PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into the 2022-23 Budget Estimates

Melbourne—Monday, 16 May 2022

MEMBERS

Ms Lizzie Blandthorn—Chair	Mrs Beverley McArthur
Mr Danny O'Brien—Deputy Chair	Mr James Newbury
Mr Rodney Barton	Ms Pauline Richards
Mr Sam Hibbins	Mr Tim Richardson
Mr Gary Maas	Ms Nina Taylor

WITNESSES

Mr Danny Pearson MP, Assistant Treasurer,

Mr Jamie Driscoll, Deputy Secretary, Budget and Finance Division,

Mr Chris Barrett, Deputy Secretary, Economic Division,

Mr Jason Loos, Deputy Secretary, Commercial Division,

Ms Hayley Baxter, Executive Director, Corporate and Government Services, Department of Treasury and Finance;

Mr Andrew Davies, Chief Executive Officer, Victorian Managed Insurance Authority; and

Dr John Hamill, Chief Executive Officer, Essential Services Commission.

The CHAIR: I declare open this hearing of the Public Accounts and Estimates Committee.

I ask that mobile telephones please be turned to silent.

I begin by acknowledging the traditional Aboriginal owners of the land on which we are meeting. We pay our respects to them, their elders past, present and emerging, as well as elders from other communities who may be with us today.

On behalf of the Parliament, the committee is conducting this Inquiry into the 2022–23 Budget Estimates. The committee's aim is to scrutinise public administration and finance to improve outcomes for the Victorian community.

I advise that all evidence taken by the committee is protected by parliamentary privilege. However, comments repeated outside this hearing may not be protected by this privilege.

Witnesses will be provided with a proof version of the transcript to check. Verified transcripts, presentations and handouts will be placed on the committee's website.

We welcome the Assistant Treasurer, as well as officers from the department. Minister, we invite you to make an opening statement, which will be followed by questions from the committee.

Visual presentation.

Mr PEARSON: Thank you, Chair. As you will be aware, chapter 2 of budget paper 3 contains the departmental performance statements, and these statements outline the outputs that each department is responsible for and their associated performance measures. As a government we need strong financial frameworks to underpin our financial operations and decision-making, and this framework supports the delivery of vital services and infrastructure to Victorians. An important part of my role involves ensuring that our framework remains up to date and supports good financial management. For example, through the standing directions I recently extended the application of the resource management framework to entities which receive their own annual appropriations.

As a government we are also always looking to reform and improve our approach to financial management. Departments have reviewed and made changes to performance measures in response to the audit into measuring and reporting on service delivery. We are also continuing to look at other financial reform opportunities to improve transparency and accountability.

Now, the government continues to improve the quality and the efficiency of services delivered across the public sector through its shared service provider, and this includes aggregating the buying power of SSP's client base to drive value through available scale benefits. The centralised accommodation management program, announced as part of the 2019–20 savings initiatives, confirms SSP's responsibility for whole-of-government office accommodation management and gives greater oversight and ability to deliver through improved accommodation management outcomes and efficiencies. Real estate and facilities management services are delivered in partnership with Jones Lang LaSalle as part of a six-year contract that commenced in 2017. Services include a range of office accommodation management services, including facilities, real estate and project and security management. Improvements in aggregation of services across the public sector are expected to deliver greater benefits and greater value to SSP’s clients, and these are reflected in SSP’s performance measures, including cost savings, vacancy rates and efficient use of workplaces.

Under the *Financial Management Act 1994* the Assistant Treasurer is responsible for and has oversight of whole-of-government goods and services procurement, and this is driven through the strategic sourcing group within the Department of Treasury and Finance. The Assistant Treasurer is also the minister responsible for public construction procurement under the *Project Development and Construction Management Act 1994*. The work of the SSG supports the Victorian Government Purchasing Board established under the FMA to provide policy advice, oversight and compliance functions to mandated entities; the delivery and management of 18 non-ICT goods and services categories of state purchase contracts to achieve value-for-money outcomes; and the delivery of whole-of-government fleet management services.

Procurement is a significant part of governing and is one of the greatest direct impacts a government can have on the economy. State purchase contracts are standing-offer agreements for common-use goods and services. SPCs were established to leverage the state’s purchasing power, and they help to deliver maximum value and benefits for departments and agencies when buying goods and services. Benefits are achieved through prenegotiated terms and conditions, centralised due diligence, reduced duplication, managed risks and quality of supply. SPCs enhance the visibility and accountability of public spend, improve risk management and provide greater consistency in market approach for government buyers, and SPCs can be established as mandatory or non-mandatory. Where an SPC is mandatory, all entities within the scope of the VGPB must use a mandatory SPC unless an exemption has been granted.

Now, this procurement reform program has delivered significant achievements since 2018 and is progressing a number of projects to realise further benefits. These include the expansion of the VGPB, the Buying for Victoria website, the supply portal and procurement data analytics. Continued investment will expand on these achievements to realise greater value from the government’s annual procurement spend. The transition of approximately 125 agencies to align with VGPB policies by 30 June of this year will both strengthen procurement governance and lead to greater consistency across government. With more government buyers now mandated to use SPCs, it will also contribute to improved governance arrangements. The supply portal and the Buying for Victoria website will also help to enhance the experience of buyers and suppliers.

The social procurement framework came into effect on 1 September 2018, and the SPC leverages the government’s buying power to increase the value of procured goods, services and construction by delivering social and sustainable outcomes to benefit all Victorians. The 2020–21 budget allocated funding of $4 million to DTF to strengthen support for and compliance with the SPF, with a focus on SPS outcomes that create employment and training opportunities for women and young people. From 1 January 2022, the DTF social procurement assurance team was given added responsibility for compliance and monitoring of the building equality policy, which is being implemented through the SPF. The 2022–23 budget provides funding of $1 million to support improving governance of state purchase contracts to ensure effective oversight and assurance. The expanded use of SPCs and improvements to SPC governance and oversight will deliver the value-for-money benefits that are expected to flow from greater utilisation of SPCs across government. The 2022–23 budget also provides $0.3 million for the 2022–23 year to support the establishment of an SPC for language services to improve culturally and linguistically diverse communities’ access to government services.

The standard motor vehicle policy promotes the purchase of safer and more efficient vehicles. The fleet includes 2805 hybrid vehicles, which is one of the largest government hybrid vehicle fleets in Australia. There are 48 plug-in hybrid electric vehicles and 21 zero-emission vehicles, which are battery electric. The 2021–22 budget provided $15 million to add 400 zero-emission vehicles to the government fleet over two years and upgrade infrastructure across government owned and leased buildings. The first stage of this program is to add 75 ZEVs, which are on track for delivery by 30 June of this year. Future turnover of these vehicles will also add to an affordable second-hand ZEV market. The 2022–23 budget provides output funding of $0.6 million for centralised fleet management, accelerating transition to ZEVs. Funding is provided to commence a transition to a centralised fleet management model, improving fleet utilisation and efficiency to support the ongoing uptake in the government fleet of ZEVs.

Turning now to the VMIA, some of you would probably know that the VMIA is the state's insurer and provides contemporary fit-for-purpose insurance to protect the state. The VMIA can also be directed by a government to step into failing markets. An example of this was when the VMIA stepped in to provide domestic building insurance since the market failed back in 2010. VMIA's insurance response to COVID-19 included the development of a bespoke insurance product to cover the delicate balance of planning and holding events in times of COVID uncertainty. This events insurance offering by the VMIA helped the community to get back out and attend public events safely, as it makes it easier for event organisers to make decisions around whether their events can go ahead in a COVID-safe manner. Payments on an agreed amount are made to insured events organisers if a pandemic health order means their event is either cancelled, with payment at 100 per cent of the declared value of either expected revenue or cost, or alternatively can only go ahead at a reduced capacity, for which a payment at 30 per cent is provided. The pilot program runs for a 12-month period, covering events to 31 December of this year. Cover can be provided for up to $230 million worth of events. The program is currently being evaluated.

