PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into the 2021–22 and 2022–23 Financial and Performance Outcomes

Melbourne – Monday 20 November 2023

MEMBERS

Sarah Connolly – Chair
Nicholas McGowan – Deputy Chair
Michael Galea
Mathew Hilakari
Lauren Kathage
Bev McArthur
Danny O'Brien
Ellen Sandell
Meng Heang Tak

WITNESSES

David Martine, Secretary,

Mark Johnstone, Acting Deputy Secretary, Budget and Finance Division,

Paul Donegan, Acting Deputy Secretary, Economic Division,

Kate O'Sullivan, Acting Deputy Secretary, Commercial Division, and

Nadia Coppe, Acting Executive General Manager, Finance and Governance, Department of Treasury and Finance;

Kate Galvin, Chief Executive Officer, Victorian Funds Management Corporation;

Michael Larkin, Chief Executive Officer, Treasury Corporation of Victoria;

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

Julio Labrin, Acting Chief Financial Officer, Department of Government Services;

Joe Calafiore, Chief Executive Officer, and

Ashley West, Executive Director, Strategic Delivery, WorkSafe Victoria; and

Darren Joyce, Acting Commissioner, State Revenue Office.

The CHAIR: I declare open this hearing of the Public Accounts and Estimates Committee. I ask that mobile telephones please be turned to silent.

I would like to begin by acknowledging the traditional Aboriginal owners of the land on which we are meeting. We pay our respects to them, their culture, their elders past, present and future and elders from other communities who may be here today.

On behalf of the Parliament the committee is conducting this Inquiry into the 2021–22 and 2022–23 Financial and Performance Outcomes. Its aim is to gauge what the government achieved in both years compared to what the government planned to achieve.

All evidence taken by the committee is protected by parliamentary privilege. Comments repeated outside this hearing may not be protected by this privilege.

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

As Chair I expect that committee members will be respectful towards witnesses, the Victorian community joining the hearing via the live stream and other committee members.

I welcome the Secretary of the Department of Treasury and Finance, Mr David Martine – you are very much welcome – and officers. Secretary, I invite you to make an opening statement or presentation of no more than 10 minutes, and this will be followed by questions from the committee. Your time starts now.

Visual presentation.

David MARTINE: Thank you for the opportunity to speak to the committee this morning. In my short presentation I plan to cover three issues: firstly, some information about the performance of the Victorian economy during 2021–22 and 2022–23; secondly, some information about the state's finances for those years; and finally some information about the performance of the Department of Treasury and Finance.

I will now briefly outline some of the key outcomes for the state's economy over the last two years. Victoria's economy continues to grow, and the labour market is strong. The last time the department appeared before this committee, in November 2021, the economy was enduring the effects of the delta outbreak of COVID-19. At that time I noted that the economy was weathering those conditions considerably better than during the initial outbreaks of COVID-19 in 2020. Today I am pleased to report that the state's economy has overall fully recovered and real GSP per capita today, as shown on the chart, is around 5 percentage points higher than before the pandemic.

In 2021–22 Victoria's gross state product grew by 5.6 per cent, the strongest growth of all states and territories. In 2022–23 we estimate that Victoria's economy grew by a further 2.75 per cent, with actual results to be released by the ABS shortly. Household consumption is expected to have been a key contributor to economic growth in 2022–23. Exports made a significant growth contribution, particularly service exports, including education and tourism. Business investment also rose strongly in the year. Public demand, including Commonwealth, state and local government spending, also contributed to economic growth. However, the Victorian economy faces new challenges, as do the national and global economies. I will come to these shortly, but it is worth making the point that the Victorian economy has recovered very well from what was the biggest economic shock since the Great Depression.

Victoria is facing this challenging period with very strong labour market conditions, even stronger than they were before the pandemic. The unemployment rate is a low 3.8 per cent, as the left-hand chart shows. Until the last year or so Victoria's unemployment rate had not been below 4 per cent since 1974. Underemployment is also well below prepandemic levels; in other words, many Victorians who had a job and wanted to work more hours are now getting the opportunity to do so. On the right-hand chart, the share of people participating in the labour market has been well above prepandemic levels for most of this year and reached a record high in October.

The pandemic disproportionately affected employment outcomes for women and young workers, as the most affected industries tended to employ a higher proportion of these workers. However, the strong economic recovery has in particular benefited these cohorts of workers. Female employment has recovered very strongly, as can be seen in the left-hand chart. The share of working-age women in employment is at a historic high. Employment among young workers has also grown strongly, represented by the light blue line on the right-hand chart, and the unemployment rate for young workers is near a record low.

However, rising cost-of-living pressures present a challenge to Victorian households, as they do nationally and globally. Nationally inflation rose significantly over 2022–23, reaching 7.8 per cent in December 2022 – the highest rate since 1990. It has since declined but is still high at 5.4 per cent. In Victoria inflation rose to a peak of 8 per cent in December 2022 and currently sits at 4.9 per cent. In response to these price pressures, the Reserve Bank of Australia has raised official interest rates from an emergency low of 0.1 per cent in May 2022 to the current rate of 4.35 per cent. This has been the fastest and steepest increase since the RBA began targeting inflation in the early 1990s. However, it is unlikely that we have seen the full effects of this response in the economy as interest rate increases operate with long and variable lags.

Turning now to households, the left-hand chart shows real consumer spending. From the low level in early 2021–22, overall consumer spending had, by the end of 2021–22, recovered to be above prepandemic levels. More recently, total household consumption growth has slowed and has been broadly flat in real terms over recent quarters. In June of this year, real household consumption fell, likely reflecting pressure on household budgets from high inflation and rising interest rates. Still, consumer spending has been supported by a strong labour market, higher wages growth and high levels of household savings. Many workers, for example, have received higher income growth, regaining more hours of work or by switching to higher paying jobs. The right-hand chart shows that households have in aggregate accumulated a substantial pool of cash savings since the beginning of the pandemic. In aggregate, household finances appear sound and well-placed to manage the impact of higher inflation and higher interest rates. But there are pockets of rising financial stress, including among borrowers and those renting, who typically have lower savings and lower incomes than other households.

Australia's population growth had been strong leading up to the COVID-19 pandemic. However, due to the closing of national borders, the pandemic had a significant negative effect on population growth. Victoria's population was still falling in early 2021–22, but following the easing of national border restrictions from late 2021 population growth began to recover, with the population rising by 0.4 per cent in 2021–22 overall.

I will now briefly outline some of the key outcomes of the state's finances in 2021–22 and 2022–23. During the pandemic the Victorian government used its balance sheet to support businesses, households and the economy, consistent with stimulus approaches across Australia and globally. This impacted the state's financial position and outlook. The 2020–21 budget introduced a four-step fiscal strategy to support Victorians through the pandemic and to restore the budget position over the medium term. In 2022–23 we saw solid improvements in the state's fiscal position. The government achieved the strategy's first two steps: restoring economic growth and delivering an operating cash surplus of $4.3 billion. In 2022–23 the government recorded an operating deficit of $8.8 billion. The 2022–23 operating result was an improvement of $1.5 billion compared with the revised estimate in the 2023–24 budget and down almost $6 billion from the trough in 2021. The $1.5 billion improvement in the operating result was mainly due to higher than expected revenue. State taxation revenue contributed $849 million more than expected, primarily driven by higher land transfer duty and higher payroll tax due to a stronger than expected labour market in the June quarter of 2022–23. As outlined in the 2023–24 budget, Victoria is on track to return to an operating surplus in 2025–26, with a forecast surplus of $1 billion increasing to $1.2 billion in 2026–27.

This chart highlights the impact of the COVID-19 pandemic on net debt, with net debt rising faster across the three years from 2018–19 than in the years prior to the start of the COVID-19 pandemic. In 2022–23 net debt grew to $115 billion. This was $1.6 billion lower than estimated in the 2023–24 budget. This improved result primarily reflected lower than expected borrowings following the better than anticipated net cash flows from operating activities. While net debt and net debt to GSP are projected to rise over the forward estimates, the rate of growth slows from 2022–23 and will continue to reduce further over the medium term.

Finally, I will outline some of the highlights for the Department of Treasury and Finance in 2021–22 and 2022–23. The Department of Treasury and Finance provides economic, financial and resource management advice to assist the government of the day to deliver on its policy agenda. The department's objectives are to optimise Victoria's fiscal resources, strengthen economic performance and improve how government manages its balance sheet, commercial activities and public sector infrastructure. Our people drive these objectives. As at June 2023 the department employed 602 staff.

The department continued to perform strongly during 2021–22 and 2022–23. The department's major achievements in those years included supporting the government's fiscal strategy and delivering financial frameworks and funding reform, including gender-responsive budgeting; delivering significant reforms and initiatives, including the Victorian Homebuyer Fund, which has already helped more than 2500 Victorians to buy homes; progressing tax reforms announced in the 2023–24 budget, including transitioning from stamp duty to an annual property tax for commercial and industrial properties; and completing the VicRoads modernisation project and establishing the VicRoads joint venture entity.

Finally, today will be my last PAEC appearance as Treasury Secretary, as I will shortly be moving on from the role after nearly 10 years. I would like to wish all committee members the best for the future, and we are happy to take your questions. Thank you.

The CHAIR: Thank you very much, Mr Martine. The first question is going to go to Mr O'Brien.

Danny O'BRIEN: Thank you, Chair. And thank you, Secretary – one more time with feeling. Thank you for your attendance again.

David MARTINE: You have been on the committee a long time as well.

Danny O'BRIEN: Yes, about 100 years.

The CHAIR: Didn't you say 'grandfather' the other day?

Danny O'BRIEN: That should be ruled out of order, Chair. I would like my 30 seconds back, please. Secretary, could I ask: during the period from 1 July 2021 to 30 June 2023, did DTF provide advice to or brief the Treasurer or Assistant Treasurer on the risk to Victoria's credit rating from the size of the Suburban Rail Loop project?

David MARTINE: Through that period we provided quite a bit of advice to the Treasurer. We meet with the rating agencies formally once a year a couple of weeks post budget, where we sit down with them for a whole day and talk through the state's finances outlined in the budget papers, and that feeds into the release of their reports. We have ad hoc engagements with them through the course of the year. At various times we would brief the Treasurer on what the rating agencies are saying. They have both confirmed AA stable in their most recent assessments. In terms of specifics in relation to does a particular project cause issues, generally the way the rating agencies treat their assessment is more at the aggregate level, so that really forms our advice to the Treasurer.

Danny O'BRIEN: I guess, though, this is not just another project; this is the biggest project just about in Australian history, potentially, in terms of the size of the investment. Have you undertaken any analysis on the impact of that sort of investment on our credit rating?

David MARTINE: As the government has announced, the cost of the first stage of the Suburban Rail Loop is between $30 billion and $34.5 billion. That profile is fully reflected in the current forward estimates, and obviously as we roll forward in each budget we will be adding the subsequent years to those forward estimates. At the moment in a sense that is fully funded. There are obviously important discussions to continue with the Commonwealth government.

Danny O'BRIEN: When you say it is fully funded, not the entire first stage obviously?

David MARTINE: The big gap that is still under discussion is with the Commonwealth government around their contribution.

Danny O'BRIEN: They have made it fairly clear in the last week or so that there will not be any further funding other than that committed at the election. Does that leave a gaping hole in the SRL project?

David MARTINE: Not particularly. They have announced no change to their $2.2 billion that they have already committed. The government is in discussions obviously with the Commonwealth government, and they have made it clear that they are seeking a one-third funding commitment from the Commonwealth, which is roughly around the $11 billion mark.

Danny O'BRIEN: And the rest will be funded by debt and value capture?

David MARTINE: Yes. There are the three streams for the Suburban Rail Loop: you have got the budget funding stream; then you have got Commonwealth, a third; and then you have got the third value capture. At this stage there have been some broad announcements by the government about the various components of that.

Danny O'BRIEN: So if we require a third from the Commonwealth and that is not forthcoming – certainly the indications from the Commonwealth minister last week were not positive – does that put the whole project at risk?

David MARTINE: I would not necessarily say they were not completely positive. They have not ruled any additional funding in at the moment, absolutely, but I would not necessarily take the view that there will not be further Commonwealth funding forthcoming over the coming years, remembering that this is a very long project. Stage one of the Suburban Rail Loop will not be completed, I think, until around 2035, so it is a long project. There are many years of discussions between respective governments in terms of filling that gap.

Danny O'BRIEN: If the Commonwealth does not come to the party, does that mean more debt and therefore further impacts not only on our debt profile but on our credit ratings in the future?

David MARTINE: If the Commonwealth does not provide additional funding, then it is a decision of future governments as to what they want to do to fill that gap. You do not necessarily have to go and borrow more money; there are different ways of funding projects.

Danny O'BRIEN: More taxes?

David MARTINE: Or you could cut spending to fund the increase. There are all sorts of different permutations and combinations that you could run.

Danny O'BRIEN: With respect to the same period as I asked, the two-year period that we are looking at, did the department provide any advice to the Treasurer or Assistant Treasurer on potential for cost blowouts in this project given the experience we have had in recent years?

David MARTINE: You are talking about the Suburban Rail Loop?

Danny O'BRIEN: Sorry, yes.

David MARTINE: The costing – as has been currently calculated, which is reflected in the recent budget papers and I think even the previous budget papers – is $30 billion to $34.5 billion. That has not changed.

Danny O'BRIEN: Okay. Given, though, the evidence from the Commonwealth Games, for example, of a 300 per cent blowout in the anticipated costs, notwithstanding other projects – North East Link, West Gate Tunnel, multiple others, Metro Tunnel – has Treasury asked the department, the Treasurer or the Assistant Treasurer to factor in higher than expected costs than those in the budget?

David MARTINE: I would not necessarily use the Commonwealth Games as the benchmark for infrastructure projects.

Danny O'BRIEN: No, it is probably not a great one.

David MARTINE: There is an important section in budget paper 4 that we report on each budget – if I can just find the reference – which basically talks about the increase in project costs over that particular year. So in the most recent budget, the one released on 23 May of this year, which reports on changes in TEI for all of the projects listed, for the general government sector project costs increased by $565 million, which only represented a 0.3 per cent increase in project costs for that 12-month period. In the previous budget papers it was reported on similar figures.

Danny O'BRIEN: The questionnaire, when you compare announced costs versus expected costs and final costs, has a very different figure. I will move on, though. Secretary, in September last year the Auditor-General's office released a report which suggested the SRL business case:

> … only analysed part of the program and did not fully meet DTF's guidance requirements.

With respect to the business case, given it is the biggest capital project in Victoria's history, why does DTF still support the project when it does not meet its own requirements, according to VAGO?

David MARTINE: Our role as the Treasury, what we do on all projects and all issues across government, is we provide the best advice we can to the government of the day, and we have certainly been doing that from early on on the Suburban Rail Loop project. The current costings, as I indicated, are $30 billion to $34.5 billion. We have seen no evidence that they are going to substantially change. That is not to say they may not – obviously there are constraints in the market at the moment. But the latest advice we have received, which we have reviewed, is we are comfortable with the $30 billion to $34.5 billion.

Danny O'BRIEN: No, but the question is specifically about the VAGO finding that the business case only analysed part of the program and did not fully meet DTF's guidance requirements. I guess the nub of the question, Secretary, is: does DTF support the spending on the Suburban Rail Loop?

David MARTINE: Consistent with how I have answered questions at PAEC for 10 years and Senate estimates in Canberra for another 25, it is not up to me to tell the committee what specific advice we may or may not give the government or the Treasurer.

