PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into 2019-20 Financial and Performance Outcomes

Melbourne—Monday, 22 February 2021

MEMBERS

Ms Lizzie Blandthorn—Chair

Mr Richard Riordan—Deputy Chair

Mr Sam Hibbins

Mr David Limbrick

Mr Gary Maas

Mr Danny O'Brien

Ms Pauline Richards

Mr Tim Richardson

Ms Nina Taylor

Ms Bridget Vallence

WITNESSES

Mr David Martine, Secretary,

Ms Gayle Porthouse, Deputy Secretary, Corporate and Government Services Division,

Mr Jamie Driscoll, Deputy Secretary, Budget and Finance Division,

Mr Jason Loos, Deputy Secretary, Commercial Division,

Mr Chris Barrett, Deputy Secretary, Economic Division,

Ms Danni Jarrett, Acting Chief Executive Officer, Invest Victoria, and

Ms Tania Reaburn, Chief Finance Officer, Department of Treasury and Finance;

Mr Paul Broderick, Chief Executive Officer, State Revenue Office;

Mr Bill Whitford, Managing Director, Treasury Corporation of Victoria;

Ms Lisa Gray, Chief Executive Officer, Victorian Funds Management Corporation;

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

Dr John Hamill, Chief Executive Officer, Essential Services Commission.

The CHAIR: I declare open this hearing of the Public Accounts and Estimates Committee.

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 2019–20 Financial and Performance Outcomes. Its aim is to gauge what the government achieved in 2019–20 compared to what the government planned to achieve.

We note that witnesses and members may remove their masks when speaking to the committee but must replace them afterwards.

We ask that telephones be turned to silent.

All evidence that is taken by this 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 soon as possible.

Before we begin I just note that the Member for Mordialloc is an apology. The Member for Mordialloc had a baby—or his wife had a baby—on Thursday or Friday last week, and we wish him, Lauren and Paisley well with their new family.

We welcome you, Secretary Martine, and your officials from your department. We invite you to make a 10-minute presentation. This will be followed by questions from the committee. Thank you.

Visual presentation.

Mr MARTINE: Thank you for the opportunity to speak in front of the committee this morning. In my short presentation I plan to cover three issues: firstly, some information about the performance of the Department of Treasury and Finance during 2019–20; secondly, some information about the performance of the Victorian economy; and finally, I will briefly discuss the outcomes of the state's finances for the year 2019–20.

The Department of Treasury and Finance provides economic, financial and resource management advice to the Victorian government to assist the government to deliver on its policy agenda. DTF objectives are to optimise Victoria's fiscal resources; strengthen Victoria's economic performance; improve how government manages its balance sheet, commercial activities and public sector infrastructure; and deliver efficient whole-of-government common services. DTF supports the ministerial portfolios of the Treasurer, the Assistant Treasurer, the Minister for Economic Development and the Minister for Regulatory Reform. At 30 June 2020 DTF employed 777 staff across four divisions, along with staff in Invest Victoria and the Office of Projects Victoria.

In 2019–20 DTF continued to perform strongly, delivering on its core objectives as a provider of advice and services to government. The department's major achievements for 2019–20 include—but were not limited to—providing ongoing economic and financial analysis and advice to support the delivery of the government's priorities, including its response to the coronavirus pandemic; developing the economic survival and tax relief packages to support Victorian businesses and households; developing an emergency supply Bill which allowed Parliament to give authority to the government to respond to the coronavirus pandemic ahead of the annual budget in November 2020; developing advice and helping shape the $2.7 billion building works package to assist the construction industry in response to the coronavirus pandemic; supporting the delivery of major infrastructure projects across the public sector; implementing Australia's first whole-of-government social procurement framework in more than 270 government agencies; developing two new partnerships addressing disadvantage—to support early school leavers with mental illness to re-engage in education and, secondly, to improve education outcomes for developing vulnerable primary school students; and finally, moving the department to remote working while maintaining ongoing focus on staff wellbeing.

I will now briefly outline some of the key outcomes for the Victorian economy during 2019–20. Heading into the coronavirus pandemic, Victoria's economy had been performing well. Over the five years to 2018–19, economic and employment growth had outpaced the national average. Employment growth was strong, the unemployment rate was low across the state and high levels of investment were supporting broader economic activity. However, the economic shock caused by the coronavirus pandemic resulted in the largest global downturn since the Great Depression, and Australia and Victoria's economies were not spared. Economic activity and employment fell sharply, unemployment rose and trade and population flows were disrupted.

Public health restrictions were introduced in the final quarter of 2019–20 to slow the spread of the coronavirus and to then enable sustained economic recovery. Nonetheless, the impact of the coronavirus pandemic contributed to the first annual fall in Victorian economic activity since the 1990s recession, with gross state product declining by 0.5 per cent for the year 2019–20. As with Australia, Victoria's decline was mostly driven by a significant fall in consumer spending due to the closure of businesses and the unavailability of many services. Private investment was also weak. Public demand, however, remained strong, led by government consumption expenditure. Net trade also contributed to growth, with the fall in imports outweighing the fall in exports.

As with the decline in economic activity, Victoria's labour market was also affected by the coronavirus pandemic. Employment growth was solid before the onset of the coronavirus pandemic, with a mostly steady rise in job numbers between July 2019 and March 2020. Yet Victorian employment fell by around 200 000 between March and May of last year, followed by a slight rebound in June. In annual terms, and despite this fall late in the financial year, Victorian employment increased by 1.2 per cent in 2019–20 overall, although this was a slower rate of growth than in previous years.

Similarly, Victoria's unemployment rate was affected by the restrictions introduced late in the financial year. In annual terms the unemployment rate increased in 2019–20 to average 5.4 per cent for the year, up from 4.6 per cent in the previous year. In monthly terms the impacts on the labour market are clearer. The unemployment rate was under 5 per cent for the last six months of 2019 but rose significantly in the final three months of 2019–20, reaching 7.5 per cent in June 2020. With national borders closing in early 2020, Victoria's population growth slowed in 2019–20 overall. The closure of national borders will continue to have a significant impact on population growth in 2020–21 and probably beyond.

Business survey data was very weak in the latter stages of 2019–20. Business conditions and confidence both fell sharply last April after restrictions were first introduced. Since then, and towards the end of 2020 in particular, surveyed business conditions have risen substantially. They touched a two-year high in December 2020 and remain elevated. Business confidence has also risen sharply since public health restrictions eased through the latter part of last year and remain above pre coronavirus pandemic levels.

Similarly, consumer sentiment and retail spending also softened in the final quarter of 2019–20. Since then, improvement in business investment has been broadly mirrored by changes in consumer sentiment, which is now in positive territory after being very low through much of 2020. Alongside this pick-up in consumer sentiment, retail spending also picked up considerably in recent months. Conditions in the established housing market are also improving. Dwelling prices have started to rebound from lows in October 2020 but are still lower than a year ago. Consumer expectations of further property price growth have risen significantly since the lifting of public health restrictions and are now above the historic average level.

Labour market data also suggests that Victoria’s economy rebounded strongly through the December quarter and further still in January this year as restrictions were eased. Employment rose by 214 000 people since its trough in September 2020; however, it remains below what it was in March 2020. Hours worked, again a proxy for the level of economic activity, has also rebounded from its low in September. It rose by 5.9 per cent in the December quarter relative to the September quarter, yet it also remains lower than where it was in March. The dip you see in the chart in January simply reflects that more people than usual took annual leave for the month.

I will now briefly outline some of the key outcomes for the state’s finances in 2019–20. In 2019–20 the government recorded an operating deficit of $6.5 billion compared to a forecast surplus of $0.6 billion in the 2019–20 budget update. This was primarily due to the combined impact of reductions in revenue as a result of the economic downturn as well as increases in expenditure to support both the government’s response to the early 2019 bushfires along with the health and economic response to the coronavirus pandemic. Net debt was $44.3 billion at 30 June 2020. As a proportion of gross state product, net debt was 5.6 per cent of GSP at 30 June 2019 and 9.6 per cent of GSP at 30 June 2020. The increase in net debt was due to increased borrowing requirements to support the impact of a reduction in revenue and an increase in expenditure as a result of the coronavirus pandemic along with additional borrowings to support the government’s infrastructure program.

Total expenses for the general government sector in 2019–20 were $74.5 billion. The major areas of expenditure were in health, $22.1 billion; education, $16.9 billion; and public order and safety, $9.4 billion. Total revenue from transactions was $67.9 billion in 2019–20. Around half of the state’s revenue comes from state taxes and charges, with the other half from the commonwealth, including GST grants, which accounted for 23 per cent of our revenue base in 2019–20.

Thank you for the time this morning. We are happy to take questions.

The CHAIR: Thank you, Secretary. I will pass to the Deputy Chair, Mr Richard Riordan.

Mr RIORDAN: Thanks, Chair. Thank you, Secretary Martine, and all the others that have joined us this morning. I would first like to turn to possibly the last part of your presentation, talking about the finances. Secretary, referring to budget paper 5 from last year, page 11, where you have got the net debt projections, when are you being told by the Treasurer to plan for and expect a budget surplus in light of the performance variations that we will have seen from what was printed last year to this year?

Mr MARTINE: Thanks for your question, Deputy Premier—sorry, Deputy Chair.

Mr RIORDAN: I will take it as a compliment.

Mr MARTINE: As the government outlined in the budget released in November, the fiscal strategy has now got four elements, four steps, which in a sense are concurrent. You will see in chapter 1 of budget paper 2 it outlines the government’s revised fiscal strategy as a result of the impact of the coronavirus, and the four-step approach is outlined in the budget papers. At the moment, as you would be aware, the budget does not return to operating surplus in the current forward estimates. Now, obviously we are going through the process of revising those estimates for the upcoming budget, which we are in the middle of doing, so that will be released in obviously May of this year. So there will be a revised set of estimates, and we will then add the extra year to the upcoming forward estimates.

Mr RIORDAN: Okay, so the forward estimates presumably are four years, and in that next four years you have no plans at this stage for surplus. Beyond that, in planning, I think your mission statement is high-level financial advice to Victoria. That high-level financial advice, when is it predicting that any of the debt that has been forced on the state through the COVID crisis—is there a plan or how does the plan look to repay that?

