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PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into 2002–03 budget estimates

Melbourne – 22 May 2002

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Mr J. Brumby, Treasurer;

Mr I. Little, Secretary; and

Mr G. Hehir, Deputy Secretary, Budget and Financial Management Division, Department of Treasury and Finance.

FOLLOWING ADVICE FURTHER CHANGES HAVE BEEN MADE ON 9 AUGUST 2002 TO PAGE 59 OF THIS TRANSCRIPT

The CHAIRMAN — Mr Brumby, will you give a brief overview of your responsibilities under the Department of Treasury and Finance?

Mr BRUMBY — Again I have a few overheads which are smaller in number than the former presentation, and then there will be a few overheads from the secretary of the department, Mr Ian Little.

Slides shown.

Mr BRUMBY — The first is a little on the budget and its directions. Some members of the committee will have seen this presentation which Mr Hehir made to the Public Accounts and Estimates Committee. It is a general focus on the budget which shows record investment in education, stronger regions and suburbs, and the key highlights of the budget of which the committee would be familiar.

The operating surplus predicted for the current financial year is $765 billion; in 2002–O3, $522 billion, and then averaging around $600 billion going forward. General government net debt, Mr Hallam, you will be pleased to know, we have worked tirelessly on over the past 12 months.

Mr HALLAM — Let the record show that we are now in agreement.

Mr BRUMBY — We could call it the Hallam amendment, and it will save some time today! It shows that general government net debt, excluding Growing Victoria, is declining over that period. Net financial liabilities, essentially superannuation, is declining modestly in normal terms, and more significantly obviously in real terms, and there was net new additional outputs and initiatives of $317 million. I mentioned this earlier — and it is worth repeating — that we are pleased with the strength of the Victorian economy in all of those areas, but particularly with business investment. The trick for Victoria now is to come through a strong growth period, but we have had significant impetus from the housing industry. It is not only the effect of low interest rates, the strong economy in Victoria and population inflow but also the commonwealth's additional grant has been to bring forward housing activity, probably three years activity into two years, so we will see some slowing of housing approvals. We need to maintain that momentum of growth in the future to ensure we get new investment through other areas of the economy. That is really what the payroll tax cuts are about. Again, in the budget — and I think you know this — we have had record investment in education with more than 900 teachers into the education system and 100 schools being upgraded across the state in capital works. We have new initiatives to drive innovation and jobs, and I mentioned some of these before in the Department of State and Regional Development (DSRD) presentation.

I am sure you will ask me about tax today, so this slide shows the impressive record of the Bracks government in terms of cutting and abolishing taxes. There is no other state in Australia that has this record and performance in reducing the tax levels on business and reducing the number of taxes. We have pushed down payroll tax, we have lifted the threshold on land tax and we have abolished duty on non-residential leases. As part of the intergovernmental agreement, financial institutions duty and duty on quoted marketable securities have been abolished. We have abolished duty on unquoted marketable securities, and in around two years time duty on mortgages will be abolished.

That takes us from the state that had 22 major taxes and charge imposts on business down to 17 by 2004. It takes us from being the state which was the highest in terms of the number of taxes to the equal lowest. I guess in a regulatory sense if you are in business — and we have seen this with the GST — the form work, the paperwork and the red tape can be killers for businesses. One way of reducing that is to knock down the number of taxes. We have done that. You will see on stamp duty, of course, the rates are unchanged.

Some further key highlights: there are a number of environmental initiatives, and obviously the largest of those are the Wimmera–Mallee pipeline and the forest package. We are turning around the health system with significant new investment in health. We will come to a couple of slides on outcomes in a moment.

The key question with all of this is: why are we making these investments? That is obviously the question which governments must always address. Why invest in education? Why invest in health? We are doing that to drive outcomes. If you look at education, it is to improve literacy and numeracy, particularly in our primary schools. There are a lot of things that children learn in primary school, and we think that foremost amongst those is literacy and numeracy, so that is the target of our activities, with lower class sizes. In the secondary system, there will be improved participation and completion rates, which are particularly important in the middle years where we have been losing too high a percentage of students dropping out early and not engaged with the school curriculum — the sort of kids you see wandering around the shopping malls when they ought to be at school at ages of 12, 13 and 14.

In the health area we will be treating 30 000 more patients each year to reduce emergency delays and surgery waiting times. This year, as you know, we have seen some great outcomes. Emergency waiting times have reduced significantly. We also for the first time in a long while have seen some reduction in waiting lists. That is what we want to see going forward.

On capital works, this year the total TEI is $3 billion. That is the biggest in the state's history. It is about growing the whole state — all funded of course without an additional dollar of debt — with major emphasis on stronger regions in country Victoria and stronger suburbs in Melbourne — the Calder Highway, Warrnambool, Scoresby and the royal Melbourne showgrounds. Scoresby is a significant project. I think the committee is aware of that. There are more people living around the Scoresby corridor than live in the whole of Adelaide.

I will put this one up for the benefit of all members of the committee. This is the actual spend on fixed capital works; this is not forward allocations. This is the actual spend. You will see that for the current financial year, 2001-02, we will be spending almost $2 billion on capital works. I mention that because there have been some who have suggested that projects are not being provided in Victoria. This belies that absolutely. We are spending this year close to $2 billion on capital works, and for the record that is around twice the level which we averaged during the Kennett years. It is a very significant investment. You will see that that will average around $2 billion going forward.

Why are we doing that? We are doing that because the government has a view — I think backed by extraordinarily well-informed analysts and commentators — that Australia and Victoria have been underinvesting in infrastructure for a long, long time, and it is about time we got that right. So we do need to increase our investment. Whether it is modernising the school stock, whether it is the Wimmera–Mallee pipeline, whether it is rail standardisation, whether it is the Scoresby freeway, whether it is the Austin hospital, whether it is the Synchrotron — there is a huge amount of investment that needs to occur there. We are funding that without recourse to debt.

There are a number of other initiatives in the budget to particularly build stronger and more caring communities. This is just for me to finish the portfolio focus. Obviously a major focus of the portfolio is the delivery of public infrastructure projects. It is crucial with such a big infrastructure program that we make sure the delivery is right. That is a particular focus of Treasury.

Innovative policy options include doing things better and smarter, which is a key driver. And with commonwealth/state relations, I think committee members would be aware that Victoria has really led the way on trying to get reform from the commonwealth in commonwealth/state financial relations, and we have been joined in that effort by obviously the governments of New South Wales and Western Australia.

I think that concludes my presentation. The secretary has a small number of slides about the structure of the department and the excellent performance of Treasury in delivering improved outcomes for government off a reduced cost base.

Mr LITTLE — Good morning, Mr Chairman and honourable members. Following on from the Treasurer's presentation, I would like to provide the committee with a 5-minute overview of the department's outlook for the budget year, touching on each of those topics. Looking at departmental objectives first, the Department of Treasury and Finance continues to pursue its mission of providing leadership in economic, financial and resource management. Those three objectives flow from that mission statement.

I will read out those objectives: sound financial management of the state's fiscal resources with an emphasis on maintenance of a substantial budget surplus; guide government actions to best increase living standards for all Victorians through the provision of innovative policy advice, as the Treasurer just mentioned; to champion an integrated whole-of-government approach to ensure optimal service delivery and provision of world-class infrastructure to benefit all Victorians, which the Treasurer also mentioned. Our departmental activities are focused on achieving those three objectives.

I will now quickly look at the budget. The department's approved budget for output delivery in 2002–03 is $220.8 million — that is the rounded $221 million on the right-hand side of that slide. It represents a decrease of $18-odd million or nearly 8 per cent from the current year budget of $239 million. As the committee can see from that slide, it continues a trend over the last few years of reduced budgets to the department. The recent reductions in budgets have resulted from the department's efforts to deliver its outputs at a reduced cost by being more efficient and effective — that is, the last two or three years. Earlier budget reductions owed more to the cessation of privatisation and other activities not required by this government.

Looking at the five-year period as a whole, the Department of Treasury and Finance budget has nearly halved, and this has required great resource flexibility within the department to accommodate that shift in resourcing and to maintain services, but we have done that I feel.

Looking at the budget for next year in a bit more detail, the next slide spreads that $18 million decline in our budget across the department's seven output groups. Some output groups are primarily the responsibility of the Treasurer, and that is denoted by the 'T' in brackets; some are the responsibility of the Minister for Finance, denoted by an 'F'; and some are shared between the Treasurer, the Minister for Finance, and the Minister for Workcover or the Minister for Gaming. With the Chairman's indulgence I will explain movements in all those output groups, including those not related to the Treasurer's portfolio, to save me from repeating the same statements at subsequent committee hearings this week.

