

TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Budget estimates 2019–20 (Assistant Treasurer)

Melbourne—Friday, 7 June 2019

MEMBERS

Mr Philip Dalidakis—Chair

Mr Richard Riordan—Deputy Chair

Mr Sam Hibbins

Mr Gary Maas

Mr Danny O'Brien

Ms Pauline Richards

Mr Tim Richardson

Ms Ingrid Stitt

Ms Bridget Vallenge

WITNESSES

Mr Robin Scott, Assistant Treasurer,

Mr David Martine, Secretary,

Ms Tania Reaburn, Chief Finance Officer,

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

Ms Amy Auster, Deputy Secretary, Economic Division,

Mr Jason Loos, Deputy Secretary, Commercial Division,

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

Mr Colin Radford, Chief Executive Officer, Victorian Managed Insurance Authority.

The CHAIR: Good morning, everybody. I declare open this hearing of the Public Accounts and Estimates Committee. I would like to begin by acknowledging the traditional custodians of the land on which we meet and pay my respects to their elders past, present and emerging.

On behalf of the Parliament, the committee is conducting this inquiry into the 2019–20 budget estimates. Its aim is to scrutinise public administration and finance to improve outcomes for the Victorian community. The committee will begin with the consideration of the Assistant Treasurer's portfolio. The hearings will then follow in the order as set out in the published program. At this point in time I do wish to just alert everybody present that indeed the program has some fluidity to it today. That is because the Legislative Council is due to sit, and ordinarily a committee of Parliament is not able to sit concurrently whilst Parliament is open. Thus I have spoken with the Leader of the Government in the Legislative Council, who will seek to facilitate the ongoing work of the Public Accounts and Estimates Committee by seeking leave, when Parliament begins, from the opposition to pass a motion allowing us to continue. Whether that is successful will remain to be seen, but we will look forward to continuing our operations as and when we can. However, that will necessitate a suspension to our hearings at 9.30 this morning to enable the Parliament to undertake its business.

Nevertheless, I welcome the minister, the Honourable Robin Scott, and officers from the Department of Treasury and Finance. I thank you for appearing before the committee today. All evidence given is protected by the Parliamentary Committees Act. This means that it attracts parliamentary privilege and is protected from judicial review. Witnesses found to be giving false or misleading evidence may indeed be in contempt of Parliament and subject to penalty. All evidence given is being recorded by Hansard and broadcast live on the Parliament's website—no doubt to millions of people around the world! Any rebroadcast of this footage must be in compliance with the conditions set out in standing order 234—especially for those people in Outer Mongolia!

I would ask photographers and camerapersons to follow the established media guidelines and the instructions of the secretariat.

Minister, I now invite you to make a brief opening statement—

Mr RIORDAN: On a point of order, Chair, if I may make a comment on your remarks earlier with regard to the fluidity of today. I would like to very much record the opposition's deep concern about a PAEC hearing continuing today. As you pointed out yourself, it is a very fluid situation. It is quite unprecedented to have such an important day today, with assistant treasurers, planning ministers, education ministers and others, and with the real and present prospect that the time allocated for this committee to analyse these very, very important and serious departments will be potentially severely curtailed. As you are aware, the opposition has certainly made the offer that we could in fact postpone today to Monday, 17 June, which would mean that due respect could be paid to all departments and to this committee, and we believe very much that this steamrolling of the committee today into a situation where potentially only minutes will be made available for the querying of a \$71 billion budget seems reckless and seems quite unsatisfactory.

The CHAIR: Well, Deputy Chair, I take that as a point of statement, not a point of order. But nevertheless, you have put it on the record. I think you are dealing in a hypothetical for a situation that has yet to occur. We will deal with that situation when it does, and I am sure you will have more to say about that should that occur.

All right. Minister, I invite you to make a brief opening statement and presentation of in fact no more than now 9 minutes, which will be followed by questions from the committee.

Visual presentation.

Mr SCOTT: Okay. Firstly, I would like to acknowledge the traditional owners of the land on which we meet and pay my respects to their elders both past and present and to any other elders from other communities who may be here today. I thank the committee for the opportunity to present. This is my 13th PAEC either as a minister or a member, so I have empathy for the people on the other side of the table.

Mr D O'BRIEN: Aren't you lucky?

Mr SCOTT: It is a wonderful and important part of our democratic experience. Can we move to the first slide. This slide outlines and provides an overview of the key responsibilities of the Assistant Treasurer portfolio. We will move to the next slide and deal with 'Framework reform update'. Good financial management systems and practices underpin quality services and infrastructure for Victorians. The new standing directions under the Financial Management Act 1994 have been issued to authorise implementation of the new centralised banking system designed to improve cash management efficiency across the general government sector. Standing directions have also been revised to implement the government's policy of making department chief financial officers responsible to the Secretary of the Department of Treasury and Finance. These revisions build on recent improvements of accountabilities placed on CFOs to support government financial objectives and the principles of sound financial management.

The Department of Treasury and Finance recently released the resource management framework to replace the budget operation and performance management frameworks from 1 July 2019. The new framework provides a more comprehensive, streamlined and consistent set of procedures and guidance to support departments to improve strategic planning, budgeting service delivery and accountability.

The government continues to improve the quality and efficiency of services delivered across the public sector through its shared service provider. This includes aggregating the buying power of the shared service provider's client base to drive value through the availability of scale benefits. This includes provision of building services and the centralisation of accommodation management. The shared service provider's portfolio has continued to grow, reflecting an increase in service delivery and a focus on allowing clients to access services while pursuing their core purpose. Further improvements and aggregation of service across the public sector are expected to deliver greater benefits and greater value to shared service provider's clients.

All government departments and agencies are now required to buy local and ethically manufactured uniforms and personal protective equipment from suppliers on the Ethical Supplier Register whenever possible to create and retain local jobs. The guide was first published on 12 July 2018 and applied from 1 August 2018 to all government agencies procuring uniforms and PPE used by government employees and new, amended and replacement contracts. This government has demonstrated a record of leveraging our significant procurement spend to secure local jobs. This policy reflects and builds on that commitment. When purchasing locally manufactured uniforms and PPE, agencies must procure from registered suppliers on the Ethical Supplier Register. This register provides broad coverage across the range of uniforms and PPE bought by government agencies. It provides assurance of compliance with relevant labour laws. The first publication of this register in October 2018 comprised six suppliers, which by April 2019 had increased to 10 suppliers. Suppliers may be able to join the register at any time, and guidance is available on the Buying for Victoria website.

A uniform and personal protective equipment monitor has been appointed. This role provides key strategic support to both buyers and suppliers serving to promote and work with departments and agencies as they apply the new policy and to enhance understanding and cooperation between local suppliers and government procurers.

Victoria's social procurement framework enables government to increase the value of all procurement activities. This framework allows organisations right across government to use their buying power to generate social value above and beyond the value of goods and services or construction being procured and to improve the benefits that accrue to all Victorians when social and sustainable outcomes are achieved. By leveraging government's significant buying power the framework helps to achieve social and sustainable outcomes, and supports important government policy and legislation initiatives. The framework has been designed to improve opportunities for Aboriginal Victorians; opportunities for Victorians with a disability; opportunities for disadvantaged Victorians, such as long-term unemployed people, disengaged youth and workers in transition; to support women's equality and safety; support safety and fairness in workplaces; support sustainable Victorian social enterprises and the Aboriginal business sector; and sustainable Victorian regions. It also encourages procurement activity that considers environmentally sustainable outputs, environmentally sustainable business practices and the implementation of the climate change policy objectives.

The framework applies to the procurement of all goods, services and constructions and adopts a scalable approach based on the value of the procurement activity. This establishes a consistent and streamlined approach that embeds social procurement into government's existing procurement processes and everyday buying activity. The Department of Treasury and Finance has established a measurement and reporting framework to ensure that progress against social and sustainable objectives and outcomes in the social procurement framework will be measured, monitored and reported over time. Agencies will also report on their activity against the framework in their own annual reports.

