CORRECTED TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2005–06

Melbourne — 31 May 2005

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Mr J. Lenders, Minister of Finance;

Mr I. Little, secretary;

Mr S.Helgeby, deputy secretary, budget and financial management; and

Mr W. Hodgson, deputy secretary, commercial division, Department of Treasury and Finance.

The CHAIR — I welcome Mr Ian Little, secretary of the department; Mr Stein Helgeby, deputy secretary, budget and financial management division; and Mr Warren Hodgson, deputy secretary, commercial division, of the Department of Treasury and Finance; and departmental officers.

For those who have just joined us, could we ask that mobile phones be turned off and pagers put to silent. Minister, it is over to you for a brief presentation on this portfolio.

Mr LENDERS — Gee, you are hard on me with these 5-minute presentations. I am all geared up to talk about the good things.

Mr FORWOOD — Next year we will have 4 hours!

Mr LENDERS — I could deliver a presentation in less time than that, Mr Forwood, but nevertheless, because we are being brief, the secretary of DTF, with the Treasurer, has already provided special details for the committee about the DTF budget output structure, output initiatives and objectives as part of the Treasury's presentation on 13 May, so I will not go through those again today, particularly not in the time I have. But I will go through very quickly the six core areas of my responsibilities as Minister for Finance.

Overheads shown.

Mr LENDERS — There is a financial management framework, and that in a sense is probably one that I certainly had more interchanges with this committee on during the last year. I think it has been twice now that we have actually had a briefing with the committee on the introduction of AIFRS and what that involves, and there have been separate ones with DTF briefings of the committee staff.

That has probably been the big issue in the core responsibilities that the committee has obviously had a great interest in. We have also had legislation in the Parliament as we transit through that very complicated process of a new accounting system while keeping transparency and openness and clearness about where we are going. That has been a critical area, and I think it is one again we can explore a bit further during questions. It has been a big challenge, and one that I think we have sailed through quite well. Again, I know I have said this before to the committee, but the only government in the world that beat us at this was Jamaica, so we are right out there in front in this area.

The CHAIR — Where was it?

Mr LENDERS — Jamaica! It had some measures of international financial reporting standards out there before us. We beat Iceland, Malta, we beat Romania, Kenya — the lot — but Jamaica got in ahead of us. But in all seriousness, it is a big issue, and we are ahead of the field, the other governments and in the corporate sector. We are ahead of the issue. It has been a big challenge, and the unit in DTF that has been dealing with that has dealt with it very well, along with Deloittes, and we have actually got great information out to the public sector on that. That has been the introduction of AIFRS, and financial reporting has been very good.

Again we cannot just pass through the AIFRS without commenting on some of the things that we hold near and dear to us in the budget and how volatile it has become. The transition to AIFRS means that there will be huge movements — like a half a per cent change in the federal bond rate can see a surge in the sense of reported superannuation losses, or the other, of $1.5 billion, with no action whatsoever of the government, but simply by this change in accounting standards. Then there has been the write down by the change to standards of what the level of debt is that we have in unfunded superannuation liability. There have been some good lessons in here — the dialogue that we have had with the Auditor-General's office, the work we have had done with Deloittes, the work we have done with the various CFO/CEO sort of conferences, training, discussions and alerts throughout the government sector have been fairly critical, not just with PAEC, but with all these other areas in making sure we all have our eyes open to what is coming and work through it in a collaborative way.

The second area I will touch on is the administration of government assets. Property is huge in government. There is a vast amount of property that is managed through the portfolio, and a lot of ongoing interesting policy work we have been doing is on how we can consolidate, not just a relocation of departments. We all know about the move of DHS from five buildings to one at this end of the CBD, also the move by the State Revenue Office, DIIRD and the Department of Justice again to the Southern Cross site. That consolidation is something we have been talking about for a long time. This financial year is when it will happen with both those big projects.

There is also the ongoing policy work on how not to have duplication and how we better use our facilities. I know that at a community cabinet I went around with the property group through Castlemaine and Maldon, for example, just to look at all the different areas where there was government. That alone is often an illustration of how we can do it better by some more co-location and how that will in the end save money for the government and provide a better one-stop service for the community.

The administration of the Essential Services Commission is the responsibility of the finance portfolio, and while a lot of the work on the water price review, the electricity distribution price review, taxi fares, natural gas et cetera comes under the policy framework of other ministers, the administration of the ESC and the ticking over is part of our responsibilities in the finance portfolio.

As to purchasing and procurement, we released this year the state purchase contract policy, which again is across all of government. We introduced our strategic sourcing techniques in our whole-of-government contracts and looking at our probity policy. But just by doing this more sensibly, more effectively, more strategically, there are potential savings of 5 per cent in some of these areas to government, so it is at the forefront of our thinking.

Superannuation continues. The management of the unfunded superannuation liability is obviously of critical importance in the portfolio, but also how we can better deal with some of the issues here. We had to manage the superannuation benefits bill, which dealt with some of the superannuation charges for basically a lot of media attention to corrupt policemen and where we go with their super benefits. That was a sensitive policy area which I think we got through well. We also have the most efficient use of the ESSS, and a move to paying tax benefits in this year means it is 2.2 per cent on average better off for each worker in the scheme. It is better off for government in lower premiums, and it reduces the unfunded liability. The change to something as substantive as super is something that has to be dealt with delicately. Stakeholders have to be taken through it, but better management of the legislation, of the assets and of the procedures is something that is an important part of the finance portfolio.

