

CORRECTED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into 2003–04 budget estimates

Melbourne–15 May 2003

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Witnesses

Mr J. Lenders, Minister for Finance;

Mr I. Little, Secretary;

Mr A. Nye, Director, Insurance Policy;

Mr P. Carroll, Director, Property Group; and

Mr L. Norris, Finance Policy Compliance Adviser, Department of Treasury and Finance.

The CHAIR — I Welcome the Minister for Finance; Mr Little, Secretary of the Department of Treasury and Finance; Mr Nye, director, insurance policy; and Mr Norris, finance policy compliance adviser from the Department of Treasury and Finance. I call on you to give a brief presentation on the more complex financial and performance information in the budget, Minister. I caution you, with the copious volume of overheads, that you have a maximum of 10 minutes for that. Could you please confine yourself to that 10 minutes?

Mr LENDERS — Thank you. I am sure you will also forcefully remind me if I look to go beyond 10 minutes.

Overheads shown.

Mr LENDERS — I make this presentation as Minister for Finance. There are slides in front of you which contain a lot of information. I understand yesterday the Treasurer obviously gave a presentation and that the secretary of the department made a brief presentation as well. I will skip some of those areas and deal with my core responsibilities as Minister for Finance. I will go through the budget of that portfolio in the current year.

My core responsibilities are as on the slide. The first is provision of management and financial management infrastructure. That covers financial directions and systems, including the Financial Management Act or some of it, regulations, directions and bulletins. That is risks and liabilities management, and reporting, monitoring and compliance frameworks. The second primary area is the administration of government assets, and that covers government-owned and leased accommodation, government lands and property and motor vehicle leases. The third area on the screen is responsibility for purchasing and procurement systems and procedures. This includes progressing the EC for P, or electronic commerce for procurement, across all departments, and purchasing and procurement regulations.

The fourth area of responsibility is for public sector superannuation policy matters. Victoria's major public sector super schemes are the State Superannuation Fund and the Emergency Services Superannuation Scheme, which have assets of more than \$9 billion and liabilities exceeding \$20 billion — the unfunded liabilities of these schemes are the largest liability on the state's balance sheet.

I also have responsibility for the oversight of the Essential Services Commission. This is an independent authority with regulation responsibilities for the key utility sectors of energy, water, ports, and grain export, as well as access to rail infrastructure.

Lastly but not least I have responsibility for oversight of the Victorian Management Insurance Authority, which provides insurance and risk management for government departments and other participating bodies. As part of that I have some coordinating responsibilities across whole of government in insurance.

Regarding sound financial management, the finance portfolio focuses on a number of areas. Financial management is the first — our fiscal resources. The Victorian government has over the past 8 months undertaken a major review of all of its ministerial directions and bulletins — information which supports the key Financial Management Act — and will issue new versions in June to take effect from 1 July 2003. Allied to the release of the updated financial directions and bulletins will be a new financial management web site where users can access the complete Financial Management Act, the Audit Act, frequently asked questions, all directions and bulletins, and lodge questions which will be answered online. It is the same theme I mentioned in regard to the consumer affairs portfolio — this is just an important and new way that government has to interact with its customers and clients.

Victoria is taking the lead in developing new financial guidelines around the correct treatment of public-private partnership initiatives. These guidelines are being developed in concert with the Australian Accounting Standards Board and the Auditor-General's office and should be available before the end of 2003. The focus will be to ensure that these initiatives are effectively implemented and public sector entities comply with them during 2003 and beyond.

Insurance will continue to be a significant issue for this portfolio during the year with a number of elements requiring attention. They include public liability insurance, builders warranty insurance, professional indemnity, and insurance against acts of terrorism. In my presentation to the committee last year this was probably the one area of the portfolio that had the most interest and discussion. I am sure we will deal with that in the form of questions during the next hour and 45 minutes, so I will keep moving along.

During the year the Essential Services Commission will be progressing a grain information campaign and an electricity review dealing with full retail contestability. As was recently announced by the Minister for Water, the

ESC will assume responsibility for regulating the Victorian water industry from 1 January 2004 and will be undertaking a review of water prices from that date. The portfolio responsibility for the Essential Services Commission is primarily an administrative one. It falls within the role of the finance minister to administer the government's response to the Essential Services Commission but many of the particular policy areas are delegated to individual ministers — grain and the policy response will be delegated to the Minister for Agriculture and energy issues will be delegated to the relevant minister. Those ministers take a policy responsibility while the Minister for Finance takes an administrative responsibility for the ESC.

This is a new and developing area. Obviously it was the Bracks government's response to the privatisation of utilities during the previous government. On the pledge card that the Premier carried during the 1999 election campaign there was a commitment to establish the ESC. It is an evolving thing but as it evolves it attracts more and more business from government in the reviews it is doing, which is a reflection on the professionalism and integrity and very good body that the ESC is.

The CHAIR — You keep saying Essential Services Commission — I presume there is an error in the overhead.

Mr LENDERS — Yes. The portfolio will also continue to deliver its core business including undertaking whole-of-government financial reporting, oversight of government superannuation, and administration 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 Southern Cross project, which with state-of-the-art environmental technologies will make the development one of the greenest buildings in Australia. And that, Chair, concludes the presentation on the finance portfolio's outlook for the coming year — and, I believe, concludes in time. It is a very efficient portfolio: on time and on budget is our aim.

The CHAIR — Thank you, Minister. Given that I cut the secretary off yesterday, is there anything you wish to add to that? Right. Thank you. I will go to the first question. You made comment about the Southern Cross development. Could you tell us a little of what has been allocated in the recent budget for the outfit of that project and give us an outline in relation to the green project you described?

Mr LENDERS — Part of the government's eastern CBD strategy is to bring government departments into the eastern CBD for a whole range of reasons, and the Southern Cross is part of this. The previous Minister for Finance announced that we were seeking 100 000 square metres of available space to relocate government departments to the eastern CBD. In doing so we are obviously conscious of the targets the government has set for energy efficient buildings and to get some productivity improvements.

When we were looking at that a number of tenders went out a range of things happened. One of them was to say: how can we get good value for money when we start off on this? One of the key areas we looked at was that if we deal with some of the fit-out and overhead costs at the start of the project rather than later in the project there are big savings for government, both in dollars and in energy efficiency of the buildings. So in the budget papers there has been a \$50 million allocation, of which approximately one-third will come within the next financial year, for the fit-out costs.

Some of them are absolutely logical. For example, if you are doing a new building — like the Southern Cross, which is a two-tower building — some of the costs you have, such as the fit-out costs, will be just so much lower if you build them into the construction. Cabling is the obvious example. If you have actually thought where it is to go you do not have to re-open or re-fit things; and the same is true for internal partitioning. So by bringing money forward and putting those fit-out costs early on in the project the government is actually saving taxpayers money in a significant form as well as providing very good energy-efficient buildings for these departments to move into.

The Southern Cross project will open at 121 Exhibition Street in approximately November 2006, and part of it will be for the Department of Innovation, Industry and Regional Development (DIIRD), part for the State Revenue Office and part for the Department Of Justice. They will be moving into an energy-efficient building, one where there is long-term value for the government through prudent long-term decisions that have been made by the Bracks government over the last couple of years. It is something I am very pleased as Minister for Finance to be associated with. It has been a very good effort by a very professional group of people from within the Department of Treasury and Finance. They have gone out there, tested the market and made long-term recommendations to add value for government — and not just value in the dollar or property sense but also in the sense of long-term

greenhouse issues, which are important to this government. These are decisions that need long-term action and strategies rather than something ad hoc.

The state of Victoria hires something like 600 000 square metres of office space across the state, of which 400 000 square metres are in the Melbourne CBD. This project will be one-eighth of that by itself, which means we are moving to buildings that are cleaner and greener and give better value for the taxpayers dollar; and buildings which should be good for occupational health safety as well when they are being worked in.

Mr CLARK — Following on from that, as I recall it the overall strategy was to find 100 000 square metres of accommodation, as you say, at this end of town. As I understand it that strategic target has now been achieved with 50 000 square metres at Southern Cross and 50 000 at Casselden Place. As you would be aware there has been considerable criticism, particularly of the Casselden Place deal, on the basis that the rate at which that was signed up was something in the order of \$70 million above what ought to have been paid on going rates. What evidence and information can you provide to the committee to demonstrate that the government has got value for money both on Casselden Place and with the Southern Cross tenancy?

Mr LENDERS — Thank you, Mr Clark. I would absolutely and totally contest this figure that has come out of the ether and been thrown around both houses of Parliament that somehow or other the government is \$70 million worse off because of the Urban Workshop decision. The Urban Workshop decision is, in the end — and I will deal with that one first before going back to the Southern Cross — one in which at the moment the Department of Human Services (DHS) operates out of five buildings on the western end of the CBD. I look to the Chair here to say whether it is western or northern.

The CHAIR — Western.

Mr LENDERS — Certainly it is a long, long way from the centre of government. You might say, ‘What is a few blocks?’ I know, wearing my two hats as Minister for Consumer Affairs, which is based down in Flinders Street at the other end of town, and Minister for Finance, which is based at Macarthur Place, that the very act of going from one department building to another will take me anything from half an hour to an hour of my time, depending on the day. But then I am a minister who has the capacity to be driven around and can work in the car and talk to my advisers. If you are a public servant who needs to get to a meeting at another end of town or between different buildings there is an enormous amount of time wasted within the Department of Human Services in the time departmental officers spend moving from one end of town to the other. Inevitably departmental secretaries, deputy secretaries and directors, and ministers and their staffs do spend a lot of time in the Treasury precinct because that is where a lot of government committees meet and a lot of decisions are made.