The first item, strategic policy advice, is one of the few areas where the budget has increased by $1.6 million. That reflects both the government's desire for increased output delivery in that area and also the department's strong commitment to provide more innovative policy advice.

The regulatory services budget, which is largely the Victorian Casino and Gaming Authority and the Essential Services Commission, has decreased by $1.8 million or nearly 5 per cent. That is primarily as a result of a phase down of work required on the introduction of electricity full retail competition and also some efficiency savings extracted from the Essential Services Commission following an independent review of its antecedent, the Office of the Regulator-General.

The resource management services budget has decreased by $14.7 million, or nearly 20 per cent, which is mainly due to the reduction in the cost to government of the management of motor vehicle leases output from $30 million to $18.6 million. This latter reduction is a technical one reflecting changed accounting practices rather than an underlying change in the expense base. I can go into that if the committee wishes, but that part of the reduction is really technical.

The financial management services budget has decreased by $2.9 million or 13 per cent, mainly as a result of the cessation of the tax compliance services output, which had a budget this year of $2.3 million. This output was primarily involved with the implementation of the GST across the Victorian public sector, and with that now largely completed it has served its purpose. There have been small reductions in the last two output groups, risk management services and also revenue management services, adding up to that overall decline of $18 million.

That completes my short discussion of the budget. I want to touch on some new initiatives. There were a few new initiatives within that $218 million. They are captured on the next slide. On the output side some funding was provided to the State Revenue Office of $2.6 million in the 2002–03 year to increase the level of compliance activity. That is largely using online and data-matching techniques in the payroll tax and document return area. Also, additional funding of $4.3 million was provided to the Essential Services Commission. This is really setting the ongoing expanded budget for the Essential Services Commission following an initial budget allocation this year for the first six months of its operation. It matches with that comment that the overall budget of the Essential Services Commission has declined, but there was no budget for this year, and that is largely because of the ending of the work needed on full electricity deregulation. There was no budget for this year until that review of its effectiveness was done, so this year is really providing it for the first time with its permanent budget.

Lastly on the output side, there was funding of $3.5 million to be offset by $500 000 from internal prioritisation within the department to maintain intact the department's strategic policy and risk management capability. Without that additional funding the department's budget would have fallen further, and the government did not want this to happen.

The one major asset initiative is the refurbishment of floors 1 and 2 of a government-owned building at 565 Lonsdale Street. It will be refurbished and then leased to the Victorian Government Reporting Service. Rents will flow into the consolidated fund from that, which will offset the investment.

That concludes my presentation for the outlook for the department for 2002–03.

The CHAIRMAN — Treasurer, if I could take you to the point at which I think you completed your presentation — that was state–commonwealth relations — and to pages 22 and 23 of budget paper 2. Page 22 tells us that:

> The cross-subsidy from Victoria, New South Wales and Western Australia has been growing steadily since the current CGC relativities were introduced in 1999 and is projected to double to $3.4 billion from 1999–2000 to 2005–06.

There is an accompanying chart that shows that growth in the level of cross-subsidisation of other states by Victoria, New South Wales and Western Australia. That whole issue of fiscal equalisation has been one that this committee and governments of all colours in Victoria have been very concerned about for many years.

Given the growth that has been shown in these pages of the budget, and the fact that the governments of Victoria, New South Wales and Western Australia have commissioned independent reviews into the method of allocating government grants to states and territories: firstly, are you in a position to tell the committee what issues are being identified out of that review; and secondly, what progress do you believe is being made towards a better deal for Victoria in particular?

Mr BRUMBY — We were very keen to ensure that in the budget papers the extent of that cross-subsidy was clearly and plainly representative. Committee members with budget papers can see that page 23 of chapter 1 shows, as you have said Chairman, how graphically this cross-subsidy increases over the years ahead. It is just like a roller-coaster that is out of control. The subsidy that will be extracted from Victorians — also from New South Wales and to a lesser extent Western Australia — in the future just continues to grow exponentially. The committee can see the extent of that.

In our own case at the moment, the level of subsidy is in excess of $1 billion per annum. If you put that in terms of per capita, it is more than $200 a year per head, man, women and child in Victoria. That is an extraordinary subsidy. We do not object, of course, to subsidising the Northern Territory, South Australia or Tasmania, but we object stridently to subsidising Queensland, which has the lowest net debt in Australia, and the Australian Capital Territory, which has an income per head which is 40 per cent ahead of the national average. Subsidising the ACT is like imposing a tax, Mr Hallam, on western Victorians to pay to the people of Brighton.

Mr HALLAM — You don't have to convince me about this one— I'm way ahead of you, I suspect!

Mr BRUMBY — We're all agreed! What have we done to try and advance this? We've tried to think outside the envelope here. The past efforts to change this have failed, so the governments of Victoria, New South Wales and Western Australia last year commissioned Professor Ross Garnaut and Vince FitzGerald to conduct what will be essentially the first-ever truly independent review of horizontal fiscal equalisation and see if it is delivering what it is purported to deliver.

You asked about the early observations. The final report will be released in just the next few weeks. The early observations and conclusions from the review's research are that, firstly, the current system delivers no real equity advantage to Australians, and that, secondly, it generates significant efficiency losses. The significant efficiency losses are calculated at anywhere between $150 million and $280 million per annum. Obviously that's calculated on the basis that if Victoria and New South Wales particularly are having to pay more and more, and essentially that means higher costs to other states, that diminishes our capacity to attract the business, investment and growth that we would otherwise achieve. But I think the other side of this is the equity. The whole basis of this, if you look at the history of commonwealth-state financial relations, has been to help out those states that don't have the capacity to do the things that the better-off states do. But if in doing that it doesn't change any outcomes, if it doesn't improve education in the Northern Territory or doesn't improve the health status of the Northern Territory, you've got to ask: why are we doing it? And indeed that is one of the fundamental issues, that this whole system is based around inputs and it's not linked at all to outcomes.

So that final report will be released soon. We do hope, obviously, that there is — and I believe there is — strong bipartisan support at a state level. We hope that's the case. This is really a matter that has got to be addressed, and it's an absurd situation. The Grants Commission has a review under way at the moment, but we've had numerous meetings with the head of the Grants Commission. They have terms of reference; they are not allowed to go outside that. So we can't use the Grants Commission, in a sense, to look at what it is that they're doing — their core business — and see if it's the right core business. Then we go to treasurers council, chaired by the federal Treasurer, and we're not allowed to have this matter officially discussed. We can have it listed below the line next year, but not as a formal — —

So the question is: how do you advance the argument? And the conclusion we've drawn here: you've got to have an independent study. That's what we're doing with Vince FitzGerald and Ross Garnaut, and we are going to continue to push this matter very, very aggressively over the months and years ahead.

Mr CLARK — Good luck.

Mr DAVIS — Can I just follow up on that point, and just say whilst I agree with you with the historic problem — and I think most Victorians understand your point entirely — it is also true, if you listen to what Taxpayers Australia say, that our high tax levels in areas like stamp duty actually contribute, through the Grants Commission formulas, to actually claw away from Victoria and you would not — —

Mr BRUMBY — I've seen that article and that article is just totally incorrect.

Mr DAVIS — You disagree with Taxpayers Australia on this matter?

Mr BRUMBY — No, I don't disagree. They're wrong. I'll tell you categorically they're wrong. And that article was not brought to my attention until recently. We'll — —

Mr DAVIS — I brought it to your attention in the Parliament.

Mr BRUMBY — Oh well! Thank you! We'll be responding to that, and the article is simply not correct.

Mr DAVIS — You think they're wrong?

Mr BRUMBY — No, no! I'm telling you: I don't think they're wrong — they are wrong! Right? W-R-O-N-G — wrong!

Mr CLARK — Partnerships Victoria. You've had two projects signed up under that, as I understand, the County Court and the $15 million Wodonga waste water treatment plant.

Mr BRUMBY — Yes.

Mr CLARK — Unless there's been another one very recently, they are the only two that have been signed up. As you probably know, the private sector is getting concerned as to where the policy is going. There are reports that there's no private sector funding available for the regional rail project.