Danny O'BRIEN: Okay. That does not sound like a ringing endorsement of the project.

David MARTINE: I would not interpret it that way at all. Our job is not to provide public commentary on which projects or what advice we provide the Treasurer of the day, otherwise the system just does not work.

Danny O'BRIEN: I will move away from opinion to more wonky terms then. In August last year the PBO, the parliamentary budget officer, found that, using a 7 per cent discount rate, the benefit-cost ratio for SRL East and SRL North was between 0.6 and 0.7. In other words, for every dollar spent the community only gets a benefit of 60 or 70 cents. He went on to say:

> This means that further investment in SRL East and SRL North is likely to result in a net social cost to the community.

Can I ask, first of all, what discount rate is DTF using in evaluating projects now?

David MARTINE: That is a good question. I might just get Ms O'Sullivan to – I think the answer is it tends to vary depending on the nature of the project.

Kate O'SULLIVAN: We model on a 4 per cent and a 7 per cent, and therefore for the Suburban Rail Loop the business case has a positive benefit-cost ratio range between 1.1 and 1.7.

Danny O'BRIEN: Based on which discount rate?

Kate O'SULLIVAN: That will be the 4 per cent and the 7 per cent.

Danny O'BRIEN: So that is using a range of different discount rates?

Kate O'SULLIVAN: Correct.

Danny O'BRIEN: So it was, what, 1.1 to what?

Kate O'SULLIVAN: 1.7.

Danny O'BRIEN: So can I assume that 1.1 is at a 4 per cent discount rate?

Kate O'SULLIVAN: I will check.

Danny O'BRIEN: I will be happy to take that on notice. And likewise I assume then the 1.7 is at a 7 per cent discount rate.

Kate O'SULLIVAN: Yes.

Danny O'BRIEN: If you could clarify that, that would be good. Secretary, given the PBO's advice, has DTF reassessed the business case in light of the increase in interest rates since the original SRL business case was developed?

David MARTINE: Well, the business case is the product of the Suburban Rail Loop Authority, sitting within the Department of Transport and Planning portfolio. So we have not recommissioned a –

Danny O'BRIEN: Have you provided any advice to the other department given the increase in borrowing costs?

David MARTINE: To revise the business case? Not that I am aware of, but we are constantly keeping, as we prepare the budget each year, all projects under consideration in terms of affordability. The key thing that we always tend to focus on is the aggregates, because it is really the aggregates that matter. So you will have particular projects that form a component of the aggregates, but it is where the aggregates end up sitting. At the moment, as I indicated in my opening presentation, debt is sitting at about $115 billion. So it is a matter of consideration of individual projects and initiatives as part of the overall budget picture.

Danny O'BRIEN: I have got perhaps one more on this, but could I ask Mr Joyce from the SRO to come forward, if he is here, for some more questions. But just to finalise on that, does the Treasury characterise any of the total net debt by project? Given the size of this one, have you got an idea of what the total net debt of the state at the end of the forward estimates is – sorry, what proportion of it is attributable to the SRL project?

David MARTINE: Debt does not work like that. The aggregates are calculated and we then provide that advice to TCV, who then go into the market and issue government bonds for no particular purpose, so they are not tagged to particular projects or government initiatives – it is how much extra borrowing is required.

Danny O'BRIEN: Yes, okay. Mr Joyce, could I ask some questions – the payroll tax is listed on page 162 of budget paper 5 for 2022–23. We saw in the period in question – 2022–23 – a number of medical centres starting to get bills for payroll tax, which they have never had before. Can I ask, to start with: what impact did *Thomas and Naaz v. Chief Commissioner of SRO* in New South Wales have on the interpretation by the SRO of the application of payroll tax to medical centres?

Darren JOYCE: The application is not new. The investigations into the medical centres have been taking place for a long time as part of our routine compliance program. To give you some quantum around that, in the past financial year we saw less than 10 medical centres that were investigated. We had less than 30 medical and allied services that were investigated. In this current financial year we have conducted I think it is four or five investigations into medical centres. So it is not that the medical centres are actually being targeted; the medical centres are part of our broader compliance campaign.

Danny O'BRIEN: Can I go back to the question, then, and perhaps I will clarify it a bit further: in August the SRO published PTA-041, advice on the applicability of payroll tax to medical centres. If there had been no change, why did the SRO need to publish new advice?

Darren JOYCE: It was just to provide clarity. There were some questions from the industry about the position, and the ruling was published just to provide that clarity to them.

Danny O'BRIEN: A number of centres, whether they have been investigated or not, as you said, have actually received retrospective rulings on payroll tax. If there has been no change to the law, or to the interpretation of the law, why are they getting retrospective bills?

Darren JOYCE: The retrospectivity – we can go back five years and look at the situation of the past five years, but the reason is that they, obviously, in that period of time have not been paying their payroll tax but they have been liable for it. So we need to recapture that.

David MARTINE: And I think, Mr O'Brien, that is a really important point: the law has not changed since, I understand, 1983. All the SRO has done is issue in August 2023 some clarification, but it has not changed the way it has interpreted the law or how the law has been applied. So like all taxpayers, if you have not been paying your tax, then it is the obligation of the revenue collection authority to issue a request to pay tax that you are legally obliged to. They would not be performing their job if they did not do that.

Danny O'BRIEN: No, but this is the vexing question for us all, Secretary. Medical centres have not been paying payroll tax on doctors who work within those medical centres effectively as contractors – and that is, I get, the nub of the issue. Why suddenly are they all getting bills?

David MARTINE: I am not sure that it is correct to say that all medical centres were not paying tax, as my understanding is there are a range of medical centres that paid it.

Darren JOYCE: I think you will find the vast majority of medical centres were paying tax.

Danny O'BRIEN: They would be paying payroll tax on other staff but not on GPs.

Darren JOYCE: No. There were a significant number of medical centres that were paying the full amount of the tax.

Danny O'BRIEN: Why are suddenly the AMA, the RACGP and others coming out and saying that for the first time ever these clinics are being billed for payroll tax?

Darren JOYCE: Because it is a self-assessment and they have not been assessing.

Danny O'BRIEN: Since 1983?

Darren JOYCE: Pardon?

Danny O'BRIEN: Since 1983, when the law last changed?

Darren JOYCE: Well, I would have to look at it on a case-by-case basis. I do not know whether it would be since 1983.

Danny O'BRIEN: So, Mr Joyce, you had some figures there on investigations. Do you have data on how many medical centres last year actually paid payroll tax on GPs?

Darren JOYCE: I do not have that data.

Danny O'BRIEN: Would you be able to –

David MARTINE: We can take that on notice.

Danny O'BRIEN: Do you have that data available? As in, would you be able to get it?

Darren JOYCE: I will take the question on notice, and I will see whether I can get the data.

Danny O'BRIEN: Okay. Are you aware of any medical centres that have applied to be considered on a 'case-by-case basis'? And if so, what has been the result of those applications?

Darren JOYCE: Sorry, I missed that question.

Danny O'BRIEN: Have any medical centres applied to be considered on a 'case-by-case basis', which I think are the words the Treasurer used in a letter to some individuals?

Darren JOYCE: Considered on a case-by-case basis whether they are liable for the taxes?

Danny O'BRIEN: Sorry?

Darren JOYCE: Are you asking whether they are liable for the tax?

Danny O'BRIEN: Correct.

Darren JOYCE: Have they come to us on a case-by-case basis?

Danny O'BRIEN: Yes.

Darren JOYCE: I am not aware.

Danny O'BRIEN: You are not aware of any?

Darren JOYCE: I would have to take that question on notice.

David MARTINE: Presumably, Mr O'Brien, you are asking whether particular practices have come forward seeking relief.

Danny O'BRIEN: Correct.

David MARTINE: Relief from the tax that is already in existence on a case-by-case basis?

Danny O'BRIEN: Yes.

Darren JOYCE: Well, I am not aware of that. What I do know is that I can check whether there have been any requests for private rulings in relation to their tax liability.

Danny O'BRIEN: Okay. That would be good – including non-GPs, so other medical centres and allied health that you mentioned as well. Dr Sia told the media on 11 October that they actually received a request for all sorts of pay details going back 10 years. Is that common practice, for the SRO to ask taxpayers for details going back 10 years?

Darren JOYCE: Going back 10 years? It depends when the tax liability was incurred, because it could be a matter that started – and I am not talking about the particular matter that you are talking about because I cannot talk about taxpayer confidential information.

Danny O'BRIEN: I understand that, yes.

Darren JOYCE: But in general terms it would depend largely on when an investigation started, because some of these do take a considerable amount of time, bearing in mind there are a lot of variables, including potential court actions. There is also the amount of time that it takes for a taxpayer to respond with information. So some of these matters can stretch out over a significant amount of time.

Danny O'BRIEN: How far under the law are you entitled to go back?

Darren JOYCE: Well, what I said before was that we assess back five years, but it depends when that investigation started.

Danny O'BRIEN: If someone has not been paying payroll tax and you assert they should have been, can you go back 20 years?

Darren JOYCE: No, it is not our practice to do that. If the investigation started today, we would be going back five years.

Danny O'BRIEN: Okay. Secretary, are you aware of any medical centres that have actually closed as a result of what I would assert is definitely a reinterpretation of what tax should be paid?

David MARTINE: I am not aware of any medical centres that have closed, but it is definitely not a reinterpretation by the State Revenue Office. I know the medical centres have presented that –

Danny O'BRIEN: I notice, Secretary, you are saying that, the minister is saying that and the Treasurer is saying that. How can there be no reinterpretation, no change to the tax law, and yet suddenly out of the blue at the start of this year a whole lot of medical centres and clinics started getting additional bills that they had never paid on the GPs that work in those clinics? How can that be?

David MARTINE: Clearly a number of medical centres – despite what the law said and despite the practice of the State Revenue Office – were not paying the tax when they should have.

Danny O'BRIEN: Can I go back to the very first question. Is that a result of the case in New South Wales, that changed interpretations across this country?

Darren JOYCE: No. If you have a look back at the track record of investigations into non-compliance from medical practitioners and go back to, say, 2010, it was significantly higher. If you look at the curve, I would suggest that we are seeing probably more compliance now than we were back then which resulted in more investigations taking place back at that time. So I think if you look at the raw number of investigations, that actually shows that it is not an increasing activity from the SRO and it is not a new activity.

Danny O'BRIEN: Thank you.

The CHAIR: Thank you, Mr O'Brien. We will now go to Mr Galea.

Michael GALEA: Thank you, Chair. Good morning, Secretary and other officials. Thank you for joining us today. I would like to start with the annual financial report. Page 6 of that report, the 2022–23 financial report, shows that the net result from transactions actually improved by $1.5 billion as compared with the figure forecast in the budget. Secretary, what were the drivers of that improvement?

David MARTINE: Thanks for your question. As outlined on page 6 and elsewhere in the AFR, the end-of-year result came in as a deficit of $8.8 billion. In the budget, which the government released on 23 May, earlier in the year, our forecast for 2022–23 was a $10.3 billion deficit. The end-of-year result was an improvement, as you indicated in your question, by $1.5 billion, remembering though that to finalise the estimates for a May budget, you are making judgements on data probably late March into April. So the information that formed the basis of the budget release in early May would have been a lot of that economic data in that sort of March period. The main reasons behind the increase or improvement in the deficit of $1.5 billion are probably – if I refer you to table 2.2 on page 8, which provides quite a good breakdown of what drives the $1.5 billion improvement, you can see on table 2.2 the net result from transactions and the revised variance column in the middle of the table has an improvement of $1.479 billion, so the $1.5 billion is the rounded version of that. What you can see in that table is a combination of additional revenue offset by a small increase in expenses. So the additional revenue that was unexpected from the time we finalised the forecast in the most recent budget was $1.769 billion, and that was largely driven by two things.

Firstly, you can see in the table that taxation revenue was $849 million higher than expected, and if I refer you to table 2.3 on the next page, you can then see what drove that $849 million, which appears at the bottom of table 2.3. There are probably two key drivers on that. Firstly, the labour market has proven stronger than we anticipated. The unemployment rate is still incredibly low – currently sitting at 3.8 per cent. Hours worked, which is what drives payroll tax revenue, has remained pretty strong. So you can see in that table 2.3 that payroll tax revenue was $241 million higher than we expected back in May.

The other change, which was the biggest change, was land transfer duty – if I can just find it – which was $521 million higher than we expected, and that was really driven by what has been happening in the property market. Obviously the revenue you collect from stamp duty is a factor of both price and quantity. What we have generally seen is that while prices have fallen, they actually have not fallen as much as we thought they would; they have actually increased through the course of this calendar year. So for the back part of 2022–23 they were actually stronger than we expected. The biggest impact on stamp duty at the moment is just what is happening with the volume of transactions.

That is what is happening on the tax side, and then on the expense side the biggest driver of the $289 million additional expense is superannuation – $301 million. That relates to a few factors, but basically an increase due to the compulsory super guarantee is one component of that. So overall, the $1.5 billion improvement to get us down to a deficit of $8.8 billion is largely on the tax side but offset by a little bit of expenses.

Michael GALEA: Yes. I note those expenses as well in some cases. As you said, superannuation from the SG increase obviously is an increase, but there are a number of other areas in that that have also decreased that were actually better than expected on the expenditure side. Can you talk me through that?

David MARTINE: I will just find the right reference. You will find in sort of the latter part of the AFR there is a section about how funds are spent, which starts on page 54. What you will find through the course of that part of the AFR – there are probably a couple of things to mention. Firstly, employee expenses were $221 million less than we were forecasting in the budget in May. That was driven by a range of factors. There is no question that one of the consequences of a strong labour market is that it is a very tight labour market, which means it is not easy to recruit. That is a factor also in the public sector, just as it is in the private sector. We did see employee expenses come in less than expected by the end of the year, and that is partly due to departments and agencies not being able to fill certain positions that they originally thought they could. So employee expenses were down a bit, and then when we did the annual depreciation calculation, that was down as well. There was a small adjustment to interest expense, which was a bit lower than we were anticipating as well, largely driven by less borrowings required.

Michael GALEA: Sure. And you mentioned the tight labour market, which has also contributed on the positive side of things with income from payroll tax as well. In terms of filling those roles across the public sector, obviously this report is looking at points in time, but towards the end of the period that we are looking at was that issue on a trajectory towards filling those vacancies or were those problems still in place?

David MARTINE: My answer is not really based on data et cetera, it is really more anecdotal. I think all departments and agencies, like entities in the private sector, are finding it difficult to recruit in particular fields. I know, for example, in IT it is quite difficult to fill some positions at the moment. In my department recruiting is not too bad, but once again it is probably not as easy as it used to be, particularly pre COVID. I think we are all suffering from that tight labour market. Generally what you find is you do tend to, in the end, fill positions, often it just takes a lot longer. And as it takes longer, you might have someone acting in that position – it creates that chain reaction of acting, and you end up saving a bit of employee expense funding. In a sense I suspect a large proportion of that $221 million of underspend on employee expenses was driven by that particular factor.

Michael GALEA: Sure. The same report, page 126 talks about the October 2022 flood event.

David MARTINE: Sorry, what page?

Michael GALEA: Page 126. It discusses the flood event in northern Victoria and across Victoria in October 2022, and I note there is actually another parliamentary inquiry conducting a hearing into that event today. But what impact did the floods have on the state's finances?

