

VERIFIED TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2007–08

Melbourne — 31 May 2007

Members

Mr G. Barber	Mr G. Rich-Phillips
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Witnesses

Mr T. Holding, Minister for Finance, WorkCover and the Transport Accident Commission;

Mr G. Hehir, secretary;

Mr G. Tweedly, chief executive officer, WorkCover; and

Mr P. O'Connor, chief executive officer, Transport Accident Commission, Department of Treasury and Finance.

The CHAIR — I declare open the Public Accounts and Estimates Committee hearings on the 2007–08 budget estimates for the portfolios of finance, WorkCover and the Transport Accident Commission; tourism; and information and communication technology. On behalf of the committee I welcome the Honourable Tim Holding, MP, Minister for Finance, WorkCover and the Transport Accident Commission; Mr Grant Hehir, Secretary of the Department of Treasury and Finance; Mr Greg Tweedly, chief executive officer, WorkCover; and Mr Paul O'Connor, chief executive officer, Transport Accident Commission. I also welcome departmental officers, the media and members of the public.

In accordance with the guidelines for public hearings I remind members of the public that they cannot participate in the committee's proceedings. Only officers of the PAEC secretariat may approach PAEC members. Departmental officers, as requested by the minister or his chief of staff, can approach the table during the hearing. Members of the media are also requested to observe the guidelines for the filming and recording of proceedings in the Legislative Council committee room.

All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act and is protected from judicial review. There is no need for evidence to be sworn; however, any comments made outside the precincts of the hearing are not protected by parliamentary privilege. All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript, and the committee requests that verifications be forwarded to the committee, if possible, by close of business Friday, 1 June. In accordance with past practice the transcripts and PowerPoint presentations will then be placed on the committee's website. Following a presentation by the minister, committee members will ask questions related to the budget estimates. Generally the procedure followed is that relating to questions in the Legislative Assembly.

Before we proceed I ask that all mobile telephones be turned off. I ask them to be turned off because receiving phone calls, even on silent, interferes with the system and makes it impossible for Hansard staff, with buzzing in their ears, to record the proceedings appropriately.

I call the minister to give a brief presentation of no more than 10 minutes on the more complex financial and performance information as to relates to the budget estimates for the portfolio of finance, WorkCover and the Transport Accident Commission.

Overheads shown.

Mr HOLDING — Thanks very much, Chair. To go to the core responsibilities and the way in which activities are shared between the Treasurer and me, this really identifies those areas with some level of shared responsibility within the Department of Treasury and Finance. I understand that this presentation has been circulated to committee members, Chair.

The CHAIR — Yes.

Mr HOLDING — You can see there that I have responsibility for the commercial and infrastructure project management elements within the commercial division, as well as government land and property services. You can see within the economic and financial policy division I draw on the resources of EFP in the analysis and advice area, as does the Treasurer, obviously. In public financial corporations and balance sheet management I have particular responsibilities there as the minister for finance. In the budget and financial management division, obviously both ministers draw on the budget and financial policy advice. Financial reporting is particularly the responsibility of the minister for finance, as well as for the financial and resource management framework.

In terms of statutory authorities, I have direct responsibility for the Victorian WorkCover Authority and the Transport Accident Commission. The chief executive officers of both agencies have joined me this morning and obviously are able to provide me with advice on some of the more technical elements of the work that they discharge on behalf of Victorians.

I am also responsible for the Victorian Managed Insurance Authority, the work of the Essential Services Commission and, within the newly created government services group, obviously there is a set of responsibilities there, which reflects the significant work that area will be doing particularly in the area of shared services in the years ahead.

I just want to point to some particular achievements or areas where there has been a particular focus on the work of the finance minister, both myself and the previous minister. The first is in the area of government accommodation. Committee members would be aware there has been a significant relocation activity under way, consolidating government departments that were spread across different parts of the CBD, particularly into the new facilities in Lonsdale Street, where the Department of Human Services is now based, and also the Southern Cross building in Exhibition Street, which has seen about 75 000 square metres of office space consolidated in that area, including the Department of Innovation, Industry and Regional Development, some elements of the State Revenue Office, the Department of Justice and also, obviously, in the months ahead, the Department of Infrastructure.

I just hasten to add that that is a lot of work, but it does bring public servants into accommodation which is, firstly, more conveniently located for them to be able to carry out their responsibilities, obviously closer to the parliamentary and Treasury precinct, but also it is more environmentally-sustainable accommodation, obviously at a much higher star rating than the accommodation they were leaving, which is also very important in terms of how government manages its accommodation portfolio.

On state purchase contracts: this is an initiative whereby the state endeavours to obtain the benefit of economies of scale from large-scale government purchasing activities. We had our pilot programs in 2005. They related particularly to stationery, temporary staff procurement, probity auditors who act on behalf of the government and also electricity purchasing. We have now extended those state purchasing contracts in a range of other areas. I would be happy to take questions on some of the savings that have accrued to government as a consequence of those SPCs.

On efficient government/savings: you would recall that the government made some specific commitments at the election in relation to reducing the cost of government. The implementation of those savings, whilst they will occur across all departments, are a particular focus of mine as minister for finance. Again, I would be happy to discuss with the committee some of the details of those, but they relate to things such as government purchasing, more integrated ICT delivery, the way in which the government car fleet is managed, government expenditure on advertising and consultancies and a range of other areas where savings have been made. The Gateway project is a mechanism for managing our investment in infrastructure and ensuring that there is a robust process in place for the government management of those significant infrastructure investments at the feasibility study stage, at the stage at which the government goes to market to tender for the provision of those infrastructure projects, and also evaluating the benefits of those projects procurements as they reach finalisation.

Just to touch briefly on the Victorian WorkCover Authority, you can see there are a range of measures. PFIO, the performance from insurance operations: that is a very strong result there. That is effectively the operating surplus. Again, the PFIO, if you like, reflects the performance of the authority with the performance of equities taken out. We have obviously had strong equity market performance in recent times which has also impacted on the VWA's bottom line. That is picked up in the net performance after tax, which is the blue line, and then the yellow line reflecting the actuarial release. Then the funding ratio, which you can see there on the right-hand side, the red line, which shows that the authority's assets are being managed in a very robust and effective way. In terms of the actual benefit that that is delivering to Victorians, you can see a very significant reduction both in the overall number of injury and illness claims but also in the claims frequency, the claims per thousand workers, you can see that it has come down over time and is one of the reasons why the authority is performing so well.

Again, the reductions in the WorkCover premiums: there have been four successive 10 per cent reductions over four years, and you can see the impact that has had on the competitiveness of Victoria's WorkCover premium rates there, vis-a-vis the other states, so that is something we are very pleased about. You can see the four cuts.

The next slide shows the priorities for the WorkCover authority over the next 12 months. Obviously there are the Comcare matters, and again I am happy to take questions on that; I will not go through that now. There is the process of national harmonisation. This is the work that states are doing, particularly New South Wales, Queensland and Victoria, to harmonise WorkCover administrative arrangements across jurisdictions. We have new OHS regulations which come into effect on 1 July. The building and construction elements of those come into effect on 1 July 2008, but the rest of it is this year. There has been a significant set of projects around collaboration between the TAC and the Victorian WorkCover Authority on a range of different projects, including IT-related projects, claims management, a whole range of different areas, and we think this will yield great benefits not only in terms of the efficiency of each of the organisations but more seamless services delivered to clients.

