C O R R E C T E D   T R A N S C R I P T

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into 2004–05 budget estimates

Melbourne – 15 June 2004

Members

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Ms C. M. Campbell	Mr J. Merlino
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Witnesses

Mr J. Lenders, Minister for Finance;

Mr I. Little, secretary; and

Mr P. Carroll, director, property group, Department of Treasury and Finance.

The CHAIR — We welcome to the second part of this afternoon's hearing Mr Ian Little, secretary, Department of Treasury and Finance; Peter Carroll, director, property group, Department of Treasury and Finance; and assorted departmental officials who are all here and in attendance ready to assist. I call on the minister to give a brief presentation on the more complex financial and performance information that relates to the 2003–04 budget estimates for the finance portfolio.

Minister, you have 10 minutes for a brief overhead presentation. We thank you for the fact that you have now passed to us copies of the overheads. That will not take 10 minutes — we are very happy about that. Wonderful.

Overheads shown.

Mr LENDERS — Chair, if this were the United States, it would be a breach of the first amendment and cruel to MPs to limit them to speaking for 10 minutes, but I shall endeavour to constrain myself to meet your requirement. It is great to be here to speak to the finance portfolio budget estimates. I understand that Ian Little, secretary to the department, gave the committee specific details about DTF's budget output structure and output initiatives and objectives as part of the Treasurer's PAEC hearing last month, so I will not go over those again today.

The CHAIR — We appreciate that.

Mr LENDERS — But what I will do is give a brief presentation on my portfolio and in particular my core responsibilities as minister, significant achievements and the focus of the portfolio in the coming year.

My core responsibilities fall into six areas. The first is the provision and management of the financial management framework, and this covers systems and directions, including under the Financial Management Act the regulations and bulletins; risks and liabilities management; and reporting, monitoring and compliance frameworks, this having been somewhat topical at this committee over the last few weeks and in the Parliament.

The second primary area is the administration of government assets, which covers government-owned and government-leased accommodation, government lands, property and motor vehicles. The third area is purchasing and procurement systems and procedures, and this includes purchasing and procurement regulations. Another area is public sector superannuation policy matters. Our major public sector super schemes, the State Superannuation Fund and the Emergency Services Superannuation Scheme (ESSS), have assets of over $9 billion and liabilities of over $20 billion. The unfunded liabilities are the largest liabilities on our state's balance sheet, and these schemes are administered by the Government Superannuation Board and the Emergency Services Superannuation Board respectively. I have responsibility for both of these bodies, and in addition I serve as chair of the Parliamentary Trustee, which oversees the parliamentary scheme, which is small compared to the other ones.

I also have responsibility for the oversight of the Essential Services Commission. This is an independent authority with regulation responsibilities for key utilities — energy, water, ports, grain as well as access to rail infrastructure; and finally, I have responsibility for oversight of the Victorian Managed Insurance Authority, which provides insurance and risk management for government departments and other participating bodies. On behalf of government I also oversee all other general insurance issues.

There were a number of significant achievements in the finance portfolio in 2003–04. The first one I will touch on is financial management. We have acknowledged the importance of meeting our objectives of transparency, and financial responsibility in an open and accountable manner. Our amendments to the Financial Management Act will ensure that we continue to meet this commitment over time, particularly for the period in which there is considerable change regarding accounting standards, and the amendments to the bill will hopefully assist us in dealing with greater flexibility in reporting to the Parliament and the broader community.

Those committee members present from the Legislative Council — and, I am sure, from the Assembly as well — who have been part of the second-reading and committee stage of the bill would be more than aware that we are potentially in a six–year time of significant change in these areas, and this will equip us effectively to try and deal with that.

Motor vehicle arrangements is a second area that is near and dear to everyone's heart who drives a vehicle, particularly a vehicle supplied by the state. In February we introduced new arrangements for the provision of government motor vehicles. The department has now negotiated a new motor vehicle leasing arrangement with

Treasury corporation for the whole of government. This change in leasing facility has resulted in a reduction of leasing rates to clients, compared with pre-existing arrangements.

In addition, the change transfers ownership and associated risks to departments and enables departmental heads to monitor their fleet costs more effectively. There are benefits including improved information management, greater transparency, improved risk management, and the impact will be initially budget neutral, with a reduction to anticipated future costs, as the former vehicle lease ends over time or the vehicles come out of it.

Superannuation is the next area. General government unfunded superannuation liabilities are expected to fall from $13.4 billion to $12.2 billion during the year from 30 June 2003 to 30 June 2004. The main reasons for this are better than expected investment returns, a reduction in state superannuation fund liabilities of $345 million as a result of the triennial review, and higher than budgeted contributions to the state superannuation fund.

The next area I touch on is insurance, where the affordability and availability have been big issues before government for the last three years, and government has been tackling them for that time. Over the last 12 months Department of Treasury and Finance has provided public liability insurance information assistance to probably close to 500 organisations and individuals by now. We have been saying the figure was 400 for quite a while, but it continues to look at assisting people.

Over the last 18 months we have introduced a range of legislative amendments in three waves, including proportionate liability for claims of property damages and impairment–based threshold for recovery of damages for non–economic loss, provision of waivers which allow people to accept responsibility for their participation in risky activities, and protection of volunteers and Good Samaritans from the risk of being sued. The effects of these reforms are already starting to be seen in terms of the availability of insurance with a number of new entrants in the market for the not-for-profit liability insurance and builders warranty insurance.

In 2004, regarding financial management, the biggest issue by a country mile is the implementation of the International Financial and Reporting Standards — the IFRS — which will be coordinated by the department.

The financial reporting council, which is a commonwealth body, has recently confirmed that Australia will adopt new accounting standards based on international standards from 1 January 2005, and the Australian Accounting Standards Board (AASB) is modifying Australian accounting standards in order to bring Australia into line with existing international standards. The AASB will make the new Australian standards available on 30 June.

The second harmonisation project intends to converge the new accounting standards with the government financial statistics or GFS. States have previously agreed to use GFS as the uniform presentation framework for reports. The timetable for the GFS harmonisation project, as this committee will be more than aware, is uncertain. When I briefed the committee last time members were saying then that they thought a case from earlier that week had already changed because the time for the draft guidelines had been deferred by the AASB, so again it is a very fluid situation. But the Financial Management (Amendment) Bill will allow government to streamline the nature and timing of its major financial reporting publications. The completion date for the 2003–04 financial report for Victoria will be brought forward four weeks, from 27 October to 28 September. This change has been completed in consultation with the departmental chief financial officers and the Auditor-General.

The time line for completion of the 2003–04 financial report for the state of Victoria is in line with the financial reporting requirements of the Australian Securities and Investments Commission (ASIC) and is similar to the time line achieved by the New Zealand government. The further two-week reduction in the completion time line is proposed for the 2004–05 financial report for the state of Victoria.

Regarding superannuation, in 2000 the government committed to a payment plan designed to fully fund the state superannuation fund by 2035, a five-year advance on the previous 2040 target. At that time actuarial projections suggested that the general government unfunded liability would be around $12.54 billion by 30 June this year. The latest actuarial assessment puts that liability at $11.79 billion. Since the original payment schedule was drawn up the government has contributed around $1.8 billion more to the state superannuation fund than set out in the schedule. These higher contributions have been partly offset by lower than expected financial market returns and changes to actuarial assumptions.

Overall, the state superannuation fund unfunded liabilities at 30 June are $750 million lower than expected under the original funding plan. Under current projections the fund will be fully funded earlier than 2035. I should add a caveat, however, that it is possible these projections will be affected by changes to international accounting standards, but under the current standard that is what we would expect. They were amended earlier. Previously there was no legislation in Victoria to provide for any forfeiture of benefits for superannuation. As members will be aware, legislation has now been introduced into the Assembly which if passed will put into place superannuation orders that will allow this area to be dealt with.

Touching briefly on insurance, markets are stabilising in Victoria and across Australia as the insurance reforms for the past 18 months begin to stem the tide of high premium increases. The ACCC reported in February that premium rises for all forms of liability insurance are expected to reduce over time. In 2004–05 the department will continue to monitor the insurance market and the impact of the legislative changes we have implemented. We recognise the difficulties faced by a number of professions in obtaining affordable professional indemnity insurance. At the ministerial meeting on these issues in February we reaffirmed Victoria's commitment to implementing a number of reforms. At the state level this includes introduction of proportionate liability for pure economic loss and professional standards legislation, both which are now in place. That, spot on time, completes my discussion of the finance portfolio for the financial year.

The CHAIR — The first question I would like to take you to is superannuation. You advised us in your presentation of the investment performance of the state's public sector superannuation funds in 2003–04. Could you expand on that, because you were conscious of time, and also tell us what progress is being made towards fully funding the state superannuation fund by 2035?

