VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2014–15

Melbourne — 23 May 2014

Members

Mr N. Angus	Mr C. Ondarchie
Ms J. Garrett	Mr M. Pakula
Mr D. Morris	Mr R. Scott
Mr D. R. J. O'Brien	

Chair: Mr D. Morris
Deputy Chair: Mr M. Pakula

Staff

Executive Officer: Ms V. Cheong

Witnesses

Mr G. Rich-Phillips, Assistant Treasurer,

Mr D. Martine, Secretary, and

Mr S. Condron, Acting Deputy Secretary, Market Engagement and Corporate, Department Of Treasury and Finance; and

Ms J. Dore, Chief Executive Officer, Transport Accident Commission; and

Ms D. Cosgrove, Chief Executive Officer, Victorian WorkCover Authority.

Necessary corrections to be notified to executive officer of committee

The CHAIR — I declare open the estimates hearing for the portfolio of Assistant Treasurer, hearing no. 43 of the 2014 estimates process. I welcome the Honourable Gordon Rich-Phillips, Assistant Treasurer, and from the Department of Treasury and Finance the Secretary, Mr David Martine, and the Acting Deputy Secretary, Market Engagement and Corporate, Mr Shaun Condron; the Chief Executive Officer of the Transport Accident Commission, Janet Dore; and the Chief Executive of the Victorian WorkCover Authority, Ms Denise Cosgrove.

As has been the usual practice over the last couple of years, these hearings are being webcast on the parliamentary website. In accordance with the guidelines for public hearings, I remind members of the public gallery that they cannot participate in any way in the committee's proceedings. Departmental officers may approach the table during the hearing to provide information to the minister or other witnesses if requested, by my leave. Written communication to witnesses can only be provided via officers of the PAEC secretariat.

Members of the media are requested to observe the guidelines for filming or recording proceedings in the Legislative Council Committee Room. That includes keeping the camera focused only on the person speaking, not panning the public gallery, the committee or witnesses, and the ceasing of any filming or recording as soon as the hearing is completed or indeed during any breaks that may occur during the hearing.

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 are not protected by parliamentary privilege, including any comments made on social media from the hearing itself. The committee does not require witnesses to be sworn, but I remind you all that the questions must be answered in full and with accuracy and truthfulness. Any persons 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 fact verification within two working days of this hearing. The PowerPoint presentation will be placed on the committee's website as soon as it becomes available, and verified transcripts from Hansard will be placed on the website within five days of receipt.

Following a presentation by the Assistant Treasurer, committee members will ask questions relating to this inquiry. Generally the procedure followed will be that relating to questions in the Legislative Assembly. Sessional orders provide a time limit for answers to questions without notice of 4 minutes, while standing orders do not permit supplementary questions. It is my intention to exercise discretion in both matters; however, I do request that each answer be as succinct as is possible, recognising that these are often complex matters.

I ask that all mobile phones be turned off or to silent. The Assistant Treasurer now has an opportunity for a brief presentation of no more than 5 minutes on the budget estimates for his portfolio. Welcome, Assistant Treasurer.

Mr RICH-PHILLIPS — Thank you, Mr Chairman. I understand this is your final day of estimates hearings. Having been there, I know how enthusiastic you are to get through today.

Overheads shown.

Mr RICH-PHILLIPS — I thought I would start with an overview of the Assistant Treasurer portfolio. The first slide highlights the key areas within the portfolio largely related to internal government functions around delivering efficiency within government. There are, as we will talk about later, a number of statutory authorities attached to the portfolio, such as the Victorian WorkCover Authority, the Transport Accident Commission and the Emergency Services Superannuation Board, which are also responsible to the portfolio.

The first slide highlights the key areas of responsibility: the accident compensation scheme, the occupational health and safety regulator; the transport accident compensation scheme; management within Treasury of the vehicle fleet; the Victorian Government Purchasing Board; acquisition and disposal of government land; the accommodation of public sector entities within the CBD and elsewhere across Victoria; superannuation, as I outlined before, with ESSS; regulation of the housing agencies through the housing registrar; and also oversight of the Victorian government's whole-of-government data access policy.

The next slide highlights where those responsibilities fall within the output groups in the DTF structure. Obviously, as with all departments, it is a fairly complex structure as to output groups, and then we have the three statutory authorities highlighted at the bottom — as I said, the Victorian WorkCover Authority, the Transport Accident Commission and the Emergency Services Superannuation Board.