With this new round, I suppose most recently of all we had your own party conference decision over the weekend, which according to press reports was opposing Partnerships Victoria insofar as it extends to social infrastructure. What guarantees and assurances could you give to the investors that you're trying to attract under the policy that the new capital works projects announced in this most recent budget, those projects that are over $10 million and should under the policy therefore be considered for inclusion under Partnerships Victoria — what guarantees and assurances can you give that that process will be applied to all such projects?

And perhaps even more importantly, in light of your party conference's reported decision over the weekend, what comfort can you give to potential investors that your government is fair dinkum about Partnerships Victoria in relation to what you've put out on social infrastructure? Are they not being exposed to being undermined or being attacked subsequently if they were to sign up to any of the projects that you are seeking to attract them to?

Mr BRUMBY — Thank you for the question. There were a few questions in that. Let me start with the beginning of your remarks, the propositions about Partnerships Victoria. The County Court was the first project which was signed up under the Partnerships Victoria framework. The Premier will be officially opening that, I think, in a week or two weeks time. I visited that project last week and it has been extraordinarily successful. And if you talk to the proponents — whether it is Multiplex, or whether it's the Liberty Group, or ABN Amro, or Rothschilds, I mean they were all involved with the project — it has been extraordinarily successful. It has delivered a projected from contract signed to lockup in under 23 months. When you visit the project you will see the new IT systems are just extraordinarily user friendly. And in terms of people who use the courts, you can compare it to the existing County Court, where people struggle to find where they should go and where a case is on and who the judge and the lawyers are and things. It is very, very user friendly and far superior to the existing system. We have delivered it. We have delivered it under Partnerships Victoria.

Your remark about other projects mean that the reality is, Robert, as you know, when we came to government there were no major investment projects in the pipeline. The cupboard was bare, so we have had to announce them and — —

Mr CLARK — The County Court was one of those in the pipeline.

Mr BRUMBY — The County Court failed under your government, as you know, and we have delivered it under our programs. When you come to the others, some of which you have mentioned — for example, the fast rail links — you look at all the rail projects: fast rail, Spencer Street, rail standardisation — this is the biggest new investment in rail infrastructure since the underground in Melbourne. And so there is a lead time in developing up those projects. So if you look at Partnerships Victoria, we have done the County Court. We have done some smaller projects as well. There are in excess of half a billion dollars of other projects which are now in the market or being bid on. These include Spencer Street, Enviro Altona, Berwick hospital, the fibre optic network, the mobile data network, the Echuca-Rochester waste water proposal, the TV and film studio, and the Box Hill car park. All of those are presently in the market in one form or another.

Going into the market in the near future: permanent new correctional facilities — there will be an EOI on that in the near future, and possibly some other projects in the communications area. If you add all those up, there are a billion dollars more of partnerships projects.

As to the success of the policy, the proof of the pudding is in the eating. We have had our Partnerships Victoria policy emulated and reproduced by the governments of Western Australia, New South Wales, Queensland and the Northern Territory and, I have got to say, most recently, the United Kingdom territory wrote to me and also asked if they could reproduce the elements of our Partnerships Victoria risk allocation model. So we have led the way in this area.

Far from your comments being the popular sentiment, indeed the key investors and players in the industry acknowledge that Victoria has led the way. We have been sensible in the way we have done this. There isn't the divisiveness or huge community animosity that was around under some of the private projects under the former Kennett government. What we have put in place is a balanced way of going forward that drives value for money for Victorian taxpayers and embraces the enterprise and the innovation of the private sector to deliver better products at better cost for Victorians — and that is what we are committed to.

So far as the so-called social infrastructure is concerned, we are about to do prisons. We have Berwick hospital in the market. The one thing that clearly delineates the Bracks government from the former Kennett government is that we are not in the business of providing core services through *Partnerships Victoria. We do not believe it works. We do not believe the public wants it. We do not believe it is a value-for-money proposition and we do not believe it works. You will not find prison officers, nurses, teachers or doctors employed under Partnerships Victoria, but you will find us constructing new facilities and embracing the related infrastructure such as maintenance, information technology and security systems to drive value for money.

Mr CLARK — You did not touch on the question of the projects under this budget. What assurances can you give that those will be properly assessed in line with Partnerships Victoria, and what comfort can you give to potential investors in your social infrastructure given your party conference decision over the weekend?

Mr BRUMBY — As a matter of fact, coincidentally I met with many of the major players in this area yesterday. They are very supportive and, I assure you, relaxed about the policy direction of the Bracks government. So far as the programs in the budget are concerned, what drives Partnerships Victoria is value for money. When you ask whether they will be Partnerships Victoria — —

Mr CLARK — Evaluated for inclusion in Partnerships Victoria?

Mr BRUMBY — They are all evaluated. If they are to provide better value for money, we embrace Partnerships Victoria. I give you the example of Spencer Street. It is an immensely exciting project for our state. It has local, interstate and national rail all coming into it plus bus terminals there. It has a huge number of people passing through it every day. We have calculated, consistent with the Partnerships Victoria policy, a public sector comparator. It is in the market with preferred tenderers on the short list. They have to beat the public sector comparators — they obviously do not know what the number is, but they have to beat it. If they beat that number, it is a Partnerships Victoria policy. If they do not beat it, we will do it as a public bill. It is all about value for money, and that is what drives it. As to the projects in the budget, where we can do them more efficiently through Partnerships Victoria projects, we will. But does that mean that the limit, which is, I think, $10 million — —

Mr CLARK — Will all over $10 million be considered?

Mr BRUMBY — Yes, they will be. That is the policy.

Mr LITTLE — To add to what the Treasurer said, there is a bit of a judgment call here. You do not wish the private sector to be bidding on projects where clearly they may not be able to beat the public sector comparator. Treasury looks at all those capital projects and picks the ones where it thinks the case is the strongest for private sector adding value and that justifies the substantial private sector investment by many parties, not just the winning bidder, to invest resources to put a business case to the government. Treasury uses some discretion when advising the Treasurer not to put forward those projects where there is a doubt that the private sector could add value, and by putting the private sector to that trouble you waste their time and money basically. There is an element of judgment call there, but Treasury looks at all the projects carefully.

Mr BRUMBY — The private sector would endorse that process and that judgment call. At the function I attended yesterday — again, it is not so much an issue in Victoria but in a number of other states — the thing that the construction companies and the financial consultants dislike mostly is when they spend a lot of money bidding for projects which really never had a chance of getting up and which eventually are terminated. It has not been the case in this state but it has been in others. It is important that you pick projects where there is a realistic chance that they can beat the public sector comparator.

Mr THEOPHANOUS — Treasurer, before I ask my question I understand also that a public interest test is applied in Partnerships Victoria which was not applied by the former government. Is that correct?

Mr BRUMBY — That is correct.

Mr THEOPHANOUS — I take you to the budget in that it provides for more than $11 billion worth of grants from the federal government. As you know, those grants are part of the federal system that we have in which some responsibilities are allocated to the states, mainly in service delivery — in health, education, transport and so on — and other responsibilities which go to the federal government. You would have heard comments by the federal finance minister, Senator Minchin, on 19 May that the commonwealth government will need to shift responsibility for welfare spending to the states. That would be a significant change in federalism and federal relationships going back for, I think, 100 years. Personally I think it is an abrogation of responsibility by the commonwealth. Would you like to comment on whether Victoria agrees with the plans of the commonwealth government for the states to take up welfare spending traditionally done by the commonwealth?

Mr BRUMBY — Thank you for the question, and you raise an issue that will be of immense importance to our state and other states in the years ahead. Essentially your question refers to the remarks made by Senator Minchin at the weekend and also the release in the federal budget of the so-called intergenerational report and the letter accompanying that, which the Prime Minister wrote to respective premiers, including Premier Bracks. If you accept Senator Minchin's thesis, he essentially says that the intergenerational report shows that the commonwealth spend as a result of the ageing of the population will increase significantly, that it will not be able to afford that, and that therefore the states will have to pick up a number of the responsibilities to share the burden — responsibilities that may have traditionally belonged to the commonwealth. That is his essential thesis.

When you examine the intergenerational report and subject it to proper analysis it shows that the Prime Minister, the Treasurer and Senator Minchin are seriously misleading, in my view, the Australian public and misrepresenting the facts in relation to the intergenerational question. The Department of Treasury and Finance has done a significant amount of analysis on this issue. We have also been assisted in some analyses by Access Economics. That analysis certainly does not endorse the views that have been put by the Prime Minister, the Treasurer and Senator Minchin.