Again insurance is one of the eternal issues in this portfolio in the three and a half years I have been here, and whether it be progression in builders warranty, medical indemnity, public liability, professional liability, market stabilisation — all those areas — this is ongoing work between governments, between levels of government, between industry and government, between the community sector and government. Again I am passing over it very quickly, but there is a lot of material in that area. Chair, I think that probably sums up the 5 minutes I had allocated to me, and I will hand over to you for questions.

The CHAIR — Thank you, Minister. This year all of the overheads are being tabled with our report as evidence, so, even though it was succinct, it will be there in detail.

If I could take you to the international financial reporting standards — another best seller — in the international financial reporting standards, you outlined your requirements to have compliance across government and also government entities. What are the milestones you have set to ensure that compliance occurs, and how are you monitoring the entities meeting those milestones?

Mr LENDERS — I think, firstly, this needs to be a process in how we are doing it. We need to be cognisant of different people at different reporting times, so the first thing we did in the monitoring was to separate in the training, compliance and a range of things those organisations that had end-of-year reporting at different times. So whether it be 31 December reporting or 30 June reporting, whether it be somebody reporting at different times during the year — and I think there is another group that reports at the end of September — firstly we stripped it down into those that were most immediately affected by AIFRS and those that were not, obviously prioritising the ones that needed to report firstly. Secondly we made a separate segmentation on the level of risk and on the size of the organisation and where they fitted into the budget process and the reporting process. You would obviously treat the Victorian WorkCover Authority differently from an advisory committee in the shire of South Gippsland around a cemetery trust or whatever.

There was segmentation so that we dealt appropriately with our risk and also with where they came into the budget process. In how we dealt with that we certainly had training and workshops, and we had a lot of those which we outsourced to Deloittes to work with DTF to do, so that all the managers in government were aware of their obligations and responsibilities. Firstly so that they knew the task and knew the gravity of the task. We did not just leave it to CFOs. Ian Little and myself, for instance, spoke to a gathering of CEOs to say that this is almost of the magnitude in accounting that Y2K or GST were. If you do not get it right, you can hype up about it and spend a lot of time and money on unnecessary things, but on the other hand if you do it strategically and well, they are of a similar magnitude in accounting terms to all these bodies — the same as GST, the same as Y2K, so there were a lot of lessons to be learnt out of there. With the Deloittes work, we took people through standard AIFRS implementation methodology and guides, we took them though issues management. We put it in front of their peers, so that when we had a lot of people from cemetery trusts, for example, or from hospitals or from other like organisations, if they were together working through them we were far more likely to see emerging problems that needed addressing than we would have been if after the event they came back to say, 'Why didn't we …' or the like.

The final thing I would like to touch on was that we had our financial management knowledge centre, which was a web-based centre, up and running. All these fed into it, so that those who missed a session or who wanted to go back and recheck something had an interactive site where they could get more information. This was a living, breathing, moving process, so that when we got to the stage of reporting and budget, we were in place. That is the path we went down.

The CHAIR — Thank you. That was very comprehensive.

Mr CLARK — My question relates to government property and consolidation of departments. I was wondering whether on notice you can provide us with a list of what the current head office locations of various departments are and what floor areas they take up and what the position will be once the consolidation you referred to is completed in terms of locations and floor areas? Going forward, what assessments have you done of the likely need for additional accommodation over, say, the forward estimates period and beyond, and what plans have you got to meet those expected future needs for departmental head office accommodation?

Mr LENDERS — I welcome the question. I will respond to some and take the balance on notice. Firstly, I could probably reel them off here, the 10 departments and locations now, but we certainly are following the policy that was started I think by Roger Hallam of the consolidation to the eastern CBD of all government departments, and the significance of the DHS move now to the Lonsdale Street site and the DIIRD, DOJ and State Revenue Office to the Southern Cross site is that all 10 departments — he says confidently — will now be in the eastern CBD as of March next year when the Southern Cross site is settled into. I am pretty sure that will be the case. They will all be moved in. The location is all in place.

On the issue of the square metrage, I will take that on notice. I do not even know if we have that figure. On the issue of future needs for the departments, I certainly know — and Warren's division gets this all the time from me— each time there is a suggestion that someone wants space, we go through an exhaustive process with the property group where we keep on saying, 'Okay, we want a very strong case as to why you want space'. We certainly want to look at whether there is existing space from another government area that we can use. What are the long-term needs? For example, Melbourne 2006 is not actually a government department but it is obviously something on which we work with the Department for Victorian Communities. The Department for Victorian Communities is conscious of the fact that its time span will end next year. You need to factor other things around it.

As part of the forward estimates process we try to anticipate where things are going. But it is a very strong process within the commercial division of trying to anticipate where this happens. The last thing we want is any duplication, any unused space or any unnecessary moves. We look for consolidation opportunities that are there to get those synergies. The classic example is really the DHS consolidation to Lonsdale Street. DHS is currently in five separate buildings right at the top of the central activities district. For two years I have been a DOJ minister down that end of town, and I know the productivity loss because officials, ministers and staff have to commute from whether it be the DTF location at one end and the DOJ location at the other. I know we factor a 2 per cent productivity savings in by having this done, just saving the waste of time — and I notice you were nodding Chair — and energy for officials and ministers by their not being consolidated. We looked at that.

The eastern CBD strategy of Roger Hallam and followed by this government is to realise those efficiencies. But that is the mindset that we have, by saying if we locate well, we get synergies in that will actually save the sources for more important service delivery aspects or infrastructure processes.

The CHAIR — Your taxi fees will go down. Your health of workers will increase as they run between buildings.