Again with the Transport Accident Commission, using some of the same tests that we use for the Victorian WorkCover Authority, it is a very strong result. There is the performance from insurance operations, the net performance after tax and the release there as well as the funding ratio. Again I am happy to take questions on those trends. But there is also the Victorian road toll and acute hospitalisations, with very encouraging results. I will not go through those in great detail other than to say that they are very encouraging figures in terms of reducing the road toll both in absolute terms, but also in terms of the number of vehicles on the road.

That is just the road toll reduction since 1970. I like to use that slide, both when I was police minister and now as Transport Accident Commission minister, because it just shows how much progress has been made over a long period of time. It shows that the work in recent years, really over the last 15 or so years, has been hugely significant. Whilst we picked low hanging fruit when we introduced our seat belt legislation in the early 1970s, it is actually true to say that the most significant and sustained reductions occurred post-1989, and I think that is an encouraging reflection of the work that we have done, particularly in the area of getting motorists to reduce their speed.

On the TAC focus, of course you expect to see the collaboration with the VWA there, but the key focus over the next 12 months will be improving the benefits that are paid to TAC clients; further reduction in the impact of road trauma through the TAC's ongoing public education campaigns; the relocation to Geelong — a very big project that the TAC is undertaking, and that is both a project in terms of building and logistics, providing the new facility itself, but also a project in terms of introducing new systems, including a new claims management model, and that is a very important part of that relocation and the way in which the government will capture some of the synergies in that area. And of course I have mentioned collaboration already.

The CHAIR — Thank you, Minister. I am sure there will be some interesting questions. I know I am particularly interested in WorkCover, having done a review of occupational health and safety a couple of years ago, but my focus is actually on productivity, both specifically and in general, in terms of the state. I think it is very important that we actually improve productivity. Over the last decade Australia has not had a good record in terms of productivity, so can you tell us, in terms of your portfolio, or maybe your portfolios if you like, in terms of the next financial year what impact do you predict the portfolio spend and policies will have on productivity, particularly new policy initiatives?

Mr HOLDING — Thanks Chair, and I will address that in a variety of ways if I can. Firstly, I point specifically to the work that we are doing from an efficient government perspective, and I touched on that in my presentation. There is well over \$600 million in savings accruing to government over the next four years from efficient government measures, and many of those things relate to productivity-related enhancements in the way the Victorian government does business — so, for example, the way we manage our car fleet and the way in which we manage our purchasing arrangements. Government is a significant purchaser of goods and services across a broad stream of areas, and it is important that we have efficient mechanisms in place underpinning those sorts of purchasing arrangements. The state purchasing contracts which I mentioned earlier are a significant part of that, and there is a range of other processes in place to generate yields to government departments from improving the mechanisms they have in place and the way in which they obtain different goods and services.

I would point to some of our developments in the ICT area as an area where we can achieve particular productivity dividends, and I mention this particularly because we have a great deal of international and national research now which shows that if we look at productivity over the last 5 to 10 years, the most significant productivity benefits that have been generated to the Australian economy have been in the technology area. In fact, something like 85 per cent of the productivity improvements in the manufacturing sector are as a consequence of the uptake of new technology. About 78 per cent of the productivity improvements in the services sector are a consequence of the embracing of new technology, and going forward over the next 25 years the greatest yield that the Australian economy will get from improved productivity is not from changing the workplace relationships and changing the industrial relations laws in Australia, despite what some would have us believe, it is actually the way in which we manage the integration and the uptake of new technology.

Again, looking across the Victorian public sector, from an ICT perspective there are a significant number of projects under way at the moment, some of which have been funded in the latest budget, which will have a significant impact on productivity. To point to just a couple of them, the VicSmart and ultranet projects within the Department of Education — a \$61 million commitment to the ultranet in the current budget — are tools not only for parents and for students but also tools for principals and teachers and the school environment which will

improve productivity in the education sector. I am sure Minister Madden in his presentation would have mentioned the electronic conveyancing work he is doing; again a significant investment — I think a \$6 million investment by the state government in this budget. That is a project which will deliver significant dividends to all who purchase or sell property. It is a more efficient and streamlined system — a paperless system in a way — which will deliver productivity improvements.

So we have got specific initiatives which are captured in that efficient government initiative. We have got a set of initiatives around shared services which will improve the way government does business. I know in the PAEC questionnaire you have asked each government department to identify the savings measures that they are undertaking, and that includes some of those savings measures embedded in the efficient government activities. Again, I would point to those across all government departments as evidence of the commitment we have to efficient government, and more generally those ICT projects which impact on my ministerial responsibilities in the ICT area as tangible work that the government is doing to improve the efficiency of government for all government departments and agencies, but also for consumers, for Victorians and for customers, whoever they might be, who are interacting with the Victorian government and doing business with us.

The CHAIR — Thank you very much, Minister. I know you had a paper a couple of years ago, and you are continuing to do research in Department of Treasury and Finance on productivity and trying to improve it. I am sure this committee will do what it can to assist in that particular long-term process.

Mr HOLDING — Thank you.

Mr RICH-PHILLIPS — Minister, I would like to start with the machinery-of-government changes following the election, and in particular the transfer of the Office of the Chief Information Officer from Premier and Cabinet into Treasury and Finance. I assume this is something you deal with as finance rather than ICT, given it is in DTF, or its obscure — —

Mr HOLDING — It is both.

Mr RICH-PHILLIPS — With that transfer Jane Treadwell moved out of that role off to DVC — that is my understanding — and the office is currently not occupied; there is no chief information officer. Your predecessors as ICT ministers placed a lot of weight on the role of chief information officer; all the whole-of-government ICT matters were dealt with through that office. What is the role of that office now given that there is no CIO? Do you intend to appoint a new CIO, and what is the future of that office given these changes with Jane Treadwell's departure?

Mr HOLDING — There are a number of questions there. Firstly, it is not our intention to reinstate the position of the chief information officer itself. Those activities have now been absorbed within the Government Services Group, which I identified earlier in the presentation, and which will have a significant role to play in the area of the implementation of the government's shared services agenda.

There has been a lot of work that has already been undertaken and achieved in terms of the rollout of the TPAMS project in particular, but also a range of other government initiatives which have reached a point where the ongoing importance or relevance of that office in that form was no longer required, and all those responsibilities could better be discharged out of the Government Services Group within Treasury. This is a model that we think will quickly be recognised as best practice across Australia, and we welcome the interest of other jurisdictions in seeing the work that Victoria is doing. We believe the delivery of the procurement and purchasing activities of government within the Department of Treasury and Finance rather than within the Department of Infrastructure, where they were previously located, is a better way of delivering those services to Victorian taxpayers and to the Victorian government. The Department of Treasury and Finance has a broader mandate for overseeing government purchasing and procurement in any event, so it makes logical sense for the information and communication technology needs of government to be managed out of DTF also. It connects in that group with all of the other purchasing and procurement activities.

