Minister, I would like to take you to BP3, chapter 2, page 98, and the table on that page, which we have already visited a couple of times this morning, the output initiatives in particular. I note that under the Sustainability Fund there is 10 million for the 15–16 period for the remediation of surplus government land and that that refers, under the explanation, to a series of targeted best practice remediation activities. Can you explain what that will involve, in relation to the specific reference to targeted best practice remediation work?

**Mr SCOTT** — Thank you for the question. It is table 1.18 and the 2015–16, \$10 million figure.

**Ms SHING** — Correct.

**Mr SCOTT** — That money is for the rectification and remediation of government-contaminated land. If you think of it, there are quite large landholdings in Victoria that have contamination issues. A classic example: having grown up in Clifton Hill, I know the Fitzroy gasworks quite well, which are on Smith Street. You have large elements of the Victorian landholdings which have issues relating to contamination over the years. There

have been significant changes to how land has been treated over a long period of time, and in former years there was much less stringent regulation, if we are being frank about it, of how land was utilised and the effective management of contamination on land.

This funding has come through the Sustainability Fund, and that is a perpetual fund that receives revenue collected from Victorian landfill levies and pays for initiatives that facilitate resource efficiency in waste reduction and improved environmental response to climate change. The government, as I said, owns many sites, and a lot of those are unable to be used or sold due to historic contamination arising from Victoria's industrial legacy. Sadly, sometimes that was government-owned corporations — particularly, as I said, gas and fuel. There are a number of gas and fuel sites that are contaminated.

I am pleased to announce today that we are prioritising a number of highly valuable and significant community assets for immediate attention. These include the former Fitzroy gasworks site, the former Victoria University property in Newport, the former gasworks sites in Bacchus Marsh and Bendigo and, together with the City of Port Phillip, the Gasworks Arts Park. With this extra funding my department will immediately undertake detailed assessments of these sites to develop remediation strategies. This is not only the right thing for the government to do to ensure that these sites are cleaned up for both the benefit and protection of the community, but more pragmatically the remediation is often necessary to unlock their value or restore the inherent community value in the site. So it is a combination of what is right to do but what is also beneficial for the state, as an entity, to do.

I expect over time this is an issue that will receive more attention within government, because there are a large number of sites that have specific contamination issues and cannot be used either for the community benefit or in fact, if they are no longer required, for a particular government purpose. Often it is quite difficult to dispose of such sites through land sales without remediation works being done. So for both a pragmatic but also a principled purpose, this is an appropriate and sensible use of resources which will benefit the community. It is important to note that it also fits within the ambit of the Sustainability Fund because it will have direct improvements to the environment by cleaning up land which is currently contaminated.

**Mr MORRIS** — Minister, BP5, page 28, table (b) and the VMIA — you have already responded on this issue to Ms Ward, I think, earlier in the session. I refer to the government's decision to strip 420 million in dividends from the VMIA, the Victorian Managed Insurance Agency, over the forward estimates. As you are aware, VMIA provides insurance services not only to government departments but, in the last financial year, to 150 statutory authorities and agencies, 25 rail operators, more than 300 hospitals, health centres and bush nursing hospitals, 250 rural doctors, 25 medical research bodies, approximately 500 cemetery trusts, approximately 2300 community service organisations, and more than 13 500 registered residential builders. I note the minister's earlier assurance in response to the question from the government that there would not be an increase in premiums, but how can the minister guarantee that VMIA will not be forced to increase insurance premiums for schools, for hospitals, for community service organisations and for home construction as a result of this decision?

**Mr SCOTT** — The answer is very simple. The VMIA is in a sound, very strong financial position, as I previously outlined. It is certainly around its upper limit of its preferred accounting funding ratio. It moves around a little bit from month to month, but it is certainly around the upper limit of its funding ratio of 82.5 per cent to 117.5 per cent — that is the accounting funding ratio. As I previously outlined, the accounting funding ratio has significant issues in relation to the discount rate that is used, because the discount rate, particularly in a period of low interest rates, in effect suppresses the level of the funding ratio, because the discount rate does not reflect the expected returns on investments, which is more accurately reflected in the economic funding ratio.