Firstly there is the issue of value for money. The productivity savings that come from literally moving five disparate parts of DHS at the western end of the CBD to a single location at the eastern end of the CBD are good value for money. Secondly, the issue then goes to the issue I raised with the Southern Cross project in Exhibition Street — consolidating thinking for the long-term and putting the fit-out costs in as part of the construction of the building. You then get obvious savings again for government rather than the ad hocery of renegotiating five existing leases and doing partial fit-outs at various times in the lives of those buildings.

That was the goal of the eastern CBD strategy, and that is why it went out to the market for tender. I could certainly seek advice from the property group but my recollection here is that there were something like a dozen or dozens of initial expressions of interest and in the end it was narrowed down to seven groups of people who put in a tender. There was a process that was scrutinised by a probity auditor, and that was as transparent as you get. In the end, the Urban Workshop group won the tender to provide to government at a very competitive price the accommodation that was required: 50 000 square metres for the Department of Human Services.

If there are figures flying around showing that there is better value for money, I suggest that any other person who wished to should have completed in the tendering process; and if there was this \$70 million saving for the government let me assure you, Mr Clark, as the Minister for Finance who has the unpleasant task, or required responsibility, of forever looking for savings and forever facing colleagues who want to spend on good programs, if there had been a \$70 million saving we would have taken it.

We had an open and transparent process, with probity auditors and a tendering process, and out of that we came up with the Urban Workshop site, which is one that will bring five DHS offices from disparate locations together. And on the same principle that I mentioned for the Southern Cross site this brings the Department of Justice, DIIRD and the State Revenue Office together in another location. This will be good, green, efficient and value for money —

savings for the Victorian government and for taxpayers. It is thinking for the long term rather than the short term, and it is what prudent financial management should be all about.

Mr CLARK — The argument is that it is a lot higher than the going rate per square metre for other accommodation. That is the complaint that is made about it. I would be interested in your response to that particular complaint.

The CHAIR — That was responded to in the answer.

Mr DONNELLAN — What has the Bracks government done to improve and promote the access of Victorian business to government tenders?

Mr LENDERS — Thank you, Mr Donnellan, for that question. It is one of the areas where doing business with government can be very difficult. If you are a small business — and I will focus on small businesses here rather than large businesses — and you wish to do business with government and compete it can be very daunting. We who sit around this table and deal with government on a daily basis have some idea. If someone here says something to me like ‘DIIRD’ my mind goes tick, tick, tick and I know it is the Department of Innovation, Industry and Regional Development. But if someone uses a federal government acronym with me I will go blank for a moment and think, ‘What is that?’ For someone unlike me who is not in the political process or the administrative process a word like ‘DIIRD’ is instantly very difficult. How do you do business with a creature like government where people speak strange languages and use words like DIIRD. I guess we could have a lot of fun now using the old acronyms of government.

So how do you engage in community and what can the government do to assist in these areas? We as a government — I would like to claim all credit for this, but credit should go to my predecessors in the Finance portfolio, in the Department of Treasury and Finance, and in the procurement group, the Victorian Government Purchasing Board, which is part of the Finance portfolio — have said, ‘How do we engage Victorian businesses? How do we go beyond the rhetoric of saying we should do business in regional Victoria or give businesses an opportunity and actually do something to help them?’.

One of the best ways we have done that, other than by improving our accessibility through web sites and a range of other areas, is to conduct what we call the winning government business seminars. I have done that in my past life as parliamentary secretary for the department. Since I have been Minister for Finance I have also helped the department to conduct a number of these seminars, and whether they are held in places like Traralgon, Ballarat or Horsham it is all about asking businesses, ‘How do you do business with government?’. The seminars are run by DTF officials who have dealt in the real world with businesses, they speak the language business speaks. They say, ‘How can we actually help you?’. So people register for these seminars. They are advertised in the local papers and people come along. Rather than in a parochial or selfish sense saying, ‘That is a federal issue or a defence issue or a local government issue, go away’, the officers who conduct them talk people through. While it is not a core business activity for us to direct someone to defence or to veterans affairs, if the question comes you actually direct the person to the right place.

We try to take people through the purchasing process in Victoria: how to do business with government, what forms they need, what probity issues there are, what short cuts, not in the non-proprietary sense, but how do you cut out wasting your time as a business so you make the right decisions, speak to the right people, start the process, who you need to talk to.

These are ongoing seminars. We in government have looked at them on a number of occasions and said, ‘Will we keep on doing these?’, and the response from businesses is that they subscribe to them every time. Some of them are held at 1 Treasury Place when dozens and dozens come. Some you might have in regional areas. I think there were 6 at the one I did in Horsham, 20 or so in Traralgon. Again there is feedback afterwards as you would expect from a professional organisation. With that as an example alone, businesses feel they have engaged with government.

It is in a sense the same principle as a community cabinet. You should not be afraid as a government to go out and engage your constituents and stakeholders. That is one example of how the Department of Treasury and Finance’s procurement group has gone out there to engage. The feedback is good and we will continue to do those seminars. Again through our web sites, hands on, many participants in those areas, they are the sorts of ways we go about trying to engage with those people to do business with government.

Mr RICH-PHILLIPS — I would like to ask you about superannuation expenses. I refer you to page 32 of budget paper 2, which provides as a line item the projected superannuation expense for the revised 2002–03 out to 2006–07. The revised expense for this current year is estimated at \$2.8 billion versus the budget last year of \$1.7 billion for a net difference of \$1089 million. My reading of page 119 of budget paper 2 suggests — and I seek clarification on this — that that difference in the superannuation expense is comprised of the \$256 million due to the fall in the value of the super funds because of investment market conditions, plus the \$750 million which was brought forward from 2003–04 and paid in 2002–03, and then a further amount of \$83 million which is unaccounted for. Firstly, can you confirm that is the correct interpretation of the difference between last year's budget and the outcome this year?

Mr LENDERS — I might start by answering and if there are any more specifics, such as page 119 which is actually measuring different things, I will ask Mr Little to respond more specifically to that.

Again the principle of this is that this is absolutely transparent in our reporting. A number of things affect unfunded superannuation liability. The most significant one for government is that we have a plan to remove the unfunded super liability by 2035. Part of the actuarial assessment we operate on is that our funds will earn 7 per cent per annum, so right throughout this forward estimates period we have an assumption that there will be a 7 per cent per annum return. Clearly a portfolio contains more than equity markets — cash and property and a range of other things make up a portfolio — but the equity markets, being the main ones that have affected us, have not performed at 7 per cent plus, so there is a difference. That difference is the overwhelming contributor to the gap between what was estimated in last year's budget — I think \$9 billion was the figure we had in investments for primarily the main state fund but also to a lesser extent the Emergency Services Superannuation Scheme (ESSS). If that \$9 billion is earning 7 per cent per annum it has one outcome and if it is earning 1 per cent per annum it has another. That overwhelmingly is the difference.

The issues about bringing forward payments and a range of those I will leave to Mr Little to answer. The clear thing is that the government continues to have a strategy of dealing with unfunded superannuation. It continues to follow actuarial advice that a 7 per cent return over a long period — we are talking of a period from 2003 to 2035 — is appropriate. We have professional advice on that, which is why we talk to the Victorian Funds Management Corporation and take actuarial advice. It would not be appropriate for ministers to get out their computers and do their figures. We have had this discussion before in the Legislative Council, Mr Rich-Phillips, about ministers sitting there and doing their assessments themselves. I would rather rely on VFMC to do it for us, thank you. I think that answers the main thrust of your question. I might ask Mr Little to reconcile page 119 with page 32.

Mr RICH-PHILLIPS — That would be most helpful.

Mr LITTLE — I will try. Page 32 deals with the superannuation expense and page 119 deals with the superannuation liability. They are related, but are not exactly the same thing. If I can deal with the superannuation expense first, the reason for the change between budget and revised is detailed in appendix C, which looks at the revised versus the budgeted figure for 2002–03. It is at page 271, bottom paragraph.

It starts off by stating that the difference between the budget and the revised is, as you said, \$1089 million, and then it lists a couple of reasons for that. It does not quantify each of the reasons, but I can tell you the first reason: as the minister said, the lower than expected investment returns on superannuation assets was by far the biggest component, at least \$800 million of that \$1089 million. At the bottom of that paragraph there are also a couple of other things that contributed. Each year we get the independent actuaries to look at the actuarial assumptions in the light of experience of the most recent period. One of the things they do is to look at the tax credits that are available to the fund each year in line with changes in taxation legislation, et cetera, and their latest estimate for the amount of tax credits available to the scheme has been reduced. That was at least \$100 million.

One other assumption, going from memory, that they changed also is in line with our economic assumptions; we had a higher expected inflation outcome for this year than was in the budget papers. Given that pensioners receive indexed pensions, if the inflation rate is high, you pay a higher payment to pensioners. That was another contributing factor to that \$1089 million. So from my recollection there are three factors. The first is the equity market, which is by far the most important. The second would be the recalculation of tax credits — as I said, at least 100 million there. The third, I am fairly sure of less than \$100 million was the increase in the inflation assumption. So that explains the expense. Page 119 is really the liability.

