CORRECTED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into 2002–03 budget estimates

Melbourne – 23 May 2002

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Witnesses

Mr J. Lenders, Minister for Finance;

Mr I. Little, Secretary;

Mr W. Hodgson, Deputy Secretary, Commercial Division; and

Mr A. Nye, Director, Insurance Policy, Economic and Financial Policy Division,

Department of Treasury and Finance.

The ACTING CHAIRMAN (Mrs Maddigan) — I welcome the Minister for Finance; Mr Little, Secretary of the Department of Treasury and Finance; and Mr Hodgson, deputy secretary, commercial division, Department of Treasury and Finance. I ask the minister to make a presentation.

Mr LENDERS — I understand that yesterday Ian Little, Secretary of the Department of Treasury and Finance, provided the committee with specific details of the Department of Treasury and Finance budget, output structure, output initiatives and objectives. I will not cover them again today.

Mr RICH-PHILLIPS — Although we did not ask the Treasurer about them.

Mr LENDERS — I will provide a brief presentation on the finance portfolio for the coming financial year, and I will particularly outline my core responsibilities as Minister for Finance, and provide you with a focus for the portfolio in the coming financial year.

Overheads shown.

Mr LENDERS — My core responsibilities as Minister for Finance comprise six key areas. The first is the provision and management of financial management infrastructure. This covers financial systems and directions including the Financial Management Act; regulations; directions and bulletins; risk and liabilities management; and reporting, monitoring and compliance frameworks. The second primary area of responsibility is the administration of government assets. That covers government-owned and leased accommodation, government lands and property, and motor vehicle leases. The third area of responsibility is purchasing and procurement systems and procedures. This includes progressing electronic commerce for procurement — or EC4P as we affectionately or unaffectionately know it — across all departments and purchasing procurement regulations. Another area of responsibility is the administration of superannuation schemes for state public servants, in particular managing the unfunded liability, which, while it is being managed, is nevertheless the state's single largest liability.

I also have responsibility for what was the Office of the Regulator-General, but what since 1 January has become the Essential Services Commission. This is an independent authority with responsibilities for regulation of the key utility services of energy, ports and grain export, as well as access to grain structures. Finally, and certainly not least, I have responsibility for the oversight of the Victorian Managed Insurance Authority, which provides insurance and risk management for government departments and other participating bodies.

In the next financial year the finance portfolio will focus on a number of areas. The first is sound financial management of the state's fiscal resources by managing initiatives such as the output strategy and pricing reviews. I must say that it was pleasing to see that our efforts to date have been recognised by the recent affirmation of Victoria's AAA credit rating by Moody's Investor Service. The portfolio will also be seeking to drive further improvements to financial management practices and compliance across the Victorian public service, which include leading the further implementation of the management reform program.

Insurance is and will continue to be a significant issue for the portfolio during the year, with a number of elements requiring attention, including public liability insurance, builders warranty insurance, professional indemnity and insurance against acts of terrorism. The government is committed to addressing these issues and we will be looking to the establishment of a consistent national approach to provide long-term solutions. It is pertinent to mention that at the end of next week there will be the second of the meetings of insurance ministers that is trying to get a national approach across all nine jurisdictions on these matters, particularly public liability insurance. During the year the Essential Services Commission will be progressing the preparations for introducing full retail contestability into the Victorian gas market, and from 1 January the ESC will also assume responsibility for the regulation of the water industry.

The portfolio will also continue to deliver its core business, including undertaking whole-of-government financial reporting, oversight of government superannuation and management of government assets including land, property, accommodation, and vehicles. These services and activities are by no means insignificant and represent an important element of the government's desire for effective resource management. A good example of this is the current project to consolidate government accommodation within the central business district, which will involve the provision of 100 000 square metres of office space. This will not only allow several government departments to consolidate their head office accommodation but will kick-start up to $600 million in construction activity in central Melbourne and, in turn, generate up to 2600 jobs.

Mr HALLAM — Before you leave the chart now being displayed, Minister, what do you mean by water regulation?

Mr LENDERS — This would be the ESC as an economic regulator, which I understand requires some further legislative instruments.

Mr HALLAM — You actually used a date, you gave the committee a date. Does that presume there will be legislation passed before that date?

Mr LENDERS — As we announced with the establishment of the ESC last year, our intention is to have that economic regulatory power in place by 1 January, but we acknowledged last year in legislation then going through that there were a few more steps we need to go through in the legislative process.

Mr HALLAM — I am not challenging that. You used the date of 1 January next year?

The ACTING CHAIRMAN — Yes.

Mr LENDERS — That concludes the presentation.

The ACTING CHAIRMAN — The beneficiary choice program that was introduced caused a certain amount of confusion amongst people originally, but I think it was understood by the end. Can you please tell us what affect that has had on the state's unfunded superannuation liability?

Mr LENDERS — I will answer your question in general terms, while I try to find some exact figures for what the effect was. Clearly by offering a beneficiary choice program the objective is, for people who are entitled to a future payment from the state, if we can find a way where they are prepared to settle for an amount it takes pressure off our unfunded superannuation liabilities. We will have actuarial assessments of what the cost to government will be. Actuarial assessments, as most people will be aware, will include a whole range of things based on longevity, CPI movements, on a whole range of things regarding pension payments. If we are in a position for people to take that money themselves and make their own decisions on it, it affects our unfunded superannuation liabilities, and that is important to us. In one sense of course we have made provision, or at least have a regime in place, to deal with unfunded superannuation liabilities, and essentially that is that they will be gone by the year 2035 by the range of activities that we take. A lot of people talk of 3-year plans, 5-year plans and 10-year plans — I guess a 33-year plan is a fairly impressive one.

The ACTING CHAIRMAN — It is not as long as the toll!

Mr LENDERS — No, it is one year short of the toll. that's right! But certainly as part of this the unfunded liabilities will continue to go up and down depending a lot upon the state of the various markets that we base our estimates on. The beneficiary choice program has meant that there are two amounts. We have improved the state's unfunded superannuation liability position by $368 million as of 30 June 2001 — —

Mr HALLAM — What was that figure, Minister?

Mr LENDERS — By $368 million; and by $538 million at 30 June 2002. In the change in investment rates and a range of things the unfunded liabilities amount is going up and down at the moment; virtually every time it is reassessed, as it needs to be, because of its nature. But these are two material differences that the beneficiary choice program has made, as well as giving a significant number of Victorians the opportunity to make their own choices with their own retirement income investments.

The ACTING CHAIRMAN — Do we know what the take-up of the option was in percentage terms?

Mr LENDERS — It was 30 per cent or 9000 people took it up, which was in excess of what we were predicting.

- **Mr HALLAM** — Was the program offered to public sector employers in the university sector?

Mr LENDERS — The answer is no.

Mr HALLAM — Was it actually sought or pursued? This time last year the committee recommended that the minister pursue the issue with his federal colleague in order that we might actually find a joint position in respect of eligibility of staff at universities.

Mr LENDERS — I will take advice on that. I know there are a number of outstanding areas on university superannuation which are complicating matters.

The ACTING CHAIRMAN — We have dealt with some of those, haven't we Roger?

Mr HALLAM — That is why we raised the question.

Mr LITTLE — If I can answer. We did pursue that, but in short the commonwealth did not come to the party on the terms that would allow us to do it. The universities are organisations which sit halfway between the state governments and the commonwealth government, as you know, and we had to have negotiations with them.

Mr HALLAM — Can I also ask why simply commuting the existing entitlements to a lump sum actually changes the long-term unfunded liabilities? Obviously that means we will fund the liability that is emerging. Why does it change it?

Mr LITTLE — I will answer that one. The offer that was made to pensioners was the statutory rate that has been offered for a long period of time. This statutory rate was offered to pensioners on a greater proportion of their pension than previously, something that happens in New South Wales on a regular basis. As it turns out the history has shown us that the actual payments made to pensioners over the period usually costs more — although on an individual basis we do not know — than the statutory rate. Put another way, the present value of the pension payments usually comes out at a higher rate than the lump sum payment, but that lump sum payment is the same lump sum payment that is offered under the statute and people willingly, of their choice, choose the lump sum payment. Often they prefer it in a lump sum than to wait a number of years. From the government's viewpoint it is a cheaper option, on the average, than paying out that pension over a long period of time. That is how the actuaries view it.

Mr HALLAM — So members and pensioners were prepared to accept the discount rate for the commutation figure?

Mr LITTLE — Yes. In most cases they get the offer — commute half your pension — that has regularly been offered, and some choose that, some do not. Under the beneficiary choice they were allowed to commute the other half of the pension if they so desired at the same rate.

Mr HALLAM — But what you are saying is that the commutation is at an effective discount rate?

Mr LITTLE — No, it is the same statutory rate that is used.

Mr HALLAM — If it is not at a discount rate, why are we affecting the long-term unfunded liabilities?

Mr LITTLE — Because over a long time the present value of those payments is less, but I would not call it a discount.

The ACTING CHAIRMAN — I have very graciously allowed you to have that as a follow-up question. Did you have another question?

Mr HALLAM — Have I ever! Perhaps we should start with the invitation for someone to explain how the published cost of management of our motor vehicle leases, which has reduced by 40 per cent, can be attributed as accounting treatment. It has gone from $30 million in 2001-02 to an output cost expected this year of $18.6 million, and I presume for a moment that does not mean that we have less cars.