David MARTINE: Thanks for your question. The best way to think about the impact of floods – there are probably two elements to it. In fact there are probably three elements to it. Firstly, there is the impact on individuals, households and communities, so sort of that social impact, then you have got an economic impact and then you have got a fiscal impact. In terms of the economic impact, generally what you find with major disasters is that the economic impact often is not material, but we did some analysis in the 2023–24 budget – budget paper 2, page 24, we actually put together a box that represents some of the economic modelling we did to try and work out the economic impact of the flood event in October–November 2022. You will see in that box we estimated the impact on the Victorian economy at about 0.2 per cent of gross state product, which represented about $900 million. It is a material enough economic impact, because they were pretty severe floods that occurred in October and November. We noted that about 5 per cent of all Victorian farmland was affected by flooding, which obviously had impacts on production of various crops, and businesses were obviously affected in regional Victoria.

Generally what you find with the economic impact of a flood event is there is a downside immediate impact, such as we modelled in budget paper 2 back in May, and then through the recovery phase you see a positive impact on economic growth through rebuilding. It is a positive economic impact that you do not really want, because it would have been better if you did not have the event in the first place. That is generally what you see. When we were preparing the budget earlier this year we thought that the event was significant enough to try and model the economic impact – often we do not do that.

So that is the economic impact. Then when it comes to the fiscal impact, there is a section up the back of the AFR which basically lists all of the Treasurer's advances, which starts on page 161. Overall, the spending in 2022–23 on floods in the AFR and the Treasurer's advances was around the $1.7 billion amount, and you can see the particular initiatives get picked up in the tables in the AFR. The biggest ones are obviously in the justice and community safety portfolio. You can see there, for example, they received during the course of the year to 30 June a Treasurer's advance of, for example, $706 million on natural disaster relief and grant assistance. So that department coordinates the natural disaster relief payments in cooperation with the Commonwealth. There was another $250-odd million relating to Victorian flood recovery initiatives and $223 million in primary producer flood recovery grants. I suspect one would also find some Treasurer's advances under the jobs, skills, industry and regions department, where they provided some business support as well through the course of the floods.

In summary, the economic impact we modelled at around 0.2 per cent of GSP and the spend in 2022–23 was roughly around the $1.7 billion mark. The other point of reference is in budget paper 3 of 2023–24 where there is a whole-of-government flood recovery initiative which talked about some new commitments for particularly 2023–24 and beyond. But in the table there it adds up the specific initiatives and it provides it at $1.707 billion.

Michael GALEA: Thank you for that. Just before I move off the annual financial report, going back to that table 2.3, specifically land transfer duty or stamp duty that we were looking at and discussing briefly earlier, noting of course the $521 million increase we got from the revised variants, I wonder if you could talk me through – the 2022 actual figure was $10.361 billion, and then of course the 2023 actual figure, though higher than the expectation, was much lower than that. Was that due to modelling that you did on those property prices and the impacts of that, or are there other factors that went into that?

David MARTINE: Thanks for your question. In preparing the budget numbers, we were certainly anticipating quite a significant reduction in land transfer duty for 2022–23. The previous year actual, as you have pointed out, was $10.4 billion. In the end it came in at $8.7 billion, not as low as we thought. So as I answered your earlier question, it was about half a billion dollars higher than we thought. Originally, when we prepared the budget, we thought it would come in at about $8.2 billion.

It is essentially driven by those two factors I mentioned earlier. You have got a price effect and a quantity effect. Just to give you some of the data, Victorian dwelling prices declined by 3.7 per cent between June of 2022 and June of 2023, and volumes declined by 16.3 per cent during the course of 2022–23. Just to give a bit more flavour to what we are seeing in the residential property market, what has sort of surprised us a bit on the upside, which is why the reduction from the previous year was not as low as we thought, was property prices have actually recovered through the course of this calendar year. They fell by 6.2 per cent in the calendar year 2022 so from December to December, and then since December 2022 to the most recent data of October 2023 they have actually grown by 3 per cent. What you are seeing in the AFR is the pickup in property prices in the back end of 2022–23, so in that last quarter in particular property prices were a bit stronger than we expected. That is despite the significant increase in interest rates by the Reserve Bank.

I guess what we are seeing is that a number of households did build up buffers. I think I had a slide earlier that showed aggregate household savings have increased above the trajectory you would have expected post pandemic, which is not to say a number of households are not finding it very difficult and challenging – they absolutely are. But in aggregate we are not seeing things are too bad, but the volume is still down. So while prices have picked up a bit, which has driven the unexpected upside, volume is still yet to pick up, which is one of the drivers as to why prices are picking up, because there is still a demand out there and, particularly with strong population growth, we are still seeing the demand there. It is like any market: demand, supply, and if the supply is not on the market with the number of transactions, then it is just going to put some upward pressure on pricing. That is generally what we are seeing in the property market which has led to those figures. But as I indicated up-front, we were always expecting quite a bit of a drop-off from the previous year, which was a very strong year; it just was not as much of a drop-off as we originally thought.

Michael GALEA: Yes, which to me underscores the need for a massive increase in supply and housing. I know you cannot respond to this, but I will say it is a good time that we have the housing statement with 800,000 additional houses being outlined as well.

David MARTINE: There is an important point there, regardless of the means to get that supply. The housing market is like any market: it is all about demand and supply, so anything that can increase supply is a good thing. If you want to put downward pressure on prices, then it is doing things that reduce demand. That is where population growth is a factor because that obviously leads to increases in demand, so it is a matter of trying to get all that balanced. But certainly anything that can increase one and reduce the other will put some downward pressure on prices and improve housing affordability.

Michael GALEA: Yes, terrific. And from what you were saying, just briefly as well, that $521 million by the sounds of it, with increase already in this calendar year: would it be fair to say that the last quarter of the 2022–23 financial year would be disproportionately contributing to that higher revised figure for the last two quarters?

David MARTINE: We are in the process of putting together the budget update, which is due to be released for 15 December. Obviously, we need to work through not just land transfer duty but pretty much every tax line. Given the outcome, what does that mean for the flow through 2023–24 and beyond? Clearly what we are seeing at the moment, which is reflected in table 2.3 in the AFR, in the overall result, is that the labour market has been stronger than we were expecting, which is why payroll tax is up a bit. The housing market has been a bit stronger as well, which is why land transfer duty is up. But we are currently in the process of putting together the budget update for release by 15 December, so we will certainly be looking at all of those projections and working out what it means for 2023–24 and beyond.

Michael GALEA: Sure. We did discuss the labour market as well, and I note that the AFR also states that the state's final demand at June this year was 11 per cent higher than in 2018–19, so that actually now puts it at higher than prepandemic levels as well. I am assuming that is also contributing to the pressures on the labour market?

David MARTINE: Yes. State final demand increased by 4 per cent for the course of 2022–23, and it is reflected by a number of factors. We pick up a bit of commentary in the early pages of the AFR, and we will certainly be picking up this as part of the budget update to be released mid-December. But household consumption has been pretty strong, and there are a range of other factors as well, which I am sure in the course of the next 2½ hours I will come to at some point.

Michael GALEA: There is plenty of time to get to it. Thank you, Secretary.

The CHAIR: Thank you, Mr Martine. We are now going to go to Mr McGowan.

Nick McGOWAN: Thank you. Mr Martine, the 2022–23 budget paper indicates that WorkSafe has paid no dividends to the government, and it provides no forward estimate of dividend in figure 1.2.2. Instead annual reporting shows the government has had to inject $1.3 billion to WorkCover between 2020 and June 2023. Did the department or WorkSafe provide any advice to the minister or the Premier's private office to request an increase to premiums at any time between July 2021 and June 2023?

David MARTINE: Thank you, Deputy Chair. So you are talking about any advice we would have provided the government on increasing the premium rate.

Nick McGOWAN: Correct.

David MARTINE: Yes, we did. And as the government has announced, the premium rate is going up from 1.272 to 1.8 per cent.

Nick McGOWAN: And when was the first request made?

David MARTINE: I would probably have to take that one on notice, but we certainly would have provided advice to the Treasurer and also the Assistant Treasurer and Minister for WorkSafe and the TAC, who is now responsible –

Nick McGOWAN: If you could come back to me on when that first request was made, that would be great.

David MARTINE: Sorry?

Nick McGOWAN: If you could come back to me on when that first request was made, and on any subsequent requests, the dates of those, assuming they did not respond to your first request –

David MARTINE: Yes, I am happy to take that on notice, remembering that the premium rate has been held constant since 2014 at 1.272 per cent, so it has not actually increased at all in that 10-year period.

Nick McGOWAN: So I am guessing you requested it be increased quite some time ago.

David MARTINE: Well, it is something that a conscious decision needs to be made on every year, and what is an important point, I guess, here is that it has not gone up at all in that 10-year period. If it had actually been indexed by CPI – which is not an unusual thing for government fees and charges, to just be indexed by CPI – nearly half of the increase from 1.272 to 1.8 per cent is just essentially a CPI catch-up. If it had been indexed by CPI every year since 2014, the increase from 1.272 to 1.8 per cent would have been a lot less, remembering also that the premium has not actually increased for 20 years. So it was actually reducing, and then it got frozen at 1.272 per cent.

Nick McGOWAN: Okay. I am happy to receive anything you have from 2014 onwards in respect to your advice.

David MARTINE: Yes, we are happy to take that on notice, and we will see what we can provide.

Nick McGOWAN: Can you recall what increases were requested initially, or were they varied over that period? It is a long period obviously.

David MARTINE: Once again, when you say ‘requested’ – requested by –

Nick McGOWAN: Advised.

David MARTINE: Advised by us?

Nick McGOWAN: That is right.

David MARTINE: Well, once again, I would need to both take that on notice and refer to, I guess, one of my earlier answers to Mr O’Brien about providing information on what we may or may not say to government, remembering, though, that the 2014 decision to freeze premiums at 1.272 per cent was a government election commitment that came in and was part of their 2014 election commitments.

Nick McGOWAN: Okay, so I am happy to take them from 2018 onwards.

David MARTINE: I am happy to take that on notice.

Nick McGOWAN: Okay. What advice have you provided in terms of sustainability going forward?

David MARTINE: Well, we, as part of our normal role, like all public finance corporations, provide regular advice to the minister, the Treasurer and the government on financial sustainability questions, and there is clearly with respect to WorkSafe no question that there are some financial sustainability issues, which is why the government has increased the premiums to 1.8 per cent and has introduced some legislation into Parliament to change some of the parameters of the scheme. It is to bring WorkSafe back to financial sustainability, which is really to have its funding ratio above 100 per cent. You really need to do the combination of both, because at the moment the growth in particularly mental health claims is quite significant. So unless there is some change to the actual scheme then it just puts pressure on the government of the day to provide more budget funding into WorkSafe. I think, Deputy Chair, you indicated earlier on, and you are correct, that there has been $1.3 billion provided by the government into WorkSafe over three years, and in the most recent financial year it was $300 million. So to avoid that, you have really got to do that combination of premiums and some legislative changes to change the way the scheme works.

Nick McGOWAN: Just to pick you up on that answer in respect to the advice, in what is currently being suggested, when was the last time you can recall that there were retrospective changes to the payments program as a budgetary measure to save money?

David MARTINE: What do you mean by ‘retrospective’?

Nick McGOWAN: The mental health claims that will not be processed after the legislation comes into effect. I think there are 250. Is it two and a half years, something like that?

David MARTINE: I would need to take that on notice. My understanding of the detail of the legislation is that it is all pretty much prospective in terms of if you are already getting the payments for a particular disability, the government is not going to come along and start taking those payments off you.

Nick McGOWAN: That is a guarantee? So for anyone who has already made a claim, if your long terms have a tail end, as the minister likes to refer to it as, they will continue to get the existing benefits under the existing system?

David MARTINE: If you are already in the long tail – that is the language the minister talks about – then you are going to stay in the long tail.

Nick McGOWAN: All right. No-one in the long tail will cease to receive – if they have got a claim and their claim has not been finalised, they will still continue to operate under the existing rules, not the new rules. Is that right?

David MARTINE: Ms O’Sullivan can correct me if I am wrong, but they are technically not in the long tail if they have not had their claim finalised. If their claim is finalised, then they are technically in the long tail.

Nick McGOWAN: Is that right, Ms O’Sullivan?

Kate O’SULLIVAN: Yes, particularly about workers post 130 weeks. That is where you either exit the scheme or continue in the scheme due to a capacity test. They are introducing a whole-person impairment test. But those who are already post 130 weeks will remain on the scheme without the additional test.

Nick McGOWAN: Okay. So if I am 129 weeks and six days, I will be subject to the new changes. That is correct, isn’t it?

Kate O’SULLIVAN: Yes. There are some transitional arrangements, because the testing is done a little ahead of the cut-off at 130 weeks. I could not tell you that date in particular, but we can follow that up.

Nick McGOWAN: It would be good to have that date because it is going to affect a lot of people, because it is retrospective for those people – in the order of 130 weeks, even in the assessments prior to that, two or three weeks prior, it would be very important for those individuals. Obviously, there is a significant budgetary consideration that has gone into this calculation. Am I correct?

David MARTINE: It is like any policy change: you have got to have –

Nick McGOWAN: But this is not retrospective for people already in the system.

David MARTINE: Like any policy change, it does get tricky. You have got to have a start date.

Nick McGOWAN: It is very tricky. But why wouldn't you make it the day of the Act coming into effect rather than penalising the people who have been there for over 100 weeks – 130 weeks?

David MARTINE: If you made a change that was along –

Nick McGOWAN: Let me put it another way –

The CHAIR: Mr McGowan –

Nick McGOWAN: can you just provide us the figure on the saving that would be derived from not applying it to the 130 weeks?

The CHAIR: Mr McGowan, do not continue to talk over the top of me as Chair. Mr McGowan, you have asked a really important question. I have let it go up till now. Allow Mr Martine, the Secretary, to answer your question. One question at a time, please.

David MARTINE: We are happy to take on info and see what further advice we can provide. But as I indicated earlier, to maintain the financial sustainability of the scheme you really need to do those two combinations: premium increases and change the generosity of the scheme – change the parameters of the scheme. If you do it in a way that over a period it takes too long for it to actually have any impact, then you are not delivering that financial benefit of any change. Therefore the government of the day has got no alternative but to either put more money into the scheme or increase premiums further, which is what the government has indicated it would prefer not to do.

Nick McGOWAN: I take some exception to the characterisation of the 'generosity of the scheme' when we are talking about people who have genuine claims who are found to warrant this kind of support. It also goes back to my question, which was: is there any retrospectivity in this? The answer is yes – clearly 130 weeks at least.

Kate O'SULLIVAN: Mr McGowan, the claims that have already exceeded the second entitlement period on or after the commencement date will not be required to meet the additional whole-person impairment threshold.

Nick McGOWAN: What is that period – 130 weeks?

Kate O'SULLIVAN: 130, yes.

Nick McGOWAN: That is my point – anyone before 130 weeks. It is retrospective for 129 weeks and six days. Is that correct – it is retrospective for those people?

David MARTINE: No, it is not retrospective in the sense that once you –

Nick McGOWAN: There are new rules for those people if they have not triggered the 130 weeks.

David MARTINE: No, but those people, because they have not hit the 130, have not gone through the test.

Nick McGOWAN: But they are already in the system, so they are not going to be subject to the same rules that everyone else in that system is, 130 weeks on that day. That is retrospective for those –

David MARTINE: But they have not got to the 130-week point for the tests to then kick in.

Nick McGOWAN: Yes, so there are new tests for those people, but someone who was a day earlier has different tests. That makes it retrospective by definition.

