

# VERIFIED TRANSCRIPT

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into budget estimates 2006–07

Melbourne — 16 June 2006

#### Members

Mr W. R. Baxter

Ms C. M. Campbell

Mr R. W. Clark

Mr B. Forwood

Ms D. L. Green

Mr J. Merlino

Mr G. K. Rich-Phillips

Ms G. D. Romanes

Mr A. Somyurek

Chair: Ms C. M. Campbell

Deputy Chair: Mr B. Forwood

#### Staff

Executive Officer: Ms M. Cornwell

#### Witnesses

Mr J. Lenders, Minister for Finance;

Mr J. Fitzgerald, acting deputy secretary;

Mr J. Monforte, acting deputy secretary;

Mr P. Carroll, director,

Mr M. Jones, director;

Mr S. Schinck, director; and

Mr R. Kluske, manager of sustainability, Victorian Government Property Group, Department of Treasury and Finance.

**The CHAIR** — I welcome from the Department of Treasury and Finance Mr John Fitzgerald, acting deputy secretary, Mr Joe Monforte, acting deputy secretary, Mr Peter Carroll, director, Mr Murray Jones, director, Mr Steve Schinck, director, departmental officers, public and the media. Everyone is welcome. Minister, could I give you 10 minutes this time to do a presentation and, if you wish, you can give us permission to put these on the web site.

**Slides shown.**

**Mr LENDERS** — Chair, this is the fifth time I have appeared as finance minister before the Public Accounts and Estimates Committee, so I will go again, as I previously have, to outline to the committee, in case Mr Rich-Phillips did not pick it up the first four times, what my responsibilities are as finance minister. There are a series of core responsibilities which vary from year to year when things are changing. We have an extraordinarily efficient Department of Treasury and Finance which administers things very well and makes it very easy for ministers, but periodically we have new areas and issues that emerge, and they are, I sense, the challenges. I will touch on those as we go through the core responsibilities.

Clearly the financial management framework is a key area, and whether it be the directions which from time to time get attention in the Parliament or the framework itself, they are the areas that are important to us. We have financial systems; we have regulations, directions, bulletins; we have to deal with risk and liabilities management. There are reporting and monitoring compliance frameworks. All these things are important and need to be kept up to date and evolving and moving along. Nothing is static, so that is a core area of responsibility.

The administration of government assets is the second one, and again quite often the vehicle fleet gets a little bit of excitement around the place when something happens or does not happen, but there are obviously a very large number of government assets out there. The fact that we have them means we need to administer them, we need to put them to particularly good use; we need to keep them up to date. One of the great challenges in government is that you do not at budget time just say, 'Here's a new asset; let's do it', but you actually keep your current assets alive and up to date. We touched on the showgrounds in the major projects presentation and, while that has nothing to do with DTF, it is a classic example of an asset that was not maintained for a long period of time and then needed massive remediation from government later on when it had moved right along.

The third area I have here is the Essential Services Commission. I am the minister responsible for the administration of it. With most of the areas it is actual reports other than a review of the WorkCover and TAC premiums, which actually fall to other ministers. It is administration. It obviously has a very large and critical workload as an economic regulator in the state of Victoria.

Moving through the areas, in the financial management framework, it seems strange now in a sense where we talk of Australian international financial reporting standards where now it is almost blasé, that is past for us. We went through this with incredible intensity over a long period of time, the DTF with the PAEC. I think Murray Jones will probably get a public service medal for that — and there were other areas — above and beyond the call of duty! There was certainly a big dedicated team in DTF. We have seen in the private sector now that CFOs are starting to get incredibly stressed as people are trying to work out at the end of the financial year how they meet the new reporting standards. In a sense in Victorian government there is still work to be done. Particularly as we go forward with some of the harmonisation, we talk about the GAAP/GFS harmonisation. GAAP is now a redundant term and we have a different term. Those harmonisations are still there. This is now the second budget under the standard. In reporting, obviously we have quarterly reports and half-yearly reports and have in a sense moved on under the new regime, whereas most of the rest of the community and most other governments are now struggling to come to terms with it. That again is a classic area where we move along.

I went through the administration of government assets, and there is a huge workload and varied tasks in there. Again, we almost pass over it here. We had a long time when we talked about the relocation of government departments, with the Department of Human Services moving from five buildings at one end of town to a single location at the urban workshop on the other. That was all theory, that was all discussion. It has happened. We have seen that large responsibility actually happen. We are seeing departments now moving into the Southern Cross site. That is not complete yet but will be complete next year when the Department of Infrastructure finally moves in. These things are actually happening. This is the work of the department, the property group, in doing that whole-of-government work, and we will actually see now that sort of consolidation happening and moving along.

Purchasing and procurement is always a challenge for us as to how do we get the best value for money for government, how do we get the best systems in place that achieve value for money and that devolve to departments the capacity to make those decisions themselves while having an overall framework that gives the Parliament and the public confidence that we are meeting those goals and tests without creating an absolute mountain of paperwork. Some members of the committee may have heard me refer before to the state of North Dakota's procurement code being 1900 pages long. They try to prescribe everything by writing it down. We have a far more flexible principles-based approach here in Victoria, yet we have expectations periodically that we monitor things quite closely, so we have challenges there as to what is ethical purchasing and procurement. We have had a lot of fairly new initiatives in our strategic sourcing, our state purchase contracts — a range of areas there which are returning great value for money to the taxpayer and getting good procurement.

They are the sorts of challenges that we have. Obviously in superannuation we had a large event in the final merger of our last two superannuation funds effectively — the emergency services superannuation and the Government Superannuation Office last year. There was a lot of drama about that in the lead-up to 1 December when it happened. That was the conclusion of a long history from probably dozens, if not hundreds, of superannuation funds some decades ago to sound financial management, best leveraging of resources, professional service, a single board, and we have moved down the path in these areas. They are the areas I wanted to cover. I could go into more detail, but given that I am sure I will get questions on them, Chair, I will conclude my opening remarks.

