

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2012–13

Melbourne — 11 May 2012

Members

Mr N. Angus

Mr P. Davis

Ms J. Hennessy

Mr D. Morris

Mr D. O'Brien

Mr M. Pakula

Mr R. Scott

Chair: Mr P. Davis

Deputy Chair: Mr M. Pakula

Staff

Executive Officer: Ms V. Cheong

Witnesses

Mr R. Clark, Minister for Finance,

Mr G. Hehir, Secretary,

Mr D. Yates, Deputy Secretary, Budget and Financial Management Division, and

Mr B. Flynn, Economic and Financial Policy Division, Department of Treasury and Finance.

**Necessary corrections to be notified to
executive officer of committee**

The CHAIR — I now welcome from the Department of Treasury and Finance Mr Grant Hehir, secretary; Mr D. Yates, deputy secretary, budget and financial management division; and Mr Brendan Flynn, economic and financial policy division. I now call on the Minister for Finance to make a presentation of no more than 10 minutes on the complex financial performance information relating to the budget estimates for the finance portfolio.

Mr CLARK — Thank you very much, Chair. I thought I would begin by making a few remarks about my various ministerial responsibilities and how those relate to some of the government's objectives.

Overheads shown.

Mr CLARK — If we move to the first slide, you will see there the four pillars that the Premier and Treasurer have spoken about. You will see listed against those some of the responsibilities that I have. In terms of contributing to a stronger budget capacity, the work that I am involved with in terms of ensuring appropriate risk management and financial management frameworks is clearly important for ensuring that we get the most effective results from the budget. Similarly in relation to public sector industrial relations policy, it is important that that policy promote productive workforces and achieve responsible and affordable wage outcomes.

In relation to improving productivity, a key component of improving productivity in Victoria is in relation to the building and construction sector. The Premier has made very clear his and the government's concerns about poor productivity and rising costs in the building and construction sector, which he has taken up at a commonwealth level, but in particular in Victoria we are seeking to ensure that there are law-abiding and productive workplaces on building and construction projects — not only Victorian government projects but other projects — and a key part of my responsibilities relates to that. The final two items there are my responsibilities for oversight of the VMIA and the Essential Services Commission, and those relate to effective risk management and to ensuring sound, arms-length regulation of essential services.

Moving on to the next slide, that is designed to indicate to the committee how my ministerial responsibilities relate to various budget output groups. The economic regulatory services output group relates solely to my finance portfolio, but as the slide indicates, a number of the other DTF budget output groups service both me and various other ministers within the DTF portfolios — in other words, the Treasurer and Assistant Treasurer. Also, as I have referred to, I have responsibility in relation to the VMIA.

Moving on to the next slide, this deals with a matter which I expect will be of interest to members of the committee — that is, improving planning, performance, accountability and transparency of how government does its work, both in this budget and going forward. I will be happy to elaborate later on, but one of the tasks that has been undertaken in putting together this budget and particularly budget paper 3 is to seek to ensure stronger links between objectives and outputs and to improve performance measures. Going forward an increasing focus will be on improving planning processes within government, including long-term planning processes, to further enhance performance and accountability, and also to support the Better Services Taskforce that the government established earlier in the year.

The other component that I will mention — again I will be happy to elaborate — is that the initiative commenced last year in terms of putting an increasing amount of data and particularly time series data online on the DTF website has continued this year. That has consisted of putting for the first time various performance measure data series onto the DTF website.

I will say a few words in particular about insurance and risk management. VMIA provides both insurance and risk management services to departments and agencies. It was an initiative of the previous coalition government, and I was pleased that it was retained by the previous government. It provides a very valuable role and a role that has been expanded over the years so that it is responsible not only for insurance cover but equally importantly for assisting agencies in assessing and managing their risks. That is backed up by the Victorian government risk management framework, which provides a minimum risk management standard across public sector agencies.