David MARTINE: No, but it is a bit like any change that a government makes; it has to have a start date, and if you do something the day before, then you may have a different outcome to somebody who is doing something the next day.

Nick McGOWAN: So it is retrospective.

David MARTINE: No, it is prospective from the date of the implementation.

Nick McGOWAN: So how many workers will be affected by that – the ones that will not meet the new rule of 130 weeks? There must be some assessment as to that.

David MARTINE: I probably need to take that on notice, that level of detail.

Nick McGOWAN: Yes, please.

David MARTINE: Happy to take that on notice.

Nick McGOWAN: If I could have both the number of workers affected but also what is estimated to be the saving derived from those people not being assessed in the way that people currently are.

David MARTINE: Yes.

Nick McGOWAN: Thank you. Page 69 of the 2022–23 WorkSafe annual report shows the WorkCover performance of insurance operations was $1.6 billion and $1.8 billion in deficit across the last two years respectively following on from a $3.8 billion and $3.5 billion deficit in the two years prior. The situation has been dire for some years now. For each of the two periods in question, can you advise us what bonuses, if any, were paid to the CEO and executive team?

David MARTINE: I probably need to ask the representative of WorkSafe to come to the table.

Nick McGOWAN: Sure. Thank you. How are you?

Ashley WEST: Good, thanks. Sorry, could you just repeat the question?

Nick McGOWAN: Yes, sure. In short, the question was: for each of the two periods in question, what bonuses were paid to the CEO and executive team?

Ashley WEST: There are no bonuses paid to the executive team at WorkSafe.

Nick McGOWAN: And the CEO?

Ashley WEST: None.

Nick McGOWAN: None at all?

Ashley WEST: No.

Nick McGOWAN: Thank you. Page 23 of the 2022–23 WorkSafe annual report, under the heading 'Public and administration safety', shows mental health injuries within the public sector increasing – no surprise to anyone here, I am sure, sadly. Can you provide a breakdown of these claims over the last five years for each government department?

Ashley WEST: I am happy to provide the detail that we can. I will take that on notice. But, yes, we do have that information.

Nick McGOWAN: Thank you.

David MARTINE: Just quickly, Deputy Chair, what we are seeing is about 60 per cent of new claims in 2022–23 related to mental injury, and that is up from 13 per cent of new claims in 2021. The cost of weekly income support on that has grown to about $2.97 billion, which is up from $1.88 billion. So it is a material issue, the mental health claims and the impact on the scheme, which is why the focus of the legislation has been on definition of eligibility et cetera on the mental health aspects rather than physical injuries. But I am happy WorkSafe can take that on notice. I am not sure whether we have got that particular breakdown, but the number of mental health injury claims has certainly been growing over time.

Nick McGOWAN: Okay. Just on that, is there a difference in those claims within the people working from home versus those working from the office? Has there been any work done on that?

Ashley WEST: We are not seeing a material difference between those, and that played out as well during the COVID period. We did not see an increase in mental health claims from people working from home during that period.

Nick McGOWAN: And just on the increase in the premiums, in a briefing we received from the minister they were explaining that the majority of the increase in the claims for the mental health area came from the government sector, not the non-government sector. In fact I think their wording was something in the order of 'more than the majority' or 'more than half'. Is that correct?

Ashley WEST: There has certainly been a material increase in mental health claims from the government sector, but there is also an increase in mental health claims from the private sector as well, so we are actually seeing both areas continue to increase in the mental health area, yes.

Nick McGOWAN: The majority of which comes from the government sector – is that right? That is what we were told, but I am just trying to verify that is correct.

Ashley WEST: Yes, that is correct. There has been a larger increase in mental health claims from the public sector; that is right, yes. I do not have the specific number in terms of percentage on me – I can take that on notice – but there certainly has been a material increase.

Nick McGOWAN: If you could, that would be most useful. Thank you. Just a personal bugbear – for WorkSafe, are they required to have daytime running lights on the vehicles that any of your employees have?

Ashley WEST: I would have to take that on notice as well and look at our vehicle policy around that, but our vehicle policy does align to the Victorian –

David MARTINE: Sorry, what was the –

Nick McGOWAN: Daytime running lights – whether they are required to have daytime running lights on government vehicles.

David MARTINE: I am not sure of the answer to that question.

Ashley WEST: I am happy to take it on notice. As I said, our policy does align to the government policy around that.

Nick McGOWAN: If you could take that on notice also for the TAC, because I would be keen to know what they do.

David MARTINE: We are happy to take that on notice on behalf of the TAC.

Nick McGOWAN: That would be great. Thank you very much. I have a question around debt, Mr Martine, that you might be able to answer. It seems like a simple one, right, but where do we borrow this money from? Who are we borrowing it from? When I borrow money to buy a car and I am borrowing it from the Commonwealth Bank or the ANZ, and I guess they are getting it from someone else as well – who are we actually borrowing it from?

David MARTINE: That is a good question. I do not have the exact data in front of me, but a large proportion of it is actually bought by domestic investors, particularly Australian banks. We do have the CEO here of TCV, who could probably give you a breakdown.

Nick McGOWAN: Sure, that would be great. Thank you. Perhaps you can enlighten us – or me.

Michael LARKIN: Certainly. So our borrowings are issued to primarily financial institutions, large banks, institutional investors and official money, so central banks. Approximately 90 per cent of our debt is raised from domestic buyers and approximately 10 per cent international. The split-up then of the major categories: domestic banks account for 54 per cent of our bondholders; domestic asset managers – so pension funds and investment managers – are 21 per cent; the Reserve Bank is about 12 per cent; international asset managers make up about 8 per cent; international central banks and sovereign wealth funds are about 3 per cent; and then domestic government entities, excluding the Reserve Bank, are the balance at about 2 per cent.

Nick McGOWAN: And the 3 per cent – are you able to provide a breakdown of that for us?

Michael LARKIN: The international?

Nick McGOWAN: Yes.

Michael LARKIN: Those numbers that I have given you are estimates, because we do not have visibility on the ultimate beneficial owners of the bonds. The reason for that ultimately – there are a couple of reasons: it is common practice in both debt and equity markets for investors to buy bonds through nominee companies, so we do not know for certain who the ultimate owner of the bonds is; secondly, our bonds are traded actively, so whilst we might have some visibility on who buys the bond when we issue, it can subsequently change, so we do not know for certain who the holder of a bond is at any particular point; and then lastly, we have confidentiality obligations anyway through our registry, so we are not in a position to disclose who the actual bondholders are. So we do not know for certain. These are our estimates of who the bondholders are, but it is not possible to say that this particular bank or this particular institution with certainty owns X dollars of bonds.

Nick McGOWAN: Thank you. Mr Martine, 2022–23 net debt was reported in the 2022–23 financial report as $115 billion. In dollar terms, is that the highest debt in Victoria's history?

David MARTINE: I suspect the answer to your question is yes, but let me take it on notice. I am pretty sure the answer is yes in dollar terms. I do not think it is the highest as a proportion of GSP. I think it has been higher in the past.

Nick McGOWAN: That takes me to my next question. When was the general government sector debt as a –

David MARTINE: Although actually, no, it is probably – I am just thinking, going back to World War II because I have seen a chart on it previously, I think that is as a proportion of the economy. I think it is yes, but let me take that on notice.

Nick McGOWAN: If you could, and also the proportion of Victoria's debt – the percentage of that would be very useful.

David MARTINE: Yes.

Nick McGOWAN: Thank you very much. I have got more time; this is great. Page 21 of the 2022–23 financial report records movements in the gross debt to revenue ratio for the non-financial public sector. This ratio indicates the state's overall debt burden, and in 2023 it increased 176.4 per cent – an annual increase of 17 per cent. The 2023–24 budget projects the gross debt to revenue ratio will increase to 225 per cent in 2026–27. Are you alarmed by this persistent increase in the debt burden?

David MARTINE: Sorry, Deputy Chair – the page reference?

Nick McGOWAN: Budget paper 2, page 79, figure 3.

David MARTINE: I think it is important to distinguish between the general government sector and the broader – you have got non-financial and GG.

The CHAIR: Apologies, Secretary, I am going to cut you off there, only because there is another 21 minutes that will go to the opposition. The next question is going to come from Mr Tak.

Meng Heang TAK: Thank you, Chair. Thank you, Secretary, and thank you, CEOs. Secretary, the foreword to the annual financial report 2022–23 notes the employment growth was driven by full-time employment, by 5.7 per cent. Could you please put the level of full-time employment growth in context?

David MARTINE: Okay. Thanks for your question. As I indicated in some of my earlier answers to other questions, the labour market here in Victoria has been very strong. Employment did grow by 4 per cent in 2022–23, largely driven by full-time employment, which rose by 5.7 per cent. And if I look at how that compares with other states, I think from memory it was the strongest. Over the last 12 months from October to October, which is the latest data we have, we have had growth of 4.7 per cent, which is the strongest of all the states. We have seen our unemployment rate currently sitting at 3.8 per cent, which, as I indicated in my opening presentation, is an incredibly strong result. We have not had unemployment sitting below 4 per cent consistently for many years. And if you just go back to, for example, March 2020, which was the month that the pandemic hit, our unemployment rate was 5.1 per cent. That was the unemployment rate prior to COVID. Obviously it went up a bit during the course of COVID, but certainly nowhere near as much as we thought. We were all, as treasuries around the country, including the Commonwealth Treasury, forecasting unemployment was going to peak at probably 10 or 11 per cent. By June 2020 it had only risen to 7.5 per cent and then after that started it dropping away, largely driven by skills shortages with the closing of particularly international borders. So we are currently sitting at 3.8 per cent. As I indicated, we had annual growth of 4 per cent, largely driven by full-time employment.

The other important point, just quickly on the labour market, to draw out is our participation rate is currently sitting at 67.9 per cent, so that is the proportion of people who are either working or looking for work. That is, I think, sitting at a record high, from memory, which is a very good result. And as I indicated earlier, a lot of the growth has been in full-time jobs, which is a very good outcome. I think overall that growth during the course of 2022–23 is a good result, and we are certainly seeing that continue in the first half of this financial year as well.

Meng Heang TAK: Thank you so much; that is good news. How does that compare to recent years?

David MARTINE: To what, sorry?

Meng Heang TAK: How does that compare to recent years?

David MARTINE: To previous years? In terms of employment growth, if I use year-to-year, so June to June, we had a June-to-June figure of 3.5 per cent in 2022–23. That is different to the average. The 4 per cent growth I mentioned earlier is an average, so the average from 2022–23 to 2021–22. The June to June was 3.5 and then 4.3 per cent the previous year. So 4.7 per cent is actually the strongest we have had; that is the most recent data from October to the previous October. We had 4.7 per cent growth between June 2020 and June 2021, but that was coming off a reduction in employment growth through the height of COVID of minus 4.9 per cent. Generally, when you have got a large reduction, you expect the bounce back. So to have 4.7 per cent growth from October last year to October this year, on top of a 3.5 per cent from June to June, is a pretty strong result. That is why we are seeing unemployment staying surprisingly stable at that sort of 3.5 to 4 per cent. It tends to bounce around a bit every month with the ABS data, and we increased slightly in the most recent data released by the ABS. But it does tend to jump around – one month it is up a couple of decimal points and then it drops again. So we have seen a pretty consistent unemployment rate sitting there between, let us call it, 3.5 and 4 per cent.

Certainly in the budget we released in May we were forecasting, looking forward, an unemployment rate on average of 3.75 per cent in 2023 but then starting to increase at the back end of the forward estimates to what we would define as sort of a natural rate of unemployment at about 4.75 per cent. We have not really seen that happening yet, because some of the leading indicators are still pretty strong – things like advertised vacancy rates have been pretty strong. They have come off a bit, but they are about 40 per cent higher. So this is job advertisements; they are about 40 per cent higher than they were in 2019. That is often a good leading indicator of what is happening in the labour market.

In budget paper 2 from the most recent budget, 2023–24, on page 30 there is actually a chart on job vacancies. It is quite a useful chart actually because you can see where, over a long period of time, vacancy rates measured per thousand sit at, let us call it, 30,000 to 40,000, and then since 2020 have jumped up to a bit over 120,000. It has come off a little bit, but it is still incredibly strong. We use that often as a leading indicator on what is happening with employment growth and then unemployment as well.

Meng Heang TAK: Thank you. And just to compare in terms of the part-time employment, has the growth been similar?

David MARTINE: Growth in part-time employment: if I go back to pre pandemic, March 2020, both full time and part time have grown in employment and employment numbers. Full time, though, has grown more than part time, so part time certainly has still grown. Both fell during the course of the height of the pandemic. Part time has recovered slower than full time. At the moment most of the growth we are seeing is very much on the full time. We have also seen, as I indicated in one of my slides, and this is I guess an important point as well on the labour market, when COVID hit in the industries that were affected or mostly affected there were larger proportions of females and younger people working. A lot of that was in hospitality and some of the services. For those cohorts, they have actually bounced back to be in a stronger position than where they were pre COVID. For example, the female participation rate is now quite a bit higher. It is at record highs again, similar to the overall, but it is actually quite a bit higher than it was pre COVID. So there are more women participating in the labour market, and I think from memory the youth unemployment rate is now lower than it was pre COVID as well.

Meng Heang TAK: Thank you. Page 2 of the annual financial report notes that business investment grew by 8 per cent in 2022–23. Can you tell us: what is driving that level of business investment?

David MARTINE: Thanks for your question. Certainly business investment is an important driver of economic growth in any particular economy. I mentioned earlier in answer to one of the questions that state final demand increased by 4 per cent in 2022–23, and one of the key drivers there was the 8 per cent growth that you mentioned on business investment. I will break down the various components: we had business investment grow by 8 per cent, followed by household consumption at 6.9. The interesting thing on the investment side, just on comparator data across other jurisdictions – so this is covering a slightly different period, because this is June to June, whereas the 8 per cent I mentioned is an average between years. So from June 2022 to June 23 business investment in Victoria grew by 13.2 per cent. That is significantly stronger than every other state for that same period. For example, for New South Wales for that period to June 2023, the annual increase was 9.8 per cent; Queensland was 5.6; South Australia was 7.7; Western Australia, 5.5; and Tasmania, 5.2. In Australia as a whole business investment grew by 8.2 per cent. Here in Victoria we had business investment grow by 13.2 per cent. So while there are certainly challenges that businesses are facing, they are still pretty strong. In the most recent budget – this is on page 28 of budget paper 2 – that was released back in May, general business conditions are still above average, and confidence is still okay, even though it has declined a bit. But one of the points we make on that page, which is outlined in chart 2.4 on page 27, is there is quite a significant construction pipeline – and that is not just government infrastructure, it is private sector construction, it is residential construction et cetera. That is providing quite a bit of input into the strong business investment numbers we are seeing. But as I mentioned, compared with the other states, the June-to-June numbers are significantly stronger than all other states.

Meng Heang TAK: Thank you. I guess Mr Galea asked this question already, but I would just like you to elaborate a bit more. On page 2 of the annual financial report, it states that inflation appears to have peaked in the year to June 2023. What has explained the drop in terms of inflation?

David MARTINE: Thanks for your question. Certainly inflation is a significant challenge for not just Victoria but every other jurisdiction and pretty much most countries globally. Perhaps if I just start off with some of the data, and then I will unpack it. In year average terms, headline Melbourne inflation averaged 6.9 per cent in 2022–23. That had eased from a peak of 8 per cent over the year to December 2022 and is currently, over the year to September 2023, running at about 4.9 per cent. So it is on the downward trajectory. Here in Victoria it peaked at 8.0 per cent in the 12 months to December. We are now at 4.9 per cent to September 2023, which is clearly higher than the RBA band, so there is still obviously work to be done.