I turn to that quickly, because it is a key issue for our state. Firstly, referring to page 69 of the report concerning the burden-of-cost question, the commonwealth's own analysis in its report shows that to 2016–17 — that is, 15 years away — the demographic changes actually work to improve the commonwealth's budget position. It does not make it worse, but it works to improve it by its own assessments. A lot of federal budgets will be handed down in the next 15 years! The myth that has been created by Senator Minchin that the states will have to spend more and pick up the costs in the next few years is inaccurate; it is completely at odds with one of the tables tucked away in the back of the report, at appendix A.

By 2006–07 the commonwealth will be 0.6 of a GDP percentage point better off; by 2011–12 it will be 0.3 of a percentage point better off; and it is not until you get to 2016–17 that it is actually worse off. It means from the period from 2016-17 the commonwealth's budget position will improve to the tune of $5 billion. They should be giving us more money, not vice versa! That is the first point.

The second point is that if you examine the analysis in the longer term, far from the commonwealth having to shoulder all of the costs in fact the states themselves through things like the public hospital system will meet an increasing share of the cost burden.

The third point is that if you look at this even up to 2042, on a no-change basis the commonwealth and the states will equally contribute to the costs associated with an ageing population, so again there is no basis for saying that we should pick up more; we will pick up more through the public hospital system in any case.

Fourthly, the other furphy which the Treasurer, the Prime Minister and Senator Minchin again run out is that they say we will be in a good position to meet these increased costs because we have the GST. Wrong! Again, what analysis that has been undertaken by the department and by Access Economics shows that in fact through its own taxation arrangements the federal government is in a better position to meet rising long-term costs because its taxes tend to rise in line with economic growth while state revenues, including the GST — which Victoria will benefit from post-2078, it is not a growth tax — actually declines in the years ahead as a proportion of GDP.

Indeed the work that has been done for us by Access Economics, as depicted on this little graph, which I do not have available to circulate today, shows that GST as a proportion of GDP over the next 40 years trends down. The growth taxes are things like income tax. As the population ages post-2016 and 2017 people will tend to spend their income on things that are GST-exempt, so GST is not a growth tax at all. So the whole basis of this is a furphy. That is not to say we should not have a debate about demographic change; we should, but for goodness sake let us have a debate built around the facts, and the facts that have been portrayed by the Prime Minister, his Treasurer and his Minister for Finance are simply not the facts. It is a gross misrepresentation.

Why are they misrepresenting that? Either they do not understand it or it is a deliberate attempt, I think, to use the ageing population as a stalking horse, if you like, to shift costs to the states over the next few years to repair the federal budget's position. I believe that in a related way we saw that last night with the Deputy Prime Minister's new road funding arrangements — Auslink. Certainly there is some merit in putting road and transport funding all together, but at the end of the day what is it all about? Is it about the commonwealth diminishing its responsibility to fund and maintain national roads and to shift those costs on to the states. That is what it is about. What you are seeing is a deliberate agenda by the commonwealth to shift costs, whether in roads, in public housing or in a range of other areas, using this report essentially as a stalking horse.

I will release today this information provided by the Treasury. It shows that what has been stated to date is just not accurate. For the next 15 years the commonwealth is a big winner to the tune of $5 billion out of demographic change. They get ahead; we are the losers, the ones who slip behind. So far from us shouldering more of the burden the commonwealth ought to be helping out the states.

The CHAIRMAN — Could I just ask, Treasurer, to ensure that the information you have said that you are releasing today will be forwarded to the committee?

Mr BRUMBY — I will certainly do that.

Mr HALLAM — One of the issues I would like to raise with you is that of tax relief. When you announced the program Building Tomorrow's Businesses Today you made much of the $262 million tax cuts which were included in that, and you claimed that that would remit a total tax cut delivered by the Bracks government of more than $1 billion. Do you stand by that claim?

Mr BRUMBY — Yes.

Mr HALLAM — Can I take you to budget paper 2, on page 18, and ask first of all how you have computed that $1 billion? Have you simply added the $774 million announced in April of last year to the $262 million announced in the program that I have just cited?

Mr BRUMBY — Essentially that is the case, but Treasury would give you a more technical answer. The $774 million we announced last year, because of some changed rates of economic growth, is not exactly that. I think it is about $763 million but close enough to it. The $262 million is over a four-year period, so you aggregate those and it is more than $1 billion, so that is correct.

Mr HALLAM — That is how you got the $1 billion claim?

Mr BRUMBY — Yes.

Mr HALLAM — You would acknowledge, Treasurer, that both of those programs include tax relief in the out years — in fact, the bulk of the tax relief falls in the out years — so how can you say that this represents tax relief delivered when in fact it is simply tax relief promised in the out years?

Mr BRUMBY — If you are suggesting that these cuts will not be delivered that is false; they will be delivered.

Mr HALLAM — You have claimed they have been delivered.

Mr BRUMBY — No, we have announced tax cuts in our first term of more than $1 billion.

Mr HALLAM — Treasurer, can I cite the press release dated 22 April, which states that Building Tomorrow's Businesses Today includes a further $262 million in tax cuts for business, bringing the total tax cuts delivered by the Bracks government to over $1 billion. That is not accurate!

Mr BRUMBY — You saw in my presentation before, in everything that we do — and I think the former government did it as well, Roger — in terms of new budget initiatives, whether tax initiatives or spending initiatives, is cost them over the four-year period. That is standard form. The numbers you saw up there before on education — for example, $334 million of new initiatives in education — were over four years. It is not additional funding in the one year.

Mr HALLAM — The Better Business Taxes program goes out to — —

Mr BRUMBY — 2004, yes — that includes the mortgage duty.

Mr HALLAM — And the bulk of it falls in the outer years, and the program you are talking about now goes out to the year 2005, and again the bulk of it falls in the out years. I would like you, Treasurer, to supply the committee with a chart which shows the effect of those programs, where it falls in the out years, so we can differentiate between tax relief delivered as opposed to tax relief promised. I would also like it to show the extent to which the lily has been gilded again by double counting the tax relief provided in the first years.

Mr BRUMBY — We are happy to give you that data, and indeed, one of the budget slides that I used, from memory in the lockup on budget day, showed — I am positive it was when I announced the business statement with the Premier — we had a graph which showed the four-year building value of that, and I did. So I am happy to provide you with that. Obviously it confirms that as you go through the out years the value of tax cuts increases. Obviously it shows you that. You would not expect anything different from that.

Mr HALLAM — I am disputing the description.

Mr BRUMBY — As for the claim about double counting, that is not correct. You are just wrong on that.

Mr HALLAM — I will argue that one until the cows come home.

Mr BRUMBY — I just tell you: you are wrong.

Mr HALLAM — That is your opinion.

Mr BRUMBY — I will let the secretary of Treasury comment on that. We started with a payroll tax rate of 5.75; we knocked it down to 5.45; we knocked it down on 1 July to 5.35. Each 0.1 percentage reduction is worth — —

If you turn to budget paper 2, page 30 you will see the table.

Mr HALLAM — I am pleased to see the table.

Mr BRUMBY — What you will see from that table is, for example, that where we did the bring-forward of the payroll tax cut from 5.45 per cent to 5.35 per cent and the increase in the threshold, we costed them in the immediate financial year but we then uncosted them in the years down the track because they had been included in the $774 million. This goes to your assertion about double counting, which is just not correct.

Mr HALLAM — My double-counting issue is quite different from that, Treasurer, but I will take that up once I get your chart. My concern is that you insist on counting the effect in the outer years as relief delivered when in fact it has not been delivered, it has only been promised.

Mr BRUMBY — No, we have said we have announced tax cuts of $1 billion in our first term, and we have.

Mr HALLAM — No, you said you had delivered them, Treasurer.

Mr BRUMBY — How else would you describe it?

Mr HALLAM — 'A promise', would be fair enough.

Mr BRUMBY — We have not promised them, they have been delivered.

The CHAIRMAN — Perhaps the word is 'implemented'?

Mr HALLAM — We have not got them yet.

Mr BRUMBY — I am not sure 'implemented' is the right word, but we have delivered those. We have brought down budgets, we have announced the cuts, they are in legislation going through the Parliament, they are costed in all of the forward estimates, and the aggregate value is more than $1 billion over the four-year period. It is straight up and down.