Mr RICH-PHILLIPS — On page 119 the reference to bringing forward \$750 million of contributions to the current year, is that reflected in that expense item on page 32?

Mr LITTLE — No, the expense item is an accrual item so it is independent of whether the government, at least in an initial sense, is paying cash or not. The liability moves around on the balance sheet depending on what cash flows you apply to that liability. That is in the short run. In the long run, of course, if you are not putting any cash in the fund you are not making any earnings on that fund, so my statement does not hold for the long run but it does for the short run. In that sense it is not included. The liability basically would have increased by a lot more than the \$256 million if it were not for the case that the government had brought forward that \$750 million cash payment which was scheduled to be made in future years.

Mr DONNELLAN — I have a supplementary question with regard to defined benefit funds, and so forth. I guess actuaries make an assessment of investment growth, and you are saying that was around 7 per cent, and they would also have looked at wage increases and they probably say CPI plus 1 per cent, or something like that. It is the difference between those two where the liabilities increase or decrease. Is a certain amount put aside each year for those defined benefits or in the expectation that people will start to receive benefits in that year; is that correct?

Mr LENDERS — If I could respond and then perhaps the secretary can assist at the end. With the unfunded superannuation liability, leaving aside the issue of the equity performance and those issues — which it is difficult to leave aside — provision is made for all current employees on an annual basis. It is really the unfunded liability from the past that is the bigger problem government is facing and why the schedule is to the year 2035 to clear those out. Some assumptions are made as to inflation — and I could not give you the assumption, whether it is CPI plus 1 per cent or whatever it is. Really the issue that the government is dealing with is a past generational issue of the unfunded superannuation that no provision was made for, whereas the future defined benefits superannuation is being provided for, so it is the gap we are dealing with exacerbated by obviously the performance of the fund in the current adverse equity market environment. I am not sure if there is anything the secretary would want to add to that.

Mr LITTLE — Broadly my understanding of these schemes is they get more expensive the longer a person stays in the public service because their entitlements increase for longevity and also entitlements increase because people earn higher salaries. The actuary makes an estimate based on past data of how long a person, who as a 20-year-old comes into the public service, on average stays in the public service, and what sort of promotional levels they would get to. That is part of the cost the actuary will ask each year from the department, recognising another year's service. The answer to your question is yes.

Of course the actuary may get that wrong, and that is why you have some of these actuarial revisions I was speaking about. Each year the actuary comes and looks at the past year's experience and asks if the estimate he made at the beginning of the year was a reasonable one. If not he will change it. That was done this year for the tax credits which I mentioned. The reason we have unfunded liability was that was not the system that was used 20 years ago. But for each additional year's service of a Victorian public sector employee, the contribution from departments is now extracted according to that formula, which is a good formula.

Mr MERLINO — Minister, can you outline to the committee why the government has imposed new reporting requirements on the Auditor-General?

Mr LENDERS — Firstly, the government's relationship with the office of the Auditor-General is one which it values considerably. One of the first acts of the Bracks government was to bring in legislation to give the Auditor-General powers. That was a big issue for us, that he did not have sufficient powers previously or the office was not treated with the independence it should have been. Part of that was the original legislation in late 1999, early 2000, which re-established powers to the office. Then there was some carryover legislation which is now before the Parliament and which deals with some of the reporting requirements of the Auditor-General, where the Auditor-General is an officer of the Parliament not just in name but enshrined in the constitution. Obviously his budget comes through the parliamentary budget.

Part of this also is that there should be requirements on the Auditor-General. Some of these things are dealt with out of the Public Accounts and Estimates Committee's own recommendations, and the current amendments to the Audit Act deal with some of those. There are also issues of how the Auditor-General's own office is conducted: who audits his own office and the requirements of those areas? When does he report to the Parliament and what

form do the reports take? If the Auditor-General takes considerations into account beyond and above accountancy standards, how does he report those to the Parliament and what is appropriate to report?

A range of those areas are all addressed in response to Mr Merlino's question. Certainly in the requirement to audit the Auditor-General's office, the Auditor-General needs to have the utmost independence and we need some certainty as to how his office is reported on. Again this includes his planned activities, like a work plan, and how that interacts with the Public Accounts and Estimates Committee. All of them end up going back to the accountability of the Auditor-General to the Parliament, as there is an accountability from the whole government sector to the Auditor-General.

I think that probably answers some of those specific areas. The amendments to the Audit Act which have now been introduced into the Legislative Assembly should clarify further some of those issues that were left outstanding because of disagreement between the houses during much of the 54th Parliament on amendments to the Audit Act.

The CHAIR — By way of supplementary question, some concern has been expressed about the fact that the Auditor-General's complete reports may not be provided to the Parliament. Have you any comment on that?

Mr LENDERS — There is an issue with the Auditor-General's complete reports. I might take advice on the complete reports, but certainly as the Auditor-General is drafting a report, and the provisions for the checking of some of the issues in those reports where people and departments may be adversely commented on, it is not necessarily appropriate for a complete report to be given to everybody at that stage. As a citizen if I am being adversely commented on it would be appropriate for me to see that part of the report that refers to me but not necessarily the whole report until it is formally presented in the Parliament, with all the protections and rights that accrue to that report on that basis.

Some reports of the Auditor-General may affect a number of agencies where again it would be logical for the Auditor-General to be liaising with a particular agency on its part in the report, but it would be probably inappropriate — I guess it would be a call for the Auditor-General — for his comments on other agencies, until they are tabled in the Parliament, to be out there for any form of public comment.

These issues are addressed by the amendments to the Audit Act. It will continue to be one of those balance areas where any form of transparency in reporting processes needs to be a two-way thing, where there are rights on both sides. I think the government has the balance right. The Auditor-General's powers continue to be expanded. The relationship he has to this committee and the Parliament itself are the other important side on that ledger.

Mr CLARK — I refer again to the Casselden Place Urban Workshop project. Can you tell the committee whether you have, or to your knowledge any member of your staff has, discussed this project with Mr David White?

Mr LENDERS — Casselden Place — it would be inappropriate for myself or my staff to be discussing contractual arrangements on any particular project or tender item with anybody who had an interest in it. However, in a town like Melbourne one of the things that I have found continually, as you move around the Melbourne business community, is that people wish to talk to you about projects. My standard response to anybody who wishes to talk to me about a project is that they should be discussing it directly with the people who are in charge of handling it for government, at arms length from ministers or ministers' offices.

Mr CLARK — I take it from that that Mr White approached you about it and you passed it on, in the manner you have described.

Mr LENDERS — If he or anybody else approached me, my standard response has been, 'It is inappropriate in a tendering process to talk to a minister. Do not approach me'.

Mr CLARK — Did Mr White approach you on that basis?

The CHAIR — Ms Green?

Mr CLARK — Chair, the minister has failed to answer my question about Mr — —

The CHAIR — Your question was repeated.

Mr CLARK — Because it has not been answered. If the answer is yes or no then the minister can say so and lay the matter to rest.

The CHAIR — The minister answered the question. You repeated it.

Mr CLARK — I asked whether the minister had spoken to Mr White about it. He has not said yes or no to that question.

The CHAIR — The minister has the right to answer the way the minister chooses.

Mr CLARK — If the minister wants to refuse to answer further that is fine, but let the record show that is the case.

Ms GREEN — Minister, why has the essential services budget been reduced in 2003 to \$13 million down from \$18.24 million? I refer you to budget paper 3, page 374.

Mr LENDERS — There are a number of things about the establishment of the Essential Services Commission. As I mentioned earlier the ESC is a new creation in Victoria. While some of the residual powers of the Office of the Regulator-General were obviously transferred to the Essential Services Commission upon its establishment, the establishment of the commission goes from a single person Regulator-General to a three-person ESC. With the establishment of new powers for the ESC and the broadening of the scope of the old powers of the Regulator-General, many of the new powers have been given to the Essential Services Commission. There were initial establishment costs.

Part of the reduction in funding is because that establishment phase is complete and part of it is some money that was carried forward from the year of establishment to the next financial year. That requirement is no longer as strong as it previously was. In that sense we can allocate less money in the appropriations for the Essential Services Commission than was previously the case. In addition to that the savings will be from corporate areas of the organisation and will not impinge on that commission's ability to provide high-quality regulatory advice to government. That probably answers the question as to why there was a reduction in the budget to the Essential Services Commission. It will in no way impinge on the work of the commission. It deals primarily with the establishment costs and the adjustment into the future.

Mr RICH-PHILLIPS — Obviously one of the key roles you have as the Minister for Finance is managing the property portfolio the state government is involved in. Are you in a position, obviously on notice, to give the committee an idea of the extent of current accommodation arrangements in the state in terms of the number of properties, size, levels of rental and so forth so we have an idea of what the current arrangements are? Are you able to provide that sort of document or listing?

Mr LENDERS — Certainly in general terms. I will seek some advice from Mr Carroll from the property group. In the state of Victoria the government operates around 600 000 square metres of office space. Approximately two-thirds of that is in the Melbourne CBD. I think the figures are about one-third is owned by government and about two-thirds is rented. We have a series of tests that we will employ. Obviously we ask how many square metres offices have per public sector worker. There is a range of those tests. Obviously those tests are constantly under review because they affect the cost to government and we are a government that is acutely conscious of costs and the need to prioritise in certain areas.