In terms of what we are seeing, in the most recent budget paper 2, page 32, we provided a box on cost-of-living pressures, and there is a chart that provides a bit more detail on changes in non-discretionary consumer items over different periods. Some of those reductions – particularly food, preschool and primary education, which I will come back to in a minute, and fuel were all coming down. There are definitely some upward pressures, particularly, you will see in that chart, on gas. If you unpick the most recent quarterly data – so that is that 4.9 per cent for the 12 months from September 2022 to September 2023 – effectively what we are seeing is higher electricity and higher automotive fuel and rents. What has declined is child care, which is down significantly actually – 17.5 per cent in the September quarter, largely due to changes in the Commonwealth childcare subsidy arrangements from 1 July. Vegetables are down 5.8 per cent, and domestic travel and accommodation is down 3.2 per cent. They have all helped bring inflation down. As I indicated, we did peak in that 12-month period at 8 per cent; 4.9 per cent from September to September is obviously better. Yes, we all want it to come down more, and we want it to come down as quickly as possible. As everyone in this room knows we have had – I have lost count now – I think 13 RBA rate rises. We are sitting at 4.35 per cent. That is having quite a significant impact on those that have mortgages, and we are seeing it in the data starting to come through. It is having meaningful impacts on household consumption, which is certainly putting downward pressure on inflation.

We are obviously going to have to review our inflation forecasts in the upcoming budget update. We, like most treasuries, are forecasting inflation to fall over the medium term, and I am pretty confident it will. The question is how quickly it does, and I think it is in everyone’s interest the quicker the better. Hopefully we can get there and it does not kind of get to that sticky point. That is what we are seeing at the moment. Inflation is not looking too bad in terms of where we are sitting, but if we can get it down quicker, all the better.

Meng Heang TAK: Good. Thank you. On page 53 of budget paper 2 –

David MARTINE: Sorry, which year?

Meng Heang TAK: The 2022–23 budget paper – it outlines the 2018 changes to the GST system. Could you please explain these changes and the no-worse-off guarantee, especially the effect that the end of the no-worse-off guarantee will have on Victoria?

David MARTINE: Okay, thanks for your question. We have got 2 minutes and 45 seconds left, and I could spend the next 3 hours talking about the GST.

Mathew HILAKARI: I might have some questions on it as well.

David MARTINE: Well, let me start –

Mathew HILAKARI: Start, and I will keep you going.

David MARTINE: because this is a really important –

Danny O’BRIEN: Anyway, extend our time, Secretary, and we will be happy to extend yours as well.

David MARTINE: I could talk about this all day, because it is a very important issue for everyone in this room. The whole purpose of the GST and horizontal fiscal equalisation is to try and balance, between state jurisdictions, revenue-raising capacity with expenditure requirements, and it is a very important system that has been in place since the GST was introduced. However, in 2018 the then Commonwealth government made a significant change. It did a couple of things. It introduced a floor to the relativities, which I will come back to in a minute – set it at 0.7, and we about to go up to 0.75. And also the way the Commonwealth Grants Commission does its calculations – rather than what they call equalise against the stronger state so we all get on the same level of capacity, we are now equalising against the stronger of New South Wales and Victoria. That is sort of a technical response to the simple point, but what that means is a state like Western Australia which has significant mining royalties gets to keep those royalties with minimal adjustment to its GST, which means they get to benefit from a stronger share of the pool. The more of the pool that they get, the less of the pool that is available for everyone else.

This was a major issue in 2018 and through the course of 2019, and we pushed very strongly, along with other states and territories. We appeared at a Senate inquiry up in Canberra and got the then Commonwealth government and the Australian Parliament to agree to a no-worse-off guarantee, because at the time we were all being told that as a result of these changes no states would be worse off. The Commonwealth at the time was very adamant, and they tried to present modelling to us that we would not be worse off. It was pretty easy to pull the modelling apart because, like all modelling, when you model over the long term, it is going to assume that in the long term everything gets back to normal. Normal in the long term is much lower commodity prices, which means in the long run a state like WA is going to be naturally above the floor, therefore it did not really matter. I look forward to the next 5 hours of talking about the GST, because it is a major issue we have got to deal with.

Mathew HILAKARI: I will get in a few more. Thank you.

The CHAIR: Thank you, Secretary. The committee is now going to pause for morning tea and take a very short break. We will return at – I am just conscious of time – 11:20. If everyone is okay with that, we will start 5 minutes later than is on the actual schedule. I declare this hearing adjourned.

The committee will now resume its consideration of the Department of Treasury and Finance. Secretary, I know you wish to address the committee for a moment.

David MARTINE: Thank you, Chair. It is just to clarify a couple of our answers earlier. Firstly, just to clarify an answer Ms O'Sullivan gave to Mr O'Brien about the discount rate for the Suburban Rail Loop business case, it was actually 4 per cent.

Danny O'BRIEN: That was what you used for the business case?

David MARTINE: Yes, 4 per cent. And just very, very quickly, Mr McGowan was asking questions about debt going back in time. My staff actually pointed out to me that in the 2021–22 budget, box 1.1, we actually put a chart together that has debt to GSP back to 1901. As I think I indicated in one of my answers, I was not sure about whether currently it is the highest as a proportion of the economy. It is certainly not, based on that chart.

Danny O'BRIEN: But it was the highest in dollar terms?

David MARTINE: I would have to check. I am pretty sure. I cannot see how through World War II, for example, it was more than $115 billion. But I am very confident on that answer. Anyway, thank you, Chair.

The CHAIR: Thank you, Secretary. We will now cross over to Mrs McArthur.

Bev McARTHUR: Thank you, Chair and Secretary Martine. Going back to the debt issue, I want to ask about Victoria's interest expenses, and I refer to budget paper 5 2023–24, page 7. Interest expense in 2026–27 will consume 8 per cent of total government revenue. At what point does this constrain spending on services such as running hospitals and schools and fixing roads?

David MARTINE: Thanks for your question. If I just find the right reference – just bear with me for one moment.

Bev McARTHUR: Budget paper 5, figure 4, page 7.

David MARTINE: Yes, as outlined in budget paper 5, you are correct that interest expense is rising over the forward estimates, and as a proportion of total revenue I think it is currently sitting at about 4.9 per cent. By definition, if you are spending 4.9 per cent on interest, then that is 4.9 per cent that is not available for the government of the day to spend on other things, which is stating the obvious point. Clearly as the interest expense grows, that then needs to be managed within the overall fiscal strategy the government has outlined, which is to maintain surpluses. By definition, the more a government spends on interest, the less there is for other activities, remembering, though, that what is driving the growth in debt over the next four years is essentially the infrastructure program. Essentially what you are seeing is while interest expense goes up over the next four years, you are getting in return the significant increase in infrastructure investment. It is not as if that money is being spent and you are getting nothing in return – because the infrastructure spend comes through the capital side of the budget, so it does not get picked up in the operating statement. So you are spending more each year on interest, but in return you are getting tens of billions of dollars more investment in infrastructure projects.

Bev McARTHUR: But are we getting any more on hospitals, schools and fixing roads? Roads being the operative word for Mr O'Brien and me, because in our electorates they are goat tracks by and large.

David MARTINE: I think in the most recent budget there was an announcement on road funding, which my colleague will find for me. But I guess, as I indicated earlier, yes, interest expense goes up, but it is driven by infrastructure funding over the next four years, which you can see in the budget papers is growing significantly. And that is essentially investment, which is not dealing specifically, Mrs McArthur, with your question about maintenance – that is a different question – but it certainly deals with new infrastructure. On BP3, page 96, I think there is some output funding on road maintenance listed there, and I think there is asset funding as well elsewhere in the budget papers for road maintenance.

Bev McARTHUR: I can tell you it is completely inadequate, but anyway. Interest expense is estimated to be $8 billion in 2026–27, but if rates are even just 1 per cent higher than Treasury's estimates, that number blows out to over $9 billion. Hasn't the government run out of headroom, as predicted by S&P agency when it downgraded Victoria's credit rating?

David MARTINE: I think an important point to remember about interest expense and our debt issuance is all bonds are fixed – so when you issue a 10-year bond, it is fixed at the rate of the time that that bond was issued. All of our portfolio essentially is fixed. What you are seeing in that growth and interest expense is effectively the combination of new debt issuance, which is obviously issued at the current bond rate, plus refinancing of the stock. The refinancing of the stock is actually not as big as one thinks – it tends to average maybe at 7 or 8 per cent of stock. Most of the increase in the interest expense line that you see on page 7 is driven by new issuance.

The other important point when we calculate the interest expense over the four years is we do not pick a point in time of a price of a bond in, let us call it, 2022 and extrapolate that out for four years; we use the forward-yield curve. Whatever the market expects in interest rate movements over the following four years is what we reflect in our calculation. So if the market is expecting, as it has been for some time, rising interest rates, then we have already factored into those numbers increases. The question that comes to us when we are updating the budget update is: to what extent has the market moved its sentiment from when we did the calculations for the most recent budget, which would have been, from memory, the end of March?

Bev McARTHUR: Okay. We will go to other taxes now. My first question is to you, Secretary. But from then on it will be to Mr Joyce, so if he can perhaps get himself in position while I ask you the first question. It relates to the mental health and wellbeing levy, and we refer to budget paper 5, page 163. This tax raised $904 million 2022–23, in the financial report, page 9. Did the government collect data on the number of employees for which this tax was paid?

David MARTINE: Thanks for your question. I am just trying to find it – yes, top of page 9. I am happy to take it on notice. I am not sure we have the data on the number of employees that would be impacted by the businesses that pay the levy, but I am happy to take that on notice.

Bev McARTHUR: If you did not collect that data, could you give us a reason why you did not?

David MARTINE: It is paid by businesses. Not all businesses pay the mental health levy.

Bev McARTHUR: But for those that do.

David MARTINE: Well, we had an estimate at the time. I am not sure whether Mr Joyce has got any actual data on the number of businesses that actually paid the mental health levy.

Darren JOYCE: No, I have not.

David MARTINE: I am happy to take that on notice for you.

Bev McARTHUR: Yes, that was going to be a question anyway. But isn't it reasonable, Mr Martine, for Victorians to know what proportion of the workforce is covered by this tax?

David MARTINE: It is in a sense now part of the payroll tax system that, if you have got payrolls above a certain threshold, you pay payroll tax and you pay the mental health levy.

Bev McARTHUR: You pay a raft of other things as well in terms of taxes these days. Do we know how many employers paid the tax? Does Mr Joyce know?

Darren JOYCE: I have not got that information –

Bev McARTHUR: Do you think you have got it somewhere in your bottom drawer? Could you retrieve it?

Darren JOYCE: I do not know if it is in a bottom drawer, but I will certainly be able to get it and take that question on notice.

Bev McARTHUR: Oh, great. If you could take it on notice, that would be terrific.

Darren JOYCE: Pardon?

Bev McARTHUR: You will take it on notice.

Darren JOYCE: Yes.

Bev McARTHUR: Excellent. Mr Joyce, my next question relates to the vacant residential land tax. The original estimate for revenue from this tax was $80 million over four years from 1 January 2018. Taking into consideration the waiver of the tax over COVID, how much has it raised in 2021–22 and in 2022–23?

Darren JOYCE: I do not have a breakdown for those years. I know that there was a question on notice which was answered recently, which had for one of those financial years a figure of $16 million.

Bev McARTHUR: Do you know which financial period?

Darren JOYCE: I am sorry, I do not.

Bev McARTHUR: Perhaps let us know, and then for the other period you can find the answer and –

Darren JOYCE: I can take that one on notice as well.

Bev McARTHUR: Oh, goodness. And over the four years from 1 January 2018, on notice –

Darren JOYCE: Yes, we will take that one on notice.

Bev McARTHUR: Okay. What actions did the Department of Treasury and Finance and the State Revenue Office take to identify properties eligible to pay the tax?

Darren JOYCE: Sorry, can you ask that again?

Bev McARTHUR: What actions did the department take to identify properties eligible to pay the tax?

Darren JOYCE: The State Revenue Office runs a compliance program around VRLT. That compliance program is being run as a new pilot coming up, and that uses a number of methods. Those methods include data matching. They also include reviews of utilities that are being used, and obviously there is a third category in there, which is tip-offs.

Bev McARTHUR: What is the third one?

Darren JOYCE: Tip-offs.

Bev McARTHUR: Tip-offs. Okay.

A member: Dobbers.

Darren JOYCE: Dob-ins.

Bev McARTHUR: Okay. Well, if there are any other extraneous methods by which you identify properties, perhaps you could give them to the committee and provide us with a list of your methods?

Darren JOYCE: I could provide you also with bonds.

Members interjecting.

Bev McARTHUR: Sorry, keep going, Mr Joyce. You will provide us with a list of your –

Darren JOYCE: The rental bonds registry – things like that as well.

Bev McARTHUR: Great. Perhaps provide the list to the committee then. How many properties in each of the existing LGAs was the tax collected for in each year of its operation?

Darren JOYCE: Broken down by LGA?

Bev McARTHUR: Yes.

Darren JOYCE: No, I do not have that data with me, I am sorry. I would have to take that one on notice.

Bev McARTHUR: You do not have it with you? Do you have it back at the office?

Darren JOYCE: I will check back at the office to see whether we have a breakdown by LGA, but I can say it involves, for this financial year, about 970 properties, I think.

Bev McARTHUR: 970 properties. Okay, so you will get it by LGA.

Darren JOYCE: If it is available by LGA, I will take that on notice and provide it.

Bev McARTHUR: We may have it by location then. Any variation on the theme would be helpful. What is the average amount of tax paid per property?

Darren JOYCE: Again, I will have to take that one on notice, but we should be able to provide that to you.

Bev McARTHUR: You have got a lot of homework, Mr Joyce, at the moment.

Darren JOYCE: I have got a lot of homework.

Bev McARTHUR: You might get some more in a minute. Has the Department of Treasury and Finance or the State Revenue Office undertaken any analysis of whether the tax has achieved its stated policy purpose of making owners either rent out their property or sell it?

David MARTINE: I would need to check what we may have looked at. Obviously the intent of this is to change the financials for someone who owns a property to get it into the system to deal with the supply question that I think I answered earlier. I am happy to take it on notice. I might just get Mr Donegan to provide a bit more elaboration on that.

Paul DONEGAN: We conducted impact analysis internally –

Bev McARTHUR: Could you speak up a little, Mr Donegan?

Paul DONEGAN: Sorry. We conducted impact analysis internally, informed by the experience to date. As you are aware, there are changes to the vacant residential land tax –

Bev McARTHUR: There certainly are.

Paul DONEGAN: being considered by the Parliament. In our advice to government we conducted analysis of the progress of the current arrangements to inform our advice on that.

Bev McARTHUR: The whole purpose of this tax is to get people to sell properties or rent them out, right? Surely you must know whether that is working and the quantity. Otherwise what is the point of it?

Paul DONEGAN: When someone makes a decision to sell a property or to rent it out or the like, they will no doubt be taking a lot of considerations into account.

Bev McARTHUR: No, we are not worried about the owner of the property. We want to know how your tax is working.