Turning now to domestic building insurance, DBI helps home owners when they need it most, and the VMIA is the leading provider of this cover. To keep assessments progressing through stage 4 restrictions, the VMIA introduced virtual inspections, allowing a building assessor to look at a property via an app. Claims could then be assessed and completed remotely. A live chat feature was made available on the website, and the call centre expanded to support the higher number of home owner inquiries during peak periods. These are now practices embedded in the way the VMIA works, not just for the pandemic but to improve the client experience.

Turning now to the VMIA's financial performance, in 2020–21 the VMIA maintained its solid financial position. For the financial year ended 30 June 2021 the VMIA recorded a performance from insurance operations deficit of $31.2 million. This was $33.3 million less than the budgeted surplus of $2.1 million. The PFIO is a financial measure of a state's insurance system that attempts to broadly reflect the VMIA's underwriting performance and is heavily influenced by claims volatility. And there was an operating surplus of $261.5 million. This was $442.1 million more than the budget deficit of $180.5 million. Now, the PFIO is a measure of underlying insurance profitability, and it is calculated by removing the effects of external factors such as variances between the actual and expected long-term investment return, the impact of changes in inflation and discount rates that are used to value claims liabilities and legislative changes and government-directed changes. As at 30 June 2021 the VMIA also had total assets of $3.3 billion, compared to total assets of $2.8 million as at 30 June 2020. Total liabilities are $3.3 billion compared to total liabilities of $3.1 billion as at 30 June 2020. And net liabilities are $14 million compared to net liabilities of $261 million as at 30 June 2020. So the insurance funding ratio looks at claims—

The CHAIR: Minister, the time has concluded. Mrs McArthur.

Mrs McARTHUR: Thank you, Chair. My question is actually to Mr Davies, the CEO of the VMIA. Thank you, Mr Davies. Now, on Friday I asked the Premier about his legal fees in the quarantine Coate inquiry, and he confirmed they were paid by the VMIA. Is that correct?

Mr DAVIES: The VMIA does cover costs of officials at inquiries, yes.

Mrs McARTHUR: So the VMIA paid the Premier's legal fees on the quarantine Coate inquiry—can you confirm that?

Mr DAVIES: As we would pay anyone's legal fees on an inquiry that is covered by us in our policies, yes.

Mrs McARTHUR: Okay. Thank you. What was the total value of those legal fees?

Mr DAVIES: I would not have that number to hand.

Mrs McARTHUR: Can we ask you to give us that on notice?

Mr DAVIES: Yes, I can take that question on notice.

Mrs McARTHUR: Also, were the legal fees of other ministers covered by the VMIA?

Mr DAVIES: Under our policies, ministers and officials of the government—yes—are covered by the VMIA.

Mrs McARTHUR: Can you give us that list of who was actually covered and the amounts entailed?

Mr DAVIES: Anyone who made a claim that is covered by our policies would have been covered.

Mrs McARTHUR: So you will provide that information to the committee?

Mr DAVIES: We can take that question on notice, yes.

Mrs McARTHUR: And, in addition, could we please have a final reconciliation of all the departments' and agencies' legal fees relevant to the Coate inquiry? That may be for the secretary of the department.

Mr DAVIES: Sure.

Mrs McARTHUR: Yes. Okay. How important was that legal advice, given that it really involved 'I do not recall', 'I don't read emails', 'I don't know'? Was it good value for taxpayer money?

The CHAIR: Mrs McArthur, if you could relate your questions to the estimates rather than such subjective, leading questions, that would be appreciated.

Mrs McARTHUR: It does go to the expenditure of taxpayers money in relation to—

Mr NEWBURY: That was the legal advice.

Mrs McARTHUR: That was the legal advice?

The CHAIR: Mrs McArthur—

Mr NEWBURY: Saying 'I do not recall' was the legal advice, I am sure.

Mrs McARTHUR: That was the legal advice? I just want to confirm it was value for money.

The CHAIR: Mr Newbury, you do not have the call. I would prefer that you did not interrupt me, please. Mrs McArthur, you know the terms—

Mr Newbury interjected.

The CHAIR: Mr Newbury, you are blatantly ignoring the Chair. If you could refrain from interrupting the questions, that would be appreciated. Mrs McArthur, if you could relate your questions to the estimates, that would be appreciated.

Mrs McARTHUR: Good. Well, the CEO has confirmed that he will give us all that information in writing, so thank you, Mr Davies.

The CHAIR: Mrs McArthur, the CEO has confirmed he will take those questions on notice. If you could please relate your questions to the estimates, that would be appreciated.

Mrs McARTHUR: Absolutely, Chair. Let us go, Minister, to the TAC. It is being treated like a cash cow, really, isn't it—billions being ripped out of the forward estimates to cover the budget deficit, an extra $650 million more than you outlined in last year's budget being taken out of the TAC. Can you confirm that?

Mr PEARSON: Well, thank you, Mrs McArthur. The PFC sector, which includes entities like the VMIA, like the TAC, like WorkSafe, have regularly provided either grants, dividends or capital repatriations back to the general government sector for, I would suggest, many, many years. I think under the term of the previous coalition government something like $1.21 billion was provided from the PFC sector to the GG sector, so this is custom and practice.

I think in terms of talking about the TAC more broadly, it comes down to more of a question of their capacity to pay. And to that end, if you look at the 2020–21 financial year the TAC recorded an operating profit after tax of $2.475 billion, which was an increase of $179.4 million over the 2019–20 year. The other important thing to know, and the real key measure here, is the insurance funding ratio. The insurance funding ratio relates to the assets on hand divided by the liabilities. So if you have got $1 of assets and $1 of liability, you have got an IFR of 100. In this particular case the IFR is at 161.7 per cent, which is certainly stronger than both budget expectations and the year prior's result of 137.1 per cent. So effectively what you are looking at with the TAC is a really well run entity. It has got a really strong balance sheet. We took a position to the last election that we would establish a Delivering for All Victorians Infrastructure Fund to be funded by these proceeds, and I am really pleased and delighted that the very strong management of the TAC, as a consequence of being part of this sector, provides that.

Mrs McARTHUR: Minister, we have not got time for your description of the TAC. Could motorists be satisfied that the money that you are taking out of the TAC to put into consolidated revenue is money well spent? Wouldn't it be better spent on fixing our deplorable roads?

Mr PEARSON: Well, it is not a binary issue, Mrs McArthur, with all due respect. I mean, this is about the TAC continuing to be able to deliver on road safety initiatives, continuing to be able to provide that safety and security to all Victorians—for Victorian roads, as opposed to roads in Ukraine. This is about making sure that we are making these sorts of investments and providing a level of support as well to delivery of the government's initiatives. We were very clear when we went to the election in 2018. We said that we were going to have a developing Victoria—

Mrs McARTHUR: Minister, can I just interrupt—how much is being spent on a wire rope barriers, for example, and how much is being spent on maintenance of wire rope barriers?

Mr PEARSON: Mrs McArthur, that really would be a question for the portfolio minister. I share financial and budget responsibility with the line minister, the Minister for Roads and Road Safety. So those questions around policy and expenditure, or proposed expenditure across the forward estimates, are really questions best directed to the Minister for Roads and Road Safety.

Mrs McARTHUR: Well then, Minister, did the chair, Mr Wilson, and the CEO, Mr Calafiore, advise you about these record amounts of money being taken out of the TAC?

Mr PEARSON: The chair and the chief executive officer work and report through to the line minister. I do share that level of responsibility for budget and financial measures.

Mrs McARTHUR: So they were satisfied that their money was well spent—being taken out of their budget?

Mr PEARSON: Again, Mrs McArthur, I will refer you back to past custom and practice, which is that governments of all persuasions have regularly taken either a capital repatriation, a dividend or a grant from these insurers where they have got the capacity to pay, and they have got the capacity to pay.

Mrs McARTHUR: Well, Minister, can I just ask: has the—

The CHAIR: Mrs McArthur, could you allow the minister to answer the question without interruption.