Mr MARTINE: If I could perhaps make a couple of comments—and obviously I am not going to pre-empt the release of the budget in May coming up in terms of the estimates—there is no doubt that the economy has picked up stronger than we were forecasting back in September–October, which led through to our estimates in November, and that has implications for revenue. We would be expecting upside on our state revenue bases, including the GST, so we will be flowing that through. I am not predicting or revealing where we might end up in May, because there is still a lot of work to be done, but those numbers are being updated. And as I think we have discussed previously when the Treasurer appeared at PAEC, the government's strategy of working through those four steps is sequential, and step 4 is the step I think you are referring to, which is returning the budget to an operating surplus.

Mr RIORDAN: But, I mean, we have seen in the last week that it is still very much government policy to bring about snap lockdowns. We can only anticipate what that one week has done to the economy, but we are going into winter, it is very much on the government's agenda that we may see more of this. So the modelling you are doing for both repayment of debt and managing the debt and getting some sort of surplus, what provision are you making for that?

Mr MARTINE: As perhaps you would probably appreciate, modelling since this started last March has been very difficult, both in terms of modelling the economy and modelling revenue. So we have been continually doing that. A five-day lockdown in terms of its impact on state revenues is likely to be very minimal, so we do not think at the moment the five-day lockdown, while it has some economic consequences, the impact on the actual budget estimates itself will be quite minimal in terms of what we put together for the upcoming May budget.

Mr RIORDAN: These estimates and then what you have just been talking about show that for the foreseeable future—the next four years at least, subject to what happens this year—Victoria is still borrowing billions of dollars to pay for its recurrent government expenditure. How sustainable is that? How long can Victoria do that for?

Mr MARTINE: Your point is correct in the sense that as you see in the upcoming forward estimates net debt as a proportion of the size of the economy does increase, but I think an important point to keep in mind is that the servicing of that debt is very affordable. Interest to total revenue sits at around 4.6 or 4.7 per cent, so that is a very manageable level of interest expense as a proportion of your total revenue.

Mr RIORDAN: Yes. I mean, it is the government's story that interest rates are low, therefore we can just keep borrowing. But you have made it clear to us this morning that for the foreseeable future, the next four years, we are just going to keep borrowing to pay essentially wages in Victoria. The sustainability of that—I mean, yes, interest is low now, but each year that passes that figure just keeps getting bigger and bigger, and of course, as you know, you have no control over interest components. So how many years can we go doing that? It is okay today, but what about tomorrow and the next day?

Mr MARTINE: Yes. So I think it is important to recognise that the increase in net debt is essentially driven by three factors. Firstly, there is the impact of the drop in revenue, which is in a sense just a natural consequence of an economic downturn. So GST falls, stamp duty falls, payroll tax falls. Obviously less revenue impacts on net debt. Then there is the existing government infrastructure program. So you might recall if we go back to the previous budget in 2019–20, so in May 2019, net debt as a proportion of GSP was already increasing as part of the government's infrastructure program, and then obviously as a result of the coronavirus pandemic there has been a significant intervention by the government to support the Victorian economy and jobs.

But it is important to recognise that in the most recent budget, out of I think around $29 billion of new output initiatives spread across the four years, three-quarters of that is directed at this financial year or next. So it is not ongoing, locked-in spending; it is to deal with the economic downturn effectively when you need it. So this is where the stimulus is required to support jobs. In terms of government decision-making on new expenditure initiatives, around three-quarters of it is short-term, temporary one-offs which are very much directed at this financial year and next.

Mr RIORDAN: If your argument is that we are racking up this debt because we are forward spending, does that mean that there will be a lack of investment after the two years?

Mr MARTINE: No, so the—

Mr RIORDAN: Or are we going to—brought it forward and going to keep spending?

Mr MARTINE: No. So as the economy recovers you would naturally expect government stimulus to then drop away. So if you look at what are the key drivers in supporting Victoria's economic growth, public demand has contributed quite significantly in 2019–20—

Mr RIORDAN: Yes.

Mr MARTINE: but as the private sector then recovers over the next couple of years you would naturally expect the government's contribution to supporting the economy to drop away. So—

Mr RIORDAN: So there of course the key assumption is that the private sector has recovered?

Mr MARTINE: Like most economic forecasters across the other states and also the commonwealth and the Reserve Bank et cetera, we are all forecasting the economy to recover. And in fact it has actually been recovering much quicker than we all thought. Now, since we finalised our budget estimates the rate of particularly jobs growth has surprised everyone, and the fall in the unemployment rate has been a big surprise.

Mr RIORDAN: Yes. I think of the old biblical saying 'One sparrow does not a spring start', so let us wait and see on that one. But of the more than $130 billion that is being borrowed by the government in this period, exactly how much of it is being used for COVID- and health-related issues? Because my understanding is that less than $10 billion of the $130 billion has actually been used for health- and COVID-related activities.

Mr MARTINE: I do not think less than $10 billion is accurate. In fact I know it is not. I would have to take on notice to give you a precise number. But it is certainly spread across both additional funding for the health system and the health and human services department but also the government's response to support businesses and housing.

Mr RIORDAN: I guess what we are wanting to know is of that $130 billion, which is a very big ask for the Victorian taxpayers, how much is specifically to do with the government's pandemic response? You will take that on notice.

Mr MARTINE: Happy to take that on notice.

Mr RIORDAN: Okay, thank you. So even by just that answer, you said you think it is more than $10 billion, but that still leaves—let us say it is twice that and it is $20 billion, it still leaves $110 billion that has been borrowed in this year. How much of that has been for major project cost overruns?

Mr MARTINE: Well, in fact if you look at the annual financial report that was released by the Treasurer in October 2020—this is for the 2019–20 financial year—there was actually a significant underspend on the capital program. We were forecasting in the 2019–20 budget update, which was the December before, for the 2019–20 financial year a capital spend on infrastructure of around $15.8 billion. It actually came in at $12 billion.

Mr RIORDAN: But we know that last year there were a lot of disruptions. A lot of the disruptions were around government not being able to pursue for contaminated soil and shortage of supply and labour shutdowns, but there is still the project to go. So how much of what was spent was on overruns?

Mr MARTINE: So at the moment—

Mr RIORDAN: Because presumably most projects are behind schedule. Well, some of them are behind schedule.

Mr MARTINE: Well, we are still working through that because clearly the stage 3 restrictions and the stage 4 that occurred after the end of 2019–20 have implications for timing and projects. So we are currently working our way through that. In terms of cost overruns, at the moment any adjustments to capital budgets that have occurred up to this point have been either incorporated into the most recent budget released in November or announced subsequently.

Mr RIORDAN: The overrun? But we did not get any capital budgets in—

Mr MARTINE: Well, in aggregate.

Mr RIORDAN: Yes, but have you been able to yet identify by projects?

Mr MARTINE: We are currently still working through with departments what the impact of the lockdown actually has been. Because the time we produce—

Mr RIORDAN: Sorry, can I just ask a question? So are we to assume that you are able to give us employment data for January telling us how quickly the economy is recovering, but you cannot tell us the status of current major billion-dollar projects in the state?

Mr MARTINE: Two very different concepts. The jobs data comes from the ABS.

Mr RIORDAN: So the ABS can get the statistics done?

Mr MARTINE: The ABS provides the jobs data. The issue of the capital projects and what was disclosed in the budget—and remembering for a November budget you are starting preparation in about August. So in August we were liaising with departments and project managers on what, in the middle of stage 4 restrictions, this all meant for the timing of capital projects, remembering that we have just come off a $3.8 billion underspend on a capital project, which is pretty significant. So in that context, trying to work out project by project is actually very difficult for the departments to work out. Because remember, if you look at—

Mr RIORDAN: So you are saying it is difficult for the government to keep track of how much money they are spending on projects?

Mr MARTINE: No. If you look at some of the old versions of the old budget paper 4, it has got multiple columns of things like expected completion date and the amount of money to be spent in the upcoming financial year. So given that large underspend, the conclusion we came to at that point was we were not really in a position to go through and specify, for the 2000-odd projects that are listed in both the general government sector and the PNFC sector, project by project, what the restrictions through the course of 2020 mean for the spend in 2021 and the end date. So at the moment—

Mr RIORDAN: Okay. So just to wrap that up, because I have got one more question to get through—

The CHAIR: Sorry, Deputy Chair, can I just remind you we are talking about the 2019–20 outcomes, not the 2020–21 budget.

Mr RIORDAN: Yes, I am. I am just following up on the evidence that Mr Martine has given, and that is that of the $130 billion that we are undertaking to borrow, $10 billion or $20 billion is on health and the rest presumably on the big projects, which is $100 billion, and we have not yet been able to isolate where that is being spent.

Mr MARTINE: Any extra funding for cost increases on projects has been already taken into account. It was either in the budget or announced subsequent. The two uncertainties are: ‘How much? What’s the cash flow to be spent this year versus next?’ and ‘What does that mean for completion dates?’. They are sort of the two big uncertainties that we have got at the moment.

Mr RIORDAN: That is my next question, the cash flow. That is where we are getting to. Do you have a figure on what our total cash reserves are to 30 June, for the finish of this budget period?

Mr MARTINE: Sorry, cash reserves?

Mr RIORDAN: Yes, how much?

Mr MARTINE: I will see if I can find—

Mr RIORDAN: Could we—

Mr MARTINE: Happy to take it on notice if I cannot find it quickly.

Mr RIORDAN: Yes, how much cash you started with and what the final reconciled cash reserves are. I mean, there was what the budget said it was going to be. What is that?

Mr MARTINE: If I refer to the general government sector, which is probably the more relevant, cash and deposits at the end of 2019–20 were $13 billion, and the state of Victoria, which picks up the other sectors, particularly the PNFC sector, is cash and deposits, $19 billion.

Mr RIORDAN: Just as a way of comparison, at the beginning of the pandemic South Australia was reported to have 400 days of working cash to be able to pay their wages and recurrent operating bills for the year. Do you have a figure for what Victoria had at the start, how many days worth of cash?

Mr MARTINE: I do, but I cannot—

Mr RIORDAN: You could take that on notice.

Mr MARTINE: Certainly the state's liquidity level is very, very good, so we do not have a liquidity problem. That is usually recognised by—

Mr RIORDAN: 'Very, very good' is a nice answer, but can we have that in dollar figures?

Mr MARTINE: Yes, happy to take it on notice and get you the precise number.

Mr RIORDAN: So we are interested to see what it was in January to what it was at the end of the period.

Mr MARTINE: Happy to take that on notice.

Mr RIORDAN: Okay, good. In 2019–20 the department approved a total of $43.8 million excluding GST in consultancy costs. $23.7 million of the approved funds were expended. Can you explain how it is more effective or efficient to spend on consultants rather than establishing your own in-house capacity?