The ACTING CHAIRMAN — You are quoting from our briefing notes, which Mr Little does not have a copy of.

Mr HALLAM — Mr Little offered us an explanation when he was with us before, and I did not take him up on it.

Mr LITTLE — Yes, I raised it in my presentation so Mr Hallam is right to pick me up on that. What has happened in previous years is that departments have paid for their car leases, and in accounting terms they paid that money to Treasury, and Treasury recorded it as a revenue in our books and then we passed that payment on to the bank that had to deal with us for the cars. So Treasury acted as a postbox. The actual physical payment did not follow that accounting stream at all; it went straight from the department to the bank.

We have decided that that is a convoluted accounting treatment which does not follow the actual stream of payments, so now departments in accounting terms as well as physically are paying the bank direct and Treasury is getting out of that postbox; the payments have not changed at all except a revenue item has gone down in Treasury because we are not receiving that revenue from departments, neither are incurring that expense when we onpass it to the bank. We still have a remaining motor vehicle cost because there are cars in Treasury, and we also run the government car pool.

Mr HALLAM — So there would have been the equivalent of the 'savings' shown here appearing as a cost to the departments involved with the leases?

Mr LITTLE — Yes. The departments have always had that payment there as a payment to Treasury, and that remains there.

Ms BARKER — John, we are all aware of the issue of public liability insurance, particularly for the not-for-profit groups. Could you give us details on the action that has been taken to assist in that area?

Mr LENDERS — I guess if there is one thing in the 14 weeks I have been in this portfolio that would probably never have struck me as such a major issue, it would be insurance. I guess we are all in one sense aware of problems in insurance, but in the end, since being given a coordinating role in insurance, I am amazed at how major the whole issue is, how broad it is and how solutions to it are very difficult. I guess the issue of public liability insurance for not-for-profit organisations is an example of the enormous number of areas in our community that are under incredible stress because they cannot, or could not, get insurance. Whether they be things like in my first week as minister when the potato festival in Thorpdale was in grief, or you could go across the state and find example after example of community groups that have had difficulty getting the insurance that is required either by law for them to operate in a particular environment or because of prudential necessity on the part of the organisation.

So I guess those groups, like everybody involved in insurance, have been affected by the collapse of HIH where premiums were forced down by unnatural market forces. Everybody was used to premiums being lower for a considerable period of time, and that collapse meant that real market forces came back into play and rates went up. So that put pressure on insurance everywhere, and those people on the edges who were not dealing in mainstream products suffered a lot more.

11 September caused enormous grief across the insurance industry, again because so much of the international capital of insurance was absorbed in that catastrophe that pressure was across the world everywhere not to get into support products.

I guess I am going through the macro position because it is important to put it in the context of how governments can operate and what solutions are available for governments when we are under that kind of pressure. We had an environment in Australia where reinsurers were very reluctant to get into the markets because, firstly, they were trying to restore capital, and secondly, they were being very choosey about what they are doing. So if you were a reinsurer based in London, Milan, Paris or Frankfurt trying to decide where to put your reinsurance products in Australia, not-for-profit groups were not and are not on the top of their priorities. That is one problem.

The second problem is that a lot of groups such as not-for-profits deal with insurance only once a year; insurance is not a core business activity but something on the edge of organising a program. They might go through a broker they have had before, or brokers might change, so suddenly it becomes a problem for these groups of people to get insurance. Late last year we as a government conducted a number of forums where we invited small business, not-for-profits — a whole range of people — to come together and talk through their problems. Out of that it became clear that the not-for-profits were under some considerable stress and that there was an obligation on government to try to assist.

I guess we get to significant crossroads here as to how does the government respond. Do you respond to the macro situation where you try to deal with global or national areas, or do you respond to the micro situation and try to assist people, take them through the process of applying for insurance, or do you try some combination of the two? In our particular case we chose to go down the path of trying to put the two together while dealing with and participating in the macro issues, and many of those are obviously the huge current debate on tort law reform and a whole range of other things that go on there. But in addition we wanted to deal with the micro issues, which included the not-for-profits. Firstly, the Victorian government through the Department of Treasury and Finance worked with the peak not-for-profits group called Our Community which does a lot of work for not-for-profits on human relations issues, organisational issues and insurance issues, and the Municipal Association of Victoria which covers 77 or 78 councils and has an insurance product of its own and deals with a lot of not-for-profits because many operate on municipal land or in conjunction with various other community organisations. So we tried to put together ways and means to assist. There was some assistance in dollar terms that the state put in on risk mitigation, on some of those issues and planning issues; but fundamentally we got officials of the Department of Treasury and Finance and other experts to assist the municipal association and our community to try to find a product that would actually help get insurance for your Thorpdale potato festival and organisations like it. That is quite a long road and a long journey that we have come to, which has got us to the stage that on 1 June — next week — this product will be available for not-for-profits. There will be public liability insurance available. The key, I guess, on this approach, on what we have done is that, first, we have a product available that is a private sector product, but we have facilitated its coming into being and being made available; but the critical thing — and this I think is pertinent to so many other areas in insurance — is that the only reason the government could facilitate that was because data was made available.

Talking of data in insurance is not an exciting area. People look for quick solutions to insurance. They see that someone has dived into a sandbar in Sydney, and you want to talk about data! They think, 'Get real!'. But the reality is that by the Victorian government facilitating the collection of data with Our Community and with the municipal association we found that the case records of numerous not-for-profit organisations over the last five years were such that insurers were actually making money out of the not-for-profit groups. The risk was low, the claims were low, the premiums paid were reasonably good; so the business cases then put to the insurers, Jardines, which came into the market with the Municipal Association of Victoria, added people onto their product, so that 12 000 not-for-profit groups will now have access to public liability insurance.

It is a good scheme, a good group-buying scheme. It has a whole lot of efficiencies in there. But the critical thing is that these organisations, or most of them, which are voluntary organisations — and we have just had the International Year of the Volunteer, so this is one way to keep those voluntary activities alive — make a good news story: cooperation between state government, municipal government, community organisations and private industry. We have got a great product.

Mr CLARK — Could I follow up on the issue of public liability insurance? The product the Municipal Association of Victoria and Our Community have developed is a good product as far as it goes, but you will know it does not cover sporting clubs or horseriding — for example, it doesn't cover dog sleds in the snow, as was featured in the papers the other day. I suppose my question is: what is the government doing to help the difficult cases that are not covered by the relatively low-risk coverage that the Municipal Association of Victoria and Our Community scheme is providing? For example, in relation to the dogsled case, I gather one of their main problems was the government requirement of a $10 million blanket public liability policy before being able to operate on public land. In times when insurance was not a big issue that might have been a straightforward solution, but clearly it is now becoming very expensive. Is the government looking at varying that sort of blanket requirement and moving to a joint risk management approach between government and the private operator of a tourism facility on government land so that jointly they can manage their combined risk rather than simply whacking the private operator with something that may well not be affordable in the current climate.

Similarly, why isn't the government using the expertise of the Victorian Managed Insurance Authority (VMIA), which is within your portfolio, to advise the government on how the government can help a far wider range of community organisations to get pooled risk schemes up and running rather than just the small one we have got at the moment? Finally, where is the government at in terms of addressing the big questions you referred to about tort law reform?

Mr LENDERS — Quite a comprehensive set of questions! First and foremost, I guess we will, as a government, finalise our positions for the insurance ministerial council of next week over the next few days, so I am certainly not in a position to announce a full government response. I can certainly, however, address a number of the themes that we are going down. First and foremost, Robert, you mentioned the VMIA assisting and being involved in a number of these organisations. I guess the first threshold question is — —

Mr CLARK — Assisting the government to assist.

Mr LENDERS — Yes, assisting the government to assist. I guess the first of the threshold questions we need to answer in this area is how far is the government prepared to go as a government in this area? Do we wish to assume upon ourselves the ultimate risk in a lot of these areas? Do we wish to go to a government insurance scheme? Is that the path we are going down? We clearly have been reluctant to go down that path.

We are getting a lot of calls for the government to stand in for the VMIA. The VMIA can advise, and the advice that we as a government are offering, whether it be through VMIA, the Department of Treasury and Finance or expert people we bring in, is that we are tapping all sources of advice to find solutions to this. But for the VMIA to be an instrument or an insurer is something that we have certainly not been out there pushing or advocating. If you were to go down that path there would not be a business or organisation in this state that would not be looking for the government to take on the ultimate risk, so we are very reluctant to go down that path.

In a lot of the discussions and debates there were a lot of people who put the New Zealand model to us as an option and as a quick fix to everything. However, whilst the New Zealand model has a lot of attractive features about it, the unfunded liability which keeps on ballooning out is not one that makes it particularly attractive to us. Certainly in that particular area there is a threshold question about if the VMIA gets involved and how far does the involvement go. I think there is a real risk to government that there will be expectations that it will be the underwriter or the reinsurer for everything.