Moving on to the next slide, this slide highlights the financial performance of the Victorian WorkCover Authority, which is an area we typically look at each year. To refresh the committee's recollection of this slide, it shows key metrics for the Victorian WorkCover Authority. The one we tend to focus on is the performance from insurance operations, which is PFIO, because that reflects the fundamentals of the insurance business — how it has performed. You can see that for June 2013 we had a positive PFIO recorded. The next bar, net result after taxation, is reference to the overall operation of the entity, including movements in investment performance. Obviously both TAC and the Victorian WorkCover Authority have large investment portfolios as part of backing their scheme liabilities, and therefore movements in investment markets have a big impact on the overall result of the organisation. What we do is strip that out so that we look at just the actual operation performance, which is shown through the PFIO.

An element of that is actuarial release, which is shown as the yellow bar. This reflects improvements as assessed by the scheme's actuaries with respect to the liabilities of the scheme. In the case of workplace injury or in the case of a transport accident injury, basically the balance sheet of each entity is required to reflect the whole-of-life cost of dealing with that injured person. To use a transport accident example, if someone injured in a transport accident has a catastrophic injury — quadriplegia or something like that — they are going to have a substantial whole-of-life cost to the scheme that could run into the millions of dollars. That has to be reflected on the balance sheet for that person. If there is any change or improvement in the expected cost of that claim on the balance sheet, that is reflected in the actuarial release and assessed by the actuaries on an annual basis. That is the yellow bar. What we seek to do through the scheme is actually improve the way the scheme is run and get a positive actuarial release on each six-month basis.

The line shown on the chart is the funding ratio, and that reflects simply the quantum of assets available against the quantum of liabilities in the scheme. As you can see, it is above 100 per cent.

The next slide shows OHS performance for the Victorian WorkCover Authority. Victoria continues to have the safest workplaces in Australia. You can see, if you can read the chart from there, that we have a decline in the number of claims in Victorian workplaces. As outlined last year, we have re-based this claims data from the traditional measure, which was claims per thousand workers, to claims per million hours worked. That is simply because the denominator, claims per million hours worked, is a better reflection of the level of activity which takes place in workplaces in Victoria. But you can see on both the old measure and the new measure that we continue to have a decline in the number of claims which are being made in Victorian workplaces.

The next slide shows claims in absolute numbers. You can see for 12–13 — the last financial year — 28 003 claims, again highlighting that decline in the overall number of claims. Because we have a decline in the number of claims, we are also able to deliver low WorkCover premiums, and the next slide shows the trend in WorkCover premiums in Victoria. You can see that the 13–14 charge rate is 1.298 per cent of payroll, as it was in 12–13. This continues a downward trend in premiums over a number of years in Victoria. It also continues a trend in stability in WorkCover premiums. For 13–14 Victoria also has the lowest average WorkCover premium of any jurisdiction in Australia, and that is something that is achieved through safe workplaces and also through efficient operation of the Victorian WorkCover Authority.

The next slide shows that comparison with the other jurisdictions for the 13–14 year. You can see just by comparison where the other states and territories are sitting. South Australia is obviously the highest. We have seen a number of those jurisdictions, such as South Australia, Queensland and New South Wales, either talk about or initiate substantial structural reform in their WorkCover schemes. Victoria has not needed and is not undertaking that type of reform, but we have been able to deliver low premiums nonetheless.

Moving on to the Transport Accident Commission, we have a similar series of metrics for the TAC as shown for the Victorian WorkCover Authority — those key areas of net result, profit, performance from insurance operations, actuarial release and funding ratio. I will not go through in detail what they are measuring, but they are the same measurements as — —

The CHAIR — We are getting very short for time now, Minister.

Mr RICH-PHILLIPS — I will move on and quickly click through the next slide, which shows the decline in the road toll. There is a sustained decline in the road toll in Victoria. We have a slide on our enhanced crash investigation study, which I will talk about if the committee is interested in it. We also have a slide recording performance in the superannuation schemes here in Victoria, and I can talk to that in some detail if the committee wishes, including what that means for budget.

A further slide — I think it is the final slide — highlights some of the internal functions of the portfolio in the department around fleet and procurement. Moving on, we talk about the number of contracts which are up for renewal or have been renewed in the 13–14 and forward in the 14–15 year. These are contracts which are run by Treasury on behalf of government — whole-of-government contracts — to achieve economies of scale. We can talk about those in detail if the committee wishes.