Ms GREEN — Just as a quick supplementary question: whereabouts in Lonsdale Street is DHS?

Mr LENDERS — It is next to that octangular pink building where the Australian Electoral Commission is. I am trying to think what the number is. You go up the hill.

Ms ROMANES — Is it next to Casselden Place?

The CHAIR — It is opposite Casselden Place.

Mr LENDERS — It is a big Multiplex construction site downhill from Casselden Place.

Mr SOMYUREK — I refer you, Minister, to page 11 of budget paper 4. My question is in relation to unfunded superannuation liabilities. Can you please advise the committee how the government has reduced the state's unfunded superannuation liabilities?

Mr LENDERS — It has been one of the important things again. I am speaking a lot about Roger Hallam today, not that I intended to, but back in 1995 when Ian Smith's and Roger Hallam's reforms were moved from an essentially pay-as-you-go, we took the super out, to actually funding employment. We inherited that, and it was a good policy. We have embraced it and gone further. We have shortened the time line to 2035. It is interesting. I just pass an observation about how excited the federal Treasurer is about his future fund. This state has been ahead of him for quite a few years in actually dealing with it itself through unfunded liability. We set up the principle. We brought it forward to pay all the unfunded super out by 2035. Above and beyond that, as at 30 June 2004 we were actually $1.8 billion ahead of the schedule we had set for paying out that unfunded superannuation. Part of those are calls that the Treasurer will make every year on what is the best use for cash at that particular time, in the cycle and in a range of things. But we certainly are not just keeping up to that schedule of paying off by 2035, we are actually ahead of that schedule. That is quite significant.

In addition to that, and going back to my earlier point about the emergency services superannuation fund and what we are doing there, it feeds into the same issue. We looked at how that fund was being managed. All our other funds — whether it be the main super fund or the parliamentary fund — are all taxed in the fund, the benefits. What that means is that it is taxed at a lower rate inside the fund so that to the beneficiaries to the fund when they receive it there is greater money coming out at exit. We looked at how these are managed. This is what the commonwealth regime puts in place. We are now bringing the ESSS into that same tax benefit ratio, and if you look at what it means, it means that on average members are 2.2 per cent better off. If we cut our government liability by $180 million, it means that on average the premiums government pays into these funds are down by 1 per cent. It is win-win-win simply by efficient management under federal law of a superannuation scheme like all the other combined benefit schemes are actually being done.

The other thing as well which helped to bring this down was during the term of my predecessor as Minister for Finance, Lynne Kosky, the Beneficiary Choice program was legislated through the Parliament, which again lets some pensioners in the superannuation funds actually cash out some of their benefit and make other choices with them. Again, it is not a policy you take lightly. The point of superannuation is often ongoing income support, pensions and the like. On the other hand, a lot of accumulation funds are all about choices. Through a range of these measures, we have actually managed the liability. We have a clear time line where we deal with a historical anomaly. We still have the debt, for want of a better term, of the Bolte government, the McDonald government, the Dunstan government, whatever you like, of this unfunded superannuation. In one generation, we are actually clearing that while providing for the future. Through this whole range of measures, it is being managed now, and it is ahead of schedule for that managing down.

Mr CLARK — I want to ask about the work being done by the heads of Treasuries' group HoTARAC in relation to accounting standards. Firstly, back in January your department issued some guidance material about accounting for PPPs in anticipation of some work to come out from the International Financial Reporting Interpretations Committee. You were expecting that guidance material to be endorsed by HoTARAC. Can I ask firstly, is it possible for the committee to have a copy of that guidance material which may well be relevant to our work on PPPs? Secondly, now that the International Financial Reporting Interpretations Committee has issued I think the exposure draft that was being anticipated in January, what is your reaction to it? Thirdly, and more generally, how do you see the GFS-GAAP convergence project being undertaken by the HoTARAC proceeding? When are you hopeful that that convergence will be achieved?

Mr LENDERS — I will start in general terms and then see whether the secretary or the deputy secretary wish to answer further. To paint the picture of this, when a financial reporting council made the decision that

Australia was going to go IFRS, and then the Australian Accounting Standards board was essentially tasked with coming up with draft standards, probably the most disappointing thing from the Victorian point of view — and I am sure I can say the ACT point of view which is also in the same conundrum as we are by having the standards at the start of the year rather than the end of the year — was how every single time line, and I use the term deliberately and will stand corrected if I am wrong, slipped, which made it particularly difficult for Victoria to actually remain at the head of the field and be ready for a budget on the new accounting standards.

You, Mr Clark, would not want to hold your breath too much when the AASB says it is going to come out with a draft guideline. Part of the reason that we needed to amend the Financial Management Act amid some controversy a year or so ago was so we were at least inoculated — fortunately we have not had to use this provision — , if we had no standards to go by by the time we had to bring in our budget and ask the Auditor-General to comment on it according to the current standards. Firstly, it has been a very slow and tortuous process. It is in place. It has been of assistance. Some of the papers from the staff of the AASB and others actually short cutted some of those things for us. That was a slow process.

Secondly, on the issue of GAAP-GFS convergence, I am glad we did not hold our breath waiting for that because we would be blue in the face by now and would not have a budget. I wish those time lines were not in place for this year's budget. I might ask Stein or Ian to comment on whether we expect them to be in place in the future. I am certainly not holding my breath on that. I guess that sums it up briefly. We want to work with this, as the government has done; with the Auditor-General, which we have; with PAEC, which we have; and with the various interested bodies, but the slowest part of this has been the AASB.