One particular project we have been involved with in recent times is work being undertaken jointly with the Minister for Planning and the Minister for Consumer Affairs to develop options for improvement to the operation of domestic building consumer protection in Victoria. Again I would be happy to elaborate if members would like me to, but clearly there have been a series of issues with the framework for domestic

building consumer protection that we have inherited, and we are trying to tackle that on a holistic basis so that we are not simply dealing with one aspect of it in isolation.

In relation to essential services, on the next slide, as members would know the Essential Services Commission is Victoria's independent economic regulator of essential services. It took over the role previously provided by the Office of the Regulator-General, and I think there is generally bipartisan agreement that having arms-length oversight of this nature is worthwhile. The range of functions of the ESC changes over time, in particular in relation to matters being moved to a national level, for example, through the Australian Energy Regulator. But there are important roles that the ESC continues to perform both in regulating various aspects of key industries including water, energy and ports and also in conducting specific reviews of various issues where its expertise can add value.

Finally, let me say a few words to the committee about another key initiative that the finance portfolio has been involved with, namely the code of practice for the building and construction industry, and again I will be happy to elaborate if members would like me to. The Victorian government is seeking to fill the gap that has been left by the commonwealth government's abolition of the Australian building and construction commissioner to ensure that the law is upheld and respected and that safe and productive workplaces are promoted in Victoria. The Victorian government is seeking to use its purchasing power as a major client for building and construction industry work to set guidelines as to the criteria that it expects to be met by those firms that tender for Victorian government work. I will conclude at that point, Chair, and I hope that gives members an oversight of what is happening within my portfolio.

The CHAIR — Thank you, Minister. The remaining time for this hearing is allocated to questions on the finance portfolio, and I ask: given the key growth and efficiency initiatives announced in the budget, can you please outline for the committee the likely impact of the budget on enhancing service delivery and promoting productivity and achieving efficiency gains within your portfolio. In responding could you please also indicate how you would intend to monitor the portfolio's effectiveness in maximising improvements in these areas.

Mr CLARK — I have touched on a number of these aspects in the course of my presentation so far, but let me just go over some of them in a bit more detail. Effectively in relation to budget matters, the Minister for Finance is responsible for ensuring there are sound rules relating to accounting and reporting — in other words, ensuring that the framework for financial management is sound — and ensuring there are good risk management practices. In relation to the specific matters that you identify, while for the other portfolio that I presented to you earlier today I was able to describe to you specific initiatives in relation to the Attorney-General's portfolio, in relation to finance the role is more about monitoring how enhanced services, efficiency, effectiveness and productivity are implemented across government.

I have described to you, in essence, my roles in relation to performance management in relation to budget framework. I think one area that is particularly worth remarking upon a bit more fully is in relation to the building and construction industry guidelines where, if we do not ensure that the law is upheld on building and construction sites across the state, if we do not ensure there is a strong cop on the beat, to use the words of the now Prime Minister, experience shows that Victorian building and construction sites have been prone to industrial issues and issues about compliance with the law, and clearly if those issues can be checked and reversed, that will make a significant contribution to improving productivity.

Likewise with the Essential Services Commission, ensuring that frameworks that benefit consumers are properly observed and complied with and ensuring there is sufficient and impartial arms-length determination of pricing, where the ESC has a role in that, is very important for promoting economic efficiency. I could probably go on, Chair, but I hope that touches on some of the main aspects of your question. I am happy to elaborate if you would like me to.

The CHAIR — I might leave it there, and given the time I might move to other questions. My advice is that Mr Scott will be taking all questions for the opposition.

Mr SCOTT — Minister, I would like to ask you about a matter related to the Essential Services Commission. You are certainly aware that the Essential Services Commission is conducting a review into WorkCover and the TAC. I would just like to ask: do the terms of reference of the review rule out the use of

private insurance companies to manage the claims of Victorians injured in motor vehicle accidents — the future use, obviously, at the end of the review?

Mr O'BRIEN — I have a query over budget estimates again — —

Mr SCOTT — No, it is a review being conducted by the Essential Services Commission. It is reasonable to ask a question about an operation of policy.