In February 2017 a review was undertaken of the emergency services defined benefits scheme. In response, prior to the 2018 election the government committed to a series of reforms to the scheme, including implementing reforms that provide for where a member of the scheme has reached the maximum benefit multiple. The reform will improve the benefits that are accrued to the members of the ESSS defined benefit scheme. In line, the recommendations of the review will also provide members the opportunity to make higher catch-up contributions and will provide contribution flexibility to those on unpaid parental or carers leave. This reform is likely to be particularly of benefit to female emergency service employees and will improve the gender equality within the scheme.

The Victorian Managed Insurance Authority provides risk and insurance services to protect Victoria's assets and immunise loss from adverse events. The VMIA is in a strong financial position. The VMIA finished 2017-18 with a positive operating result of \$172 million. The performance from insurance operations of the PFIO, which represents the VMIA's underlying financial performance, was a positive \$96 million in 2017-18. The strong result in 2017-18 was due to favourable claims experiences for a number of insurance classes. The VMIA's economic funding ratio at the end of 2017-18 was 207 per cent.

The energy fairness plan represents a tasking with the Essential Services Commission to overhaul energy rules and to help customer trust in the market. The commission has been tasked with setting new rules so customers have fairer contract terms and conditions as well as access to the Victorian default offer. It includes funding to ensure that these activities can be effectively undertaken by the commission.

The CHAIR: Thank you, Minister. I will start with questions. Minister, one of the areas of responsibility is the emergency services superannuation reforms that you have undertaken. On the way in this morning I heard Assistant Commissioner Stephen Leane talking about the safety of his staff and them being able to get home—not just be able to get home of course but be able to enjoy their life at the conclusion of their career. One of the questions I have got is: in relation to I think it is budget paper 3, pages 116 and 117, could you outline the initiative which deals specifically with the matter that I have raised in reforming the emergency services superannuation? If you could explain a little bit about the reforms—why they were initiated and the intended outcome?

Mr SCOTT: Okay. So I will start first with what was the latter part of your question—why they were initiated. There was an independent review that was commissioned in 2017 of certain aspects of the emergency services defined benefits scheme. The review was considered appropriate given that the working patterns within emergency services have changed considerably since the scheme was designed 30 years ago. Then, subsequent to the review an election commitment was given to implement a comprehensive package of reforms to increase retirement benefits for police and emergency services personnel. So the review looked at issues like

the maximum benefit multiple that applies under the scheme, death and disability benefits and resignation benefits. It also considered aspects of gender equity, particularly in relation to scheme design.

The reform package, to go to the second part of your question, took consideration of these matters, and there was a determination to include in the reform package payment of an additional accumulation contribution for members of the scheme who have attained maximum benefit multiples, and there will be a step through of that over a number of years to increase. So once people have reached the maximum multiple within the defined benefit scheme they will receive a separate additional accumulation payment from the state.

There are reforms to allow members to take roles and reduce salaries without adversely impacting on their accrued superannuation benefit. This is a particular issue for persons coming towards the end of their career who may be suitable for different roles within an organisation. So this has both a benefit for the individual but also a benefit within organisations to allow the redeployment of persons at the end of their career to perhaps a role that might involve a lesser time or a slightly different role that might suit them and the organisation and in which their experience can be fully utilised but may involve a lesser amount of pay. So there is not an adverse impact on a member, which has benefits both for the member and for flexibility within the emergency services organisations.

There is the introduction of a transition to retirement pension, and I can speak about that at length. But transition to retirement pensions were introduced under federal legislation some time ago and allow for people to manage that period of often working at a lesser level as a transition but receiving some of their superannuation benefit to allow them to manage the transition from work into retirement.

There is the introduction of more flexible arrangements for members on unpaid paternity leave, and one that I will mention which I am sure will be of interest to members of this committee is the increase to death benefits payable to police recruits who do not have dependants. So there were some issues in relation to how people were treated with death benefits, particularly for police recruits who were treated disadvantageously, particularly those who did not have dependants. It is an important part of the reforms to ensure that that issue particularly is addressed.

The CHAIR: Can I ask a follow-up, Minister. You have spoken about the why of the reform package. Are you able to now expand and talk about what is actually contained within the reform package itself?

Mr SCOTT: Well, I was doing that in the sense of those benefits. I can talk in further detail about some of the aspects of the reforms—for example, the transition to retirement benefits. A member who has reached their preservation age, once you introduce the ability to receive a transition to retirement pension, has the opportunity to access their superannuation benefit prior to completely retiring from the workforce. This can assist those who wish to reduce their working hours. Under commonwealth law there are lower and upper limits to the amount that may be withdrawn from a transition to retirement pension. So under the reforms now people will be able to access that within the emergency services defined benefit scheme. For example, if a person is aged 65, the minimum amount is 4 per cent and the maximum amount is 10 per cent; that maximum amount will stay at 10 per cent whereas the lower amount will increase. So for example, if someone had \$200 000 available for a transition to retirement pension they would be able to access up to \$20 000.

There is some consideration that needs to be given to the residual retirement benefit and the fact that the contributor is taking on an investment risk by participating in a transition to retirement benefit, so there is a maximum withdrawal of 50 per cent of a member's accrued benefit that has been adopted so that you do not during that period of transition reduce the amount available for retirement beyond a reasonable sum. So as you withdraw the amounts your accrued benefits are reduced to reflect the withdrawn amounts, so of course you earn returns depending on the market returns because at this point the member is accepting market risk. The necessary reductions that take place during this period will be determined using methodologies approved by the minister on the advice of an actuary appointed to the board. So there are some administrative issues to be undertaken, but this is an important reform.

I think the other one that I would want to focus upon is the flexibility—and I touched upon this earlier—of allowing members to take reduced salaries without adversely impacting on their defined benefits. So if you take someone who has had a lot of experience, who may have a management role within an organisation but who as

they wind down wish to take less time—and management roles can be very onerous in terms of the time required—that experience can be utilised in a role that takes less time and therefore has less pay without an adverse impact on a person's retirement. That allows their redeployment within the organisation. So I think it is important to see these reforms as being both a payment of goodwill and a recognition of the service and the risks that are undertaken by members of our emergency services on behalf of the Victorian community by improving their remuneration in retirement. But they also have some additional benefits for the organisations by creating greater flexibility. They will also arise in terms of the greater flexibility in terms of things like catch-up payments, which is another aspect of the scheme as being proposed. Allowing for greater catch-up payments is of particular importance to women who may leave the workforce for a period of time and then be able to have greater catch-up payments allows for greater equity in terms of future retirement benefits.

Obviously with issues around superannuation, one of the critical issues that faces society is how we deal with inequities between the sorts of outcomes that are being received by women through superannuation and those of men, and an ability to have greater catch-up payments provides a significant opportunity for women to retire with the sorts of outcomes that men have taken for granted. Addressing gender inequality is something that is an important part of this reform.

The CHAIR: With only a few seconds left, I am not going to venture into a new topic, but I will have questions on notice for you in relation to the Essential Services Commission and some of the energy reforms that you have been responsible for. But for the moment I will pass over to the Deputy Chair.

Mr RIORDAN: Minister, the issues around the Transport Accident Commission are of a lot of interest, but there is confusion. On 29 November 2018 portfolio responsibilities for the TAC were transferred from the DTF to the Department of Transport; on 1 January 2019 a change to the general order provided you almost full responsibility for the TAC; and on 1 June this year a further change to the general order meant you lost much of your previous responsibility for the TAC. The simple question is: are you the portfolio minister of the Department of Transport? Are you a portfolio minister?

Mr SCOTT: No, I am not.

Mr RIORDAN: Where does your advice come from in relation to the management of the TAC's budget, financial reporting and the Transport Accident Fund?

Mr SCOTT: Principally of course there is contact through the Department of Treasury and Finance, and of course the Department of Treasury and Finance itself deals with the Transport Accident Commission. Though it should be noted in terms of operational activities that that falls within the remit of another minister.

Mr RIORDAN: So all matters to do with the finance of the TAC are your responsibility?

Mr SCOTT: Well, it is reasonable to ask me questions in relation to financial matters. Operational matters fit within the remit of Minister Pulford.

Mr RIORDAN: Okay. Despite portfolio responsibility for the TAC being transferred between departments, has the DTF provided you any advice in relation to matters concerning your responsibility for the TAC since November last year?