Mr HALLAM — By way of clarification, Treasurer, on the chart you gave us earlier today in respect of the $1 billion you have included a line that reads 'Stamp duty on property', but in fact that is not stamp duty.

Mr BRUMBY — There is no change.

Mr HALLAM — Is that title accurate?

Mr BRUMBY — 'Stamp duty on property'?

Mr HALLAM — Yes.

Mr BRUMBY — It is conveyancing duty.

Mr HALLAM — I thought we had done away with the notion of stamp duty.

Mr BRUMBY — No. What we are abolishing from 1 July 2004 is mortgage duty, which is worth — in an interest-rate equivalent — about half a percentage point.

Mr HALLAM — I am not wishing to be pedantic, but I thought the title 'stamp duty' had gone; it is now descriptive, according to the area in which it is imposed.

Mr LITTLE — I do not think so. They are all stamp duties and they apply in different areas. There is a stamp duty on a mortgage, which is to be abolished; there is a stamp duty on property conveyances, which remains.

Mr HALLAM — I think you will find that has gone.

Mr LITTLE — I stand to be corrected.

Ms DAVIES — On page 391 of budget paper 3 there is a list of your taxation estimates, and there was a $12 million underestimation of how much money you would rake in from gaming machines between the budget and the estimate last year, so we can assume there is probably another underestimation this year. Did Treasury do any estimates of the likely taxation implications of your pathetic proposed gaming machine reforms that we are going to debate in the Parliament in the coming week, and has it done any estimates of the financial consequences for the state of the measures proposed in my private member's bill?

Mr BRUMBY — In relation to the latter point, as far as I am aware there is no advice that I have seen in relation to your proposals. In relation to the government's proposals for legislative reform, Treasury briefs me as a matter of course when these matters come before cabinet, as it does on every cabinet submission. My recollection is that it briefed me on that matter and that there would be a negative impact on the revenues of the state as a result of both the gaming reforms and the smoking reforms. Obviously I am not in a position to go into the extent of that, but there will be an impact.

Ms DAVIES — Why can't you tell the committee what the impact is estimated to be?

Mr BRUMBY — Because the advice to me about that was broad advice. I do not have the detail with me and much of this, of course, depends on assumptions you make about behavioural change. But certainly the combination of the gaming reforms and the smoking reforms will have an impact on revenue.

Ms DAVIES — I am asking because my estimate of the reason why you have agreed to do the reform you have agreed to do is because there will be an absolutely minimum impact on the amount of money that the government takes in. Will there be at any stage some kind of detailing of the impact of the reforms, or will that only be clear when we see next year's budget papers?

Mr BRUMBY — We have made some predictions about gambling revenue growth, and if you look at the budget papers we are predicting that gaming revenue growth will increase by 5.9 per cent over the financial year 2002–03. I am happy to provide you with the table on the increase in gaming growth. We keep going over this, but you never seem to accept the information.

Ms DAVIES — It is still growing?

Mr BRUMBY — You seem not to accept it. The fact is that the increases in growth have been amongst the lowest in the last decade, and obviously the first raft of the responsible gaming measures which the government has put in place, plus the raft which is before the Parliament now, and the smoking reforms, will obviously affect the growth rates of gambling tax. I would have thought that is unarguable; they will affect it. How much they will affect it is a matter of judgment, and it depends on whose figures you believe. Obviously some people say there will be no effect; others, for example, would say there will be a significant effect. But they will affect it.
Last year the growth was a tiny bit higher. When I say the growth forecast for 2002–03 is 5.9 per cent, it is important to understand that we are predicting GDP growth for 2002–03 of 3.5 per cent, plus inflation will probably be 2.75 or 3 per cent, so nominal GDP growth is going to be in excess of 6 per cent. The growth in the level of gaming revenue is declining. I will come back to this, because it is an important point.

Ms DAVIES — Do we have that table?

Mr BRUMBY — I am happy to give you that table — I thought I had a bit more information here on gaming, but I do not — which, as I have said, shows the growth rates going forward. I have another table somewhere which shows that the growth in gaming tax has slowed and continues to slow over the forward estimates period.

Ms DAVIES — The reason for the question is that the advice going into the share market was that there was no reason for Tabcorp to be at all concerned about the reforms because they would not make any difference to its profitability, so I am assuming a similar sort of advice in Treasury.

Mr BRUMBY — The advice Treasury gave me was that these things would have an impact, but as I said before, how you measure these things is always difficult. You will get different views. You have quoted one set of advice; there are other views. If you talk to some of the suburban pubs and clubs, particularly about the smoking reforms, they will tell you they think they will have an impact. How you measure that we will not know for a year or two. No other state has done what we are doing to the extent of gaming reform. When all the packages and all the initiatives we have taken are put together, no other state has implemented such a comprehensive range of measures to try to tackle problem gambling. One must understand the position of the government. The government accepts that there is a gaming industry in Victoria and that it is part of our economy. The government's responsibility is to tackle problem gambling, to ensure that it is a responsible industry, and that is what we are doing. Sometimes different people have different views about this industry. You, Ms Davies, have a view and would probably like to see this industry closed down.

Ms DAVIES — I never said that, and that is unfair.

Mr BRUMBY — That is not the view of the government.

Ms DAVIES — I would like to see less of my community's money being wasted.

Mr BRUMBY — The government wants to ensure that we have a responsible industry, and that is why we have introduced a whole raft of measures and are spending significant amounts of money on problem gambling advertisements, assisting people who have financial problems, as well as counselling. That is why we are putting in place new codes of conduct. We want to get a responsible industry, and certainly think it is a more responsible industry than it was some years ago.

Ms DAVIES — I agree with that.

Mr HALLAM — On a point of clarification, I presume you are relying on note 2 at page 155 of budget paper 2 to cite the expected increase in the gambling revenue stream. Among other things, it shows that the gambling stream as a percentage of total taxation is increasing at a higher rate from the bottom line. Leaving that to one side, do the figures cited include the effect of GST and the health benefits levy?

Mr BRUMBY — The graph which I am prepared to make available to the committee headed 'Gambling taxation revenue' and, in brackets underneath, 'Including gambling tax revenue forgone', picks up the GST, which I know has been an issue with Ms Davies. We have included that. The GST contribution is in a separate part of the budget papers for good reason, because we cannot count it twice. It would be absurd to count the money we get from the federal government in both parts of the budget. We have to make adjustments, as does every other state, as to where we record the GST revenues. Like every other state, according to accepted standards, and ticked off by the Auditor-General, we record GST revenues in one part of the budget and record our own state-based gambling taxes in another part of the budget.

Mr HALLAM — Where do I go in the budget papers to get the reconciliation you are talking about?

Mr LITTLE — I think it is in appendix G of budget paper 2.

Mr HALLAM — That gives me the GST effect, does it?

Mr LITTLE — At page 278 you will see 'Table G.1: Impact of the GST on the Victorian budget'.

Mr HALLAM — What about the health benefits levy?

Mr BRUMBY — That is $35 million a year, which will not come into the GST arrangements.

Mr HALLAM — We will have to add $35 million? I am happy for you to take it on notice.

Mr BRUMBY — My guess is that it is included in the gambling tax figure, but I shall take it on notice.

Mr HOLDING — I should like to ask about the first home owners scheme. Page 278, appendix G of budget paper 2 includes a set of out-year estimates for the next four years for the first home owners grant. I recollect that the Victorian government called for the capping of the first home owners grant. What response, if any, have you received from the federal government in relation to that proposal?

Mr BRUMBY — We have consistently called for a cap on the first home owners grant, which has been our policy for at least the last year. It was a matter which was raised at treasurers council with Treasurer Costello when we met in March and which I pursued for some time with him, but apparently to little avail.

It has always been our view that there should be a cap. We think $500 000 is a reasonable cap. The fact is that while $7000 was originally designed to offset other costs of the GST in the housing industry, you have to ask, at a time when all governments need to clearly define their priorities should the federal government be assisting someone with a $7000 grant if they are buying a $1 million home? In our view, the answer is, you do not — you categorically do not.

In Victoria's case, since the inception of the scheme more than 30 people who have bought homes worth more than $1 million have received a $7000 grant, and 650 in total have received a first home owners grant to purchase homes worth over $500 000. The commonwealth is attempting to significantly cut back its commitment to public housing under the commonwealth-state housing agreement. I raised with the federal Treasurer why he would not agree to means testing. I said the state would support him, that it was not a political issue and he should put the savings into other programs. Our preference would be for it to go towards public housing to keep it in the housing industry, and it would be good countercyclically also. As we will see later this year as housing starts to slow a little, it would provide a boost in the public sector.