The CHAIR — I am quite happy to allow the minister to respond to the question if he chooses.

Mr CLARK — You asked me a very similar question in the house, if I recall, Mr Scott, and the answer that I will give you now is similar to the answer I gave you in the house. As Minister for Finance I am responsible for the operations of the Essential Services Commission, but the work that the Essential Services Commission undertakes at the request of particular ministers is a matter for the minister concerned. You would be familiar with the fact that for a number of years the Essential Services Commission has had the capacity to undertake various reviews on behalf of ministers, on behalf of government. It was something that occurred under the previous government; it is something that has occurred under the current government. As I say, those reviews and the terms of reference of them and the use that is made of the advice that is provided when it is sought by an individual minister is a matter for the minister concerned.

Mr SCOTT — I note you have not addressed the question, although it is a body which you are responsible for. Just to ask something you should be able to answer, is it the intention for the review to be made public — the terms of reference and the review itself to be made public during the next financial year?

Mr CLARK — Again, Chair, that is a matter for the minister concerned. Again, as Mr Scott will know, some reviews and investigations that are undertaken by the ESC are undertaken on the basis of providing a report that is made public; others are providing in effect expert advice to the minister on matters of policy. It is a matter for the minister concerned in each case to determine how they handle the results of the review that they request.

The CHAIR — Your response could be rephrased as: it is good to ask questions to which you know the answer, perhaps.

Mr MORRIS — Minister, can I refer to the budget overview and in particular page 7. There is a reference there to the establishment of a construction code compliance unit to oversee the new guidelines for the code of practice for the building and construction industry, and you referred to that in your opening remarks. Can you outline how the guidelines and the compliance unit are expected to improve value for money for Victorian taxpayers?

Mr CLARK — Chair, this is a very important issue and I did touch on it earlier. Victorian building construction sites have experienced serious problems with industrial relations matters over many, many years, and that is probably something that all members at the table are familiar with. During the last decade the commonwealth government established the Cole royal commission, and that led to the establishment of the Australian building and construction commissioner. The Australian building and construction commissioner operated very effectively to ensure that the law was upheld, and it had a salutary effect. Anecdotally one could speak to middle managers in the building and construction sector and they would say to you that at last they actually coming to work, because they could get on with building things rather than being caught up in interminable wrangles, disputes and industrial relations matters.

Sadly we have been exposed to the risk of going backwards in that respect with the commonwealth government's decisions in relation to the Australian building and construction commissioner and in particular the decision to abolish that office. So we said as a Victorian government that we were not going to stand by and allow the bad old days to return and that we would use our purchasing power as a purchaser of significant amounts of building and construction work to specify what we expected of those who would tender for the work that we placed in the market and would be undertaking that in the form of enhancing guidelines to support the building and construction codes that have been around for some time.

So we prepared and issued draft guidelines, received feedback from the industry and other stakeholders on that and announced in April new guidelines that would apply henceforth to the firms that tendered for Victorian

government construction work, principally commencing from 1 July this year. They will deal with a range of matters that need to be dealt with: prohibit parties entering into sham contracting arrangements; arrangements designed to avoid strike pay or avoid right of entry or freedom of association obligations; prevent coercion or pressure being put on subcontractors in relation to matters such as over-award payments; for larger projects, require tenderers to submit detailed plans as to how they propose to fulfil their obligations under the guidelines; to promote safe, productive and law-abiding workplaces; also to require them to take all reasonable steps to bring unlawful industrial action to an end, including where necessary by pursuing legal action; to not engage in practices that are inconsistent with freedom of association; and to adopt practices that promote the right to join or not to join a union.