Mr MARTINE: I will probably just need to find—I will let my colleague find—the reference as I give a general answer. We actually have a strong focus on developing our in-house capability. We have spent probably the last four years building up in-house capability in various areas, and we are doing more and more, which is one way we are delivering on the savings that we are required as a department to provide. Some of the numbers that appear in our annual reports do get very much affected by some large one-off items, particularly large commercial transactions, so when you strip those away we are actually on a downward trend in terms of what we spend on consultants and contractors and general purchasing of goods and services.

Mr RIORDAN: You just had a couple of one-offs?

The CHAIR: Sorry to interrupt you there, Deputy Chair, Secretary, but the member's time has expired, and I will pass the call to Mr Gary Maas, MP.

Mr MAAS: Thank you, Chair, and thank you, Secretary, and your team for your attendance today. In terms of economic survival, Secretary, in the questionnaire the economic survival and jobs package included how the government decided on payroll tax relief for businesses and the establishment of the Business Support Fund and Working for Victoria Fund as ways to support not only jobs but the economy overall as well. What assistance does your department consider these measures would provide in combating the worldwide economic shock that has been caused by the pandemic?

Mr MARTINE: Thanks for your question. There is no doubt, as I indicated in my opening presentation, we are facing the most significant shock we have had since the Great Depression. When you look at some of the economic data for not just the state of Victoria but the nation as a whole and the rest of the world, it is pretty significant. As I indicated in my opening presentation, the Victorian economy contracted by 0.5 per cent in 2019–20—employment growth was low, unemployment increased—and nationally you see similar figures. In those situations all levels of government, both at the state and commonwealth level, saw a need for providing support for their economies. And that is not just an Australian occurrence—countries and governments all around the world intervened to help support their economies, help support businesses and help support households, along with central banks.

Here in Australia we have had significant intervention by both the Reserve Bank, who have not only lowered interest rates but have now undertaken quite significant quantitative easing, but also significant support by the commonwealth government, supplemented and complemented by what we have done here in Victoria. Our view has always been that there is an important role for state governments to help support the economy in downturns, particularly if you can do it in a complementary way with the commonwealth, which in a sense has been largely the objective here. So a lot of the commonwealth support is very much focused on income support through JobKeeper and JobSeeker, because they have the right sort of levers to do that. The state government support has focused very much on supporting businesses and helping people get back into jobs.

You made reference to the economic survival package. That was really the first package of support which the government announced and introduced back in I think it was March of 2020. That was really to help support what we were seeing at that particular point in time in terms of job losses and the impact on businesses and households. There was a whole series of initiatives as part of that, including what you referenced about payroll tax. One of the key initiatives as part of the original economic survival package in March of 2020 was to provide full payroll tax waivers or refunds for businesses with payrolls of less than $3 million, so very much targeted towards the small business end. Along with that there was a series of grant programs provided as well: a $500 million Business Support Fund, a $500 million Working for Victoria Fund, some waiving of liquor licensing charges and fees et cetera. That was really, I guess, step one of the intervention by the government to deal with what we all saw at that particular point in time, which was trying to complement what the commonwealth government was doing and also the Reserve Bank at that point. Then obviously after the original economic survival package in March there was a series of subsequent government announcements through the course of 2020 to sort of build on that level of assistance.

You made reference to, ‘What does all this mean for the Victorian economy?’. In a sense the budget that was released in November brought all of the initiatives together into one document. So the budget, you might recall, would pick up every intervention and every decision since the budget update released late in 2019. The modelling we did, which is outlined in the budget itself, is that the government’s intervention—the cumulative impact of all those interventions through the course of 2020—we think supports around 125 000 jobs.

Mr MAAS: Great, thank you. You have already touched upon this a little bit, but you developed an additional package comprising further tax relief for businesses and a freeze on a range of fees. You mentioned licensing—so fees, charges and levies—to help reduce the financial burden not only on business but on households as well. What was the cumulative effect of these supports for Victorian businesses?

Mr MARTINE: You are quite right. There was a series of tax changes—not just the original economic survival package but there were some subsequent changes that were also announced through the course of 2020. I will just mention a couple of those. So along with the payroll tax change, which was an important initiative that was announced in the original $1.7 billion package, there was an important change that was made in May of 2020 to the way that payroll tax interacts with the JobKeeper payments. You can have situations where a recipient of JobKeeper might no longer be working because a business had to close down. Their JobKeeper is treated as, at that point, a wage payment, and it would be a bizarre situation to pay payroll tax on those elements. So the government announced in May that for those that are receiving JobKeeper but are not working or if they are receiving JobKeeper above their normal payment that would be exempt from payroll tax. Then there were a series of tax changes that were announced in around April, and there were some further announcements as well to complement the government’s decisions and announcement with respect to commercial and residential tenancies. There were some important relief measures put in place for both commercial tenants and residential tenants—for example, a prohibition on evictions, freezing rent increases et cetera. But the important element of that was to provide some tax relief for landlords, both residential and commercial. If they entered into agreements to waive or cut rent, they were eligible under certain conditions for particular reductions on their land tax—up to a 50 per cent reduction on the 2020 land tax.

So there were a series of those tax initiatives, and then perhaps more recently—if I can just find the right reference—there were a series of other initiatives announced subsequent to those packages. Perhaps an important one I will mention is a new jobs tax credit, which effectively is to provide an incentive for businesses to, in a sense, expand their labour force, expand their payroll. You get 10 cents for every dollar of Victorian wages paid in 2020–21 above previous levels, and that is a temporary initiative lasting for just a couple of years. In terms of fees there has been a deferring of the introduction of the landfill levy. I think from memory the FSPL has been pegged for 2020–21 at the 2019–20 rate. So there have been a whole series of adjustments, and all of those tax changes fed through to our aggregate analysis that we undertook that I outlined earlier, that the cumulative impact of the suite of government initiatives, based on our modelling, was to support around 125 000 jobs.

Mr MAAS: Terrific. Thank you very much. Now, nothing gets the committee more excited than talking about accountancy standards of course, so I was hoping—

Mr D O'Brien: No, Danny Pearson's left.

Mr MAAS: I can hear the excitement from the other end of the room there. Look, we understand the Treasury transition to new accountancy standards in 2019–20. Could you explain what this means in a practical sense and why that decision was made?

Mr MARTINE: Okay, thanks. I guess like all members here I love talking about accounting standards as well. There are probably two important accounting standards that impact on the 2019–20 financial year. They relate to AASB 16 and AASB 1059, and I will briefly explain what they relate to—and these standards apply both to public and private sector. So it is not just government; they apply to the private sector as well.

AASB 16 relates to how operating leases are recorded on the balance sheet. Under the new accounting standard some operating leases are now to be recognised as lease liabilities on the balance sheet, and AASB 1059 relates to how service concession assets are recorded on the balance sheet. We have previously recorded them at the end of construction, and AASB 1059 requires them to be recorded progressively. So we get to the same end point, but that one is really just the timing.

In last year's budget papers—budget paper 2, I think from memory chapter 1—there is a nice little chart that then summarises the aggregate impact of what this means for net debt. There is a bit under two percentage points change. You might recall the government prior to COVID had a policy commitment of net debt no higher than 6 per cent of GSP. The impact of the accounting standards then adds just under two percentage points, so in a sense the six becomes an eight. You can see there is a little chart—I think it is in chapter 1 of budget paper 2—that then goes through and identifies that sort of step change.

So in substance the accounting standards, which as I said apply to both the private sector and the public sector, really relate to how these elements are recorded. There was a one-off net step increase in net debt, which then washes through the system. In our discussions with rating agencies at the time, they recognised that these adjustments are more technical in nature on how items are recorded.

In the reference I am looking at—chapter 1 of the 2019–20 budget paper 2, page 6—there is a little chart which then shows that step up that takes net debt. I think the footnote refers to a 1.7 percentage point change as a result of those two accounting standards.

Mr MAAS: Great, thank you. In what I think will be my last question, I would like to go back to the work that Treasury staff did to deliver the 2019–20 financial report, as referenced in the questionnaire. Can you tell the committee about the level of government infrastructure investment in 2019–20 and what some of the key initiatives were?

Mr MARTINE: Thanks for the question. The government's infrastructure investment for 2019–20 was $12.0 billion in total. You might recall in my answer to the Deputy Chair I mentioned that in the 2019–20 budget update we were forecasting total government infrastructure investment to be $15.8 billion. It came in $3.8 billion less, representing $12.0 billion. That is about consistent with the 2018–19 number, so that was actually $12.7 billion, and 2017–18 was $12.1 billion. So for the last three years the government's infrastructure investment, what has actually been spent on capital projects, has been around that $12 billion to $12.5 billion mark. Prior to that it was ramping up as part of the government's agenda.

If I just grab the AFR, in the first section of the AFR, which was released by the Treasurer in October of 2020, which summarises, essentially, the government's accounts for the year, that is where you will find reference to the actual GII spent. Then there is an analysis and table on pages 13 and 14, which just sort of then goes and runs through listing all of the major projects that were either completed in 2019–20, and there are about a dozen of those, and then it lists all of the major projects that were underway during the course of 2019–20 that are yet to be completed.

So this does not pick up every project; it picks up certainly the major ones. Some of the projects that the $12 billion contributed to completion were things like the Casey Hospital expansion and the Chandler Highway upgrade through to a number of public safety initiatives. The Princes Highway duplication project, that completed as well. So there was a series of major projects that completed that form part of the 12, and then the bulk of the $12 billion would be the continuation of existing projects that are still in train that have various completion dates.

Mr MAAS: Terrific. Thank you, and on that point, I might leave it there, Chair. Thanks.

The CHAIR: Thank you, Mr Maas. Mr Sam Hibbins, MP.

Mr HIBBINS: Thank you, Chair, and thank you, Secretary and your team, for appearing this morning. On page 7 of the questionnaire it refers to the government's land sales program as an underperforming program, where 40 land sales were undertaken in 2019–20, with revenue of around $38 million. Now, was that against a land sales target?

Mr MARTINE: Yes.

Mr HIBBINS: And what was the target for 2019–20?

Mr MARTINE: I think from memory—I will have to take it on notice unless Mr Loos can dig it out. I think from memory it might have been 190 or something like that.

Mr HIBBINS: Okay.

Mr MARTINE: But I will take it on notice. Mr Loos might be able to find it as we are talking.

Mr HIBBINS: Okay. Great. Thank you. I would just like to ask about some of the properties that were sold under that program in 2019–20, and in particular some of the former east–west link properties. Now, in particular 363 Wellington Street, Clifton Hill. I could not help but notice the advertising hoarding from when it was actually sold, which referred to it as:

> … ideal home close to parkland, schools, shopping and the delights of Smith Street.