Mr LENDERS — Chair, as I said earlier there is a large unfunded liability which is a product of history where governments through the 1950, 1960s 1970s and 1980s essentially did not sufficiently fund the scheme so there was a growing unfunded liability which government has now addressed for all future financial years. Of course there is the issue of the carried-over unfunded scheme, and that obviously adversely affects how our budget operates. We operate on an assumption that before the actuarial review, which made some variations depending on whether they be pension funds or other funds, that we would have a 7 per cent return on the approximate $9 billion that is in investments in our super funds, and all you need then is for some variation to that and you get this almost roller-coaster effect in our budget that we are either lower or higher. Where we are at the moment is in the current year we are certainly exceeding those figures. We are getting returns in the low teens now rather than at 7 or 8 per cent, which is factored into the budget estimates, which will now mean we have a better return. We obviously expect things to return to the projected areas in the out years but that alone is one of reasons why we have a better performance this year.

The other thing of course is that we have continued to put in money in all those years and the triennial actuarial evaluation also made some new assumptions as to length of time in work force and earning rates on funds. All of those things together have contributed to two years being cut off what we estimated would be the case, so 2033 rather than 2035.

Mr CLARK — I refer to the new financial compliance framework which I understand you introduced from 1 July last year. I wanted to ask first of all whether you can provide the committee with a set of the documentation that makes up that framework.. I have been trying to pick up elements from the web site of various documents referred to in your ministerial directions such as calibre of central agencies information presented to government departments, or references to other documents in those directions of yours. They do not seem to available on the web site. It would be useful if you could provide the committee with a set of that documentation. More generally, can you tell the committee how that framework has been progressing so far: what levels of compliance there have been by departments and other agencies and whether any issues have come to light that you believe need attention?

Mr LENDERS — Firstly, I will make that information available. This is clearly a way of us providing more information and having compliance in place so we will certainly make that first thing available, Mr Clark.

As to the second area of how it is going, we have had a number of pilots running through this area, and I will touch on a few things. We have made a real effort to get the chief financial officers and various other people from the departments informed on these areas. There has been a series of seminars and other things happening through the department on that, which you would expect.

You mentioned also some of the web-based technology where some of the information is available. Obviously in the public sector you would expect all relevant financial officers to have access to that, so that is one of the ways that we deal with this. We have a series of check lists in place. I will ask the secretary to supplement what I am saying, but if I recall correctly, we were actually emailing out some of these check lists at critical times as part of the pilots at least to assist people by reminding them.

Some of our compliance challenges here are that you might have an organisation like Bayside Health or something very large which clearly has a large accounting staff and a large department with a whole range of people who are skilled in these areas working on it. You might also have a very small organisation which has a person who is a Jack or Jill of all trades and is their financial reporting officer, so some of these check lists are very useful to try and skill them and get that information across. We now have a certification process in place. From July to September 2004 Victorian public service entities were required to provide a certification letter to their portfolio minister talking about their compliance with the directions, so there is range of those things in place.

Perhaps the secretary wishes to add something further to that, but it is one that is state of the art. We are endeavouring to get this compliance in place to get people to adhere to the directions. As is always the case, one of the challenges in these areas is we want people to report because it gives us an assurance that people are meeting their goals and objectives and there is accountability for public moneys, but in a lot of entities where people are set in their ways it is always a challenge to bring into place any new system or any new form of reporting. This is work in progress. I think it is moving well, and we are leading the way in this area.

Mr LITTLE — The only thing I would add to support the minister is that the biggest area of challenge has been catering for small organisations. For instance, an instruction to have an audit committee of such-and-such a size meeting so-and-so regularly — for some very small organisations rules like that are challenging. We have the ability to give exemptions; at the moment we are working out when it is appropriate to give an exemption and when not. A pilot is under way now, and I think that towards the end of this calendar year some information will be available from that pilot. One of the challenges for the government and for a committee like this is there will undoubtedly be some areas of non-compliance that come out of that, but the challenge is to treat that in a sophisticated way so that you encourage people to move towards compliance rather than penalise them for the fact that they are not quite at best practice yet. Some of these institutions are quite small, and I think helping them rather than penalising them is probably the best way.

Mr FORWOOD — The Department of Human Services this year reported estimates for some output groups instead of actuals. I hardly think that they fall into that category. Surely, if they were doing something like that you guys would be around there with a big stick?

Mr LITTLE — I did not mention any names at all! I think I said ‘in some cases’.

Ms GREEN — Following the government’s reforms to address the issue of insurance availability and affordability could you advise the committee of the current situation regarding the availability of public liability insurance for non-profit organisations?

Mr LENDERS — I am very pleased to report on this. This is an area that last year was a difficult one at this meeting, and the year before even tougher, when there was very little insurance around for the small organisations. We are now in a situation where a lot of organisations choose from four different lots of insurance. Probably the most relevant example for you, Ms Green, is the Warrandyte Festival, which I believe is in part of your electorate.

Ms GREEN — The northern part.

Mr LENDERS — The Warrandyte Festival was a classic. It could not get insurance. It was one of those organisations that had to question whether or not it would even exist for the following year. It now has insurance, like most of these organisations. There is now the Municipal Association of Victoria scheme, which the government worked on with the MAV to get up and running three years ago. It is a scheme that has had active support from the Victorian government. Since then CCUA, which is Australia’s three largest insurers, has put together a package for small groups. Now you have some called Metway, which are in a market of their own volition. I think this week they have had a new one. I think it was a bizarre name, something like the New South Wales Meals on Wheels scheme, or some strange name like that, but there is now a fourth in the market.

With a lot of these organisations — I think it was the Melbourne Fringe Festival that recently said it — the premiums have come down because of competition for these. So what we are seeing now is a range of people who wish to offer it. I might add that part of this is insurance reforms. Part of it also was an unwillingness for private insurers to take risks some years ago — when everybody basically drew the wagons after HIH and September 11, people were not prepared to. I guess it was disappointing at the time when you had companies that might spend millions and millions of dollars on promoting their product through insurance saying were not prepared to take a bit of a punt for some of these smaller groups and actually provide some of this and assist in it. In the end the CCUA was probably a couple of years late in doing what you would have hoped the commercial insurers would have done a lot earlier.

Having said all that, for groups like the Warrandyte Festival there are now three or four choices, going back to my earlier presentation on consumer affairs, and that is making the markets work. The fact that there are some choices and competition means that prices are coming down on the public liability issue for those small groups. We have seen numerous anecdotal cases of that. With three or four people to choose from the market is starting to work.

Mr RICH-PHILLIPS — I would like to ask you about the government's policy with respect to funding superannuation. Looking at the estimated financial statements in the budget papers — that is, pages 8 and 10 of budget paper 4 — page 8 shows the budgeted superannuation expense for the first financial year of just under $1.8 billion. The following year it is $1.8 billion rising to $1.89 billion and then $1.88 billion in 2007–08.

The following page, page 10, is the cash flow statement showing how much the government is paying into the superannuation fund. For the first three years — that is, 2004–05 through to 2006–07 — the superannuation expense is substantially greater than the amount the government is contributing to the fund. Only in the final year, 2007–08, does the government start playing catch up and pay more into the fund than is the actual expense for that year. As a consequence the superannuation liability is rising by that difference each year. Can you explain what the government's approach is and why the full superannuation expense is not being funded until 2007–08?

Mr LENDERS — I will commence answering, and I will invite the secretary to follow up if he wishes to supplement. There are two things to separate first. First there are the costs of superannuation for our public servants in the current financial year, and that is one that we meet. There are two separate parts: the current costs and the historical catch-up for the unfunded. From this figure I think the two of them are being run together — although I could stand corrected on that — where the superannuation expense includes both.

Mr RICH-PHILLIPS — This is the $1.789 billion figure for the current — —

Mr LENDERS — So the cash figure is both the other one — and I will stand corrected on that, but the other one is the current. The conceptual thing is that governments have made a decision some time ago that we will not get into arrears with our current year superannuation, so we meet that and that is imposed on departments and entities and whatever else to do that. So we need to pay that, and that then gets paid into one of the three funds — presumably that is where that goes to. Then there is the second issue — that is, the clearing of the unfunded liability, the figure I referred to before. The first one is one that needs to be cleared every year, and it would be very derelict if governments were not to do that.

The second one is one where we have the commitment to clear that by the year 2035. As I outlined in my response to the Chair a bit earlier, we are at this stage on track for that for 2033. That one is one on which, in the end, the Treasurer will make a determination as to the opportune time to pay into that fund. We have pre-1983 or 1986 tax credits, whatever they are. It may be that through the transition there are some timing issues on those tax credits. Those issues may depend on time, on volume and a whole range of other areas which only an actuary understands, but there are some fairly critical areas and issues which the Treasurer will take into account when he makes payments.