Finally, we have two slides which highlight functions in accommodation across government and other functions around superannuation, land and property, housing registrar et cetera. I will leave it there. I am happy to take the committee's questions.

The CHAIR — Thank you, Minister. We have until 9.45 a.m. for questions, and I will kick off. Could you outline to the committee the budget initiatives in this portfolio which will contribute to growth and jobs both in the coming year and in the forward estimates period?

Mr RICH-PHILLIPS — I guess what I would say around growth and jobs is that this portfolio is very much directed at achieving efficiencies within government. The internal functions that I spoke about briefly with accommodation, with purchasing and with land management are about ensuring that we use the resources of the state and the resources of government in the most effective and efficient way and reduce expenditure for taxpayers and reduce waste for taxpayers.

One area where we do have substantial investment and expenditure is through the Transport Accident Commission. One of the programs the Transport Accident Commission runs is the Safer Road Infrastructure program. This is a commitment through the Transport Accident Commission of around $1 billion over 10 years for targeted roadworks in areas which have been identified through collaboration with VicRoads as high-risk or high-collision road areas. What we are seeking to do through that substantial investment of $1 billion over 10 years is to put in place road treatments — be they run-off areas or wire rope barriers along the sides of roads — which will reduce the incidence of significant collisions and reduce trauma and obviously reduce cost through the TAC scheme.

That is a program that is run out across the state as part of the road safety strategy released by the government in 2013. We committed to boost that program from around $70 million a year to around $100 million year, so it is a substantial increase in that program, and that is now rolling out infrastructure works across the state. I think we have a slide which sets out in some detail where those individual projects have been. They are well spread across the state, based on solid evidential data from VicRoads as to where high-risk intersections are, where high casualty intersections are and where the best return can be achieved through the investment of those funds. Many of those are across country Victoria, so that has a substantial impact in terms of what it means for road construction activity and the flow-on effects from that, but importantly it delivers a very substantial road safety benefit through that investment.

Mr SCOTT — Minister, as I know you are certainly aware, the Victorian WorkCover Authority is rebranding itself, dropping the respective WorkSafe brand, and WorkSafe is the sponsor of a significant number of sporting organisations including Netball Victoria, country football and of course the Western Bulldogs. These organisations are currently required to display the WorkSafe brand as a condition of funding. What will the cost of replacing the name WorkSafe on letterheads, pens, envelopes, banners, first aid kits, signage at sporting grounds, netballs, footballs, football jumpers, netball bibs and signage on WorkSafe offices — and I will not read out the various locations of all the WorkSafe offices but there are a number. What is the estimated cost — —

Mr O'BRIEN — The signage on my jumper as well.

Mr SCOTT — I am not sure what that was about, Mr O'Brien. What is the estimated cost of replacing the name WorkSafe on all those particular items?

Mr RICH-PHILLIPS — I thank Mr Scott for his question. There are a couple of elements I would like to address in relation to Mr Scott's question. Firstly, it is important for the committee to understand that the agency, Victorian WorkCover Authority, has been the Victorian WorkCover Authority since 1992 when it replaced WorkCare as part of the changes introduced in late 1992. That is set down as the statutory name of the authority in the current Accident Compensation Act and was reaffirmed last year when the Parliament passed the Workplace Injury Rehabilitation and Compensation Act.

In 2009–10 the Parliament was specifically asked to consider a change of name from Victorian WorkCover Authority and the Parliament in 09 or 10 did not support that proposal. It is important to know up-front that the Victorian WorkCover Authority is the legal name of the entity and has been for more than 20 years. It is appropriate, given the Parliament has reaffirmed and the Parliament has specifically determined not to change the name, that the agency use its legal name. That is the first point I wanted to make.

The second point with respect to why the name Victorian WorkCover Authority is being used is on 1 July this year, as Mr Scott would be aware, we will have the introduction of the Workplace Injury Rehabilitation and Compensation Act, which is the first consolidated rewrite of accident compensation legislation in Victoria in over 25 years. This is an important update and an important consolidation for the fundamental legislation of this scheme and this is an important way in which it can be recognised.