We believe there are some industry development activities which still need to be undertaken, and that is why Multimedia Victoria continues, but not within the Department of Infrastructure where it was previously located but now within the Department of Innovation, Industry and Regional Development which has the chief mandate obviously from the government's perspective for driving industry development. It makes sense to have the industry

development functions located in MMV within DIIRD and that is in fact where they once were, so it is not a particularly radical change in that sense.

There are some functions around the connection to Victorian communities — the bridging the digital divide issues — which we believe are appropriately resourced out of the Department for Victorian Communities, and that is why there is that function there which has been transferred into DVC.

Mr RICH-PHILLIPS — That is Jane Treadwell's role?

Mr HOLDING — Which is the role that she has continued in. It is not the role of the chief information officer; it is a role about connecting communities to the latest information communications technologies and making sure that inequality between regions and inequality between communities is not exacerbated as we go down this path. We think we have got a set of processes in place now, which when they are bedded down will provide a more logical discharge of the responsibilities that the government has across a range of different agencies.

Mr RICH-PHILLIPS — Within the Government Services Group, DTF, is there one person in charge of those ICT functions within that area? Is it allocated in that manner, or is it just spread across the group?

Mr HOLDING — I might get Grant to describe exactly how it is being structured.

Mr HEHIR — The way we are trying to approach the implementation of this is basically along the lines of what the minister just described: we are not trying to look at this as an activity that is about strategic procurement by procurement line but rather by the activity. So the types of structures that we are putting in place within the organisation is a separate division within the department which will have a deputy secretary running it. We are out recruiting at the moment for this position. There is someone acting at the moment. We are structuring it in a way which is more about the lines of business rather than what has been purchased. So it will be more around the strategy of purchasing, where we are trying to drive value from, having the skill base around the implementation of new strategic approaches and then a contract management stream.

The old CTO office was sort of involved in developing up a contract proposal and then contract managing it. We will try to split streams between the developing up of a proposal, the going out and negotiating it and the contract management of it. Each of those streams of activity will have specialists in various procurement areas as we have always had around ICT, fleet, accommodation, property and all of the various procurement activities that we have. So there will be experts in those streams. But we are not quite doing it as a procurement category approach as we have done in the past.

Ms MUNT — Minister, can I please refer you to page 53 of budget paper 2, particularly chart 4.3. This chart deals with the state's unfunded superannuation liabilities. I must say that the lines seem to be going in the right direction. But my question is: how are you managing to deal with the state's unfunded superannuation liability and, as it reduces, what will be the benefits to the state?

Mr HOLDING — This is the slide that the Janice is referring to. I think we have a copy of it to circulate to committee members. This is actually one of the most significant things the government is doing to improve and manage the state's assets and liabilities going forward. You would be aware that in 2000 the Victorian government adopted a funding framework which sought to fully fund the previously unfunded liability of state superannuation of state public servants by 2035. You can see there the black dotted line which represents in nominal dollar terms the way in which that unfunded liability was to be funded over the next 35 years, or at least from this slide over the next 30 years. The policy rationale behind this was an acceptance that the government had to take some action to fund the unfunded liability which existed, but in meeting those obligations there was a recognition that it was not one generation's problem and that funding it over multiple generations of taxpayers was a fairer way of doing it. That dotted line represented the way in which we originally intended to meet the payment or the discharge of that unfunded liability.

The dark green line represents in real dollar terms the actual progress that has been made. You can see here that the state government has made a significant inroad into meeting those unfunded liabilities and meeting them at a faster rate than we would have previously. That is not to say that we will necessarily discharge the obligation earlier. But by paying it down earlier, we reduce our interest payments and, of course, over time that has an impact on the budget bottom line. When people ask how is it that we are able to continually deliver a better standard of public service with a greater investment in services across health, education, police, emergency services, or whatever is,

and at the same time reduce state taxes in a way which makes our state tax base more competitive, we are able to do it partly because of the way in which the government has been managing both the unfunded superannuation liabilities and also the way in which government public authorities such as the WorkCover authority and the Transport Accident Commission have been managed.

You can see that we have made payments totalling \$5402 million in the period 2000–01 to 05–06, compared to the 3.9 billion that was expected to be paid under the original full funding framework. You can see that we are ahead of the original payment schedule and that this is delivering a very significant benefit to Victorian taxpayers. This is different from the way in which the commonwealth is managing this liability. It is managing it through the future fund. We believe our method of managing this unfunded liability is a more efficient and effective method. It has not required the establishment of a separate board and a whole series of separate fees and charges associated with that —

The CHAIR — You go to the private sector.

Mr HOLDING — This from the commonwealth perspective adds up to hundreds of millions of dollars. It has not created cumbersome and unnecessary governance arrangements. At the same time it is delivering a benefit, which we think will accrue to taxpayers for a long, long time to come.

Mr BARBER — Minister, I want to ask you about a couple of initiatives in occupational health and safety. I do not know where they appear in the budget papers, but they are from your 2006 election platform, so I presume they are getting implemented this year.

The CHAIR — Budget paper 3, probably page 262, and following.

Mr BARBER — You guys can look for it.

The CHAIR — The committee needs to focus on the budget, of course.

Mr BARBER — Yes. One thing is to introduce a bill to protect injured employees who raise occupational health and safety issues. I am particularly interested, I suppose, in the data that your departments have been collecting on discrimination — the rationale, if you like, for that bill — and how you go about collecting that data as we move forward, and whether you will publish it, I guess, since that is the rationale for the bill.

Secondly, I refer to the return to work inspectorate, which I gather was to be set up as a 12-month trial, so if it is under way now it will be running into the budget estimates period. What I want to know about the return to work inspectorate is, I guess, its activities. How many workplaces did it monitor for these return-to-work plans, how many people are employed or expected to be employed by the inspectorate, and how many cases of non-compliance with return to work obligations have been uncovered and prosecuted?

Mr HOLDING — Thanks for the question, Greg. Just in relation to the first element of it, I understood you to be asking: what is the rationale and then what is the status of the initiative in relation to the government's election commitment to protect workers who raise concerns about occupational health and safety and workplace safety from discrimination? My understanding is that it is not driven so much by data as driven by a number of cases which raised concerns about the ability of the courts to make judgements about what the reason for an employee being dismissed was. Under current legislation, as I understand it — Greg Tweedly can correct me in relation to this — basically it is a sole determinant test at the moment. The sole determinant test basically makes it very difficult for an employee to prove that the reason for their dismissal was because they raised an occupational health and safety concern. If instead the employee can say, 'Yes, all right, I did raise an occupational health and safety concern, and that was one factor that led to my being dismissed, but there is a whole bunch of other factors as well', that employee will find it difficult to have a successful case and bring about some sort of remediation action — either their reinstatement or alternatively some form of damages or alternatively some sort of action that the Victorian WorkCover Authority can take under legislation, imposing a fine or some other punitive instrument on the employer.