These are very important reforms. They back up in many respects commonwealth Fair Work legislation, but so often what is important is to ensure that the law is not only there on the statute book but is observed in practice. To back up these changes, we have established a building and construction compliance unit within the Department of Treasury and Finance that will observe and monitor the compliance by tenderers with the commitments that they give when they tender for Victorian government work. I am very pleased to indicate, as you may have previously heard, that Mr Nigel Hadgkiss, who was formerly the deputy of the ABCC, is heading up that unit, and I expect he will do a very effective job in promoting productive and law-abiding workplaces in Victoria.

Mr SCOTT — Minister, I think this should be a fairly simple question, since I essentially asked the same one last year on the commitment from yourself to establish a parliamentary budget office within Parliament. We asked the presiding officers about it, and they were not particularly the wiser this year, the same as last year. I just ask — I cannot find anything in the budget papers — if there is any expenditure within this year's budget allocated to establish that office?

To expedite things, as time is short, I will do my follow-up within the question, because I think you could answer it simply. What is the time line for establishment of a parliamentary budget office?

Mr CLARK — I can reaffirm the government's commitment to establish a parliamentary budget office. The preparatory work for that is something that will be provided from within the standing resources and appropriations made to the department. You would probably be aware that there has been a degree of development in other jurisdictions in relation to parliamentary budget offices. Both in the commonwealth and New South Wales there have been some extensive reports, particularly at the commonwealth level. Naturally we want to ensure that we get the best possible model here for Victoria, so we are having a close look at what is happening in other jurisdictions and looking to see whether there are aspects of what has been done and what is contained in the reports in other jurisdictions that we can and should be picking up in terms of the model that we will bring forward here in Victoria.

Mr SCOTT — Sorry, it is the issue of when you expect it to be actually in operation.

Mr CLARK — We are proceeding to do that work, Mr Scott. I am not going to pre-empt the outcome, but clearly it was a government election commitment, and we are proceeding with it.

Mr ANGUS — Minister, I refer to budget paper 2, page 66, concerning the effect on the budget of a 1 per cent higher than budgeted increase in enterprise bargaining agreement wages outcome across government. Minister, can you advise the committee what steps the government is taking to ensure that public sector wage increases are responsible and affordable?

Mr CLARK — You raise a very important issue. That table to which you refer does set out on a hypothetical basis what the consequences for the budget would be if there were a 1 per cent higher than expected increase in EBA results in 12–13. The details of the assumptions are set out in the budget papers, but the bottom line is pretty clear: that the budget outcome is very sensitive to wage levels, and if there were hypothetically an increase of 1 percentage point above expectations, that would have consequences in terms of the net result from transactions of \$158 million in 2012–13 going up to \$233 million in 15–16. So that does reinforce the importance of the wages policy the government has adopted.

As you may be aware, the wages policy the government has adopted is in some respects similar to the wages policy of the previous government but different in one very significant respect. Our policy provides for a guideline rate of increase of 2.5 per cent per annum, with higher outcomes being available provided they are

matched by genuine productivity gains that will fund the increase concerned. As I and others have indicated on many occasions, the government is very happy to negotiate wage increases above 2.5 per cent provided they are matched by those genuine productivity gains.

As I say, this approach is not new; it was an approach followed under the previous government. We have been very concerned to ensure that there are genuine productivity gains to support any increase above 2.5 per cent. Needless to say, in the current economic climate it is important to ensure that all outcomes, including wages outcomes, are fair and reasonable and also promote productivity, and that is exactly what that policy does. It is designed to deliver financially and fiscally sustainable outcomes while at the same time making available wage increases above the guideline rate where there are genuine productivity gains.

Mr SCOTT — Minister, I would like to ask you a question about the Victorian Managed Insurance Authority. I understand that there has been a transfer of liabilities from the Department of Health to the VMIA balance sheet, and the matter I would like to resolve around that is a really simple one. Is that a transaction that in effect shifts liabilities within balance sheets, or are there actual cash payments made between the department and VMIA?

Mr CLARK — This is part of a process that has been under way for some time. You may well be aware yourself that since 2003 medical indemnity claims that are incurred by the state are subject to insurance by the VMIA. There has been a tail of claims prior to that time, and this change consolidates those on the VMIA balance sheet. In effect it is a transfer of the liabilities, and it is a transfer that reinforces what has been happening for some time — namely, that the VMIA is responsible for the management of those liabilities.