There are also general cash flow issues, such as whether to have a greater surplus in one year than in another, but in the end the timing of those payments to deal with the unfunded is ultimately a call for the Treasurer to make. The most significant issue is that the current year ones are met every year and the other one is the one that is discretionary. So the Treasurer for several years now has brought forward those payments that are required to be cleared off by 2035 for those various reasons that I outlined. Part of that means that we are now 2033, we should pay off earlier than we planned.

Mr RICH-PHILLIPS — Thank you for that. I am pleased that you reaffirmed the intent that the government not get into arrears with current year expenses. I am wondering if you or Mr Little can explain why the figure shown as the expense for this year, for example — that is, the $1.789 billion — is larger than the amount actually being paid into the fund this year, so presumably that expense is not this year's superannuation expense then?

Mr LENDERS — I think the answer to that is that the fund is not going into arrears for a combination of things. Firstly you have the very high earnings this year on the fund, so we are anticipating earnings of 7 per cent to 7.5 per cent, and we have earnings now that are in the order of 5 per cent or 6 per cent higher than that in this current year. Secondly there is a triennial review. The triennial review is, by definition, when Mercer, the actuaries, actually sit down and say that over the three years — —

Some of the things that came out of this triennial review were — I could stand corrected on this by the secretary — that we had traditionally assumed a single rate of return for the asset. The actuary has now said that things are secured, or hypothecated, for want of a better term, to pensions as opposed to non-pensions. They have to have a different rate, so there are different rates of returns all dealing with commonwealth taxation treatment of the asset. Also there are those other issues dealing with longevity. I presume there is still some adjustment from when some people opted out of the scheme a few years ago when they took a cash payment and those issues. So for a whole range of reasons the actuarial assessment is how much money you need to have in that fund. We obviously receive that once every three years. That being taken into account plus the requirement to pay off the unfunded liability by the year 2035 — all of those in the end mean that we are making prudent payments. We are certainly not going into arrears.

Mr RICH-PHILLIPS — Can I understand from that answer that the difference between the actual earning rate, around 11 per cent now, and the forecast of 7 per cent — that is, the long-term forecast — that that 4 per cent difference is applied to this year's expense rather than — —

Mr LITTLE — Do you mean 2003–04 or 2004–05?

Mr RICH-PHILLIPS — I mean 2004–05, being the period we are talking about with the budget.

Mr LENDERS — We are talking about 2003–04.

Mr RICH-PHILLIPS — I am still having difficulty understanding why there is a difference between the cash amount being paid into the super fund and what you are showing is the expense for 2004–05. You are saying the expense is $1.789 billion, but you are only contributing $1.12 billion?

Mr LITTLE — Perhaps if I can add, the way I read this table is in each of the forward years — 2004–05 onwards — the cash payment is lower than the expense. That has been the case for 20 or 30 years — —

Mr RICH-PHILLIPS — Until 2007–08.

Mr LITTLE — We are just about to get to the inflection point where the additional cash governments have put in for the last 10 years will catch up with the past liability, and we will start seeing the liability come down. Without having the numbers on these tables, I think in 2003–04 the cash was pretty much close to the expense. That is unusual in the sweep of the past 10 years, and it is for the reasons the minister suggested: equity markets went very well in the year, far above the 7 per cent we were assuming, and the triennial review put another $300 million or $400 million in. The expense did not rise by as much because the earnings of the fund were offsetting that expense. That was an unusual year. Going forward you get back to the more normal pattern.

Mr RICH-PHILLIPS — Given what you just said about the cash being less than expense, which is quite clearly shown, how does that reconcile with what the minister said about not getting into arrears — if your expense is more than the cash going in until 2007–08?

Mr LITTLE — I think the minister said getting into arrears with respect to making sure that the superannuation entitlements for this year for the public servants who work for the state this year are properly accounted for. That is the case. The fact that cash is less than expense is due to the fact that we are not earning the interest on the amounts which were supposed to be put aside 20 and 30 years ago. That is what the catch-up payment is for. The catch-up payment is almost getting to the stage now where it will flip — that is in three or four years time. The minister is absolutely correct to say that the superannuation entitlements for this year and for last year for public servants currently working in the public sector is being fully paid for, as much as actuaries can guess what the future will be.

Ms ROMANES — The Victorian Managed Insurance Authority (VMIA) acts as the insurer for the Victorian general government sector. Budget paper 2 of 2004–05 — the strategy and output paper — sets out various expenditure risks for government. On page 94 it refers to VMIA insuring the government sector against exposure to indemnities provided to non-government bodies. Could you tell the committee what is the extent of exposure of the VMIA to the activities of indemnified non-government bodies? Is this exposure covered by the provisions of contingent liabilities in the budget papers?

Mr LENDERS — The VMIA's starting point is that it was for government only — that is what it was started up for — but we have now expanded into a number of other areas where the government provides cover. That has been done by a combination of the VMIA having a capacity to expand under the legislation, by Treasurer's indemnity and a range of things. The most publicly notable area where we have gone beyond the traditional government areas would be the adventure tourism in north-east Victoria. That was an area where the government offered assistance with an exit plan until there were other insurers in the market. The exact number is down to a handful — single digits — of companies which do not have other insurance yet. That exit strategy will have us out of there by 30 June, I think it is, when the cabinet authority for that is gone. There are now several people in the market who are dealing with that. Other areas we have gone out have been some of the ones where earlier on there was not insurance available for some of the festivals and the like and we had to step into those areas. We have also acted on rural doctors and some of those areas. We have been very conscious that the VMIA has a limited role in these areas with exit strategies and in those areas we have exited.

As far as the exposure and where it goes into, where it is reported where that exposure is, I know with the adventure tourism in the north-east I have seen a report that I think of all the people we actually insured there has been only one claim, and I think in the end it was either not successful or not pursued — mind you, there are still a few of them open for a little while longer. From memory, there was a footnote somewhere noting that there was a potential exposure here but we did not quantify it. We have charged commercial premiums when we have entered into there and other than a footnote noting that it is there without quantifying it, I think that is probably as far as that goes. For us the issue has been in heritage rail and a range of these areas which go a bit beyond what you would normally do. When the rail services were run by the state it was quite an easy thing because it was a state-run entity. Where things are not or are on the periphery using common assets like heritage rail we have gone into there. To date, we have reported through that single note the exposure, which is hard to quantify.

Ms ROMANES — Is the financial position of the VMIA stable?

Mr LENDERS — The VMIA has two areas. In one it is actually underwriting activities, which is stable, and then there has been the area of its return on capital which, like most areas that have been exposed to equity markets, has actually gone below the level of what is in its plan for it to have. Is it stable? In a sense, yes. The capital levels are returning to what we would want them to be but like most areas of government the capital did not reach the return we wanted it to or budgeted for over the past few years and it is only this year that the return rate on capital has been at or above what we have budgeted for. Its underwriting is stable and the capital is returning.

Mr BAXTER — In earlier discussion the minister was talking about transparent accounting, which I think we would all agree with, and directions that might be given by the Minister for Finance to departments as to how they maintain their records. Is there any consultation with the Minister for Finance or direction by the Minister for Finance to departments regarding performance measures, which ones they should use or whether they should be changed?

Mr LENDERS — I am just seeking further advice on that, Mr Baxter, but the starting point if those budget paper measures are for individual departments, I am seeking advice as to what level of guidance, if any, we actually provide on that. I am advised that it is general. I might ask the secretary to provide that advice.

Mr LITTLE — We do provide some general guidance but it is fairly general. It is, 'We wish to see some performance indicators around cost, quality, quantity, timeliness', but it is very much then left up to departments and ministers to provide performance measures which mean something for their operations.

Mr BAXTER — I thank you for that answer. I think the committee finds the regular changing of performance measures means it is very hard to make direct comparisons. Hence, I was wanting to get some feel as to whether the Minister for Finance endeavours to have some more rigour in it.

Mr LENDERS — A supplementary response to that: there was a 12 per cent change this year but we have also endeavoured to put this continuity reporting in there so they are not lost in that sense. As I answered earlier on in the consumer affairs questions, it is always that balance between having a measure that is appropriate and relevant and having that discontinuity in reporting. We have the continuity in reporting, which I think actually — I stand corrected if this is not the case — was actually the suggestion of the Public Accounts and Estimates Committee for us to include that in the budget papers.

The CHAIR — By way of a supplementary comment, from our reading of the Auditor-General's report on reporting to the Parliament and financial management, I think it would be fair to say that if there is a change in performance measurement we would like to believe that the Minister for Finance believes it is appropriate, it is relevant and it does take into account clarity in terms of cost, quality and timeliness. That, of necessity, should then minimise the number of changes to performance measures that occur on an annual basis. It is just in the last two years there has been a considerable number, and if you do 12 per cent over two years you are looking at around a quarter of your performance measures changed, and from a citizen's perspective that is an interesting figure.

Mr FORWOOD — And then we have an election and you do an admin. reshuffle.