Mr SCOTT: Yes.

Mr RIORDAN: Right. Minister, can you tell the committee why there have been so many changes to such an important part of the TAC? Why is it ebbing and flowing between ministers? And in light of the disasters we are having with the TAC, is there any responsibility for that?

Mr SCOTT: Sorry, in terms of the?

Mr RIORDAN: Well, the road toll, for example, is out of control.

Mr SCOTT: The road toll is not my responsibility.

Mr RIORDAN: No, I know that is not your responsibility, but it is a concern that the management of the TAC is swapping seven—

Mr SCOTT: In fact there has been a series of issues in terms of shared responsibilities and how they have been reflected in the general order, but the fundamental principle about the division around operational—

The best analogous situation I could probably put before the committee is that the Treasurer has some responsibilities in relation to water as a shareholder. In effect it is a similarly analogous situation in terms of my responsibilities for the Transport Accident Commission. So there has not been a change. The operational activities of the Transport Accident Commission have been effectively the responsibility of Minister Pulford, and therefore the—

Mr RIORDAN: Okay, so we have established all financial issues are your responsibility.

Mr SCOTT: It would certainly be appropriate to ask me questions in this context, yes.

Mr RIORDAN: Okay, good. Budget paper 5, page 23, notes \$890 million is to be paid as part of a grant revenue from the TAC, and \$982 million in 20–21 and \$1 billion in 21–22, so \$2.8 billion will be coming out of the TAC. Minister, given the latest annual report of the TAC shows on page 40 that the TAC is, by some accounting recollections, almost trading while insolvent, with a total negative equity of \$433 million, on what basis is an \$890 million payment in 2019–20 being made?

Mr SCOTT: Okay. I would refer you to budget paper 2, page 72, where it is very detailed, but I am happy to take the committee through it at some length because I think it is a very important subject matter that you have raised. I have raised—and you were not a member of this committee—on a number of occasions the issue of the anomalies which were created by the discount rate used to calculate assets versus liabilities in relation to the Transport Accident Commission for other entities, other insurers, within the Victorian public sector, because this is actually an important matter.

The accounting standard that you refer to uses as a discount rate effectively the commonwealth bond rate most analogous, if my memory serves me correctly, to the average period of liabilities, which is around the 10-year bond rate, and that is sort of in the order of 2.5 per cent. Whereas the Transport Accident Commission holds a very different mix of assets from solely holding government bonds, and there is a different calculation which is undertaken by government, which is the economic funding ratio. So there is an anomaly created, and we are going through a period of a historically low interest rate. In fact, without getting too arcane, by some measurements the interest rates at the moment across the world are the lowest in human history. What this creates is an anomaly. This is a very important point. The assets held by the Transport Accident Commission have in the last 10 years earned a return of I think it was 8.8 per cent of that order—

Mr RIORDAN: Quite simply, Minister, we do not need the history on—

Mr SCOTT: But we do need to understand the issue. There has been a decision made—

Mr RIORDAN: Yes, but what these members of the committee want to know is that everything that you are doing by taking those substantial increase in funds complies with all laws and standards.

Mr SCOTT: It certainly complies with laws. The accounting standards—

Mr RIORDAN: And accounting standards?

Mr SCOTT: Let me just talk around the issue because actually there is a very good exposition—

Mr RIORDAN: So that is not a yes to accounting standards?

Mr SCOTT: Well, it complies with accounting standards because they are reported in terms of our reportage, but the accounting standard creates a significant anomaly because the discount rate that is used to determine the liabilities in relation to assets is going to likely over time—in fact it has previously and will into the future—almost certainly produce different results than the assets that are held.

Mr RIORDAN: Minister, we have got limited time, and there are some more important questions.

Mr SCOTT: But this is actually a very important question, and our asset—

Mr RIORDAN: We will take on notice your long accounting sense—

Mr SCOTT: There is actually a good exposition of this issue on page 72, but I am happy to speak to it.

Mr RIORDAN: Okay, we will take that on notice as to what standards have been changed.

Mr SCOTT: But I can say that I am confident that the Transport Accident Commission has significant assets that, by the accounting funding ratio I think on 30 June 2018 were 165 per cent, and that in fact includes a conservative element to it.

Mr RIORDAN: Minister, the significant increase in dividends paid by the TAC, can the community rest assured that this is not indirect taxation in the sense that if you have got that much money to give back to prop up the budget these are in fact savings that could be passed through lower car registrations and could be passed back to consumers? We know for example at the end of this month everyone's car registrations are going to increase. With ongoing increases by this government, cost-of-living pressures, these in fact are choices that you have made to deliberately not keep the cost of car registrations down for consumers and the public at large in order to prop up the budget.

Mr SCOTT: There has been no change to the methodology of calculating car registrations, so a supposition that they are higher because of these changes, there is no basis—

Mr RIORDAN: But, Minister, this money can be used two ways: it can be used to transfer to your other minister who is responsible for operations, which could lead to road safety programs and investment in safe road measures, or it can be given back to consumers. The third option, which you have taken, is to give it to Treasury.

Mr SCOTT: It is actually not myself. Without getting into a lengthy discussion, while I am responsible—

Mr D O'BRIEN: You, being the government.

Mr RIORDAN: You, being the government.

Mr SCOTT: The Treasurer in fact—

Mr RIORDAN: They are choices. There are three choices, and you have taken the tax choice.

Mr SCOTT: The decision about the payments from the insurance agencies of the state is actually a decision that is the responsibility of the Treasurer. So the Treasurer makes determinations, not myself. So the question is—

Mr RIORDAN: So getting back to our earlier comments, you are not entirely responsible for the finances of the TAC?

Mr SCOTT: But that has always been the case. So the Treasurer has responsibilities in terms of payments such as dividends, grants—

Mr RIORDAN: What, do you just sign the cheques?

Mr SCOTT: No, the Treasurer has always had responsibilities in terms of determining the payments made from the insurers to the state, whether in forms such as dividends, grants or—

Mr RIORDAN: So the—

The CHAIR: Sorry to interrupt you, Deputy Chair. Time has expired. Over to Ms Stitt.

Ms STITT: Minister, I just wanted to ask you a little bit more about the locally manufactured uniforms and personal protective equipment policy that you referred to in your presentation at page 4. Are you able to outline in a little bit more detail for the committee that policy area?

Mr SCOTT: Yes, very happy to. All government agencies, as I outlined, are required to buy locally and ethically manufactured uniforms and personal protective equipment from suppliers on the Ethical Supplier Register whenever possible to create and retain our local jobs. There is guidance that is available for both buyers and suppliers on the Buying for Victoria website, including forecast government procurement activity and model clauses for buyers to include invitations to suppliers and contractors. That guide was first published on 12 July 2018 and applies, as I said earlier, from 1 August 2018. The application is to all government agencies procuring uniforms and personal protective equipment used by government employees and to new, amended and replacement contracts. It is not of course retrospective in its application, so where there are existing contractual arrangements this is not a retrospective process.

The guide mandates that the required goods are or can be manufactured locally. Then the buyer must approach the market for locally manufactured goods, and when buying locally manufactured uniforms and personal protective equipment, agencies must procure from registered suppliers on the Ethical Supplier Register. The guide complements Local Jobs First policies. When an estimated value of a project that includes procurement of uniforms and personal protective equipment meets or exceeds the Local Jobs First threshold of \$1 million for regional projects or \$3 million for metropolitan and statewide projects, an Ethical Supplier Register provides broad coverage across a range of uniforms and personal protective equipment bought across government agencies. The Ethical Supplier Register provides a level of assurance of compliance with relevant labour laws through either Ethical Clothing Australia accreditation or independent third-party verification. Suppliers of course may apply to join the Ethical Supplier Register at any time.

Ms STITT: So obviously that policy is a key driver for local manufacturers and for local jobs, but can you explain a little bit more broadly how that might benefit Victorians generally?