**The CHAIR** — Thanks to you and DTF for succinct slides. Take the prize. Minister, can I take you to BP3, page 335, where there is an allocation of about \$3.18 million over the next four years for strategic sourcing. How will you achieve value for money through the implementation of the state purchase contracts? Have you got any KPIs for that? Just for my own interest, you mentioned ethical procurement; would you like to weave that into your answer?

**Mr LENDERS** — I will certainly weave in. The challenge for us is in a sense our whole model of procurement. In my last presentation, or it might have been the one before, I mentioned the public works department. In the old days it was whether you wanted a light globe in a school or whether you wanted to build the Sydney Harbour Bridge — you had a one-size-fits-all type thing. Then we went through a cycle where we started devolving down to departments and agencies the capacity to procure. But sometimes with the devolution, we devolved so far that we lost those. Yes, we had flexibility. Yes, you may have taken responsibility for decisions at the coalface, but you lost that capacity to leverage and source. These things always move in cycles. What we are trying to do is to get the best of both worlds where we say, 'If a particular part of government with this strategic procurement is good at doing something or is sound at doing it, everybody else should leverage off it'. So that is the concept and principle behind where we are coming from. This is done under the supervision of the procurement group in DTF, the Victorian Government Purchasing Board — problems in the policy and the like. But essentially we get a particularly skilled part of government to go out there. Obviously the savings that we start finding in there can be particularly strong. Of the state purchasing contracts, we have done a number of them now, whether it be stationary, probity practitioners, staff services or even electricity contracts. I am sure all of us when we get all the guff in our letterbox which says 'If you go to this supplier or that supplier you get a discount' we all just scratch our heads and say, 'How do we do?'. In a sense government is probably no different in that, yet we have managed across all of government to leverage millions of dollars of savings. I think it is in the order of about \$11 million — I can take that on notice regarding the specific amount — of savings over a period of time by actually doing that through a single source of service. So that is where we seek to go. But you come to other areas on the ethical procurement — —

**The CHAIR** — Before you go on to ethical, where do I find the savings as a result of the work that has been done through statements of contracts?

**Mr LENDERS** — I might take the savings on notice, unless Joe Monforte gives me a signal. Essentially the savings coming here, like for instance on electricity contracts, will not appear on the line here, because every department and every agency will find that its electricity bill is down by 10 or 15 per cent. I would be surprised if — —

**The CHAIR** — Do you quantify that through your area?

**Mr MONFORTE** — I will take that on notice. I think the minister is right. Because they are spread across a number of departments, they are not separately recorded.

**The CHAIR** — I would not have expected them to be, but I thought that unit might actually compile data on what it had saved as a result of the small investment in that particular area.

**Ms ROMANES** — Does that appear in an annual report?

**Mr MONFORTE** — The unit does monitor the savings against the benchmarks, so I think we will still take that question on notice in terms of the dollar amount.

**The CHAIR** — Minister, you were moving on to the ethical procurement.

**Mr LENDERS** — The concept of the ethical procurement is, in the end, are there particular levels or standards that are important to us? We, for instance, throughout policies will say that the Victorian government should engage in contracts with people who do things like: do they look at OHS, do they look at appropriate industrial awards and do they look at those types of areas? Have they got a track record of honouring their contracts and the like? This is an evolving area now. It is a new area we are moving in. It is one of the high priorities to get out of the procurement. We have made statements on it in the past, but it is a challenge again without creating a lake of red ink and a pile of paper to get principles and practices in place. Ethical procurement is one of the principles that needs to be embedded.

**The CHAIR** — On the topic of ethics, would Mr Forwood like to ask the next question?

**Mr FORWOOD** — No, not on the topic of ethics, just on the topic of probity. Minister, I have spent some time recently reading documents I have got off the web like the probity plan document *Ensuring Openness and Probity in Victorian Government Contracts*, which ensures openness, probity in Victorian government contracts and of course the best practice guide from the Department of Treasury and Finance. This goes to the issue of the letter that you wrote to me during the week in relation to the Victorian Government Purchasing Board. I had asked you in relation, as you know, to a particular contract over which there are significant concerns across the whole of government. I am happy to tell you that the share price has now dropped to 61 cents from \$4.60 in the last six months — —

**Mr LENDERS** — Are you talking about Telstra from the Prime Minister of Australia or are you talking about something else?

**Mr FORWOOD** — I am talking about iSoft. The company is technically bankrupt. There was an inquiry into this and I asked you how many irregularities of compliance had been reported to you. The response I got from you is that, 'We report in the annual report at the end of the year'. Are you telling the committee that you have no idea what is going wrong until you receive the annual report or when a contract goes as badly off the rails as this one has — no-one comes and tells you that even though you are in charge of the process?

**Mr LENDERS** — I think there are two things there, Mr Forwood. Firstly, it goes right back to my earlier point of the principles and devolution in procurement. This is not ducking responsibility. In government you have a responsible minister who is responsible for contracts. In this case it is the minister, presumably, in the Department of Human Services. So you have a responsibility first and foremost. My role as minister then is getting the policies in place for government, and then there is an issue with compliance with policies. Again, if we are to have every single contract tabbed in a department of public works — if we go back to that extreme — then you could legitimately say to me as the minister responsible for procurement, 'Well, why don't you know?'. So we need to get our policies in place. When there is something that has not worked which is an issue of policy, then you would need to adjust your policies accordingly. That is where the thing comes to report back at the end and that is where the thing comes back to the policies and principles in place. But there is a responsible minister, and that is whoever the minister is and in this case it is the minister in the Department of Human Services who has engaged in the contract.

**Mr FORWOOD** — Let us just follow that through. What happened in this particular case was that the Victorian Government Purchasing Board undertook an inquiry through DTF by hiring a lawyer. So your responsible entity ended up looking at this particular thing. It found that there were three breaches in compliance in probity, yet you are saying that nobody tells you this because it is not the end of the year?