Mr LENDERS — But some of those that go are capital projects so they are one-off.

The CHAIR — We acknowledge that.

Mr RICH-PHILLIPS — Can I add too, quite often portfolio ministers when they come before this committee and are asked why say. 'It is Treasury's fault. Treasury tells us what we have to do. We merely do what Treasury tells us in terms of performance measures'.

Mr LENDERS — This portfolio is open and transparent, as is consumer affairs.

Mr MERLINO — Could you please outline to the committee the current situation with regard to builders warranty insurance?

Mr LENDERS — I can quite clearly say that on 14 February 2002, which was my first full day as a minister, builders warranty insurance was probably one that was on a front; we were about to have the last insurers at that stage leave the state. The committee would be aware of the history where the government brought in its 10-point plan. First and foremost we harmonised with New South Wales, and we brought in a range of things. Ultimately, the long and the short of it was to try to have insurance deal with issues where the builder had vacated the field or left and to have other mechanisms for having performance of contract, so to try to get the builder and consumer together to fix the problem rather than deal with it as an insurance issue some years later. That was the approach we took.

Every other jurisdiction other than Queensland has relied on private sector insurance covering this area. Queensland is the one state that still has a state scheme. We followed very closely the Grellman report in New South Wales and what it looked at, whether it would reinvent or reinvestigate any of this. In the end we have continued to support private insurance coming into this area. We now have not just what was Royal and Sun — which has variously changed its name; I will stick to the Royal and Sun name — which was originally the Housing Industry Association insurer and covered roughly half the market, and then filled probably 90 per cent of the market for a while. We waited for a long time for a second major carrier to come in. For a while we propped up Dexta, which was the old MBA one which filled the hole when HIH collapsed.

I am very pleased to say that CGU about a month ago formally announced its presence in the Victorian market It is the entity which carries out the work from what was the NMRA and which is now the Insurance Australia Group. We now have two major builders warranty insurers operating in Victoria and offering business, plus a number of niche and smaller ones that are in place, so I guess we have gone from a situation where we had nothing, or a near monopoly, to now where there is fairly active competition between two major players. That is a good sign.

All the people in that market understand, and certainly Royal and Sun working with Aon and HIA was conscious of it, that the service delivery and the interface between individual builders and the companies needs to be improved, and that is an area they all need to work on because that was not good. Also, I have taken the liberty of speaking to both major accounting bodies and suggested to them that the advice they offer builders needs to actually be reflective of the current market environment in builders warranty insurance. So a lot of the customer-client relationship issues between the insurers, their accountants and builders, were not working very well. I think the industry in all those sectors, whether it be the insurers or accountants, is now working to try to make that a lot more seamless.

A lot of work has been done on trying to process things more quickly based on risk factors and risk profiles. Rather than treating everybody as a risk, those who are good customers are treated accordingly. So a lot of work has gone on in builders warranty. I have liaised a lot with the HIA and the MBA over a long period and there are some smaller groups in the building community who are very vocal about the issue as well — and I am sure we have all been approached by one of them.

Mr FORWOOD — I refer to the contract between the Victorian property group and Able Demolitions for the demolition of the Lurgi gas plant in the Latrobe Valley. You would be aware, firstly, that Able runs a non-union work force. Secondly, you would be aware that the EPA and WorkSafe are entitled to go on site at any time. Why has the government authorised the Victorian Trades Hall Council, represented by Brian Boyd, the Gippsland Trades and Labour Council and the CMFEU, to visit the site at 10 o'clock tomorrow?

The CHAIR — How does this tie in with the minister's responsibility?

Mr FORWOOD — The minister signed the contract for quite a substantial amount of money for the demolition of these works. It is his responsibility.

The CHAIR — Has he signed it for the Victorian Trades Hall Council? I might have missed something; I did not pick up that he was responsible for signing — —

Mr FORWOOD — CMR, which has been contracted by the government, is in control of the site and has advised that tomorrow at 10 o'clock the principal, which is the government, has authorised a visit by representatives of the Victorian Trades Hall Council, led by Brian Boyd, representatives of individual unions, and I am advised that is the CFMEU, and the Gippsland Trades and Labour Council. So given you have automatic right for WorkSafe and automatic right for the EPA to go on site, why has the principal — that is the government — authorised union access to this site?

The CHAIR — You are saying it is the minister's responsibility.

Mr FORWOOD — It is the minister's responsibility.

The CHAIR — I am clarifying that for my own benefit. Minister?

Mr LENDERS — Firstly, it is worth painting the picture to the committee of the significance in the Latrobe Valley community of the issue of asbestos and the cleaning out of asbestos. I think that is the context we need to set on any discussion of this contract.

The CHAIR — That is fine. I need to clarify as chair if you are the person responsible for the actions that have been described by Mr Forwood. I am trying to clarify if it is a question in order.

Mr FORWOOD — Of course it is in order.

Mr LENDERS — It is a contract that comes under my auspices, yes, as minister. Firstly, it is incredibly important to understand the significance of the issue of asbestos in the Latrobe Valley and the community concerns about anything to do with asbestos, whether it be the lung function review carried out under the auspices of the Department of Treasury and Finance for a period of time or whether it be the government's Latrobe Valley task force which actually prioritised the demolition of the Lurgi site as an important way forward for the Latrobe Valley. Firstly, the context of that needs to be put into place and understood. The fears and concerns in the Latrobe Valley community about asbestos are ones which no-one would take lightly. That is a community where the government, through the SECV years ago, has an ongoing responsibility in those areas. Last year the government, in consultation with the commonwealth, announced an important anti-cancer treatment facility and a range of treatments in the area.

The CHAIR — Many of us are conscious of the member for Morwell's inaugural speech.

Mr LENDERS — That is the context of it. When the contracts were let for the demolition of the Lurgi gas plant, one of the conditions in the contract was that as part of assuring the Latrobe Valley community that all was safe and well — whether it is right or wrong is another issue, but there are perceptions in the Latrobe Valley community that some of the demolition work on other sites with asbestos have been footloose and free — a right of inspection was put into the contract that could be exercised. I would have to clarify the details of that right of inspection but certainly on a number of occasions, council and various other stakeholders in the area have used that right of inspection. It is probably not dissimilar to other areas, whether it be a mine under a town, which I think happened in Bendigo some years ago, or some of the quarantine issues that have happened previously where stakeholders who perhaps in one sense are not directly involved in an area want to come along and be assured that the place is safe. So that would be the context where the government would admit onto a site community stakeholders in a range of areas, whether it is municipalities, locals, trade unions or others. People are incredibly sensitive about asbestos because they have seen people die from it, and they want an added assurance that all is being done in those areas. So that would be the context.

The CHAIR — Thank you.

Mr FORWOOD — If you have WorkSafe and the EPA, two government organisations responsible for this, are you saying you do not trust the work they are doing and therefore you want the unions to go in?

The CHAIR — He did not say that, Mr Forwood.

Mr FORWOOD — It is a legitimate question. He has two statutory authorities, the WorkCover authority and the Environment Protection Authority, so under those circumstances do you want the CFMEU on site?

Mr LENDERS — The only context would be in situations where, for example — and I think this has happened but I stand corrected if it has not — there is an Australian quarantine issue and where there was great concern about what was happening to the Australian industry generally and the Victorian Farmers Federation wanted to come just to assure itself, probably the community would say that that was reasonable. Similarly, if under a town there was a large mining operation and in those circumstances the local chamber of commerce or others wanted to come along — not with any particular rights — but just to assure themselves about issues of safety, then that is when the government ought be aware that community safety is a critical issue and it would be fairly churlish to stop people assuring themselves that all things are safe when a community is fairly nervous about what has been happening.

Mr FORWOOD — You signed off on this, did you not?

The CHAIR — You have had your go.

Mr DONNELLAN — Minister, can you explain the benefits of the new whole-of-government leasing arrangements? You talked about risks transferred to departments. Could you explain to the committee what that entails?

The CHAIR — Vehicle leasing?

Mr LENDERS — I thank Mr Donnellan for his question. Vehicles are something that I never thought I would have to spend much time thinking about. Let me assure you, Chair, that in this portfolio you spend a lot of your time thinking about them when there are about 8000-plus vehicles in the fleet, and over time governments have tried lots of different ways and means of dealing with them. One of the most significant things is that ultimately there has to be a responsibility for the maintenance and management of the vehicle, and as much as possible that should be the user of the vehicle if you are going to get the best outcome and value for government in these areas.

On a micro scale, if somebody has a government leased car, and they return the car at the end of the leasehold period and are not accountable for it, then the cost to government on a micro level can be that the vehicle is dirty and scratched and there are costs involved in cleaning, restoring and having the vehicle made available for auction.