Mr PEARSON: The point I would just make, Mrs McArthur, is that the reasons I have previously outlined—$2.475 billion was the operating profit after tax in 2020–21, and the insurance funding ratio of 161.7 per cent—demonstrate the fact that the TAC has got the capacity to pay.

The CHAIR: Thank you, Mrs McArthur. Your time has concluded. Mr Maas.

Mr Pearson:

Mr MAAS: Thank you, Chair. And thank you, Assistant Treasurer and Treasury officials, for your appearance this morning. Assistant Treasurer, I will try and keep my questions within the scope of your portfolio area and within the scope of the inquiry. I would like to turn my attention to the procurement of zero-emissions vehicles for the government fleet. Specifically I will take you to budget paper 3 at pages 122 and 125. There, Assistant Treasurer, it says that in this year's budget the government has committed $0.6 million to commence the transition to a centralised fleet management model, improving fleet utilisation and efficiency to support the ongoing uptake in the government fleet of zero-emission vehicles. I was hoping you would be able to explain for the committee how this funding will support transition of the Victorian government fleet to include more low-emission vehicles and zero-emission vehicles.

Mr PEARSON: Thank you, Mr Maas, for your question. It is disappointing that Mr Hibbins is not here to hear this. The government has committed to that transition of the government fleet to zero-emission vehicles as part of our commitment to net zero by 2050. Since February 2018 all departments and agencies are required under the Victorian government standard motor vehicle policy to lease vehicles from VicFleet, which is the in-house fleet manager for the Victorian government. Now, VicFleet falls within my responsibility. I think it is worth pointing out, though, that in relation to the management of the government's fleet there are centralised functions and there are decentralised functions. So if you look at the vehicle life cycle in VicFleet, as the Assistant Treasurer I am responsible for those early functions in relation to financing, procurement and insurance at the start and VicFleet is responsible at the end for the disposal of those vehicles. The decentralised functions are really a matter for departments and agencies when they execute their operational fleet management functions, and that includes booking and servicing and maintenance. So there is that distinction, which makes sense. I mean, if you are Parks Victoria or if you are, say, the Department of Health, the management of that fleet when it is in your control should be allocated to those departments directly. But we do have a really important role to play as a government from that centralised procurement perspective and trying to get the best possible deal we can in relation to procurement and the best possible deal in relation to insurance and then also at the other end of the cycle when we look at disposing of those vehicles.

In terms of where we currently find ourselves, the government fleet vehicles are chosen from a range of vehicles offered by a panel of suppliers established under the motor vehicle state purchase contract. There are currently two approved electric passenger vehicles on the approved vehicle list under the motor vehicle state purchase contract. Under the standard motor vehicle policy, unless an exemption has been granted by VicFleet all government vehicles must be disposed of when they reach 60 000 kilometres or three years from the date of initial delivery, whichever occurs first. In this particular case what happens is that the fleet disposal supplier, Pickles, disposes of these vehicles by conducting a weekly public auction, and the standard motor vehicle policy mandates funding vehicles through a finance lease facility that is managed by VicFleet. So each agency is charged a monthly lease rate that is determined on the whole of the cost of each vehicle and is responsible for the operational management of the vehicle.

One of the really exciting things about what we are doing here as well is that as these vehicles either expire at their three-year point in time or they hit 60 000 kilometres they will be then released into the secondary market. I reckon that is really important, because I reckon there will be a lot of people out there who would be attracted to buying an electric vehicle, but there might be challenges in relation to being able to stump up the money up-front to buy a new one. Creating that secondary market is really important.

Returning to the specifics of your question, which was about the money that we have provided in this year's budget to support the transition of vehicles in the government fleet to zero-emissions vehicles, as you mentioned, the government has committed $0.6 million to commence the transition to a centralised fleet management model, to improve our fleet utilisation and efficiency and to support the ongoing uptake in the government fleet of zero-emission vehicles. That builds on the $10 million we provided to VicFleet in 2021 to encourage ZEV uptake across the government fleet through direct vehicle procurement and associated infrastructure upgrades to government owned and leased buildings, which is a target of 400 vehicles to be replaced by ZEVs by 2023.

Additional funding provided in this budget will go towards a modernisation program of the current whole-of-Victorian-government fleet operating model from a decentralised to a centralised model. A centralised fleet model incorporates fleet management systems that track and automate the management of vehicles. Telematics systems will gather data, including engine diagnostics and vehicle activity, and visualise this data on software platforms that help fleet operators manage their resources. I think this is going to be important as well, too, because VicFleet vehicles are seen as quite desirable on the secondary market because of the fact that they are well maintained and they are well run. I think that when we have got these further enhancements, with that data capability and those diagnostics, it means that we are going to be able to keep updating and keep modernising them more quickly and more effectively, and that is going to have an increase in terms of the value of retail of the asset.

In addition to that, the funding will unlock benefits through a consolidation, rationalisation and standardisation of services and processes, improving fleet utilisation and efficiency, again through those data-enhanced approaches and enhanced customer service. As noted, there are currently two electric vehicles on the government's approved vehicle list, and this reflects the limited offerings in the Australian market, with the offerings focused on really that smaller passenger car segment. In the intermediate term our efforts to increase uptake are most likely to focus on incentivising market entry for a greater number of manufacturers through participation of suppliers in the motor vehicle state purchase contract. Again, I think that for the manufacturers, when they start to see that there is that capacity to be able to get a large order acquitted by a significant procurer like the state government, I think that will drive a level of interest that will provide more variety. We want to try and really build out the broader ecosystem of ZEVs, not just in relation to our fleet but more broadly, I think—the signal that it sends to that secondary market, at really filling that out. Our hope is that with the commitment we are making to procure those electric vehicles and our broader commitments about emissions reduction we can send a signal to ZEV manufacturers that the demand is there and it is worthwhile making these investments in the Australian market, Mr Maas.

Mr MAAS: Thank you very much, and in the very short we have just a quick one: how many zero-emission vehicles has the Victorian government procured to date?

Mr PEARSON: Yes, so look, we are on track to look at having 75 vehicles in place by 30 June. I think one of the challenges that we have found is that you have got to have those three years or 60 000 kilometres, whichever comes first, and one of the issues has been because people have not been driving around as much, they are not on the road as much, they are not going to get the kilometres up as much. But nonetheless we have got a real focus on delivering these, and we are on target to meet the budget commitment of 400 vehicles by the end of next year.

Mr MAAS: Thank you.

The CHAIR: Thank you. I should just inform the committee for the record that Mr Hibbins is in the building. He has gone to do an additional RAT because he has been informed that he was a close contact, so he may yet return to those issues, Assistant Treasurer.

Mr PEARSON: Good. Excellent.

The CHAIR: Hopefully he can come back. Mr Barton.

Mr PEARSON: I am happy to sign copies of my transcript for him and send it to him.

Mr BARTON: Thank you, Chair. Assistant Treasurer, if I can just take you back to budget paper 3, page 332, where an objective indicator of the commercial passenger vehicle sector was the safety of the transport system. At the time of deregulation, which your government was the architect of, the Andrews government was the largest holder of taxi permits, leasing out approximately 2000 licences for up to $24 000 a year. The result of this has seen an oversaturated market where tens of thousands of drivers work day and night fighting for a smaller piece of the pie. This has consequences for driver fatigue and pressure to get from A to B in a time that is now impossible. This is not conducive to a safe transport system. Victorians used to be able to get a commercial driving licence fee for $24 000 a year; now CPV drivers pay an annual fee of $34 and the vehicle owners pay an annual fee of $55—and these fees have not been paid since 2017. I understand that they are just being rolled out now.

What I am concerned about is the amount of money that the government has lost—not so much what is in the budget but what is missing from the budget. If you look at the fees and what the government would have received, it would have been in excess of $200 million in licensing fees since 2017. How is that impacting the regulator, and how are you covering that money? I think it is $240 million, to be exact, Assistant Treasurer.