**Mr LENDERS** — No, what I am saying, without giving a lecture or a statement, is that there are a lot of things in government and you prioritise what you do and departments prioritise. Our general way of dealing with

this is that when there are emerging issues in a policy sense, that are urgent and need addressing, the department will tell me as a matter of urgency. When there is an administration of a contract, there is a responsible minister for the administration of that contract. Then it is that minister's department's responsibility on a contract management issue. I am not responsible for contract management across all government departments. I am responsible for the policies. Essentially where we are in this particular issue, under the model of purchasing, which has been consistent through two governments now in Victoria, is that I am the minister for policy and for making sure the policy, directions and guidelines to departments are consistent and, if that policy is not working, for improving it. We will, through DTF, have training, workshops and all those sorts of things that can assist the accredited procurement units with their responsibilities in that accreditation. But in the end, this is a management issue for the department involved that has entered the contract.

**The CHAIR** — That is very clear to me, unless it is still not clear to you.

**Mr FORWOOD** — I just want to finish the topic. That is, now that everybody knows that this thing is off the rails, is DTF or the Victorian Government Purchasing Board helping Human Services through the morass or has it been left to sink or swim?

**Mr LENDERS** — I do not think a department is left to sink or swim. We have a collaborative relationship. Whether John or someone in his section was to take it on, we may take it on notice. But I am confident that what would happen here is that there would be a dialogue between departments and a sharing of the best skills and advice to get the best outcome of the government. But in the end, this is an issue that is — without buck shoving — a contract through the Department of Human Services. I would be absolutely confident that it will be talking to DTF to get the best possible advice and assistance from people skilled in managing contracts. But DHS probably manages more contracts than anybody else in government — that would be my guess.

**Mr FITZGERALD** — I agree with the minister. There are training arrangements, et cetera, in place for departments. After a situation like this, we would encourage — when you find out what the deficiency was and the process has been — encourage that department to avail itself of the training, policy and guidance material that is available to it. If your question is more specific, as the minister has explained, he does not have a compliance role as such to make sure every minister and department follows the policy and guidelines in all cases. Certainly the support is there and there is PACCER training and those sorts of things.

**Mr LENDERS** — To put the context on it, we have more than \$10 billion in contracts a year. The overwhelming prerogative is to set principles and priorities in place that show that in the overwhelming majority of cases, they are administered efficiently and with local responsibility by being devolved to departments.

**Mr FORWOOD** — But if the \$2 million one goes bad you have to do something about it.

**Mr SOMYUREK** — I preface my question by making the comment that the government's financial position is very sound, as reflected in the key ratios of net debt to GSP of 0.9 per cent — that is in budget paper 2, page 54, which indicates that the ratio of net liabilities to GSP is down to 6.2 per cent. That is down from 10.6 per cent in 1999, and also the net debt to GSP ratio is down from 3.1 per cent in 1999. Given the strong position with respect to debt and the balance sheet, one thing that really stands up at you is the \$13.1 billion superannuation liability as forecast for 30 June 2007. My question to you is: how will the merger of the emergency services superannuation scheme assist in ameliorating this big problem?

**Mr LENDERS** — The critical nature of the merger, as I said in my introductory comments, is that we have gone down a path now where multiple, multiple schemes have merged. The ESSS was a culmination of multiple schemes, as is the GSO. The first and foremost thing on managing not so much the liability, although there are issues with the liability in how you manage it well, but it is also the systems in place for managing a scheme that is overwhelmingly defined benefits, although now with the ESSS component there is an accumulation scheme component of the superannuation as well. First and foremost is that a good management regime with economies of scale across the whole scheme will assist us in managing it; and an absolute focus on a single direction as to how we manage the superannuation fund. Longer term the old GSO, while it was a strong and vibrant organisation, by definition it was a closed scheme so nobody new was coming into the GSO. So at the moment its economies of scale were pretty strong but clearly — I stand to be corrected, but I think the last defined benefit new entrant to the scheme was probably in late 1992 or early 1993, so certainly the scheme was closed. What inevitably would happen was that for the management to hold and recruit good people would become more and more difficult as

people saw this as a declining and diminishing scheme, whereas merging the two schemes, from a management and a professional development sense and economies of scale — all of these things together — makes it far better placed to deal with a defined benefit scheme in which other than police, ambulance and fire brigade members — it depends how you categorise judges; they probably refer themselves as pensioners and not superannuants — are literally the only new entrants in the state of Victoria's defined benefit superannuation scheme. Fundamentally the viability of the GSO as a state government scheme over longer areas and then the economies of scale of the two schemes coming together offer great advantages to the state of Victoria and great confidence also to members. From the perspective of the state I think that fairly well outlines what the advantages are.

**Mr RICH-PHILLIPS** — I want to ask you about the issue of government accommodation, particularly of the consolidation that is going on at Southern Cross. Last year you told us that you expected all departments to be in by March 2006, and that clearly has not happened. Can you tell us what the cost is for departments to remain in their existing accommodation beyond the planned time frame you spoke about last year, et cetera. Also on page 249 of BP3 you have the estimated total accommodation cost in dollars per square metre. which has come in substantially below the target set last year of \$300 per square metre versus the \$344 and is targeted to drop to \$295 this year. Could you explain how you have achieved a lower cost versus the target?

**Mr LENDERS** — I will ask you to ask the second part of your question again because I was checking up on the first question, so I will deal with the first part first. The move of DHS from five sites in the western or Docklands end of the CBD — certainly not the eastern end where we are locating government to — to the urban workshop was a move that we were doing, and if I said last year that we would be in by March and we are a bit later than March then I accept your word that we said we would be in by March. We have completed a fairly complicated consolidation and I will take on notice what the rental arrangements were between the five buildings we are exiting and the new one we are moving into. If there was a double there I will have to take it on notice.

**Mr RICH-PHILLIPS** — Your March reference was to the Southern Cross, so again there is double rental on — —

**Mr LENDERS** — I will take on notice the issue of whether there was double rental on the two or not. I am advised there was no double rental. I will invite Peter Carroll, the director of the property group, to take that question.