We are talking of approximately 400 000 square metres of space in the central business district. Of office accommodation, we are talking of approximately 30 per cent being government owned and 70 per cent being leased from the private sector. As I replied earlier to another question, part of that has been an approach to consolidate to the eastern end of the CBD anything that relates to the core functions of government and the 100 000 square metres of accommodation moving from the western and other parts of the CBD to the eastern CBD is part of the Urban Workshop and Southern Cross sites. That would mean that about one-quarter of that government accommodation will have been relocated over the period between now and the end of 2006.

Mr RICH-PHILLIPS — Of the 400 000 square metres, how many properties does that involve in the city? Is it a significant number? Are we talking 10s, 20s? Can you provide the breakdown of numbers on notice?

Mr CARROLL — I can provide the details for you.

Mr DONNELLAN — Getting back to the Essential Services Commission, what is the timetable for it to assume its role of regulation of the water industry? When do you expect that to start?

Mr LENDERS — From the government's perspective the regulation of the water industry — and I would have to take on notice whether we have at this stage the legislative capacity for that or we would need to seek that

from the Parliament — would start on 1 January 2004. As I mentioned earlier, it is one of the growing responsibilities of the Essential Services Commission. The government has great confidence in the commissioner and the part-time commissioners. The amount of work we continue to refer to them in different areas is a sign of how that is an accepted part of the regulatory process in Victoria and a very important tool to government in having an independent body that can balance those important economic investment issues with consumer issues. That is never an easy balance. There is enormous community respect and support for the essential services commissioners.

The CHAIR — I am not sure if this would be addressed to the Essential Services Commissioner, but given that our dams are at historic lows, what are the major challenges facing the commission in regulating the sale of water?

Mr LENDERS — It would be more appropriate to ask the Minister for Water when he appears before this committee. Primarily my brief as Minister for Finance is the administration of the Essential Services Commission rather than particular referrals that would go to it. Certainly that would more appropriate to go to the Minister for Water.

The CHAIR — We can follow it up with him. Thank you.

Mr CLARK — I raise the issue of public liability insurance, particularly for the tourism and adventure tourism industries. As you will know, just before June last year you announced a package which was put together with the Victorian Tourism Operators Association to provide insurance coverage. As I recall it, that was a one-year arrangement which presumably is now due to expire. Can you tell the committee a bit about what coverage has been provided under the arrangement to date in terms of the numbers of operators covered, the value of exposure, and the number of claims, if any, that have been made under that package? Also, what arrangements are you proposing for the fiscal year ahead and what sort of cost to the budget are you anticipating out of those arrangements?

Mr LENDERS — You have asked a number of questions. I will ask Mr Adrian Nye to assist if my answer does not cover sufficient of them.

Firstly, Mr Clark, as you will be aware, having been at the public meeting in Mansfield which I addressed with Denise Allen and which was also attended by the adventure tourism operators, we discussed a lot of the particular pressures they were facing and some of the issues, primarily where there were no insurers in the area of adventure tourism. These are some of the dilemmas a government has. We have a very strong commitment that we should try and get the market to deal with these areas. However, if the market is not available then the government cannot just walk away from an industry and say, 'That is bad luck because a market is not there'. Clearly the work of the Department of Treasury and Finance insurance policy group last year and the work of the Victorian Tourism Operators Association and others was exemplary.

Rather than just saying, 'There is a problem' they actually came to a solution to the problem. Unfortunately insurers were just not there, so in the end the government intervened and that was something on which we worked with VTOA and other people, including the Zuellig group and a range of people and bodies, to get a scheme in place that would mean that adventure tourism operators did not need to close their doors. That scheme was announced at the 11th hour and was something this government does not believe is a good way to do business. Two months out, that scheme has been extended for six months. VTOA has been advised and that will continue. We are still of the view that the reforms we have brought into the issue of public liability insurance will start to take an effect and should bring private insurers in. There are private insurers at the moment who are interested in coming in, but they do not have at this stage the credit rating that we would require, particularly with the new Australian Prudential Regulation Authority (APRA) requirements. I note some other jurisdictions are a bit less stringent than Victoria on this, but we have a very strong view, after the situation with HIH, that we want to have very strong credit ratings on organisations. But the market is changing.

We are now in a situation where some of the things we sought in the insurance legislation that went through Parliament last year dealing with discount rates and a whole range of other reforms to the law of tort are now well and truly in place. But the adventure tourism industry expressed very strongly in a lot of those community consultations we had that the issue of waivers was of critical importance to the tourism industry. It was on 1 May this year that the regulations regarding waivers under the Goods Act finally came into place. So I would be confident with a number of those reforms that the government has already put in place that we will see movement over the next few months. We will continue to be in discussions with the reputable insurers. We are not in the business of just unilaterally continuing schemes, because in the end this is taxpayers money that we are ultimately

defending. I for one am not keen on or in the business of using taxpayers money to protect commercial operations if there is alternate insurance available, but where there is not we will not walk away. We have extended the arrangement by six months, which is an example of our solidarity with the industry. We will continue to work with insurers to bring them into the field. We already have a vast array of tools in place which I think will go a long way to bringing back confidence into that industry and, hopefully, bringing insurers into the market.

Mr CLARK — Can you, now or on notice, respond to the specific factual issues about numbers that have been covered, the degree of exposure claims made and the budget costs for the future?

Mr LENDERS — We will take the details on notice, but I think, firstly, commercial premiums are always charged where the government, as with builders warranty last year, enters into these sorts of arrangements. With regard to the exposure to government I am not sure how you quantify the risk there. I am sure the secretary to the department will quantify it somewhere in a footnote — if not this year, in future years — that it is a risk, and undoubtedly these things always are. But we will take on notice those specific questions that you raise. Or perhaps I might ask Mr Adrian Nye if he wished to take up some of the other specifics.

Mr NYE — The facts of the position with the Victorian Tourist Operators Association arrangement is that there are 37 operators covered. The premiums have been set commercially with the assistance of the Victorian Managed Insurance Authority, such that the budget exposure is zero. We are not aiming to make a profit, so our central estimate of risk produces a premium marked at zero exposure. I understand, but I could confirm if you wish, that there has been one minor claim made under this scheme, and that all of the determinations of acceptability of insureds passes through a VMIA process to ensure that the insureds are signed up to accreditation and safety program to make sure that the risk assessment we have made is supported by some infrastructure.

Mr MERLINO — In April this year the government announced it would crack down on professional builders who falsely claimed to be building their own homes in order to avoid home warranty insurance. Can you provide details as to the strategies intended to address this problem and their funding implications for 2003–04?

Mr LENDERS — I shall answer in fairly general terms, but I think the specifics of them are ultimately an issue for the Minister for Planning. Certainly in general terms the building warranty rescue package or 10-point plan from last year dealt with a range of areas to make sure there was coverage in builders warranty. The insurers were going to walk. I do not think it is being too dramatic to describe it like that; they said the market was just not viable for them and they would do their business elsewhere.

The Victorian and New South Wales governments together came up with a joint 10-point plan. It was one of the first serious policy issues I had to deal with as Minister for Finance. In conjunction with the New South Wales government we thought that between the two states we covered 70 per cent of the builders warranty area and if we could come up with a package between the two states that would be something that would be of critical importance for the country, let alone as it affected the lives of all these builders and the people who dealt with them.

The 10-point plan essentially did a range of things. It dealt with a period of covering structural defects. It made a difference between structural and non-structural defects. It increased the threshold for mandatory cover to \$12 000. It removed the mandatory requirement for cover for high-rise residential buildings. There were a range of other things it did. It also raised the minimum amount of cover. This was essentially done to remove the need, I guess, where builders warranty insurance was becoming the first port of call to fix a problem rather than the last port. And through, at that stage, the Minister for Planning, the Minister for Consumer Affairs and the Minister for Finance we came up with a joint position in Victoria of trying to deal with the issue so that if a contract was not complied with, through the Building Commission we would get compliance, and the building inspectors would come in. If it was a consumer issue it would come through consumer affairs.

Part of what happened there was that some people who did not want to go through this rigorous testing and get insurance would try to get around it by calling themselves owner-builders. What the Minister for Planning has done now is put limitations on who can be called an owner-builder and try to enforce that more to get around people who try to avoid the builders warranty issue and the protection that provides for builders. I think that is the general background to it, but the specifics of it should really be addressed to the Minister for Planning in her capacity as minister responsible for the Building Commission.

Mr RICH-PHILLIPS — I would like to ask you about the issue of medical indemnity insurance. This issue was canvassed briefly with the Minister for Health this morning, and in a demonstration of her political skill she firmly handballed it to Minister for Finance so we will take up with you this afternoon. The Australian Medical Association (AMA) has indicated it is not happy with what has taken place with respect to tort reform. Just last

week I saw two medical professionals, an dentist who was saying that as at 30 June this year his anaesthetist will no longer be practising, and an obstetrician who said that as at 30 June he will be retiring from practice — both because of the medical indemnity issue. Once their policies expire they will not be continuing as specialists because they simply cannot get affordable insurance. There are six weeks until 30 June and only two or three sitting weeks left of the Parliament. My question is quite simply, what are you going to do to address this issue before 30 June so that these specialists are not retiring en masse?