Mr PEARSON: Yes, look, there is a bit in that, Mr Barton, and I will attempt to answer it as best I can. I think some of the issues that you traverse may well be best directed to the Minister for Roads and Road Safety on some of these questions. In relation to the questions about the budget more broadly, I think that if you look at the forward estimates in relation to the general government sector, we are looking at achieving a budget surplus in the order of $650 million at the end of the forwards. So I think in terms of the broader discussion about the state of the finances and where we are headed I have got confidence that we will achieve that target.

In relation to the Essential Services Commission, the Essential Services Commission is that independent umpire that does that work in relation to working out what is a fair return for the labour offered by those drivers but also protecting consumers. I understand that in relation to the ESC they have got a statutory requirement to review unbooked taxi fares. They did that review back in 2020. I believe that they are already underway now for the 2022 year. That is about trying to make sure that we get that balance right, about making sure that in relation to consumers they make a fair and reasonable contribution in terms of payment for the service that is provided to them. It is also about making sure that the drivers and the owners of the licences can get a fair return. And as you would appreciate, it is only fair and appropriate that the ESC, as the independent umpire as it were, get on with the job of doing that themselves and not be directed by a minister in relation to how to do their job. But I would certainly be hopeful and confident that the ESC would, as part of their broader stakeholder engagement as they start to look at doing this work around unbooked taxi trips, engage closely with the sector and with the drivers and the owners of those vehicles to ensure that they are taking on board that feedback and those comments. It is a balancing act, as you would appreciate, and you would want to make sure you strike the balance right.

I think it is important to try and find those ways where the ESC is running a robust, rigorous process and that they are properly engaging with taxidrivers to understand some of the current factors. Certainly back in 2020, when they did the previous review, you did not have petrol over $2 a litre. Clearly the cost input in relation to that base level of funding costs has increased significantly in the course of that time, and I would imagine that the ESC, in making that determination about structuring unbooked taxi fares, would fairly and appropriately consult with the drivers to appreciate how their cost base has increased over the course of time over the last couple of years and make those changes accordingly.

Now, I think what I would say to you, Mr Barton, is from your perspective you feel that there are deficiencies in relation to that process, or you feel that there is a—

Mr BARTON: Very much so.

Mr PEARSON: Okay. All right. Well, if there are issues you wish to canvass or raise with me either in this forum or in another forum, I am happy to take them on notice and ensure that there is that robust, rigorous process. Again, it is not for me to intervene and try and tell the ESC what the answer should be, but I do want to make sure that the ESC have all the available information in order to make this determination, that they get all the facts and that they can have a broader appreciation for how the market has changed and how the landscape has changed and to develop that appreciation as to the cost base for these organisations and these businesses in order to determine what is a fair return for the labour and the service provided by taxidrivers and that that is fairly reflected.

Mr BARTON: Thank you, Assistant Treasurer. You know my views about the Essential Services Commission. I think we are at a stage where it is well past its use-by date having them set fares for the taxi industry. You have got the rideshare industry being able to set their fares and their own conditions willy-nilly, and after the reforms of 2017, when we were supposed to get rid of all the red tape, we were left with a pair of handcuffs. You can understand why the industry has completely lost confidence in the Essential Services Commission: one fare rise in 14 years, the last one eight years ago—and even though they are doing a review now, we will not see the results of that this year. Is it not time that we deregulate rank and hail work and allow the taxi industry to actually have a level playing field instead of just talking about it?

Mr PEARSON: Mr Barton, my understanding is that there will be a draft report issued this year—I think it might even be as early as June of this year—in relation to some of that work. Again, I am happy to seek some further advice and come back to you if I can provide additional information. You have got have checks and balances in place in relation to these matters. If it is completely deregulated, I am not necessarily sure whether that would lead to all the promised and hopeful outcomes you might be referring to.

Mr BARTON: Why is rideshare allowed to be completely deregulated?

Mr PEARSON: Look, I think that is probably more appropriately directed to the Minister for Roads and Road Safety. But again, if there are improvements that can be made to the efficiency in the operation of the ESC, I would be very happy to meet with you and discuss this further and seek some further advice, because you want to make sure our regulators are best practice.

The CHAIR: Thank you, Mr Barton. Ms Richards.

Ms RICHARDS: Thank you, Assistant Treasurer and officials, for your time here this morning. I would like to refer you to budget paper 4, page 90, and I am particularly interested in exploring the greener government buildings program. We have an indication here in the papers that the Department of Treasury and Finance is expected to spend $59.9 million in capital total estimated investment, TEI, as part of the existing greener government buildings initiative. I was hoping you could start by perhaps unpacking for the committee a bit more about the greener government buildings program—what it is and what it does.

Mr PEARSON: Thanks, Ms Richards. This is a really exciting initiative. This is a way in which we can try to roll out, for example, solar panels on government buildings to reduce our carbon footprint. This program was established originally in 2009. It was not continued by the former Liberal-National government but was revived under this government. It is trying to find those ways where we can play a really important role in reducing our emissions, investing in improving energy efficiency of those existing government buildings in relation to greenhouse gas emissions as well as addressing the issues around the operating costs and creating jobs while doing so. What it does is implement the most cost-effective greenhouse gas abatement technologies—that is, those with the lowest and often negative marginal cost of abatement and those that deliver a net cost saving over five to eight years. As you would appreciate, you have got the initial up-front cost in relation to the rollout and the implementation of the technology, but over the course of time you make significant savings by reducing your power bills.

In 2020–21, $59.9 million of funding was provided along with the establishment of a rolling fund. The rolling fund is really important because what it effectively does is the savings that you achieve from each project are then reinvested to fund new projects, so it becomes basically a self-sustaining initiative. It means also that some of these facility managers or the departments or agencies can start to say, ‘I can see that this funding is there. It’s self-perpetuating. I can start to think about how I might want to look at trying to in a very practical and tangible way reduce our carbon footprint, or the carbon footprint of this asset’, and then can look at trying to put a project forward in relation to that. It might be solar panels. You might be replacing some lighting with more of those efficient LED lights where you can often get your capital outlay paid back within a short period of time—with LED lights it can be 5 minutes or less. And it also just has that perfect synergy of saving money, reducing energy consumption and of course reducing greenhouse gas emissions. Our estimates are that that $59.9 million will actually result in around $200 million of energy savings upgrades to government buildings over the next 10 years. And again, because it is self-perpetuating it will continue to fund that further rollout and expansion.

Now, the GGB is funded in the form of loans as follows. If you are in the general government sector—if you are a department, for example—funds are provided as interest-free loans, which are required to be paid back into the Consolidated Fund over a period of five years. If you are a public non-financial corporation, so for example, like a water corporation or VicTrack, finance is available via the TCV, the Treasury Corporation of Victoria, with the financial accommodation levy. Projects will be implemented across many different types of government buildings, such as hospitals, TAFEs, police stations, transport facilities and primary and secondary schools across the state. Again, this goes to lighting upgrades, more energy efficient heating, ventilation and cooling systems and installing solar panels, and the fact that we have got this ongoing revolving fund gives a level of confidence and certainty to the sector that we are serious about this and that there is an opportunity for them to look at progressively upgrading their assets.

Ms RICHARDS: Thank you very much, Minister. I am just interested in understanding, using the same budget paper reference, why the government reinstated this particular initiative that the last government had defunded?

Mr PEARSON: Yes. So, look, it has been a really successful program. The program has invested over $300 million in energy efficiency improvements across 48 projects at some of our most iconic venues—the MCG, Federation Square, MSAC and a number of TAFE facilities. We have managed to cut greenhouse gas emissions by around 6.25 per cent, and that has led to ongoing savings of more than $44 million per year through reduced energy and maintenance expenditure. We can see that there are significant social and financial benefits here that flow from the program, and they are clear and substantial. We have revived the award-winning program because we know energy efficiency and renewable energy are what consumers and what citizens are expecting that the government does.