It was advertised as:

> Move straight in and enjoy the super convenience, or invest and lease the property out.

Why was it sold on the private market, or why was it of value to the government to sell it on the private market potentially to investors who own multiple homes, rather than, for example, provide it to someone in need of public housing?

Mr MARTINE: I think perhaps if I can make a few comments on that. It has been government policy for a few years now to sell the surplus properties that linked back to the east–west project. I think from memory a few of them were made available for social housing initiatives. But in terms of public and social housing in general, there is a very significant investment in the most recent budget on that particular issue. That is where the quite significant growth in public and social housing over the coming years will come from.

Mr HIBBINS: Can I ask whether for that property at Clifton Hill the office of housing expressed interest in acquiring the property?

Mr MARTINE: I would probably have to take that on notice, I think, and get back to you as to what extent there was communication within government on that particular property.

Mr HIBBINS: Okay. My understanding of the government's own policy on land sales is that other department and other agencies are given first right of refusal. Were other department and agencies given first right of refusal on those properties?

Mr MARTINE: I would need to take that on notice to see if any other agencies or departments raised interest in that particular property and what the outcome of that process might have been.

Mr HIBBINS: Would you be able to then take that on notice for all east–west link properties that were sold in the 2019–20 period and in fact, if possible, all of the former east–west link properties?

Mr MARTINE: Yes. Happy to take that on notice.

Mr HIBBINS: Now, with the land sale target, is that still in place now?

Mr MARTINE: For the 2020–21 year and the future?

Mr HIBBINS: Yes.

Mr MARTINE: Yes. We have built into our budget and forward estimates expectations on government land sales for all four years.

Mr HIBBINS: And are you able to provide those numbers to the committee?

Mr MARTINE: Yes. Happy to take that on notice and provide them. They are essentially a subset of the 'sale of non-financial assets' line in the accounts.

Mr HIBBINS: If you are setting a financial target for the sale of land, does that in any way create a conflict between raising revenue and achieving social outcomes?

Mr MARTINE: I do not think so.

Mr HIBBINS: Where did the revenue go when the land was sold, the $38 million? Where did that revenue go?

Mr MARTINE: It all comes back to consolidated revenue, so it all then funds the government's initiatives. It is treated similarly to state tax revenue et cetera; it all just comes in.

Mr HIBBINS: So for those east–west link properties, the funding to actually purchase those properties was acquitted in a previous budget, when that project was live, but now, having been sold, the revenue returns to general revenue?

Mr MARTINE: It comes back to the budget. That revenue is not hypothecated to any particular initiative or program.

Mr HIBBINS: Okay, thank you. Now, in terms of the east–west link properties, the Premier did make a statement very early, when he was elected, that it would be desirable to provide support and assistance to some of the most vulnerable in our community and that using those properties would be a very good outcome. Would you be able to provide the committee with a breakdown of the east–west link properties which were sold on the private market, sold back to their previous owners, retained or transferred to other departments or other agencies?

Mr MARTINE: We are happy to take that on notice.

Mr HIBBINS: And just finally, on land, in terms of the government's process when it is Crown land and going through I think it is a land use process, a strategic land use process, given that there is now a treaty process going on, does that in any way impact on the process for Crown land sales?

Mr MARTINE: I might just get Mr Loos to just briefly talk to that point.

Mr LOOS: Thanks, David. Yes, so there is a land utilisation process that we have, and what that process is trying to do is, I guess, look at where there is surplus land in the context of current government policy. So it is quite a structured forum where a range of agencies come together and discuss their landholdings and also the policy objectives. So that is a forum where we are able to get an indication—for example, you mentioned public housing—in terms of the number of dwellings they need to deliver and to get an understanding from different parts of landholding agencies where there might be some land. And then things like the treaty, which you mentioned, that obviously is important and taken into consideration. All that gets discussed at that level.

Mr HIBBINS: Yes. Terrific. Great, thank you. Sorry, just one more, finally, just in terms of another specific site that is listed for future sale, which is 62–64 Alexandra Parade, Clifton Hill. Are you able to provide the committee in terms of if and when that was offered as a first right of refusal to any other agency and whether another agency did actually express interest in acquiring that property?

Mr MARTINE: Happy to take that on notice.

Mr HIBBINS: Great, thank you. I would like to now ask about the general efficiency dividend. Now, my understanding is that for 2019–20 there were $201.3 million of savings in the original budget. I understand for the following financial year that was removed, but was that $201.3 million in savings realised in the 2019–20 budget?

Mr MARTINE: So you would be referring to the 2019–20 budget released back in May of 2019.

Mr HIBBINS: Yes.

Mr MARTINE: There was a line item in that budget that was titled ‘Whole of Government efficiencies’. The $201 million is the 2019–20 number, and then it is spread across the forward estimates totalling around $1.8 billion. Those savings essentially came out of the base review process that was undertaken prior to that. When the budget was deferred in March last year those savings were essentially put on hold, and most of them, in fact virtually all of them, were then deferred and pushed out. So in effect the bulk of that $201 million would not have been achieved. Effectively the government announced that the base review savings would then be pushed out. As you would probably appreciate, in March, when COVID-19 is taking effect, the budget is deferred, there is a lot of uncertainty and there are different parts of the public service where the priorities have obviously changed, so the decision was made just to push everything out 12 months. They will effectively be reviewed as part of the current budget process leading into the budget in May.

Mr HIBBINS: Yes. Is that the same for previous savings that were included in previous years’ budgets? For example, the 2017–18 budget had under 2019–20 a $302.9 million saving. Was that pushed out, or was that actually—

Mr MARTINE: Previous savings that had then been allocated to departments would have formed their base funding for 2019–20, so in a sense they were achieved because they were part of their base funding. They were not part of the 12-month deferrals; it was just those new savings that you identified of $201 million in that first year and spread across the forwards.

Mr HIBBINS: Okay, so the $302.9 million from the previous 2017–18 savings and for 2020–21 the $404.2 million in savings are still actually going ahead?

Mr MARTINE: If they were previous decisions in earlier budgets than 2019–20—unless there was some other decision made that I cannot recall off the top of my head that would have changed those savings—they would have flowed through to the relevant departments’ bases or affected the various programs or outputs, whatever they related to. They would be part of the base and their budgets for 2019–20 and then form part of the actuals for 2019–20 as well.

Mr HIBBINS: Okay, thank you. Now, in terms of the expenditure base reviews that you mentioned, what date were they actually completed on?

Mr MARTINE: Now you are testing my memory.

Mr HIBBINS: To the nearest month or even the nearest quarter—

Mr MARTINE: I have just got to get my years correct. They would have been completed probably around September 2019, or October, because they fed through to early budget considerations 12 months ago. They were completed by then, so I think it would have been late-ish 2019 that the base reviews across all of the departments were completed. I cannot remember the exact date, but it might have been around that sort of October–November period.

Mr HIBBINS: Yes. And we have had a bit of a moving feast in terms of just what the government’s actual aim is with those base reviews. I mean, in the previous budget—where we had $1.8 billion and the Treasurer in the future then flagging $4 billion—what is the actual total revenue within the base reviews that has actually been earmarked for savings?

Mr MARTINE: Essentially pretty much all areas of government spending within the general government sector were examined as part of the base reviews, and the outcome of that process is effectively what we have just been talking about, which is that $1.8 billion spread over four years, which was an initial amount set aside. As I indicated, that process had commenced and then it was all put on hold last calendar year because of the budget being deferred in COVID. The government made a decision in the current environment that it would push consideration of those base review savings out until the upcoming budget rather than deal with them in the November budget that has just passed.

Mr HIBBINS: So just back to your previous answer in terms of how to actually implement it, essentially what you are saying is once the savings have been identified, that is immediately then passed on to the relevant department and they are told, ‘Make the savings; you make this work’.

Mr MARTINE: No, there is an important step in between, which is that government needs to make a decision. Just because the base reviews came up with some suggestions and ideas, they need to go through a government decision-making process, and the government would agree to some and not agree to others. That process was underway when the budget was deferred.

Mr HIBBINS: Okay, thank you. Finally, I am just interested in the West Gate Tunnel and the new tolling arrangements with CityLink and Transurban in terms of increasing the toll revenue from CPI to 4.5 per cent. Now, that is currently in place, isn’t it? That is operating right now.

Mr MARTINE: I might get Mr Loos to answer that question.

Mr HIBBINS: Thank you.

Mr LOOS: Yes, that is in place at the moment.

Mr HIBBINS: Is the government actually tracking the amount raised from that revenue increase?

Mr LOOS: Yes, in the sense that the Department of Transport, through the monitoring of CityLink, gets access to that data. I think that it is monthly that they will get that revenue data.

Mr HIBBINS: But specifically the difference between, for example, the original contract, which was rising under CPI, and then the 4.5 per cent.

Mr LOOS: I am not sure of the actual breakdown in terms of how that comes in, but there is definitely monthly reporting.

Mr HIBBINS: Is that not something that the government should be tracking to determine whether we are actually getting value for money by providing Transurban with those changes to the concession?

Mr LOOS: Yes, I think the reporting does come through to the Department of Transport.

Mr HIBBINS: But not Treasury and Finance?

Mr LOOS: We get it at an aggregated level.

Mr HIBBINS: As in?

Mr LOOS: Well, in terms of the revenue and the expenses across the board.

Mr HIBBINS: Okay. All right, thank you. I have still got a bit of time. I will actually move on to the Victorian Funds Management Corporation. Obviously it has divested from tobacco, but it does still include investments in fossil fuels. Are you able to provide the committee with information in terms of what coal, oil, gas or fossil fuel companies the government is investing in? That includes investments with insurance agencies which provide insurance to new projects undertaken by these companies.

Mr MARTINE: I might ask the CEO of VFMC, Ms Gray, just to come up.

Ms GRAY: Thank you. VFMC does invest directly and indirectly. It has exclusions in two areas. One is tobacco, as you pointed out; the other is in cluster munitions. Our approach to environment, social and governance-related risks is very much to take one of active engagement with the particular organisations and companies who may then undertake various activities, and we believe that that is an approach that is more sustainable in the longer term. We will put various views either directly or via our other external managers. With many of our investments we invest then via an external fund manager, and they would be the ones who may have holdings in other particular fuel- and energy-related organisations.

Mr HIBBINS: Great, thanks.