Mr HELGEBY — I shall comment first on the GFS FRS5 convergence issue, and you raised the issue of service concession arrangements, or PPPs accounting. In relation to the first one, the Financial Reporting Council charges the Australian Accounting Standards Board with its agenda. The first of those was to implement a move to international accounting standards; the second was to converge. The first of those has been largely achieved; the second is now on the agenda. Drafts are being actively discussed within accounting circles around how this convergence should work.

If the process of consultation goes on the current time frame, we would anticipate that next year's budget would be done on a converged basis subject to all the relevant parties agreeing, which is obviously the AASB plus the Financial Reporting Council. Ultimately accounting standards are an instrument of the federal Parliament. In addition there would be views among the different jurisdictions at government level about what the timing of implementation should be. It is possible that next year's budget will be done on this basis.

The way this year's budget has been constructed and the presentation of it implies that there would be much less change in constructing next year's budget if it were on a converged basis than there was in the shift from our old standards to our new standards. I would be happy to keep the committee informed of the progress of that over the course of the year.

Mr CLARK — The first part of my question related to the additional guidance on the allocated FRS5?

Mr HELGEBY — The history is that there has been no proper accounting standard to cover PPPs, or service concessions as they are now called, in Australia. Australia has tended to adopt the standards, and we have adopted the standards that are pretty much set out in the UK FRS5. The key issue that is tackled in these standards and any proposed replacement to them is test of control and how the test of control operates.

We have operated on one standard which asks you to assess on the basis of risk and rewards. The IFRC, which is the interpretations committee of the international accounting standards board, has a draft document out there which proposes to revisit the test, in particular to revisit the test of control. We are currently going through and examining the implications of that trying to understand, as are all other affected parties and jurisdictions, what this means. We will be putting views to the Australian Accounting Standards Board about whether or not this particular statement should be applied in its current form or whether we still should be keeping in place a risk-reward test, much like we have in the existing FRS5 application.

The CHAIR — If you want to take on notice provision of any analysis in relation to risk and reward on any projects that you think would be helpful, then that would be useful.

Mr LENDERS — Whenever there are further developments we will continue to brief the committee on them as we have in the past.

Mr MERLINO — Further to Mr Clark's question, Minister, you referred to your discussions with the Auditor-General. Firstly, can you outline to the committee the Auditor-General's views on the government's new financial measures, and secondly, can you discuss the level of compliance of the 2005–06 operating statement with the new accounting standards as well?

Mr LENDERS — On the first one, the Auditor-General on 28 April signed off on the estimated financial statement as part of the budget process. That included the estimated operating statement in the budget paper 4. The critical part from the government's perspective was not just the statement but also the fact the emphasis we placed on the net result from transactions rather than net result, which again I briefed the committee on the day the Treasurer made that announcement.

We have had a process where we have gone step-by-step with the Auditor-General on this change. The Auditor-General, of course, wears many hats — he is not only Auditor-General of Victoria, he was president of the CPA, he is also on the Australian Accounting Standards Board, and I think he is actually on the international accounting standards board. He wears multiple hats in this process, as in many ways we all do.

Certainly in that sense that was the critical time. In the lead-up to that, in August last year DTF, through the secretary, wrote at the time to the Auditor-General seeking feedback on the use of standards as they were at that stage. We also had in February this year DTF forwarded to the Auditor-General's office a draft of estimated financial statements. Clearly we put out with the mid-year financial return that first indicative of an appendix of the type of return — the indicative way of how we would report using result from transactions.

In that sense the Auditor-General has been working with DTF and with government to get us through this conundrum we have had where we have been the leader in the field where there was no replacement for GAAP for a lot of the time. We are actually trying to do this. We have worked with him. He has certainly expressed no concerns on the new format. In fact, on 28 April he effectively signed off.

Mr CLARK — The Auditor-General's report on performance management and reporting back in 2003 referred to the need for the development of performance indicators that link the resource allocation process to departmental objectives and to government outcomes, and that remains a key component of the Victorian management and reporting framework that has yet to be finalised. That is reported in April 2003–04 performance management and reporting progress report and a case study. Can you tell the committee what progress has been made to date and what further progress, if any, is expected to be made in 2005–06 to finalise this framework, particularly in a way that would enable the Auditor-General to audit performance statements by departments?

Mr LENDERS — I will take some of that on notice, but the key answer is that the government's *Growing Victoria Together* document addresses the main issues where we have it all out there. We have a discipline within government that if I as a minister wish to bring a submission to cabinet, then I need to link it back to the Growing Victoria Together objectives. Off course we had Growing Victoria Together and now the Premier, I think earlier this year or late last year, has released the revised Growing Victoria Together, which is a guidance for the next 10 years of the plan.

Similarly if I as a minister wish to bring any item forward for consideration in budget, again I need to link and present that back to the GVT objectives at every stage and for every request we have. The core area that the Auditor-General was raising has been well and truly addressed, but I will take on notice the specifics of that and get back to you if we need to go further with that.

Mr CLARK — That answer relates to the internal government decision-making process whereby you link your cabinet submissions and justification for initiatives to Growing Victoria Together. I think the Auditor-General was more after a publicly demonstrable linking process, and in particular about a process that then allowed for performance measures and statements within the financial statements to be audited. I am not sure whether the government agrees with the Auditor-General's argument that we should move in that direction or not, but I am wondering if there are plans to move in that direction.

Mr LENDERS — The issue is a key area. There are the necessary statements. I think, Mr Clark, appendix B at page 323 of BP3 is essentially where we have our Growing Victoria Together progress report. Again these issues are covered in multiple areas. I think that answers most of the areas, but I am happy to take on notice anything further in that area.