On the issue of the particular sectors, you say and understand that the role of governments in public policy is not to rest on their laurels but to go on and deal with the next problems. When I think about managing sector by sector, the dealings we have, firstly, with builders warranty insurance, and secondly, with the not-for-profits and public liability, it is a particularly good start to dealing with sectors. But there are more sectors that are in distress. Adventure tourism is a particular area into which we have a lot of assistance with risk mitigation. We have managed dollar for dollar what the industry itself has done in risk mitigation programs. For insurance to come in some of these areas, whether it be dogsleds or various other forms of adventure tourism — and I would categorise that as a form of adventure tourism, correct me if you categorise it as something else — raises two issues. The first is the availability of insurance and the second is the price of insurance. You should put them in that order. Clearly a number of policies are coming out during late June — and whether your particular one is one of those — we are under strong pressure to try and get availability in insurance and once we get that availability to get that price down doing whatever we can do as the government to a manageable level for the organisation. Regarding availability, as a government we have already with the tourism operators matched dollar for dollar up to a level strategies for risk mitigation which they can actually put into place to try to make them a proposition that will bring an insurer into the field. The first instance is a positive step by government in partnership with industry which we have put into place.

The second issue that comes out of the area is the issue of price and that becomes far more problematic, but we can do what we can to bring insurers into the markets. For us to start controlling price is something that, as you will be well aware, is, short of a full state scheme, very difficult for us to do. Yes, we have an obligation to go well beyond the not-for-profit sector. We are in the field in most or all insurance. Where an industry sector is under distress, we try to find solutions, and those solutions inevitably deal with risk mitigation to make it more attractive for private insurers to come in; and in some cases where industry organisations have group schemes or at least have banded together to work on things we just use the contacts of government. It is a lot easier. In some sectors it is quite amazing. In Victoria in 2002 a lot of people have not thought a lot about these schemes or of buying group schemes, so in all of those areas we are trying to work to get that: first to make it available — and there are steps we are taking and can take — and second, to make it affordable, which is more problematic.

You raise the issue of the major areas of tort law reform and the like. Our consistent position as a Victorian government has been that we are prepared to consider tort law reform. There is no question — it is preliminary data, but the final data will be coming to the ministerial council next week — there is no doubt that changes in tort law, various actions in tort, are forcing up prices of insurance. There are various estimates of 3, 4, 5 and 6 per cent. Hopefully the data we get at the ministerial council will at least have something definitive. There is no question that this is putting pressure on premiums and availability. The issue though is that these pressures that are being put on are undoubtedly affecting insurance premiums, but that type of pressure is an economic problem for industry; it is not something that should be forcing people to leave the market in droves and to not offer products. If we as a government are satisfied from the data that tort law reform will make a difference to availability of insurance and a significant difference to price, then we will have the public policy argument in this state about the rights that will need to be taken away from people if we go down that path for the economic advantages that that will offer. We will go down that path, but we want the information.

We know the history in the United States, where in many of the jurisdictions — it depends how many states, commonwealths and territories you count, so let's make it 50 states — there was a massive series of tort law reform during the 1980s to deal with similar situations, and the outcome was that a whole lot of entitlements and rights of people were dealt with and in the end it did not affect the price of the product in any material form. There have been examples in some of the Canadian provinces and there have even been examples in the United Kingdom, with the threat of terrorism from the IRA during the 1970s and 1980s, where people were changing their policies accordingly. To repeat myself, if we are satisfied it will make a difference then we will have the public policy debate, and we will be obliged to make those decisions fairly shortly because the data should be coming to the ministerial council next week.

Mr CLARK — Have you considered the $10 million public liability cover required for Crown land?

The ACTING CHAIRMAN — We will come back to that. I would like everyone to have a chance to ask a question.

Mr CLARK — It was one of the aspects I raised, Madam Chair, which the minister has not responded to.

The ACTING CHAIRMAN — You will have another opportunity to ask questions.

Mr HOLDING — I refer to the government's tender call for accommodation which I understand falls within your portfolio responsibilities, and as a starting point I turn to page 347 of budget paper 3 which includes the major output, 'Government accommodation services'. Included in that output is a series of performance measures including 'Workspace ratio', which tells us that the square metreage per full-time employee is 16.8 at the moment, that it will go down to 15.5 and that it is targeted to go down to 15 by 2002–03.

I start by assuring you and the officers here that those of us who are accommodated in the parliamentary buildings are doing our best to get the square metreage down as much as possible. I invite anyone who wants to measure the square metreage of my office to come out to the chookhouse to do so. A significant portfolio of accommodation is managed by your department on behalf of other government departments; I think from reading through that page it is about $35 million worth of accommodation. Given that this tender call has gone out, do you have any information as to the anticipated effect of this tender on the Melbourne commercial office property market, and can you take us through the process to date and tell us what stage the process is at and how you see it unfolding?

Mr LENDERS — I will respond in general terms, and I will ask Mr Hodgson if he wants to follow on with any of the specific operational details. This is a huge project, as you alluded to — it is 100 000 square metres of office accommodation. We are moving down this path for a number of reasons. We support the ongoing policy of the previous government, and probably the government before that, to try as much as possible to locate most of the central government agencies into the parliamentary precinct or the eastern end of the CBD. There are a lot of fairly sound logistical and productivity reasons for doing that, so that is a long-term goal. But more importantly, the Melbourne property market has been buoyant and the volume of accommodation we need means that we need to have a serious strategy over a period of time, including a plan for when our leases expire and when we move to new premises.

Mr Hodgson can correct me, but from memory there is only a 2 per cent vacancy rate in the CBD, and what is available at the moment is fairly tight. We certainly need to have a strategy if we are to aim to move agencies or departments down to this part of the CBD. We need to have a strategy in place that lets us do that in an orderly fashion over a period of time, and also one that ensures that in doing so we get the best possible advantage of taxpayers' dollars. This process will save the government money over time, but it will probably also involve a fair amount of construction money. I am advised that potentially in the order of $600 million worth of private sector construction will be required to meet the accommodation needs of government. That process will probably also generate something like 2600 jobs.

As well as the economic benefits of this project there will be efficiencies across the whole of government. There will be reduced operational costs from consolidation of departments and there will also be economic benefits from economies-of-scale efficiencies and energy costs. Anyone who has been involved with government in this state will know the amount of time that departmental officials, ministers and ministerial staff alone spend travelling from one part of the CBD to the other as part of the ongoing requirements of their jobs, and there will be quite a saving on that time. I did not make a note of the sequence of your questions. I think that covers what you were asking.

Mr HOLDING — What stage in the process are we at the moment?

Mr LENDERS — At the moment the expressions of interest are out and the tenders are in. Mr Hodgson might help me as to when the reply is due. I think it is in the next couple of months.

Mr HODGSON — By the end of June we should be able to go back to the market and bring the recommendations to cabinet. There are 118 000 square metres of lease expiring over the next five years, and that is the issue for government. A significant amount of that accommodation is spread around in small patches, and a large amount of it will not be up for reuse for a considerable period of time through the refurbishment program. There is in fact an accommodation availability of 3.5 per cent across the CBD at the moment. You will remember that in the residential property boom a significant amount of property was turned into residential apartments, so office accommodation of the category the government needs is no longer available. As the minister said, there is a strong desire for efficiencies to consolidate and bring a lot of the public sector back to this end of town.

Mr LENDERS — And we cannot help you with the 15 square metres of your office. It is a separate department.

Mr RICH-PHILLIPS — Minister, I refer you to the management of motor vehicle leases which Mr Hallam touched on earlier which is dealt with at page 348 of budget paper 3. There are a couple of points I am hoping you can clarify. First of all, under the actual output cost of $117.4 million for 2000–01 there is a footnote referring to a one-off $90-million expense because of the introduction of GST and the removal of wholesale sales tax. I understand from testimony from the minister last year that that relates to a reduction in second-hand vehicle prices and that that was the difference between the contract price and the actual realisable price from the sale of vehicles; is that correct?

Mr LENDERS — Yes.

Mr RICH-PHILLIPS — Mr Little spoke about the way the leases have been changed so that they are with each department. Could you explain why the first measure for the number of vehicles under management continues to stay at 8000 vehicles or thereabouts? Why does that not reflect the change you spoke about earlier with the leases being directly handled by each department?

Mr LITTLE — The performance measure still relates to the total number of vehicles for the whole public sector.

Mr RICH-PHILLIPS — Under a central management?

Mr LITTLE — Under a central management facility, so the same number of cars are still being offered, but the cost is now being shown in two sets of books. Some of those cars are in the Treasury portfolio and we are paying for them directly; some of them are in the departments and they are paying for them directly.

Mr RICH-PHILLIPS — Is that reference to the number of vehicles under central management an accurate reference, or are they understood — —

Mr LITTLE — It is under a centrally managed lease, but departments operate under that lease and are paying for the costs directly under that lease.

Mr RICH-PHILLIPS — The other point is that the actual outcome for 2001–02 was $71.6 million versus a budget of $30 million; can you explain that variance?

Mr LITTLE — I think we will take that on notice. I am not sure about that.

Mr RICH-PHILLIPS — Foreign effects with the pricing of used vehicles?

Mr LITTLE — If I had to have a guess, that is what I would probably guess, but I would be only guessing.

The ACTING CHAIRMAN — So you give a written response on that one.

Mr HALLAM — There is a bit of a reciprocal that we talked about earlier.

Mr LITTLE — You would have to explain that to me.

Mr HALLAM — No, I won't, because you are meant to be the expert! But if the costs demonstrated by Treasury are declining, then we would expect the costs as demonstrated by the departments to be increasing by the equivalent amount — or I would, you might not.

The ACTING CHAIRMAN — Perhaps we will get that in the written answer as well.

Mr RICH-PHILLIPS — If I could clarify one further point. The introduction of direct payments from departments, is that with effect from 1 July this year?