The CHAIR: Thank you. I will now pass the call to Mr Danny O'Brien, MP.

Mr D O'BRIEN: Thank you, Chair. Good morning, Secretary, and officials. Secretary, page 9 of the departmental questionnaire lists an outlay of $5.8 million to prepare the finance strategy of the Suburban Rail Loop project. Could you tell me who undertook the finance strategy? Was it internal or external?

Mr MARTINE: I might get Mr Loos to just give a bit more information, but it was essentially a combination of both.

Mr D O'BRIEN: Okay. So external consultants assisted DTF on the strategy?

Mr LOOS: Yes. DTF have a core group that is working on the funding and financing strategy for the Suburban Rail Loop. Obviously it is a significant infrastructure project, and quite a significant land use project as well given the nature of the transport link, and there is quite a significant focus on what that means for the communities the link goes through.

Mr D O'BRIEN: I am just after the details of the finance strategy, sorry, Mr Loos. Who and how many external consultants were involved?

Mr LOOS: Yes, so as I said, there is a DTF team, and then we are using PricewaterhouseCoopers as well as the advisers helping us, and we work very closely with the team at the Suburban Rail Loop Authority as well, which has got a range of internal advisers as well.

Mr D O'BRIEN: Okay, so for DTF though it was just PwC?

Mr LOOS: Yes, for DTF it was PwC.

Mr MARTINE: Sorry, if I could just add to that, the number you see in question 3 picks up the cost essentially of both.

Mr D O'BRIEN: Of both. So how much of that $5.8 million, of which $5.1 million was spent in 2019–20, went to PwC?

Mr MARTINE: It would be listed in our list of consultant spends attached to the annual report, which—I am happy to take that on notice. It should be sitting there. I am sure someone can find it as we are talking.

Mr D O'BRIEN: Sure. So given we are developing a finance strategy for the project, what is the estimated total cost of the Suburban Rail Loop?

Mr MARTINE: The work is currently being undertaken by the Suburban Rail Loop Authority, which sits in the transport portfolio. They are currently working through the investment case. So that issue of total cost over a time period is part of that work.

Mr D O'BRIEN: But if you are doing a finance strategy, presumably if someone—if I—came to you and said, 'I want you to give me a strategy for developing a $5 million project' or 'a $150 billion project', it is going to be a different strategy, so you must have had a ballpark of some sort to do so.

Mr MARTINE: When you are thinking about a project of this size and magnitude, then clearly you are not talking about a $5 million project. But whether a project is costing 50, 60, 70 or whatever it might be, in a sense the substance of the strategy—well, the numbers will change; the substance of the strategy does not necessarily fundamentally change in terms of government contributions, both commonwealth and state, private sector contributions. So there is a whole series of ways one can fund large infrastructure projects. In terms of not knowing specifically whether it is going to cost X or Y, it does not fundamentally change because you know you are not dealing with a $5 million project.

Mr D O'BRIEN: Likewise, though, it is a multistage project. Does the finance strategy consider the entire project or just stages?

Mr MARTINE: We are doing it at the moment in stages. As you would recall, in the most recent budget in November there was a commitment of $2.3 billion, from memory, that the government made for early works, some land acquisition et cetera. We are very much thinking about it in stages and a finance strategy around those stages, because it will be a long project.

Mr D O'BRIEN: Okay, but the finance strategy itself looks at what, the first stage?

Mr MARTINE: Yes, pretty much the first stage. It is essentially focusing on the first stage, which in itself will be a pretty significant stage.

Mr D O'BRIEN: Has that strategy been completed?

Mr MARTINE: It is still a work in progress because it is part of the work that we are feeding into as part of the investment case that is being developed by the Suburban Rail Loop Authority.

Mr D O'BRIEN: Given the enormous size of it, does the strategy include any impacts on Victoria's credit rating or interest burden as a result of the investment?

Mr MARTINE: In all of the advice we give government in terms of debt levels and projects we are continually thinking about what it means for our metrics that rating agencies look at, so the answer is yes in a sense of in formulating our advice we look at for a project of X, 'How is it going to be financed?', and obviously the extent to which it is not financed by government and then, 'Does it have a ratings impact?'. So you are left with the residual of the state government contribution and then what does that mean in the long term, remembering that a project of that size might be spread over 25 years, when you divide the state component by 25 and think about existing large projects that are underway that will come to an end, like the metro rail, the North East Link, which has not yet started but will start shortly, will peak and then stop. So government—

Mr D O'BRIEN: Just on that, Secretary, is it Treasury's expectation that this will be a 25-year project?

Mr MARTINE: I cannot put a time line on it, but it is a long—

Mr D O'BRIEN: Sorry, you used 25. I am not sure—

Mr MARTINE: I used it as a hypothetical example, but it is a long tunnel from Cheltenham all the way round to where the tunnel ends, heading up north. It will be a long project. It is important to remember that governments always have large projects underway, and at the moment we have got several. They will come to an end. We will have Suburban Rail Loop. The government of the day may choose other projects, it may not.

Mr D O'BRIEN: I guess, given the start of your answer to the question—that yes, we are considering the impact on the budget, credit ratings, the debt profile et cetera—if we do not know how much it is going to cost, and we do not know how long it is going to take, how can you even do that?

Mr MARTINE: That is the important work as part of the investment strategy, to define the more specific cost of each of the phases and the time frames.

Mr D O'BRIEN: Okay. There are effectively two ways we can finance it. There is either increase taxes, including potentially value capture, or debt from a state perspective. Is that correct? Is that a fair assumption?

Mr MARTINE: There are ways you can fund a project like this. First of all, if I start at the top, let us not forget possible commonwealth contributions. That is an option. Then you have got what I would call value capture in the sense of commercial beneficiaries. If you are building in a sense suburban hubs, you are creating value, and you see it in examples around the world, particularly London, for example. There are processes for governments to legitimately try to capture that funding. Then you have got an option that a future government could choose to just raise, as you point out, taxes to fund some of it, and then your last option is you borrow to fund. They are essentially the four.

Mr D O'BRIEN: So a fairly specific question then: is value capture in or out as far as this project goes at the moment?

Mr MARTINE: They are all part of the investment case that is being developed, and that will go to government for consideration, then they will make the decisions based on that.

Mr D O'BRIEN: When will those decisions be made? We put the first $2.5 billion into this project two budgets ago. We do not know how long it is going to take. Treasury cannot tell us how much it is going to cost. When will government know these decisions? We do not know whether there is value capture. We do not know whether it is more debt.

Mr LIMBRICK: More taxes?

Mr MARTINE: The timing of the investment case is probably more of a question for the Suburban Rail Loop Authority under Transport this week.

Mr D O'BRIEN: Okay. In terms of value capture, have there been decisions made on the impact zone that would be used in respect of—

Mr MARTINE: Sorry, the impact?

Mr D O'BRIEN: The impact zone. As you said, you can build commercial facilities around a station. Would it be 1 kilometre, 3 kilometres? Has that been looked at?

Mr MARTINE: Government has made no decisions on any of those aspects at this stage.

Mr D O'BRIEN: Again, you may have answered this before, but the strategy itself is ongoing—to what point? Does it get finalised at the same time as the business case?

Mr MARTINE: Yes, so that will be an important part of the business case in terms of the financing strategy, and it is sort of a logical thing that if you are making a decision about a project, you then need to make that decision of which of those four components or what combination of those four components that I mentioned on how you pay for a project—you need to really make those decisions as well. That does not mean that you start off on all four. It might be that it is funded a certain way to begin with and then something else kicks in a bit later.

Mr D O'BRIEN: Yes.

Mr MARTINE: There are all sorts of combinations that you can—

Mr D O'BRIEN: What is your understanding, though, of the time line for that final business case?

Mr MARTINE: I would have to take that on notice and refer it to Transport, because they are really running the investment case process.

Mr D O'BRIEN: But again, if the finance strategy is informing the business case, presumably they are saying to Mr Loos or to yourself or someone, 'We need this finalised under these parameters by March to finalise our business case'.

Mr MARTINE: I just cannot recall the exact, or even broad, timing. Certainly there is a lot of work underway, no question.

Mr D O'BRIEN: Yes, and are you able to say whether a potential value capture may well include levies and charges on commercial operations, as you said—would that potentially include existing businesses?

Mr MARTINE: As I mentioned, the government has made no decisions at all on the various funding options. As I said, I ran through the broad four—and you had identified those anyway—and the government at the time will make those decisions on value capture and levies.

Mr D O'BRIEN: Okay.

The CHAIR: Mr O'Brien, I will just remind you that the Secretary and his officers have probably come prepared to answer questions about the 2019–20 outcomes hearings and not other work currently underway.

Mr D O'BRIEN: This is directly related, Chair, in relation to the financial performance outcomes questionnaire—$5.8 million for a financial—

The CHAIR: But your line of questioning is straying, and I am being fairly lenient, Mr O'Brien. I remind you that these are outcomes hearings.

Mr D O'BRIEN: Can I ask, Secretary, how much money has already been borrowed for the Suburban Rail Loop? There is $2.5 billion in the 2019–20 budget. Was that entirely borrowings?

Mr MARTINE: In a sense, I think the answer to your question is close to zero, because the $2.2 billion in the budget, which is spread over a number of years—I cannot recall; I have not got the figure in front of me of the exact profile in the first year, but I am pretty sure not too much of that has yet been allocated. There is $420 million in 2020–21, so zero in 2019–20. So certainly up to the end of 2019–20 the amount that had been borrowed for the Suburban Rail Loop was in fact zero. I do not have in front of me how much of the $420 million for this year has so far been spent.

Mr D O'BRIEN: Is that all borrowings, sorry, did you say—the $420 million?

Mr MARTINE: Well, in a sense, it is like all of the capital projects. They all get aggregated and then you offset that with the aggregation of revenue less expenses, and then it is a question of the difference, broadly, becoming how much is borrowed.

Mr D O'BRIEN: Yes, okay. Just a quick one—in May 2020 Infrastructure Victoria was transferred to DTF. How is its independence maintained within DTF?

Mr MARTINE: So that machinery-of-government change in a sense has made no substantive change to the way Infrastructure Victoria operates or their independence. So I, the secretary of DPC and the secretary of DELWP, from the instigation of Infrastructure Victoria, have sat on the board, so that has then continued. So even though they have moved across to the portfolio, the only change is, in a sense, my department is now providing them with some corporate support, rather than the Department of Premier and Cabinet—so things like HR and finance and those sorts of things. Apart from the normal interaction we would have with Infrastructure Victoria ourselves as a policy department, there has been no change at all to how it operates.