Mr SCOTT: Of course, as you are outlining, one of the principal benefits that exists is in relation to local jobs, so jobs that are created through local procurement by there being a local manufacturing of uniforms and PPE. This is particularly important for small and medium-sized enterprises. A range of the companies involved in manufacturing in the clothing, textile and footwear industry that supply uniforms and PPE are small and medium-sized enterprises, so this is a policy that both supports the creation of local jobs and supports local small and medium enterprises. It also ensures through the framework of ethical procurement that the people working in the industry are appropriately treated because the requirements of the ethical registration process of becoming part of the Ethical Supplier Register ensures that those who are working in this area of manufacturing receive their legal entitlements and are treated appropriately. So it is both good for the creation of jobs, it is good for Victorian businesses and it is designed in such a way to ensure the fair treatment of the workers engaged in that manufacturing activity.

Ms STITT: Also, could you just talk a little bit, Minister, about what support is being provided to procurers to implement the policy.

Mr SCOTT: There is material that is provided that is freely available for buyers and suppliers on the Buying for Victoria website. That includes guidance material, as I was outlining, but it also includes forecast government procurement activity. That allows suppliers to make consideration of what contracts they may wish to tender for and how they wish to gear their productive process to ensure that they are able to participate in government procurement. One of the things we wish to encourage is to expand the number of the companies that are engaged in procuring locally. So having a forecast of upcoming government activity allows for companies to engage and to plan for participating in government procurement.

It also, as I was touching on, includes model clauses for buyers to include invitations to suppliers and contractors, and again that provision of information allows for more simple participation in the market by companies that wish to participate. They can understand clearly from the material that is provided the requirements of the contractual arrangements, including the requirements in relation to ethical issues, in particular in relation to the ethical supplier register and through accreditation by Ethical Clothing Australia or an independent third-party verification.

Ms STITT: Okay, terrific; thanks, Minister. Can I now just turn to a question about the financial management framework and reform update?

Mr SCOTT: Yes.

Ms STITT: And refer you to your presentation at slide 2 concerning the financial management framework reform update. Could you please update PAEC on the progress of the financial management reforms?

Mr SCOTT: Yes. This has been a very important area of financial management reform, particularly through the vehicle of the standing directions. So as the Assistant Treasurer I issue standing directions under section 8 of the Financial Management Act, which describe public sector agencies' responsibilities for achieving high standards of financial management and accountability; and there have been recent revisions of the standing directions which have been designed to improve recognition of government's financial management risk and associated mitigation actions and to generate clarity of accountability of portfolio departments over portfolio agencies, including those agency heads, CFOs and audit and risk committees.

The new standing directions under the Financial Management Act have been issued to authorise the implementation of the new centralised banking system designed to improve cash management efficiency across the general government sector; and the Department of Treasury and Finance has released a resource management framework to replace the budget's operations and performance management frameworks from 1 July 2019.

The Department of Treasury and Finance continues to develop and implement improvements to strengthen Victoria's public sector accountability for the use of public resources. This is an iterative and ongoing process that has been undertaken over some time but has certainly been improved by the recent standing directions that have been issued.

Ms STITT: Thanks, Minister. Would you like to elaborate on how the new requirements operate for departments and CFOs?

Mr SCOTT: Okay. So this is an important change in chief financial officers within departments. There has been a change where CFOs are required to support whole-of-government financial objectives and portfolio ministers in relation to financial management of departments or agencies, inform the Department of Treasury and Finance secretary of risks that may impact upon the financial position and performance of the state and provide the Department of Treasury and Finance with factual financial information directly upon request to facilitate reporting and government decision-making. So there has been an increase in the responsibility that department CFOs have to the secretary of Treasury and Finance, and employment contracts will be directly between the CFOs and the secretary.

The CHAIR: Minister, apologies for interrupting. We pass over to Mr Hibbins.

Mr HIBBINS: Thanks, Minister, and thanks, Secretary, for appearing today. I wanted to ask about the social procurement framework.

Mr SCOTT: I am happy to answer questions on that.

Mr HIBBINS: I wanted to ask: do you have any specific social and environmental outcomes that you intend to achieve through procurement in the next financial year?

Mr SCOTT: The framework has been established and is now starting to be, but there is a table which I can provide to you which gives a good overview of the categorisations.

Mr HIBBINS: I am probably looking at it—in the actual document itself?

Mr SCOTT: Yes, yes; that is correct. So there will be step-through requirements depending on the size of the procurement activity with different thresholds, from an upper, middle and lower band, the upper band being above \$50 million.

Mr HIBBINS: I guess one of the issues that I am looking at is it states its recommended actions for government bias. Is the government looking at, sort of, specific outcomes—i.e., carbon emissions gone—

Mr SCOTT: Yes, absolutely.

Mr HIBBINS: waste diverted from landfill, certain categories of workers employed?

Mr SCOTT: Yes. Sorry, I will continue, Mr Hibbins, because it is an important question. So yes, particularly for those larger ones, if you look at the approach for the strategic—that is, the upper band above \$50 million—it includes targets and contractor requirements that pursue social and sustainable objectives. So the intent is to absolutely have written within the contractual arrangements related targets. Now obviously there is a variety of different elements—from social enterprises and Aboriginal businesses to disadvantaged communities, gender issues, disability, family violence leave, environmental sustainability and climate change. So there is an intent in 2019 to create metrics. There is a process of reporting within DTF, which I think goes exactly to the issue which you were going to. There is the creation of a reporting process within the Department of Treasury and Finance to ensure that there are measurable outcomes.

Mr HIBBINS: How is that tracking at the moment?

Mr SCOTT: It starts from 2019–20.

Mr HIBBINS: Right, okay. So have any departments got a social procurement strategy at this time?

Mr SCOTT: There is a requirement for the contractual arrangements to address the social procurement framework. So in effect the social procurement framework sets not just guidelines but a process for implementing social procurement.

Mr HIBBINS: One of the parts is that government departments need to prepare a social procurement strategy. Has that occurred or how many have actually achieved that?

Mr SCOTT: I could provide some further information—

Mr HIBBINS: Yes, that would be great.

Mr SCOTT: on notice about the progress in relation to that. But that work is ongoing.

Mr HIBBINS: It is ongoing. And those social procurement strategies, will they be made public? Will that be in the outcomes in the reporting?

Mr SCOTT: There will be a report that I will be putting out in terms of my responsibilities in relation to this. So there will be a reporting process.

Mr HIBBINS: In terms of the various bands of procurement set to occur, are you able to provide the committee with information in terms of what is the actual value of procurement set to take place over the next financial year and over the next budget?

Mr SCOTT: I would take that question on notice in its detail because obviously I do not have that information available to me. It is not a simple question to answer because it will depend on the structure and the range of procurements and how departments seek to reach a range of objectives in a way that would probably be a little bit difficult at this point to make an exact judgement about. But I am happy to provide some further information. Certainly there were be a reporting process, and that would be part of the reporting process. It is around those issues.

Mr HIBBINS: Any information in terms of the value, the size, the nature of the social outcomes that are set to be targeted from those particular contracts to the committee—that would be appreciated.

Mr SCOTT: I certainly can provide that, though I would say that the information will become broader as the implementation takes place. So there will be more information available, and it is not my intention to hide this under a bushel, if that is your concern. We certainly wish to report the activities, and there is certainly a

desire within government to ensure—and I can say, as the responsible minister, it is something that I am very passionate about in fact—that we achieve genuine social outcomes. This is not a tick-box exercise. There are specific outcomes. The intent in fact from the outset is to ensure that there are actual outcomes, particularly for those areas of public policy and particularly for disadvantaged Victorians to benefit from government procurement activity.

Mr HIBBINS: I wanted to turn to the government fleet, the vehicle fleet. Do you measure emissions from the government fleet? Is that reported?

Mr SCOTT: There is certainly measurement of emissions in relation to a range of government activities within departments and agencies. It is not particularly my direct area, that aspect of it. In terms of my responsibilities—it would sit under some other ministers as well, so it is not principally my area of responsibility in terms—

Mr HIBBINS: The government fleet—

Mr SCOTT: No, the government fleet is, but in terms of the climate change response. But there is some measurement of government vehicles. I will say a couple of things: there is measurement of government carbon dioxide emissions undertaken across departments. That said, there certainly is—

Mr HIBBINS: Well, it would be good to get information about just the level of carbon emissions from the government fleet.