We have raised it and pushed it. The savings are not insignificant. There are a lot of homes in New South Wales of $500 000-plus, plus a lot over $1 million, but you are talking $20 million-plus. They are not insignificant amounts of money. We believe it should be capped. We have put that view strongly. The Treasurer said he would raise it with his colleagues, but obviously nothing has come of that, and there is nothing in the federal budget about it.

Going forward, particularly as the industry starts to slow a little, we think the sensible thing to do is cap the $20 million in savings in the commonwealth-state housing agreement and that it all go to assist with increasing the stock of public housing, which I am sure the Housing Industry Association and other organisations would fully support and endorse. We think it is sound, reasonable and fair, but we are not getting support from the commonwealth.

Mr RICH-PHILLIPS — This morning you spoke about the new San Francisco office. Will it replace the Chicago office, or complement it?

Mr BRUMBY — It is in addition to. Chicago will continue. The San Francisco office will have three staff and the Chicago office two staff. Chicago is important for us, particularly with the motor vehicle industry, because it is not far from Detroit and therefore it provides a good linkage.

Mr RICH-PHILLIPS — You have previously explained that the Growing Victoria estimates come out of general government net debt because they are allocated to specific projects, which I accept. However, are there funds in the Growing Victoria reserve which are not allocated to specific projects?

Mr BRUMBY — Yes.

Mr RICH-PHILLIPS — Has the unallocated portion been included or excluded in the net debt figure?

Mr BRUMBY — The whole fund is excluded. The amount is put there, and from this year's budget surplus we have taken $400 million into that fund. The vast majority of it is forward committed, I might say, but there will still be an amount there. There might be some schools which we still have to fund. Grant might correct me on the detail, but the whole amount is invested there, so it is not available to redeem debt. That is not its purpose. It is right to exclude it from the calculations. As we run it down, the size of the liquid assets diminishes and it is used to pay for that infrastructure.

Mr RICH-PHILLIPS — On page 220 of budget paper 2 there is a figure of $235 million that Mr Little has just pointed out. It is your understanding that that is excluded from the debt calculations?

Mr BRUMBY — It is part of the Growing Victoria fund, and the whole Growing Victoria fund is excluded from that.

Mr RICH-PHILLIPS — Including that $235 million?

Mr BRUMBY — The balance of the fund, yes. When it says 'unallocated', it is allocated for public works, right? It is allocated for public works, for capital works. It is just that we have not linked it to a specific project.

Mr RICH-PHILLIPS — But if I can clarify: the full amount of the fund, $1575 million, has been treated the same way in terms of accounting? It has all been excluded from calculations of general government net debt?

Mr BRUMBY — Consistently, but the balance of the fund at this point in time is not $1575 million, because some of it has been spent. I am not sure what the balance is at the moment, but it would be $1575 Million less $224 million.

Mr LITTLE — Close enough.

Mr BRUMBY — Which is what we expect to be expended from it this financial year, 2001–02, so the balance is probably about $1.3 billion. Grant will find that somewhere.

In the graph that I showed you earlier, you will see it is shaded. You will see the contribution that Growing Victoria is making to that capital works effort. Essentially we are funding the capital works. Obviously each year out of the operating surplus we have an amount for depreciation, so we charge depreciation against the operating surplus. We then also have a cash surplus which we are generating each year. So the combination of what we are putting aside for depreciation, the cash surplus and Growing Victoria enables us to fund that capital program without recourse to a dollar of debt.

Mr RICH-PHILLIPS — You mentioned earlier that Growing Victoria is a declining balance.

Mr BRUMBY — Yes.

Mr RICH-PHILLIPS — It would appear from page 259, which is the uniform presentation of stats, that the balance in Growing Victoria reduces to zero by 2006; is that correct?

Mr BRUMBY — That is correct. That is assuming we do not put any more into it, although at this point in time we have no plans to put any more in it.

Mr RICH-PHILLIPS — So the effect of netting Growing Victoria out of net debt is to in effect mask the underlying figure which is at the bottom of the table on page 259, which shows that for 2002 revised net debt is $1.3 billion, increasing to $2.2 billion by 2006. If you do exclude Growing Victoria, it shows that debt is in fact falling because of that reducing to zero balance. Given that the underlying figure is in fact increasing, can you outline what the Treasury's policies are with respect to debt management and acceptable debt levels?

Mr BRUMBY — We went through this last year. The whole proposition that you are putting is not accepted. It is not accepted by me. It is not accepted by Ian. It is not an issue to the ratings agencies.

Mr RICH-PHILLIPS — I appreciate that, but I am wondering what your policies are on debt management.

Mr BRUMBY — Our policy is that we are reducing general government net debt. I have to say our policy before the election was that we would not increase debt as a percentage of gross domestic product (GDP). In fact, not only have we been reducing debt as a percentage of GDP, but we have been also reducing debt in absolute terms.

Mr RICH-PHILLIPS — If you are reducing general government net debt, why does the budget paper show it going from $1.3 billion in 2002 to $2.3 billion in 2006?

Mr BRUMBY — Because that is the way in which we are required to account for the fact that we have $1.4 billion sitting in a cash account which is called Growing Victoria.

Mr RICH-PHILLIPS — I appreciate that.

Mr BRUMBY — You said you accepted our treatment of this earlier, and now you are attempting to ask a question. I think, with respect, you are undoing your own — —

Mr RICH-PHILLIPS — In terms of the uniform presentation, which is what appendix E is, the net debt is increasing; is that correct?

Mr BRUMBY — The uniform presentation is presented here in the budget papers as it was last year.

Mr RICH-PHILLIPS — Showing debt increasing?

Mr BRUMBY — If you exclude, as we have done, because we think it is appropriate — as does the Department of Treasury and Finance, the ratings agencies and others such as the Auditor-General — a reasonable accounting treatment of the fact that we are holding $1.4 billion in short-term liquid assets, which are clearly earmarked for budget programs and which are therefore not available to redeem debt, if you accept that, the net debt position is improving. The proof of all of this is — and we went through all this last year — are we borrowing money to pay for our capital works program? That is the bottom line question. And the answer is unequivocally we are not. If your hypothesis were correct, we would be having to borrow money for this capital works program. We are not borrowing money for our capital works program. As I said to you a moment ago, we are funding it through our operating surplus, our depreciation provision, our cash position and our Growing Victoria fund, which I think represents prudent management.

Go back to what drives Growing Victoria. In our first year of government we inherited a budget surplus in prospect from the former Kennett government of $128 million. You will recall that that was a fairly conservative estimate of the budget surplus. In fact the surplus came in miles above $128 million. It came in way above $1 billion. We decided the prudent thing to do would be to take, what was it, $1 billion of that surplus and to put that aside and to use that to provide the cash to fund the capital works going forward. That is the basis of Growing Victoria. It is helping fund that huge capital program. Was that the right thing to do? Yes, it was absolutely the right thing to do for the state. That is what is driving the major transport, road and water programs that we are now able to put in place across the state, plus the school rebuilding programs. It was the prudent and right thing to do. We have continued to enjoy strong economic growth; we have continued to prudently manage the economy. In last year's budget it was $175 million; out of this year's surplus it is $400 million, so it is up to $1575 million, which we are able to allocate over four years.

I am not sure why we are wasting our time on this. If you want to have a look at the assessments of the ratings agencies in relation to this budget, both of them put out press statements on the back of the budget, and both of them are more than happy. Indeed, if you go to one of them — Moody's or Standard and Poor's — there is a press release there. I will read you a paragraph of it if I can find it. Give me 30 seconds. We are not able to find that. It is somewhere in these 400 pages of documents. We will find it in due course.

Mrs MADDIGAN — Look in last year's transcript. We did all this last year.

Mr RICH-PHILLIPS — You described earlier my hypothesis. It is not my hypothesis. It is your budget paper that presents net debt on the uniform presentation standard as increasing.

Mr BRUMBY — Sorry?

Mr RICH-PHILLIPS — You described it as my hypothesis, but it is in fact your budget paper that you have published that shows net debt increasing in the universal presentation.

Mr BRUMBY — I just found the press release. It is a Standard and Poor's press release dated 7 May, and Rick Shepherd concludes the third paragraph by saying that:

> ... the state's balance sheet provides a significant margin of comfort within that rating category ... Indeed, the further small reduction in debt forecast will slightly increase that margin of comfort.