Mr SCOTT — So it is a transfer, not a cash payment. That clarifies that matter. That is fine.

Mr O'BRIEN — I would like to follow on in relation to the VMIA, and I will refer to budget paper 5, page 201, but on a slightly different aspect, which relates to the domestic building insurance cover provided by the VMIA on the direction of the previous Minister for Finance. I note you have also referred to this in your presentation. I ask you, Minister: can you tell the committee more about what changes the government is considering to this insurance cover and to other relevant aspects of consumer protection for domestic building?

Mr CLARK — This is a very important issue for many Victorians. Needless to say, an investment in one's home is often the biggest investment that one makes in one's lifetime. While generally building and construction work in Victoria is carried out to a very high standard there are unfortunately a number of instances where that does not occur and where a consumer is therefore left exposed. As you would probably know, that exposure covers a range of aspects, or to put it another way, there are a number of aspects of the legal and regulatory system that can leave a consumer exposed. One of those is insurance, and the current product for insurance is one that was mandated to be undertaken by the VMIA by the previous government. It is a product that requires a builder who undertakes domestic building work on buildings three storeys or under and greater than \$12 000 in value to take out this cover. However, it is a cover that is often not well understood, because it is a cover that applies where jobs are not completed or are defective but only where a builder dies, disappears or becomes insolvent. So unlike many insurance products, it is not one to which the consumer is able to have direct redress. It was a product that was previously provided by the private insurance market. However, with a number of providers dropping out the previous government directed the VMIA to provide that insurance to ensure that the cover was available.

Unfortunately the current regime of insurance — indeed consumer protection generally — is often considered to be a lose, lose, lose outcome: lose for the consumer in the sense that the consumer struggles to get redress when problems go wrong; lose for honest builders because they are worried about their continued capacity to undertake their work being dependent on obtaining renewal of an insurance product, and also because a honest builder can be exposed to long-lasting and costly disputes without a way of achieving a speedy resolution of them; and indeed thirdly, lose even for insurance companies because they were voting with their feet and leaving the market, largely I think because of the very heavy administrative costs that the provision of this form of insurance was requiring.

So there is scope to look at ways of reforming the system. I think in the past, as I mentioned earlier, there has been a tendency to adopt a patchwork approach to this across government. There are many agencies involved. There is the VMIA providing insurance cover; there is Consumer Affairs Victoria, which provides obviously a

point of recourse for consumers and has also offered a mediation service; there is the Building Commission, which regulates practitioners; and there is VCAT, which hears building disputes. So upon coming to government Minister Guy, Minister O'Brien and I concluded that the best way forward, rather than proceeding on to simply try to tackle parts of the problem, was for the three of us and our four portfolio areas to work as a whole to come up with a system-wide assessment of the problems. So we released, in April this year, a consultation paper to seek feedback from the interested parties, stakeholders and members of the public on options for reform.

This consultation paper in effect analyses the issues, sets out the options and establishes a framework in which debate and discussion and exploration can take place about future reforms. It has listed potential future reforms, such as early dispute resolution; the information that is available to different parties, because clearly the better informed people are, the more intelligent and informed decisions they can make; how insurance works; how the legal remedies work; how the inspection regime works; and how disciplinary actions against builders work. In respect of insurance we canvassed a range of options, ranging from the mandatory last-resort insurance, which is effectively what the current regime in Victoria is, through to mandatory first-resort insurance, the voluntary insurance such as Tasmania has, or a professional indemnity insurance-based scheme, which attaches to the builder rather than to the project.

It is important that we get a consumer protection framework that is as practical, effective, timely and affordable as possible to protect the consumers and ensure that honest and capable builders do not suffer as a result of the conduct of the minority. So we are looking for feedback and submissions on that to close at the end of June and then looking to take up from there to develop reforms that will strengthen domestic building consumer protection in Victoria.