Mr SCOTT: I will again endeavour to provide you some information. I would say that we have had a focus on the procurement of hybrid vehicles. Victoria has 1636 hybrid vehicles, which is the largest government hybrid fleet in Australia.

Mr HIBBINS: What percentage is that of the total fleet?

Mr SCOTT: I could calculate that, roughly. The total fleet is 9519, so a bit under 18 per cent, I think. We can do a quick calculation, if you want.

Mr HIBBINS: That is all right. What are the requirements in terms of, if an electric or hybrid car is vehicle is available and that meets the needs of whatever it is required for, why there then would be a need for a regular combustion engine car? Why isn't it just par for the course that people are provided with hybrid or electric vehicles if it is fit for purpose?

Mr SCOTT: There is criteria that is used on the standard motor vehicle policy, which is not exactly as you have outlined, Mr Hibbins, which is high safety ratings, particularly in relation to the pedestrian ratings, auto emergency braking and a range of others—but there is also cost—requiring certain number of safety features. There is also—

Mr HIBBINS: So there is a range of measures.

Mr SCOTT: But there are requirements on agencies in relation to four-cylinder vehicles as well, which is another aspect of it.

Mr HIBBINS: Well, I guess I am—

Mr SCOTT: And there is—

Mr HIBBINS: I guess I am just inquiring as to: why isn't it just par for the course to have a hybrid fleet, if that suits and if they can meet the needs?

Mr SCOTT: Well, that has not been a decision of government.

The CHAIR: Minister, you may have to take that one on notice.

Ms RICHARDS: Thank you, Minister and Secretary. As a newly elected member of Parliament I am fascinated by these deep-dive insights. I would like to refer you to your presentation, and in particular the slide on the Shared Service Provider. I am interested in the centralised accommodation management program. Can you outline a little bit more about this program, how it works?

Mr SCOTT: Okay, so in terms of centralised accommodation—first take a step back, the Shared Service Provider, which was established in 2009, is responsible for providing to Victorian government departments and 21 agencies property services such as office accommodation, planning, real estate management, office accommodation programs and projects, facility management and security management as well as other services such as library services and carpooling. Currently, funding for property services provided to clients is passed through to departments and agencies. Accommodation services are occurring outside of the Shared Service Provider, so there is an intent to bring those effectively in-house because there is duplication of effort and this has meant that government has not had the benefits of the economies of scale and the pricing benefits of being able to negotiate on behalf of government as a whole. This has led to variability in the fit-out and the amenity and the disparity of work experience as well as additional costs. So the Shared Service Provider has identified \$100 million in savings that can be derived by centralising facilities management and rental budgets across departments and the selected 21 agencies, which will remove this duplication of effort and ensure a more consistent approach to accommodation for all.

Of course this funding therefore becomes available for utilisation within government for the public good. This is operating funding we are talking about here particularly. So this allows for a reduction in duplication, an improvement of consistency and the benefits of scale within the organisation. That reduction in duplication particularly creates savings which can be utilised for the public good.

Ms RICHARDS: Thank you, Minister. Are there any other non-financial benefits that come from this program that might be of interest to the committee?

Mr SCOTT: Yes. Having the centralised accommodation program will provide some non-financial benefits by enabling a more strategic and coordinated approach to planning and management of Victorian government accommodation to best support achievement of government priorities. I touched upon this in one sense. By strengthening the Victorian government's position to negotiate better value leasing and procurement there will be significantly reduced internal competition in the market between departments and agencies and the ability to take advantage of economies of scale. But importantly there will be greater consistency, equity and amenity in office accommodation by creating appropriate government-wide standards by having a centralised process and ensuring that there is application of fit-for-purpose work principles in the accommodation for Victorian public sector workers.

Ms RICHARDS: Thank you, Minister. I am interested in finding out a bit more about how the savings will be recouped through implementing this program.

Mr SCOTT: The savings will be recouped, as I was alluding to, by leveraging the shared service providers' role in innovation, improving operational efficiency through scale and transaction and having a replicable service process across Victorian government departments. So instead of each agency creating its own set of policies and having people work on those issues, having a single centralised unit allows for that work to be conducted at a central level and therefore allows agencies and departments to focus on the provision of goods and services on behalf of the Victorian community. It will also allow for the consolidation of floor space and rental expenses consistent with government-approved policy and that duplication of effort being removed.

Ms RICHARDS: Fascinating—an incredibly important way government operates. But I would like to bring it back a little bit closer to home for me and to some of the really important elements for people who live in Cranbourne actually. I am particularly interested in the energy fairness plan. Now, at budget paper 3, page 116, I am interested in the notes there about fairer energy regulation and that output. Can you tell me how government is making energy fairer for Victorians? Like I said, this is so important for people who live in the community that I serve. I am interested in getting your insights here.

Mr SCOTT: Okay. I am very happy to discuss this. I think this is a very important set of reforms. Firstly, the element that I will talk about relates to the Essential Services Commission, because I am principally

responsible for the Essential Services Commission. The energy policy itself is the responsibility of the minister for energy, but I have responsibility for its effective functioning and policies as they relate to the regulator. The Essential Services Commission acts as a regulator in our energy market, and that is my responsibility—to ensure that the rules operate and the resourcing is provided to the Essential Services Commission.

As you know, in budget paper headed ‘Suburban’ there is the outlining of the fairer energy regulation, as you alluded to, with the provision of just over \$27 million—from memory, 27.3, I think. That is in order to implement the energy fairness plan. That will allow an improvement in the way in which the Essential Services Commission has an expanded remit to deal with issues that arise in the energy sector, particularly with the appointment of an additional commissioner responsible for enforcement. So one of the issues is not just the powers of the Essential Services Commission—and these reforms improve the powers of the Essential Services Commission to deal with issues relating to the energy market, particularly energy retailers—but also additional resources, in particular an additional commissioner who will be responsible for resourcing powers. In terms of the powers of the Essential Services Commission, they will be strengthened by increasing information-gathering powers that abrogate the privilege against self-incrimination, which is in line with similar regulators such as the Australian Competition and Consumer Commission and Consumer Affairs Victoria. They will enable the Essential Services Commission to require attendance to give information and to administer oath to attendees; broaden prohibitions on the provision of false or misleading information; introduce search and seizure powers for the Essential Services Commission in relation to gas and electricity industries; replace existing civil penalty provisions in section 54A of the Essential Services Commission Act with court-ordered civil penalties and civil penalty notices; improve a range of orders that courts can make on application of the Essential Services Commission, including the capacity to obtain injunctions and a range of other orders for the benefit of consumers; and it also has some technical elements to clarify the role of the Essential Services Commission and the chief executive officer.

Ms RICHARDS: This is all, like I said, incredibly important to the people who live in my community. But I am interested in the \$27 million that you mentioned that has been allocated as funding for this. Can you elaborate a little bit more on how that will be used?

Mr SCOTT: Yes. That is important because, as I said, there are two elements to it. One is about the powers of the Essential Services Commission and the other is the resourcing to allow those powers to effectively be utilised. So there will be the establishment of an energy pricing team to set the Victorian default offer. I am sure you may have questions—

The CHAIR: Sorry, Minister, I will have to interrupt you and pass it over to Mr O’Brien.

Mr D O’BRIEN: Thank you. Good morning, Minister.

Mr SCOTT: Good morning. How are you?

Mr D O’BRIEN: Good, thank you.

Mr SCOTT: It feels like groundhog day.

Mr D O’BRIEN: It is, yes. But I have a question, sorry, for the secretary. BP5, page 23 lists the dividends and grant revenue, Secretary, \$700 million over the next two years from WorkSafe to the bottom line. What is the basis of the calculation of that amount?