We have got a strong commitment to developing clean energy and acting on climate change. We are the first jurisdiction in Australia and one of the first in the world to declare a net zero emissions target by 2050. I think with these sorts of things climate change can be seen as a really difficult problem to try to solve, but I think that finding those initiatives that you can start to pursue in a very targeted and focused way will help us get there. So we have got this program. Mr Maas was asking me earlier about our CPV vehicles. Transportation represents about 25 per cent of the state's emissions, so where you can start to look at making those sorts of investments it makes a big difference. I know there has been a real focus on ZEVs, but let us not forget the more than 2800 hybrids that are in the fleet at the moment. I have got a Kluger that is a hybrid. Probably if I had had that car 10 years ago, I would have got 300 kilometres in a tank. The hybrids are getting 800 to 900 kilometres a tank. I think Mr O'Brien could talk to this, given the number of kilometres he drives. I am assuming you would have a hybrid, Mr O'Brien?

Mr D O'BRIEN: I am still waiting for a new car, Mr Pearson.

Mr PEARSON: Okay, right. Well, if you cannot get yourself a ZEV, go get yourself a hybrid. You will just knock yourself out. So these things, I think, are really important, and I think as a government we have got a role to play in these matters, to take a leadership position and really drive down those greenhouse gas emissions.

Ms RICHARDS: Thank you, Minister. I have got a hybrid, and I am knocking myself out. You described the Greener Government Buildings program as a revolving fund. Can you explain in about 30 seconds what that means and why that model is preferred by the government?

Mr PEARSON: Well, it is about providing certainty and security to the sector. It is about having that confidence to know that the fund is self-funding and self-perpetuating so people can have a degree of confidence. If you know that basically there is a fund there that you can apply to that is not going to be ceased or ended or terminated, you can start to have a level of confidence about, 'Right. Well, what's coming down the pipeline? Where do I want to go? Those lights are coming to the end of their use-by date. I'm going to replace them'. So it gives that level of confidence and certainty and security. I think it is a really great, practical way we can make a difference.

Ms RICHARDS: Thank you, Minister.

The CHAIR: Thank you. Mr O'Brien.

Mr D O'BRIEN: Thank you, Chair. Good morning, Assistant Treasurer. Just continuing on from Mrs McArthur's questions about the ripping out of the TAC dividends—or grants, I think, as they are known now—the budget notes in a footnote that based on current projections the TAC is expected to remain financially sustainable. Has that been independently assessed against these new dividends being pulled from the TAC, or is the department simply reviewing its own homework?

Mr PEARSON: Thank you, Deputy Chair. Congratulations on your elevation. I think you are the first National Party member to be Deputy Chair. I will see if Mr Loos can add to this. I would imagine that in relation to the internal audit functions and the external audit functions that the TAC would have, the discussions that would occur between the TAC and DTF and the fact that the budget papers are signed off by the Auditor-General, I would be confident that all checks and balances have been discharged. As I have indicated in my previous answer to Mrs McArthur, the fact that the TAC has produced that operating profit after tax of $2.475 billion and that it has got an IFR of over 161 per cent, I would be confident that it is got the capacity to pay. But I will just—

Mr D O'BRIEN: Rather than just taking your confidence, can I take it on notice, unless Mr Loos has evidence of an independent report on this?

Mr LOOS: Jason Loos, Deputy Secretary, Department of Treasury and Finance. Thanks, Mr O'Brien. As the minister said, it has gone through VAGO, and we have, from a Treasury point of view, looked at the insurance funding ratio over the period of the forward estimates. With the estimated payments to the state, the insurance funding ratio still remains well within its range.

Mr D O'BRIEN: There is nothing done independently of government though, other than VAGO?

Mr LOOS: The VAGO policy.

Mr D O'BRIEN: Yes. The issue though, Assistant Treasurer, of course is without the $1.3 billion being taken from the TAC in the final year of the estimates, the budget surplus would be a fiction. Is that not correct?

Mr PEARSON: I mean, you could point to any number of line items or revenue items and make those claims. I mean, you could turn around and say, well—

Mr D O'BRIEN: This is a discretionary item though. You can choose to take this money or not. I will put it another way perhaps, Assistant Treasurer. The government has a choice: it either rips money from the TAC to prop up the budget bottom line, it returns those excess surpluses to motorists in the form of reduced premiums or it invests more money in road safety. Why did you choose to just prop up the bottom line from the TAC?

Mr PEARSON: Well, I think in terms of these questions, Mr O'Brien, governments of all persuasions have sought capital repatriations, grants or dividends from the PFC sector, the general government sector. As I indicated, the former Baillieu and Napthine governments extracted $1.2 billion in those payments across their life in government, so there is nothing—

Mr D O'BRIEN: But, Treasurer, your government likes to talk about record spending. These are record payments coming from the TAC. It is $650 million more than you budgeted for last year, so it is clearly an attempt—I mean, $650 million more is basically the surplus at the end of these estimates.

Mr PEARSON: I think this reflects the fact that the TAC is well run, has got a strong bottom line and has got that capacity to pay. I think, again, your question is about investments in road safety. As I indicated earlier with Mrs McArthur, I do not believe it is binary. I think that you can turn around and look at making those investments in road safety, and I am sure my colleague and friend, the Minister for Roads and Road Safety, when he appears before you can talk chapter and verse around those sorts of investments. So it is not binary. We will continue to make those investments, but as governments of all persuasions have done, we will look at—

Mr D O'BRIEN: Perhaps we will go to him then on those questions, but one which is of a financial nature is the TAC report indicates:

> … in consultation with … Victoria Police—

the TAC—

> … develops strategies to target the main causes of crashes that result in trauma, and encourage positive road-user attitudes and behaviour.

The amount paid to Victoria Police dropped to $5.9 million last year from $13.6 million the previous year to develop those road safety strategies. Given the record funding you are now pulling, how much will be provided in future years?

Mr PEARSON: Those questions would be best directed to the minister. My responsibility is with that sort of financial and budgetary oversight in relation to these questions around grants, dividends and capital repatriations, so for those sorts of issues I think the Minister for Roads and Road Safety, and indeed I suspect the Minister for Police, might be able to provide more detailed information for you, Mr O'Brien.

Mr D O'BRIEN: But in making the decision to take such significant record volumes out of the TAC, did you receive any advice from the department on the impact this would have on road safety programs?

Mr PEARSON: Those questions, again, would be best directed to the portfolio minister's alignments.

Mr D O'BRIEN: But these are decisions taken by you as Assistant Treasurer to take the money out of the TAC. Surely you have to look at the costs and benefits of those decisions.

Mr PEARSON: Well, I think, again, when you look at the strength of the surplus and the insurance funding ratio which I have discussed, the organisation has got that capacity to make those payments back to the general government sector, and it was deemed appropriate to do that, as has been done by various governments at various times based upon individual circumstances.

Mr D O'BRIEN: Can I then go to the same topic but with respect to the VMIA, which had net assets of negative $13.6 million at the end of last financial year. The loss at year ended 30 June would have been $85 million were it not for their value movements through income. How can the government propose to rip so much money out of the VMIA and keep it solvent at the same time?

Mr PEARSON: Well, there are a couple of issues at work here, and Mr Loos may wish to supplement my answer. What you are looking at with the VMIA, there are two issues: there are the claims in relation to premiums charged and claims made, and that goes to the issues around the PFIO; you are then also, though, looking at the investment returns. Again, coming back to the VMIA, as of 30 June last year the insurance funding ratio was at 131 per cent. So again, coming back to this notion for a moment that a dollar's worth of assets and a dollar's worth of liabilities nets out at an IFR of 100, we are looking at an entity that has got more assets than liabilities, and as a consequence of that—

Mr D O'BRIEN: But in your report you showed net assets being in negative $13.6 million.

Mr PEARSON: Yes. Now, I think on this point—I thought you might ask me about this, Mr O'Brien, given the fact that you studied accountancy.

Mr D O'BRIEN: Economics, to be clear.