Mr LITTLE — That is the way it always has happened. If you follow the cheques, it also went straight to the bank. It is only the accounting that has changed. My recollection is the accounting is changing from 1 July this year, so it has not changed yet, but in terms of us forecasting a budget which started from 1 July, we are anticipating that, but I will conform that in my responses to the committee as well.

The ACTING CHAIRMAN — I want to get back to insurance, if I could, particularly in relation to the collapse of the Dexta Corporation and the effect on building warranty insurance. Perhaps, John, you could tell us a bit about the effect of that and what the government has been doing to assist in that area?

Mr LENDERS — The stress that Dexta has been in again is an example of the stress that a lot of industry is in. In builders warranty insurance in this state we have effectively three providers. We have Dexta, which essentially covers the Master Builders Association members; we have Royal and Sun Alliance, which essentially covers the Housing Industry Association members; and we have a smaller entry called Reward, which covers a very small section of the market. Dexta is underwritten by a company called Allianz, a large international company based in Germany. All the players in the field were under some pressure at the start of this year, or possibly even earlier, for getting reinsurance in the sense that there were concerns about whether the market was viable, the exposure — a whole range of things — and the industry and the companies, but particularly the industry associations, approached the government saying that if we wanted the industry to survive in the form it was in, we had to consider the problems the industry was facing and come up with solutions to those problems. Earlier this year, together with the New South Wales government, we came up with a 10-point plan to stabilise the builders warranty insurance market. Dexta was probably the most exposed at that stage. Again there was a separate level of exposure a bit later on, which I will come to. The whole point of the 10-point plan was to make the builders warranty insurance a viable product that you could keep a market operating in and have people providing the insurance. I mentioned before in response to Ann's question on public liability insurance some of those macro parameters that were behind all of the insurance, and they equally applied in this area. Again, for all the same sorts of reasons, if you have companies in Milan, London, Paris or Frankfurt looking at providing re-insurance for a product, if you have a choice between the European Union, general insurance or life insurance or any form of product, or you have something which to them is a quite an exotic product in a remote part of the world, say, builders warranty insurance on the eastern seaboard of Australia, clearly there a lot of easier choices for them. So they are under a fair amount of pressure to get re-insurance here in Australia. In starting to deal with that issue, we put in place the 10-point plan early this year. I think it was February that we put it in, but I can get an exact date for it. The whole purpose of the 10-point plan was to essentially stabilise the market to keep insurers in. There are a number of things in the 10-point plan that were required because claims were just ballooning. To use some examples, under builders warranty insurance, if there was a defect in a home or in a building product, people could up to I think it was six and a half years or seven years to seek recovery. What the industry was saying was it is just not worth insuring because what is happening is that you have one area which is major structural issues in building and another one which is non-structural issues, more cosmetic issues. Industry was saying to us it is far better to come forward; if there is a problem with building, you deal with it when the problem is done. When the builder is still on the site, you should be having it as a builder and consumer dialogue fixing the problem rather than at the very end it becomes an insurer's problem.

Insurance should be an issue of last rather than first resort. The industry was coming to the view that builders warranty insurance was a course of first resort. It is critical to your question about Dexta in this area because in the end the product had changed over time, where it was becoming an issue of first resort to go to insurance. The 10-point plan started dealing with some of those issues, separating the issue of a structural area versus non-structural, shortening to an extent the time frame by which you could actually seek access to insurance — that was a minor shortening — but more significantly, separating the structural from the non-structural. The most significant change of all was the one that it needed to be last resort, so that the builder needed to be insolvent, off the scene, militantly refusing to do it, and whatever the consequences the legal system was refusing. So that was where it came in. Part of that was also boosting the inspectorate powers of the Building Control Commission, some extra resources in Consumer and Business Affairs Victoria, so that those ongoing pressures meant that no-one was going to come in to insure builders warranty insurance because it was making such huge losses. There were also some areas as to whether high-rises were covered, and to bring in a juvenile threshold of access to builders warranty insurance, so that all the major states that had a private system came into line. They were all part and parcel of that. The whole objective then was to keep it as a private insurance market and to keep it working.

That stabilised the industry. Then we had some further problems again with obtaining reinsurance, and the Victorian and New South Wales governments put together a package to make sure that that reinsurance was achieved in the short term by a group. We are very confident in both states that over time the market will now stabilise with the 10-point plan. There are a number of new players in insurance who, while they have not as yet offered product beyond the three, are certainly actively inquiring. I think it is only a matter of time before that is stabilised. But again, as is always the case in insurance, there are deadlines and pressure points that keep on moving around, so we will keep a very active eye on that and have confidence that the market will stabilise.

Mr HALLAM — Can I get a couple of follow-up clarifications in respect of both your responses to Mr Clark and then more recently to the Acting Chair. On the issues of the schemes you have just described relating to the not-for-profit sector, the adventure tourism sector and the home warranty market — and you have described how in each of them you have set out to address the issue of risk mitigation — can you assure the committee that there is no public sector risk exposure in any of those schemes as a result of the actions of government?

Mr LENDERS — On public liability insurance and adventure tourism, the two you are saying, certainly the risk mitigation programs that we have put in place have been in each sector, particularly if I start with adventure tourism first, which was the first one that the Minister for Tourism announced — I think it might have been last year — it was simply to put into place a fund where the industry could, company by company, area by area, simply test their own product. I am not sure how the state would be exposed by that.

Mr HALLAM — The answer then I accept is no?

Mr LENDERS — Yes.

Mr HALLAM — And you are saying that applies in respect of the not-for-profit sector as well?

Mr LENDERS — Yes, the establishment of the scheme, risk mitigation programs, the principle being similar.

Mr HALLAM — I presume there would have been some costs involved nonetheless?

Mr LENDERS — Yes, they were significant, about $300 000 or $400 000 to the state.

Mr HALLAM — Where does that turn up in the budget estimates?

Mr LENDERS — It was resourced from the Community Support Fund.

Mr HALLAM — For both?

Mr LENDERS — Certainly the second one was, the $300 000. Tourism was out of the 2001–02 tourism budget.

Mr HALLAM — Let's get this clear. Are you suggesting that $300 000 or thereabouts by way of direct costs is represented in the budget for the tourism sector?

Mr LENDERS — No, the $300 000 was the not-for-profit from the Community Support Fund and the $100 000 was out of the tourism budget.

Mr HALLAM — Then let me take you to the question of the home warranty insurance market and your press release — which happens to be dated 16 April, so it was not February, according to this — where you talk about the two governments becoming:

> ... minority reinsurers in the short term to fill the gaps that have emerged in the market.

Can you explain the miracle of how you can become a minority reinsurer without exposure to the publish purse?

Mr LENDERS — Firstly, on the sequence, the 10-point plan was earlier; that was when reinsurance was an issue. Your question about any exposure to the public was, as I answered it, on the mitigation for both tourism operators and then for the not-for-profits.

Mr HALLAM — Yes, put them to one side.

Mr LENDERS — To which my answer was that there was no risk. On the issue of reinsurance and being a minority reinsurer, there is always a potential risk in being a minority reinsurer, there is no question about that. We are confident that the arrangements we made — the temporary arrangements, firstly, to the industry, and secondly, the structure of the arrangements — mean that that is about as reduced as it possibly could be for any reinsurer. But no, we are in there as minority reinsurers, that is correct, and as a reinsurer ultimately there is a risk.

Mr HALLAM — Has that risk been assessed and does that assessment appear in the budget documents?

Mr LITTLE — That risk has been assessed and the view was that it was not material enough to satisfy the accounting requirements to be a material risk that you would put in a balance sheet of $40 billion or $50 billion. We did think about whether or not we should make some statement about that in the budget papers, but there are lots and lots of risks right across government and we used the accountant's materiality assumption. The risk is time limited, I think — you may correct me on this — to 30 June at this stage, so it is relatively time limited. In view of that and other aspects we are also being paid a premium; we are taking a premium for that. We thought the size of the risk was not material enough to be entered into the statement of risks in the budget.

Mr HALLAM — 30 June of which year, Mr Little?

Mr LITTLE — This year.

Ms BARKER — Minister, you have spoken about adventure tourism. I was wondering if the adventure tourism bill introduced in the upper house will have any effect on public liability insurance or on premiums?

Mr LENDERS — The adventure tourism bill is one that I saw before it was introduced. On a number of occasions I have met with the Mansfield group, where the Shire of Delatite and a lot of the businesses in Mansfield have been working closely with Denise Allen, the local member of Parliament, seeking solutions. As I said before, one of the hallmarks is we can all identify problems. They are trying to come up with solutions, and the Mansfield community has been particularly proactive in trying to find solutions. As part of what they see as a solution to adventure tourism, one of their community, who happens to be an SC — a senior counsel — has drafted along with some others a draft bill, which I believe — and I have not looked closely at it word for word — is the bill that has been now introduced in the Legislative Council. The concepts behind the bill are ones that we are, where possible, trying to incorporate into our package of measures dealing with insurance. Certainly I congratulate the Mansfield community on seeking its solutions. The reason that we have not taken the bill on board ourselves, or think that it is not an adequate solution and will potentially have adverse consequences, is because a lot of the aspects in the bill do not address the problem. If we are saying that what the people of Mansfield want and need is insurance for adventure tourism — that the product is available firstly, and secondly, that it is affordable — this bill does not address those issues.