Mr RICH-PHILLIPS — What year does that refer to?

Mr BRUMBY — This year.

Mr RICH-PHILLIPS — The current year?

Mr BRUMBY — Yes.

The CHAIRMAN — There is some deja vu in this. The committee's report for the last estimates committee discussed this issue at some length and came to some conclusions at that time.

Mrs MADDIGAN — Treasurer, one of the initiatives you have been particularly involved in is moving some of the functions of Treasury into country areas, particularly the relocation of 200 employees of the State Revenue Office (SRO) to Ballarat and also in relation to the Rural Finance Corporation. Can you update the committee on how those relocations are going?

Mr BRUMBY — The State Revenue Office has been a stunning success. The Premier opened that two months ago. The secretary of Treasury was with me at that opening. It was all completed within the space of one year. It really is an extraordinary success. The government examined this matter — originally it was a proposition from the secretary of Treasury and the then head of the SRO, Dr David Pollard, who looked at the opportunities that IT might present. They raised that with me and I raised it with the Premier. We went through the process, took a submission to cabinet, and within the space of a year that relocation has been completed.

As committee members can imagine, it has been bigger than Ben Hur in Ballarat. I invite honourable members to go up there and have a look at it. The working conditions are sensational. It has employed about 160 to 170 local staff. It has a fantastic range of staff. The building was completed by a local Ballarat firm on the IT estate at Ballarat University. You can look out and see 100-year-old red gums and perhaps, if you are lucky, the odd horse running past. It is a sensational working environment. It has the latest IT and is performing beyond expectations. It has been a great success.

We have taken a view that the Rural Finance Corporation is a successful rural bank with a strong rural book, but it does not have any clients in Collins Street. We think it can be better located in country Victoria. We chose Bendigo because of the critical mass and strengths it has in banking. It has the Bendigo Bank, of course, the Sandhurst Trustees, North West Country Credit Union, and the Bendigo Stock Exchange. That critical mass is really important in making sure you can get the right people to fill the jobs.

I met yesterday with the chairman of the board, Stuart McDonald, and the new chief executive officer, Dugald Graham, and we will have a significant presence of the bank in place in Bendigo before the end of the year. Again, over the next few years you will see this as a very positive initiative not just for country Victoria and for Bendigo but for the bank itself, which can now more proudly than ever proclaim itself as a genuine rural bank.

Mrs MADDIGAN — Do you know when that transfer will be completed?

Mr BRUMBY — They have to make sure they get the right accommodation. There is a building in View Street which is the ideal location for it. It is presently occupied by the Department of Natural Resources and Environment, which is shifting. There is a process that needs to occur there. When all that is complete the Rural Finance Corporation will be prominently located in View Street, a few hundred metres up the road from the Bendigo Bank, across the road from Sandhurst Trustees, and it will build a genuine banking and finance cluster in Bendigo. As I said, it will also put the Rural Finance Corporation closer to its clients.

Mrs MADDIGAN — I suppose both the cities of Ballarat and Bendigo see this as a good way of getting other employers to move and have small branch offices in their areas as well.

Mr BRUMBY — Take the SRO, for example, the other purchases that it makes locally drives a huge multiplier effect, and I think you will find the Rural Finance Corporation in the future will employ a number of local staff, obviously. Whether it is local printers, local IT specialists, it may well employ local public relations and marketing companies, so there will be huge multiplier spin-offs that run through the community.

Mr CLARK — The information content in the budget papers has improved quite a lot over the past 10 or 12 years but there are still a few key data items that are missing. I wonder if you could take on board the ones I am about to suggest for possible inclusion in next year's budget papers, but also if it would be possible to provide the information to the committee in relation to this year.

Firstly, in relation to the sensitivity analysis in the budget papers at chapter 6, pages 113 and 114, sensitivity to movements in property prices and property volumes is given, but there is no statement of what the starting point assumption is. So unlike say movements in gross state produce (GSP) growth or employment levels where there are forecasts given, you cannot actually see what the starting point is for the calculations that have been made. Is it possible to provide that information to the committee, and include it in budget papers in future years?

Similarly, is it possible to tell the committee what the assumed rate of public sector wages growth is over the forward estimates period on which the budget numbers have been put together, and also what the assumptions have been for nominal GSP growth over the course of the forward estimates period which again is used — —

Mr BRUMBY — Sorry, what was the last one?

Mr CLARK — The level of nominal gross state product over the forward estimates period. It is a figure you use in calculating various debt ratios. It is a figure you use, for example, in calculating the chart that appears on page 19 of budget paper 2. Without those figures being on the public record, it is impossible to verify the numbers that the Treasury is putting forward.

Last but not least, again in relation to chart 1.6 on page 19 of budget paper 2, is it possible to supply the committee with the actual numbers for the taxation revenue that have been used in calculating that chart? You will see the chart claims to show a downturn in Victorian taxation revenue as a proportion of GSP in the years leading up to 2001–02. Frankly I find it dubious as to how that number has been arrived at, but in the absence of any figures underlying it, it is impossible to independently verify or rebut what is being claimed in that chart. I am asking if you can provide the figures to the committee on which that chart has been calculated.

Mr BRUMBY — On the matters you have raised, the sensitivity analysis on housing, we will have a look at that. I cannot see an issue with that.

On the wages growth, there are obvious reasons why we are not flagging wages growth. These things have always been included in the contingency. If we were to say, hypothetically, that we are predicting wages growth of 5 per cent per annum, if you were an employee in a particular sector what do you think you would ask for? You would ask for at least 5 per cent. We do not flag those matters. They are built into the contingency so I do not think we can help you on that.

On the nominal gross domestic product (GDP) growth, that is a matter of using the core budget figures at the front of the budget documents and adding real GDP with inflation. That is all that is.

Mr CLARK — With respect, Treasurer, the figures that are published relate to the consumer price index (CPI) and not to the GDP deflator. If you can simply provide a series of nominal gross state product it would make it a lot easier.

Mr BRUMBY — We are happy to do that. On the last issue, I will consult with Treasury on the tax data. Let me make it clear, as I think has already been made clear to you during other presentations, this is data collected on the back of the 2000–01 financial year, which is the latest data available from the Australian Bureau of Statistics (ABS). It is then adjusted for what we know to be published changes in tax, so it includes our tax reductions, or New South Wales reductions, in bank accounts debit tax, or whatever, and it is adjusted so it is as accurate as you can get it. If you look at this graph — if you wish to, you could go back and look at the graph we provided last year — you will see in respect of 1998–99 it is slightly different. We have been more generous to the former government this year because the ABS has continued to revise up the GDP figures for 1998–99 as late as last year. Because the GDP figure was higher this year when you do the numbers you get a better tax to GDP outcome. So there is always some revision of those numbers. The figure at the end there is the 2000–01 standard across the board adjusted for publicised tax reductions, so you are getting the latest figure that you can. We are happy to give you that analysis.

Mr CLARK — My first question on that is that your 2001–02 figures, as I take it, does not include the actual outcomes for 2001–02; it is simply your adjustment of the budget forecasts for 2001–02. Is that correct?

Mr BRUMBY — We will get you the date on that, but again let me say, if your hypothesis there is because we have had growth in stamp duty these relativities are changed, your hypothesis is wrong. Every state in Australia has had changes in stamp duty. If you go to New South Wales, what do you think it is that the *Daily Telegraph* runs on the front page every day? It is stories about stamp duty — —

Mr CLARK — Stamp duty? All the figures should be pointing up, not down. That is the difference. If you say it has happened in other states, for all of them the line should be going up and not down.

Mr BRUMBY — No, you are not listening to what I said. These are the ABS data for 2000–01. We do not have data beyond that.

Mr CLARK — So this is not a true representation of the fact that taxes in Victoria last year as a percentage of GSP fell, which is what on any reasonable reading of the chart people are expected to conclude.

Mr BRUMBY — The point — —

Mr CLARK — I can read the fine print too! The question is: what does the chart purport to say? It purports to say, 'Taxes in Victoria are falling'.

Mr BRUMBY — You are embarrassed by that chart. Point B says, '2000–01 data adjusted for Victorian tax changes announced in this budget'. That is what it says.

Mr CLARK — I can read what it says.

Mr BRUMBY — What you are embarrassed about is the fact that right through the 1990s taxes in Victoria under the Kennett government were well above the Australian average. There it is — right there!