Mr PEARSON: Oh, I am sorry. My apologies. I think—and again, Mr Loos may wish to supplement this—it comes down to the value and the way in which you value. So the IFR relates to the economic return, so if I get premiums coming in I will look at playing the long game and I will look at making an investment across a number of different asset classes because I want to try and maximise the value.

Mr D O'BRIEN: Can I in 9 seconds get a guarantee that you would see the VMIA will be solvent in the future?

Mr PEARSON: Well, that is a hypothetical, Mr O'Brien.

Mr D O'BRIEN: No, no, it is not a hypothetical—

The CHAIR: Thank you, Mr O'Brien. Your time has expired. Ms Taylor.

Ms TAYLOR: Referring to your presentation, you noted—and it is on topic—that you are the responsible minister for VMIA, and you highlighted COVID-19 event cancellation insurance. Could you outline for me what the product is and what did it seek to achieve?

Mr PEARSON: Yes. Thanks, Ms Taylor. This is something I am super proud of. I think that the VMIA exists there as the state's insurer, but it also exists as a body to intervene when there is market failure. Really what we saw with lockdowns and when the pandemic was raging at its worst was that the sector was quite concerned about being able to put on a show, and we saw a lot of those shows being cancelled. Even if you started to open up, the lead times are quite significant, so if you are here trying to book an act or you are putting on a performance, you are trying to work out, 'Well, okay, if I do this now can I be sure that there won't be restrictions, either in terms of public health orders locking us down because the virus has gone out of control or alternatively those density quotients?'. And it was big events, but it was also small events.

I went up to Shepparton late last year and I spoke with STAG, the Shepparton Theatrical Arts Group, I think is called, and they put on two shows a year. They are a small amateur theatre company but talk of the town. The cost of them putting on a show was around about $30 000 a show, and if they had basically built the set, trained up everyone, were ready to go and opening night came about and there were public health orders in place that restricted and shut down their season, that would have eroded all their financial reserves and would have sent them broke. So what we were trying to do here was to give the sector some level of confidence, give the sector some level of hope, to know that, 'Well, look, I can turn around and I can take out this product and it's a break glass in case of emergency'.

So that was something I was really proud of, and I think that it sent a really strong signal to the market that we recognised the unique circumstances which they were operating under and we wanted to get the sector back to work more quickly, because—Ms Taylor, you know this through your extensive work in creative industries on my behalf—many of the sector were the first go out and they were the last to come back. As you are starting to come back, you are really wanting to give people that level of confidence that you have got their back. We want you to be able to get back doing what you love and not have to worry about this. So we are trying to de-risk it. So as a consequence of that, that was why we looked at developing the scheme, which I think was Australia's first government-backed COVID-19 event insurance. I do not think there were many other jurisdictions in the world that did something like this. Again, with COVID, because it was such a dynamic or such a volatile environment—and frankly still is—you wanted to give the sector some level of confidence and certainty so that they could have that level of confidence going forward.

Now, as I indicated, it covered events being cancelled or held at reduced capacity, because you might turn around and say, 'Well, sure you can operate, but we're going to have a density quotient of one per 4 square metres'. If you are losing 5 per cent or if you are losing 55 per cent, you are still losing money; it is still going to cause some challenges for the sector. So we really wanted to de-risk that, and we wanted to give the sector the opportunity of turning and saying, 'Well, look, actually, these density quotients—we can't make any money if we go ahead. We want to have some cover in order to operate'. So for multiday events the payment was pro-rataed for the part of the event affected by proposed restrictions. And it is because of the fact that we just recognised that we are the creative state—that people love coming into Melbourne or going to their local community and seeing great creative industry events, seeing great sporting events, great local community events—that we wanted to give people that level of confidence that they could do it. So if we did not have this product, if we did not back the sector and give them the confidence, then I think that there would have been a real loss of confidence right across the board with the sector. This was building on a range of other levels of support that were provided to creative industries right from the start of the pandemic. So it was targeted, it was I think well received by the sector and it has worked really well.

Ms TAYLOR: Excellent. So talking about that sector need for an event insurance product, why did you decide to develop this product for the events sector as such? I know you have given an overview there.

Mr PEARSON: Well, I think in terms of my other portfolio as Minister for Creative Industries, I would talk with members of the sector regularly. It was a constant theme that they could not really plan because they did not know what was coming around the corner, so they could not book events, they could not look at taking on that financial risk, because you are already looking at a sector that had been significantly impacted by the pandemic. In many cases they were the first to go out and they were the last to come back, and it was about trying to give them that level of confidence and support. Indeed what I was hearing was consistent with what the Legislative Council Economy and Infrastructure Committee in 2021 heard, which was the fact that people were hesitant about planning for events because they just were not sure whether they would be cancelled. And again, I think it was about the fact that the private insurance market just was not there. They just were not present, because they could not price the risk accordingly. When you have got the private market withdrawing, that is the definition, I would say, of market failure. This is about trying to give that confidence. And it is not just the performers; it is the venues, it is the event production, food and beverage, and it was a case of trying to really step in and give the sector the confidence that it needed to go forward with confidence. So that is why we launched it back in December of last year.

Ms TAYLOR: And what is an example of an event this product might cover, and how will it work?

Mr PEARSON: So what we wanted to try and do—we really wanted to align it more for the smaller end, so events with a range of $20 000 to $10 million. It might be venues with live music on, it might be a community function, it might be a small event. So it was really designed more at the bottom end, because we knew that they had been significantly impacted. I will give you an example. If you look at a music festival, the way in which those sorts of festivals run, you would have to look at putting a significant amount into the festival prior to the event and well in advance. So in this particular case what we wanted to try and do for said music festival is that the event organisers just had to contact the VMIA, supply them with their details, pay a small premium as a percentage of their declared costs of revenue. If you had capacity restrictions, the VMIA would pay up to 50 per cent and if it was cancelled that would be 100 per cent.

The CHAIR: Thank you, Assistant Treasurer. Mr Newbury.

Mr NEWBURY: I just want to return to a matter that was discussed before. Does VicFleet fall under you, Ms Baxter?

Ms BAXTER: Yes.

Mr NEWBURY: Before there was a discussion about the government's announcement in May last year to replace 400 cars with electric vehicles and do that by the end of next year. Since then we have had about 40 per cent of the time between the announcement and the deadline pass. I just wanted to confirm the number the minister read out before, the number of cars that we currently have. Did I hear 75?

Ms BAXTER: The program was funding a total of 400 ZEVs over a two-year period, 75 in year 1, so up until 30 June 2022. We are going to deliver that, and the minister said that we are on track to deliver that by 30 June. The remaining 325 vehicles will be delivered in that second year, by 30 June 2023.

Mr NEWBURY: Okay. So it is two years rather than 2½ years?

Ms BAXTER: It is a two-year program.

Mr NEWBURY: Okay. Do you have line of sight of obviously the leasing arrangements for all these vehicles so you would be able to see whether or not it is achievable to get the additional 325 vehicles in that time?

Ms BAXTER: Yes, and we believe that is absolutely achievable and we are on track to deliver that—the 75 this year, 325 by next year.

Mr NEWBURY: Okay. I just do note that it is less than 20 per cent of the target, but I will leave that where it is. Do you also have oversight of government buildings, government landholdings? Does that fall under yourself?

Ms BAXTER: No, that does not fall under my portfolio.

Mr NEWBURY: Who looks after that? Yourself, Mr Loos?

Mr LOOS: Yes.

Mr NEWBURY: I wanted to talk for a moment about government buildings. Obviously we know that the government has confirmed a policy change in terms of government employees. We have heard previously the Treasurer talk about three days a week; I know a number of secretaries have informed their staff that employees would work in the office two days a week with an option of a third. I have seen emails to departments stating that. If I can firstly start, have you got a list of CBD government-owned space—and perhaps it is a question you might want to take on notice—that is, how much do you have?

Mr LOOS: We will take that one on notice.

Mr NEWBURY: Terrific, okay. Clearly with a reduction in the usage of that space there may even not be as strong a need to hold all of that space. Have you started, as a department, looking at that?