What we wanted to do was have a careful look at that test; whether that test was appropriate. We believe the test is a bit onerous, so we propose instead to look at a test which is one that says if the overriding reason was the raising of an occupational health and safety concern but it was not the only and exclusive reason, then that employee would have probably satisfied some sort of test, and then the government has to give consideration to what sorts of

remedies would arise as a consequence of that. So it is not so much data driven as driven by a concern about the inadequacies of the existing legislation and a couple of cases where the courts have put a very onerous test or very onerous requirement for the Victorian WorkCover Authority on an employee raising those sorts of matters. We are reflecting on that.

The second part of your question was: when do we propose to introduce these measures? We have a review of occupational health and safety laws, which will commence later this year. That review is a consequence of an election commitment that the government made. We would propose to consider the best possible way of responding to this legislative situation in the context of that review. That is our current intention.

Mr BARBER — A public review?

Mr HOLDING — It is a review that will invite a public component of it, yes.

The second element of the question related to the workplace — —

Mr BARBER — Return to Work Inspectorate.

Mr HOLDING — I can confirm that the Return to Work Inspectorate has been established, and I will get Mr Tweedly to provide some more information on that.

The CHAIR — Thank you very much. I have actually been down there myself and talked to them.

Mr TWEEDLY — The Return to Work Inspectorate was recruited and put in place at the beginning of November of last year, and with a month or two of training they started actioning their responsibilities this year. We have five people who are return-to-work inspectors, and their initial role is to ensure that employers understand their obligation in doing return-to-work plans et cetera. So the first component of the work of the pilot up until now has been going out to worksites, identifying those that have been doing it correctly and those who are needing some help to improve to do their return-to-work activities, and basically they have begun an educative process to date.

You also asked about the prosecutions for non-compliance. At this stage the emphasis has been on education and support. The approach of the Return to Work Inspectorate, which is a 12-month pilot, will then be assessed at the end of that period to see what are the next steps.

Mr PAKULA — Minister, I go to page 7 of the presentation you made at the start of the hearing. On that page you dealt with the four consecutive cuts to WorkCover and then went on to say that one of the priorities for the next year was the relationship between WorkCover and Comcare. Could you outline for the committee what are the differences between WorkCover and the commonwealth's Comcare scheme? In particular could you detail the differences in the schemes themselves — so the differences in benefits paid, premiums paid and the inspectorate regime?

The CHAIR — Minister, going forward in terms of the estimates and how this will impact upon on your work in the coming year.

Mr HOLDING — Sure. I identified this as one of the four key priorities of the Victorian WorkCover Authority over the next 12 months, because Comcare represents a real challenge to the Victorian scheme. Under the guise of providing employers with greater choice it has the effect of potentially denying Victorian workers access to the full range of benefits and protections that currently exist.

It also has the effect of potentially facilitating the removal from the Victorian WorkCover scheme of a number of very large employers who are currently premium payers or self-insurers under the Victorian scheme. For those that are premium payers it obviously has an impact on the scheme itself, and we want to ensure that for the scheme to be as effective as possible that it has the broadest possible coverage, and therefore it is with the greatest reluctance that we see employers leaving the Victorian scheme either to become full premium payers under Comcare or self-insurers under Comcare.

In terms of the exact elements — Martin, the question you asked, which is: what are the differences, what is the difference in premiums, and what is the difference in the inspectorate regime? — we have concerns on all levels.

Let us start with the premiums that are payable. Under our scheme you can see now we have an average premium of 1.46 per cent — 1.46 per cent is the average premium paid by Victorian employers who are members of the Victorian WorkCover scheme. Under the commonwealth scheme we have seen significant increases in their premiums in recent years. Premiums for employers under Comcare have recently climbed by 80 per cent. So from an average of 0.98 per cent in 2001, they have now reached 1.77 per cent of payroll in 2006.

There are a lot of different reasons for this. Part of it relates to the claims management framework that is in place. Part of it obviously reflects the different nature of employees who are being brought under the commonwealth scheme. Originally Comcare was a scheme that was designed for commonwealth public servants. Now we are seeing companies with a broad range of industry sectors coming under the scheme. Some of them are transport companies. They have got a different accident record, and inevitably that will be reflected in the average premium rates that the Comcare scheme is able to achieve, and now you see an average premium rate at 1.77 per cent, which is significantly higher than the Victorian average of 1.46.

Mr PAKULA — And labour hire as well.

Mr HOLDING — And labour hire is another one. That is certainly very true.

If we look at the difference in benefits — Martin asked specifically about benefits. We have recently increased benefits to injured workers. We now have injured workers receiving weekly payments for 130 weeks; previously it was 104 weeks. Weekly payments for injured workers who return to work part-time are now at 75 per cent of pre-injury earnings. This is up from the previous level of 60 per cent. But if we look at the Comcare scheme, the serious-injury payments that are made under Comcare are basically half what they are under the Victorian WorkCover Authority. Some 80 per cent or more permanent impairment — sorry, I will read out the comparison.

The CHAIR — Quickly, Minister.

Mr HOLDING — Serious injuries are double what Comcare would pay for those with the same injuries. Comcare would pay \$180 000 for a serious injury. Under the Victorian WorkCover Authority a worker in the same situation would effectively be eligible for \$370 000. So you see a fundamental difference there in terms of the benefits that are paid.

You also mentioned inspectors. This is a very important area. We have a robust and well-resourced inspectorate here in Victoria; Comcare does not. Despite its protestations, it is not true to say that it has been resourced in the past to provide this sort of function. We have 230 inspectors in Victoria; Comcare has a target for the whole of Australia of 50, which it will seek to achieve by June this year. The difference is this: in Victoria our WorkCover inspectors will carry out more workplace inspections in two days than the Comcare inspectorate will carry out in an entire year.

Mr WELLS — Why are employers leaving the Victorian system and going to Comcare then, if it is as good as you have outlined? There must be a reason.

Mr HOLDING — Why, indeed, Mr Wells? I am glad you asked the question, because the reason is, I think, that they were promised a one-stop stop.

Mr WELLS — So it is more efficient?

Mr HOLDING — They were promised that the system would be more efficient. If you look at the nature of the employers who have left, they are employers who have employees across different state jurisdictions. They were promised a one-stop shop by the commonwealth — they were promised one set of occupational health and safety laws, for example. Comcare has now had to admit in March this year that it will not in fact be able to deliver a one-stop shop.

If you are an employer who is insured under the Comcare system, you will not have to respond just to the commonwealth's occupational health and safety laws because every employee who enters your workplace who is covered by the Victorian scheme will continue to be covered by Victoria's existing occupational health and safety laws — as you would expect. Why should a Victorian employee whose employer has elected to insure with the Victorian WorkCover Authority have a different standard of occupational health and safety laws applied to them?

What we always said to the commonwealth was, 'You will not be able to create a one-stop shop for employees, because there are employees who enter different workplaces all the time' — particularly, I might add, in the transport industry, where we have seen a number of these employers make this transition. Now Comcare has come back to the states and admitted that it cannot provide a one-stop shop. So the very benefit that was held out — the enticement that was held out — to employers in making that transition, that, 'You will have a one-stop shop' is not able to be delivered, and Comcare has now had to admit this.