David MARTINE: When you see a change in supply, it is very hard to then break it down to the intent of the owner – whether they made that decision based on the implementation of the vacant residential land tax versus the RBA's decision to increase interest rates and therefore you may want to get it into the rental market to get an income stream because the loan expense is too great for you. It is very hard to sort of break it down to intent. Clearly, though, the higher the cost is to hold a properly that is vacant, then the greater the incentive is for that owner to do something more productive with it. That could be renting it out, which is something we definitely need, or putting it up for sale, which can help supply. Either way it is a positive, and it provides that additional incentive.

Bev McARTHUR: Well, how many more properties have entered the rental market or been sold as a result?

David MARTINE: Coming back to my answer, it is hard to break down the reason why. You cannot say, ‘Okay, we look at the data and see that there is –’

Bev McARTHUR: You must have a number of properties, though, that have entered the rental market –

David MARTINE: Just in general.

Bev McARTHUR: and then it is up to others to decide whether they did it for whatever reason. Anyway, somebody could take it on notice.

David MARTINE: I am sure we can take that on notice – the total supply.

The CHAIR: Mrs McArthur! Secretary, if you could just pause for a moment. Mrs McArthur, the Secretary and other witnesses are trying to answer your question. I very much understand what the Secretary is trying to say. If you could just let him get it out, it would be much appreciated.

David MARTINE: I think, Chair, I have answered the question, but we are happy to take that on notice.

Bev McARTHUR: Thank you so much, Secretary. What additional resources will the State Revenue Office require to collect the additional vacant residential land tax?

Darren JOYCE: We are actually in the process of looking at that at the moment, so probably it would be premature to give an answer to that, but it will largely – I think that is probably the best way I can answer that at this point in time.

David MARTINE: There is a bit of time, as you are aware, until it is introduced.

Darren JOYCE: Yes, it is a timing issue.

Bev McARTHUR: Okay. We are just going to Mr O’Brien now.

The CHAIR: Mr O’Brien.

Danny O’BRIEN: A couple of brief ones. I have actually got some questions for Mr Larkin from Treasury Corporation, if he could come up. While he is doing so, though, Secretary, I wonder if you could answer. The High Court decision with respect to the electric vehicle levy – have you had an opportunity now to work out what the impact of that on the budget bottom line is for the previous two years? In particular, is there going to have to be a quantum paid back to motorists?

David MARTINE: Thanks for your question. We are currently working that through. In the 2022–23 financial year there was $3.9 million collected from the levy. I do not have an up-to-date figure, but if you extrapolate that, you are probably talking maybe a couple of million more. It is the Department of Transport and Planning that administer the scheme. But up to the point of the High Court decision you are probably looking at maybe $6 million or $7 million, maybe $8 million, in total.

Danny O’BRIEN: Are you expecting that that will have to be paid back?

David MARTINE: That is then a question for government. They have indicated publicly they are seeking legal advice on both the nature of the decision and other implications, along with the question of refunding the money that has been collected.

Danny O’BRIEN: Okay. You said $3.9 million for 2022–23. Did you have an actual figure for 2021–22?

David MARTINE: I do not think so. Not with me, but I am happy to take that. But it was $3.9 million, so if that is for 2022–23, you would not get – it would be less than that.

Danny O’BRIEN: Less than that, okay. If you could take that on notice, if you do have a figure, that would be great. Just quickly to Mr Larkin, some questions about the spread between the rate that we are paying on borrowings in Victoria versus the Commonwealth. I think historically it is about 30 basis points, so 0.3 of a per cent, but it has actually grown to 80 over the last couple of months. Can you explain a little bit on what that is? And given that is on future borrowings and we are expecting to go from $116 billion currently to $171 billion, what is the total cost of that additional interest rate difference between Victoria and the Commonwealth in the out years?

Michael LARKIN: Thank you for the question. I guess my information is the long-term spread between state government and Commonwealth government borrowings. It has historically been something more like 50 basis points, rather than 30 basis points. It did fall significantly during the pandemic across all state government borrowing entities, largely as a result of the Reserve Bank's purchasing of bonds in the market as a way to support liquidity in the states' funding tasks. What we have seen since the end of that purchasing program, however, is spreads have risen. I guess the way we are seeing it, we would regard that as a normalisation of spreads for two reasons.

Danny O'BRIEN: I am sorry, I am going to run out of time shortly, but can I ask: is the growth in the spread to 80 at the moment related to the dropping of our credit rating?

Michael LARKIN: Not really. I guess I would say it is a factor, but I would say there are multiple factors. Our credit rating is one factor that drives our spreads. Funding activity, how much we are borrowing, is another factor. I guess I would say the spreads between say, for example, New South Wales Treasury Corp and TCV generally track very closely even though there are rating differences.

Danny O'BRIEN: Yes, I have seen the graph. I am just going to run out of time. Can I go back to the earlier question, which I think you will probably need to take on notice. Could you tell us what –

The CHAIR: Mr O'Brien, do not assume that he will take it on notice.

Danny O'BRIEN: No – well, I asked the question already, Chair. Can I ask –

The CHAIR: Thank you, Mr O'Brien. We will be going to Mr Hilakari.

Danny O'BRIEN: Chair, can I please get my question out?

The CHAIR: You have run out of time, Mr O'Brien, and Mrs McArthur. Mr Hilakari.

Mathew HILAKARI: Thank you. I indicated that I would be coming back to the GST. We finished with talking about how it is a major issue for Victoria and Victorians. I would like to just hear the end of Mr Tak's questions, but also I am interested in the changes that the Commonwealth initially made. Was there much engagement with the state of Victoria in those changes in, I think you mentioned, 2018? It was probably about the Morrison government time, I think.

David MARTINE: Thanks for the question. There is quite a bit to cover on the GST issue. I think my earlier answer got to the point of 2018, where we were presented with a decision coming out of the Commonwealth government to change the arrangements. There was consultation through the heads of Treasury, which is the secretaries of all the state treasuries chaired by the secretary of the Commonwealth treasury, along with the meeting of treasurers. There was certainly consultation. But the main concern we raised was the flaw in the modelling that they were using that suggested that all states and territories would be better off. As I think I mentioned a bit earlier –

Mathew HILAKARI: Better off with the same pot of money?

David MARTINE: Yes.

Mathew HILAKARI: Okay.

David MARTINE: It was not a very hard thing to pull the modelling apart, which we collectively did, and we presented actually some of the results to the Senate inquiry in Canberra. Just to I guess demonstrate the point, you only need to look at the most recent Commonwealth budget papers – budget paper 3, table 3.1 – to see that the no-worse-off guarantee for the Commonwealth is over $20 billion that they have got to pay over the next four years on something that back in 2018 they were trying to convince us was going to be zero – 0.0.

It is a major issue, and it is a major issue that needs to be sorted pretty quickly, because while the guarantee continues to 2026–27 and then stops, the next year's budget for all jurisdictions is when you bring in the 2027–

28 forward estimate year into your budget papers. That will be the first time that all states and territories will be confronted with a year that does not have the no-worse-off guarantee funding committed by the Commonwealth. We are putting a lot of pressure, as all states and territories are at the moment, to get an outcome on this before next year's budget, and that is really important. The no-worse-off guarantee payment to Victoria in 2022–23 was $1.2 billion. We have not done the final estimates for the new forward year, 2027–28 – that is something we will do in the new year – but just with normal growth I would not be surprised if the no-worse-off guarantee payment for 2027–28 is probably in the order of about $1.8 billion. That is a significant cut to funding to Victoria by the Commonwealth if they do not agree to extend the guarantee.

An important point to make on this issue is the guarantee only gets triggered when commodity prices are at elevated levels, because effectively what happens is it means WA would normally drop below the floor. Because they have got this major source of mining royalty revenue, they will drop below the floor; the guarantee kicks in, they go above, and the way that the CGC does their equalisation means WA get a significant portion. What drives the payment of the guarantee is strong commodity prices. We did a bit of work recently with our state and territory colleagues just to demonstrate the point to the Commonwealth that when royalties are at elevated levels they actually gain a lot more through company tax than they would be paying the states and territories. For example – and we modelled this just on iron ore prices, but it gives the example – the Commonwealth company tax revenue grows roughly two to three times what state royalties grow by when iron ore prices are elevated. So for a guarantee of around $5 billion in aggregate being paid annually – so that is to all states and territories, and as I indicated, we got about $1.2 billion – the Commonwealth roughly gets about an additional $20 billion in company tax revenue. They are not worse off by not continuing the no-worse-off guarantee, if that sort of makes sense, because it only gets triggered when commodity prices are at elevated levels. They reap a lot more from the company tax – benefit from that – than what they would be paying out. But this is a really big issue for all states and territories which, in my view, needs to be dealt with over the coming months because if we do not get it dealt with before finalising next year's budget, every state and territory will have year 2027–28 in their budget papers with a significant cut of funding from the Commonwealth.

Mathew HILAKARI: In 2025–26 what was our estimate? You were talking about $1.8 billion. We have got the forward estimates for – sorry, 2026–27. Do we have those estimates already in the budget? Because that will give a good indicator.

David MARTINE: I could probably try and dig them out. We received $1.2 billion in 2022–23. As I said, my rough maths have us for the year that we have not yet added to our estimates probably around the $1.8 billion. I do not think I have with me the profile –

Mathew HILAKARI: That is okay. We have got a rough –

David MARTINE: but it is quite linear. So basically if you are at $1.2 billion in 2022–23 and if you think you are going to get to roughly $1.8 billion, assume something reasonably linear.

Mathew HILAKARI: So for those next few months, what are we looking at as a remedy? Is it a continuation or –

David MARTINE: Well, in a –

Mathew HILAKARI: What is the ideal world?

David MARTINE: In an ideal world the Commonwealth government would reverse the decision –

Mathew HILAKARI: And you have got plenty of latitude today because this is your last hearing, so you can do some truth-telling for us.

David MARTINE: Well, if it was my decision, I would unwind the changes that were made back in 2018 to the system. The current allocation of the GST is based on some very important principles – horizontal fiscal equalisation. Yes, it is not a perfect system. It is quite complicated, but it works. The changes that were made in 2018 were a significant change that has really pretty much destroyed the whole principle of HFE. Now, that is the ideal. Is that going to happen? No. So all states and territories recognise that the Commonwealth government is not going to unwind the changes that were made in 2018, and you do not need me to point out the obvious – which jurisdiction would be the big loser, which is Western Australia. If that is what they want to do, that is their call. But we just want the guarantee continued in perpetuity, which is what we pushed for back in 2019. Unfortunately, the Commonwealth Parliament only approved it up to 2026–27.

Mathew HILAKARI: Since we are playing a little bit of fantasy football, if those 2018 changes had been put in place, what sort of effect would that have on Victoria and the amount of money that we receive as GST?

David MARTINE: It is basically the reverse of the amounts in the Commonwealth budget on their no-worse-off guarantee, which I think is over $20 billion. Victoria is a bit under a quarter. In terms of our relativity, which is probably the best way to think about it, our unadjusted relativity for 2023–24 is 0.92. The way the GST works is you have got three factors. You have got the size of the pool, which is driven by consumption spending. Then you have got your population share and then you have got your relativity. A relativity of less than 1 means that you do not get your population share. Traditionally New South Wales and Victoria have always been less than 1, so we contribute to funding for – the Northern Territory is always above 1, Tasmania is always above 1. For those states that have less revenue-raising capacity, that is the way the system works. No one is complaining about that. Under the interim arrangements, while you have got a no-worse-off guarantee, the Commonwealth Grants Commission actually works out two separate numbers. It works out what you would have got under the old system and then what you are going to get under the new system and the difference is what appears in the Commonwealth budget as the no-worse-off guarantee payment. The unadjusted relativity for Victoria for 2023–24 under the old system is 0.92. In other words, we get 92 cents back for every dollar that a Victorian spends on a GST-able good or service. Then under the new system, based on the changes I mentioned, that drops to 0.85. So we are losing out – that is basically the difference: we lose. And as I said, that represented $1.2 billion last financial year. That will keep growing. If this change was not made, that would have been money that would have come through the GST. So at the moment we are not losing, because we are getting the no-worse-off guarantee payment. But it is critical that we get this sorted, in my view, before the next year's budget so that it is reflected in 2026–27. If we can get that continued in perpetuity, that is I think the best we can do. And as I pointed out, it is not as if the Commonwealth loses – they get more in company tax revenue from mining companies earning large profits through elevated commodity prices than they would be paying the states and territories in the no-worse-off guarantee.

Mathew HILAKARI: Great. Thank you. I just thought I might take you to page 54 of budget paper 2 from 2022–23. There is a heading there that says 'Further disadvantages due to COVID-19 expenses', and I am still talking through some of the GST issues. Could you outline what these disadvantages are, why they arose and what the Commonwealth could do further to reduce or remove these disadvantages? I know it is particular to that COVID-19 period.

David MARTINE: Thanks for your question. This is another issue that we have had over the last few years with the application of the GST, and it relates to how COVID spending is treated by the Commonwealth Grants Commission. As I indicated in one of my earlier answers, you are trying to balance a jurisdiction's revenue-raising capacity with expenditure requirements. Obviously through those peak years of COVID-19 a number of states and territories had elevated expenditure on COVID, both from a health perspective but also from a business support prospective. What you can see in chart 3.4 on page 54 just represents the health response by states and territories, and what that shows is both New South Wales and Victoria had to spend a lot more on their COVID health response than WA, South Australia, Tasmania et cetera. And when you are talking about the major densely populated cities like Sydney and Melbourne, that is not a particularly surprising result.

The view that a number of states took, particularly New South Wales and Victoria, was that expenditure was required to be spent by both states in response to COVID, along with all of the business support – they were not by choice, they were a requirement that we had to do. It particularly affected 2019–20, 2020–21 and 2021–22. So our view, which was actually supported by the Commonwealth Grants Commission, was that that expenditure, which was a requirement of states, should be taken into account in calculating what GST revenue should flow. So just as other states – let us take the Northern Territory as a good example. They have a requirement to spend more on Indigenous Australians given the nature of their population. That is a requirement, and the Commonwealth Grants Commission takes that into account. So just as they take into account those factors, we and New South Wales argued the point that they should take into account the required spending on the COVID response for both health and business support. It affected those three years, and the way the GST works, there is a bit of a lag and a sort of three-year rolling average. We have been arguing with the Commonwealth both last year and again this year that that should be taken into account. As I mentioned, even the Commonwealth Grants Commission itself, in putting out their various reports, have said the same thing: they have acknowledged that that particular expenditure requirement should be taken into account in the distribution of the GST. They are sort of independent, but their view does not matter because at the end of the day it is a decision of the Commonwealth Treasurer – the Commonwealth Treasurer sets the parameters for the allocation by the Commonwealth Grants Commission. But they themselves even agree that the methodology needs changing. In terms of dollars, as I mentioned, we are talking about spending in 2019–20, 2020–21 and 2021–22. The way the CGC does their averaging there is a bit of a lag. We think we are losing about $870 million of GST funding this financial year, in 2023–24, and in total we think we are missing out on about $3 billion spread over four years. It is not an insignificant debate we are having with the Commonwealth.

Mathew HILAKARI: There was of course a massive human effect of COVID, but you talk about the financial and really a requirement for us to make that spending. What would have happened if we did not make that spending? You might talk to the economic effects.