Mr LOOS: We definitely have as a department. The accommodation management is actually under a different division that is not under my—

Mr NEWBURY: Okay.

Mr LOOS: But I know a lot of work has been done in terms of the buildings and the actual premises, the leases and what we need to move to going forward.

Mr PEARSON: I think, if I can supplement Mr Loos's comments, Mr Newbury, these matters are always under consideration—pre pandemic, during the pandemic, post pandemic—to work out how you are efficiently managing your lease holdings, which is why we established the CAMs and why we have got that target of $100 million in savings, or originally it was $100 million.

Mr NEWBURY: So in terms of the work you have done, you mentioned that one of the others—was it Ms Baxter, perhaps—had done some work on utilisation. Is that right?

Mr LOOS: It is in our corporate services division, yes.

Mr NEWBURY: So is there anything perhaps that you can take on notice in terms of the work that is being done on what type of space or is there any comment that you can provide? I would think that if your staff are using the space maybe half the time they work, there will definitely be a reduction in need for space. Is that a fair comment?

Mr PEARSON: Well, it depends, I think, Mr Newbury. The target we have got I think is in the order of 12 square metres per FTE. I know the question you are asking. I think it is difficult at the moment because it is quite a volatile environment that we are in. If you look at the first six months of this year, we have had omicron, we have had school holidays, you had the long Easter break, you are having—

Mr NEWBURY: No, I mean, I was here for that too, but—

Mr PEARSON: Sure, but if I can just continue: if you are looking at sort of, say, 10 000 cases a day where people are either testing positive or they have got caring responsibilities, it does change the way in which people are coming to and from work. So I think from our perspective it is about trying to look at effectively managing the leases that we have got in place and looking at trying to find those ways in which we can activate that space as best we can. I understand the vacant space rate—I am sure I can confirm this, but I think it is about 0.48 per cent across the portfolio. So the vacancy rate is very low. We are very focused on trying to—

Mr NEWBURY: Can I ask you in relation to that figure: I do not know if you actually do a utilisation rate of the space. I mean, perhaps that 0.4 per cent—you might have two employees when previously you might have had 40 employees in that space. Do you see what I am trying to say? There is a difference between one person being on a floor now by comparison to 40 people on a floor, and perhaps you do not need an entire floor because on average you have got a whole heap less. So I think that 0.4 might be a bit misleading.

Mr PEARSON: Well, yes, but the other point to make is that leases are held for, as you would appreciate, long periods of time. It is not like you can sort of turn it off and turn it on. We are actively managing the portfolio because we want to try and make sure that we can provide that safe environment. I think the other point I would make too is that if you look at the benefits across outer metropolitan Melbourne and across regional Victoria by people working remotely, there is a significant economic benefit that has been derived in those areas as people work remotely.

Mr NEWBURY: With due respect, I appreciate that, it just was not the question. I guess where I am going is: earlier this year I recall there being a discussion about potentially government minimising their landholding in the city. Is that a fair comment?

Mr PEARSON: No, I think it is more about the efficient utilisation of the assets that we have got. I mean, I think that the hybrid model is here and here to stay. I think that the Productivity Commission has pointed to this. Deloitte Access Economics has pointed to this.

Mr NEWBURY: So there will not be sales?

Mr PEARSON: The Treasury precinct would be owned by DTF. But in relation to the commercial sector, a lot of that stuff is leased. For example, if you look at Lonsdale Street and Exhibition Street and if you are looking at 1 Spring Street, they are lease arrangements.

Mr NEWBURY: So is the government looking at letting any of those leases go?

Mr PEARSON: Oh, as I said earlier, Mr Newbury, we are constantly trying to look and work out what the needs and requirements are and to reflect that accordingly. We actively manage our portfolio, as you would expect.

Mr NEWBURY: Thank you.

The CHAIR: Thank you, Mr Newbury. Mr Richardson.

Mr RICHARDSON: Thank you, Chair. Thank you, Minister and department officials, for joining us today. Assistant Treasurer, I want to take you to the topic of procurement policy and I want to reference your presentation in which you referred to the Victorian government's procurement program. For the committee's benefit, in relation to the state budget of 2022–23, are you able to expand a bit on what you are doing to ensure value for money for Victorians?

Mr PEARSON: Yes. Thanks, Mr Richardson. Government is a big purchaser. In the 2020–21 financial year goods and services was in the order of $18.5 billion. Sorry, I might use these other glasses. They are a bit better—my failing eyesight with my advancing years. $38.5 billion—and that comprises $24.5 billion in goods and services and $15 billion in public construction. In relation to the state purchasing contracts I was referring to earlier, that is about $2 billion that we spend annually, and it is about trying to strip it out to those consumables and to make sure you get the best price. The reality is for government, because we are purchasing at such large volumes there is that opportunity to try and align our expenditure and have us work in a consistent, coordinated fashion. It makes no sense, for example, if I am the head of corporate services in Health and you are the head of corporate services in DJCS, for us to go out separately to try and sign up an electricity provider or a telco provider or getting Dell notebooks for our staff. It makes much more sense to look at trying to aggregate our spend and to try and find ways in which we can provide those efficiencies. And I think that for the benefit of the private sector, from their perspective, they start to see real value and interest because they recognise that it is a big contract with a long flow in terms of time. We will not tend to just sort of go in there and have a contract for six months or 12 months; it is usually a minimum of three years, with extensions.

What we are trying to do is to really drive those efficiencies and reforms to make sure that we can get better savings, because, frankly, if you think about it for a moment, does it matter if we are with one particular energy provider or another? Does it matter if we are with one telco or another? It does not. I mean, you can more efficiently drive a better outcome and realise those savings, and you can reprioritise those things to the things that really count, like, for example, putting patients first. I mean, you can look at running a more efficient, leaner operation.

The great thing about this portfolio is you are dealing with the plumbing of government, you know. It is really just trying to drive those internal efficiencies, those internal reforms, and realise those savings that could be reprioritised to the really important things that count. Procurement is a really important part of that and really finding those ways that we can drive those efficiencies. I think the other point, too—I love data, I love digital, I am a big data kind of guy. Who would have thought? Who would have thunk it?

Members interjecting.

Mr PEARSON: Haven't you heard of this before? Oh, please, let me enlighten you. So, I mean—

Mr D O'BRIEN: We don't have time, Minister.

Mr PEARSON: I can always make time for you, Mr O'Brien. You are dealing with the challenges in relation to the asymmetrical flow of information, and where we can really work together constructively and collaboratively and share that knowledge and information we will get better outcomes and better results. Look, I used to have these conversations with Mr O'Brien's predecessor. We are interested in trying to find those efficiencies and those reforms. The major parties might argue about how you allocate those funds accordingly, but I think we have all got an interest in making sure that we get the very best value for money for taxpayers.

Mr RICHARDSON: The quote 'the plumbing of government' is definitely the highlight so far. Assistant Treasurer, I want to take you to those SPCs across the Victorian government. I am wondering if you could provide, for the committee's benefit, examples of recently introduced SPCs or SPCs that are now more widely used across government.

Mr PEARSON: Funding of $13.7 million was provided in the 2020–21 budget to continue that procurement reform program to streamline and simplify procurement for both buyers and suppliers, improve procurement decisions through greater utilisation and insights into related data and leverage the government's considerable annual spend to achieve that greater value. We have delivered a key milestone under that program. From 1 July of last year the application of the VGPB procurement framework was expanded from around 35 departments and entities to a further 125 entities. That is allowing those entities to have the opportunity of purchasing off those panels and getting a better deal. And again, the upside is we are dealing with the private sector and having that level of confidence. If we can give them a long-term contract, if we can guarantee volume and if we can really bulk up some of these contracts, then we are more likely to get a better outcome and a better result.