**The CHAIR** — Will you state your full name and position?

**Mr CARROLL** — My name is Peter Carroll. I am the director, Victorian Government Property Group, Department of Treasury and Finance. I am not quite sure what was stated last year because I was not here, but the project at 50 Lonsdale Street was initially due to be completed by 1 November 2005 and the Department of Human Services would relocate thereafter over several months. That project was delayed for about six months, and as a result we extended the leases that were expiring and obviously continue to pay rent as per the leases. There was no rental paid for the 50 Lonsdale Street premises because we were not occupying them.

**Mr RICH-PHILLIPS** — The question was more about Southern Cross, where the minister said the expectation was March last year.

**Mr CARROLL** — With Southern Cross the agreement to lease — construction completion date was 1 July 2006.

**Mr RICH-PHILLIPS** — So the minister was ambitious in his March comment?

**Mr CARROLL** — The minister and I had visited the property several times during the course of construction. The developer, Multiplex, advised us that it was well ahead of schedule and it would be finished by March, and it was. Agencies had an option to move in early; some are — some are moving in now and some are electing not to move in until 1 July.

**Mr RICH-PHILLIPS** — That clarifies that. Just on the second question, the accommodation cost as listed in the budget paper there was an expected cost of \$344 a square metre, the target, and the actual cost has come in at \$300 a square metre, a lower target for the new year, and I am wondering how you achieved an actual cost that was so much lower than the target cost? Is it because you did not occupy 50 Lonsdale Street and that was more expensive?

**Mr CARROLL** — No, it was not related to that at all. I guess the terminology ‘target’ is strange in this context. What we try to do with government accommodation rental is to maintain our strength in the market to negotiate below current market level. That \$344, if you go back to the budget papers last year, there was a notation on it which said that \$344 was an industry expectation of the average rental cost in the Melbourne CBD. The rental we report on is averaged across the whole state, so we have higher rentals in the city and lower rentals in the country. The expected rental for the end of this financial year is shown here as \$300 and is currently actually running at \$291. Next year we have given ourselves a challenge by having \$295.

**Mr RICH-PHILLIPS** — That is the statewide property portfolio?

**Mr CARROLL** — Yes, the total cost of rental divided by the total area leased.

**Mr RICH-PHILLIPS** — Will you put on notice to give the committee the CBD costs as distinct from statewide costs?

**Mr CARROLL** — Average cost?

**Mr RICH-PHILLIPS** — Yes, for the government portfolio.

**Mr CARROLL** — I would only be guessing but I would say around \$320 or \$330 per square metre.

**Mr LENDERS** — So we will take that on notice, again if it is not overly onerous on the property group to prepare that; we will otherwise rely on the estimates.

**The CHAIR** — Can I be clear on what we are asking, because the PAEC secretariat through the questionnaire will be following up something else. We might as well combine them all in the one point on notice.

**Mr RICH-PHILLIPS** — I am asking for the average rental for the government property portfolio in the CBD.

**Mr CARROLL** — The CBD being defined by —

**Mr RICH-PHILLIPS** — The grid plus East Melbourne.

**Mr LENDERS** — I think my reply would be, if we can do it without it being overly onerous, we will obviously do it.

**The CHAIR** — If it is easier for you to put in East Melbourne, feel free. By way of follow-up from our PAEC briefing notes here, we have a note here that the government expects to achieve savings through consolidating a number of departments in central Melbourne. They talked in particular about the Southern Cross site and, if you have the figures, we would like the level of savings each year anticipated by that consolidation project by comparison with rentals previously paid, if that is possible.

**Mr LENDERS** — We will certainly seek to do that, but again the Southern Cross is a classic. It is the newest addition; it was not there last year when I reported that the Department of Infrastructure would be moving into the Southern Cross as well. To actually quantify the savings, there is a rental that the Department of Infrastructure pays now at Nauru House. There is a rental it will pay at the Southern Cross, before we even start on overheads and the like, and then the rental if we were to stay in Nauru House and the building needs to be redeveloped, so we will endeavour to give best estimates possible, but we may be matching apples with cherries.

**The CHAIR** — I am conscious that one building is environmentally acclaimed and it is 21st century.

**Mr LENDERS** — It is black water, in fact, at the Southern Cross.

**The CHAIR** — And it has 21st century facilities, whereas the other has significant disadvantages in terms of efficiencies, so with all those riders, whatever you are able to provide that is manageable, that is fine.

**Mr RICH-PHILLIPS** — Chair, can I follow up on something the minister just said to you then?

**Mr LENDERS** — Black water? Don’t go there; don’t drink it!

**The CHAIR** — If it is in relation to what you originally asked, which was — —

**Mr RICH-PHILLIPS** — It is actually in relation to what the minister said to you just then in his answer.

**The CHAIR** — So long as it is tied in.

**Mr RICH-PHILLIPS** — With the delayed move for DOI until next year, is there a lease cost at Southern Cross for the space that DOI will occupy?

**Mr LENDERS** — DOI was never intending to occupy Southern Cross. It was originally the State Revenue Office, DIIRD and the Department of Justice.

**Mr RICH-PHILLIPS** — I understand that.

**Mr LENDERS** — So DOI is new.

**Mr RICH-PHILLIPS** — Will the lease obligation for their space kick in when they occupy it next year or will it kick in from — —

**Mr LENDERS** — When they occupy it. The lease kicks in on 1 July this year. The rent does not kick in until 1 July next year — that is the answer.

**Ms ROMANES** — Minister, in relation to the output procurement services on page 249 of budget paper 3, can you outline to the committee how the government assists regional businesses to participate in the \$10 billion Victorian government procurement market?

**Mr LENDERS** — I am delighted to, Chair. Ms Romanes's question is about regional businesses. Going back to the earlier comments about the former Public Works Department procuring for everyone or strategic sourcing and a central contract, one of the first things I remember that hit me when I became Minister for Finance was this flurry of correspondence from Shepparton about where people bought their paper. Regional suppliers were saying, 'There is no flexibility; there is this monolithic whole-of-government saving of 4.2 cents a ream or whatever, and we miss out in local areas'. So we have tried again within all of the principles around us to try and be far more flexible in regional areas — one, for what it does for regional businesses who are selling the goods; and, two, for what it does for flexibility for a regional business that wants to go down the street and buy somewhere. So we brought in a change of policies last year to try and assist regional areas in how they deal with this. It means that for goods and services under \$15 000 there is an exemption material provision there which makes it, obviously, in a lot of the small regional areas far easier than some of the central contracts. There is a range of other things as well. It is actually what we are doing in regional Victoria as a whole. The Treasurer was very proud in the budget to be showing some of the population statistics that regional Victoria is for the first time in probably 40 years, or maybe even more, actually growing faster than the state as a whole, and that the turnaround in large parts of the state has risen. First and foremost you have actually got some population growth in regional Victoria that actually helps regional businesses. So that is one thing.