We have grave concerns. We have grave concerns that the employers who have left the system have been misled, and we have grave concerns for the safety of Victorian employees who are currently employed under a very robust and very effective regulatory environment in terms of Victoria's occupational health and safety laws and who are moving to a system under the commonwealth's legislation where there is not an inspectorate of sufficient expertise or size that can support the employees who are employed under that framework.

I thank Martin for his question and I thank Kim for the follow-up, because I think it does emphasise what a significant challenge this will be for workers right across Australia. We have 16 000 Victorian employees now who are covered by the commonwealth's legislation, and we want to make absolutely sure that the occupational health and safety laws in Victoria are as robust and as effective as possible and are consistent, regardless of the system under which those employees are employed.

The CHAIR — Thank you, Minister. We might follow up a little bit later as well in terms of harmonisation.

Mr RICH-PHILLIPS — Minister, I would like to also ask about Comcare in the context of its potential impact on the VWA scheme. As you would appreciate, not just any employer can shift from VWA to Comcare, as there is the competition and the commonwealth entities issue. What is the VWA's worst-case assessment of the impact that a shift to Comcare would have on premium revenue for VWA? Could it be up to 10 per cent, 15 per cent, 5 per cent? Presumably there has been some assessment of what the impact could be, given the knowledge of who potential transferring employers could be.

Mr HOLDING — We have had five employers so far that have made the transition. I think they are Optus, K&S Freighters, Linfox, National Australia Bank and Chubb security, which is in the process of making that transition. There are a number of other employers that have signalled an intent, a willingness to look at this question. Some have done so formally; they have done so through media announcements or whatever it might be. Others are the subject of informal speculation. I do not propose to add to that today: it is up to them to make that decision over time.

Obviously at the moment the legislative framework is that companies that are either former commonwealth government entities or companies that are in competition or have been in competition with government utilities — formerly privatised government utilities — are the ones, according to the Optus decision, that are eligible to make the transition, and we will wait to see what that means in practical terms.

Our key response in this area has been to focus on ensuring and protecting the viability of the Victorian scheme. That is why we introduced the legislation: firstly, to ensure that employers that made the transition were not able to avoid their long-tail liabilities by making a transition into the commonwealth scheme; and secondly, to ensure that the Victorian scheme was protected in a fundamental sense.

Indeed as a consequence of some of the ways in which those measures have been implemented over the last couple of years we have introduced recently some amendments to clarify the way in which those arrangements would work, the bank guarantees that employers are required to give, and an assurance that management of long-tail claims will rest with the Victorian WorkCover Authority and not with employers who may seek to avoid or manage those long-tail claims in a way which is inconsistent with the Victorian government practice. It is also to ensure there are appropriate penalties in place to protect the scheme from companies that may seek to avoid their liabilities or obligations in any way.

I do not want to speculate about how many companies may ultimately take this step. Instead, what we are doing is making sure that the Victorian scheme is protected — and we believe the legislative amendments that we have put in place achieve that — and that the incentive for Victorian companies to make this transition is minimised. Part of that is by pointing out the anomalies that I pointed out before in response to Mr Wells's question, but also to ensure that the incentive by way of interstate harmonisation is pursued as much as possible.

There are things that the states can do to make their schemes more seamless across different boundaries, and we have been doing that. I am happy to take questions if members want to explore that question further.

Mr RICH-PHILLIPS — Without speculating on who may or may not shift, is there a worst-case scenario that has been estimated by the VWA as to the impact on the scheme?

Mr HOLDING — No, there is not.

Mr SCOTT — My question relates to the TAC and vehicle safety. Minister, what is the Transport Accident Commission doing to promote emerging vehicle safety technologies, which have the potential to significantly reduce the social and economic impact of road trauma on the Victorian community?

Mr HOLDING — Firstly, thanks very much for this question. I think this is one of the most interesting areas where the Transport Accident Commission has adopted an innovative approach. We adopt in Victoria a safe system approach to road safety. That is the Victorian government's strategic approach. That means that we focus not only on the work that the Transport Accident Commission does from a driver education perspective, but we look at things such as vehicle safety, driver behaviour and road design.

We look comprehensively across the road transport scene to make sure we are doing everything we can to make Victorian roads safer. I think if you look at the road safety statistics, not only on the road toll itself but also on serious injuries from road crashes, you will see we have been demonstrably very successful over a sustained period of time. In fact I think it is one of the most significant things that successive Victorian governments have done to improve the quality of life here in Victoria.

Mr Scott, your question related specifically to vehicle safety. The most recent two campaigns launched by the Transport Accident Commission, and one in particular, have focused on vehicle safety. This is the 'How safe is your car?' campaign, which points motorists and potential motorists — people looking to purchase a vehicle — at a website which can provide information about the safety features of different vehicles and particularly newer safety features which have a significant impact on road safety outcomes.

There are two features that we are focusing on in the latest campaign: firstly, electronic stability control, which is a measure which is introduced increasingly for late-model vehicles which has the effect of avoiding or preventing run-off-road accidents. There are a significant number of run-off-road accidents particularly in rural and regional areas, and electronic stability control has the effect of minimising those sorts of incidents, so it is very important that motorists as quickly as possible absorb this technology into the Australian vehicle fleet.

The second area is in the instalment of side-curtain airbags. Again, these have a significant impact in side-on crashes and can significantly reduce the impact of head injuries, and head injuries are obviously the most serious form of serious injuries that a passenger or driver in a motor vehicle can suffer from. These are important initiatives because Australia has — and I know John Brumby would have touched on this in his presentation — a very old vehicle fleet, and the quicker we turn the vehicle fleet over, the quicker we get a road safety as well as an environmental benefit from that.

The road safety benefit is that newer cars incorporate the latest safety features. If we look at electronic stability control, if every motorist in Australia upgraded their vehicle to the safest vehicle in its class, we would see a reduction in road accident trauma in Victoria and Australia of something like one-third.

So if we look at the road toll and consider what is the next big thing we can do in the road safety area, as important as the things we have done in the past on drink driving, speed, driver fatigue and driver distraction and these sorts of things are, the single remaining piece of low-hanging fruit, if we want to call it that — it is not the easiest thing to do, but it is a significant one-off thing that we can do — is to drive significantly the uptake of new technology, new road safety technology, and particularly electronic stability control.

We are certainly looking at that closely in the context of the Victorian government fleet, but more importantly we are giving tools to motorists which will put pressure on car manufacturers to include these features in their car fleets, and we are already seeing the major Australian car manufacturers now announcing that electronic stability control will be standard on an increasing range of their models. So our campaign is working.

Mr DALLA-RIVA — Minister, just on that issue, you said that is the latest technology. There is one more, and that is the interlock alcohol detection system. I was wondering if that is — —

The CHAIR — There are the side curtains as well.