The CHAIR — We will check that reference and if there is any further clarification sought, we will do that in the follow-up questions.

Ms ROMANES — You provided a slide which outlined key achievements and challenges in the insurance area, and you have talked about various insurance reforms. Could you tell us more about the impact of the reforms in the insurance sector on the Victorian economy?

Mr LENDERS — This has probably been the largest single ongoing challenge in the finance portfolio over the past four or more years, getting this balance in insurance right. If we paint a picture of February 2002 we literally had an ultimatum or a stark reality that two of the three providers of builders warranty insurance at the time were going to exit the state within a matter of days or weeks. A bit later in the period we had pretty well every profession telling us that professional indemnity insurance was no longer available or was not affordable. Pretty well every small community organisation was saying that public liability insurance was not available or affordable. Small businesses were coming to the same conclusion and we had the medical indemnity issue as well.

Some of those were done collaboratively — medical indemnity was as much done by the commonwealth as by the state. The state did two things in professional indemnity — bring in proportionate liability in economic issues and deal with professional standards legislation that the council set up. There were two things the commonwealth did with amendments to the Trade Practices Act and amendments to the Insurance Contracts Act which brought it back into synch with Lloyd's products. We had a 10-point plan with builders warranty insurance. I know the Attorney-General likes 10-point plans but I had one, too. There were 10 points that we did jointly with New South Wales where we harmonised the two states and brought them in.

You asked about the effect on the community now. If we go to public liability insurance, there was no-one and we now have multiple suppliers. The CGU group is out there, and the CCUA which is a consortium of three major companies. We even had the Our Community Municipal Association of Victoria one. If we look at those, the MAV one now has probably over 1000 people in it. I saw I think last week that they have just cut their premiums by another 5 per cent for the same people. We have had the CGU and the CCUA that I think have both announced in the past few weeks or months that they have cut their premiums by 10 per cent.

We had a forum in early April of a lot of the stakeholders who had raised issues during the three years before. We thought a lot of these insurance things were over but you never say they are over without going back and evaluating them. As Mr Forwood would understand, it is like a game of chess really — after the event you go back and look at what lessons you have learnt from it.

It was interesting going around the table on the key issues of affordability — this is public liability — and availability. There was no real issue of availability, there was pretty well consensus that insurance was available again. On the issue of affordability there was still conjecture and some argument. In some areas like adventure tourism and the like there was a quantum leap from where we had gone. In other areas some organisations were less sure.

We are now drilling down into some of the Australian Competition and Consumer Commission (ACCC) data which shows for professional indemnity a 17 per cent drop in price and public liability or the reverse of that. We are working collaboratively with the commonwealth on getting the Australian Prudential Regulation Authority to drill down into data at far lower levels so we can get a more informed assessment as to where this goes. The long and the short of it is there is no doubt.

In builders warranty there are now six suppliers in the field. In public liability there are clearly four or five in the field. In professional indemnity the anecdotal and the ACCC data is showing there is availability and prices are coming down as there is greater certainty in the market. That certainty has partly come because of the tort law reform, there is no doubt about it. It has partly come because of the shock of the exit of HIH and the shock of September 11, which all came in 2001, is now passing a bit into history. There is no question that if you look at those community groups, if you look at the sporting groups and the small businesses and the professions, there is greater availability and affordability than there was. These reforms have had an effect. They actively affected the community so things like the Warrandyte festival in Ms Green's electorate has insurance again.

Mr FORWOOD — It better not be.

Mr LENDERS — Some of her electors go to it, Mr Forwood. I could go through multiple instances where this is happening but the reforms have had an effect. Interestingly, at the ministerial council on insurance we had quite a reflection on where it had gone and harmonisation in a range of areas. However, I think we need to be wary. The big challenge is still that if people think the crisis is over, some of the risk mitigation strategies that businesses, community groups and the community need to do will be allowed to slip. The immediate challenge has been addressed but there are ongoing issues on which we cannot let our guard slip.

Mr FORWOOD — In your capacity as minister responsible for the financial management framework and financial reporting I refer you to the second-last paragraph on page 1 of budget paper 3 where the first sentence is:

> The cost measure for each output is the total output cost and includes state appropriation revenue, as well as funding from other sources.

On page 239 of budget paper 3 we were advised that the community strengthening output group which has a total output cost of $10.2 million in fact has a total output cost of $105 million. I wonder if you could advise the committee how many output groups in the budget papers are incorrect.

Mr LENDERS — I will take that on notice. I am very confident that this is a very good document but I will take on notice any ones that we may have in this area. Without shirking the question, if I look at the front page of budget paper 1 it says the budget is presented 'by the Honourable John Brumby, Treasurer of Victoria'.

Mr FORWOOD — I didn't think you would go down that route.

Mr LENDERS — In a sense I suggest you might have had a better response on 13 May when the Treasurer was here, Mr Forwood. The serious point about outputs for us is the whole point of reporting, whether it be on outputs or other measures, is these need to be dynamic things that reflect the current time. You do not want to have an output for something that is historical. I could have an output under major projects, for example, of building the National Gallery of Victoria, something that has been built. Clearly these things need to be dynamic and they need to keep on moving. If you think any of them are inaccurate — —

Mr FORWOOD — That one is, and I know why it is but it calls into question whether other ones are as well. That is my worry about it. I am happy to have a conversation about it afterwards, Stein. I know why it is inaccurate.

Mr HELGEBY — It is all about the variances.