Mr D O'BRIEN: Can I move on, then. Budget paper 5 of the 2019–20 budget on page 11 has the net debt figures. At the last PAEC hearings we asked Mr Whitford of TCV to provide the bond registry to the committee. This actually got refused in the answer on notice. Can you tell me why that information was withheld?

Mr MARTINE: I might get Mr Whitford to pop up to the table on that one.

Mr WHITFORD: Thank you, and I apologise on that. In fact that information is not publicly available. The registry does not release it.

Mr D O'BRIEN: Why not?

Mr WHITFORD: It is a matter of commercial in confidence, and as I think I stated at the time of answering that question, a lot of the bondholders are held through nominee companies, so in fact the information you would be looking for is not in that body of data.

Mr D O'BRIEN: So that would be the case for ASX-listed companies. They are updated by the minute, obviously, as shares are traded, but they still list their top 20 shareholders in their annual reports as at 30 June. Why could TCV not do that?

Mr WHITFORD: So the bondholdings are not like an ASX listing.

Mr D O'BRIEN: Sorry, say that again?

Mr WHITFORD: The bondholdings are not like an ASX listing, so—

Mr D O'BRIEN: No, it is the principle I am—

Mr WHITFORD: that same level of data is not available within the bond markets.

Mr D O'BRIEN: But hang on—the same level of data is not available? Are you telling me, Mr Whitford, we do not know who owns Victorian government bonds?

Mr WHITFORD: So within the registry you can see some holders and you can see some nominee companies that are other holders, but no, the answer to the question is these are publicly traded instruments and I do not have oversight over every investor that holds our bonds.

Mr D O'BRIEN: But you know who does hold them. You know whether they are held by a trust or whoever?

Mr WHITFORD: That is correct.

Mr D O'BRIEN: So I am just getting to the point of why that information is not available.

Mr WHITFORD: As I said, it is a commercial-in-confidence thing and it is not publicly available. We can look as an organisation at our data within the registry and see which nominee companies are holding what, but then you cannot look through that. You cannot look through a nominee process to work out who the end holder is. So I think your last question relates to whether the bonds were held by Chinese investors, for example. Now, if they were listing as the Chinese company that had bought those bonds specifically, I could see that. If they had bought through a nominee company through some other method, I could not see that, and they can still be a holder.

Mr D O'BRIEN: But as a principle, Mr Whitford, shouldn't the Victorian public know who they owe the money to?

Mr WHITFORD: Well, we owe the money to the bondholder—

Mr D O'BRIEN: Yes, but we do not know who the bondholder is.

Mr WHITFORD: which is held through a register, and some of those bondholders we will know and some of those bondholders we will not because they are held through a nominee company.

Mr D O'BRIEN: So is the fact that the registry is not public, despite the fact—

Mr WHITFORD: No, it is not public, which means that an individual cannot just go and look at it. It is available to me. I can obviously query that register and then get the information, but I cannot go through that next layer to say, 'I see you, nominee company X; who are the people that are investing through you?'. Because that is obviously the purpose of a nominee company.

Mr D O'BRIEN: So can we then have, perhaps on notice if necessary, what the policy or procedure is that keeps the registry secret?

Mr WHITFORD: I am sorry, I missed that.

Mr D O'BRIEN: Well, presumably there is a government policy or a procedure of some description that ensures that the registry is available to you but not available to the public.

Mr WHITFORD: Well, it is available to me because it is my registry of bondholders—it is the Treasury Corporation's registry of bondholders—so I can go and ask the registry who is on my registry of bondholders.

Mr D O'BRIEN: Yes, but—

The CHAIR: Sorry to interrupt there, but the member's time has expired. I will pass the call to Ms Pauline Richards, MP.

Ms RICHARDS: Thank you, Chair. Thank you, Secretary and officials, for appearing this morning. Just going back to some of the investment in the 2019–20 budget and particularly, although it seems a long time ago, the additional financial resources that were provided in response to the bushfires in 2019–20, can you please run us through what the assistance provided was and what the rationale was behind the assistance?

Mr MARTINE: Thanks for your question. It does seem a long time ago, but pre COVID there were actually very serious bushfires in early 2019 and there was some quite significant, important support that the government provided through that period, and it really falls into two categories. One relates to suppression and immediate recovery, and the other one relates to longer term bushfire recovery. The amounts that were allocated to both of those were $368 million for suppression and immediate recovery and $300.7 million for bushfire recovery initiatives, and they all formed part of the Treasurer's advance for 2019–20.

If I grab the AFR, there is a section at the back of the AFR, which was released in October, that actually goes through and outlines all of the Treasurer's advances. You will see from page 163 onwards those items listed attributed to bushfire recovery or bushfire suppression. The suppression and recovery costs are $368 million. Not surprisingly, the bulk of that went to the Department of Environment, Land, Water and Planning, so it was really about the suppression and the fighting of bushfires. They formed the bulk of the $368 million, followed by some money for DJCS and Jobs, Precincts and Regions. So that was one bucket of money, $368 million. The other bucket of money that was agreed related to bushfire recovery, remembering that the government set up a new agency post the bushfires, which was Bushfire Recovery Victoria. The cumulative sum of those initiatives added to $300.7 million, and the largest component of that was really for the bushfire community recovery package and clean-up program—that was $161 million.

As I mentioned, all of this expenditure formed part of the Treasurer's advance for 2019–20—the non-COVID Treasurer's advance—and in a sense it served its purpose. That is effectively what a Treasurer's advance is all about—it is for urgent and unforeseen events that occur that could not have been planned for or foreseen. All of the detail on all of the different components of both of those buckets are then spelt out in the annual financial report, towards the back, where there are tables detailing all of the Treasurer's advance amounts.

Ms RICHARDS: Thank you, Secretary. I am interested in having some sort of understanding about the tax relief measures that were taken by government that were detailed in the *2019–20 Financial Report*.

Mr MARTINE: Okay. I mentioned a few of those, I think, in an earlier question. Perhaps I will start there. In terms of the tax relief measures that impacted on 2019–20, the biggest one related to the payroll tax refunds and waivers. That, I think from memory, provided—I am sure Mr Barrett can dig out the number for me—the actual relief for businesses with payrolls of less than $3 million. So that was probably the biggest tax initiative that helped support business, particularly in the 2019–20 year. I have talked a bit about supporting landlords and tenants, and as I mentioned there were some important tax initiatives attributed and linked to that, which effectively allowed eligible landlords, if they met certain criteria and provided certain rent relief, to receive a 50 per cent discount on their land tax. There was certainly the waiving of liquor licensing fees, which comes through as revenue, not quite a tax. Obviously since the 2019–20 year there have been a series of other tax announcements that are helping support businesses and households as well.

Ms RICHARDS: That is terrific. Thank you for those insights. Secretary, the questionnaire refers to the 2020–21 budget being deferred from May 2020 to, as we remember, late 2020, and that was of course in line with other Australian governments. This must have been hard for all of you in the department, your colleagues in the department. When in the 2019–20 financial year did you know that the budget would be delayed, and can you provide some insights about the impact of the pandemic on the planning for that state budget and how the processes changed due to the budget being deferred?

Mr MARTINE: Thanks for the question. All governments announced the deferral of their budgets, including the commonwealth, back in latish March 2020. It resulted from a conversation at national cabinet that led to an announcement coming out of national cabinet that all jurisdictions would defer to later in the year. Leading up to that decision and announcement we were in discussions with our counterparts in other states along with the commonwealth Treasury about the complexities of putting together a budget in the current environment. In broad terms the way a budget sort of works in a very simplified format: departments and portfolio ministers develop proposals sort of in that December–January period. They get lodged. February is the month of my department and DPC consider the proposals. March is the decision-making month for government. April is the month to get the numbers finalised and write it up in the documents for release in May. That is broadly how a budget process works.

During the course of March there were sort of two things that became pretty evident to us in our discussions both internally and with other treasuries around the country. Firstly, the uncertainty of COVID-19 and then trying to do economic modelling and modelling of revenue was incredibly difficult. I mean, at that point no-one really knew how this pandemic would play out. That created enormous uncertainty about trying to work out how to frame an economic strategy and a budget strategy. So that was sort of the first level of complexity, and of course the other one, thinking about my very simplified version of how a budget is put together, was that all of the proposals that were currently under consideration when COVID hit, particularly in that March period, were developed prior to anyone knowing COVID existed. It therefore made no sense whatsoever for governments to make decisions about a whole range of priorities to then deliver a budget in May that would not deal with really what was the priority, and the priority was that we were facing a very significant economic downturn and people were losing their jobs. All of the proposals in a sense just did not make sense to the environment we were dealing with. So it was for really those two reasons that budgets were deferred not just here in Victoria but in every jurisdiction and the commonwealth.

That sort of occurred late March. Obviously as a department it was just after that that we then started working remotely, and for pretty much most of 2020 the whole of DTF worked remotely. So we obviously had to adjust pretty quickly, and with the budget put on hold there were probably two sort of urgent things we had to do. Firstly, with the budget deferred to later in the year we had the very important issue of appropriations, because appropriations run out on 30 June. We had to put together supply bills—which here in Victoria we have not done since probably the 1990s—to ensure that there was appropriation coverage for government to continue spending money from 1 July 2020. So that was pretty much our first immediate priority, to replace what we were doing with supply bills and ensure there was sufficient flexibility in the supply bills to ensure there was appropriation for unforeseen events—the Treasurer’s advance, and we have spoken in this committee previously about the COVID-related Treasurer’s advance in the supply bill. We had to immediately focus on that but also at the same time in a sense put on hold all of the analysis we were doing on the bids, the proposals that had been developed pre COVID, and start thinking about: what interventions do government now need to make leading up to dealing with what we were facing? That is where our work immediately transferred to thinking about the initiatives that would form part of the $1.7 billion economic survival package and then after that the $2.7 billion capital works program and package and a whole range of these other tax changes.

So in a sense the budget was put on hold for reasons of uncertainty, and the content then was replaced by in a sense a sort of an ongoing budget process that then kicked off immediately through the course of April, May, June and July, dealing with more relevant, immediate, urgent spending decisions that then had to be made dealing with the pandemic. It would make no sense, and it was the same in the commonwealth. Dealing with this sort of environment, you do not make decisions and then not enact them for three or four months waiting for your budget day, because everything at that point became urgent and critical.