Mr CLARK — You are trying to change the subject, Treasurer. You are — —

Mr BRUMBY — That is what it is. When you were the parliamentary secretary, Victoria's taxes — —

Mr CLARK — Don't change the subject! Talk about your accountability.

The CHAIRMAN — Order!

Mr BRUMBY — You have raised it. That is the fact of the matter. You can go back and revise the figures, look at them, cut them, analyse them, chop them, change them — do whatever you like — you are going to get the same result and that is, during the 1990s when you were the parliamentary secretary, Victoria's taxes as a percentage of GDP were way above the Australia average. That is the fact of the matter.

Mr CLARK — We had a $32 billion debt to deal with, but the question is this year's budget and your accountability.

The CHAIRMAN — I think we have exhausted the question.

Ms BARKER — Could you provide the committee with advice on the performance of the Victorian economy over the past year and the economic forecasts for future years contained in the 2002–03 budget?

Mr BRUMBY — The economy has been very strong, and I will not dwell on this today, but I did show a slide on that earlier. But I think whether you are looking at consumer demand, private business investment, or the performance of the construction industry, it has been a very strong performance for Victoria. That is why we have had numerous newspaper headlines that have referred to Victoria being the 'miracle state', the 'lead economy' and 'leading the way'. We want to keep it that way in the future. The purpose of the business statement was to do two things: it was to drive down the cost of doing business to build a more competitive state, and at the same time to encourage more innovation and investment going forward. But really it is a very strong picture going forward, and when you think of this time last year the world was headed into global recession. That is what we thought this time last year. You will recall our growth estimate was 2.75 per cent, I think it was. Ian, wasn't it?

Mr LITTLE — Yes.

Mr BRUMBY — Ironically, as we have gone through the year, the world economy has been a bit stronger, but a whole range of factors have come together and given a really outstanding growth performance. I guess the significance of this for Victorians and people in your sort of area is what that means in terms of outcomes. It means the lowest unemployment rate — 5.7 per cent — in this state for more than 12 years. To put that another way, over the last 23 months Victoria has been at or below the national unemployment rate, so it means new opportunities. Our target is still 5 per cent unemployment, and we want to achieve that.

Ironically the closer you get to that target the harder it is to achieve because as people see that you have a strong job market your participation rate increases and more people come. We are still getting strong population growth to our state as well, so people see it as a good place to live — schools are good, hospitals are good, the economy is good — and they move here, and that soaks up job growth as well. We still have a target of 5 per cent and we are pushing down on that. I think the budget forecast in the out years is 5.5 per cent. We would love to get to the 5 per cent. At the moment we are at 5.7 per cent.

Mrs MADDIGAN — Do the newspaper reports say anything about the Treasurer?

Mr BRUMBY — I didn't notice it, no.

Mr HALLAM — A brief one, Treasurer. I am delighted at the chance to talk to you about the policy employed in the description of debt. The first thing I want to do is acknowledge that you did respond to the discussions last year. We have addressed an issue of confusion and I am grateful for that. But if I go to the description that you employ of general government net debt and the claimed reduction which is projected in the documents and in your speech, where your cycle will go from $4.9 billion in 1999 — —

Mr BRUMBY — What page are you on?

Mr HALLAM — I'm actually on page 102, but it is cited in your budget speech as well, Treasurer. The frontline says that we expect to go from $4.9 billion at 30 June 1999 and your estimate is that that will be down to $2.3 billion by 30 June 2006.

Mr BRUMBY — Yes.

Mr HALLAM — Now that is a tremendous outcome and we would all applaud that, but it seems to me to be inconsistent with your expectation of borrowing costs. If I take you to the table which appears at page 35 of the same document, while you are anticipating that level of debt is projected to halve, there has been literally no shift in what you have assumed will be incurred by way of borrowing costs. Why is that?

Mr BRUMBY — Because essentially — and I think I made this clear last year — what we have been doing with the accumulated cash surpluses, if we have not chosen to pay some of the superannuation out early, which, as you know, we have done in a number of years, we have used that to build up net liquid assets. So we are building up those net liquid assets so our gross debt remains unchanged, and I think it is about $6.3 billion. Is that right, Ian?

Mr LITTLE — Something like that, yes.

Mr BRUMBY — Or thereabouts. But at the same time we are building up net liquid assets, and so we get closer and closer and eventually there will come a time in the future — some time between the near future and the medium-term future — when we will have to make a judgment about whether we choose to pay out that gross debt. The issue for Victoria — and Ian might comment on this — is we are in the market at the moment, but with $6 billion in world terms we are a minuscule player. Australia generally should be aware there was a proposition by, I think, Salomon Smith Barney, to look at whether the states and the commonwealth should all aggregate their borrowings to give a small presence internationally. The states and the commonwealth did not agree on that proposition, but essentially it is because the commonwealth is in the same position. It is not a big player internationally. We have been building up our net liquid assets and we earn interest on that, obviously, but our gross position remains the same at $6.3 billion. We are still in the market with the hot stocks, and so on.

Mr LITTLE — Our professional advice is that we need about $6 billion of debt in the markets to keep it sufficiently liquid to get a lower interest rate on that debt. In fact we will be having a look at that policy this year to see if it still makes sense. Gross debt stays the same, which is why the interest costs, the borrowing costs, stay roughly the same. Net debt is coming down because financial assets are rising. The earnings on the financial assets come in through the revenue side of the operating statement. It is coming in through the investment income side and one way of doing it would be to net those two things off, but that is not the way the accountants do it. The cost of the gross debt appears as an expense and the interest earned on the financial assets comes through as a revenue item.

Ms DAVIES — When the state earns interest from money that has been allocated, say, in last year's budget for transport but which has not yet been delivered, is there any provision for accepting that the interest earned because the money was not spent should be allocated back into the project, or do you fork that into general government revenue?

Mr BRUMBY — If we underspend more than we estimate — governments of all political persuasions often underspend for a variety of reasons — at the end of the year that makes the surplus position a little higher than is otherwise anticipated. If we underspend we make a judgment at the end of each financial year as to what we do with that additional surplus including whether any interest has been earned on that and whether we pay out superannuation or put it into Growing Victoria, whether we carry some over in some programs to next year. Essentially it goes into the pot and cabinet or the expenditure review committee decides what the highest priority for the funds may be in the year ahead.

Ms DAVIES — Can you accept the justice of the argument that if you do not spend money doing the train project and it ends up costing more, that you should invest that interest earned back into the train project?

Mr BRUMBY — I am not sure that is a good analogy for you to follow through. I do not accept that. I am interested in your welfare, but I do not think it is a good analogy for you.
These country rail projects are very expensive projects. They are substantial investments. You would not want as a matter of policy to reward departments that underspend, would you? If you returned the interest each time, that would in a sense build some incentive for people not to spend. You would not want to do that as a matter of policy. In relation to the extension of the rail lines, as you know we have a commitment to an extension of a number of rail lines. They are significant rail investments and they will be proceeding on track as we described last year.

The CHAIRMAN — In conclusion and following through from Mr Hallam's question, I recall a few years back raising a similar matter with Treasurer Stockdale around the issue of whether he was pursuing a zero debt strategy and how the AAA rating helped zero debt. In the course of that discussion he concurred that it was also important to protect that rating by having some level of borrowing that could be relied upon in an assessment. My memory is that I asked him what he considered to be a reasonable level of debt for Victoria as a whole. It was at about the same level that you are currently talking about. I assume part of that thinking is behind what you were just talking about in terms of the debt level that is held there?

Mr BRUMBY — You have to have a presence. You either have a presence or you say, 'We will get out of this totally'. Our financial objective, stated at page 10 of budget paper 2, table 1.1, is to:

> Maintain state government net financial liabilities at prudent levels.

That is what we are doing, but if the government continues to produce some cash surpluses and we choose to build up liquid assets the time will come at some point in the future where there may be $6 billion of debt and there may be $6 billion in liquid assets. We will have to make a judgment about where we want to be.

Obviously there are other competing demands such as paying down the net financial liabilities in superannuation, and we have been doing some of that, but at this point in time we certainly need to be in the market with that constant level of gross debt while at the same time, building up those net assets.

The CHAIRMAN — Thank you, Treasurer, for your attendance. That concludes the time allocated for this hearing. There were a couple of matters throughout the course of the hearing that we will follow up with you later.

Witnesses withdrew.