Mr DALLA-RIVA — Yes. I was just wondering if you have considered that, given that alcohol is one of the main contributors to road death and road trauma. Have you considered that as part of the future in terms of requiring motor vehicle manufacturers — or at least considering that as the next stage of protecting the community by having these interlock devices?

Mr HOLDING — We have introduced legislation in Victoria which for repeat drink driving offenders requires the installation of alcohol interlocks in certain circumstances. I have to say I would want to take more advice on the question of whether fitting them as the standard would be appropriate. At the moment in Australia it is legal to drive a vehicle with a blood alcohol level of up to .05; therefore you would need an alcohol interlock device that was calibrated to enable someone to get around that.

Mr DALLA-RIVA — Not if you are on P-plates or you are a bus driver — taxis, trucks.

Mr HOLDING — But there are certain circumstances where it may have an impact. I have to say, given the cost of the technology and the effect it would have on vehicle affordability, I think there are a range of other measures we could take before we would consider that sort of measure that would have a greater road safety impact. That is my initial response, but we would take further advice on it.

The CHAIR — Mr Rich-Phillips?

Mr RICH-PHILLIPS — Minister, I would like to ask you about the benefits of the eastern CBD consolidation for the public service and in particular the Southern Cross and Urban Workshop developments, which have now been occupied for roughly 12 months. Can you tell the committee, please, what the first-year recurrent savings have been both in terms of lease and more particularly operating expenses — the outgoings which were supposed to be cut by this project. Also, is there any residual CBD space that is leased and not occupied as a consequence of the consolidation — it has not been disposed of yet, either subleased or leases exited?

Mr HOLDING — I may have to take some further advice on some elements of that question, but I can provide some general information to Gordon and to the committee in relation to government accommodation costs in the CBD, and particularly insofar as it impacts on the new government accommodation, the Lonsdale Street and the Southern Cross buildings to which your question referred specifically. I would say that the way government tries to manage its asset portfolio, obviously we are affected, like all CBD tenants are affected, by average rental costs in the CBD, and we try to achieve outcomes, if we can, which are below the industry average. In recent years we have certainly achieved that, and it is too early to tell where we are at in terms of the new accommodation that government has come into, where that sits vis-a-vis the average rentals, because we do not have access to that information at this stage. But I would like to provide the committee with some specific information. The average accommodation costs for 2006–07 is \$275 per square metre. I would expect that to increase in 07–08. We do not have the figures yet, but I would expect it to increase because — —

Mr RICH-PHILLIPS — That is CBD?

Mr HOLDING — No, this is average cost overall. I will come to CBD specifically, if that is okay.

The reason why we will expect to increase is because there is a high demand for office accommodation at the moment. There is a lack of space available. That will mean that accommodation costs will go up. That is inevitable, and government, like all CBD and other rent payers, will experience that.

The average accommodation costs for government accommodation in the CBD is \$293 per square metre. There is no official industry average for this as it is subject to fluctuating market conditions. But Jones, Lang LaSalle, the government's property contractor, advises that its gross figure on premium buildings is \$359 per square metre and \$239 per square metre on secondary buildings. This figure represents buildings within the CBD only, so that shows that from the Victorian government perspective we are in a relatively competitive space at the moment.

The government's average accommodation costs cover a large variety of buildings, obviously, so it is impacted not just by the newer stock, but it is impacted by aged stock that government continues to utilise in different precincts, including in the Treasury precinct itself.

You asked about the vacancies that exist in other government accommodation across different areas and whether or not we are paying rent for those. I think that was the nature of the question.

Mr RICH-PHILLIPS — In particular the ones that have been vacated as a consequence of the move.

Mr HOLDING — The Department of Infrastructure is the last department that will be making the transition. They have not completed that transition yet; they have not made the transition at this stage. But there are no vacancies in 121 Exhibition Street — that is, in the Southern Cross building that we are currently paying rent for at the moment. We expect the DOI relocation to take place in November 2007, so we will be able to provide advice next year about the rental implications of all those issues.

I can come back to the committee with advice on other areas, but I know there are some spaces — for example, in 55 Collins St where the Department of Innovation, Industry and Regional Development exited from. There are some spaces in that building that are still being used by different government agencies. In fact, I think the Transport Ticketing Authority is located at 55 Collins St at the moment; they do still have space there. So some of that space is still being utilised by existing government agencies.

The CHAIR — Right, if you can provide that material to us and something going forward as well.

Mr RICH-PHILLIPS — The other part of the question was whether any of the efficiency savings that were expected have crystallised over the first year of operating Southern Cross — water energy efficiencies.

Mr HOLDING — There have been significant efficiencies. I have seen some data — I cannot recall it off the top of my head, so forgive me — on the operation of government multifunction devices and electricity and other costs where we have been able to achieve some efficiencies.

There have also been efficiencies in the productivity area. Obviously by consolidating government departments and agencies into one building you get a range of synergies and efficiencies because people do not have to walk as far, they do not have to travel, and they do not have to use public transport or cab charges or vehicles, or whatever, to travel around, so that generates efficiencies. There have also been efficiencies in terms of the square-metre space occupied per public servant, and that has come down. This was one of the government's aims in having this consolidation work under way. I can report to the Public Accounts and Estimates Committee that the work space ratio, which is the square metres per person, in 2003–04 was 16.1 square metres, and in 2005–06 it was 15.4 square metres. So it has come down, and that is not an insignificant reduction in percentage terms. That obviously has a cost impact for government as well.

Mr RICH-PHILLIPS — Are you able to take on notice the details of the other efficiencies?

The CHAIR — I have asked for that.

Mr HOLDING — Yes, we will obtain some more information on those other issues.

Ms GRALEY — Minister, the effective management of risk is one of the key stewardship roles within a government. I would like you to outline to the committee what steps the Victorian government is taking to improve risk management across government, now and into the future.

Mr HOLDING — Thank you very much. I can see that the Chair is distracted by the proposition of how much space a public servant takes up.

The CHAIR — I think Mr Dalla-Riva was interested in the sardine principle.

Mr DALLA-RIVA — There are so many and you are cramming them in like sardines.

Mr HOLDING — Firstly, Judith, thanks for the question. It does go to a very important role not only of the minister for finance but of government agencies and departments more generally — that is, how we manage risk. This is something that the government has sought a lot of advice on on a number of different occasions. The

Victorian Auditor-General has provided very useful and practical advice to government on the management of statewide risks. The expenditure review committee and other agencies within government have sought advice on how our risk management framework operates and how effective it is, and all of that work together is being used to streamline — streamline is not the right word — to improve the management of the state government's risk, or elements of its risk profile across government. It is really aimed at three particular areas. I want to just outline this to the committee this morning.

The first area that we have seen as a key area for improvement, where we have put a lot of government resources into, has been the development of a comprehensive set of risk management processes. This includes looking at existing policy frameworks and updating those frameworks and issuing new frameworks that are more consistent with modern practice. It looks at a communications strategy to promote enterprise risk management, and an ongoing review of the program for risk management frameworks across the government sector. That is the first element of it. It is looking at our processes, the frameworks that are in place and the way in which the importance of those frameworks is communicated within the government context.