Mr SCOTT — I would like to follow on from a question that came from the government side regarding productivity related to EBA negotiations and the policies. What I would really like to know, which I did not quite get from the answer that you gave, is how a determination is made of the value of individual productivity offsets — I am talking about the process; I understand you are in charge of the framework and procedural issues, and I am not talking about individuals, I am talking about a general process issue — and where such productivity outcomes are reported in the state's financial and accountability framework. So how would you make a determination of the value of a productivity offset, and where, if anywhere, are such determinations or reportings available?

Mr O'BRIEN — I have a quick point of order. Just for the record, the previous question did not relate to any negotiations on EBAs, it related to the general framework, as you have conceded. I just wanted to clarify that for the record.

Mr SCOTT — No, I was not casting aspersions on the question.

Members interjecting.

The CHAIR — We will continue when everybody has had their say. Ms Hennessy, if you would like to ask some questions, that is okay, but could we just have a little bit of quiet for a moment? Thank you.

Mr CLARK — As I recall the question after that intermission, it related primarily to the processes that are followed in terms of ensuring that the government's wages policy is upheld and applied in individual cases; and needless to say there are those processes, and effectively they involve ensuring that at key points, such as management logs, those comply with the government's policy and that the productivity offsets that are proposed and those that are achieved are actual and genuine productivity offsets. Clearly in relation to any EBA process there are internal oversights within government to ensure that that occurs. In terms of accounting for particular outcomes, those, in terms of the content of them, are handled by the relevant portfolio minister. You will recall, for example, that Minister Ryan has answered question in the house about the outcome of the police EBA negotiations. In terms of how these translate into the budget papers, they are effectively provided for in the wages-related — the employee expense related — lines in the budget papers.

Mr SCOTT — Just for clarification and to drill down into your answer a little more, from what I understood from what you are saying, the finance and accountability framework — the actual expression of any productivity offsets — is only within the expense item for wages. There is not actual separate accounting of the productivity offsets within the budget papers in a way that anyone reading them could say, 'Aha! There is that

particular offset, which means there was a 3.5 or 4 per cent wage increase and so therefore there was 1 or 1.5 per cent and those are the particular offsets for that EBA'. That information is not available, from what you are saying.

Mr CLARK — Effectively —

Mr SCOTT — In an itemised sense.

Mr CLARK — the wages bills that are incurred by departments are incurred by them within the funding that they are provided. The funding they are provided takes account of government wages policy. There is an assessment to ensure that any increase above the government's guideline rate can be met by the department through productivity offsets. That is the process. I do not know, Mr Hehir, whether there is anything you would like to add to that in terms of the detail of the budget papers?

Mr HEHIR — No.

The CHAIR — Minister, I turn to BP 3, page 83, which regards departmental performance statements. I refer to work which is outlined as being undertaken in regard to improving performance statements and reporting. I note that in the commentary there is reference to being informed by recommendations from this committee's 102nd report — that would be volume 2 of the 2011–12 budget estimates. I particularly ask you if you could elaborate to the committee on the work that is being done in this area.

Mr CLARK — I know it is a topic very dear to the heart of the committee and one that is very dear to my heart, having served on this committee and its predecessor for a number of years. You will recall that in last year's budget, upon the change of government we introduced the practice of asking the committee to have a look at the proposed discontinued performance measures and to express the committee's view as to whether there were appropriate and adequate grounds for discontinuance. We very much value the committee's scrutiny of that. Where the committee felt it was better for performance measures to be continued, that is what has occurred because it is important to achieve continuity of measurement wherever possible while obviously recognising the tension that exists between that and the desirability of progressively improving performance measures over time.