I will go through a number of areas in particular. Firstly, the issue of the Trade Practices Act and about people being able to opt out of risks, so that the person gets on the horse from the adventure tourism organisation and says therefore he will absorb some of this risk so the person providing the service does not have to pay an inflated insurance premium. The excluding of risk requires amendments to the commonwealth Trade Practices Act, so the bill being introduced into the Victorian Parliament, assuming it went through and was proclaimed into law and all the rest of it, would be ineffectual unless the commonwealth were to have similar legislation.

Mr CLARK — Will you provide the committee with the legal advice that demonstrates that point?

Mr LENDERS — I will continue answering Ann's question on this. Certainly that is one issue that needs to be addressed. A more substantive issue in the end is that by regulating the insurer and putting a whole range of obligations on an insurer in this particular area saying, 'We will regulate the environment so that you will provide this service in this form et cetera', implies that insurers are willing to take on those obligations that the state would endeavour to force them to do and go into this market.

Mr HALLAM — And reduce the premium.

Mr LENDERS — As Roger says, 'and reduce the premium'. This is a fundamental flaw here. The objective is absolutely admirable, and I take my hat off to the community for not just sitting there whingeing but saying, 'Let's get up and do something and be proactive'. That is a solution they have tried to find. The problem for us is that we could pass this legislation tomorrow, if the parliamentary timetable let us do it, but it would not guarantee any insurance in Mansfield. We would still need to have an insurer that under those terms was prepared to come in and offer a premium, let alone going to Roger's point about what the premium would be. Our objectives in this area have been to make insurance available in the first place, and if we can, and this is far more problematic, make it affordable. We have legal advice and are certainly willing to make it available to the committee.

Mr CLARK — I return to the subject of home warranty insurance that you earlier referred to as being one of your success stories in tackling insurance issues. Your original announcement that you thought was in February I think was made on 13 March and was made in conjunction with Minister Aquilina from New South Wales. You said the uniform scheme would provide viable home warranty insurance and that you:

> ... would provide substantial protection for home buyers, a healthy building insurance and a viable market for insurers.

Barely a month after that we saw the difficulties with Dexta's reinsurance, which led again to your two governments having to intervene. As I understand it that cover now runs through to 30 June and the expectations are that Dexta after that will not have an underwriter and will probably be forced to leave the market.

A question that we have not yet covered is what are you going to do about these future risks that are emerging? We have not had the new insurers yet that you are hopeful of receiving. What contingency plans have you got to deal with the possibility that the one remaining major insurer might withdraw from the market? I am not suggesting they will, I have no inside information, but simply as a matter of due prudence, given what has happened to date, it is certainly something for which governments ought to have contingency plans.

Secondly, I understand the Building Control Commission is writing to builders who have been unable to get reinsurance in recent times telling them if they do not renew within 60 days they will have their registration suspended. If Dexta goes out of the market, come 30 June there will be a lot of builders looking to take out fresh cover from fresh insurers and building up in the queue. Does the government have any plans to relieve the pressure on those builders so that they can keep trading if the only reason they have not got cover is because they are stuck in a queue waiting for their applications to be processed?

Mr LENDERS — You have asked a series of questions. I will try to go through them in reverse order and deal with them as best I can one by one. Firstly, the issue: if Dexta goes on 30 June. It is critical, and your point is absolutely valid, what contingency plans governments have, but first and foremost I do not want to start talking down the industry and speculating as if it will go. Having said that, the existing insurers we have on the market could cover Dexta's area if need be after 30 June. We hope Dexta stays. There would obviously be some industry association issues that would be associated which that, which would be a separate issue, but the other insurers would cover the market if that were the case. It gets also to the issue of what contingencies government have. Our contingencies are to look at what other insurers are available and whether they are committed to a private market and those other areas. I am not sure if you are alluding to whether our contingencies should be to go back to a housing guarantee fund.

Mr CLARK — I was just asking what your plans are if the remaining one or two happen to decide no longer to continue in business. Will they be stuck with no cover and have to recall Parliament over winter to legislate? What is the game plan?

Mr LENDERS — The contingency is that we have other private insurers who would cover the field if Dexta pulled out. If that is the answer to your contingency, then that is the answer to it.

Mr CLARK — And builders getting reinsurance you do not think will be a problem? Will you give them any leniency in terms of renewal of registration?

Mr LENDERS — We have. I would be confident that we would know in sufficient time for that to happen — issuing new insurance as opposed to reinsurance following the experience of the HIH collapse, and a lot of bottlenecks that were there have been addressed. Fortunately we are probably better prepared. I am advised that the Minister for Planning is today working on that particular issue of contingencies for licensing areas that you are talking about.

Mr HOLDING — The process for appointing the chair and the commissioners of the Essential Services Commission: will you take the committee through the process for doing that, where it is at the moment and when you would anticipate that process being finalised?

Mr LENDERS — The establishment of the Essential Services Commission was one of the six key points that we as an incoming government campaigned on, and certainly government members here would all have had little cards in their pockets during that campaign with the six points saying that the establishment of the Essential Services Commission was a critical area for the government. It is something that obviously was very important for us to bring into place, and given the privatisation of a number of monopolies, as to what regime would be in place to be the economic regulator in that environment. The legislation was passed last year establishing the Essential Services Commission, and the key part, as part of the transition, was that Dr John Tamblyn, the Regulator-General, became the chair of the Essential Services Commission; and he can operate as a single commissioner, which power he has until we appoint two part-time commissioners.

We as a government have gone through a process where we want to have a commission that has expertise, knowledge of the industry and knowledge of the general economic conditions that are required. This is an economic regulator because there are millions of dollars of investment money involved in this area, so it is important for us to get the appointments right. We have not rushed the appointments because we want to get them right. It is important not just because it is an economic regulator but obviously for the signals it sends to industry, investors and consumers. It is an important appointment for us. We have been going through a process where we are looking for eligible candidates. Candidates are being interviewed. I would hope that within the next few weeks we will be able to announce the full complement of the Essential Services Commission.

Mr HOLDING — What are the terms for both the chair and the commissioners?

Mr LENDERS — They will be staggered. The chair's term I think expires on 31 December 2003, it is around that time, and the commissioners will be five-year appointments. It will be staggered so there is continuity on the Essential Services Commission.

Mr RICH-PHILLIPS — I would also like to ask you about the ESC, and in particular its budget. Last year there was an allocation of $11 million for set-up costs for the ESC. Does that accord with your understanding?

Mr LITTLE — I do not think we have published a number on that.

Mr RICH-PHILLIPS — That was the figure I got out of last year's budget paper 2 at page 267, the first line item. I assume that is the establishment cost of the ESC?

Mr LITTLE — It also has, 'including full retail contestability'. There are probably two increased costs the ESC would have faced during that year. Firstly, it took on a bigger role with the government, so that was the increased budget to allow that to happen, and secondly, the electricity full retail contestability required additional funding. In this year's budget, as I said in my presentation yesterday, the ongoing cost of the Essential Services Commission was appropriated.

Mr RICH-PHILLIPS — That is the $4.3 million?

Mr LITTLE — Yes, that rings a bell.

Mr RICH-PHILLIPS — With respect to the $11 million, are you able to provide the committee with details of the actual set-up costs of the Essential Services Commission? Can you separate that out of the allocation last year so we have that figure?

Mr LITTLE — I think we can do that. If the figures are available I will provide them to the committee.

Mr RICH-PHILLIPS — With reference to page 350 of this year's budget paper 3, you have the cost of the economic regulatory services output group, and for the current year it is a budgeted cost of $18.4 million, which I assume includes the ESC. Is that correct?

Mr LITTLE — Yes, that is correct.

Mr RICH-PHILLIPS — What is the balance of that funding if the ESC is taking $4.3 million?

Mr LITTLE — The $11 million last year as well as the $4.3 million this year added to the base load of work which the old Office of the Regulator-General did, so this government wanted the old Office of the Regulator-General to perform an enhanced role. Both those figures are about funding the enhanced role. What is left out of the $18.4 million over the $4.3 million is the base load work that the Essential Services Commission was doing as the Office of the Regulator-General.

Mr RICH-PHILLIPS — That $4.3 million in this year's budget is the increase rather than the actual budget for the Essential Services Commission, is that correct?

Mr LITTLE — That is correct.

Mr RICH-PHILLIPS — The figure of $18 million is actually the ESC budget?

Mr LITTLE — I think that is the only item that is under the economic regulatory services output.

Mr RICH-PHILLIPS — There was actually a decline or an underspending verses budget. There was a budget of $20.6 million and spent $17 million.

Mr LITTLE — I am pretty sure. If I am not accurate I will get back to the committee, but it is because the contestability in the gas sector was delayed and I am sure some of the costing that is associated with that has been rolled into that $18.4 million for the 2002–03 year.

Mr RICH-PHILLIPS — The gas contestability is for 1 July this year?

Mr LITTLE — I will have to get back to you on the exact date.

The ACTING CHAIRMAN — Returning generally to the government budget sector results for the nine months to 31 March, can you extend that to see if it provides the expected outcome to the end of the financial year 2001–02?

Mr LENDERS — The three-quarterly report?

The ACTING CHAIRMAN — Yes.

Mr LENDERS — Yes. I am absolutely confident it does. We do a quarterly report and some of those figures in that report will sometimes show it, as does one figure with a higher surplus than was estimated by the Treasurer in the budget papers. While the budget is the Treasurer's portfolio and not mine, I can certainly report that the figures in the budget — the third quarter estimates — were factored in and extrapolated to be the final budget figure outcome for the year. In some areas they can be patchy. In some quarters, while revenue is fairly regular across all four quarters, expenditure can be fairly lumpy; especially towards the end of the financial year expenditure will be higher for a number of reasons. That has been the pattern ever since we have published the half-yearly and quarterly reports. I would expect that to be very much on track with the final budget estimates.