The second thing is how do you access government contracts. We have had a number of courses in procurement and contract training — PACCER, the slide that is up there — as to what to do in winning government business contracts. I have been to Horsham, Traralgon, Ballarat and a number of other places in regional Victoria, and essentially what the Department of Treasury and Finance does is it gets the facilitator there, it books a room and has a few hours where participants come and learn how to do business with government. So rather than say state government or central agencies, we have it structured so that if someone wants to deal with federal government — we do not spend a lot of time with them because it is mainly helping the state government — we take them through where it fits in: if they want to deal with local government, or if they need to deal with Health Purchasing Victoria. The whole process is that if you were a small businessperson in country Victoria, you can come forward and you will get a one-stop shop directing you in how to actually engage government in business, to remove some of the mystique and to direct people in the correct direction. In a number of areas then, first and foremost, we have made our central contracts a bit more flexible in regional areas and we are providing the procurement and contract training for those who wish to avail themselves of that in regional Victoria and the absolute macro is that we are actually investing government resources. As I said earlier in the major projects presentation, we have put the infrastructure spend we have in regional Victoria with a boost of the service delivery in regional Victoria. There are a lot more opportunities for businesses in regional Victoria than there have been in a long time.



**The CHAIR** — Thanks, Minister.

**Mr FORWOOD** — Minister, I just want to return to the issue of probity and regularity of compliance with supply policies in particular of your letter to me of this week.

**Mr LENDERS** — You like that letter, don't you, Bill?

**Mr FORWOOD** — Given that does not — —

**Mr LENDERS** — I am pleased that you have read it because often — —

**Mr FORWOOD** — It does not say much!

**Mr LENDERS** — It is a well-crafted letter.

**Mr FORWOOD** — Yes, I accept that — a well-crafted letter! Your letter to me says:

... I have been advised by... Treasury and Finance that the VGPB engaged legal services for investigation of a tender complaint which was subsequently resolved. The investigation determined three irregularities of compliance of supply policies ...

What were the irregularities of compliance and how was the complaint resolved?

**Mr LENDERS** — I guess, Mr Forwood, through you Chair, it goes back to my earlier answers. I am happy to take on notice the specifics that Mr Forwood asks about there and seek from the purchaser procurement group what advice it has got and get back to Mr Forwood on that. But it goes to a fundamental. Mr Forwood has been in this place a lot longer than I have and he has been on this committee; I have never been on this committee and he has spent a long time as chair and deputy chair, but in the end, Mr Forwood, you know the administrative arrangements very well.

**Mr FORWOOD** — I do.

**Mr LENDERS** — There is a minister in the Department of Human Services who has responsibility for this contract, and I do not think there is anything — the long and the short of it is, if DTF has provided advice to the Department of Human Services on a range of these issues, it will give that. It goes a bit to your colleague, Mr David Davis's questions periodically in the Legislative Council. I remember a beauty a while ago where he asked me to report to him — —

**Mr FORWOOD** — Are we responsible for him?

**Mr LENDERS** — You are responsible for Mr David Davis. I am sure you are his mentor and tutor. He behaves like you, Mr Forwood.

**Mr FORWOOD** — On a point of order!

**Mr LENDERS** — But my material point being, he asked me a question a while ago about the VMIA doing — —

**The CHAIR** — Excuse me, can we just move back and let Hansard get the transcript.

**Mr LENDERS** — I am sure Hansard could lift it out of the Legislative Council proceedings, but it is a material question. The VMIA, for example, did work for Human Services on some risk area and then I was asked as Minister for Finance to report step-by-step — and I cannot even remember what Mr David Davis was asking, but the principle is exactly the same. In the end if the Department of Treasury and Finance are engaged to do work in the portfolio area of another minister, under their administrative arrangements, and they offer advice to that minister, I would not presume to be the one reporting on it. My responsibility is the fact that I am providing the advice of my department, the policy behind it, but the actual advice is the property of DHS in each particular instance.

**Mr FORWOOD** — It gets back to an earlier comment you made, Minister, that you are not responsible for compliance. If you are not responsible for purchasing compliance, then why would someone complain to the Victorian Government Purchasing Board and why would the Victorian Government Purchasing Board and DTF

hold an inquiry to see whether the tender process had been compromised, and subsequently come to a decision that there had been irregularities in the process? It does not seem to me you can have it both ways: the right of someone to go to the purchasing board, and DTF to say, 'This contract has been mucked up'. If you go through the process of investigating and discovering that there were irregularities, I do not think you can say, 'Hang on, all we do is tell them to go away'.

**Mr LENDERS** — The irregularities will be reported in the annual report of the property group, so the Victorian Government Purchasing Board annual report will report on this. One will need obviously to look at what the nature of that report is, but we will report on it. That first and foremost is the case, so from a DTF perspective it is properly acquitted. But materially it is an issue for whatever minister it is in DHS who is the contract manager.

**Mr FORWOOD** — I will follow that up.

**The CHAIR** — Minister, could I take you to a completely different topic from procurement — that is, the sustainable design that is supposed to be part of all the new assets that are capital infrastructure. How do you achieve, and how do you measure, green design in buildings?

