

Public Accounts and Estimates Committee
Inquiry into the 2023-24 Budget Estimates – Questions on Notice
9 JUNE 2023

PORTFOLIO: HEALTH INFRASTRUCTURE

Members

Sarah Connolly – Chair	Lauren Kathage
Nicholas McGowan – Deputy Chair	Bev McArthur
Michael Galea	Danny O’Brien
Paul Hamer	Ellen Sandell
Mathew Hilakari	

Witnesses

- Ms Mary-Anne Thomas MP, Minister for Health Infrastructure,
- Professor Euan Wallace, Secretary,
- Mr Daen Dorazio, Deputy Secretary, Corporate Services,
- Mr Chris Hotham, Deputy Secretary, Health Infrastructure,
- Ms Megan Bourke-O’Neil, Chief Executive Officer, Victorian Health Building Authority, and
- Ms Deanne Leaver, Interim Chief Executive Officer, Victorian Health Building Authority, Department of Health.

QUESTIONS ON NOTICE

Question 1, page 2

Nicholas McGowan: Thank you very much. Secretary, I refer to the PAEC questionnaire, page 64, question 10, the interest expense of projects being delivered under PPPs, attachment 1(a). What is the total borrowing underpinning the \$141 million interest bill paid from the public purse in 2021–22?

RESPONSE

The ‘borrowings’ which underpin the ‘interest expense’ in any financial year reflects the value of the financial liabilities associated with each of the hospital PPP projects.

During the delivery phase of a PPP project and in accordance with accounting standards, the State progressively recognises the value of the asset as it is constructed as well as a corresponding liability to the PPP consortium (Project Co) in recognition of the future capital payments to be made over the life of the contract term once in operations.

The effective rate, which underpins the ‘interest expense’ and is an accounting treatment, is the rate that exactly discounts the estimated cash flows associated with

the financial liability through the PPP term. In effect, this discount rate amortises the financial liability to nil by the end of the PPP term.

The Department's PPP projects remain within the approved 'whole of life' budget allocation for their respective contract terms which was determined in line with the value for money proposition (as against the Public Sector Comparator) at contract close.

Question 2, page 3

Nicholas McGowan: What is the total borrowing underpinning the \$190 million interest bill in 2022-23 and \$227 million in 2023-24?

RESPONSE

The 'borrowings' which underpin the 'interest expense' in any financial year reflects the value of the financial liabilities associated with each of the hospital PPP projects.

During the delivery phase of a PPP project and in accordance with accounting standards, the State progressively recognises the value of the asset as it is constructed as well as a corresponding liability to the PPP consortium (Project Co) in recognition of the future capital payments to be made over the life of the contract term once in operations.

The effective rate, which underpins the 'interest expense' and is an accounting treatment, is the rate that exactly discounts the estimated cash flows associated with the financial liability through the PPP term. In effect, this discount rate amortises the financial liability to nil by the end of the PPP term.

The Department's PPP projects remain within the approved 'whole of life' budget allocation for their respective contract terms which was determined in line with the value for money proposition (as against the Public Sector Comparator) at contract close.

Question 3, page 3

Nicholas McGowan: In the PAEC questionnaire, page 65, and the response to part b) of question 10, attachment 1(b), which relates to PPP expenses over the forward estimates, in table a) the total operating expenses for 2022–23 were revised at \$371 million. That is in table a). In table b) this figure is \$500 million – an additional \$129 million. Can you explain why there is a difference there?

RESPONSE

Part (b) of question 10 in the submitted questionnaire response incorrectly included some unrelated amounts. Please see **Attachment 2A** for the updated response to question 10 in the questionnaire

Question 4, page 3

Nicholas McGowan: I refer to budget paper 5, page 106, the overall interest expense for the department. Are there further interest rate expenses other than the PPP interest relating to health infrastructure in the figures?

(REWORDED): In respect to the overall interest expense for the department, are there further interest rate expenses other than the PPP interest relating to health infrastructure in those figures – page 106?

(REWORDED): What we have got in the questionnaire is the PPP expense. We are trying to work out: is there an additional interest expense on top of the PPPs – that the department paying for other borrowings – or is it the same thing?

RESPONSE

The interest expense as per budget paper 5, page 106 primarily reflects interest paid on borrowings for PPPs. The difference between the two reflects the interest paid for right of use assets such as buildings, IT equipment, medical equipment, and motor vehicles. These are predominately in health services.