The CHAIR — It came up in Victorian Communities. The minister has taken it on notice. The offer is if you wish to make any errata slips, we will — —

Mr FORWOOD — Help.

Mr HELGEBY — I might take it on notice because there have been some structural changes in the Department for Victorian Communities in particular, some machinery of government changes.

The CHAIR — Actually it went back a number of years. We identified that but we are pleased you will take it on notice.

Ms GREEN — Taking you back to insurance, you gave us quite a bit of detail but I was wondering if you could address yourself specifically to what the government is doing to address the challenges facing professionals with regard to obtaining insurance in Victoria.

Mr LENDERS — I touched in general on the professionals before. It is one of those extraordinary challenges in a sense as to how we deal with professional indemnity insurance. It took a while before the message started getting through to government that professionals were having difficulty with their insurance. Some of it was because often it only hits at the last minute — an insurance broker will by definition not tell their clients they are having trouble finding insurance because they do not want them to go to another broker so you have a lag effect in some of these areas.

Finding out why insurance was not available was one of the most puzzling parts of this. One of the first bodies that came to the fore in this was CPA Australia. Its national executive officer, Greg Larsen, was quite illustrative in trying to drill down with people in the Department of Treasury and Finance at the time to say, 'How did this happen and why is it happening?'.

I mentioned briefly before that there were four areas that we ascertained were causing a shortage of professional indemnity insurance. The first of them was that there had been a High Court decision which had changed the interpretation of a claim incurred under the Insurance Contracts Act. Because it put us out of synch with all the Lloyd's syndicates in the post-September 11 climate they were averse to risk and basically vacated professional indemnity in Australia because of this single change. So that was identified. At Victoria's urging the commonwealth eventually changed that, and that was one done.

The second was the professional standards legislation and the Professional Standards Council. Since its establishment the council has moved to the Attorney-General, but the establishment was my responsibility as finance minister. All jurisdictions — other than Tasmania, which will soon be on board — are now part of it. It means that if a profession has higher risk mitigation, and they take precautions and have various professional standards that give their consumers greater certainty that they are doing the right thing, they can have caps put on the limits of the claims with them. Mind you, there is an incredible rearguard action from the banks at the moment that are basically saying to any law firm that wants to take advantage, 'We will not do business for you'. In some ways it is more akin to *Pirates of the Caribbean* that it is to Australian commerce, but that is an interesting battle between the lawyers and the bankers.

But the professional standards legislation gives a certainty to professions about how they deal with it. As I said before, we also dealt with proportionate liability and economic claims. The critical thing that we have done in a collaborative sense to assist them is to drill down to the cause of the problem. We had a very interesting roundtable at a ministerial council in Adelaide where we had a panel of insurers, a panel of professions, plus ministers and officials. We asked, 'What is causing this?'. We brought it down to the four areas that we thought were causing it. But beyond that, for the last few years Department of Treasury and Finance has offered a service in times of difficulty in insurance where it almost acts — and I do not want to alarm Ian too much — like an honorary broker in a sense. Where people in some professions and organisations have had trouble finding insurance through the normal brokerage system, we have been able to steer them in the right direction, and sometimes work with the professional organisations to great the right advice, so that if their members ring them we can somehow take away some of the angst and offer support. That has happened and between the DTF services and the professions themselves we have fixed the lot of them.

The other one is dialogue with the industry itself. With a number of CEOs I have now started to develop a dialogue where if there is a form of insurance that is not available, you give them an early alert to say that there is a problem. The classic was scaffolding insurance in entertainment, which was suddenly dying: no-one had it. It was a classic case because the insurers were not even aware that this was an emerging problem.

Some of the intelligence that we have gathered collectively over the last few years of insurance trauma has assisted in finding solutions. Our challenge now is to keep that moving as stakeholders move on and where we are in a different environment and it does not appear as critical. The key thing with the professions was to work with them and with government and professions working together to try to find the solutions. It is not my role to be bipartisan, but I will say that the then federal minister, Helen Coonan, was the best federal minister I have ever worked on this. I have worked with a lot of federal ministers that you fight with all the time. We, of course, note that they play petty politics! But in fairness to her, Helen Coonan was great to work with, and between the federal and state government and industry we achieved a lot of things.

Mr CLARK — I want to come to the subject of performance measures and reporting, which I believe is that part of the budget area that you are definitely responsible for insofar as either you or the Treasurer is responsible for it. The perennial issue is that when we challenge various agencies about their performance measures sometimes the response is, 'We are just complying with Treasury guidelines and the way that Treasury mandates these performance measures to be delivered'. It seems to me that the performance reporting framework that we have at the moment was a big step forward at the time but there is an opportunity to go a lot further forward. Is the government considering changes to the structure of the performance reporting framework — for example, to get away from the very tight definitions of quantity, quality and timeliness and to cover a wider range of indicators relevant to assessing performance? If so, do you see a role for yourself in mandating or driving that, or are you simply going to leave it to the departments to make up their own minds about what enhancements they want to make?

Mr LENDERS — There are two things. If we go to where this has progressed since the election of the Bracks government, it has moved to where we now have outcome reporting through GVT. I know we touched on that before, but we have gone one step further. That is an evolution of how these papers become more useful in linking back to something else. We need to link back to who is best placed to make these calls and judgments. This is a collaborative thing. The starting point on these measures is something that comes out of departments. I am not sure if it has been delegated to me from the Treasurer or how it has happened, but I am the minister who receives these things from departments and makes a call about whether or not they go forward. Departments will say, 'How effective is it? What use is it in presenting information? Are you doing this for the collection of statistics in the way that you always have, or are you doing it to present information to the Public Accounts and Estimates Committee, the public, departments or whoever else wants to look at it?'.