**Mr LENDERS** — How long have you got and how long is a piece of string?

**The CHAIR** — You have got 4 minutes.

**Mr LENDERS** — There are a number of tools for it. There is clearly the green star ratings; they are obviously one of the tools that we can use. We have now got the 4-star green star rating for office accommodation that we are applying now to new buildings. It is interesting, and you, Chair, more than most would find this very interesting: Tom Roper, the former Victorian Treasurer, was out here a while ago and he was telling me what he is doing in the United States and he is actually acting as a consultant to — —

**Mr FORWOOD** — On a point of order!

**Mr LENDERS** — No, it is just answering the question as to what a green star rating actually is and why you would do it, and how you would measure it.

**The CHAIR** — Yes, and how you would measure it.

**Mr LENDERS** — He operates for the republican governors of a number of states: Massachusetts, Pennsylvania and California come to mind. He was offering advice to them and they came from a very cynical starting point that green star was just some wacky environmental thing — why would you do it? He convinced them of the economic benefits of doing so, on a basis that over a period of time, by the green star ratings on the measures, you obviously save money on energy bills in particular and also just on the human costs of working in a building with light and those type of areas. So we measure them. We have a green star tool that we can actually measure these things on and those good design issues in workplaces are clearly evidenced in the Southern Cross and other places where I have taken a particular — —

**The CHAIR** — Could you run us through a couple of them?

**Mr LENDERS** — A couple of the measures? I might actually see on this particular one whether again Peter Carroll would like to talk on some of them. Chair, we have Roger Kluske from DTF who is an expert on this in the audience, we could invite him forward, unexpectedly to come to the table and take your question.

**Mr FORWOOD** — Come and sit with me.

**The CHAIR** — As a public accounts committee we are interested in savings that result from green buildings and costs thereof.

**Mr KLUSKE** — I am the manager of sustainability for the Victorian Government Property Group, under the Department of Treasury and Finance obviously. On sustainable buildings we are finding that at the moment the 4-star, as the minister quite rightly referred to the 4-star green star rating, is our standard. In fact it is what we think is at the forefront of Australia's green building revolution, if you like. A lot of the other states are following us now, so Victoria is the first with the 4-star rating; we have done a lot of homework to actually get there. We have done a lot of fact-finding before we actually put that into place. What we are finding is — and the evidence is there at the

moment — that a 4-star green star building costs no more than the traditionally built buildings and they deliver us benefits. What we are finding at the moment — —

**The CHAIR** — Can you bore me to death with some facts and figures on it for the estimates report?

**Mr KLUSKE** — We actually have a study on it at the moment — and I do not know if I have brought it with me — where we are trying to get another half a star out of one of our buildings. That building will deliver \$42 000 worth of savings by getting another half a star. So just moving it up half a star — —

**The CHAIR** — Per annum?

**Mr KLUSKE** — Per annum.

**Ms ROMANES** — What kind of saving — in construction?

**Mr KLUSKE** — In operations, basically electricity costs and lighting — by narrowing the time we actually use the lighting in the building. We are looking at things like the airconditioning. We are looking at floating the airconditioning systems a bit. What I mean by that is that instead of maintaining a 21 degree plus or minus nothing, we are looking at moving the airconditioning system from perhaps 19 to 25 degrees, but we are being very mindful of the comfort conditions. These beautiful old buildings that we are in have great comfort conditions, because they have high ceilings and they have a lot of natural ventilation happening through them. So that is kind of thing we are trying to replicate in a modern building with 2700-millimetre high ceilings. I think those are the sorts of things we are looking at. Occupant comfort is paramount in green buildings. That is the primary aim of a green building, if you like. With energy, environmental benefits, greenhouse gas reductions, water reductions — as the minister rightly pointed out — —

**The CHAIR** — I am going to have to cut you off in the interests of time. Can you perhaps take on notice any facts and figures you want to present to us for our report about what you save the state as a result of the green buildings?

**Mr KLUSKE** — Yes.

**Mr FORWOOD** — That would be excellent. Could you get audited by Peter Seutzal?

**Mr KLUSKE** — Peter is a good friend of mine.

**Mr RICH-PHILLIPS** — Minister, I would like to ask you about long-term superannuation spending particularly the SSF scheme. Can you tell the committee — you mentioned earlier that the defined benefits schemes were closed in 1992 and 1993, a good decade ago — when the liability or the obligation under those closed schemes is likely to peak and how many current members of the Victorian public service continue to have benefits under those schemes; that is, how many people still have accounts or entitlements that are increasing, and when we can expect that to peak? With respect to the capital that has been taken out of the TAC, at the PAEC breakfast we had after the budget the secretary said that that money would go into the super scheme. Can you confirm that that is how that capital injection will be used?

**Mr LENDERS** — There are a couple of things. Robert Holcombe here could take the questions, but I might take them on notice in the interests of time as to the exact numbers in the schemes and when the peak is.

**Mr RICH-PHILLIPS** — The actual numbers are fine.

**Mr LENDERS** — We are pretty well on the peak now. It keeps on moving round in a sense with a range of variables, but essentially we are pretty well on the cusp of the peak or are very close to it. I will get the exact date to you. Then obviously it goes down and we have our schedule to get it out by 2035 and paid out completely. We have been prepaying some of the superannuation, so I am surprised if you are of the view that the TAC decapitalisation would go into super. We are paying some amount of super. We are paying off our capital of super every year. I will take advice on that.

**Mr RICH-PHILLIPS** — That was the advice from the secretary at the breakfast.

**Mr LENDERS** — That the TAC decap would go into super? We are putting an amount of that or more into super most years. So the exact instrument where it is going forward, in a sense, we are putting money into it. But again this is all part of our downward spiral to 2035. We are ahead of schedule.

**Mr RICH-PHILLIPS** — I am just keen to get an idea of where we are peaking. Do you have any idea of the number of members who are still accruing benefits?

**Mr LENDERS** — We will take on notice the exact number. We can take them on notice. Robert Holcombe is here. He could give us a rough estimate.

**Mr RICH-PHILLIPS** — Is it 10 000 or 20 000?

**Mr LENDERS** — No, far more than that.

**The CHAIR** — Sorry, there is no hope for Hansard. Minister, you can either take it on notice or come to the microphone at the table.

**Mr FORWOOD** — We heard it here — 50 000!

**The CHAIR** — Minister, which way do you want to go? Do you want to take it on notice or do you want the gentleman to come to the table?