David MARTINE: Well, I am not the health expert. No doubt the Secretary of health will tell you what would have happened from a health point of view, which would have been a complete disaster. There was no choice but for a jurisdiction to spend for the health response, which is replicated in chart 3.4. But from an economic point of view, the collective interventions from the state and the Commonwealth – and maybe this is the only time in the 3 hours I will be complimentary when I am talking about the Commonwealth. The collective support from both levels of government really helped the Victorian economy not go into recession, and it really helped unemployment to not peak at 11 per cent. They were really important factors to help households and businesses get through the height of the pandemic, because if we did not have the supports provided – JobKeeper by the Commonwealth, along with a lot of the business support programs at the state and territory level – then I think we would have had a very, very different economic outcome across the country. It would have been incredibly difficult to avoid what I would probably call a pretty severe recession. There would have been a lot of business closures, unemployment would have gone up. It would have been a very significant economic event. So that was managed quite well. But a lot of that was just not a choice. Given the state we were in, we did not really have a choice not to spend the money on the health response and the business response, which is our argument has pretty much been that the CGC – and they accept our position – should be taking that into account in the GST allocation.

Mathew HILAKARI: I have got a little bit of time left, and I just wanted to take you to your presentation and the slide entitled 'The benefits of a strong labour market have been widely shared across worker cohorts' and just link it back to one of the questions earlier about full-time employment increases, particularly female participation and employment by gender. I am just wondering if you could talk a little bit about changes in employment by gender and if that has seen more women enter full-time employment. That might go too deep into the data, but I would be interested to hear some comment on that.

David MARTINE: Okay. Thanks for your question. You will get some real-time interpretation of the data. I think I mentioned earlier in one of my responses the participation rate for females is now at a record level at 63.8 per cent – that is the year to October 2023. For the year to March 2020, so just before COVID hit, the participation rate for females was sitting at 61.3 per cent. What we are seeing in terms of growth in full-time employment for females, and part time, looking at this data I have in front of me, if you compare the year to March 2020 to the year October 2023, there has been quite significant growth in full-time employment for women, in a relative sense much stronger than for males, and less so on part time. There has been stronger growth in employment for part-time male than part-time women. I think what we are seeing, based on that data, is a lot of the employment growth for women over that period has been full-time employment. The unemployment rate actually for females sits at 3.3 per cent, which is below the 3.8 per cent average, which obviously means male is sitting in the low 4 per cents to get the 3.8 per cent. It looks like most of the growth has been full time.

Mathew HILAKARI: Can we get a sense of what changes are going on in the economy and what is driving that change, or is that maybe too early to tell?

David MARTINE: I am not quite sure. Obviously there has been a pick-up back in services, where you often see some of the female employment hit. I am not sure, Paul if we have got the –

The CHAIR: Thank you, Mr Hilakari. Apologies, Secretary.

David MARTINE: That is okay.

The CHAIR: We are now going to go to Ms Sandell.

Ellen SANDELL: Thank you, Chair. Good morning, Secretary and officials. The DTF 2022–23 annual report shows the department gave consultants PwC $225,000 for advice on tax reform. Could you outline the nature of the tax advice received from PwC?

David MARTINE: Okay. That was in relation to the announcement that the government made in the 2023–24 budget to move away from stamp duty on commercial industrial property to an annual land tax. We had engaged PwC well before – I cannot remember the exact date when it was, but it was well before the recent developments – and they had been doing some work for us on basically the property tax reform.

Ellen SANDELL: Okay, thank you. And did you feel that there was a potential conflict with PwC providing this advice while potentially also advising those who might be impacted or benefit from the tax reform?

David MARTINE: Obviously, when this all became an issue we got some commitments from PwC at the time that nobody involved in the issue, particularly the particular partner concerned but also the wider group of senior people that had been identified – I think initially they were talking about 50-odd people – we got some assurances from PwC that nobody involved in the breach of confidentiality was working on our project. But also, given we are talking earlier in the year and the announcement was being made in the 2023–24 budget in May, their engagement was drawing a bit to a close. It was sort of at the back end of what –

Ellen SANDELL: Did you identify any conflicts in terms of that piece of work in terms of their clients who might have benefited from that tax reform?

David MARTINE: When you say conflicts –

Ellen SANDELL: As in they would have clients that would potentially benefit from the tax reform and then they are also advising the government on tax reform, and at that time, as you mentioned, it was prior to the controversy, so there may not have been the kind of firewalls in place.

David MARTINE: I guess like all consultants you seek undertakings that information you provide is held confidentially.

Ellen SANDELL: Do you feel that was sufficient?

David MARTINE: Well, you engage consultants to work on various aspects of policy development or delivery, and it is not an unusual thing that they would get access to some confidential information. You really need to ensure that they understand the confidentiality, which the consultants we have engaged in the past do. They provide assurances that that information is not being shared. Certainly when this all became an issue we sought specific assurances from PwC on that particular project.

Ellen SANDELL: And have you considered further tightening rules or penalties? I know other jurisdictions have.

David MARTINE: Well, that is really a question for the Department of Government Services. As part of the machinery-of-government change that took effect from 1 January, strategic sourcing is now part of – they have moved from DTF across. They are now managing the professional services, and I know it is something that they have been looking at in terms of the rules around engaging consultants from the professional services panel.

Ellen SANDELL: But there are no further checks and balances that you need to abide by, other than seeking assurances – is that what you are saying – currently?

David MARTINE: There are probably two things. Firstly, we have a professional services panel. There are processes that the Department of Government Services follows for a consultancy or a consulting firm to get on the panel, and once they are on the panel in that way they have already gone through certain due diligence checks. When we engage a consultant, depending on what it is and particularly if it is relating to a sensitive matter, we will absolutely be seeking assurances from them that any information that they have access to is held very tightly and confidentially.

Ellen SANDELL: Okay. In 2021–22 there was a $1.3 million contract, also for PwC, for the provision of advisory services for the regulatory reform program – that is, the cutting red tape for business program. Did anyone go back to check if there were any potential conflicts there, given that PwC is advising the government on regulatory reforms but are very likely to have businesses as clients who benefit from those regulatory reforms? Was any work done? Because that was even further back from the current controversy.

David MARTINE: I will probably need to take that one on notice because we are talking 2021–22. I would need to remind myself of exactly the reg reform work we were doing in that year to identify whether there were any sensitivities. But yes, I am happy to take that on notice.

Ellen SANDELL: Thank you. I appreciate that. Is DTF using any consultants, PwC or otherwise, on other tax reform projects – for example, the current proposed extended vacant land tax or the new short-stay accommodation tax?

David MARTINE: I do not think we are at the moment, no.

Paul DONEGAN: Not in relation to those two.

Ellen SANDELL: Not in relation to those two. Do you feel like it is appropriate in terms of just seeking assurances, though? I guess my question is: do you feel confident enough having sought assurances from PwC that they did keep that information about tax reform and/or regulatory reform work separate to their clients who benefited from that work? Do you feel confident?

David MARTINE: I guess all we can do is be guided by their assurances. I should make the point that in the Treasury we try and do as much as we can in house. We have a very strong tax policy area, so most of the tax policy work we do is in house. Where, though, we need to get a consultancy in is for particular matters. The PwC work that they were doing on the property tax swap – while they would have had access to some information, it was actually focused on accounting advice – on how you end up appropriately treating something like this in the financial statement. So it was quite narrow; it was not about developing the whole tax reform policy.

Ellen SANDELL: They would still receive privileged information, though, about what the government is considering.

David MARTINE: That is right – exactly. To fulfil that they would have then had access to some information – no question about that. But in a sense all you can really do as a department when you do engage a consultant – first of all it is important that they have gone through those initial checks and balance that are on the professional services panel. Then, as appropriate, you ensure that you have got those guarantees from them – that with the information that they receive they understand the sensitivity of it, that it is confidential and it cannot be passed on to anyone else.

Ellen SANDELL: I guess history has shown that those assurances have not worked.

David MARTINE: It has not worked as a result of an individual in PwC, absolutely. They did something that they should not have done.

Ellen SANDELL: I think others might argue that it goes beyond the individual, but we will leave that there. I want to ask about the annual report 2022–23 again. Page 11 of the 2022–23 DTF annual report states that one of the department's significant priorities is advising:

> … Government on opportunities to work with the private sector to unlock value from assets, generating proceeds to strengthen the State's financial position …

Am I right in thinking that means privatisation?

David MARTINE: What that means is commercialisation opportunities that governments announce from time to time. The most recent one was the motor vehicle registry. We have had a couple of others going over the years since I have been in the job – nearly 10 years. The first big one we had was –

Ellen SANDELL: The port.

David MARTINE: Melbourne port.

Ellen SANDELL: But that is essentially privatisation. Am I correct?

David MARTINE: Well, it depends on what one means by privatisation. These ones are more, I guess, in partnership with the private sector, so it is not a straight privatisation – selling an asset and then forgetting about it. You actually have both a vested interest and, in a sense, a sort of leasing arrangement over a period of time. But basically that bit of work that we do is we look at those sorts of opportunities.

Ellen SANDELL: So what areas is the DTF currently looking at in terms of further privatisations or, as you say, leasing arrangements?

David MARTINE: It is probably fair to say there is not a lot –

Ellen SANDELL: Left?

David MARTINE: left. There was a lot that occurred through the second half of the 1990s here in Victoria compared with other jurisdictions. There have obviously been some very big transactions over my 10-year period – the motor vehicle registry and the port in particular.

Ellen SANDELL: Are there other areas that DTF is looking at – Services Victoria, for example, or others?

David MARTINE: We will always, as requested by the Treasurer, look at different opportunities and provide him with any advice that he wants.

Ellen SANDELL: Who sets those priorities? Does that primarily come through the Treasurer, or does DTF provide advice on those opportunities?

David MARTINE: It probably works both ways, which is not an unusual thing, and it is the same on tax reform or anything. Sometimes we go to the Treasurer of the day with some ideas on reforming the tax system or undertaking some commercialisation opportunities. Other times, the Treasurer of the day will come to the Treasury and say, 'I am interested in this particular reform or this particular commercialisation opportunity.' So it pretty much works both ways.

Ellen SANDELL: And it is listed as a significant priority in that 2022–23 annual report. So should the community be expecting that there will be further privatisations or leasing arrangements, given that it is listed as a priority? You say there is not much left, but it is listed as a priority in the annual report.

David MARTINE: It appears in the section on future challenges/projects; that is one of them. Whether there is any material work involved will, I guess, be a matter for announcement by the government. But as I indicated earlier, there is not too much left from the 1990s and over the couple of decades since.

Ellen SANDELL: Thank you. I would like to ask about inflation. The 2021–22 annual report, on page 11, stated that:

> providing economic advice to the Government on responding to inflation and cost pressures experienced by Victorian households and businesses

was a priority for 2022–23. Subsequently the government's financial report stated that high price growth has become evident – and we saw that from your presentation as well – and high inflation remains a challenge to Victoria. Does the state government see it as their responsibility to tackle inflation and high price growth?

David MARTINE: I think it is the responsibility of all jurisdictions. Clearly the Reserve Bank has a major part to play in tackling inflation, which is why we have seen the rapid rise in interest rates. The Commonwealth government has got a role to play; state governments have a role to play.

Ellen SANDELL: Does the Treasury have a strategy? Does the Victorian government have a strategy in terms of high price growth?

David MARTINE: Well, the levers that a state government have are a lot less than at the Commonwealth level – and certainly the RBA. If you look at the most recent budget papers – and this is, I guess, an important point – what you tend to look at from an inflationary point of view is: what is public demand doing to aggregate demand, and what does the government's expenditure do? In the most recent budget, expenditure growth in 2023–24 compared to 2022–23 is actually zero in nominal terms, which means in real terms it is actually falling, and that is on top of a nominal decrease to 3.7 per cent in 2022–23. And even in 2024–25 it is falling again, in nominal terms, by another 0.5 per cent. So that is an important point, that the government is injecting less into the Victorian economy over those years, which is an important element in trying to put downward pressure on aggregate demand, which puts downward pressure on inflation. It is the same thing on the government's infrastructure program. It is falling slightly, from memory, in nominal terms in 2023–24 and then across the forward estimates it actually drops to, I think, 16.9 from around 21-point-something, which is a reasonably significant percentage reduction over the next four years. Once again, that is less money being injected into the Victorian economy over the next four years from the government, and that is probably the only way that governments at the state and territory level can tackle inflation. The Commonwealth government has a lot more levers with respect to cost-of-living measures than state and territory governments have.

Ellen SANDELL: I guess it is one of the state levers and obviously a very big one. But previous state governments have used other levers to take action not just on price hikes but also local CPI. For example, the Cain government took the following measures, which were credited with lowering Melbourne's CPI from one of the highest to one of the lowest in the country. They had an office for prices to deter excessive price rises, they set a ceiling target for grocery price rises and they also had specific legislation that would enable the minister or prices commissioner to set prices if they were found to be excessive. These are levers that are available to state governments. I am wondering if Treasury has done any work to look at those levers.

David MARTINE: At the moment – some of those levers and issues you have mentioned – certainly price monitoring is undertaken by the Commonwealth. It probably would be no great surprise for the head of the Treasury to say that we are not supportive of price caps and controls, because what drives price in a market is supply and demand. So if you want to deal with price pressure points, then the best way to deal with those price pressure points is to deal with what is happening on the supply side of the market and what is happening on the demand side of the market, because once you start putting caps on prices, telling businesses or anyone else operating in the economy that you cannot charge above a certain amount, the easy answer for that particular business or that particular individual is to go off and do something else. What that tends to do then is to bring down the supply of whatever is being provided, which actually then puts more pressure on that particular market. Our long-standing view in the Victorian Treasury is that the best way to deal with those price pressure points is to deal with the fundamentals of the market, which are all about supply and demand.

Ellen SANDELL: So there has been no work to, say, look at whether groceries should be declared a regulated industry?

David MARTINE: Certainly not at the state level.

Ellen SANDELL: Okay, thank you. Treasury is responsible for oversight of Development Victoria's finances. In relation to Development Victoria's planned redevelopment of the old Fitzroy gasworks site at 433 Smith Street in Fitzroy, how much did the acquisition of the Yarra council depot at Fitzroy gasworks cost? I am not sure who that is best directed to.

David MARTINE: So you are talking about the acquisition of the land?

Ellen SANDELL: Correct, yes.

David MARTINE: Could I suggest – I am not quite sure what day they are appearing, the Department of Transport and Planning, but the land sales function, which is also responsible for purchases, moved across from DTF to Department of Transport and Planning as part of the machinery-of-government changes on 1 January, so that whole area has moved across.

Ellen SANDELL: Okay. I will ask them.

David MARTINE: Hopefully they should be able to provide some assistance on that.

Ellen SANDELL: No worries. I have got some questions for Mr Joyce, if he is able to come back. Firstly I will ask another one to you, Secretary. Earlier this year the Treasurer travelled to Japan and announced in principle support for the HESC coal-to-hydrogen project, which has been selected for a grant from the Japanese government. Did DTF provide any analysis, advice or support regarding the decision that led to the Treasurer travelling to Japan for this purpose?

David MARTINE: Well, there are probably two bits to that question. We provide advice to the Treasurer on all matters that get considered by government, but remember the Treasurer is also the Minister for Economic Growth, and the area responsible for advising him on that aspect sits in the Department of Jobs, Skills, Industry and Regions. In fact that is another machinery-of-government change from 1 January. Invest Victoria used to be part of the portfolio, as you might recall, supporting the Treasurer in his capacity as minister for trade and investment, and that all changed from 1 January.

Ellen SANDELL: I will take that up with them. Good morning, Mr Joyce. I just want to pick up on some of the questions that were asked about the vacancy tax earlier this morning. Do you have an estimate of how many properties are currently liable for the tax versus how many actually paid the tax?