The economic funding ratio, as I have outlined previously to the committee, as at 30 June 2014 was in fact a very healthy 174 per cent. Despite the taking of funds from the VMIA, the government has been advised, and expects, that the VMIA will stay within the preferred accounting funding ratio, which is the much more conservative figure. So, my belief is, and I can respond to the minister, that the advice that I have is that there will be no requirement for there to be an increase in premiums. In fact, I believe this matter has been responded to in the Legislative Council; I think it was the Special Minister of State that responded in the Legislative Council to exactly this matter. There will not be an increase. There is no requirement from the taking of these dividends to increase insurance premiums, whether it be for schools, hospitals or the other clients of the VMIA.

**Mr MORRIS** — Minister, I note your comments, particularly around the financial position, but the fact is as at 30 June last year VMIA had total equity of only \$145 million, it had net premium revenue of less than \$260 million. On what basis has the government determined that a dividend equal to 100 per cent of equity and 55 per cent of revenue is appropriate?

**Mr SCOTT** — With all due respect, Deputy Chair, I have in effect already addressed that question. The VMIA is in a very healthy financial position. The advice I have is that it is currently towards the top — or at times I believe it has exceeded the preferred accounting range, but it is certainly around the top of that. I note the figures you quoted are based, as I understand it, on the accounting funding ratio, and as I have already alluded to, there are significant issues in relation to the discount rate. And I understand that in the six months to 31 December 2014 the VMIA recorded an operating surplus of \$143 million, so their position had improved, but I think in terms of the issues you raise that the VMIA is in a healthy financial position and able to pay the dividends to the state, which the government will use for the benefit of the community.

**The CHAIR** — Ms Ward, on the last question.

**Ms WARD** — Thank you, excellent. It is always good to have the last question — almost as good as having the last say!

**Mr MORRIS** — It is not that good!

**Ms WARD** — I am still having the last say! Minister, I would like to refer you, please, to budget paper 3, chapter 2, page 98, table 1.18, the output initiatives, Department of Treasury and Finance. Minister, can you please explain to us what the Essential Services Commission regulation of retail energy functions initiative is for and what it means?

**Mr SCOTT** — There is funding there for regulation of retail energy functions of 2.7 million, 2.8 million, 2.8 million and 2.9 million. I take it that is the reference?

**Ms WARD** — That is right.

**Mr SCOTT** — Which is 11.2 million over four years. While most electricity regulatory functions are managed by the Australian Energy Regulator, the Essential Services Commission retains some consumer protection functions relating to the sale and supply of energy — electricity and natural gas in Victoria. These were scheduled for transfer to the Australian Energy Regulator in 2012, and the funding for this function was removed. However, the previous government decided to retain these functions, which have been reconfirmed by the Minister for Energy and Resources. That left the Essential Services Commission with a funding shortfall.

In previous years this funding shortfall has been covered by a Treasurer's advance in the first year and a one-off budget allocation of 1.75 million in subsequent years. Expenditure undertaken by the Essential Services Commission on energy functions is cost recovered through energy company license fees, which are paid directly into consolidated revenue. So there needs to be an allocation made, because although the funding returns to the state, it is actually paid into consolidated revenue. As that occurs, these allocations that you can see on budget paper 3, page 98, the net impact of them is actually budget neutral.

The ongoing function is provided on the basis the ESC has those returned consumer protection functions, but there is also going to be some additional responsibilities committed to by the Minister for Energy and Resources to establish new watchdog powers for the Essential Services Commission. These include requirements to report quarterly on all enforcement actions taken, issued infringement notices and enforceable undertakings, and inform the public of those actions through media releases; provide responses to the Minister for Energy and Resources and the Energy and Water Ombudsman Victoria on systemic issues referred to the ESC by the Energy and Water Ombudsman Victoria, including public reporting where a breach is found to have occurred; release twice-yearly energy retailer compliance reports; and impose penalties for every breach of an obligation under the energy code that contributes to a wrongful disconnection.

I think the last of those is a very important initiative, because wrongful disconnections have a very substantial negative impact on the lives of consumers, whether they be energy consumers of electricity or gas.

**The CHAIR** — I would like to thank the witnesses for attending: Mr David Martine, Ms Gayle Porthouse, Ms Janet Dore and Mr Ian Sargent. The committee will follow-up with you in relation to one answer to a question on notice which related to land sales from 1 December 2014. If a written response could be provided within 21 business days of that request, that would be excellent. We will now end this hearing, and we will immediately go into the hearing on multicultural affairs.

**Witnesses withdrew.**