Mr HALLAM — On a point of clarification, Minister, when you were talking about the salvage package you negotiated with your counterpart in New South Wales about the home warranty insurance scheme I thought you said that you were concerned about the duration of the exposure, the seven years, and that the 10-point plan closed that window down somewhat?

Mr LENDERS — Yes.

Mr HALLAM — How is that possible without legislation?

Mr LENDERS — The Minister for Planning has a series of orders and legislation — that may be in legislation introduced into the house last week — to reduce that from seven to six. I will clarify that if that is not the case, but I am confident it was in that legislation.

Mr HALLAM — If it is in the legislation that will explain why I have not caught up with it, because my impression was that the seven-year duration was an explicit part of the existing legislative framework. Can you explain what compensation has been provided under the HIH bailout to the end of the year, and what you expect the total exposure shall be at the end of that package?

Mr LENDERS — I will ask Mr Nye to answer that.

Mr NYE — Claims paid to end of year will be in the order of $4.5 million to claimants under the HIH rescue package, and on the best advice available we are on track for an aggregate payout of $35 million in line with the original actuarials, save for certain matters currently before Parliament.

Mr HALLAM — That will be on the maximum seven year exposure?

Mr NYE — Correct.

Mr HALLAM — Will that be changed as well as a result of the bill coming before the house?

Mr NYE — The claims being processed at the moment are in respect of the regime operating until 1 July this year, and therefore there is no retrospective application of benefit to those claims. They are being treated on the same basis as all other claims in that time period.

Ms BARKER — I think Mr Little referred to this matter in his presentation yesterday. Page 213 of budget paper 2 indicates that the State Revenue Office received $2.6 million to increase the level of compliance activity. Could you indicate whether it is expected additional revenue will be recovered as a result of the increase in the level of compliance activity?

Mr LENDERS — It skirts on the Treasurer's portfolio. I will ask Mr Little to answer it.

Mr LITTLE — The answer is yes, we expect additional revenues that will more than cover the actual expenditure that comes in from those increased compliance activities. It is very much using electronic databases to check that our records are accurate. There are a lot of these databases around these days, and we expect to get additional revenue.

Mr CLARK — I return to the question I tried to get you to answer earlier, Minister, in relation to the policy of requiring $10 million public liability insurance for operators such as the dog sled operator in the snowfields that was featured in the press recently. Has the government considered reviewing that policy given the current difficulties with public liability insurance? Certainly I am not talking about not providing adequate protection but whether there are opportunities for the government as the operator, or possessor of the Crown land and the operator combined, to manage the risk in a way that leads to a more effective outcome than simply imposing a blanket requirement on the private operator to have a $10 million public liability cover.

Mr LENDERS — If we go back to the threshold question, they are legitimate public policy questions that are being considered as part of the entire response to the insurance situation we are in. In the end as to the immediate matter on whether that would assist getting cover, it almost falls into the tort law reform area where it may or may not have an effect. Ultimately you need somebody who is prepared to come forward and offer a policy, and whether reducing that limit would bring people into the field is arguable. In a sense, regarding the dog sleds and some of the other groups we have talked about, it is arguable whether it would bring it in.

However, having said that, clearly as part of our general review of insurance that is going on we need to first and foremost deal sector by sector with those in distress because they are not getting insurance. Secondly, we need to deal with the macro issues as they affect insurance. Thirdly, that whole issue of any inconsistencies that may or may not be out there as to how different areas and sectors are dealt with, whether the status of the land makes a difference and whether there is duplication in a lot of the policies has to be dealt with. One issue we found in builders warranty insurance is that in some areas there was considerable duplication. I am of the view certainly that as part of the ongoing process of insurance we need to be reviewing duplication. I think this falls very much into that category.

Mr CLARK — Do you have an expectation of when you will complete that review, because obviously this is quite a pressing matter?

Mr LENDERS — The most pressing matter is that every sector in the community has access to insurance. If you talk about prioritising, that is the most pressing matter. The second matter beyond availability of insurance is price of insurance, and going into price there is a range of issues of which this is one. My only anxiety about our dealing with any of the single issues that affect price and rushing into them ahead of all the others is whether we have the cart before the horse. First and foremost it needs to be a matter of accessibility. In adventure tourism there have to be policies available for the operators to sign up on before 30 June, as a first priority. If we can get those prices down through other means, which you are suggesting, that is the secondary part of it. But the first part has to be to at least keeping the policies available so they can continue to trade.

Mr HOLDING — I would like to ask about an issue we touched on earlier — that is, the question of unfunded superannuation liabilities. I take you to page 108 of budget paper 2. In table 5.3 which deals with the 'General government sector statement of financial position' under the heading 'Liabilities', it has the projections for the out years of superannuation or the unfunded component of superannuation liabilities. Can you take the committee through the reason for the estimated growth in that figure up until the 2006 year? Could you take us through the trend in that area and what is happening there?

Mr LENDERS — This is on page 108 of budget paper 2?

The ACTING CHAIRMAN — It is superannuation, under 'Liabilities'.

Mr HALLAM — It is actually explained on page 104, which has the hump on that page.

Mr LENDERS — That is a small amount of $200 million a year, which in terms of the budget is a manageable amount, although as the finance minister I would hate ever to say that amount is a manageable amount. I guess the more fundamental one on managing unfunded superannuation liabilities is, as I alluded to earlier, that we are committed by the year 2035 to have removed the unfunded liabilities altogether. A lot of that, the lumpiness in the projections, if you strip out some of the areas of whether the actuaries have correctly predicted when people retire or not — and there are changing patterns in society when people do or do not — but mainly this becomes so lumpy for us because there are assessments on the value of current market as to what the funds in existing government superannuation funds do, and while it is a strange mix whether they are in or out of budget sometimes, and how we look at them, in the end we assume that there is a 7 per cent return each year on the funds, and if there is a deficiency in that return it affects our unfunded superannuation liability. It goes up and down, and that has been a lot of the reason for the lumpiness over the last period of time.

Mr LITTLE — If I could just add to the minister's point, I think that the table on the next page, page 109, shows a few ratios: unfunded superannuation to gross state product (GSP) shows it declining from 7 per cent of GSP this year to just a bit over 6.1 per cent by the end of the period, which indicates that even though superannuation is rising, our economy and therefore our tax base is rising faster than that, so those sorts of increases are manageable. They are coming about because governments 10, 20 and 30 years ago did not put aside enough for employees' superannuation. The policy of this government, as it was the policy of the previous government, is to fully fund each year of additional service which is being incurred right now. It is rising because 20 and 30 years ago it was not done properly.

Mr RICH-PHILLIPS — Minister, you have joint responsibility for the economic, environmental and social policy advice output group with the Treasurer. The Treasurer has indicated that — —

The ACTING CHAIRMAN — Roger is giving me a hard time. I am very sorry, Gordon. I can assure you this is where you appear on the list, but if you do not want to ask the question you do not have to, Gordon; it is not compulsory!.

Mr RICH-PHILLIPS — The Treasurer has indicated that that area maintains databases associated with the forward estimates. I was wondering if you or Mr Little could provide the committee with an idea of what those databases consist of, what series are maintained as part of the work of that unit.

Mr LENDERS — The secretary may wish to add to that but as far as I see it, the only area that I, as finance minister, have responsibility for in that line is the Essential Services Commission. I think the rest fall under the purview of the Treasurer, although I am happy to stand corrected.

Mr LITTLE — I think that is correct. It may also be that superannuation advice is under this category, but the majority of the advice here is delivered to the Treasurer, and certainly the forward estimates system is the responsibility of the Treasurer's portfolio.

The ACTING CHAIRMAN — Perhaps I should not have given you another question, Gordon, at all!

Minister, can you tell us about the most recent action that the government has taken to improve its business planning, budgeting and reporting processes so we can see the path the government is taking in the future?

Mr LENDERS — That is one area that I am very pleased to be part of. One of the things we have endeavoured to do as a government, as a policy commitment, is to regularly report financial and budget statistics. We now do this quarterly — through the whole government sector half-yearly, and in the intermediate quarters just the inner government sector. We report those. Part of that obviously requires us to have adequate and reasonably accessible information. Often in government we operate as silos where different areas, departments or agencies will have different reporting systems. Often those systems are products of history as much as anything and people deal with solutions and work around them, so we remain creatures of history.

I am quite delighted to announce to the committee today an innovative step that we have taken as a government to simply reduce from six to one the forms in which we retrieve our information. We are at the forefront of business management innovation in government. Today Beacon IT Australia has been announced as the preferred supplier of the state-of-the-art $5.3 million information management system that will improve the government business planning, budgeting and reporting processes. That is pretty exciting. This system will give us a more comprehensive and vastly improved analytical tool to assist in achieving the best value for money in budget spending.

We have gone from six separate systems to one to allow us do this. It will ensure that key outputs are delivered for the community and taxpayers are getting value for money. This is a pretty exciting program that I am announcing here at the committee today. It will build on the current system we have to enhance the capacity of the public sector to provide full, accurate and timely disclosure of information relating to the activities of government and its agencies. That is pretty important to us. Beacon IT Australia will partner with Comshare and the Melbourne offices of KPMG in delivering the business management system. The principle behind this is the new $5.3 million program I am announcing, but the particular thing is that if we are to have information available across the whole of government so that we can make timely decisions on issues and secondly, so we can report as we need to the Parliament and to the community, these sorts of systems are important to us.