The VGPB expenditure program is a procurement reform initiative that will expand that coverage. Around 100 of these additional 125 entities will transition to using SPCs from 2021 to 2023. So sometimes they might have their existing contracts in place—you do not want to start terminating those agreements, but you do want to start to transition them onto the VGPB framework and to have a more focused approach. So that will bring it into line as well in making sure that it is applicable to construction and social procurement as well. We anticipate this is going to grow rapidly over the coming years. One part of the reform is a requirement that agencies use the VGPB umbrella over time to transition to using more of those SPCs. Because again, the SPCs are quite significant in terms of what they offer. There are currently around about 32 SPCs we have in place that cover a range of goods and services. DTF manages 18 of these, DPC has 13 ICT-related SPCs and DJCS has got one SPC. Again, you are looking at around about $2 billion that we spend via the SPCs.

Some of the benefits are better value for money; improved supply and service to the community—we want to reduce the administrative burden and risks through centralised due diligence and prenegotiated terms and conditions; improved contract performance and quality assurances; and the ability to drive improved quality outcomes, such as through the social procurement framework. Some of the benefits I think for the suppliers are simpler and more consistent tender processes, and that enables smaller and medium-sized businesses to supply the government; a proactive market engagement to help identify new suppliers; more information released sooner through forward activity plans; standardised and simplified contacts presented in plain English; and timely and relevant feedback offered to all suppliers. We want to be a good contractor as well. We actually want to be a good client to these suppliers. I think that when we start to get more engaged, we start to refine our proposition and we get better, it will be a better client experience for the suppliers, and that will drive further efficiencies and improvements. It is an important initiative that we are embarking upon.

Mr RICHARDSON: Thank you.

The CHAIR: Thank you, Mr Richardson. Mr Hibbins.

Mr HIBBINS: Thank you, Chair, and thank you, Minister and team, for appearing this morning. I want to ask about—

Mr PEARSON: Hope you are feeling better.

Mr HIBBINS: I am feeling great.

Mr PEARSON: Oh, good. Excellent.

Mr HIBBINS: I want to ask about land sales and your role as Assistant Treasurer in the coordination of government land sales. There are currently about 50 LXRA-owned properties for sale in Glen Eira, which I assume were acquired through the voluntary acquisition scheme. Did any of the departments or agencies put in an expression of interest for those properties?

Mr PEARSON: I might need to come back to you on that one, Mr Hibbins.

Mr HIBBINS: Okay, take that on notice.

Mr PEARSON: Yes. If I can provide additional information to you, I shall.

Mr HIBBINS: Okay, fantastic. These properties would have been likely acquired in 2016 and are now being sold in 2022. Given the state of property prices now, that is probably a pretty tidy profit that the government is making. Are you able to inform the committee how much it cost to acquire those properties and what their current values are?

Mr PEARSON: I would need to seek some guidance on that, Mr Hibbins. It is not clear to me which department or agency may have acquired them. If we are in the process of selling those assets, I am not necessarily sure we want to be disclosing what our value is for those assets because it might prejudice the sales process, but I am happy to take some advice on that. I think more broadly if we look at land sales at a higher level, government looks at actively managing its portfolio of land and working out if land is surplus to requirement and then running through that first-right-of-refusal process with arms of government to then work out whether—

Mr HIBBINS: I want to ask about the first-right-of-refusal process. The current status of some of those properties that I mentioned are for sale is they have actually been passed in at auction, so clearly you are looking to get good value for them. One of the issues that was raised as part of the VAGO report into government land sales, and I will just quote from the report, was that:

> The increasing market value of land also impedes agencies' ability to buy surplus government land, particularly where the agency intends to purchase and retain the land for community use rather than financial benefit.

I raised this with the Treasurer as well. Is the government putting revenue or profiteering from government land sales ahead of potential community uses?

Mr PEARSON: No. Probably the first thing I would want to say is that the government is in the business of providing services to the community. Government should not be in the business of becoming land bankers and just hoovering up vacant land all over the place. It is about making sure that the land that the government holds across its disparate departments and agencies is being used properly and appropriately. I can give you an example in my electorate. Boeing Reserve is, I think, owned by the department of education. The department of education thought that maybe sometime down the track that might be used as a school. It is public open space. It is on the books. But the department has got an eye to the future and is like, 'Well, we're going to hold onto it'. This is more about trying to work out: do we really need to be holding this land, and for what purpose? Mr O'Brien certainly talked about this before. I think we are in the times of Hadrian, we are not the times of Trajan. We do not have this sort of limitless expansion where we can keep doing whatever we want. We have got to recognise the times that we are in, and we have got to find ways to—

Mr HIBBINS: Okay, I might just get to some questions that I really want answers to.

Mr PEARSON: You do not like Hadrian? I think it is about more efficient use of assets.

Mr HIBBINS: You can take these on notice if you like, Minister. In the previous financial year how many properties were sold, what was the total revenue from those properties, how many expressions of interest were submitted by government agencies on those properties and how many proceeded to transfer?

Mr PEARSON: Mr Hibbins, you are talking about past actions, and I think this is more about the estimates. But I think if we look at the sale of non-financial assets, for this current financial year we are expecting $302 million, $654 million for the next financial year, $639 million for 2023–24, $507 million for 2024–25 and $400 million for 2025–26.

Mr HIBBINS: And what of that is land sales?

Mr PEARSON: Well, it is non-financial assets. That includes a variety of asset sales, and that is where you would find the surplus government land. It is budget paper 5, chapter 1, page 10.

Mr HIBBINS: Again, perhaps the specifics in terms of land sales and those questions that I asked could be taken on notice, if you are unable to—

Mr PEARSON: Yes, okay. Budget paper 3 includes an output performance measure for DTF titled 'Revenue from sale of surplus government land including Crown land'. For 2021–22 DTF's target is $150 million. This target is expected to be met, subject to the outcome of a number of property sales over the coming months.

Mr HIBBINS: Okay, thank you. Again I will just ask about the first-right-of-refusal process. One of the issues that the Auditor-General raised was around the time line and the ability for agencies to actually meet that 60-day time frame to put in an expression of interest and being unaware that they can request an extension. Has the department, subsequent to the Auditor-General's report, actually looked at that policy or looked at making sure that agencies are best placed to be able to seek expressions of interest in land transfers?

Mr HIBBINS: Mr Loos might wish to supplement my answer, but I think the answer is yes. In terms of the first right of refusal, it is a policy that we go through, but I do not think it is so constrained and restricted that, 'Well, you haven't had the opportunity to put in an offer for 60 days, therefore you're out and therefore it is rushing to the sales blocks'. Usually these processes are fairly iterative and involved. The department seeks to work out in the first instance whether land is surplus to requirements, and it goes through an extensive consultative phase.

Mr HIBBINS: I am aware of the process. My understanding in regard to the existing land sales policy is that exemptions can be requested by you or cabinet in terms of agencies not having to meet the market value of the property. Have any exemptions been requested by agencies in regard to the land sales policy?

Mr PEARSON: I would imagine that would be the case.

Mr LOOS: We will provide a detailed statement.

Mr PEARSON: I will try and get some further information to you, Mr Hibbins. If I can provide additional information to you, I shall.

Mr HIBBINS: Okay. Finally, Minister, you have outlined $150 million in terms of a land sales target. Do you feel—this was raised, again, in the Auditor-General's report—that having a target actually then creates a conflict in terms of seeking a community benefit for the piece of land which may not attract that value versus a set target from government to actually be selling that on the private market?

Mr PEARSON: I disagree with you, Mr Hibbins. I think we want to actively manage our portfolios. We are not going to be passive managers having a bloated balance sheet. We want to make sure that we are efficiently running our portfolio to maximise the benefit for the community. That $150 million, I would hazard a guess that a lot of it will be going directly to Health because we are putting patients first.

Mr HIBBINS: Thank you, Minister.

The CHAIR: Thank you, Assistant Treasurer and Mr Hibbins. That concludes the time we have set aside for consideration of the Assistant Treasurer's portfolio today. The committee will follow up on any questions taken on notice in writing, and responses will be required within five working days of the committee's request.

The committee will now take a 15-minute break before moving to consideration of the regulatory reform portfolio. Thank you.

Witnesses withdrew.