In terms of the cost, which goes to Mr Scott's question, what the government has said is that any rebranding needs to be done at minimal cost. It will be done on a replacement basis as items reach their normal replacement cycle. Mr Scott referred to the cost of letterheads and the cost of business cards et cetera. What I say to Mr Scott is the intention with the rebranding is that that will take place in the ordinary replacement cycle. So as new stationery is required, as it ordinarily would be required, that is when those changes would be made. When new contracts or sponsorship agreements are put in place, that is when those changes would be made. The marginal cost of using the Victorian WorkCover Authority name is being kept to an absolute minimum and being dealt with in the ordinary replacement cycle of those types of items.

Mr SCOTT — To take the example of sporting clubs, is there an estimate being done on how long netball bibs or football jumpers or netballs or footballs would be used with the name that no longer is the name of the organisation as a means of advertising paid for by the state?

Mr RICH-PHILLIPS — I say to Mr Scott that, as I indicated before, those changes will be done in the ordinary cycle of new agreements. If there is an agreement in place that says a club has X on its uniforms for a period of time, that will run its course, and if there is a new agreement with the same club or with a different club as these things are rolled over, then that will reflect the new branding. As indicated before, the display of the new branding is being done on a minimal marginal cost basis as existing assets are replaced and upgraded at their ordinary replacement cycle.

Mr ANGUS — Minister, I refer you to page 4 of the Treasurer's speech in budget paper 1 in which the Treasurer referred to divesting the Rural Finance Corporation. Does the coalition government intend to privatise the Victorian WorkCover Authority or the Transport Accident Commission?

Mr RICH-PHILLIPS — I thank Mr Angus for his question. I am happy to again place on record that — and I think the Treasurer may have addressed this issue in his comments to the committee — the Victorian government has no intention of either amalgamating the Victorian WorkCover Authority and the Transport Accident Commission or of privatising them. Both the VWA and the TAC perform important roles in the Victorian community — in the case of the Victorian WorkCover Authority, as a regulator, as a provider of compensation and rehabilitation, as an insurance scheme; and likewise with the TAC in providing compensation and insurance but also in the work it does in road safety. We have no intention of privatising those entities. We have no intention of amalgamating those entities.

In fact I wrote to Ms Cosgrove, the chief executive of the Victorian WorkCover Authority, back in April, placing formally on record — and I have a copy of the letter here, which was sent on 16 April. To read the relevant paragraph:

> I want to assure you and your staff at the Victorian WorkCover Authority that the Victorian government will not be separating nor privatising the Victorian WorkCover Authority now or after the State Election if the Government is re-elected.

That was in response to issues — scaremongering — which had been raised in certain quarters about splitting the Victorian WorkCover Authority as well as other lines around amalgamating the Victorian WorkCover Authority with the TAC. I am happy to place on record to the committee here today, as I did in that correspondence to Ms Cosgrove last month, that the Victorian government has no plans to split the Victorian WorkCover Authority, amalgamate it with the Transport Accident Commission or privatise either of those bodies.

Mr SCOTT — Minister, I refer you to budget paper 5, page 23. There is a line item under 'Dividends by entity' which outlines the dividends proposed to be paid to the state by the Victorian WorkCover Authority over the estimates period. I think the figure is around $602 million — just a shade under, but if you round it off, it gets to 602. The dividend is determined by current government policy in a particular way, but that is clearly influenced by the level of the average premium, which affects the financial performance of the Victorian WorkCover Authority. It has been put to me that there was a proposal within WorkCover itself under preparation for a reduction of the average WorkCover premium and that this proposal was shelved at the request of the ministerial office in order to prevent an effective reduction over time — or relative reduction; I will put it that way — of the dividend paid to the general government sector by WorkCover. Can the minister rule out whether this was in fact the case and there was work being undertaken to reduce the average WorkCover premium which was kiboshed by him or his office?

Mr RICH-PHILLIPS — I thank Mr Scott for that question, which goes to a couple of issues around both dividends and premiums, and I will address both of those matters. I am happy to say up-front to Mr Scott that whatever he has heard about me or my office quashing any reduction in WorkCover premiums is completely incorrect.

The reality is that the WorkCover premium for 2014–15 has yet to be set. It is actually quite a complex process to set a WorkCover premium because it involves the remaking of a very substantial premium order, which encompasses all individual industry sectors, individual industry classifications as well as remaking the order in relation to the calculation around the premium. While we talk about an average premium rate of 1.298 per cent of payroll, it is not a case of simply gazetting that number. It is actually a very substantial order that has to be made around setting the premium for the next financial year. So that process is in train, and the Victorian government will make an announcement about the average premium level for 2014–15 in due course.