So firstly, there is the step originating out of departments, and that is where we go with a lot of these measures. Then there is the step which asks, 'Do we want to include that as part of the measure which goes into budget paper 3 in the end?'. That is when it comes across my desk, after DTF has given very serious consideration to it. I will not go into which ones they were, but I had an argument on three measures this year. I will not disclose what they were, but there was an argument, so this is not an automatic thing. So departments go through them and there is a ministerial overlay.

They have got to change at some stage. How often do they change? What is in them? Where do you move forward and what are you doing them for? We think we have enhanced it by having the outcome GVT side added to the end. Any dynamic document like a budget will always be changing. One of the things we do is to report the ones that have changed. We have a process where 19 ministers other than myself are subject to questioning on them by the committee each time, which asks, 'Why, how, where and what does this mean?'. It needs to be fluid.

I mentioned it before and I go back to it as an example; we can have a performance measure on the National Gallery of Victoria. It is now totally outdated because it is built. We need to move from the old to the new and to the new ways that we do things.

Mr FORWOOD — I have just got a quick follow-up question, and I am pleased that you look at them. I would put to you that there are 40-something pages of discontinued measures, and as many of them have been discontinued to prevent people from understanding what is going on as they have been to enhance people's knowledge of what is happening. I think it depends on the attitude of the various players in the game. Some departments set out to obfuscate, Some departments do not want to be measured. So departments do not want people to know what is going on. I think that if you are the final arbiter, then it is really incumbent on you to ask yourself the question as you look at these measures, 'Which ones are here for the good of mankind, and which ones are here because we are trying to hide something?'.

Mr LENDERS — Without wishing to give Mr Forwood ideas, it is fair to say that when I was looking at these on some evenings I was thinking, 'What would PAEC say?'. That was in the back of my mind.

The CHAIR — I am glad you go to sleep thinking about us.

Mr LENDERS — It is obviously one of the roles of the Public Accounts and Estimates Committee to question the executive government on these issues, and for the reasons that Mr Forwood raises. Having gone through them as they came across my desk, and not having gone through them lightly, and with advice from DTF, which obviously has the first dialogue with departments — and leaving aside the three that I said I went back further on — we have had that discussion within executive government about whether they should be in or out. It is not just the PAEC that wants those levels of accountability from departments. Other central agencies want them as well. So we have gone through a process. It is always about getting that balance right. I think we have worked through the balance and there are enough creative tensions in executive government as well as between the executive and the Parliament to ensure that there is fairly strong vigilance that this will be done correctly.

Mr LITTLE — Could I just add something? I think this is part of the role of this committee so I welcome these questions. Could I just respectfully ask you to think about what your starting point is?

Mr FORWOOD — Yes, sure.

Mr LITTLE — I think it is unrealistic to have a starting point position that no measures change. I do not know what the right number is, but I would certainly say that it is probably above 10 per cent a year, given the number of changes that happen — for instance, in my own department this year we changed some on the recommendation of this committee. We had a number of yes/no answers, so we changed them. That was on — I do know — six or seven measures.

Another measure of programs that are changed: for DVC the Commonwealth Games is going to be here and gone, and there are a lot of measures in DVC about the Commonwealth Games. There are new things set up. The Office of Children, for instance, is another one, and you need to change accordingly. In the medical area the Australasian College of Surgeons during the year changed some of the performance measures with respect to hospitals. One that I recollect was moving from a 12-hour measure to an 8-hour measure, I think.

There is no right rule, but I would be surprised if in any year there was less than 10 per cent change, so as well as encouraging this sort of conversation, I would respectfully bat it back to you to think about what is your baseline point to come from. We think we have done a lot in the sense that we have heard what you said and as much as possible we try to produce back measures. We are probably not as successful as we want to be on that but on discontinued measures we have definitely put that chapter in on the recommendation of the committee.

The other thing about the performance system is, remember that this is about outputs, that is all about efficiency. If the outputs do not contribute to an outcome, that is all about effectiveness, and this government has done quite a lot to try and link up to the effectiveness side. That is what Growing Victoria II is all about. That is quite an advance in the management system. But my overall view is that I welcome this sort of questioning. It is what the committee is here for.

The CHAIR — Thank you, and we note the government's response to our last estimates questions and recommendations. It is heartening to read those percentages.

Minister, I want to take you to VicFleet please. I would like you to outline two aspects of VicFleet. Could you outline, firstly, whether the environmental targets are being met in Vic Fleet and, secondly, what was the eventual loss on the motor vehicle leasing agreement with the Commonwealth Bank? I do not know whether you have that information with you.

Mr LENDERS — Firstly, in respect of the environmental targets there is a range of them. I think it was at the start of 2002, not long after I became minister, we set — as part of our 2002–03 budget it would have been — a number of targets. One of them was actually to cut the fleet by 5 per cent, which we achieved. That was certainly one, and that was obviously a part of the target. I think we had a 10 per cent target that is coming up shortly — I think by June 2006 we had a 10 per cent target. Certainly, cutting the fleet by 5 per cent was a quick start to that.

The second part was the sort of vehicles you have in the fleet. That is where it gets to far more cultural change issues. We have a slide up here which actually shows some of this. We have prepared a few of these, and this is the first.

We cut the fleet, and we have got the reduction in greenhouse emissions there. There are a couple of things on the emissions. We have got them down, and we are on track for the target. And it is interesting that 30 per cent of VicFleet is now 4-cylinder LPG cars. That was really the next part of it: to start saying, 'How do we get away from these 6-cylinder bigger cars if that is not what you need?'.