The second area where we have devoted a significant amount of resources is in the establishment and maintenance of a program of risk assurance. This is the work that we do to ensure that government agencies, government departments, statutory authorities and other agencies, in the work that they are doing, attest to the risk management frameworks that they have in place within each of their agencies or departments. What we will require is an attestation in the annual report that the Australia-New Zealand risk management standard has been adhered to. So all annual reports will be required to have an attestation from the CEO or the board — or the chair, the secretary of the department, or whoever the relevant officer is — that there has been adherence with that Australia-New Zealand risk management standard. It is a very important quality assurance project.

The third area is in the management of aggregated risks across the entire government sector. This goes particularly to the work that the Victorian Auditor-General did in terms of managing statewide risk. There are really two areas where a statewide risk accrues to government. The first is where there is a risk — for example, let us say, with pandemic influenza. Each department will have in place a set of arrangements for how it would manage a pandemic influenza outbreak, or whatever it might be.

The impact on government is not just the activities taken by each department or each agency. The impact on government is not just the actions any individual department or agency may take in implementing that framework or responding to that risk. There is an aggregated risk to the entire government sector that in a sense goes further than that which any individual department may identify. So the Department of Human Services may say, 'In our context it means this for us', but there is a whole-of-government exposure as well. We need to make sure that when we look across the asset portfolio and activities of government that we are considering the aggregated risk as well as the compartmentalised or departmental risk that may exist in a particular situation.

There is a second element of aggregated risk, and that is that government has a set of significant asset portfolio. The Victorian Funds Management Corporation, for example, is responsible for overseeing the investment of a very significant range of assets on behalf of government. They are the funds that are managed by the ESSS, the Victorian WorkCover Authority, the TAC et cetera, but government also has a set of liabilities as well. We saw the unfunded superannuation liability for public servants going forward. It is important that these assets and liabilities and the risk profile that they present are managed in a way which is prudent and responsible.

So in looking across the assets and liabilities managed by government it is important that there is a risk management framework overseeing all of that activity as well. In a sense, we think we have come a long way. We have had some very important useful work done for us. The Victorian Managed Insurance Authority has led a very significant amount of work across government which has helped government departments better identify risks that may exist within individual portfolios and agencies. We are better able to identify in a transparent manner the way that government manages the insurance arrangements that underpin our response to that risk. We are also better able to identify risks that exist across the government portfolio and to better assure ourselves that the assurance frameworks within individual departments and agencies are being managed responsibly.

So it is a very important question. It is one that I take very seriously as minister for finance, but it is also one that occupies all ministers in different ways in the work that they are doing in their individual portfolios.

The CHAIR — Thank you, Minister. It is something that we also take pretty seriously, too, as a committee. I am pleased about the annual report. It may well be that this committee will look into annual reports in the next year or two, as to how they get some further consistency in reporting.

My interest is in terms of financial reporting. I know that in the last couple of years we had a lot of work on the International Financial Reporting Standards and there have been a lot of changes as a result of that. I must admit that the committee went to a conference in Canberra earlier this year and was advised by a very senior accountant that the main reason for the change to the International Financial Reporting Standards was so that overseas accountants would be able to read Australian accounts. We thought that this was not terribly good. When we asked for a very simple explanation of how to explain this to our electorates, that is what we were told. I am sure there are better explanations. The focus in terms of this has probably moved now to harmonisation of the bottom line in terms of the GFS and the GAPP standards.

Where are we at on this? We had some discussions in our conference of public accounts committees in Canberra. We want to know where Victoria is at on that. I know we have led the way — Murray and his team in the department have done a really good job. Where are we going on this and where are we going in the future?

Mr HOLDING — Those cold winter nights must just fly by! It is a great question. Victoria has actually led the way in this area. Across Australia we have seen jurisdictions moving to models which better enable us to compare financial data that is presented by governments across jurisdictions. Although it is a very dry topic when it is described like that, it actually is important — all of us as parliamentarians know, and I am certain that this is particularly true for non-government members in a Parliament — to be able to look at what is happening in other jurisdictions and actually credibly compare what is going on and know that you are comparing apples with apples. In the past that has never been the case because governments used a whole raft of different measurements. They frequently changed the measurements, which made comparisons from within jurisdictions complex, let alone comparisons from one year to the next. So in recent years there has been a considerable move, I have to say led by Victoria, to adopt a more common set of reporting frameworks.

That is reflected in the fact that now if you look through the Victorian government budget papers you will see that there are two sets of reports presented. There is a set that is presented in accordance with the government finance statistics (GFS) that you referred to, and there is a second set which is the generally accepted accounting procedures statistics, the GAAP material, that is presented.

The CHAIR — That is required under the Financial Management Act.

Mr HOLDING — To take the first set first: the GFS set is the set that is overseen by the Australian Bureau of Statistics and it uses essentially an economic model rather than an accounting-based model, and it is based on a set of International Monetary Fund standards; they are a useful set of tools; one that now all jurisdictions are using in reporting on their government accounts.

The second: the GAAP materials are the ones that come from the Australian Accounting Standards Board, and this set of materials is the one that emanates from, or works in tandem with, the Australian equivalent to the International Financial Reporting Standards — the A-IFRS, as it is commonly referred to — and in a sense it is this process which is going to lead us now.

Victoria adopted this set of procedures in 2005/06 having adopted a whole-of-government reporting framework in 1996-97, so in both instances we were the first jurisdiction to do so, and it is a credit both to the former government, but also to this government, that it has kept and maintained the momentum in this area, in ensuring that the way in which government information is presented is as transparent as possible but also as consistent as possible with other jurisdictions.

The next step is for the 2008-09 budget papers, which will have the next set of measures incorporated in them, which will mean we will go from having those two frameworks to having only one, and then all states and territories in Australia will move to that model. Again Victoria will set the pace in terms of driving that set of processes.

In terms of how far ahead of the pack we are, I did want to just provide to the committee this letter, if the committee is interested.

The CHAIR — We are happy to table the letter and incorporate it into the Hansard report.

See page 18

Mr HOLDING — Excellent! This is from Her Majesty's Treasury in the United Kingdom. It basically has them moving to a set of international set of financial reporting standards for 2008-09. So this is their adoption of IFRS — their version of IFRS — which means that from a UK perspective — —

Mr RICH-PHILLIPS — Gordon Brown is distracted!

Mr HOLDING — It is actually issued in the name of David Watkins. He is the head of financial reporting policy and he has announced that this standard, the standard that Victoria adopted from an Australian perspective in 2005-06, is to be adopted in the United Kingdom in 2008-09 from a national perspective. So actually it shows just how far ahead of the pack Victoria has been, and I think over time we will see a significant benefit, not just for taxpayers being able to see a transparent and comparable set of financial data being presented by government, but also for those who have an interest in the activities of different jurisdictions, in being able to compare across them.

The CHAIR — Thank you very much for that. The committee will probably be looking at financial reporting at some stage, we probably always do. We have noticed in our hearings some inconsistencies in regard to the way output funding is used between the various budget papers, so it is probably something we should have in greater conversation with Department of Treasury and Finance in the next year or two.