Mr MARTINE: Thank you for the question. The numbers you refer to on page 23, dividends for WorkSafe, pick up two elements. So essentially embedded in the numbers in the footnote are the ongoing dividends that those entities pay. And in addition to that there was the government’s election commitment to set up the Delivering for All Victorians Infrastructure Fund, which was about repatriating \$2.3 billion over four years, so it is the combination—

Mr D O’BRIEN: So it is not a criteria; it is just based on the government’s election commitment and their decision ongoing—

Mr MARTINE: The government's election commitment was to take 2.3 out of the asset base of the insurance agencies, and as part of government making that decision we obviously went through and did an assessment, including taking into account their existing dividend scheduling. If I refer back to the page that the minister referred to in budget paper 2, chapter 5, which then makes reference to the asset base of these entities compared with the net present value of their liabilities, you will see in WorkSafe's case, similar to the TAC, their economic funding ratio on 30 June 2018 was 170 per cent. So in other words the NPV of the liabilities—if you assume it is 100, there is effectively 170 NPV of assets sitting there.

Mr D O'BRIEN: Secretary, I am conscious that bells are going to start shortly. Minister, why has the government decided to take this money to prop up the bottom line rather than return some of those assets to struggling businesses and reduce their WorkSafe premiums?

Mr SCOTT: There are two elements to that question. Firstly, the decision in terms of the taking of dividends from WorkSafe is actually a decision of the Treasurer, so the question in a sense is better placed to the Treasurer. But what I can say, as the secretary outlined, is that WorkSafe is in a very healthy financial position.

Mr D O'BRIEN: On that basis, Minister, can you tell us whether there will be any WorkSafe premium rises next year or the following year?

Mr SCOTT: The premiums are undertaken. There are no plans for any premium increases. There has been an order signed off, as I understand it, for premiums to be continued at their current level, so there are no plans for premium rises. I would caution in one sense that—

The CHAIR: All right. Apologies, everyone. At this point we are going to have to suspend proceedings, and we will presume when we know more from the Legislative Council. Thank you, Minister.

Mr D O'BRIEN: I am sure the minister will be happy to just twiddle his thumbs for an indeterminate period of time.

Hearing suspended.

The CHAIR: Thank you very much, everybody. The committee will now resume the consideration of the Assistant Treasurer's portfolio.

Mr D O'BRIEN: Chair, on a point of order before we reconvene—

The CHAIR: Well, we are reconvening, so you are now on your time, Mr O'Brien.

Mr D O'BRIEN: Could I ask that the clock be stopped, Chair, because there is a substantive issue that we need to deal with.

The CHAIR: I will not be stopping the clock.

Mr D O'BRIEN: Chair, the committee has motions on its books for the schedule that we are sitting today and for the rest of the hearings. We have broken that schedule already. Firstly, I believe that the committee needs to deliberate and move a motion to the effect of the change, because we are now starting at quarter past 12 and we have 12 hours of hearings left to go, and I think it is entirely unreasonable for you to suggest that the committee sits until after midnight tonight. My colleagues and I, I think, are very happy to do so, but it is not reasonable to ask ministers and others to be here until after midnight tonight. So, Chair, I would like to move a motion for the committee's consideration:

That due to the unscheduled sitting of the Legislative Council today, Friday, 7 June, the remaining scheduled sittings of the Public Accounts and Estimates Committee today be rescheduled in their entirety to Monday, 17 June, and that the scheduled hearings for Tuesday, 11 June, through to Friday, 14 June, continue as planned and the hearings on Monday, 17 June, should begin at 9.30 a.m. with the resumption of the Assistant Treasurer's session and continue as per the timing as outlined for today.

The CHAIR: We are eating into your time, Mr O'Brien. If this is how you wish to use your time, you can do so, but I will not be moving that motion.

Mr D O'BRIEN: Sorry, Chair, I have just moved the motion.

The CHAIR: Well, I am not moving the motion. As the Chair of PAEC, I am not moving that motion, Mr O'Brien. Let me remind you—

Mr D O'BRIEN: Chair, you do not get the opportunity to say, 'I'm not moving the motion'. I am moving the motion in the committee.

The CHAIR: Fine. You move the motion, we will vote on it and you will still be eating into your time. Move the motion, then.

Mr D O'BRIEN: I just did, Chair.

The CHAIR: Fine. Is there someone to second it? Okay, the Deputy Chair. All those in favour of that motion? Let the record reflect there are four votes. Those against the motion? Let the record reflect there are five votes against the motion. The motion is—unfortunately for you—not successful. Carry on.

Mr D O'BRIEN: So you are going to continue gagging these hearings, Chair?

The CHAIR: Mr O'Brien, let me remind you, with the greatest of respect, that whilst you are a member of The Nationals you are in coalition with the Liberal Party.

Mr D O'BRIEN: Chair—

The CHAIR: No, you let me talk now.

Mr RIORDAN: Point of order. Stop the clock, Chair—

The CHAIR: No, I am not stopping the clock.

Mr RIORDAN: You made it very clear in your pontifications that you would stop the clock.

The CHAIR: I am not stopping the clock. The Leader of the Government, at just after 9.30 when Parliament resumed this morning, moved a motion to allow PAEC to run concurrently. The Leader of the Opposition, Mr David Davis, denied leave for that to happen. When the Leader of the Government resumed government business—

Mr RIORDAN: Chair, point of order. You know quite well we made allocation of time for such an occurrence of Parliament sitting on a Friday. We allowed Monday the 17th as the extra day.

The CHAIR: When the Leader of the Government resumed government business and moved that motion again, Mr O'Brien, Mr Davis again refused, and so then—

Mr RIORDAN: You have deliberately done this today to frustrate our PAEC hearings.

The CHAIR: Now, you have 1 and a half minutes to go, Mr O'Brien. You can choose to use that time wisely or not. This reflects poorly upon you and your coalition party.

Mr RIORDAN: Let the record reflect that the Chair has deliberately frustrated the time—

Mr D O'BRIEN: Well, not only deliberately frustrated, but, Chair, you have not dealt with the question I raised at the start, which is: what is going to happen with the rest of today's schedule? Are you going to shut down the planning minister? Are you going to shut down other ministers so that we do not have the opportunity to scrutinise their portfolios?

The CHAIR: You may like to ask that of Mr Davis, Mr O'Brien.

Mr D O'BRIEN: No, Chair. It is the government that is in control of the sitting schedule. We were not scheduled to sit in the Legislative Council today. It is the government's decision to sit in the Legislative Council today.

The CHAIR: The last time I checked, you left the Legislative Council.

Mr D O'BRIEN: The Legislative Council was not scheduled to sit today. It is not the coalition's or the opposition's fault that these hearings have been messed up. You are now deliberately trying to frustrate the operations of the Public Accounts and Estimates Committee in keeping the executive honest and accountable.

The CHAIR: I think you will find the international comedy festival was back in March, Mr O'Brien.

Mr D O'BRIEN: Chair, could you please pay this committee some respect? You have not explained how the schedule is going to change given this committee has passed a motion outlining what the schedule is for today, which has since been broken.

The CHAIR: You have 15 seconds remaining in your time.

Mr D O'BRIEN: If you are going to say that we are now not going to have the full allocation of time, given that you will not reschedule to the day that we set aside to reschedule hearings for exactly this reason, what are you going to do?

The CHAIR: Mr O'Brien, you can get as shouty as you like. We are in this position because of you and your support crew.

Mr D O'BRIEN: No, we are not. It is your government that scheduled the Legislative Council to sit today.

The CHAIR: Your time has now expired, and we now move—

Mr RIORDAN: On a point of order, Chair, this committee resolved—

The CHAIR: We now move to Mr Richardson.

Mr RIORDAN: On a point of order, Chair, this committee resolved at its deliberations on the scheduling of these hearings that, should Parliament sit on a Friday, we would keep Monday the 17th free so that the day could be moved to that with minimal interference to our witnesses, to the gallery and to the community of Victoria. You have thrown water in the face of that.

The CHAIR: There is no point of order there, Deputy Chair—

Mr RIORDAN: Well, it is, because you are continuing to ignore your own pontifications on this issue. You have made much of the fact that this hearing is about scrutiny and openness and it is the premium committee of the state, and you are ignoring it.

The CHAIR: Which Mr Davis voted against. Mr Richardson, please continue.

Mr RICHARDSON: Thank you, Chair, I am happy to—

Mr D O'BRIEN: This is an outrageous abuse of process, Chair—outrageous.

The CHAIR: Sorry, Mr Richardson, let me just deal with that just for one moment. We have not changed the time of the minister before us at this stage.

Mr D O'BRIEN: We have. We should not be sitting here right now.