Mr LENDERS — You say correctly that a number of doctors are clearly coming forward and saying they will do certain things on 1 July unless there are changes to the law of tort. I guess the Australian Medical Association and a number of other doctors have made very clear their views to the government and have made them clear to the community, to individual members of Parliament, in some cases to Parliament, and in some cases to their patients as to what their responses will be unless there is a particular, I assume, legislative outcome.

This in a sense is probably no different from any of the other claims by people who have been affected by the deterioration in insurance availability over the past couple of years. As Mr Rich-Phillips knows, going right back to the HIH collapse, the tragedy on 11 September in New York, Washington and Pennsylvania and a range of other areas, insurance has been under unbelievable pressure. The challenge for the government is to respond to organisations that do not have insurance, but to do it in a measured policy setting so that we do not unilaterally go changing the law of tort or a whole range of things without getting the absolute balance correct. To get the balance correct there are a number of things we have to be absolutely certain of.

I talk in general terms about insurance. We were talking of builders warranty insurance before, and in a sense it is one of the key stakeholders who are concerned. Some of their claims are potentially ambit claims and some of them are absolute bottom line positions they will not deviate from. There are also the cause-and-effect issues that we needed to know — for example, what will the issues be if you take a course of action in changing the law of tort? Will it actually bring insurers into the field? Will it make a difference? So it is a case of the balance of people's rights in a legal system versus the economic rights of the community by taking action, and no government should act lightly on that.

I did not hear the comments of the Minister for Health this morning. She is the lead minister in regard to medical indemnity insurance as Minister for Health, but I do not think it is at all inappropriate to be saying at this particular juncture that we need to be working on a solution together on this with the commonwealth. Many of the issues which are giving enormous grief to the doctors are specifically related to the commonwealth executive or legislative acts. I am not passing comment for or against these acts, but I am saying whether it be, for instance, the capital requirements of APRA on the medical defence organisations, it has an enormous effect on the commonwealth and on premiums. So I think in this area there needs to be a reasonable amount, or a large amount, of the commonwealth trying to work with the states to find a solution for what is primarily the whole issue of medical insurance — Medicare. A range of these issues are commonwealth responsibilities that they are trying to buck-pass to the states and trying to blame on the states.

My colleague the Minister for Health is someone who is working with stakeholders. She will be working with them to find solutions. As you say, there are six weeks before the deadline you mentioned. She will be working with them and hopefully will get the commonwealth to look at particularly its insurance contracts legislation, which is a significant issue to the AMA and a number of other stakeholders. The commonwealth has been absolutely sitting on its hands rather than dealing with this. So there are a number of areas that I am sure my colleague, in working with the commonwealth, can get some outcomes. But like all of these areas of insurance, I think the role of government is to get a balance. We have in a number of very critical areas managed to get a balance in the state of Victoria, and we will continue to work under deadlines of our own to endeavour to get outcomes to those things. So I think that answers the question.

Ms GREEN — Minister, you and I have discussed insurance issues at length on a number of occasions. You have been out to my electorate talking to pony clubs, et cetera. And we have just been discussing medical indemnity. I know one of the things you have said in all areas of insurance is that one of the problems that Australia faces is that we are such a small market. Given now medical indemnity is being discussed all the time, I am quite concerned about the way the federal government is taking us in terms of health insurance. I wondered whether you have thought about what the federal government is doing in terms of pushing people into private insurance, and whether you foresee that we could have similar problems in other areas of health insurance in the future, given the small size of our market, which then could cause other costs to the taxpayer.

Mr LENDERS — I would have views. I do not think it would be appropriate as finance minister to make them about commonwealth health insurance. But on the particular issue of the size of our market and the cause and effect, it is one that I would certainly caution people to make assumptions that we can unilaterally take decisions in Victoria and expect that there will be consequences unless we know exactly the data we are working on, and that has been an issue in all forms of insurance. We cannot operate blind here. Everyone has anecdotal evidence — whether it be from GPs or obstetricians or builders or adventure tourism operators, or whoever — as to what is wrong, I guess; not many people are saying what is right with insurance at the moment.

We obviously need to filter those along with hard data as to cause and effect. If we take a course of action, will it bring in an insurer? We know with the builders warranty insurance last year that our course of action kept two insurers in the field. We know that there was a cause and effect, but even then it is an issue of judgment and not one that you can with any certainty act upon. So it is an ongoing area. I think we are probably between 1 and 2 per cent of the world insurance market, and while I think the conditions have improved from a year and a half ago, where basically a third or a quarter of the international insurance capital just evaporated, things have improved from there, but we still have a long way to go to be sure that we have that capital being invested in our particular market.

The CHAIR — I have a question in relation to e-commerce. The department has been progressively implementing an e-commerce procurement program across all government departments. Once implemented, the Department of Treasury and Finance projects that the estimated savings are going to be in the order of \$14 million per annum, as I understand it. What is the current status of the e-commerce project; have material savings occurred in those departments where it has been implemented; and is it intended to give priority within the system to goods and services provided by Victorian-based suppliers?

Mr LENDERS — Thank you, Chair, for that question. Electronic commerce for procurement (EC for P) is a very complex area to some people, including my teenage children who think it is characters out of Star Wars, like C-3PO and the rest of it. To me as the Minister for Finance I obviously have to look at it in far greater detail, but it is an area that to some people is a new language; to other people it is a concept that requires change and an enormous process of change. The Department of Treasury and Finance has had to manage that change through government because, I guess, if people are settled in ways as to how you procure, to find new ways that add value to government, particularly in the area you mentioned, how you broaden it and get better value for government has been an area that all government departments have over a number of years gone through a process where business cases have been built up in individual government departments for the electronic commerce for procurement, for the EC for P. The project has been out and about now to try and make it part of a mainstream procurement activity inside government.

Implementation will take a number of years, but we do expect there to be significant savings in government because some areas are just unbelievably logical in how it works. I had the privilege of going to the police academy in Mount Waverley some time ago — an area very near and dear to my heart — to see in action some of the EC for P in police procurement. Even in things as simple as the procurement of uniforms for police by the purchasing officer, how that is done online, and the paperwork that is saved — the checks and balances are put in there for a person up to certain purchasing level — just how much time it saved, how much resources it saved, and how it freed up in the case of the police force, for officers to be doing their core activity, which is policing, rather than necessarily ordering uniforms. So EC for P has been tried in a number of departments. It is a change of culture that there are better ways of doing it so people can focus on their core activities. We do expect savings to be there over a period of time.

It has meant that there have been some set-up costs for government, but in the end we have put those in place. We are hopeful. Already the information we are getting is that 60 per cent of the 250 suppliers that have been engaged to date are either regional businesses or small to medium enterprises, which is something that is good for Victoria. It goes back to again engaging small businesses in Victoria and regional businesses to actually do business with government, and the fact that it is an innovative business means electronic commerce for procurement does not exclude small and regional businesses. In fact some of the entrepreneurial skills of small and regional businesses are the best in these areas.

The Auditor-General will be doing a performance audit on the EC for P project, and we look forward with government to seeing what his response to that will be because it is a long-term initiative. It is a long-term financial, cultural initiative. It is one that deals with all of those e-commerce issues, and it is an exciting part of government; and as I saw it operating by Victoria Police at the Mount Waverley academy it is something that I can certainly see the benefits of, which matches the business that has been coming out of the Parliament.

The CHAIR — As to the point about Victorian suppliers, will the Auditor-General be looking at that as well?

Mr LENDERS — I am not aware of whether he will be reporting on Victorian suppliers.

The CHAIR — That may be something we can take up.

Mr LENDERS — But it is again, with the whole Victorian industry participation policy that we have as a government and our regional initiatives to try and encourage small businesses, something we are certainly encouraging. But EC for P is a different way of doing business in government. The principles of probity and propriety in purchasing all remain in there. It is just done in a more efficient manner, so that these public sector employees can then spend more time on their core activities rather than necessarily on the administration that sometimes purchasing has involved.

Mr CLARK — Further to my previous question about the government's involvement in providing support for adventure tourism and related activities, as you would know there is a bill before the Parliament, the Fair Trading (Amendment) Bill, at the moment which gives effect to, in part, some of the reform packages that you have got, including the provision for contractual waivers or contracting out of liability for death or injury. As part of that there is a provision to allow the Governor in Council to provide an exemption from the normal provisions about a prescribed form being signed by the person concerned.

Without debating the policy merits of that issue, there is a query, given the government's continued exposure to this issue, as to how you will avoid a conflict of interest in making recommendations to the Governor about how those exemptions are to be granted, because clearly the government has an exposure both indirectly through the package that was mentioned and directly through alpine resorts and in other ways. What arrangements do have you in place to make sure that those powers which are proposed in the legislation do not attract a conflict of interest with the government's fiscal exposure to the industry?

Mr LENDERS — I think in general terms, firstly, one of the issues of government is that there will be dozens of areas of government where you could argue where government legislates that there is a conflict of interest in that sense. In a parliamentary sense the Parliament will make laws for the good governance of Victoria, which is the absolute basis of the constitution. In the end that is a call for the Parliament as to how it makes those laws and what delegations it makes to the government. I gather, Chair, that the normal rules of anticipation do not apply in a Public Accounts and Estimates Committee hearing? I assume they do not unless you direct me to the contrary.