As I said in my presentation earlier, in 2013–14 the Victorian WorkCover Authority has the lowest average premium of any state in terms of WorkCover premiums. This government is committed to maintaining a competitive business environment here in Victoria and has a very strong incentive to continue to offer low WorkCover premiums. So I can say up-front that any suggestion that any reduction in premium has been quashed by the government is untrue. That final premium has not yet been set.

With respect to the dividend issue that Mr Scott raised and the relationship between dividend and premium, that is a very interesting issue that Mr Scott raises. What I would say there absolutely clear to the committee is that dividends are a by-product of the Victorian WorkCover Authority's performance in the previous six months of the financial year. We do not price dividends or build dividends into the pricing of the Victorian WorkCover Authority scheme. Dividends which are typically paid by determination by the Treasurer in consultation with the portfolio minister, in consultation with the board of the agency, are determined on a six-month basis, so after a six-month period, having regard to the performance of the previous six months. The benchmark under this government, the benchmark under the previous government, has been to set dividends at 50 per cent of performance from insurance operations. That has been the practice to date with the Victorian WorkCover Authority.

But importantly I am happy to go into further detail if the committee wishes about how the premium is struck and the relationship with dividends, but to say quite clearly: dividends are not factored into premium calculations, into the setting of the average premium.

Mr O'BRIEN — Just returning to your presentation on the core responsibilities, at page 2, the last dot point there, you have a line relating to the whole of Victorian government DataVic Access policy and intellectual property policy. I just ask if you could provide the committee with more detail about the progress of the DataVic Access Policy, please?

Mr RICH-PHILLIPS — I thank Mr O'Brien for his question. The DataVic Access Policy was announced by the Victorian government last year as part of the 2013–14 whole-of-government ICT strategy. The position we took the DataVic Access Policy, overseen through the Department of Treasury and Finance, was that the

Victorian government and Victorian government agencies should release publicly whatever datasets can reasonably be released publicly in a format that is machine readable and accessible, and we have established the data.vic.gov.au portal for the release of datasets.

The reason we are doing this is in recognition that the Victorian government, like all governments, holds vast quantities of data on any number of subjects but does not necessarily use that data in a way which maximises its value. Equally, we know there is — and this crosses over to my technology portfolio — strong demand within the private sector, within the developer community, within software development and elsewhere for access to government datasets for application development, for program development and, indeed, just for analytics — large-scale big data analytics.

We put in place the policy that we would push out whatever datasets we could — that we would mandate across government that departments and agencies release data through that portal. We set a target in the strategy of the release of 1000 datasets by September of last year, and I am delighted to advise the committee that that target was achieved, We now have, as of April, a little over 2050 datasets in the public domain, many of which are public transport datasets — timetable datasets — which were of particular interest to the developer community.

We have established in the new ICT strategy which was released earlier this week, again through the technology portfolio, a target of 3000 datasets by the end of this calendar year, and while that stretches the achievement to date we expect that target will be met. That is a very important step in encouraging innovation and development in the tech sector but also in making that data available for analytics across government but more broadly as well.

Mr SCOTT — Minister, in your presentation you touched upon your responsibilities in land and property, and on budget paper 3, page 293, there is a performance measure about revenue from land sales which indicates that $140 million of land sales are expected in 2013–14. Could you provide the committee with the location of the sites that have been or will be sold during the rest of this financial year, because there is a small period to sell land to make up that total? I accept that some of that may require to be on notice. Also, to expedite the process because we have limited time in terms of supplementary, there is information I would be seeking which I again flag may be on notice. There is a figure of 124 million in land sales planned for the 14–15 financial year. Could you provide the committee with sites that may have been identified for potential sale to make up that figure?

Mr RICH-PHILLIPS — I thank Mr Scott for his question. I am certainly happy to take on notice some of the detail around land sales. I should highlight to the committee before I give the background on this that not all land sales are large land sales. The state of Victoria, the general government sector, holds a plethora of parcels of land across the state. For example, in regional Victoria there are many former road reservations which are no longer used as roads and which are often being sold, in accordance obviously with the sale of land provisions. These are typically strips of land that might be 1 metre wide and 3 metres long, and they sell for a couple of hundred dollars to the adjoining landowner. I assume they are not the ones Mr Scott is looking for, but I highlight to the committee that there are large numbers of properties of that nature which are being sold as part of this process.