Question 5, page 9

Danny O'Brien: Can you tell me how many hospital-initiated surgery postponements have occurred due to engineering infrastructure failures?

RESPONSE

Confirming the response from the secretary, the Department has not been advised of any surgery postponements due engineering infrastructure failure in 2022-23.

Question 6, page 9

(Reference to the 23 projects prioritised for high-risk replacement of capital and essential engineering infrastructure in 2022-23)

Danny O'Brien: (What are) the list of projects mentioned?

RESPONSE

Government has invested \$265 million towards the Engineering Infrastructure Replacement Fund since 2015-16 which provides funding to public hospitals to upgrade or replace prioritised highest critical risk capital plant items and essential engineering infrastructure for acute services.

All projects funded under the Engineering Infrastructure Replacement Program are available online at www.vhba.vic.gov.au/health/equipment-engineering-upgrades/engineering-infrastructure-replacement-program

Question 7, page 10

Danny O'Brien: What is the spend on contractors, year to date, in 2022-23 for health infrastructure? We have got total departmental figures in the questionnaire. Can you tell me what the spend on contractors is for the health infrastructure portfolio?

RESPONSE

The contractor expenditure for the Health Infrastructure Division to 31 March 2023 is \$0.88 billion.

Question 8, page 11

Danny O'Brien: What is the labour hire spend in 2021–22 for health infrastructure was, and also for year to date and the expected figure for 2022–23?

RESPONSE

The labour hire expenditure for Health Infrastructure Division in 2021-22 was \$2.57 million. The labour hire expenditure for Health Infrastructure Division year to date to 31 March 2023 is \$0.2 million.

Public Private Partnerships – expenditure

Question 10

Budget Paper No. 5: Statement of Finances provides a comprehensive operating statement that details each department's revenue and expenses on an accrual basis reflecting the cost of providing its output.

- a) In the 2023-24 comprehensive operating statement please identify all expenditure on Public Private Partnerships (PPP) by line item and provide a breakdown of these costs and indicate to which project they relate.

Guidance

If the line item 'Other operating expenses' in the comprehensive operating statement comprises expenditure on PPPs, please also list the PPP it relates to and the cost.

- b) Please also provide the estimated/forecast expenditure for all PPPs across forward estimates.

Response a)

Line item (Interest expense)	2021-22 Actual (\$ million)	2022-23 revised Budget (\$ million)	2023-24 Budget (\$ million)	Related project(s)
Interest Expense:				
	3	2	2	Casey/Berwick Hospital
	16	12	11	Royal Women's Hospital
	42	40	38	Royal Children's Hospital
	42	70	60	Victorian Comprehensive Cancer Centre
	22	21	21	Bendigo Hospital
	2	2	2	Casey Hospital expansion
	13	32	66	New Footscray Hospital
	0	10	26	Frankston Hospital
Total PPP-related interest	141	190	227	

Health Infrastructure

Other operating expenses:				
	8	8	20	Casey/Berwick Hospital
	20	15	17	Royal Women's Hospital
	70	71	66	Royal Children's Hospital
	30	31	27	Victorian Comprehensive Cancer Centre
	44	51	53	Bendigo Hospital
	4	4	4	Casey Hospital expansion
	0	0	0	New Footscray Hospital
	0	0	0	Frankston Hospital
Total PPP-related other operating	176	181	187	
Total	317	371	414	

b)

PPPs	2021-22 Actual (\$ million)	2022-23 revised Budget (\$ million)	2023-24 Budget (\$ million)	2024-25 Estimated/Forecast (\$ million)	2025-26 Estimated/Forecast (\$ million)	2026-27 Estimated/Forecast (\$ million)
Casey/Berwick Hospital	11	11	22	19	12	11
Royal Women's Hospital	36	28	28	31	36	36
Royal Children's Hospital	112	111	104	106	113	118
Victorian Comprehensive Cancer Hospital	72	101	87	83	93	77
Bendigo Hospital	66	72	74	78	87	88
Casey Hospital Expansion	6	6	6	6	8	8
New Footscray Hospital	14	32	66	90	134	176
Frankston Hospital	0	10	26	50	82	150
Total	317	371	414	465	564	664