**Mr RICH-PHILLIPS** — I heard the 50 000.

**Mr LENDERS** — I think we accept the figure of 50 000. So it is 50 000 in the state fund and 15 000 in the ESSS and 65 000 in the combined fund.

**Mr SOMYUREK** — Minister, if we can move on to environmental sustainability and the government's fleet. Can you inform the committee what measures the government has in place to ensure that the government vehicle fleet is managed in an environmentally sustainable way?

**Mr LENDERS** — The fleet is a very interesting beast in a sense. We have specified requirements like bodies like VicPol which clearly has needs and requirements of vehicles that go very fast and a range of things. We are happy to put it bluntly. We also have DSE which has some interesting requirements like four-wheel drives and other vehicles which need to go very big and very sturdy. But once you start stripping that out, a lot of our fleet is vehicles which are basically sedans and station wagons which can be used for multiple purposes. We have set a program for that to actually make the vehicles far more fuel-efficient, far less to cost and emission friendly,

The main area of where we have done that — and the chart that is on the screen now starts to show it — is that we brought in a policy some years ago, which I think was around the start of 2002 and towards the end of 2002, where any vehicle which did not fit into those purpose-built categories, like, for example, the police and DSE, that travelled more than 30 000 kilometres a year needed to be either a dedicated LPG or needed to be a small vehicle, which at that stage I think was defined as 2200 or 2300 CC — I forget the exact figure that was defined there. It was designed to try and change the behaviour and the independent purchasers essentially because, again the fleet is very devolved — going back to my earlier procurement model — were a lot of individual people make decisions, let alone the people who actually lease their vehicles. I think there are about 1800 people in the public sector, including the Parliament, who actually lease vehicles. They make a choice themselves what vehicle they want.

Part of this slide that is up now actually starts to show some of the change in purchaser behaviour in this particular case. The chart, for those whose eyes might not quite pick it up, shows the start of 2003 to the present. If you look at the LPG vehicles, we have gone from 163 at the start of the period up to 458 towards the end of the period. Given that a lot of these vehicles take two to three years to turn over, that is a quite significant purchaser behaviour shift. We can see regarding four-cylinders that the figure starts to go up. We have the Prius — the hybrid vehicle. We have seen those figures go from a stationary start which starts at 117.

So we are starting to see a response from purchasers to these procurement policies that have been more sustainable. The tyranny of course of it is that we still have a long way to go if we are going to get that figure any higher. But we have already seen from those changes that came in place several years ago that the numbers are going up in those categories. That is important for us, because that for a start has made a difference. There are further challenges ahead of us. How do we further get a sustainability in those vehicles without going across to the other

area which is the independent choice about a fifth of the fleet, or getting close to about a fifth of the fleet, where people make individual choices in their lease agreements. Then of course we have the specified parts of the fleet. The police are not going to be wanting to drive a Prius to catch someone, et cetera. That is where the policies we have put into place are starting to have an effect. The other aspect will be over time is how we get on with that. But it is one that is under active and ongoing review. I think the community view would be — and the dollar view from government would be — that the more we can go down to energy efficient vehicles and smaller vehicles, obviously emissions go down and the costs of the government go down.

**Mr RICH-PHILLIPS** — Do you still have the ministerial Fairlane, Minister?

**Mr LENDERS** — No, I do not have a ministerial — —

**Mr FORWOOD** — What sort of bike have you got? Tell us about your bike.

**The CHAIR** — Thank you for that.

**Mr RICH-PHILLIPS** — The minister put up a number of slides during his answers that are not in the presentation. I am wondering if we can get those.

**Mr LENDERS** — Sure.

**Mr RICH-PHILLIPS** — Thank you.

**Mr FORWOOD** — Minister, this book, as you would well know —

**Mr LENDERS** — It is a good book.

**Mr FORWOOD** — Is the annual report of the Victorian Government Purchasing Board for last year, and on page 34 it says:

A failure to comply with supply policies constitutes a breach.

All breaches are reported to the VGPB in the annual procurement report, and where necessary, the relevant minister is informed.

Where a breach involves a financial commitment above \$100 000 the accountable officer is to report immediately to the board. The board will note the breach ...

I guess the question I would like to ask is: have you ever as the minister been informed, other than through the annual procurement report of a breach — that is, the relevant minister is informed?

**Mr LENDERS** — Yes.

**Mr FORWOOD** — What action then follows from that? What action does the Victorian Government Purchasing Board, or you as the minister or DTF take in relation to that because what we are talking about in the particular ISoft case is a \$22 million contract. This talks about \$100 000. Three breaches were found in that particular case. There were only 36 for the whole of last year. It does seem to me that the system is not particularly rigorous if you were not told about this particular one.

**Mr LENDERS** — A couple of comments on the system being rigorous. Firstly, all of government has an auditing process overseen by the Auditor-General, and I will not go into my speech, Mr Forwood, about the Auditor-General because you have heard it on a number of occasions before about how we gave him powers, et cetera, and you did not. I will not go into that speech again, but what I will say is that the auditing process first and foremost means that everything is audited from outside government, so that is a check. So yes, you could say: is the Auditor-General going to be looking at each and every one of these individually? No, that is obviously a check and balance on government, but you have to rely on more than the Auditor-General to pick these things up, so that is a point. You mentioned the question have I dealt with any, et cetera. I have had a number of breaches reported to me that I have acted on quite quickly because there is a system issue involved that you then seek to address. We have had issues where, for example, a government credit card was used after a person ceased employment, and then we had the issue of how do you recover the costs for the credit card. We put a system change in that before final payments are made all credit cards are brought in and checked that bills are paid — issues like that. Things are reported to me. That was a small amount, but it was a system issue, so we deal with

them and address them. Fundamentally, if they are a system issue, I will take action or seek the department to take action to address a system issue. If it is an individual contract management issue, that again is the responsibility of the minister responsible. If there is a system issue out of it, then that becomes mine, and I will act promptly — —

**Mr FORWOOD** — Except this actually says that if the breach involves a commitment above 100 grand the accountable officer is to report immediately, and in this case I put it to you — —

**The CHAIR** — Immediately. Does it say where?

**Mr FORWOOD** — Is to report immediately to the VGPB. I put it to you that in this particular case it did not happen; that breach was not reported to the VGPB. It only got to the VGPB when an disgruntled person who believed they had been duded by Anthony Bibby's behaviour, subsequently found to be true by your own organisation, raised it with you. So no-one from DHS, or the accountable officer of DHS — a \$22 million contract with a company that has gone broke on a term of specification that is rubbish, and we have a major problem on our hands, and you are washing your hands of it.