The CHAIR: The minister is here to answer questions which you have seen fit not to ask in your time allotted. Please stop taking up the time of Mr Richardson. Mr Richardson, over to you.

Mr RICHARDSON: Thank you, Chair.

Mr D O'BRIEN: Running from accountability, the Labor government.

Mr RICHARDSON: Have you finished? Anything else?

Mr D O'BRIEN: I have not even begun, Mr Richardson. This is just outrageous. This is unprecedented in the history of the PAEC.

Ms VALLENCE: He laughs.

The CHAIR: I am laughing at you, not with you.

Ms VALLENCE: You are laughing at the people of Victoria, who deserve to hear from public scrutiny.

Mr RICHARDSON: I will continue the question. Minister, thank you for returning. I want to take your attention to the Victorian Managed Insurance Authority. If I could refer you to budget paper 5, page 23, and I note that the Victorian Managed Insurance Authority will be making dividend payments over the forward estimates. Are you able to provide the committee with further information on these payments?

Mr SCOTT: Yes, certainly happy to do so. There is in 2019–20, as per the budget paper, a \$52 million payment dividend in 19–20. Then if you look to the note, there are further payments made as grants in the footnote underneath, which include \$277 million in 19–20, \$105 million in 20–21, \$46 million in 21–22 and \$49 million in 22–23. I would again refer members to budget paper 2, page 72, and the issue of the accounting funding ratio in contrast to the economic funding ratio. The issues that relate to the payments made by the Victorian Managed Insurance Authority—the VMIA—are important because you can see that the ratio which the previous witness, the Deputy Chair, mentioned in relation to the VMIA is 136 per cent, but in fact the economic funding ratio is 207 per cent.

The VMIA, in fact, more than any other of the insurance authorities, highlights the contrast between these two measures, because the VMIA particularly has some of its recipients of compensation who have very long periods—in the parlance of the industry they are a 'long tail'. I would prefer not to generally use such terms because we are talking about human lives and people's human experience, but particularly relating to medical indemnity there are often payments over a very long period of time. So the rate at which the discount rate is set to calculate the asset versus the liabilities becomes more, and the issue of the anomalies created by the current accounting standard becomes more pronounced.

The expected return on the assets held by an organisation such as the VMIA is around 7 per cent per annum, whereas the commonwealth bond yield as of 31 December 2018 is around 2.5 per cent. So what in effect is created by that circumstance is that the accounting standard artificially creates a circumstance which is not directly co-related to the likely performance of the assets held by the Victorian Managed Insurance Authority, which in many ways would replicate what you would expect in, say, a superannuation fund. It is a mix of shares, infrastructure, bonds and property investments. So what the effect of that is is to create a circumstance in which there is a very large proportion of assets held which do not reflect in the way the calculation of assets to liabilities a likely return on the assets that are being held. So the government has made a decision to move the calculation from the accounting funding ratio, because of that anomaly, to the economic funding ratio. And that decision, I think, is a sound one and allows resources to be used more effectively for the benefit of the Victorian community. And I would say that for the VMIA these payments will not have an operational impact and are not derived in such a way that it would have a negative impact on the operating budget of the VMIA. So for those clients of the VMIA—which obviously provides important insurance services to the Victorian community, particularly in circumstances where government is the client or there is an issue within the market, as it occurs, say, in domestic building warranty insurance where the provision of insurance by the VMIA is necessary for a social function within the society—there is not going to be a diminution of the activities of the VMIA or a negative impact on the activities of the VMIA for those funds, dividends and grants being taken from the organisation and used for the public good by the process outlined by the budget.

Mr RICHARDSON: Minister, if you forgive me, there was an interesting point before when you were engaged with Ms Stitt around the financial management reform update. You were going through slide 2 at that particular time, and had gone through CFO requirements and the resource management framework. I am interested in the status of the Financial Management and Constitution Acts Amendment Bill. I am wondering if you could take the committee through that.

Mr SCOTT: Okay. So this bill was introduced in the previous Parliament and proposed a number of changes to the financial management system within Victoria, and those changes to the financial management framework were not passed by the Parliament in the time that was allocated before the Parliament expired before this last election. And as members will of course know the Parliament is effectively prorogued and bills do not have standing within the legislative process, once the Parliament comes to an end.

There is a reviewing of the proposed amendments that were contained within the bill, and there is an intention to bring a revised bill to this Parliament. I think it is important to note that. And for your benefit I will just mention that there has been a long tradition in Victoria, perhaps even going back to people such as Roger Hallam, of iterative work to improve the financial management framework. In fact previous minister Hallam has been engaged by a Labor government to look at work, not in this case specifically, but there has been a long tradition of looking at the financial management framework, looking at what legislation can be enacted. Now, it does not tend to make the front page of the newspaper, but the rules under which we operate, and operate the financial management system, are of course very important. But in the absence of legislation and the legislative changes contained within the Financial Management and Constitution Acts Amendment Bill 2017, I can give assurance to the committee that work is still continuing, particularly through the existing legislative framework and financial direction.

Ms VALLENCE: Thank you, Assistant Treasurer, for appearing today. First off I will go to budget paper 5, page 23, in relation to the VMIA, and it notes that in the 2019–20 budget \$277 million is to be paid as part of grant revenue.

Mr SCOTT: Yes.

Ms VALLENCE: In 2021, up to \$105 million, \$46 million in the subsequent year and \$49 million in the year after that, so a total of \$477 million over that period. Minister, given the 2019–20 payment of \$277 million is more than the total comprehensive result of \$170 million, as noted on page 26 of the VMIA's latest annual report, what impact will such a payment have on the organisation?

Mr SCOTT: I thank the member for her question. There will not be a negative impact on the operations of the Victorian Managed Insurance Authority for the reasons that I outlined to Mr Richardson in his question. The Victorian Managed Insurance Authority, as of 30 June—and I would again take members of the committee to budget paper 2, page 72—has very substantial assets. The economic funding ratio at that point in time was 207 per cent, and the payment of grants during this period will not adversely affect the operations of the organisation because of the significant assets in excess of the funding requirements that are held by the organisation.

Ms VALLENCE: Okay. Secretary, may I ask, for the \$477 million, could you provide the basis of the calculation of that amount?

Mr MARTINE: Okay. Thanks for the question. I should point out, on page 23—and it is an important point, particularly for an entity like the VMIA—there is actually a combination of dividends that are in the table, and then in the footnotes you see the grants in lieu of dividends, in accordance with the accounting standards, so it is really the combination of both. And similar to my earlier answer on some of the other entities, we make a judgement in our advice to government on the extent to which dividends can be paid by these entities. And they all pay dividends. It is not an unusual thing for dividends to be extracted from the entities. And along with the normal dividends, coming back to my earlier answer, those payments also include the VMIA's contribution to the government's election commitment that they announced in November, as part of the \$2.3 billion. So it is really the combination of both of those. The judgements really come back to what the minister was referring to a few minutes ago, which is the status of the assets versus liabilities in the VMIA, and out of the three insurers, as of 30 June 2018, their economic funding ratio is actually 207 per cent. So in other words, they have twice as much assets in a net present value sense than they actually have liabilities.

Ms VALLENCE: So will this have an impact on the VMIA, the \$277 million?

Mr MARTINE: No, because—

Ms VALLENCE: No? Okay.

Mr MARTINE: They will still have a sufficient economic funding ratio after these amounts to fully cover—more than cover—their liabilities.

Ms VALLENCE: We will move on. Assistant Treasurer, we heard in the Parliament this week around the Treasurer receiving a deviation to get a different vehicle from what is currently listed in the purchasing guidelines. Can you please advise what the procedure is to deviate from those purchasing guidelines? At what time did the Treasurer submit that request and who approved?

Mr SCOTT: Okay. I can provide some information. Because some of those matters are dealt with in a delegated sense through department heads, or agency heads, I was not directly involved in that decision, so I cannot provide some of the information that you are seeking, but I will seek to provide information which you have sought and about, probably, two of the three elements I can respond to at this point.

Ms VALLENCE: So is there a documented procedure?

Mr SCOTT: Yes. I am happy to provide information to the committee as appropriate.