In this year's budget and in the lead-up to this year's budget, there has been a considerable amount of work done on strengthening a number of aspects of particularly budget paper 3, strengthening output structures, reviewing and improving the quality of performance measures, improving output descriptions and improving the links between outputs and departmental objectives. This work has involved Treasury and Finance, it has involved DPC and it has involved the individual departments concerned, looking at how objectives outputs and associated measures are specified. That has resulted in a number of changes in these budget papers which, I believe, are for the better. Hopefully the committee will also agree in terms of, as I said, refining departmental objectives, linking objectives to outputs, improving the quality of output descriptions and replacing and improving performance measures and enhancing explanations for changes to performance measures.

There have been around 300 performance measures introduced, renamed or replaced across the board. Importantly, in terms of ensuring continuity of performance measures, again the committee is being invited to examine proposed discontinuations and substantial changes. If the committee forms the view that it would be better for particular measures to be continued, we would be very happy to do that.

I might just also reinforce a point I touched on earlier that relates to your question about the putting of financial information online. As I indicated earlier, a considerable amount of additional data is being put online, and in particular this year departmental performance measures are being put online. I commend members — if they have not already — to have a look at that data. It is the beginnings of that work. I am sure there is — —

Mr PAKULA — Yes, because we have not seen enough of the budget papers yet!

Mr CLARK — I am sure there is more work to be done in future. But to give an indication of the success of putting this data online as of last year, I understand there have been over 5500 visits to this particular page since last year. While — —

Ms HENNESSY — It was all Mr Scott!

Mr CLARK — While many, many sites would attract more visits, I am sure they have been of great value to members of this committee and others who are very keen in that area. That is yet another demonstration of the government's commitment to improve accountability and the availability of performance information.

Mr SCOTT — In a previous hearing with the minister for transport there was a dialogue, or a series of questions, relating to a concern that was had by opposition members that there had been some funding which had been previously operational funding that was now appearing in the budget papers as an asset initiative. That is not your direct area of responsibility, but I wanted to clarify. There was a point made by one of the witnesses who stated that there had not been a change to the reporting. Your responsibilities relate to the rules around reporting. The contention that had been put in the question was that there had been \$100 million of funding which had previously been output funding which now appeared, in the next budget years, to be covered by an asset initiative, and that obviously has an impact about whether there are some issues about whether something appears as an asset initiative or an output funding on the operational balance — an operational surplus or not. But the issue I would really like to deal with is in your responsibilities, which is: has there been any change in the advice provided to departments from within your responsibilities as budget and financial policy advice about how expenditures should be treated — as to whether they are capital or recurrent? The point that was raised directly related to your responsibilities about the advice; I do not expect you to answer the other bit. That would be completely, frankly, unfair.

Mr CLARK — Let me comment in general terms without reference to the specific example that Mr Scott refers to. The issues of a classification of some expenditures at the margin often attract the attention of accountants as to whether particular items are classified as capital or recurrent. People apply accounting policies to specific fact situations, and sometimes opinions differ and sometimes people in the light of additional information may revise prior assessments. I make that as a general statement without, as I say, any reference to the example that Mr Scott has cited. I am not aware of any changes beyond that, but I will ask Mr Hehir if he has anything to add.

Mr HEHIR — I am not aware of any changes in policy that have happened in the last 12 months. Over the last three years there have been some large changes in accounting policy with respect to the recognition of assets, which flows through to expenses obviously through depreciation and a whole pile of that, which has seen some significant fluctuation in balance sheet and operating statement items as a result of accounting policy, but there are none that I am aware of that have occurred in the last 12 months. As the minister said, departments regularly go through and review the application of accounting policies, but there has not been a change —

Mr SCOTT — That is what I want; that is fine.

Mr MORRIS — Minister, I refer you to budget paper 5, page 201, in particular the reference to the VMIA's provision of insurance to the Department of Health for medical indemnity insurance claims, and that of course was the subject of a question from an opposition member earlier. The particular area I want to address is: can you advise the committee how large a proportion of the VMIA's insurance to government does this particular aspect represent, and are there any steps the government is taking to improve the management of those claims?