Equally there are other properties which are very substantial which are being sold through this process. There are a number of former school sites across the state which have been in some cases closed for a decade or more, where a decision was taken, in many cases by the previous government, to close these schools. They have sat derelict, they have sat with buildings there and they have not been sold. This government has made it a priority to realise the value in those sites for two reasons, one of which is that the local communities want that. They do not want a derelict school site in the midst of their community with a decaying building and all the rest of it. It is also because the sale of those sites realises capital, realises cash, for investment in the government's infrastructure program.

I take this opportunity to point out, lest the suggestion is made, that the program of land sales does not hit the budget bottom line. It does not contribute to the budget surplus, because this is a balance sheet transaction. It is turning a land asset into a cash asset which is then reinvested into infrastructure. I know there is a suggestion that this is about the budget bottom line. It is not about the budget bottom line; it is about freeing up capital and recycling capital, in the same way as the Treasurer spoke about the port of Melbourne and Rural Finance.

There is a strong imperative to clean these sites up, to get them redeveloped so they are not eyesores in the community and to realise the cash. There are a number of significant sites which we could certainly take on notice and provide some further detail on. I have some detail here, but I do not think committee wants me to read through lists now. We can provide that information to the committee on notice.

Mr SCOTT — Just by way of a supplementary question, but it is really for clarification, I am not particularly interested in sites below, say, $1 million. For example, in my own electorate there is discussion around a particular school — Preston Girls Secondary College. If a site like that was being sold, I am sure the committee would be interested, but sites below $1 million are of less interest.

Mr RICH-PHILLIPS — I am certainly happy to take that on notice. What I would say to Mr Scott is that we would not be revealing values on prospective sales. Obviously we want to maximise the value to the state when they are sold.

Mr SCOTT — It is a school; it is not going to be worth less than $1 million, I presume.

Mr RICH-PHILLIPS — No, but in terms of putting dollar figures next to prospective sales, we are not going to do that.

The CHAIR — There is no expectation of that.

Mr RICH-PHILLIPS — But we can certainly report on more significant sales which have already occurred and some of the sites which will be available.

Mr ONDARCHIE — Minister, can I refer you to page 12 of your overheads presentation? You talked about Victoria's defined benefit scheme. I wonder if you could outline the government's exposure to superannuation liabilities.

Mr RICH-PHILLIPS — I thank Mr Ondarchie for his question around superannuation. This is an important one for government because the Victorian government does have a very substantial responsibility with respect to defined benefit superannuation. We have the emergency services superannuation scheme, which is an ongoing, live, open superannuation scheme for members of the emergency services, but we also have a substantial portfolio of legacy defined benefit superannuation schemes which ran from the 1930s, 1940s and 1950s through to the 1980s. There were a number of changes in the 1980s, and then many of those schemes were closed in the 1990s. But notwithstanding their closure, there are still many thousands of public servants still in the public sector or retired who have entitlements under those defined benefit schemes.

To stress the nature of defined benefit schemes as opposed to the common accumulation scheme we have now, with a defined benefit superannuation scheme the payout to the account holder is guaranteed. It is typically related to final salary: a multiple of final salary, or a pension based on a proportion of final salary. So the return to the superannuant is guaranteed and the state carries the risk of having the assets to pay those superannuation accounts as they fall due. What we have through the emergency services super scheme is a liability, which, as Mr Ondarchie highlights, is shown on page 12 of the presentation, and we have a pool of assets which are managed by the emergency services super board which are used to pay those liabilities.

We have under this government — this continues from the 1990s and from the previous government — a policy of having that superannuation liability fully funded by 2035. This requires, obviously, prudent management of that asset base, but it also requires cash contributions into the defined benefit schemes over the period from now through to 2035 to ensure that when we hit that target under the scheme those liabilities are fully funded.

What I would highlight to the committee is that the figures shown on slide 12 are not the figures as reflected in the budget papers. The figures on the slide are the figures as recorded by the emergency services super board, the entity charged with managing those defined benefit liabilities. The reason they are not the same as in the budget papers is that the accounting standard for the super scheme, as custodian of those liabilities and custodian of those assets, is different from the accounting standard for the state as the employer. For the super scheme the liabilities are valued having regard to the expected return on the assets it holds, so the future cash flows to future beneficiaries are discounted using the expected return versus the assets to work out the net liability.