Ms VALLENCE: Yes, on notice, that would be good to get a copy of that.

Mr SCOTT: No. I will provide what I can now and then seek to look to any further relevant information if that is appropriate. So it is possible for department agencies to seek an exemption from the approved vehicle list. The normal process is that the department secretary or agency chief executive officer would approve such a request—so would make a request—and that would come to VicFleet. VicFleet works on the basis that the agency head has a detailed understanding of local operational requirements. So in effect there is a two-step process, but the VicFleet process is that VicFleet is not in a position to make operational determinations or determinations of those matters. In most cases they would be more aware of the circumstances than the relevant departmental secretary or agency chief executive officer.

Ms VALLENCE: Okay. Treasurer, I understand there that—

Mr SCOTT: Assistant Treasurer. You are just promoting me.

Ms VALLENCE: Assistant Treasurer. Well, you were doing such a great job you tricked me there. Can I ask: why did the VicFleet number increase substantially in the 2018–19 period—the volume of vehicles? And also just a corollary to that: which departments and agencies were those additional vehicles acquired for?

Mr SCOTT: I might come back to you with some of the detail. I can provide some information though. There have been some changes in relation to how vehicles are financed and whether they are owned by VicFleet or leased—and I will check on the detail, but this may be part of the explanation—because the state of Victoria can obtain finance effectively at a cheaper rate than car leasing arrangements. So there was a decision made to effectively own more vehicles. Whether that is exactly the issue that you are referring to I would have to check on notice, but that had been a decision made—though the timing of that should have occurred at an earlier juncture. So I will take the detail of the question on notice.

Ms VALLENCE: Okay. It would be good to know, then, what proportion of the total fleet is capitalised or owned and what is on lease. That can be taken on notice.

Mr SCOTT: Principally now there is very little leasing. There should be certainly less leasing than previously because there is a saving to the state, because the cost of capital to the state of raising funds is cheaper than, say, a private company would be able to source on the market. So there was an active decision made to effectively source—I can give you some general details, but in terms of the financing, there has been a process to bring that in-house. I can provide some further information—for example, there are 6514 passenger vehicles operational in the executive, 2908 commercial vehicles, 88 motorcycles and nine heavy vehicles. So I will seek to find—

Ms VALLENCE: Yes, take it on notice and which departments—

Mr SCOTT: Sorry, I may have confused you slightly. VicFleet in effect leases the vehicles to the organisation, is my answer. But I will provide some further information.

Ms VALLENCE: Yes. So which departments have those vehicles and the numbers of vehicles at each of the departments where the increase has been.

Mr SCOTT: We can provide you some further information.

Ms VALLENCE: Thank you. And I guess it looks like on the basis that the—

Mr SCOTT: Though I would note there have been significant increases, say, in the number of police during our term in government.

Ms VALLENCE: So on the basis of increasing the size of the fleet, it seems to fly in the face of Victorians being told to use more public transport—

The CHAIR: I am sorry to interrupt, Ms Vallence, but your time has now expired. We are now moving for the final section of the Assistant Treasurer's portfolio to Mr Maas.

Mr MAAS: Thank you, Assistant Treasurer, and thank you, department secretary, for your attendance before the committee today. Assistant Treasurer, I would like to pick up from Mr Hibbins actually and continue a similar line of questioning around the social procurement framework and in particular around the workstreams that go into making up the social procurement framework. I was hoping that you could detail those for me.

Mr SCOTT: The objectives contained within the social procurement framework include opportunities for Aboriginal people, and that includes the employment of Victorian Aboriginal people by suppliers to the Victorian government. These are elements which will be measured to go to each issue that Mr Hibbins raised, which I thought was actually—if you do not mind—a very appropriate PAEC line of questioning, to seek detail about information; not always the case in this hearing over the years. And purchases from Victorian Aboriginal businesses, so within that context the Victorian government wishes to leverage procurement activities to foster greater employment of Aboriginal Victorians, and there are some performance reporting measures in relation to enhancing the participation of Aboriginal Victorians. But we are very keen to ensure that the Closing the Gap process is successful, and we see this as part of a tool to achieve that. That means a greater economic participation for Aboriginal Victorians both in terms of employment but also, importantly, in terms of people participating in the business life of the community and engaging in business activity. Secondly, the opportunities for Victorians with a disability would include employment of Victorians with a disability by suppliers to the Victorian government and the purchase from Victorian social enterprises and Australian disability enterprises. Similarly, a focus both on the employment and business opportunities.

In terms of women's equality and safety, the measures that are used are the adoption of family violence leave by Victorian government suppliers and gender equality within Victorian government suppliers, and we will be examining the mechanisms that exist around ensuring better gender equality in the workplace.

In terms of opportunities for disadvantaged Victorians, it includes job readiness and employment for long-term unemployed people, disengaged youth, single parents, migrants and refugees and workers in transition. I have to say I know some suppliers to the Victorian government have already participated in some schemes designed to foster greater equality of opportunity in employment, and I certainly encourage this process to further spread that work and also purchasing from Victorian social enterprises.

In terms of supporting safe and fair workplaces, it includes purchasing from suppliers that comply with industrial relations laws and promote secure employment.

In terms of sustainable Victorian social enterprises and the Aboriginal business sector, it includes purchasing from Victorian Aboriginal social enterprises and Victorian Aboriginal businesses.

In terms of sustainable Victorian regions, it includes a measure around job readiness and employment for people in regions with entrenched disadvantage. So there is a geographic element to ensure that we have a more equal society that we picked up in these policies.

In terms of environmentally sustainable outputs, it will include project-specific requirements to use sustainable resources and to manage waste and pollution and the use of recycled content in construction works. I will provide further information to the previous questions additional to this information I am providing now, because I think there was more detail that was being sought from the pro forma questioner. In terms of environmentally sustainable business practices, there is the adoption of sustainable business practices by suppliers to the Victorian government.

In terms of the implementation of climate change policy objectives, the measures include project-specific requirements to minimise greenhouse gas emissions and the procurement of outputs that are resilient against the impact of climate change and those two elements.

There are already metrics that have been developed around purchasing from Victorian Aboriginal businesses, purchasing from Victorian social enterprises and Australian disability enterprises, purchasing from Victorian social enterprises and Aboriginal businesses for 18–19. The rest of the metrics I outlined would be measured within 19–20. There will be the performance of case studies and also a provision of additional data in relation to employment of Victorian Aboriginal businesspeople by suppliers to the Victorian government, employment of Victorians with disability by suppliers to the Victorian government, opportunities for disadvantaged Victorians, job readiness and employment for people in the regions with entrenched disadvantage, project-specific requirements to use sustainable resources and manage waste and pollution, the use of recycled content in construction works and the adoption of sustainable business practices by suppliers to the Victorian government, project-specific requirements to minimise greenhouse gases emissions and procurement of outputs that are resilient against the impact of climate change. So there will be additional data collected on those measures beyond the measures themselves. I hope that provides some guidance, but I will also provide further information, because there were some questions that went beyond the information I put to the earlier questioner.

Mr MAAS: Thank you for the detailed responses, Assistant Treasurer. In terms of the social enterprises themselves, what has the response from social enterprises been with regard to the social procurement framework?

Mr SCOTT: I have to say there has been a very positive response, and members I am sure will have varying engagement with social enterprises. This is a sector where beyond the specific commercial purpose of the organisation there is a broader social purpose. The response has been very positive, because this is a really important government initiative where there is a focus on ensuring that there is a chance for social enterprises to have access to government procurement. While there has been engagement, particularly in terms of some of our larger construction projects, and the railway level crossing removal program is an example of where social enterprises, particularly disability social enterprises, have been heavily engaged—

The CHAIR: Minister, I am loath to interrupt you at that point, given that I believe the content of the answer is actually probably some of the most important material that you have presented us with. But I do look forward to you having the opportunity to provide that as a question on notice. Can I thank you very much for your appearance before the committee today, albeit somewhat truncated at times and moved at others.

Mr SCOTT: Always happy to appear before the committee.

The CHAIR: The committee will follow up on any questions taken on notice in writing, and responses will be required within 10 working days of the committee's request.

Witnesses withdrew.