Mr CLARK — At the outset I take this opportunity to add something to the answer that I gave to Mr Scott earlier in relation to the transfer of the liabilities for previous medical insurance claims. Mr Scott in his follow-up question referred to whether that transfer involved a cash transaction or otherwise. In addition to the transaction that I referred to previously, I understand that there has been \$25 million in trust fund money held for the purpose of funding those liabilities, and that has also been transferred to the VMIA. Now that is also a balance sheet transaction, but I just want to add that for the sake of completeness, in addition to what Mr Scott was asking earlier.

On the broader question, it is a very important one because, as I indicated, VMIA provides insurance across a wide range of government departments and agencies, but many people would not appreciate that within that, the medical indemnity cover is the largest single aspect of cover; as an aspect of claims liability within VMIA, and indeed it amounts to just under 60 per cent of VMIA's total claims liability. The VMIA provides cover for approximately 1100 medical entities, so I am informed, such as public hospitals, Ambulance Victoria et cetera, a range of rural general practitioners, community service organisations and so forth.

That highlights the importance of VMIA's work in this area, and it highlights what I believe are some additional opportunities available to the VMIA to contribute to good outcomes and particularly to contribute to helping to avoid the occurrence of incidents in medical practice that give rise to these liabilities. At the end of the day, clearly if you can avoid accidents and unintended outcomes in relation to medical treatment, then that translates into lives saved and it translates often into lifetime injuries avoided, so it is a very important area of responsibility. Last year I touched on the VMIA's work across the board in terms of identifying a risk management framework. I spoke to the committee about the 'pyramid of risk' analysis that VMIA had developed that classified risks not only by the level of aggregation within government to which that risk related but also by types of risk, be it emerging risks, creeping risks, recurrent risks or event risks. That framework is important for focusing the mind, particularly in relation to how medical-related risks might be better handled.

In order to strengthen VMIA's capacity in that regard, we were very pleased to secure the agreement of Professor John McNeil to join the board of the VMIA. Professor McNeil has very extensive experience in the medical field, with placements at Monash University, involvement with the Alfred and involvement with the Austin Hospital. He brings very valuable expertise in the medical arena to the VMIA. The board of VMIA and the management of VMIA are looking at opportunities in which they can make a further contribution to assisting in the assessment of risks in the medical field, so hopefully not only to reduce the dollar exposure, but equally importantly to help save lives and avert injuries and other adverse consequences in medical procedures.

The CHAIR — Thank you, Minister. Mr Scott is incredibly anxious to ask a very, very brief question.

Mr SCOTT — If you want to take it on notice, that is fine. Relating to performance measures, I just note that with the performance measure on page 311 of budget paper 3 under 'Accuracy of estimating state taxation revenue in the state budget' there is a decline in the target and expected outcome. The last actual is 2.9, and then the series of other figures are actually equal or less than 5 per cent, so I am just asking why there has been a decline in those from the last actual that we have.

Mr HEHIR — I do not think there has been a change in the target.

Mr SCOTT — I understand. I said there is a decline from the last actual. The last actual is 2.9, and then you have got expected outcomes.

Mr HEHIR — It is an interesting question. I suspect it is because until we get right to the end of year it is really difficult to estimate it, so we stick with that number. I think we are sticking with the less than or equal to 5, because we actually have not got — —

Mr SCOTT — You do not know the answer yet?

Mr HEHIR — I think in about three months.

The CHAIR — Because you have not completed the reporting period.

Mr HEHIR — We are talking very fine detail with revenue numbers. So we stick with our target. That would be the reason, but we can take it on notice and give you an alternative view if that is not the case.

The CHAIR — Thank you very much. That brings us to the conclusion of the budget estimates for the Attorney-General and finance portfolios. I thank the Attorney-General and departmental officers. I note that there is only one matter taken on notice, as I recall, which was that issue at the end. We will write formally from the committee to the Attorney-General and finance minister to follow up. Could we have a response within 21 days? Thank you. That concludes the hearing.

Committee adjourned.