Mr RICH-PHILLIPS — Minister, I would like to ask you about the Victorian Government Purchasing Board. The last annual report, 2005-06, published some statistics on the value and volume of procurements considered by the board. In particular, I am interested in the exemptions that were given from public tender and three-quote requirements.

For the five years of data that is published in the annual report we have seen a dramatic increase in the number of exemptions given, which has roughly doubled, and the value of each has increased also, so the total value is roughly three times what it was. From 2001-02 the value of contracts that were subject to exemption was \$55 million; for the last available year it was \$163 million, against a total increase in contracts of roughly 20 per cent. So it has gone up three times when the total values of all contracts has gone up about 20 per cent.

Mr HOLDING — And this is an exemption from what?

Mr RICH-PHILLIPS — An exemption from the public tender and three quotes requirements of the board.

The CHAIR — So this is over \$100 000 is it, or whatever?

Mr HOLDING — It depends on the project.

Mr RICH-PHILLIPS — Is that dramatic increase in exemptions acceptable on an ongoing basis? With respect to breaches of VGPB requirements, the report notes for that year there were 25. You as minister for finance are required to be notified of those under the Financial Management Act. What practice have you put in place at a ministerial level to address breaches of policy, and is it acceptable for the board to grant a retrospective exemption against policy when breaches are identified?

Mr HOLDING — There are a number of different elements to that question. The first is that you contend there has been an increase in the number of exemptions that have been provided. I will need to take some advice — —

Mr RICH-PHILLIPS — Do you want to have a look?

Mr HOLDING — I am not saying it is not true; I am just saying that it is the basis of the first part of the question. I will need to take some more advice on that. I know the Victorian Government Purchasing Board has worked very hard with departments and with agencies that respond to the board to put in place a framework which ensures that agencies and departments are aware of their requirements, that accredited purchasing units within government departments and agencies are aware of the policies and the guidelines that are in place that they need to adhere to when they are expending public funds, and the standards they are required to reach in accordance with all

of the different thresholds. So there are obviously different standards that exist in terms of different purchasing arrangements. The Victorian Government Purchasing Board has done a huge amount of work to make sure that purchasing officers, purchasing staff, purchasing managers and procurement managers within government departments are aware of their obligations, and that those obligations are being adhered to.

It could in fact be that across a wide range of areas what we are seeing now is the benefit of the work that has been done over a period of time accruing to government in terms of the range of practices that have been put in place at a departmental or at an agency level. But again, I will undertake to get further advice on exactly what the circumstances were from my own perspective so I that I can provide information to the committee about what the reason for that trend is.

The second part of your question asked, basically, am I notified? I think you asked me — —

Mr RICH-PHILLIPS — Under the act you are required to be notified. What do you do in response?

Mr HOLDING — Okay. In each instance we essentially seek advice on a case-by-case basis as to what the circumstances were and what, if any, action is required as a consequence. There will often be myriad different reasons — I do not want to go through them all with this committee — suffice to say an appropriate response will depend on what the circumstances were, and that is what you would expect. Obviously from a government perspective it is not necessary for the minister to drive responses in each and every instance. In fact often the appropriate responses are undertaken at a departmental level or are overseen by the purchasing board itself, and that is an appropriate framework that we would expect to see in place.

The last element of your question asked about retrospective — —

Mr RICH-PHILLIPS — Would a retrospective exemption be an appropriate response to a breach of policy? Is that one of the options available to the board in responding?

Mr HOLDING — I cannot respond to that. I would have to get further information about exactly what is being described.

The CHAIR — Perhaps you will take that on notice, Minister. Thank you very much. I thank the witnesses for their attendance today.

Witnesses withdrew.



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21 March 2007

MS FD (07) 10

[Letter to Central Government Departments]

INTERNATIONAL FINANCIAL REPORTING STANDARDS APPLY FROM 2008-09

This letter draws your attention to the announcement in the 2007 Budget that the accounts of central government departments and entities in the wider public sector will be produced using international financial reporting standards from 2008-09¹. This letter gives you guidance on what you need to do now.

Budget announcement

7. The 2007 Budget announced that, from 2008-09, the accounts of central government departments and entities in the wider public sector will be produced using international financial reporting standards (IFRS)², as interpreted for the public sector in the IFRS-based Financial Reporting Manual (FReM).

8. The announcement applies to all reporting entities covered by the FReM (that is, departments, executive agencies, executive non-departmental public bodies and trading funds). In addition, the Department of Health and Monitor will continue to use the FReM as the basis of their own accounting manuals. We are talking to Communities and Local Government about how this will affect the regulations for local government accounting, and to CIPFA/LASAAC about local government accounting guidance.

What you need to do now

9. As you know, the Financial Reporting Policy team started to develop the IFRS-based FReM in May 2006. We are on target to complete it and issue it for final consultation pre-Recess to get your comments over the Summer. I

¹ Paragraphs 6.59 and 6.60 of the Financial Statement and Budget Report.

² IFRS also includes International Accounting Standards (IAS) and Interpretations of IAS and IFRS issued by the Standards Interpretations Committee (SIC) or the International Financial Reporting Interpretations Committee (IFRIC).



am grateful for the contributions made by those who have commented on our proposals. Some of you will have started to make your own preparations for the move to IFRS.

10. Your 2006-07 and 2007-08 accounts will continue to use existing, UK GAAP based accounting policies.

11. After you have laid your 2007-08 accounts, you will need to restate the 2007-08 figures on an IFRS-basis in order that your 2008-09 accounts can be certified to comply with IFRS. Whether the figures change will depend on the materiality of the differences between IFRS and the existing requirements under UK GAAP (both as adapted and interpreted in the FReM).

12. To help you with this exercise, the annex to this letter lists all extant IFRS and indicates whether there are likely to be any material differences. I recommend that you consult your auditors at an early stage in the process to obtain their view on the materiality of any differences you find.

13. Accountancy advisors in the Financial Reporting Policy team will be pleased to discuss with your staff any detailed questions you might have.

Impact on budgets and Estimates

14. In general, we do not expect the move to IFRS to have a significant impact on budgets and Estimates. However, the General Expenditure Policy team will consult you separately on this and you should contact them if you have any specific questions. It is likely that any changes will be made through the 2008 Winter Supplementary Estimates.

Communication

15. I should be grateful if you would copy this letter to your executive agencies, NDPBs and trading funds.

16. Following the completion of the consultation exercise on the IFRS-based FReM over the Summer, we plan to hold a conference to discuss the outcome of the final consultation and the next steps in the implementation exercise.

Whole of Government Accounts

17. The Budget Report also announced that WGA will be produced on an IFRS basis from 2008-09 as part of a coherent package of developments in financial reporting introduced at the same time. The deferral of the publication of the first set of WGA allows us to minimise burdens and costs on departments and in the wider public sector and to complete the process of accounting policy convergence with local government. And it also gives departments time to address the quality and timeliness of WGA returns that include the transaction streams and balances with local government.

DAVID WATKINS