The ACTING CHAIRMAN — So you are saying there were six different business management systems operating through departments?

Mr LENDERS — Yes.

The ACTING CHAIRMAN — So now they will all be put onto this one.

Mr LENDERS — We now have one lot where the information comes to.

The ACTING CHAIRMAN — How long do you think it will take to roll that out, until departments have linked up to it?

Mr LENDERS — I think that is going to be completed by the end of the next financial year, and so it is a phased implementation by the end of the next financial year.

The ACTING CHAIRMAN — Did you want to say something in relation to that?

Mr LITTLE — There are several people in Treasury whose jobs depend on that!

Ms BARKER — He's got a smile on his face!

The ACTING CHAIRMAN — Yes, that's a bit of a worry, isn't it? So there is a strong interest in that. Okay, that is a performance measure, is it? You lose your job if you don't do it!

Mr LITTLE — The people are in the audience as well.

The ACTING CHAIRMAN — All sitting there nervously, are they?

Mr HALLAM — Minister, I am tempted to invite you to go back to the issue raised by Mr Holding, which goes to the question of why our unfunded superannuation liabilities are peaking in the out years because I do not think your response did the issue justice. However, I acknowledge that would require you to give some credit to some of your predecessors and some really brave decisions they took to prevent that line that you quote going off the graph. But my question is going to be quite different. In the response to our questionnaire you actually gave us five strategic priorities which you said were shaping the development of your budget. One of those is the management of financial risks. There is no argument from this side of the table, but can you tell us what those risks are, what they represent and how they are being managed?

Mr LENDERS — I am just trying to establish which ones of the departmental one actually fall into my portfolio area as finance versus those that would be under the Treasurer, the Workcover minister or the gaming minister. That is why I am seeking advice on that. On managing the risks, I take on board your comments, Roger, about superannuation. We also need to acknowledge that some of those unfunded liabilities were inherited by all governments, including some of the ones a lot earlier, in which governments other than ours had a lot of say. Also, the beneficiary choice program was a particular initiative of this government to continue, and we have shortened the time frame.

Mr HALLAM — I think that was an initiative of the previous government as well because I remember it well. I would also like to talk to you about the demise of the defined benefits scheme, which has stopped the chart going off the table. However, we will let that go through to the caddy.

Mr LENDERS — As far as the five risks identified in the Department of Treasury and Finance are concerned, certainly a number of them go into my portfolio area. Insurance is one of the risk areas for the department; I think we have covered off insurance reasonably well. There are a number of risk areas in government procurement — I guess just managing ourselves generally. Procurement is an area where if we are not particularly careful about focus there will be risks for us. I am trying to get more structure on this to get before me the points that we — —

Mr HALLAM — To help, let me start by saying I am not persuaded by your response that what you have said thus far covers the inherent risks in respect of insurance, because I would have said a whole range of public sector risks have not been covered by the schemes you have outlined thus far. I would have said there are some very big public sector risks which would fall within your responsibility.

Mr LENDERS — As I alluded to earlier, it is one thing to identify risks; it is another to find solutions to them. This is probably one of the more comprehensive reviews of insurance and risks that has been conducted in government for a long time, and it has been done by necessity because of stresses in the market. It is not by any particular virtue that this government is doing it but because of the distress the market is in.

If we go through areas of risk, maintaining of assets is an area in this department which is identified; programs we are trying to put in place regarding schools and hospitals in particular across the whole of the government sector are another. Our focus on government for so many years has been on capital for new areas, where a new school has been built or a new road has been built. Governments of all persuasions have not focused anywhere near so much on the remaining 95 per cent or whatever of our assets base that is not up for immediate renewal or for a new thing to be created. They are the areas that we as a government are now trying to focus our attention on to deal with the management of that entire asset and not just new assets. That is one area that I as finance minister and the department are taking a new whole-of-life-of-asset approach to.

Mr HALLAM — How does that equate as a financial risk? You nominated financial risk as a major component of your responsibility. In fact, you said that was one of the five factors which framed your budget. I am looking for something a bit more specific than a general comment in respect of asset accretion.

Mr LENDERS — But that is specific. There is a financial risk to any government of assets deteriorating and the need to suddenly fix them because they catch us unawares. The fact that we are focusing on asset management and replacement as a priority of government is something that addresses that financial risk. There are tens of billions of dollars of assets, so the maintenance of that is a very important risk management strategy.

Mr HALLAM — What else, Minister?

Mr LITTLE — If I could interrupt, I have just found in the papers the actual reference to the Department of Treasury and Finance's budget. Some of these words are out of the department's business planning documents.

Mr HALLAM — But the Victorian Managed Insurance Authority (VMIA) is in finance, which is not part of the risk management.

Mr LITTLE — Yes. The word 'budget' does not mean the budget for the whole state. It is very much how the Department of Treasury and Finance, the finance portfolio, would use its budget, and we are finding increasingly that management of risk rather than trying to avoid risk entirely is a more productive way of providing advice to government and looking at our balance sheet. I think the minister has mentioned assets. We have $30 billion or $40 billion worth of assets, and if we do not maintain them properly it does come back as a financial risk. If schools and hospitals are let to run down without managers knowing that is happening, it will eventually be a financial risk.

Mr HALLAM — You are saying there should be a review of the depreciation schedule?

Mr LITTLE — Yes, that is part of it; also the decision about whether you build new hospitals or extend old hospitals, whether we have the expense structure right — of which depreciation is part, how decisions are made about providing new facilities to schools.

Mr HALLAM — I thank you for that. I saw something quite different in the description which came from the department.

Mr LENDERS — And it should be more than just a review of the depreciation schedule if we are to be proactive about dealing with the management of assets, because that implies there is a run-down over a period of time rather than us renewing, reviving and prioritising them.

Mr HALLAM — What Mr Little was describing to me was the equivalent of the review of the appropriateness of the depreciation regime.

Mr LENDERS — I think there is more to it that we need to do.

Mr HALLAM — Thank you. I just wanted some clarification.

Ms BARKER — I apologise, I do not have the media release that I am about to refer to. In February this year there was an announcement that the Essential Services Commission (ESC) had commenced an inquiry whether into the price of bottled liquefied petroleum gas (LPG) should be regulated. I am not sure if you have the detail with you today, but I was wondering if you did have any information on the status of that inquiry.

Mr LENDERS — The Essential Services Commissioner is due to report formally, I think it is at the end of this month, on his inquiry into bottled gas. Clearly it was one of the illustrative things of being at a community consultation in Surf Coast shire — Roger's favourite shire! — last night down in Anglesea, in that some of the urgency of this comes home to you. There are pressures all over the place for people in country areas. They have a choice of electricity, wood and gas, as people in Anglesea put to me last night. The price of LPG has now gone up; a 45-kilogram bottle of gas is now in the $70-plus range, which is fairly common. The price of wood for a lot of these communities is going up, particularly where access to some of the forests that were being used has been reduced. Electricity prices, as some of the community see them, are also going up. So this review into bottled gas prices is not a determination by the ESC as to what the prices should be, but a review of them and the factors behind them is an important issue in rural and regional Victoria where people are reliant on this.

The preliminary advice I have had is that obviously there are many issues involved here. Part of it is how open is the market. There are a limited numbers of suppliers in this area. The amount of competition is one of the areas that the commissioner will report on. There are factors around that. I mentioned insurance before. There are many international factors — currency rates, other markets for people providing these resources — a lot of those issues that I would expect the report to deal with. But we are hoping that it will provide us with information that will at least let us make some informed decisions on some of these areas and where we need to go. The Essential Services Commission has been given fairly strong latitude on the terms of reference as to what it comes back with on this, so it will be a final report that I and the community will be very interested in looking at.

Ms BARKER — You indicated an approximate time?

Mr LENDERS — The end of May is the approximate time.

Mr HALLAM — I would like to know where you bought the bottle of gas — that would be my first question! Have we finished the restoration of the Treasury Reserve?

Mr LITTLE — I do not think these projects ever finish! I looked out the window this morning, and the building on that corner is still being refurbished. I believe work will finish at the end of May, which is not too far away.

Mr HALLAM — Is that the last one?

Mr LITTLE — I think it is. I am looking at Peter Carroll.

The ACTING CHAIRMAN — We are looking for advice, Peter Carroll, on the state of the Treasury Reserve.

Mr LITTLE — I am told that 3 Treasury Place is still to be fixed up and is waiting for tenants to move out. We will start at the end of this year. I think there are some commonwealth premises, too. I do not know what the state of their premises is; they don't invite me in.

The ACTING CHAIRMAN — Okay, perhaps there is an issue we should follow up: why the commonwealth government will not invite him in!

Mr CLARK — Minister, correct me if I am wrong, but my understanding is that amongst your responsibilities for the accounting and reporting system within the state you have responsibility for giving ministerial directions about performance indicators and performance measures. Is that correct?

Mr LENDERS — Some of these responsibilities are shared. I might pause on that one.

Mr LITTLE — I do not think that is the case on performance measures. The accounting standards under which the financial performance measures are based, yes. The performance measures are agreed to be at a whole-of-government level at the expenditure review committee.