So we went through that process, and obviously with a November budget—thinking about my broad time line earlier—we were starting to then think about the most recent budget in that sort of August period. But once again, a lot of the original proposals, or certainly a number of the original proposals that were developed sort of nine months earlier were no longer relevant in a COVID environment. That was sort of when we became aware, and that is how the process unfolded. In a sense the 2020–21 budget process became a very long process. We started doing it in late January, we stopped in March, picked up a different process through May, June, July, August, which was the ongoing continuum, and then morphed back to a perhaps slightly more traditional budget process in August, September, October.

So it was certainly a challenging year for the department in terms of budget delivery, and we managed to do all of that remotely, which when we first started the process, when we all went to work remotely late March, we were quite concerned about whether we would be able to produce a budget. And as this committee would be well aware the budget papers are quite thick. There is a lot of material information in them, and they are not easy to produce at the best of times, let alone having all staff working from home producing the budget papers. So we were genuinely worried to begin with about whether we would be able to deliver remotely, and in the end we managed to do so, which was very pleasing.

Ms RICHARDS: Thank you, Secretary. I am interested in perhaps having a bit of an understanding—and you have already spoken about uncertain times—about what lessons the department has learned since the 2019–20 budget, especially as it relates to how to plan for uncertain events, such as the coronavirus pandemic, and whether we will have to worry about another thing of that magnitude. But I am interested in having that understanding.

Mr MARTINE: Well, I am very much hoping that we never have to plan for another event like this ever again. It has been an enormous challenge for everybody—not just for my department but public sector, private sector businesses, households. It has been a real challenge. We were pretty well placed when we went into working remotely to continue delivering a budget, but it was challenging. I guess the main take-out I have had from all of that is ensuring that you have got really good systems and structures in place that can then flexibly adjust as things happen. So while we had not produced supply bills since the 1990s we had sufficient expertise in the department that we could very quickly morph into what was required there. It is part of ensuring you have got the right structures and systems in place—as need arose, moving people and resources around as the priorities changed. And they clearly changed through the course of the year as the pandemic played out.

If I had to reflect on the year, what did I and what did we as a department learn the most, I think it is ensuring that you start in any sort of crisis with really good systems and structures that you keep in place to then allow you to adjust flexibly. The other important point, I think, which was really critical for us through pretty much all of last year, was ensuring that we had really good information and data, because it is really important for doing analytical work and modelling to have good access to information. That is something that we have been progressively working on in the department for probably four or five years now, getting better information and data and enhancing our internal modelling capabilities, both economic modelling and revenue modelling—forecasting. So we actually now get some quite good real-time data out of a couple of major banks, for example, which helps supplement some of the official data we get from the ABS. The banks are very good at getting a really good quick read on, for example, consumer spending, because they track their credit card spend, which sort of acts as a bit of a proxy for what is happening there more real time in the economy than some of the official data. So I think in those sort of situations in dealing with these crises having the good systems in place but being very flexible, moving people and resources around and having good information and data to form and lead through to the work you are doing I think is really important.

Ms RICHARDS: Thank you. Thanks, Secretary. I think I will leave it there.

The CHAIR: Thank you, Ms Richards. Now might be an appropriate time for us to have a 15-minute break, so I will declare the committee adjourned and resume at half past. Thank you.

I will reopen this hearing of the Public Accounts and Estimates Committee. Just before we go to Mr Limbrick, who has the next call, the Secretary has advised me he has a brief answer to one of Mr O'Brien's earlier questions.

Mr MARTINE: Thank you, Chair. So Mr O'Brien asked the question of how much did we spend with PwC on the Suburban Rail Loop. The figure in 2019–20 is $2.876 million. That is on the list of consultancies on our website that is linked with the release of the annual report.

Mr D O'BRIEN: Thank you, Secretary.

The CHAIR: Thank you, Secretary. Mr Limbrick, MLC.

Mr LIMBRICK: Thank you, Chair. Before I start with my other questions, I would just like to maybe follow up Mr O'Brien's line of questioning with Mr Whitford before, regarding bonds. I think what Mr O'Brien was asking about before, and this was also something I was interested in, was about the registry itself. I know that in other public ownership systems, like shares in publicly listed companies, they show the registry of holders. Why does the policy exist that we do not publish that registry? Is there a stated policy, or is there any particular reason why we do not publish that?

Mr WHITFORD: There is not a stated policy on publishing that. The question that was asked at the last hearing was, 'Is it publicly available?', and the answer to that is that it is not publicly available but that obviously I have access to it.

Mr LIMBRICK: Okay. And could it be made publicly available?

Mr WHITFORD: For commercial-in-confidence reasons, I am loath to make it publicly available. One of the reasons behind that is because many investors value their privacy, and particularly the volume of holdings they may hold in a particular line of stock. So what we are talking about is: the difference between—obviously, and I am sorry, I am sure you know this—a share, where you hold some part of the equity and you own some part of the equity, and a bond, which is just effectively holding a promise from me to give you some interest and repay the money on the appointed day, is really about ownership. If we go back and have a look at what a lot of these investors will hold—for example, the big four Australian banks will hold roughly half of all of the bonds that I have outstanding, for the purposes of their tier 1 liquidity. Now, they trade those bonds on a regular basis and move them in an out of their own portfolios, so as an investor they are not keen to actually have that holding necessarily available for any of their competitors to see because that can change the price in a relatively illiquid market.

Mr LIMBRICK: Understood. Yes. Thank you. Another point that Mr O'Brien raised, and this was something that I was interested in as well, is the geographic distribution. Now, you mentioned that that is not possible beyond the nominee layer, because we cannot see beyond that.

Mr WHITFORD: That is right

Mr LIMBRICK: But I know that in the finance sector, certainly when I was working in it, there was a big push around look-through reporting to exactly get to this sort of level of transparency. Has the department done anything like looking at the possibility of look-through reporting so we can see geographic exposure?

Mr WHITFORD: The Treasury Corporation of Victoria has not. There are a couple of ways that we can get that. For new transactions, for example, where we syndicate a transaction, then I will see the list of people—or the geographic zones—that are looking at buying that new transaction. We also quiz the dealers on our program as to where their turnover is. You can make some assumptions. For example, if your bond turnover is all coming out of Asia or a portion of it is coming out of Asia, then you can make some assumptions based around that. So we have a pretty fair feel of it, which would suggest that probably between 16 and 18 per cent of our bonds are held by offshore parties, and that is spread predominantly through Europe and Asia.

Mr LIMBRICK: Okay. Thank you very much. If I could go back to the Secretary, please. In budget paper 3 on page 368, one of the performance measures is the cost to collect $100 of tax revenue raised. Now, in the budget papers it is said that the actual result was not available at the time of publication and would not be available until late November. Is that figure available now? If so, what is the cost of raising $100 of tax revenue?

Mr MARTINE: I might ask Mr Broderick, who is the head of the State Revenue Office, to come up to the table.

Mr BRODERICK: Thank you for your question. What happens is each year all the commissioners gather, have a meeting. They do an evaluation of how much it costs in each jurisdiction to raise $100, and our target is to be less than the average of all of the other revenue offices. Last year our figure was about 46 cents to collect $100, and I think the average was about 63.

Mr LIMBRICK: Okay. So significantly less than other jurisdictions?

Mr BRODERICK: Yes. We have been lower than the average now for, well, a long time—you know, probably 10 years.

Mr LIMBRICK: Thank you. And in this figure are there other economic costs included in that collection, such as economic costs or deadweight loss or anything like that, or is it just the pure cost of raising the revenue?

Mr BRODERICK: It is the actual budget cost. There is a formula that is worked out. It is run by Deloitte. They do it for all of the revenue offices. Each year there is a thing called an information analysis report that is done, and that report provides information on comparisons between all of the revenue offices throughout Australia. That includes things like debt, cost to collect $100, things like compliance activity—those sorts of things.

Mr LIMBRICK: Thank you. And do we calculate the deadweight loss per $100 generated? Is that something that we have a handle on?

Mr BRODERICK: We have a target for debt. Our target for debt is less than 2 per cent of the average amount of revenue that we collect in one full year. Our target is 2 per cent at the moment, so we try and monitor and keep below that. That debt target was set as a comparison between OECD countries. There are roughly 32 OECD countries that provide a report to the tax review. There is an administration tax review done each year. They do a comparison of how much debt each jurisdiction that provides data has, and they produce a table about that.

Mr MARTINE: I assume, Mr Limbrick, you are asking questions about the deadweight economic loss of raising an extra dollar of tax revenue—

Mr LIMBRICK: Correct.

Mr MARTINE: which there are, and it varies obviously depending on the nature of the tax. Some taxes are more inefficient than others, which is reasonably well known. We do not regularly measure that and report on it, but there has been over several years some very useful analysis—because they do vary a bit in time—coming out of, for example, the Henry review of tax, and often the Productivity Commission in some of their tax work will put out an updated table that lists all of the key revenue lines—you know, GST through to stamp duty and other types of taxes, payroll et cetera.

Mr LIMBRICK: Thank you, and that is a good segue into my next question. With regard to varying efficiencies of taxes—I realise this is a policy issue—has the department done any sort of analysis on what sort of efficiency gains we might get through replacing something like land transfer duty with another type of tax?

Mr MARTINE: We have done work, which we do on a regular basis, about various tax options. It is not a surprising thing that governments ask their treasuries from time to time, 'What are some of the changes that could be made from a tax perspective?'. They really fall into two categories: one is around, 'What are the options to raise more revenue?', and then there is another set of questions which are around, 'What are the options to improve the efficiency of the tax system?'. You have touched on stamp duty, and there is no doubt the most inefficient taxes we have are taxes on transactions, because they distort behaviour. Any transaction taxes that we do have at the state level and the commonwealth level are the ones that are generally the most inefficient we have, and stamp duty falls into that category as well. There is no question that moving to a world of no stamp duty would improve the economic efficiency of your tax system—no question whatsoever—but it is very difficult to get from A to B.

There is only one jurisdiction at the moment which is currently underway in doing it, which is the ACT, and they have got, I think from memory, a 15-year slow transition. The New South Wales Treasurer announced, I think it was late last year, providing an opt-in but quite limited—it is only for properties with a value less than $1 million—put-your-toe-in-the-water type transition. But one of the difficulties with moving away from transaction taxes, and stamp duty is a good example, is that it is a very difficult thing to do and to design. Because while you can improve the efficiency of your tax system, that does raise a whole range of equity questions. If you are in a world where you are not applying stamp duty and you are applying an annual payment for households to make, that raises a whole series of equity questions. So you have got to weigh that up—between efficiency and equity. So that one you have highlighted is in fact a very difficult transition, which is probably one reason why at the moment the only jurisdiction that has been doing it—apart from the New South Wales announcement, but they are yet to start—has been the ACT.