The first thing we did in policy back at the start of 2002 was to say that if a vehicle did more than 30 000 kilometres a year, we would require that vehicle to either be a 4-cylinder vehicle or to be a dedicated LPG vehicle. Later on we varied the dedicated LPG to one that could flick from one to the other. Part of that was a bit of a hazardous journey in a sense, because the commonwealth was changing the goalposts all the time on how it was treating the taxation of LPG and that decision was affecting whether Australian manufacturers were actually going to make the vehicle or not.

A range of those things are now in place, and we are seeing that the emissions are down by the 7.8 per cent as of 30 June last year. We are on track with where we are going, because obviously with turning over vehicles at 60 000 kilometres or at three years it takes a while for these to filter through into the fleet. Now, as I said, 30 per cent of the fleet are 4-cylinder LPG cars, and I would expect that number to go up once all the remaining vehicles wash out of the system.

The other thing is that we also around that time allowed a small number of hybrid vehicles, the Priuses, to come in — or highly energy-efficient vehicles that are not Australian manufactured. I have had discussions with three of the four Australian manufacturers as to whether or not they are going to be making small cars, but with the international car market we just do not get to the size for the Prius. The government has purchased 100 Prius vehicles, and they are basically run primarily through the DSE and DPI because of the joint purchasing agreement area. But they are now open to other government departments. DHS and others are interested in them. A very small number of these vehicles can be used by executive in their salary packaging. The departments have taken up, I think their full allocation now — I will take that on notice, but I am pretty confident they have — whereas the executives have not.

What we are getting now is that we have got a small number of these high-performance vehicles that are now in the system, and they are assisting us in reaching our greenhouse targets, but it is always a delicate one because when you have Victorian-manufactured vehicles it is obviously a matter of balancing government policy. We have always said that the vehicles need to be Australian manufactured, other than this small component, or if they are not Australian, purpose built.

On the issue of the Commonwealth Bank lease, there was a big write-down some years ago we made. I think it was in the 2002–03 budget, but it might have been the following one. Now we are going with this transition from the Commonwealth Bank lease to where VicFleet has a Treasury corporate line. I might ask Warren Hodgson to comment on that or if not we will take that one on notice.

Mr HODGSON — I am happy to comment on it. The loss, you will recall, was caused by the sale price being less than the depreciated value of the vehicles in anticipating the lease rate going forward. What we have done to recover the loss over time — and it is designed to cut to zero when the CBA lease runs out in 2006 — is to artificially depress further the residual value of the vehicles so we can recover it and pay back the loss, as it were, into the profit and loss adjustment account, which should, as I said, break to zero in 2006.

The CHAIR — Would you be able to give us any more indication of the figures than that?

Mr HODGSON — As to where it is exactly now?

The CHAIR — Yes.

Mr HODGSON — I will take that one on notice. We will have to do a fresh calculation.

Mr LENDERS — I think it is worth noting, Chair, that the changes we brought in — some of these emission changes and the changes to the lease being 40 000 kilometres rather than 60 000 — from memory were savings in the order of $90 to $100 per month per vehicle. Those reforms of 2002 brought in those savings. Leaving aside the lease and who has it, those changes at the time made significant savings for the public sector.

The CHAIR — That has been of interest to this committee, so if you have any information you want to forward to us, that would be useful for our final report.

Mr FORWOOD — Minister, in relation to the Essential Services Commission's review last year of the TAC and WorkCover premiums, the terms of reference said, and I quote:

> Where the commission identifies issues in relation to this reference that have relevance to premiums in the future, the commission may recommend further consideration by the minister.

In both cases it made — on page 27 of the TAC report from memory, and on whatever page it is of the other one — a number of recommendations for further study into these areas. I wondered whether or not you were going to pick some or all of these areas up in the reviews that are about to take place.

Mr LENDERS — Firstly, I am not sure under which hat Mr Forwood is asking the question, but I will answer under either hat, whether it is this session or the session we had before. He probably should have asked it before.

Mr FORWOOD — I ran out of time.

Mr LENDERS — There are a couple of things. Firstly, the reason the ESC did the review — I think it was in its capacity as insurance commissioner, but whatever the case — is that we were required under national competition policy to have some sort of review of the state monopoly insurance premiums, and the ESC was obviously the appropriate vehicle to do that. That was the original starting point of why the ESC was actually asked to do the review of VWA and TAC premiums.

Again I think the ESC has done it twice now. It might be three times; it is certainly quite early on in the piece when it has been doing it, and I know when the terms of the review were signed off it was right on the cusp of the changeover this year in the WorkCover portfolio, so a lot of those things were done fairly quickly between ministers.

I guess there is an ongoing issue as to what the role of the ESC is here in these reviews. There are some areas of policy that I guess would go right back to the Kennett government on how some of these things go, which this government has followed. There are other areas — the review of the premium — but I will certainly take on notice what Mr Forwood said and go back and look closely at the document he is referring to. We certainly did legislate for the ESC to be the body to do the review under the NCP requirements, and obviously with any other advice that the ESC has for us we will very seriously look at what it recommends to us.

The CHAIR — Thank you, Minister. I have placed on record the committee's appreciation to you and your assembled crew in the portfolios of major projects, TAC, WorkCover and finance. Thank you to the departmental officers who have provided advice to us directly, those who have provided the briefing folders. We will be sending you the Hansard transcript as soon as it comes to us, with follow-up questions. Thank you very much.

Committee adjourned.