Darren JOYCE: I will have to take that one on notice. You are asking, just to be clear though, how many properties are vacant that are not paying the tax – is that what you are saying?

Ellen SANDELL: Correct. I assume Treasury has done some estimate of how many may be liable to pay the tax and then how many you have actually collected the tax from.

Darren JOYCE: I can take that one on notice, but I think the answer is going to be that, because of the way the tax is structured, if there is a vacant property and we know about it, we would be taxing it.

Ellen SANDELL: Okay. And how many properties were issued payment notices that did not originate from the owner voluntarily declaring that their property was vacant? How many resulted from enforcement action?

Darren JOYCE: How many came about as a result of compliance activities?

Ellen SANDELL: Correct.

Darren JOYCE: I would need to check on that. I will take that on notice.

Ellen SANDELL: So you will take that on notice. Thank you. Also, were any fined for non-compliance?

Darren JOYCE: Sorry?

Ellen SANDELL: Were any fined for non-compliance, or were they just asked to then pay?

Darren JOYCE: Were there any penalties imposed?

Ellen SANDELL: Correct.

Darren JOYCE: Again, I would have to take that on notice.

Ellen SANDELL: You will take that on notice. Okay. Thank you. And in relation to the electric vehicle tax, were any vehicles deregistered for not paying the tax? Were any penalties applied?

David MARTINE: That tax is actually not administered by the SRO. It is actually administered by the Department of Transport and Planning, so they should be able to provide some input into that.

Ellen SANDELL: No problem. I have a question for Ms Galvin if she is here. I think I have got about 10 seconds left. The VFMC has over $70 billion of funds under management. It has got a goal to achieve net zero greenhouse gas emissions by 2050, but this does not quite accord with the government's own climate goal, which is net zero by 2045 – five years earlier. Has the –

The CHAIR: Apologies, Ms Sandell, your time is up. I am going to go to Ms Kathage.

Lauren KATHAGE: Thank you, Chair. Thank you, Secretary and staff. We have spent a bit of time today talking about the labour force and employment. We have looked more on the side of our performance, but I want to understand more about, I guess, government actions and what outcomes government has had from their plans around improving or boosting jobs. We had the government jobs plan. I think we were aiming for 400,000 by 2025 and half of those by 2022. How have we gone against that? Can you update us on how we are tracking against that?

David MARTINE: Thanks for your question. Not surprisingly, given everything I have said this morning about the strength in the labour market, we have actually exceeded the jobs target that was set. It was set back in late 2020 to deliver 400,000 new jobs by 2025, and based on the latest data we are sitting at about 538,000 new jobs created since the trough in the jobs market in September 2020. That is really just reflective of the things mentioned earlier in some of the other answers – that the labour market has been particularly strong. Once we got to the trough in the back half of 2020 it really picked up, and unemployment, as I indicated earlier, did not go up as high. For actual jobs created, the latest data is well above the 400,000 jobs that were originally set as a target by the government back in the second half of 2020.

Lauren KATHAGE: Thank you. And with our low unemployment rate, the 3.2 per cent you referred to earlier – parts of my electorate go into regional Victoria, and I want to understand how regional Victoria has gone over the same sort of period that we have been discussing, the different cohorts.

David MARTINE: The statewide unemployment rate is currently 3.8 per cent. The current unemployment rate in the regions is 2.7 per cent. So the labour market in the regions has actually been stronger than metropolitan Melbourne. If I look at some of the breakdown – the regional data is a bit different; it comes as sort of a three-month average, and this is up to September 2023. For example, regional Victoria on the whole has a 2.7 per cent unemployment rate. Bendigo is currently at 1.7, so there is a very, very tight labour market in Bendigo. Latrobe and Gippsland is 2.2 per cent; north-west is 2.8; and then you have got Geelong at 4.1; Ballarat at 3.6; and in Warrnambool and the south-west the unemployment rate is 1.3 per cent, so it is a pretty tight labour market in south-west Victoria as well. On average it is 2.7 per cent. I think from memory that is the lowest regional unemployment rate across the country – I would need to double-check that. If it is not the lowest, it is pretty close.

Lauren KATHAGE: Thank you. So we are talking about the lowest unemployment rate. Earlier you spoke about the highest business investment – I think you had us at around 8 per cent, compared to Queensland at 5 per cent or so. So we have got low unemployment, we have got high business investment. What are you seeing as the underlying factors driving those outcomes?

David MARTINE: There are probably a number of factors driving that. If I come back to some of my earlier comments about what drives growth and what drove economic growth here in Victoria in 2022–23, household consumption was pretty strong, and business investment, but in fact the biggest contributor, just in percentage terms, was exports. We had 90 per cent annual growth in exports, which contributed to our estimated final actual for GSP growth in 2022–23 of about 1.7 percentage points. That is just reflective of what is happening in the Victorian economy, and part of that is really around what is happening with universities and students – so student migration – remembering that that is an export for us. You know, student education is one of our important exports. We have seen some strength in that, particularly with population growth returning. It is currently sitting at about 2.4 per cent, which is incredibly strong, and that is in large part driven by the return of overseas students, which helps deliver on export growth in the economy, which is certainly supporting that particular growth. I am not sure if I mentioned this in my earlier answer, but if we go back another year to 2021–22, just on the business investment side we saw that was at 8.8 per cent, so it is not as if the strong growth in 2022–23 is responding to a downturn or a dip. We have had some very consistent business investment growth, and as I indicated earlier, if you take a slightly different period, which is June to June 2023, we are significantly higher than every other jurisdiction when it comes to annual growth in business investment.

Lauren KATHAGE: Thank you. All the figures that you are sharing are rosy. I think your comment before about inflation was: ‘It’s not looking too bad in terms of the trend.’ I guess they are the data and the figures, but anecdotally as members obviously we hear different experiences from constituents in the cost-of-living situation. We talk to our local food banks et cetera. You have explained previously that you work in the aggregate, as you must. Without talking about tides and boats, are you able to tell us how you consider those pockets of disadvantage or different cohorts when you are working at the aggregate level?

David MARTINE: I probably should clarify my earlier comment: when I say it does not look too bad, the trend does not look too bad.

Lauren KATHAGE: Yes, that is what I said – it is going in the right way.

David MARTINE: The level is still of concern, because if the level stays elevated, the incentive on the Reserve Bank to keep raising rates will be strong. So the quicker we can get that 4.9 down to something closer to the RBA band, the better. There is no question that at an aggregate level you see a certain story, and then when you disaggregate the numbers you can get a very different story. It is something we are very conscious of. To make sure that we do not always operate just in the aggregate, you have got to break things down. Probably the best way to think about what is happening at the moment – and these are just rough numbers – is about a third of the population have a mortgage, about a third own a home and do not, and about a third rent. That is kind of roughly the order of magnitude. So what you generally see is, clearly as interest rates are rising, the third that hold a mortgage are feeling a lot of pressure and a lot of strain, no question about that. The aggregate numbers on mortgages are still holding up quite well, so when we talk to the major banks, they are not overly worried at the moment about defaults. I mean, clearly default rates have risen, but they are not at a level that is causing them a lot of worry. But clearly the third of the population that have a mortgage are under stress.

Then you have got the third of the population that are renting; they are under a lot of stress for different reasons. Once again, coming back to some of my earlier answers, we have a very strong supply–demand imbalance in the rental market. We have very strong demand and we have more limited supply than we have had in the past. So we are seeing a lot of pressure on, obviously, rent increases, and rental vacancy rates are at incredibly low levels, which you read about every week in the papers. That third of the population is facing a different sort of pressure point, which is when their rent is up for renewal and the pressure they are under in terms of rent increases, which have been pretty significant. I do have some data here somewhere. I think from memory the rent increases in regional Victoria have been significantly higher than metropolitan Melbourne, so they are faced actually with quite significant pressure.

And then you have got the other third of the population that neither rent or have a mortgage, and the pressure they face is the pressure that everyone is facing, which is the general cost of living going up through higher fuel costs. You go to your grocery store and you pay more for food, and the costs of services are going up. So everyone is facing that, but those two other cohorts are facing more significant pressures because of their mortgage repayments and the rents that they are paying.

Lauren KATHAGE: So maybe we should not crow too much about our unemployment rate, or more people will come and then the demand is even higher for the rentals, is that your –

David MARTINE: One of the challenges we are all facing is – and this is a really tricky one, because we need a certain level of migration to support the labour market, to fill job vacancies, so that is important. But the consequence of that is, particularly in the housing market, it puts a lot of pressure on housing. So effectively we are increasing the demand for housing, both owner-occupied and rental, because of the migrant flow, but we need the migrant flow to fill job vacancies. It is this real challenge that all jurisdictions and I guess in aggregate the Commonwealth is going to face as well, how we manage our way through that. Then obviously over time that puts more pressure on the number of schools and hospitals that government needs to fund. And 2.4 per cent population growth, which is the current – is that, Paul, this year or last year? I cannot quite remember now.

Paul DONEGAN: It is to March this year.

David MARTINE: Yes, to March this year – 2.4 per cent is very strong, very strong. Leading up to COVID, we were getting like 1.9 per cent. I think we had one year at a bit over 2 per cent, but that was kind of an unusual thing. At 2.4 per cent obviously there is catch-up involved from the years where we had very little. You know, back in 2022 it was 0.8 per cent, and we actually had a minus 0.9 per cent in 2021. This is to March. Pre COVID to March 2022 it was at 1.5 per cent, so pre COVID we were growing at 1.5 per cent. We had a couple of negligible years, and now we are sort of in that catch-up mode at 2.4 per cent.

Lauren KATHAGE: Thank you, and thank you for your reflections on the aggregate versus I guess the anecdotal. Then we have the flip side as well, you know, where we hear anecdotally – certainly in my local area – of women returning to work full time because of the ability to have children in free kinder and the like. So I guess it flips both ways.

I want to move on to Victorians injured in transport accidents and claims expenses around that, which is referred to in the 2021–22 budget paper 5. But what I am seeking is an update on how much has been invested from then in supports to help Victorians.

David MARTINE: Yes. We have got a representative from the TAC here. I should point out that the CEO was due to appear, but unfortunately he has COVID so he could not make it here.

Nadia COPPE: In 2021–22 we paid out $1.5 billion in supports and benefits to about 43,000 Victorians in transport accidents, and that compares to this year where we have spent $1.63 billion in supports and benefits. In 2021–22 we spent over $1.54 billion in supports and benefits to over 43,000 Victorians injured in a transport accident. In 2022–23 we spent $1.63 billion in supports and benefits to over 45,779 Victorians. We invested about $82 million in road safety initiatives in 2021–22. That is part of the $147 million in mode infrastructure initiatives, including $42 million in 2022–23. We also continue to include off-road safety matters.

Lauren KATHAGE: Thank you. In terms of your services being accessible for clients, I understand that you have a ConTACt project, with the handy inclusion of 'TAC' in there – the ConTACt project. Is that right?

Nadia COPPE: Yes. We implemented the ConTACt project through introducing softphone technology, enabling critical staff to make and receive phone calls while working from home, and there is a new appointment-booking function offering clients the ability to organise a time to talk to their claims manager.

Lauren KATHAGE: Thank you. Then on the other side, looking at returning to work, how are you supporting people to return to work? What initiatives are you –

Nadia COPPE: We have got developments continuously on improving the TAC claims systems model, including some of the internal claims systems like myTAC and some of the digital HICAPS. We have also returned to work approximately 69.9 per cent of rapid recovery injuries within six months. So we do work towards getting clients back to work as soon as we can.

Lauren KATHAGE: Thank you.

David MARTINE: And perhaps I could just jump in here to supplement that. The minister has talked about, as part of the legislative reforms, establishing what is called Return to Work Victoria, which will form part actually of WorkSafe. It is in everyone's interest – from a business point of view, a union point of view and a government point of view – to get people who have some injuries back into the workplace as quickly as possible. The whole intent of Return to Work Victoria will be to run a series of pilot projects in collaboration with business and unions to test different ways of trying to get more people back into the workplace. It is not just a good outcome from a financial point of view, it is a good outcome from the individual's point of view but also a business point of view and just from a general economic point of view. The Minister for WorkSafe and the TAC has spoken a bit about Return to Work Victoria over the last few months.

Lauren KATHAGE: Thank you. Ms Coppe, do you think there will be learnings from the TAC pilots that have been running, especially after COVID, that could be shared?

Nadia COPPE: Well, we have got a zero- to 30-day pilot for clients at risk of delayed return to work. So there are quite a few pilots that we are working on to work through return to work.

Lauren KATHAGE: Thank you. Secretary, I just want to return to land tax. I live in a growth area as well as an acreage type of area, so it is something that is of interest. However, my understanding is that land tax is available as a deduction under federal tax regimes.

David MARTINE: Yes. That is correct. If you are an investor and you can deduct your expenses, it is an expense. So basically, if you are on the top marginal tax rate and your land tax goes up by $500, for example, then the real cost to you is probably about half, maybe a bit over, so maybe $270, for a $500 payment to the State Revenue Office. It is deductible and claimable with the Commonwealth.

Lauren KATHAGE: And what else is available, then, or claimable in relation to local landholders and the federal tax?

David MARTINE: The biggest deductions that investors make with the Commonwealth are obviously their interest payments. If you borrow for an investment property, then those interest payments are fully deductible at the Commonwealth level. It is not something that we at the state level or our SRO get involved in at all. That is an individual matter. You work out your expenses, of which land tax is one, and you claim that as a deduction with the Commonwealth.

Lauren KATHAGE: Thank you. And we have heard a bit of commentary about forecasting into future years and how we make sure it is accurate. You talked about market expectations for interest rates et cetera. Growth is another driving factor in terms of the economic outcomes we have. The projections that the Victorian government is using for economic growth – how do they compare to the Commonwealth projections of economic growth?

David MARTINE: That is a good question. It does get a little bit complicated because of the way they represent their forecast – we do year average, and they tend to do June to June. So they are a bit hard to compare.

Lauren KATHAGE: I see. Thank you.

The CHAIR: Thank you, Ms Kathage. Well, that brings us to the end of the session with the Department of Treasury and Finance. Mr O'Brien, I know you would like to say something.

Danny O'BRIEN: Thank you, Chair. Just an indulgence, on behalf of the opposition, Secretary, thank you for your contribution to the state of Victoria over the past couple of years – the past 10 years I think it is –

David MARTINE: Yes, nearly 10.

Danny O'BRIEN: and particularly to PAEC. It has been a pleasure grilling you and being grilled by you in turn. Thank you for your educational activity for us as well. We wish you all the best for the future.

David MARTINE: Thank you very much for having me.

Members applauded.

The CHAIR: Thank you, Mr O'Brien. I too would echo those sentiments on behalf of the committee. I think from the grandfather to maybe the godfather, just because maybe you will pip him in by one or two years, thank you very much for your contribution in your role to this state.

David MARTINE: Thank you very much. I look forward to watching future PAEC hearings on my Surface Pro.

Members interjecting.

David MARTINE: They are fascinating!

The CHAIR: We wish you well in your future endeavours, Mr Martine.

David MARTINE: Thanks.

The CHAIR: The committee will now follow up on any questions taken on notice in writing, and responses are required within five working days of the committee's request.

The committee is now going to take a break for lunch before beginning its consideration of the Department of Energy, Environment and Climate Action at 1:30 pm. I declare this hearing adjourned.

Witnesses withdrew.