In the case of the budget papers, which reflect the employer's perspective, the accounting standard requires that the liabilities be discounted using the bond rate, which is substantially lower, which leads to the reporting of a substantially higher liability. I think it might be around an $8 billion or $9 billion difference in those two figures, because one is discounted by the actual expected returns and one is discounted by the theoretical returns to the bond rate.

What is important, though, is that the cash required to meet the target of full funding is the same. The same amount of cash needs to be provided to meet that target. So these figures typically move around a lot as interest rates move, as the bond rate moves, or as the expected returns move. Quite often they move very dramatically in one direction or the other, because, for example, if interest rates fall, the liability goes up; it also means that the expected return on the assets comes down. So it is a double effect — reduced assets and increased liabilities, and vice versa. But what is important is that the actual cash required to be contributed does not change, and we are on track to meet our 2035 target of full funding.

Mr SCOTT — I would like to turn to the TAC. On the same page that I referred to before, page 23 of budget paper 5, there are TAC dividends. But I am only highlighting that in order to understand that the TAC has influence on the state's finances; the question does not specifically relate to the dividend. There was an Essential Services Commission efficiency review into both the Transport Accident Commission and the Victorian WorkCover Authority. The government's response was published in June 2013. I am interested in the status of recommendation 18, which relates to TAC premiums, where the government supports risk reflectiveness of premiums, such as updating existing geographic zones and introducing driver characteristics into the calculation of TAC premiums. The government has said this would occur in a staged manner. I would be grateful to be updated on what stage the government is up to in addressing that recommendation.

Mr RICH-PHILLIPS — I thank Mr Scott for that question around the ESC review of the Transport Accident Commission and the Victorian WorkCover Authority. The essence of that review was recognising that both schemes were 25 years old, had not been subject to substantial review in that period of time, and it was appropriate to look at the way they were operating, how efficiently and effectively they were operating, and what could be done to improve them. That was the background to the ESC review.

The ESC's recommendation 18, as Mr Scott said, relates to TAC pricing. Currently TAC premiums increase on an annual basis by CPI; they are indexed to CPI. There is a very rough split between metropolitan postcodes and regional postcodes as to the level of TAC premium, and there are also categories within vehicle types as to the level of TAC premium. But what the TAC premium does not reflect is the risk of particular road users, vehicle types et cetera.

What the ESC has recommended is that premiums become more reflective of the risk incurred. The government's response to this recommendation is that it supports the principle of risk being the basis of the premium, in the same way as it is in the Victorian WorkCover Authority. What the ESC said, though, is that it is not a change which should be made quickly; it is a change which should be phased in over time. What we are seeking to do at an early stage of that is actually provide the data to the Victorian community to better understand where the risks on our roads are. So we have no plans at this point to shift to risk-reflective premiums this year or next year or in the future; it is something which will take place, if it does take place, over time. But importantly the first stage is to actually understand where the risks are, make that data available publicly to the community, so that the community can better understand where high-risk road users are, what the categories et cetera are, and then we can have a public discussion around that before there was any change to reflective premiums.

Mr SCOTT — Further to that report — and this also applies to the Victorian WorkCover Authority — recommendation 5, which was for both the Victorian WorkCover Authority but also the TAC, suggested:

> The … minister should provide the TAC and the VWA with a statement of expectations to clarify government objectives, expectations, responsibilities and lines of accountability between the minister and the organisation.

Has that taken place?

Mr RICH-PHILLIPS — That is taking place. It is not a case, as you would appreciate, Chair, with organisations as complex as the TAC and Victorian WorkCover Authority, of simply writing a letter, 'This is what the government expects, here it is'. It is an iterative process between the agency and the Department of

Treasury and Finance, and that is under way now. I think there is another draft coming back shortly for sign-off. It has been developed between the agency and the department, but they will be put in place. Also, as part of the government's red tape reduction targets, specific measures around reform and red tape reduction will form part of those statements of expectation.

The CHAIR — We are out of time for this portfolio. I think there was one question on notice in relation to the detail on land sales, and that has been scoped. We will write to you with those details, but if we could have a response within 21 days that would be of great assistance. That concludes the hearing. I thank the secretary and the other officers for their attendance today.

Witnesses withdrew.