The CHAIR — I understand that is correct. I will confirm that.

Mr LENDERS — The issue of a waiver for a limited period of time is one, if you take an industry like the ski industry, where an assigned waiver form to be done by tens of thousands of people going onto a chairlift on a given day is just not doable on the time lines in the regulations coming in on 1 May until presumably when the ski season starts — and I am not a skier, but I assume that is around the Queen's Birthday weekend or a bit later.

Clearly, the reason the government is seeking this capacity is basically because there is a major Victorian industry that, frankly, on these time lines will not be able to operate. We need some flexibility to deal with the ski industry. My own view on that is that if people are seeking a temporary exemption — and it is a temporary exemption, it does not go from ski season to ski season — this gets back to the whole issue of balance between the economic activity of the state and the rights of the people who the waivers affect. I guess like all these areas it is a question of balance.

On whether there is a potential conflict of interest for the government, I understand the integrity of where it is coming from, but in the end this is not dissimilar to so many other questions that the government needs to address at all times; because government is an employer, is a consumer, is participating in so much of our community that our legislation in whatever areas constantly affects how we operate.

Ms GREEN — Minister, in the department's response to the questionnaire it was indicated that revenue received by the department from public authority income is expected to fall by 38 per cent from an estimated actual amount of \$739 million in 2002–03 to \$427 million in the forthcoming year. A major part of the reason for the reduction relates to the finalisation in 2002–03 of the requirement for the Transport Accident Commission to fund the accident black spot program. Given that and the government's strong emphasis on road safety, will the TAC be required in 2003–04 to fund other major road safety initiatives? If so, can you provide details?

Mr LENDERS — I would be delighted to respond to Ms Green's question, but in the end as it is a straight budgetary question it is far more pertinent for the Treasurer or, as it involves the actual funding coming from the TAC, for the Minister for Workcover. I think it probably would be inappropriate for me to answer it because it goes beyond my portfolio area.

Mr RICH-PHILLIPS — I ask you, Minister, about the Essential Services Commission. When that body was established it was on the basis that its funding would be recovered from the utilities it oversaw or was regulating, or at least part of its funding was on a cost-recovery basis from the utilities. Can you explain to the committee what oversight and cost control mechanisms exist to ensure that the cost to utilities and therefore the costs passed on to consumers are minimised?

Mr LENDERS — I think I probably need to take most of this on notice because it is a fairly specific area, other than to say we certainly have had a consultants report. The intention all along was for some to be recovered from the utilities, but not all. We certainly have had — —

I need to take it on notice to answer that question, for further detail.

Mr DONNELLAN — The Department of Treasury and Finance review of motor vehicle legislation is currently being undertaken by external managers and some issues were raised with regard to that. What action is the department taking to better manage the state's approximately 8000 leased vehicles?

Mr LENDERS — In response to the question, you say 'better manage' it, and it is a very broad question. We have not had a review of Vicfleet, but we certainly have had a review of a range of areas. 'Better management' — this committee has discussed before the fate of the previous finance lease with the GST legislation of the commonwealth and the change to wholesale sales tax and the GST, and how that affected government and all the consequences some years ago, and all that which was flowing through our budget. That was the first area where we had to review how it was operating so we could manage it effectively.

In last year's budget we dealt with a number of areas in better managing the fleet. One was a series of reviews in departments to see if they needed the number of vehicles they had. I do not think it is any great surprise about the public sector. It is growing somewhat with 3000 new nurses, 3000 new teachers and 1000 new police over the last three-and-a-half years and it did contract somewhat in the seven-and-a-half years before that, yet the number of vehicles had not changed. We had a serious review on some of those issues — and I stand to be corrected on this, but I do not think I am wrong, I am confident that that was the case — and of vehicles that were necessary in government and some reductions were put into various departments and targets set to deal with those.

So far as managing the fleet is concerned there are a number of other things we have done. The most significant one last year concerning managing the costs of the fleet was to have the standard turnover of a vehicle moved from 40 000 kilometres to 60 000 kilometres. The figure of 40 000 is one that was historically set almost as a finance issue as to what was the best return for a vehicle, given that the states do not pay wholesale sales tax but private citizens did. Once that distinction went with the GST, that needed to be reviewed. I do not have the exact figures in front of me, but the savings were close to \$100 per month per vehicle — significant savings. That will only be tested as the leases expire and new ones come in.

The CHAIR — What did you say — \$100 per?

Mr LENDERS — One of the estimates we had was that that would be the type of savings we would find in moving the vehicles from 40 000 to 60 000 kilometres.

The CHAIR — \$100 per vehicle per month?

Mr LENDERS — I will put a caveat on that, and I will get back to you and confirm if that is not the case, but that is the figure that sticks in my mind at the time, which was a very compelling case for why we should change the turnover of vehicles.

Also there was a whole range of issues that dealt with the management of the vehicle fleet. Some of them go to what sort of vehicle. We also had the issue before with buildings and greenhouse emissions. One of the things we are now requiring with high-use vehicles in the Victorian fleet is a phasing-in period where vehicles that travel more than 30 000 kilometres per annum are required either to be dedicated LPG or to be smaller ones — I think it is under 2600 cc or a figure of approximately that size. We have smaller vehicles for high usage or with dedicated LPG. It all goes to your question of managing the fleet. We are not a government that is keen on reviewing for the

sake of reviewing, we do not like hundreds of reviews or committees reporting into things, but we also are conscious that something as large, important and as expensive to the government as a vehicle fleet is something we need to manage. It is in excess of 8000 vehicles. We need to invest value for our taxpayers and we need all these other policies to be intertwined. We constantly will continue to review, with a small 'r', the government fleet. We will look at best ways of managing it and the need of it, because it is something that is necessary to deliver the core services of government, not something that you have for the sake of having.

Mr DONNELLAN — On a supplementary question, are they on operating leases or finance leases? What is the underlying assumption, or can someone come back to us on that at a later date? It is just for my own indulgence.

Mr LENDERS — Mainly finance leases.

The CHAIR — Again by way of supplementary question, when we sell the package within the public service, and the fleet is quite independent of that, have we ever considered public transport annual tickets as part of salary packaging as opposed to leases? How would that tie in with the government's strategy to improve public transport utilisation given that so many of our senior public servants work in the CBD?

Mr LENDERS — A very important policy consideration but, again, my role as Minister for Finance is to administer the fleet; those issues of salary packaging are not mine.

The CHAIR — Fine, thank you. The constituents love to see you on the train.

Mr CLARK — I return to the issue of the builders warranty insurance, which we have touched on twice, but as I recall we have not covered fully the issue of what the current state of the market is for builders warranty insurance in terms of how many operators are out there, what proportion of the market they are covering, what ongoing government support if any there is for existing operators, and what strategies the government is following to try and get more operators into the market. Given the reference to your numbers and information-based approach earlier, are you able to provide the committee with statistics such as the number of builders who are currently insured and how that number has tracked over time as an indicator of the extent to which builders are suffering from the insurance issue?

Mr LENDERS — The number of builders and how they are tracking again I think is an issue for the Building Commission, where those statistics would be, and I am sure that would be more appropriately directed to the Minister for Planning. In the general context of bringing insurers into the field the Minister for Planning and I have regularly met with the two key building bodies — the Housing Industry Association and the Master Builders Association of Victoria — as we have monitored the fragile nature of builders warranty insurance and what we as a government in a policy sense need to do to deal with it. It is a significant issue.

As you would be aware, Mr Clark, the government's intervention last year with Dexta Corporation assisted it to remain in the market for a limited period of time — I think it was three months which was extended to six; Mr Nye could correct me if it is not exactly six or around it, but it was approximately that time. We went out of that support before New South Wales did; it was part of that original 10-point plan where both states went it. We made a judgment in Victoria that there were alternatives — there was the Royal and Sun Alliance package and the reward package. There are three other insurers. There are people who are now looking into the builders warranty market and talking of niche products and the like. Certainly my understanding is that when the Dexta product was withdrawn, the last time I spoke to the industry association I think they were down to about 10 people who at that stage had not transferred directly across to one of the other two products.

It has been fragile, but if we look to where it was over a year ago, the 10-point rescue package has clearly had the initial desired effect of stopping the haemorrhaging and keeping people in. We now have the unusual experience of people coming in and making investment decisions in this part of the insurance market based on the fact that Victoria and New South Wales are places where they are willing to try business. We are 2 per cent of the world insurance market, and the fact that companies are now starting to enter the market is good. We have ongoing dialogue with industry, but I think those particular statistics would be more appropriate coming from the Minister for Planning and the Building Commission.

Mr CLARK — And therefore the government is not contemplating re-entering the market either directly or by way of support at the present time?

Mr LENDERS — We exited from support on 30 September last year. There is, as part that package, above the \$10 million those particular issues that still remain and were part of that 10-point plan. However, as far as the specific government support for Dexta goes, that has ended. I certainly have nothing on my agenda for re-entering that field.

Mr MERLINO — Further to the department's response to the questionnaire, I am very interested in the progression of the issue of triple bottom line reporting. In my previous life with the Shire of Yarra Ranges we moved as a council to triple bottom line reporting, which I think is a terrific thing. Could you outline what progress has been made in requiring public sector agencies to adopt triple bottom line reporting?