The challenge for us is to find the best way at that level to get the vehicles looked after most effectively by the 8000 individual vehicle users, and how we get the best dollar impact for government back on that, let alone the macro decisions of the lease and other areas and the best form of purchasing for government. We believe that the more you devolve those day-to-day operational management issues to departments the more likely you are to get better value for government and the more likely the better use profiles and accountability for the vehicles. In particular, if a department finds that it can more efficiently and effectively use the vehicles and therefore reduce the cost pressure in that department, there is a real incentive to use those savings for issues of greater importance than running vehicles.

Since February we have brought in a new accountability measure where departments first and foremost deal with those hands-on issues, but the Department of Treasury and Finance deals with the purchasing, the policy and those types of areas. Through VicFleet and the Treasury corporation we get the vehicles and lease them to the departments, and the departments are then responsible for the day-to-day things. As a means of ensuring best practice we are trying to bring in a users committee where we get advice on how things move and where they go. So part of this is about cost containment, but it is also about wanting a skill centre for vehicle information. We want best practice whether it is safe driving or use of a vehicle and those types of areas. We take advantage of bulk purchasing so we can negotiate good rebates with manufacturers.

Last year we brought in changes to vehicle policy so we now have a 60 000 kilometre and three-year turnover rather than 40 000 kilometre and two years. That was a relic of the days when there was a wholesale tax regime before the GST came in and it advantaged government to have a different arrangement then, but times have changed and we have a better business practice. We also have issues in place about LPG-dedicated vehicles and smaller cars. We have tried to bring in a whole raft of things to bring down the cost of our fleet to the government and part of that is the central purchasing arrangements and the ongoing management arrangements where we try to devolve them to the lowest level possible because we think that is where they will be best managed and we will find savings for government in that.

Mr CLARK — My question relates to superannuation. I refer in particular to the 2003 annual report of the Government Superannuation Office, and I do not necessarily expect you to have it immediately to hand. The report indicates administration expenses of around $15.5 million for the State Superannuation Fund in that year. My superannuation industry sources tell me that that is very high in comparison to what other funds would be expected to consume in administration expenses given the number of active, non-active and pensioner members. I also note on page 3 of the report that the performance measures for the fund in terms of delivery to members seems to be quite poor. For example, 30 per cent of telephone calls to be answered in more than 30 seconds; 30 per cent of correspondence may take more than 10 days to respond to et cetera, so it is not a particularly high standard of service.

My question is: what benchmarking has been done of the performance levels of the Government Superannuation Office or the State Superannuation Fund in terms of administrative expense levels? What has been found as a result of any benchmarking that has been done. And while given the board has primary responsibility for the performance of the fund, is your department planning to take any action to try to improve the performance of the Government Superannuation Office?

Mr LENDERS — I will take some of Mr Clark's question on notice because some of it is fairly specific, but in general terms I will talk about the figure of $15.5 million and benchmarking. I understand the board has done some benchmarking work on some of those issues of timeliness and responsiveness, but I can only talk about that in general terms.

It is a unique fund in the sense that it is closed. I do not think any new members come into the State Superannuation Fund — new members come into the ESSS — but because it is a closed, defined-benefits scheme, it is a very unusual creature that does not have new members. It simply maintains an existing base until around 2040 when most of its members will be gone, other than some very aged pensioners. So it is a fairly unique type of fund that has a declining membership and can do nothing to increase its membership, short of government making a policy decision to add new people to it. It is difficult to benchmark it or compare it to others on its level of administration for those reasons. But on the issues of timeliness and those response issues, I will certainly take those on notice. It is in the hands of any organisation to improve those types of service delivery issues.

The CHAIR — Thank you. We will circulate that in our follow-up letter. I want to go back to the vehicle fleet. Can you outline to the committee the major benefits of the new vehicle leasing arrangements by comparison with the sale-and-lease-back arrangements with the Commonwealth Bank. I would like you to break it down if you can — you may not have this kind of information here with you — into six-cylinder vehicles, four-cylinder vehicles and vehicles using LPG. Another issue that has probably not been on the radar screen as yet is, given this government's commitment to sustainability, have you been working with organisations like the Shepparton council or Bicycle Victoria in terms of more sustainable approaches to transport, where they are operationally applicable?

Mr LENDERS — I am not sure whether we have it here, but we had a slide showing the number of LPG vehicles and small vehicles, and if we have it accessible we will try to get it on screen. There are a number of parts to this. Firstly, we made the decision two years ago to try to cut the size of the fleet by 5 per cent generally. We also made the decision at that time to go from 40 000 to 60 000 kilometres, and in general terms — there is the odd exception — any vehicle that travels more than 30 000 kilometres a year needs to be either dedicated LPG or under 2400 cc. The Camry four cylinder is really the only car that fits that.

Mr FORWOOD — So we are up to 300 out of 8000.

Mr LENDERS — Mr Forwood raises a very interesting point. We have gone from 4 to 282 dedicated LPG vehicles — that is for December 2003 — and we have gone from 143 to 1443 Camrys. So given that we have a fleet of approximately 8000 and that on average we turn over a vehicle every 23 months, to go to a more than tenfold increase in four-cylinder Camrys and to go from 4 to 282 LPG vehicles is an amazing take-up of these higher energy-efficient vehicles. Without me — heaven forbid — making a political point, given the uncertainty of LPG as a result of the commonwealth government's shillyshallying over LPG and its treatment on excise and the like, and given the instability that is creating for manufacturing, it is amazing that we have gone from — —

Mr FORWOOD — From nothing to not very many!

Mr LENDERS — It is amazing that we have vehicle manufacturers who are prepared to invest in that process. The long and the short answer to your question, Chair, is that as a result of the change in policy, which means that we encourage LPG vehicles and small vehicles for long-distance travel, we have actually seen an increase from 4 to 282 LPG vehicles and from 143 to 1443 Camrys over a short period of time. Vehicles are taking almost two years to turn over and people are taking up that particular energy-efficient means. Your question was broader than that, though.

The CHAIR — Yes. It went particularly to the financial benefits of the new financial leasing arrangements by comparison with the sale-and-lease-back arrangements. I was particularly curious to know whether there was much of a difference in terms of financial benefit to the state in resale value for four-cylinder, six-cylinder and LPG vehicles. You may wish to take it on notice.

Mr LENDERS — No, I will take some on notice and some I will speak to. The benefits to the state are several. Certainly there is a real issue of behaviour when choices are made by many individuals. Of our fleet — I am guessing — about a fifth of the fleet is chosen by individuals. Whether it be members of Parliament under their scheme or senior executives in the public service under their lease scheme, and whether it be a good or a bad thing, people are very loyal to their Commodores and Berlinas and seem to want to stick with them come hell or high water, and the loyalty passes on from generation to generation. We have some unbelievable loyalty to the Holden brand name in Victoria, so about a fifth of our fleet — —

The CHAIR — Let us not be too specific, given that Broadmeadows has Ford.

Mr LENDERS — The point is that as far as us making choices in government, the choices for about a fifth of our fleet are made by individuals. Whether it be the dedicated LPG or the Camrys we talked of, these are not related to the brand name I was talking about before. A lot of these choices are made by individuals, so for us to actually make a policy decision to try to move people to smaller vehicles and the like is one that we can do by persuasion, it is one we can do by pricing, and it is one we can endeavour to do by mandating some of these high-energy, energy-efficient or other vehicles. So there are a range of tools available to us to try to deal with those issues, but the change is happening.

The CHAIR — What is the answer to the question, which was in relation to the financial benefits to the state on resale under the new arrangements compared with what it was in the past with the Commonwealth Bank?

Mr LENDERS — The financial benefits are twofold. The first part of it goes to our whole actuarial assessments. We started off by having artificially high return rates of 90 or 95 per cent when we came off the wholesale sales tax to the GST regime back in 2000. There were assumptions made at the time, and the main reason for the leasing system losing money, which government took action on several years ago, was that the resale rates were too high. We now have a 65 per cent resale rate. The reason we were running in loss was partly because we made the wrong assessments as to the resale value, and secondly, going back to my response to Mr Donnellan before, because the accountability at a departmental level and at an individual user's level for their vehicle and for the return of the vehicle actually means they are in better nick and we are returning more. So we think that by the government managing it itself rather than through an external agent's facility and by better management at a more micro level, we will actually have a better return to budget on this.

The CHAIR — And you will take on notice about the return to the state on four-cylinder and six-cylinder vehicles.

Ms GREEN — A supplementary request, Minister. Notwithstanding what you said about the federal government shillyshallying around with LPG, which must have made it difficult for manufacturers, but with the government being a major purchaser, I request that when discussions are occurring with those manufacturers that they give consideration to providing the same level of safety features in LPG vehicles as in petrol-powered vehicles, because often, particularly in wagons, there are not the same choices of side airbags and things like that. That may well be something that would inform that fifth of individuals not to go that way.