Mr CLARK — I will refer you to the performance measures for the period in budget paper 3, *Budget Estimates 2000–03* — —

The ACTING CHAIRMAN — What page are we on?

Mr CLARK — Any page for any department where there are performance measures listed. You can look at pages 342 and 343 for the Department of Treasury and Finance, for example; and particularly, I suppose if the minister is not responsible for them generally presumably he is responsible for those within his own portfolio areas. My point is that there are a large number of performance measures coming and going between years, some from past years are being dropped this year and new ones are appearing this year that were not there before. We are not getting a continuity of measurement, either of the old ones that have been discontinued or, in many cases, of the old ones from past years to the new ones that are being introduced. This is something that the Public Accounts and Estimates Committee has pushed for some time.

I understand also that in response to the Independents' charter your government agreed that it would provide a continuity of measurement where there was a change of performance measure. If it is your responsibility, can ask you generally across government, otherwise in respect of your own portfolio areas, what are you doing to try to live up to those principles and ensure that, hopefully, now that the measurement system is settling down after it has been in place for quite a few years that we do get this continuity of measurement rather than the NMs or NAs that we see scattered throughout the budget papers.

Mr LENDERS — I will answer in general terms then ask the secretary of the department to answer in more specific terms. The general principle is correct; nobody should be changing the ground rules in any reporting period at any time because it makes transparency incredibly difficult. There is no contention at all with your basic premise. However, for government in the end to be flexible and to change, whether it be outputs, performance measures or whatever we want to look at, they need to change from time to time if they are to be at all relevant and vibrant. There will inevitably be some difficulty in transposing one to the other. I might pass over to the secretary about what measures we actually make to keep that — for want of a better term — audit trail in place as to where they have gone.

Mr LITTLE — We are sympathetic to that point, but the priorities of governments do change. The performance measures, for instance, on a capital program have to change as the capital program changes its structure and new projects are purchased by government. We have talked about the Essential Services Commission here. It will become the economic regulator from 1 January next year — that is the current target. The performance measures will need to be added to because of those changes. However, I am sympathetic to the comment. For my own department, we have made changes this year to our performance measures. What we have tried to do in every case is to provide back series of data for the new measure. We have thought that was the best thing we could do. We have to change our performance measures as our work changes. We have 217 performance measures, and there are only 25 in which we have not provided the previous year's numbers so that you can at least judge performance that is budgeted against the previous year. We try as much as possible.

We even go back another year or two if we can. That is certainly the directive I gave to my department. The other thing I would add is that I think that this committee did also say last year that it would like the performance measures — for departments to consider the performance measures and improve them — —

The ACTING CHAIRMAN — That is true, we did.

Mr LITTLE — Because they were not adequately capturing the business of government. So there is that tension in your own comments as well. I think the best thing we can do is provide you with a back series when we do change. We do endeavour to do that but it is not possible on all occasions.

The ACTING CHAIRMAN — Yes, I was going to say at the end that it was actually this committee that asked government departments to review their performance measures and try and make them in some way — —

Mr HALLAM — That is no defence for not providing an audit trail.

The ACTING CHAIRMAN — No, I was not suggesting that it was. I was just making that comment that that initiative came from this committee.

Mr HOLDING — Minister, you mentioned in an earlier answer in relation to the Essential Services Commissioner the commitment that the present government made when in opposition, and I wanted to take you to another commitment that the government made when in opposition. It related to the guidelines surrounding the use of government credit cards. I recall that on being elected to government the Minister for Finance at the time announced a set of measures tightening the guidelines surrounding the use of government-issued credit cards and in, I think, February 2002 there was a further announcement of a further set of measures or rules governing the use of credit cards. I am wondering if you can provide the community with some information as to whether you are satisfied that those measures that are now in place are working satisfactorily?

Mr LENDERS — Thank you for that. Firstly, as you correctly said, one of the first measures when we came into government was the election commitment that ministers and ministerial staff would no longer have access to government credit cards. That was certainly part of the first wave of changes that were put into place. Government credit cards will always be an issue where for a government to monitor them and make sure that that the compliance is there and they are being used for what they are meant for, and that there is a capacity for us to audit and follow them, it is always critical that any government makes sure it happens. So part of the first wave was bringing in a range of measures that were part of our election commitment. Then there was, as you correctly say, a second lot of measures that were introduced earlier this year to try and deal with that very issue. One of the things we put out in the second set of measures was actually some sanctions for if people did not use their cards correctly. I mean, previously there was really no graduated form of sanction for a breach of the use of cards, so we brought in a range of areas that dealt with breaches. If it was a major breach then it went straight to the sanctions that are available in government. We also addressed a series of minor breaches — about how departments dealt with people who had not used their cards correctly. They were things we brought in. We also introduced a new electronic credit card monitoring system that should assist us in finding potential breaches so we can deal with them and be fairly proactive about them; and also benchmarking government rules against best practice sort of corporate card management.

Specifically, are we satisfied with where we are going? We will be continually monitoring this area particularly closely. Some of the tests and performance and monitoring measures that we have got inside government: we will have to see how they work, how effective they are. We will continue to monitor this particularly closely. We are certainly a lot more satisfied with it than with the system we inherited. I think there are a lot more checks and balances and a lot more reasoned penalty system in there. As I said, I will certainly be the watching this very closely over the time ahead.

Mr HOLDING — Just a quick follow up: you mentioned at the conclusion of your answer that the changes that the government has introduced attempt to reflect, as I understood it, corporate best practice in relation to the use of credit cards. Are you confident now that the measures that are in place across the state government reflect best practice at the corporate level for the use of credit cards? Is that what they are based on, and is that the standard that you have now achieved?

Mr LENDERS — We are introducing schemes to match a lot of the best corporate practices. With a lot of those it is very early in the piece, but I am confident we have chosen the best available systems we have and we will monitor whether they suit the needs of something as large and diverse as government.

Mr HOLDING — But that is the goal?

Mr LENDERS — Yes.

Mr RICH-PHILLIPS — I have a quick follow-up question to Robert Clark's question regarding the layout of the budget papers, and I note your response regarding transparency. I take you to page 174 of budget paper 2, which, by way of example, provides a list of asset initiatives for the Department of Education and Training. The first line item there is 'Construction and upgrade of schools', and it gives an aggregate amount for the forward estimates period. I contrast that with last year's budget paper 2, where the same construction and upgrade of schools issues were dealt with by listing the individual schools and the individual amounts that would be provided for each project.

The ACTING CHAIRMAN — This is a department of education matter.

Mr RICH-PHILLIPS — It is a budget layout issue for which the Minister for Finance is responsible.

The ACTING CHAIRMAN — In that case the question relates to budget layout and will not relate to the detailed information contained in the report.

Mr RICH-PHILLIPS — For example, last year's budget paper 2 listed Berwick South, Narre Warren South and Hampton Park secondary colleges as separate line items with separate amounts. Can you explain why this year Treasury — or you as minister — has chosen to aggregate all these example schools? There are other examples across other departments where the data is not provided on an individual project basis as it was last year and is provided only in aggregate form.

Mr LENDERS — My response would be firstly that budget paper 2 has on the front of it 'Presented by the Honourable John Brumby, MP, Treasurer of the State of Victoria', so its presentation is clearly an issue for the Treasurer. Similarly in relation to how those figures are outlined, the general principle is that we want these papers to contain as much information as possible without cluttering them with massive detail. If you raise that budget presentation issue with the Minister for Education Services and the Treasurer, as it is more their particular area, they can give you the specific answers as to why they have decided to go down that path.

Mr RICH-PHILLIPS — It was not a decision from your area to aggregate the data?

Mr LENDERS — No.

Mr CLARK — I will try to keep my question brief. It goes to the generation of the data that goes into the budget papers, and I suspect there might have been an accounting or arithmetical computational slip, but it is quite significant. If you turn to budget paper 3 and look at the appropriations listed on page 442 for Innovation, Industry and Regional Development and on page 444 for Tourism, Sport and the Commonwealth Games, you will find they are significantly different from the appropriations contained in the appropriation bill before Parliament. For example, the listing for Tourism, Sport and the Commonwealth Games is a $313-million appropriation, whereas the total budget is only around $100 million. I also note that some of the figures in that table are shown at the top as being millions of dollars whereas I think they are thousands of dollars. They are probably just arithmetical computational errors, but because they go to the appropriations they are pretty important ones. Can you shed any light on what the reason is for this discrepancy, how it came about, and which figures are correct — the ones in budget paper 3 or the ones in the bill before Parliament?

The ACTING CHAIRMAN — This question would be more appropriate for the Treasurer who prepares the budget.

Mr LENDERS — It is more appropriate for the Treasurer, but I will ask the secretary of the department whether he can assist Mr Clark with that question.

Mr LITTLE — There is an error in those tables. Those numbers are mentioned four or five times during the budget papers; this was one particular spreadsheet that did not upload, so I apologise to the committee. There is an error there, but the appropriation bills are correct.

The ACTING CHAIRMAN — Thank you very much.

Mr RICH-PHILLIPS — Are you able to provide a corrected table?

Mr LENDERS — Yes.

The ACTING CHAIRMAN — This concludes the consideration of the budget estimates for the industrial relations and finance portfolios. I thank the minister and departmental officers for their attendance today; it has been very useful. We have requested a number of things — including the table Mr Rich-Phillips would like — and we look forward to receiving those. Thank you very much to all of you and to the members of the committee.

Committee adjourned.