Mr LENDERS — I probably need to take that on notice, but the economic impacts of triple bottom line reporting are looked at periodically by government. The environmental reporting will now be starting from individual offices. Starting with the next financial year — I stand corrected if it is the current one, but I think it is the next financial year — those offices will be required to report as part of their normal reporting framework on a range of environmental issues which were piloted in the Department of Treasury and Finance. I guess we continue to move down those areas, but I will take on notice any further response to that.

Mr RICH-PHILLIPS — I guess I would like to know if Mr Nye or Mr Little would accept train tickets as part of their package, but maybe we will move on.

The CHAIR — Did you accept a gold pass?

Mr RICH-PHILLIPS — The Auditor-General recently produced a report on parliamentary control and management of appropriations. He drew attention to substantial scope to improve the accountability arrangements and scrutiny with respect to the appropriations. I am wondering what action the department has taken within respect to the Auditor-General's findings.

Mr LENDERS — Firstly, Mr Rich-Phillips, I hope you would consider the train ticket as part of your packaging from Narre Warren to Parliament every day as an example to the Department of Treasury and Finance officials.

Mr RICH-PHILLIPS — It is an interesting idea.

Mr LENDERS — Perhaps it will be part of your policy at the next election. Leaving that aside, obviously we in government take very seriously Auditor-General's reports, and particularly the one on appropriations. There will be a lot of detailed work in the Department of Treasury and Finance going through it and on how the government does respond to it. We are certainly not in a position yet to announce that response but it is something, like all matters with the Auditor-General, that we will look into very seriously and then we will respond.

Mr RICH-PHILLIPS — Do you have a time frame to do that?

Mr LENDERS — Not at this stage but whatever the statutory time frame is we will meet. I am not sure what the statutory time frame would be.

The CHAIR — I refer to your core areas of responsibility and the fact that the federal budget was handed down last Tuesday. Could you give me some indication of the major implications for financial management in Victoria as they affect your portfolio following the federal government's budget?

Mr LENDERS — The macros of that are ultimately in the Treasurer's portfolio.

The CHAIR — The Treasurer gave us a very full explanation.

Mr LENDERS — A very fulsome and full explanation, I am quite sure. Clearly anything out of the federal jurisdiction dealing with insurance issues or lack of dealing with insurance issues would affect my core responsibilities. I have the highest regard for Senator Helen Coonan, the federal minister responsible, who has a very good working relationship with state governments. I unashamedly say that at a lot of the ministerial councils I have been on I have had very little time for some of my commonwealth counterparts who play politics. Senator Coonan has not done that. Unfortunately the Prime Minister cannot help himself intervening in anything to do with insurance from time to time. Certainly things coming out of the commonwealth budget are always difficult. Clearly the issue of Point Nepean, where the commonwealth was quite prepared to have a very generous arrangement with New South Wales regarding defence land on Sydney Harbour but have a very different and inconsistent response to the state of Victoria, is one area that I find very disappointing.

The CHAIR — I was going to negotiate with the Prime Minister to live on Point Nepean, if he wishes.

Mr LENDERS — The federal funding of rural obstetricians and gynaecologists is affecting the dynamics in the current issues of insurance. There is a range of things in the federal budget. I will cease there because it is probably more appropriate for the Treasurer to give the fulsome response I am sure he gave yesterday. That is a sprinkling of areas that affect my portfolio. The commonwealth's entire response to how it deals with the states is one that makes life in many ways difficult for the states to operate, but I think it is probably more appropriate for the Treasurer to give a more fulsome response.

Mr CLARK — I have a question relating to your responsibility for accounting standards and the presentation of financial reports. As you probably know, in the budget papers and the budget updates there are published reconciliation statements between the previous set of forward estimates and the revised set of forward estimates, and similarly in each set of budget papers there is an appendix which deals with the revised outcome for the current fiscal year, all of which are desirable features of budget papers. The difficulty is that at the moment they are not particularly informative and there are very large amounts of money being classified under such ambiguous and open-ended titles as 'Other administrative variations', and although there is some textual narrative behind them it is pretty limited and discursive. Is the government, and are you as minister, looking at ways in which the reconciliation statements and the report of the revised outcomes for the current year can be enhanced, and in particular in terms of the standardisation of classifications and a more detailed breakdown of classifications than is currently being provided?

Mr LENDERS — Thanks, Mr Clark. I think first and foremost the document you are referring to, budget paper 3, and all of these documents, has on it 'Presented by the Treasurer of Victoria'. So I think first and foremost on those particular issues where the budget comes from or where it is presented is an issue for the Treasurer.

On a more general one, those reconciliations were introduced by the Bracks government: the quarterly financial public reporting was introduced by the Bracks government, and even the pre-election budget updates. All these various issues of transparency and reporting information were introduced by the Bracks government, so clearly any issues to improve transparency and enhance reporting above and beyond the ones you have referred to that were introduced by the Bracks government were ones that the Treasurer would be more than interested in continuing with as part of a process of making these documents more transparent, giving more information to this committee and giving more into information to the Victorian public and the Parliament, as we produce more information than any government has before.

On behalf of the Treasurer I presented the mid-year report on 15 January, and the thing that stunned me in the *Australian Financial Review* report the next day was that we were criticised for being too transparent. That is something that I do not think most governments in this country have ever been accused of by the *Australian Financial Review* before — being too transparent, and reporting too much.

Mr RICH-PHILLIPS — You keep saying that in the Parliament. You must give us the quote.

Mr LENDERS — I will happily do that. You have heard me say it before, Mr Rich-Phillips. I am surprised. The *Australian Financial Review* accused us on 16 January of being too transparent.

On a more serious note, these reconciliations are produced by this government, but they are an issue for the Treasurer. Budget papers 1,2 and 3 are all the Treasurer's papers. I suggest you raise the question with the Treasurer.

Ms GREEN — I am interested in what type of entities the Auditor-General can now audit. Can you elaborate for the committee?

Mr LENDERS — I think there is a difference between what the Auditor-General can now audit and what, without anticipating what the houses of Parliament may do on the assumption that the Audit Bill is actually passed by Parliament, the Auditor-General will then be able to audit. We certainly have a view that some of the historic and artificial distinctions that were there as to what the Auditor-General could or could not do will need to be removed to enhance his capacity. He has not been able to audit items that have less than 100 per cent government ownership, and that is obviously not conducive to modern government where there is government dominance in bodies or instrumentalities — not to have the Auditor-General being able to audit them removes that accountability and transparency.

Certainly the legislation — the bill — will broaden the scope of the Auditor-General so that he can audit entities rather than, as at the moment, only those that are 100 per cent by government. Also, on the issue of what the assets are or the turnover is — I mean, that \$1 million or \$5 million issue — that will again broaden the scope and capacity of the Auditor-General to audit and to move into some of those areas. There is also the issue of defining in the new act the meaning of ‘controlled entity’. Those areas will broaden again the scope of the Auditor-General’s capacity to audit. So in a range of those areas the bill on becoming law will actually broaden the capacity of the Auditor-General to deal with the government sector, which is more than just entities that are 100 per cent government owned.

Mr RICH-PHILLIPS — I would like to take you to the issue of accounting standards under your responsibilities for financial reporting and control. You would no doubt be aware of the imminent adoption of international accounting standards in the private sector for Australian entities. I am just wondering what the state’s intention is with respect to adopting the international accounting standards for the public sector. First, are you doing it? Second, what sort of time frame do you have for developing the program. What sort of cost implications exist for the current budget period?

Mr LENDERS — There are a couple of things. Firstly, Victoria has had a far higher standard of accounting. For instance, we have Australian accounting standard 31, or AAS31, in the budget sector, which only the Australian Capital Territory and Victoria hold, so we have a far higher level of accountancy standards than the other seven jurisdictions. Victoria has always been prepared to lead in areas of transparency and accountability.

On the particular issue of where we go further, there is certainly at the heads of Treasury level a discussion going on. Again, some of these areas obviously touch on my area as the minister responsible for reactive accounting as opposed to proactive accounting. Perhaps as to where the Treasurer comes in and I do the distinction is that one comes in for the future and one for past monitoring. This is an issue that the heads of Treasury are looking at. Clearly Victoria has gone out alone on a number of areas, and the more we explore across the country and at the national level the more we get to report back on later on. We have led the way with using AAS31, which is a far more stringent standard than is maintained anywhere else other than the Australian Capital Territory, and the heads of Treasury will continue to look at further accountancy standards.

Mr RICH-PHILLIPS — Is there a time frame for the heads of Treasury to resolve that issue?

Mr LENDERS — Not that I am aware of.

Mr LITTLE — I would say we would be looking at more than a year. I think the private sector is adopting international accounting standards by about 2005–06, if I recall rightly.

The CHAIR — So you think it will be well over a year?

Mr LITTLE — Over a year.

Mr DONNELLAN — As a supplementary question, Tony Harris wrote an article in the *Australian Financial Review* the other day regarding the GST and its inclusion or otherwise in the federal accounts. Would AAS31 actually push them towards including the revenue and so forth of GST within their accounts? Would anyone be able to answer that?

Mr LITTLE — We use AAS31 now, and I am pretty sure that it requires us not to show GST as our tax because we do not control it. We have a line called ‘Commonwealth grants’ and that is GST money coming from the commonwealth to us in the form of a grant, not as own-source revenue.