Mr LENDERS — Just one final thing — I have further information for you — on average the new lease arrangement costs government $66 per month per car less than the old arrangement, so there are significant savings. We had savings of about $90 a month per car, by recollection, when we went from 40 000 to 60 000 kilometres, and there are further savings with this new scheme. So over 8000 vehicles, that is a lot of money.

The CHAIR — I think there will be quite a few follow-up questions.

Mr BAXTER — A supplementary question: bearing in mind it is a well-known fact that second-hand gas-powered cars are a drug on the market, can I take it then that the encouragement to LPG is really to achieve other government policy aims, which might be quite laudable, rather than an endeavour to get the best financial return for second-hand vehicles?

The CHAIR — Can you explain to those of us who are still asking each other, is being a drug on the market better or worse?

Mr BAXTER — They are worse — they are worth a lot less than a petrol-powered car.

Mr LENDERS — In answer to Mr Baxter's question, there are a range of things that influence policy decisions to go down the various paths. Obviously we have greenhouse commitments, we have cost issues and obviously we wish to encourage behaviour beyond the government fleet. Given that we are such a large buyer obviously there are a whole range of policy issues in relation to dedicated LPG in other areas. In the end, though, the cost is ultimately factored into the resale value. You need to have a reasonable number of vehicles before you can make correct lease assessments, but clearly the resale value is ultimately a part of the leasing cost, and that goes back to the early choices that users make, whether it be the departments themselves for the vast bulk of our fleet or the significant minority of individual users and leaseholders. Therefore a lot of this is information was gathered in a time of change and flux since the wholesale sales tax-GST equation came in, along with our policy change from 40 kilometres to 60 kilometres. We are only receiving a lot of this information now, but it will ultimately come into the costing. The jury is out on what the ultimate resale value of many of the LPG vehicles will be because the dedicated LPG ones are only coming onto the market now and are being partly blurred by the hybrid ones, which were petrol cars with LPG added on. It is a small sample on which this is being based, but the jury is still out as to what the resale value of dedicated LPG cars is.

Mr BAXTER — We will wait and see.

Mr RICH-PHILLIPS — I also have a question about fleet management. The output groups on page 232 of budget paper 3 cover the actual cost of management, and it shows that the targeted cost for the output group this year is $2.6 million, up from $2.2 million in last year's budget, so it is roughly a 20 per cent increase in management cost, yet the size of the vehicle fleet is the same at 8000 units, and the number of vehicles you turn over has declined substantially from 5500 down to only 3400 new vehicle leases. Given the unit is doing less turnover of vehicles and managing the same number, why has the cost of managing that unit increased by 20 per cent, and can you also explain what the spike was in the expected outcome costs?

Mr LENDERS — Certainly. The spike is a transition from an outsourced lease arrangement to all of the various things required from in house. The spike is the easy part.

Mr RICH-PHILLIPS — Presumably, given what you said earlier, a lot of these costs would be devolved to the individual departments now.

Mr LENDERS — They certainly will, and elsewhere in the budget papers you will find a transfer in the order of $150 million off Department of Treasury and Finance and onto individual departments for the individual components of the fleet; but in the end the overall cost to government of this is down, and I will certainly take on notice the difference between the 2003–04 target and the 2004–05 target, but I imagine a fair part, if we are dealing with this centrally, is because we are actually putting out a much better product. There are safety aspects in this product, training aspects and a range of things we are providing. There is the whole information technology support of the product, so I will take it on notice, but I suspect some of this is savings for departments, with central operations being a little bit higher.

Mr RICH-PHILLIPS — So those costs will be carried by the Department of Treasury and Finance rather than the individual departments?

Mr LENDERS — Yes, in our forward estimates for DTF.

Mr LITTLE — If I can just add something there, the minister did say that part of what DTF would be doing would be providing enhanced information to departments. Part of this is to put in place a new information technology system. When we come back to you I would be surprised if that was not the major reason. A cost of $200 000 or $300 000 for an information technology system these days is pretty small.

Mr RICH-PHILLIPS — That was not picked up in last year's $3.6 million spike?

Mr LITTLE — No.

Ms GREEN — Minister, could you explain the benefits to government of the introduction of some mandatory whole–of–government contracts for some services?

Mr LENDERS — The whole of government procurement is always a very interesting mix in terms of what you do department by department, which gives departments that capacity to negotiate individual ones that are tailor made to them. The sheer size of the savings you get to government by doing it that way are enormous. We have traditionally had some whole–of–government contracts, and the policy sense is the balance between the two — does one size fit all or do you get the huge buying power of being the Victorian government with a budget of, in a few years, $30 billion? We need to deal with that balance, and part of it is a whole–of–government procurement culture, to actually get individual departments to start thinking, 'If we are doing it in one area, what are the added benefits of doing it across all of government? So one is a culture thing, which is quite important.

The second is strengthening the alignment across departments. In something as basic as a payroll delivery service, for example, one or two departments or three or four grouped together will mean that the actual costs will be significantly lower per user if you split it that way. Historically, it is often difficult because people come from a whole range of different computer system areas, for example, so to get the culture of thinking, 'If we are doing it in 1,2 or 3 departments, can we do it in 4, 5 or 6 and what is the saving to us all in the longer term?' is quite significant.

The use of best practice for some of these areas can be quite important, along with value for money. There is a range of them. Some are absolutely obvious. If you have a petrol contract, such as a fuel card contract or a contract where you are purchasing phone power, they are probably simple, but it is really the culture of encouraging whole-of-government contracts where possible, and not — in the process of doing that — losing the sense that sometimes by letting individual departments do their own things, they have the accountability issue and they can be a bit more innovative.

I am trying to get a culture in place where we should think of whole-of-government, think of savings, think of efficiencies, of lessons learnt, and that can be a very useful think for any department or agency to do. That is where the whole-of-government contracts are particularly important to us.

Mr BAXTER — Turning to the disposal of surplus government property and the Beechworth jail, which of course is a very historic building, could you outline to the committee what sort of process will be used there and what sort of guarantees, if that is the right word, there will be that if it were to be sold its historic significance will be preserved? Or are the current expressions of interest out in the marketplace to see what might be the possibilities?

Mr LENDERS — Firstly, the heritage overlays that would be in place will always apply, first and foremost; but that is a simplistic answer to Mr Baxter's question. The Beechworth one is obviously of amazing significance. For a Gippslander like me, even I know that that is where Ned Kelly was taken, and anyone who has been to the north-east in Beechworth will have a sense of the grace and attractiveness of the place, so there is that 140-year history to the place — and it is famous for more than just holding Ned Kelly; it is obviously an iconic institution in Beechworth.

As to how we look at it, firstly, the thing we look at is if the asset is not returning value for the state what parts can be used elsewhere for government or by the private sector? What parts can be used in that area? That is something we look at. We then need to look at innovative ways the assets can be used without losing their historical significance. So we would, firstly, seek expressions of interest in the local community as to anybody from there or elsewhere who could find innovative ways to maintain its heritage use.

Secondly, is the whole property something that needs to be treated like that? Can any parts of it been excised off for other uses separate from it? On 9 June the property group — and Peter Carroll, the director of the group, is here with me — sought expressions of interest. Firstly, we are trying to see what comes out of the community and the market before we proceed, so that is the start of the process; and as we have seen in other areas, whether it be the Mildura hospital site or a range of other places, we first want to see what comes out of the community before we have any hard or fast view, but the ultimate assurance is that the heritage overlays that apply everywhere else will apply in that area.

Mr MERLINO — Following on the property questions, Minister, last year at the PAEC hearings we talked about the old Southern Cross site. Could you inform the committee of the status of the government's commitment to office accommodation at that site?

Mr LENDERS — The Southern Cross is now demolished. Last time I went past I looked and you could see at the bottom of that that site things were coming up. The Southern Cross site is I think 50 000 square metres, and the Department of Innovation, Industry and Regional Development, the Department of Justice and the State Revenue Office will be moving on to that site, so the status of that as I understand it is that things are on time and on budget. That would be right, wouldn't it, Peter?

Mr CARROLL — Certainly there will be no budgetary risk for us because it is being built by the private sector. The government will fit it out, of course. That has not commenced yet. The project is on time and it is due for completion on 1 July 2006.

Mr LENDERS — The excitement for us is that it is the final part, along with the Urban Workshop, where the Department of Human Services is moving into Casselden Place, this is really the final part of the consolidation of all government departments in the eastern end of the central business district. For those who travel across the CBD periodically, as I do in my consumer affairs portfolio, it might not sound a lot but it takes that 15 minutes or half an hour by multiple times — by multiple officials, multiple ministers and ministerial staff. The productivity improvement for government resulting from that consolidation in the eastern CBD as well as the better standard of accommodation for people working for government will be positive. This Southern Cross site will be the last bit of that, so I think it will be very exciting when it happens.