**Mr LENDERS** — On the contrary, there are a number of issues here, Mr Forwood. First and foremost, you are absolutely correct if you say it is a \$22 million contract that is not being administered properly, that the government has to be aware of and take responsibility for. I am not shirking any of that whatsoever. What this is seriously about is an issue of — and I go back to my point that we have an evolved system, inherited from the Kennett government and kept by the Bracks government and improved, so it is not a duckshove.

This is a change of mindset that it is desirable to devolve procurement down as far as possible to appropriate bodies in government because you get the best value for money outcomes. One of the downsides on devolving down is where is the accountability. You need to balance at all times the policy issues, the frameworks, the training of staff, all of those types of issues. You balance that down as one central body does not do it all. We do not have the public works department changing a light globe. But your legitimate question is what are the checks and balances. In this particular issue here, if there is a policy issue involved, if an officer of DHS — I am speculating on some of this — has in the end not made the breach, I would certainly hope, and I would be absolutely confident, that DHS would be dealing with its own internal proceedings and DTF, as a consequence of this, would be working with DHS to make sure that its own internal procedures met the guidelines, the directions and all of the other things that come forward from this. From a system point of view we have — I take absolutely on face value there has been a flaw in the system — a process of addressing the system. I am concerned about any breach, do not get me wrong, but where I would be most concerned is if the breach happens, the responsible department does nothing about it and government then pretends it has not happened. That is where I would be extremely concerned. But where I would be confident here is the reporting mechanism and the fact that the purchasing board has done work, has reported back to the department, and that is meeting our whole-of-government system needs. I reported before on the number of breaches as reported in the annual report of the Victorian Government Purchasing Board. I would need to check the actual numbers but certainly the number is reported — —

**Mr FORWOOD** — It is just the number — it does not mention the value either. It does not mention which departments.

**The CHAIR** — So we are clear.

**Mr LENDERS** — The number is reported.

**The CHAIR** — Do you want one more question?

**Mr FORWOOD** — The minister — —

**The CHAIR** — It is our turn, that is what I am saying.

**Mr FORWOOD** — You have a question and we will ask the supp.

**The CHAIR** — As it is 4.57 p.m. we have time for one more question.

**Ms ROMANES** — My question goes to the issue of tort law reforms. Can you outline how tort law reforms have benefited community and sporting groups and their access to public liability insurance?

**Mr LENDERS** — This has been one of the really difficult areas. The Parliament passed three rafts of legislation in 2002–03 to deal with the issue. At the time we had the really difficult dilemma that there was an issue of rights. On the issue of general damages we put a test of a 5 per cent permanent impairment, with the same principle that applies in the Transport Accident Commission and WorkCover schemes, and we put some other changes on a whole frame of how tort law went. There has been a big debate since then but we are starting to see now — we have had reports from the ACCC and we have had some work from APRA — that these were put in place first and foremost to make insurance available and the second issue was affordability. I do not think there is any question on the availability stakes. If we go on measures where we had public liability, professional indemnity, medical indemnity, builders warranty — the four areas where the government brought tort law reform in — I do not think there is any question of availability. On builders warranty alone there are six people in the market now, let alone medical indemnity, professional indemnity et cetera; in all of those areas there is clearly availability. On the issue of affordability in those areas there is still a debate in the community. I know we had a forum in April last year where we put a round table in place and we got the whole spectrum of stakeholders to see a year later or two years later et cetera how it was all going. These are issues that governments are still grappling with. APRA is providing data to assist us so we can be more informed on those.

How has it gone? In the measure of availability there is very little issue any more. That has been critical for things like your sporting clubs, your small businesses, your community groups. I used as a benchmark in the Parliament a number of groups. One was the Metropolitan Rabbit Fanciers, a very small club. Clubs like that no longer have an issue with insurance.

**Mr FORWOOD** — No, they all went broke.

**Mr LENDERS** — We talked about progress associations, we talked about the Thorpdale Potato Festival — a number of these sorts of groups were used as examples. Availability is clearly there. There is an ongoing debate on affordability. Some of that goes to how well groups organise, as to where the market is with them. But with things like the Municipal Association of Victoria scheme, the Our Community scheme and five commercial providers — on both of those indices we have seen CGU cut its premiums by 10 per cent in Victoria. We have seen the municipal association keep them down to a level. We are certainly seeing that access in the market again. In response to your question, it means those community groups can now get on with doing what they are doing without having to worry about unavailability of insurance and the risk that provided for their office-holders and participants.

**The CHAIR** — Thank you, Minister, for that very comprehensive answer. It is 5 o'clock — —

**Mr RICH-PHILLIPS** — A quick supplementary on the minister's answer.

**The CHAIR** — It is 5 o'clock and we want to — —

**Mr RICH-PHILLIPS** — It is 1 minute to 5.

**The CHAIR** — It is 5 o'clock.

**Mr FORWOOD** — Minister, will you take a supplementary?

**Mr LENDERS** — In the house.

**Mr FORWOOD** — Don't you ever say accountable and transparent to me again!

**The CHAIR** — We want to place on record our appreciation to DTF for coming so late on Friday after the week you have had. I do appreciate it. I also appreciate the fact that departmental officers have attended and provided briefing information to us both before and during this session and will still be working on PAEC follow-up questions for those that have been taken on notice. We do thank you. The transcript, if poor old Hansard can decipher it, will be sent to you and within two working days of receipt of it could you please confirm everything. Good afternoon and thank you very much.

**Witnesses withdrew.**