Mr DONNELLAN — But would that make them include the GST in their revenue under that standard that we have applied to ourselves?

Mr LITTLE — I do not know the answer to that, I am afraid.

Mr DONNELLAN — Getting back to the vehicle fleets, I ask for a bit more indulgence on my behalf, I guess. With operating leases being off balance sheets and finance leases being on balance sheets, and the residual and so forth being known, did we decide to actually do finance leases because they are more transparent and we could see a little more, or was it for another reason? Was it the cost? Was it cheaper to go under a finance lease as opposed to an operating lease? I am just wondering if there was any rationale for it?

Mr LENDERS — I might ask the secretary to answer that one.

Mr LITTLE — This goes back; I think the contract was signed a number of years ago. At that time I think there was a view in the department that we had passed enough risk for it to be classified as an operating lease, but there was some discussion with the auditors and in the end we classified it as a finance lease. We entered into the contract on the basis of value for money in terms that took account of the risks the separate parties took. Then, once we had done that it became a discussion whether this was a finance lease or an operating lease.

As the minister has mentioned there is a review currently under way. The review will be looking at that question you just raised and the appropriate risk sharing and value for money decision will come from that, then it will be the appropriate accounting treatment. We always do it in that order rather than trying to get something off the balance sheet and then letting the risks flow from that. It ought to go the other way around.

Mr DONNELLAN — Thank you.

Mr CLARK — My question relates to the directions given by the Minister for Finance to departments and other agencies. Correct me if I am wrong but my understanding is that those directions specify, amongst other things, the way in which performance measures are to be framed and presented by departments. At the moment there is a wide range of measures of quality and adequacy of performance, which is a subject the committee has pursued. In many areas there is a lack of quantitative information. I cite by way of one example the Department of Education and Training, where the training and further education places program provides quantitative information about the number of places being provided and the government-funded student contact hours, training, et cetera.

The CHAIR — Could you give a page reference so the minister can see what you are referring to?

Mr CLARK — Yes. For example, contrast page 37 of budget paper 3, which deals with training and further education places and the quantitative information provided there, with pages 27 and 28 of budget paper 3, which purport to give quantitative information for primary education but in fact, with I think the exception of students accessing education through distance education and new arrival students, it is not providing quantitative information at all; it is providing averages and ratios, et cetera. My question is: what plans do you have and what work do you have under way to improve the quality of these performance measures in various departments through the directions which you give to departments as Minister for Finance about the way in which they are to put their performance measures together?

Mr LENDERS — The general question is what future is there, where will it change? My responsibility as finance minister through the directions is to require that the reporting happens, it is not to monitor how the reporting goes. They are the ones the individual departments put into the budget, and I guess they are at this particular time subject to the scrutiny of this committee as to the adequacy of them. There is certainly no action under way on my part to vary that. I think where there are particular issues that the committee may or may not have it should raise them directly with the relevant department during the hearings.

Mr CLARK — You do not consider there is a role for your directions as Minister for Finance to set standards and specifications as to the way in which departments are to select their performance measures and the sorts of criteria that are to be met in the setting of those performance measures?

Mr LENDERS — The role of the Minister for Finance in a range of areas is a unique role in government. I mentioned before some of the reporting requirements. You require reporting; whether it be the Essential Services Commission or whatever you set up the administration, but the day-to-day is done by other ministers or in other areas. I think I have answered the question, Mr Clark. I have no action under way at the moment to change that situation.

Ms GREEN — I refer you to the redistribution in 2001 of electoral boundaries that has resulted in a quite a number of electorate office properties now being surplus to the requirements of Parliament. Has your department had any discussions with Parliament in order that these leases might be taken up by other areas of government so we can obtain some savings there? Can you elaborate for the committee?

Mr LENDERS — It is an interesting question because the Minister for Finance has made a formal delegation of those leasing requirements to the Joint Services Committee, or to the Speaker of Parliament itself, anyway — whichever the entity in the Parliament is I am not sure, and I would certainly be happy, if Mr Carroll is here, to stand corrected on this. There has been a delegation to those areas. Clearly with the fixed-term Parliament now it is far easier for Parliament itself to manage those leases, because Parliament knows that the terms of all of us will expire in on 25 or 26 November 2006 — whichever it is — and presumably that is an issue for Parliament. It

will make provision for all leases to expire in February or March the following year when members have had a chance to settle in and make those choices.

On the issue of surplus government property, the standard thing in government that we seek from all agencies is that if a property is not being used then we do not incur expense for it. Again that particular issue has been delegated to Parliament for it to manage, but I would imagine that the Speaker and the Joint Services Committee will be making those types of decisions now that there is certainty in the requirement of leases, which we have never had before in Victoria. I wonder if there is anything Mr Carroll may wish to add to that.

Mr CARROLL — The minister is correct. He has delegated his powers to parliamentary services to handle those electorate offices, and it works completely independently of Department of Treasury and Finance. Certainly we are prepared to help it if it wishes to find other government tenants — if any are available — for any of those offices which are no longer required.

The CHAIR — Excellent. We might take that up with the President and the Speaker as well when they come in. That would be quite useful.

Mr RICH-PHILLIPS — Minister, can I take you to page 371 of budget paper 3 regarding accommodation services. I want to query the output cost. I note that the total office area managed between the target and the outcome remains the same at 449 000 square metres, and the total accommodation cost per square metre remains the same between target and the expected outcome, but the output cost of the area is different by \$7 million. I note a footnote referring to Transport House and I wonder why, if DTF assumed the lease obligation for Transport House, it is not reflected in the area under management? I assume this is all state government property under management, so why is Transport House not?

Mr LENDERS — I might ask Mr Carroll to take that one on the specifics there.

Mr CARROLL — That is a very good question, and well picked up. The lease with Transport House was formerly with the Public Transport Corporation. Then it went to the Public Transport Corporation shell company, and because of difficulties with the lease in the wind-up, or the potential wind-up of that shell the lease was taken over by the Minister for Finance. With that came a shortfall in revenue which had to be picked up, which is that amount shown in the budget paper.

Mr RICH-PHILLIPS — The \$7 million?

Mr CARROLL — I need to look further at the figures. The figure refers to government office accommodation that we manage, as opposed to the 600 000m² of total office accommodation, some of which is delegated to other departments to manage. Where a government agency is in the building, completely in the building, it often controls it itself. Department of Treasury and Finance does not manage it for that agency. With government changes and people moving here and there, office requirements are changing all the time. I have to look at the figures. They look very close for it to be coincidental that changes have come out exactly the same.

Mr RICH-PHILLIPS — So the cost of that output group should only reflect the properties that are managed directly by DTF?

Mr CARROLL — Basically, yes. We have a properties services contractor — a number of contractors, in effect — who work looking after those properties. Where the property has been delegated to another agency, that agency will be looking after the property.

Mr RICH-PHILLIPS — Can we get some clarification then on those figures?

Mr CARROLL — Yes.

Mr DONNELLAN — Minister, with regard to the Southern Cross fit-out, are you trying to create a specific purpose-built building for the department or in a sense is there flexibility built into it so that if the needs of a department and the way we work and so forth change within the next 5 to 10 years that flexibility will allow some reshaping and remoulding to fit the new departments and so forth which may come along? I wonder whether a high degree of flexibility has been built into the fit-out at Southern Cross and so forth?

Mr LENDERS — Perhaps Mr Carroll might take part of that question. Any change in government resulting in any change in arrangements in any building will always incur some fit-out costs. The whole purpose of Southern Cross is to incorporate as many of those up front for the longer period of time based on the advice we

have had from the Department of Innovation, Industry and Regional Development, from the State Revenue Office and from the Department of Justice. Within that period of time, I might ask Mr Carroll whether or not there is anything unique about this building that makes those subsequent fit-outs any easier than any other building.

Mr CARROLL — With these new buildings that the government has pre-committed to it has some rights about what is provided. What we are after is full flexibility to take into account the ease of internal re-arrangements and machinery of government changes, so we are looking for large floor plates and service areas in particular locations. A lot of the smaller, older buildings in town which will become vacant in time, and that is where the vacancy rate in Melbourne will climb over the next few years, are very inefficient from that point of view. You put a fit-out in and it changes and it is very expensive. We are after large open areas which can readily be re-arranged to suit the modern-day workstations and to save costs, because one of the high costs in any accommodation is the continual change necessary as teams are developed and put together to do projects.

Mr RICH-PHILLIPS — I have a supplementary question on the size of the Victorian property portfolio. Do you have any idea, and you may not, what proportion of the CBD market and how large a tenant is the state government? How significant is it in the city property markets?

Mr CARROLL — The statistics are there, but it is matter of what is defined as the CBD. For instance, the Treasury precinct is usually left out of the CBD definitions under the property council measures and the like. Basically the size of the CBD is about 3 million square metres of office accommodation. That gives you some guide as to what percentage the government occupies. We do have some muscle in the CBD.

The CHAIR — Minister, thank you for a very interesting presentation and for your concise slides. You take the prize for the most efficient and effective slides.

I thank the minister and the departmental officers. The committee appreciates your time. In a couple of days you will receive transcripts from Hansard. We thank Hansard staff for their work here this afternoon as well. There will be a couple of issues taken up by our secretariat through your department.

Committee adjourned.