Mr FORWOOD — I refer to the Auditor-General's May 2004 report on budget development and management within departments, particularly the Department of Education and Training. As you would be aware, the auditor makes some very pointed comments about poor budgetary practices, including saying there was an incorrect budget base. He said, amongst other things, that if it had not been for the Treasury advance of $150 million and the forgiving of the capital assets charge of nearly $80 million it would have been even worse.

The point is made on page 47 that the government at one stage did not accept the department's position. I guess I have two questions in relation to this. The first is: what is the government — your department — doing to ensure that departments do not get themselves into the mess that this mob got themselves into through poor budget practices? Secondly, do you agree with Mr Little's comment on page 6 that this report from the Auditor-General oversimplifies the complex and sophisticated processes of budgeting?

Mr LENDERS — What can I say? Of course I do. Firstly, this goes to an issue that you and I and your colleague Mr David Davis and I periodically discuss across the floor in the Legislative Council chamber about where the role of the Minister for Finance or the role of an individual minister falls into this. I will get to your two points, but the starting point of this is that this is a primarily an issue for the Minister for Education and Training. She will deal with it as she has been very adequately dealing with a lot of these issues in budget in her portfolio.

Dealing with the general issue of Auditor-General's reports and how the government responds to them, clearly at the end of every year there is a single sweep essentially which I as minister am responsible for to make sure that for every single recommendation out of the reports from the Auditor-General there is a government response. It goes by the succinct title of the response by the Minister for Finance to the Auditor-General's report — a very descriptive title! That will ultimately pick up the general issues that the Department of Treasury and Finance, and through it the budget formulation process, needs to deal with in those areas. How that is done is a serious issue, and I support the secretary's statement in these areas. I support both the secretary and the Auditor-General strongly.

Mr FORWOOD — Not possible!

Mr LENDERS — It is possible, Mr Forwood, through the Chair, because again government, and this government in particular, has legislated to give the Auditor-General greater powers and independence, and we respect Auditor-Generals' reports. No government ever does gleeful cartwheels after an Auditor-General's report because by definition an Auditor-General's report, we would hope, would congratulate you on the things you have done well and alert you to the things you could do better. That is the nature of an Auditor-General's report. You would imagine that every report from an Auditor-General would do both of those things, therefore he will always be alerting you to things you could do better but we will always in government have a dialogue with Auditor-General on those issues. In the end, the Auditor-General will make a report. If he makes an adverse report it is one that the government quakes at and does not like, but the Auditor-General makes reports. One of the great things is that there is a strong, ongoing dialogue and relationship proactively between the Auditor-General's office and the Department of Treasury and Finance on a range of issues to do with how they can be improved.

Mr FORWOOD — I welcome that, but I make the point that there is some problem with the budget process. If you look at our outcomes report you will discover that DIIRD underspent its budget by $100 million and only $65 million was rolled over, and that was rural infrastructure development funds, so they got it wrong the other way. The Department of Education and Training got it seriously wrong and had to be bailed out as well. If we cannot have confidence in the basis of the budget process then the whole thing will come unstuck, which is why I think it is cute for the secretary to come in with glib comments when you get a report like this. He dealt with only two departments here, Infrastructure and DET. This is a wake-up call, and you as Minister for Finance have a responsibility to ensure the committee that you believe that the budget process has some integrity and is robust and is sound.

Mr LENDERS — I certainly do believe the budget process is sound. It is on public record with the budget process. We have reviewed the price in a couple of areas of budget this year, most notably hospitals and police. The budget is an ongoing review of assumptions that we have made on priorities that we have. Part of the things that feed into that obviously are new priorities and changes of priorities of government, and obviously responses to the Auditor-General and others who comment on the budget. So none of it is done in isolation, and I stand by my point. I support both the secretary and the Auditor-General because they are not saying conflicting things.

Ms ROMANES — I refer to the question on your responsibilities for resource management services. On page 231 of budget paper 3 the procurement services output is listed under a number of headings. My question goes to the issue of an ethical purchasing policy which has been a promise of the government, and I ask what has been done to introduce such a policy at this time?

Mr LENDERS — I thank Ms Romanes for her question. The ethical purchasing policy is something government has been conscious of needing. There has been no question that there will consequently be a debate. I know as minister responsible for procurement you will have people who will ask whether say are police uniforms are made by exploited outworkers. You will often have question like that and it is very often hard in government to respond to those because it is hard to know what are the criteria by which departments and agencies actually purchase, so we have put in place a combination of the procurement group in the Department of Treasury and Finance with assistance from DIIRD, to do some work on how we get an ethical purchasing policy. Clearly procurement here is limited to the areas under the auspice of the Victorian Government Purchasing Board, which does not include construction procurement, which is a separate issue out of planning — the Department of Sustainable and Environment — so we have worked towards one. There is a policy in place which is of guidance to departments and other purchasing bodies as to how we deal with that.

Essentially the ethical procurement policy introduces checks at the tender stage and during the contract period to assess whether ethical employment standards are being met. What it looks at is whether a business has breached applicable industrial instruments, employment and occupational health and safety legislation and also the seriousness of it — that is, whether there is a pattern of breaches and whether effective remedial measures have been taken. They are the sorts of things that we try to do. It is embryonic — it has only been in place since the start of this calendar year — but it is something where we are trying to balance those areas. We want to give our departments and agencies maximum flexibility to go out there and purchase. You want them to make informed decisions. You do not want to get to the stage of the United States of America, where I once saw a document — I think it was for the state of North Dakota — a 1900-page procurement manual which went right down to the level of what you needed to do if you wanted to purchase leather boots for a native American co-op. It was to that level of detail. We do not want that, but we do want some assurance that ethical procurement is going on.

We want to have some assurance if the question comes, 'What assurance do we have that our police uniforms are not being purchased from exploited outworkers who are being exploited against the law?'. This procurement policy is part of our way of addressing that. It is a work in progress and will be in place very shortly. So that is how we are trying to address the policy balance between a laissez faire approach and the North Dakota procurement guide. Ours is somewhere in between, and hopefully we will be a lot more streamlined and efficient with our policy.

The CHAIR — Is our procurement policy on the Web? If it is not 1900 pages, where is it?

Mr LENDERS — It is on the Web, yes.

The CHAIR — Does the procurement policy also include procurement of and disposing of goods — for example, recycling and environmentally sustainable ways of eliminating waste generated by government? Of course we have to procure waste management services.

Mr LENDERS — I am surprised that this work is ad hoc. It is done department by department. For example, I know that the disposal of government computers is an area where Education and Training — —

The CHAIR — Infotech.

Mr LENDERS — Infotech. I have actually met with them and we are talking of ways that we can enhance that further, but our procurement is far more geared to what we purchase than what we dispose of. There are policies for disposition. I will take that question on notice, but I advise the committee that there have been some discussions going on with Infotech and others as to how we can streamline that more across departments.

The CHAIR — Excellent! Thank you.

Mr CLARK — In our hearings this morning Minister Thomson told us that at least some of her departmental performance measures — that is, those relating to small business support in particular and which appeared in the budget papers published in May — were lodged with Treasury in February this year. That, the minister told us, was the explanation for why the figure had changed between her presentation and what was in the budget papers. It concerns me that this indicates that departmental performance measures of expected outcomes for 2003–04 are being collected very early in the budgeting cycle. They are not giving a very accurate indication of what the likely annual result is going to be. What can you tell the committee about what the process is for when departments are expected to lodge their estimates of expected outcomes for the current financial year and their targets for the following financial year as part of the budget process? Are there any particular arrangements in place to get more updated, and therefore more accurate, figures slotted into the budget papers?

Mr LENDERS — I will take the specific question on notice. In general terms our issue is always one of when you finalise and draw a line through in the sense of whether it be something we talked about earlier on, like anticipated revenue from superannuation or equities and those areas. There is always a line of different things at different times, so I will take that specific question on notice.

Mr DONNELLAN — Looking down the road, what is the government doing to obtain more benefit from the Old Treasury building.

Mr LENDERS — When you said 'looking down the road' I thought you were going to talk about cars again, Mr Donnellan. You flummoxed me there! In a sense your question about the Old Treasury building is an interesting follow-up to our earlier conversation with Mr Baxter about the Beechworth prison. The Old Treasury building is obviously steeped in history — far more than having Ned Kelly in it for that time. Every governor and every executive council has been in the Old Treasury building since self-government.

Mr DONNELLAN — They stay the same!

Mr LENDERS — I think it is against standing orders to reflect on the Governor, Mr Donnellan, or past governors. Obviously it is a building rich in history. It is a beautiful building that in time past was once the seat of the entire executive government of the commonwealth, let alone the state of Victoria. Now it is a very small building that is not suited to many things. Anyone has been into the basement level, to the Gold Museum area, will know that it is full of dungeons and places where you store gold. The secretary will confirm that we have more efficient ways of storing revenue now, but if anyone wishes to fill those cells with gold we would be happy to receive it again.

The building is one that for us to find uses for is always a challenge. We want to have this beautiful community asset in place, to have it maintained and the public to have access to it, but we also would prefer to do it in a way that was not a drain on revenue. At the moment the building has a number of things in it. Now the Registry of Births, Deaths and Marriages is getting that building. Perhaps this is what — —

I am surprised, Mr Donnellan, that you are alluding to this. I thought your future in that area was well and truly assured. The Old Treasury building is becoming more available for weddings. It is a facility for weddings in a beautiful building. We also have former Premiers in there. The Governor is in there. The Executive Council is in there. The Williamson Community Leadership program rents space from us and there is a commercial catering arrangement in there. We are trying to find uses for that building that will mean that it can be maintained, will be effectively used and will be used in a fashion that fits its character. Certainly there is a place for using it as a popular place for weddings. That is where its future is going. Any other creative ways of using that beautiful building — that is, ones that are not a drain on revenue — would be cheerfully considered.

Mr CLARK — My question relates to public liability insurance, which you referred to in your presentation. As you know, the completion of the scheme of reforms of recent years requires amendments to the Trade Practices Act to be made by the commonwealth Parliament. As you would also know, legislation to achieve that is being blocked by the federal opposition and others in the Parliament. I understand Mr Egan in New South Wales has made representations to the federal opposition seeking its support to pass such legislation. Have you made similar representations to the federal opposition? If so, what has the outcome been? If not, do you intend to make such representations in future?

Mr LENDERS — That is a bit of a longbow. I am happy to answer the question in one sense as to my ministerial responsibility. I am happy to answer the question. On the issue of particularly professional indemnity insurance, obviously the commonwealth Trade Practices Act has power of incorporation, so clearly anything affecting the area of corporations is of relevance in the bigger picture.

Firstly, at the ministerial council in February we considered in particular the issue of what all states and territories and the commonwealth committed they would do as part of their raft of insurance legislative reforms. We had quite a discussion. In the context of professional indemnity insurance we identified in Adelaide the year before — or earlier last year — that we needed to do four things if we were to affect the market on professional indemnity insurance. One was professional standards legislation. Tick! Victoria has done it. Legislation has been proclaimed and the Professional Standards Council has been appointed. Two, we undertook — and we are the only jurisdictions to do that — to deal with the issue of proportionate liability for pure economic loss that is not personal injury. We have had it for a while in Victoria in parts of our construction industry, and we have now extended it more generally. So they are the two things that Victoria said it would do and has done.

However, there were two legs that we left to the commonwealth. One deals with section 54 of the Insurance Contracts Act, which is a very esoteric area of law. Most people's eyes glaze over when you talk about section 54 of the Insurance Contracts Act; however Lloyds Syndicates in London are absolutely engaged by section 54 of the Insurance Contracts Act, and a High Court decision reversed some of the ways in which it was treated. We have raised the matter with the commonwealth, and Senator Coonan on behalf of the commonwealth has initiated an inquiry and the commonwealth is now about to enact that legislation. That is three of the four legs.

The fourth leg is amendments to the Trade Practices Act. At a ministerial council and a round-table meeting which included insurers, my recollection is that the Insurance Council of Australia said that either Senator Coonan's amendments or Senator Conroy's alternate amendments would achieve the need of what we needed to do. I think it is well and truly in the hands of the commonwealth jurisdiction for the Senate, as parliaments normally do, to sort it out for itself. Both sides acknowledge that the law needs amending. Both sides have either a bill or amendments to a bill which, as I understand it — unless it has moved to another level — deal with it. As I understand it, the third-party observers have said that either of them will do, so I think it is well and truly in the hands of all people in the Senate — not just senators whose names begin with C — to come to some accommodation. They are all aware that they need to and that the legislation needs to be passed for the fourth area and there are two options to choose from. I have made the ministerial council publicly aware that there are four things which need doing, and Victoria calls on the commonwealth to do its two. One of the two is still being done and, as I understand it, there are two models in the Senate which can achieve that. Mr Clark, I think it is really in the hands of the commonwealth Parliament to come up with a solution out of that. It has enough choices to make, and I am sure it will do it without our assistance — much like we tend to do things without its comment or assistance.

The CHAIR — I want to refer to your department's response to the budget estimates questionnaire and particularly page 8, where you refer to a review being conducted during 2003–04 of government land and property services. Could you inform the committee what actions are occurring in 2004–05 as a result of this review?

Mr LENDERS — The review is to get a full sense of what our property is so we can make informed decisions about it — a sort of one-off audit of all departmental land-holdings. That is one part of it. A second one is to actually have a high-level property committee advise government on the best use of its property. That obviously is important to us if we are to have a policy which has best practice in providing quality services and outcomes to Victorians. Those are two things we need to do. Part of that is we will then need to get actual annual statements or statements of property holdings from departments and agencies. That is an important part of it. This goes back to this issue of procurement we discussed before and how much you devolve and how much you operate centrally. Devolving decisions to departments to make use of property can often be the best way of making use but if another government department needs extra property or a capacity to find property in an area or jointly use or co-locate on a property, not having that information centrally can preclude that. The review is to open our eyes and ears to what we have to get a better sense of how we can use the property we have and make informed decisions with all the pieces of the jigsaw puzzle being in front of us rather than an individual department or agency operating on only a small part of that.

We periodically talk of silos in government. I am sure this committee wonders why one silo does not know what the other is doing. Our review of property is to be fully aware of what the resources we have are and then what best way we can utilise those resources across all of government.

The CHAIR — In terms of the best way to utilise those resources, if you were in a municipality close to the central business district, for example, where there is not a lot of land for a specific purpose that the government requires — and government may not wish to deliver that service personally — what capacity is there from the work you have done to identify a particular piece of land for a particular usage and make sure it is delivered in a timely fashion for that?

Mr LENDERS — This review is primarily about existing government land and existing government leaseholds and you are talking one step further to acquiring new land — —

The CHAIR — No — existing government land.

Mr LENDERS — Once we have a database of the land, that will assist us considerably. I had a department saying to me the other day that it has a series of offices next to each other on the same street which all have separate leaseholds, and it is looking at consolidating them. Once we have a database of what government land and leaseholds are available, that will at least let us search in that municipality. I might ask the director of the property group if he wishes to comment further.

Mr CARROLL — Is the question to do with a council wanting to get hold of some existing government land?

The CHAIR — Not necessarily a council. Let us hypothetically speak about inner Melbourne, where you need large sites for aged care facilities. It is costing the state a significant amount of money to have people residing in hospitals because they are unable to get nursing home beds in particular municipalities, for example, and you need large pieces of land. Using this as an example, if it is in the government's financial interest to ensure there is the provision of aged care and nursing home beds, will the work you have done identify on a cost-benefit basis why government should allocate particular pieces of land for X, Y or Z purposes and ensure that that land is sold for that particular reason? You do not necessarily have to have government provide the services but it is a service which the community and the government require. Would that be a flow-on effect of this work, or at this point it is just identifying land?

Mr CARROLL — There is provision already for dealing directly with community groups — not just councils but community groups and charitable institutions. They come to government all the time to get access to property, and there is precedence for dealing directly with them for the sorts of uses you mentioned. If it is a private sector arrangement where there are a number of competing interests for a piece of government land, the policy is to put it to a public sale.

The CHAIR — In terms of efficiency and timeliness, do you have guidelines on that for not-for-profit providers from when this particular piece of land is identified by you or by them for a particular purpose?

Mr CARROLL — Guidelines? If a property is available and there is an interest in it, we will examine that immediately and we will put options for dealing with it to the minister to make a decision as the vendor of Crown land.

Mr FORWOOD — How long does that take?

The CHAIR — That was my point.

Mr FORWOOD — I think you do your job quickly — I am more worried about him.

The CHAIR — It is not the minister, I was thinking further down the line.

Mr RICH-PHILLIPS — The budget appropriates $13 million for a joint Department of Treasury and Finance-Department of Premier and Cabinet ICT document management program. Can you give an overview to the committee of exactly what is entailed in that $13 million program, and in particular what role the chief information officer has had in developing the scope of that program and will have in the delivery of that program? I understand you have responsibility for that.

Mr LENDERS — The chief information officer is not answerable to me.

Mr FORWOOD — He does not know who he is answerable to.

Mr LENDERS — That would be an area which would be answerable from the DTF perspective to the Treasurer rather to myself as the lead minister in this department.

Mr RICH-PHILLIPS — The project is not yours?

Mr LENDERS — No.

The CHAIR — On that short note, we will conclude this afternoon's consideration of the budget estimates for the portfolios of consumer affairs and finance. Thank you to the minister and departmental officers for their attendance. We thank Hansard also. It has been an extremely useful session. We will be forwarding to you copies of the transcript early next week, with follow-up questions and any questions you have taken on notice. Thank you.

Committee adjourned.