Mr LIMBRICK: Thank you. Yes, it does seem like quite a difficult transition. Another one of the performance measures that was in the budget papers was generating research papers to deepen understanding of economic issues. I think that there were nine papers in the 2019–20 budget that were produced. What was the subject of these papers, and are these publicly available?

Mr MARTINE: Yes. Probably for the last couple of years now we have been trying to put out every six months what is called *Victoria's Economic Bulletin*. The last one we released was about 12 months ago. Obviously working from home, working remotely and all of the workload implications of the COVID pandemic through 2020 meant that we did not get the opportunity to publish the next edition. They are up on our website. So there has been probably a series—I think from memory maybe about three or four publications—and they are essentially about four or five research articles that are put together by staff within the department that generally look at some interesting topic about economic research. For example, in the one 12 months ago there was a paper I recall about—which is in a sense quite topical now—'What do we think the natural rate of unemployment is here in Victoria?'. Now, there is a big debate around what it is, and it is actually an important research question, because in principle you are not going to get pressures in your labour market, including on wages, until you get below your natural rate of unemployment. So it is that sort of research that we have been doing internally. It is a great opportunity for more junior staff to participate. There is normally a team three or four who get involved. Unfortunately we have understandably had to put it on hold through the course of 2020, but we are looking to publish more research papers moving forward.

Mr LIMBRICK: Thank you. Another thing in the budget papers was Invest Victoria, and it says that they have a target of, I think, 5200 jobs. How are these jobs created? Is this just gross jobs created by the investments, or does it include jobs that may be lost by funding Invest Victoria, for example?

Mr MARTINE: I might get the acting CEO of Invest Vic, Ms Jarrett, to answer that question.

Ms JARRETT: Thank you. Those jobs that are created, they are recorded through the number of investments that we facilitate to the state. They are counted based on each of the projects that we facilitate either through grants or through facilitation of services. Through a grant, that grant may commit the company to create X number jobs, so they then report against the creation of those jobs. And through facilitation we will also seek verification from the company in writing regarding the number of jobs that they will create as a result of their investment to the state.

Mr LIMBRICK: Thank you. So when these jobs are created, how long does a job need to last in order to be taken as part of this, and what sort of efficiency controls are there on these jobs? Because a job does not necessarily generate value if it is not efficient.

Ms JARRETT: The intent is that they are an ongoing job, so they are not fixed term as such. They are jobs that the company has identified are necessary for them to undertake the investment to the state. Could you repeat the second part of your question?

Mr LIMBRICK: Around efficiency, so if there is an investment coming in, then obviously we would want that investment to be profitable, and in order for that to be profitable the job needs to be efficient. How do we know whether these jobs being created are efficient and are actually adding economic value or not?

Ms JARRETT: That is through the process that we go through with the company to really investigate the scope of the investment, to understand the value of the investment to the state in terms of its strategic value, its alignment with our investment strategy and the types of jobs that they identify that they are going to be creating, that they are consistent with the type of investment that they are also establishing here.

Mr LIMBRICK: Thank you. There is another target for Invest Victoria where it talks about a target of 2300 new investments. How do you classify something or how does something fit into that 2300? What is a new investment really?

Ms JARRETT: That is capital investment, so capital expenditure. It is separate to operational costs, so it may relate to purchasing machinery and facilities as such that a company needs to take to make their investment here. It could be construction of buildings and the like.

Mr LIMBRICK: Thanks. And there is another thing on the targets for Invest Victoria talking about securing foreign investment. How do you achieve those targets of securing foreign investment?

Ms JARRETT: We work with the Victorian government trade and investment office network globally and through them also work to identify investment opportunities and work to identify investments that again are consistent with what we consider present a strategic value to the state and work to identify individual companies and approach them to investigate their interest in investing in the state. We may also respond to queries from investors who are looking to expand their operations globally. It is a range of different activities depending on individual investment opportunities.

Mr LIMBRICK: I think through other hearings I learned that there was a new office in Vietnam recently. Is that correct? Has that office generated any of these new foreign investments from Vietnam?

Ms JARRETT: There has been an investment from a Vietnamese company called VinFast, which is an automotive manufacturing company. That announcement was late last year.

Mr LIMBRICK: Thank you very much. If I could go back—I am not sure if it is the Secretary or not, but maybe you can direct me in the right direction—one of the commercial and infrastructure advice targets is to undertake 70 gateway reviews. What are these gateway reviews?

The CHAIR: I am sorry to interrupt you there, but the member's time has expired, and I will pass the call to Ms Nina Taylor, MLC.

Ms TAYLOR: Thank you, and good morning, Secretary and officials. You alluded before, Secretary, to remote learning and the big effort that it takes to adapt to that. It was also, I think, in the questionnaire, when it referred to the challenges in adjusting to remote work practices in your department in the 2019–20 financial year, I should say. How did the department manage the transition to work from home, and in your view was this managed appropriately as work from home became a requirement in 2020?

Mr MARTINE: Okay. Thanks for the question. It is a very important question actually about working remotely. So as I indicated in one of my earlier answers, the whole of the department started working remotely from late March, and we were all pretty much working from home through the course of all of 2020. I myself probably only came in maybe half a dozen times, particularly when the Telepresence facility, which is a secure videoconferencing facility at 1 Treasury Place, was required by the Treasurer and myself for either meetings with the commonwealth Treasurer, other treasurers or Heads of Treasury-type meetings. But apart from that, generally the bulk of the department were working remotely. It was a difficult, challenging year for I think all of us and staff. I think we in the end handled it very well.

We were pretty well placed when we first had to start working remotely from an IT perspective. So we had in the couple of years leading up to early 2020 actually rolled out Surface Pros—laptops—to all staff, which is really part of our commitment to more flexible working arrangements. So that meant that when we were given the instruction late March to start 'If you can work from home, you should', all staff actually had the IT tools to begin with—

Ms TAYLOR: That's good.

Mr MARTINE: which was really important, because to be honest I am not quite sure how we would have got through 2020 if this had happened 10 years ago or 15 years ago.

So that was really important that we had made that investment, not because we pre-empted a lockdown, but we made that investment in the couple of years leading up to 2020 as part of our commitment to more flexible working arrangements. Now, obviously there were glitches and things that had to be sorted through, both by ourselves and Cenitex from a bandwidth point of view, but in essence that made a big difference. So having the IT in place was very significant, and that is in a sense the first challenge.

The second challenge was really around: what does working remotely mean for your business processes? So we immediately went to everything online and electronic. A big part of what the Department of Treasury and Finance does is that we provide advice to the Treasurer and to other members of government. That is now all done electronically, so not only are the bits of advice and briefs prepared electronically but they go through the clearance channel all electronically. They come via my office electronically. I look at them electronically, and they are transmitted to the Treasurer's office and the Treasurer electronically, and he reads them electronically.

And so that was a significant change—changing the business processes that are necessary to deal with working remotely. In fact that is one area that moving forward one would like to keep in place. Regardless of whether we are working physically in a building or not, there are some important learnings, and electronic processing of information is probably one of those. That is probably the second challenge, and then the third one is really how you manage a department of 777 people remotely and how the managers interact with their staff remotely. That is a really difficult challenge. We have spent a lot of time and effort through our corporate and government services division in providing a lot of support and information to staff. We set up a COVID information hub on our intranet which provides a lot of guidance and information and material for staff, and we have provided as much assistance as we can to managers on how best to support staff. Some of them are just simple things, such as touching base with all your staff at least once a day—you know, giving them a call, just checking they are going okay or engaging with them in a Teams meeting. It is those sorts of things that you take for granted in the workplace because you are sort of walking around the office and you bump into people and you have a quick chat. Working remotely, unless you actually as a manager take that time and effort to interact with your staff, it can easily fall by the wayside. So that is probably the third challenge, just making sure as managers we are continually checking on staff, their welfare, that they are feeling engaged and that they are occupied, but also their general wellbeing is actually quite important. So those are the sort of challenges.

Overall I think the department through the course of 2020 did very well in terms of working remotely. As I indicated earlier, I have done many, many budgets. This is the first one I have ever done working from home. I originally started questioning whether we would be able to do it, and in the end everyone in the department working remotely managed to produce a very big set of budget papers. I think overall as a department we managed the situation, I would say, very well.

Ms TAYLOR: Great. Yes, I certainly know I learned a lot about videoconferencing et cetera and working from home, as other colleagues and many, many people did across the state. I was just wondering, just to push that point a little bit further: did you find the functions of government and economic forecasting that the DTF does were just as workable—I think that is what you are saying, but I would rather be sure—in a remote setting? Do you think that was able to be achieved?

Mr MARTINE: I think pretty much most things we did, I would answer, are workable remotely. It does raise another interesting question though, which comes down to the question on productivity—just because you can work remotely and you can do these things remotely does not necessarily mean you should work remotely moving forward. There is a different issue around that once we get through the COVID-19 pandemic. But I think most things that the department does, whether it is modelling, preparing advice for the Treasurer, reviewing proposals from other portfolio ministers through to preparing budget documents can be done remotely. While I said up front that we did change a number of our business processes, in particular obviously doing a lot of the work purely electronically, I think in that environment it is still important to ensure that you are not sacrificing some of your business processes—the important business processes—just because you are working remotely. So, for example, there has been no change whatsoever to the quality assurance we provide in terms of the advice we give the Treasurer or the quality assurance we put over our budget papers. So we are still going through the same checks that we normally do; people are just doing remotely from their homes.

In terms of the budget papers, it did add a bit of time and complexity in doing our quality assurance processes, because normally they are undertaken by a team sitting in a meeting room checking final drafts, bouncing off other people, saying, ‘Look, can you check page 6 of budget paper 2. Does that number match?’ and things like that. It raises challenges, but I do not think we in the end sacrificed any of the important business processes or strategies just because we were working remotely. So I think it is all workable and doable.

Ms TAYLOR: Very good. And going back to that other point about managing staff from home and the issue of work-life balance, I am curious about the outcomes from working-from-home arrangements. Do you anticipate that staff in your department will be given the option for some form of remote working arrangements in a post-COVID world, and what factors will influence this?

Mr MARTINE: That is a very good question. I suspect I have now got 777 DTF staff logged in wanting to hear what I say about this. Productivity is a really tricky one in working remotely. My perspective on this, and one of the reasons why I think it worked well for my department through the course of 2020, was we invested a lot, not just in IT but we had invested a lot in human capital up to that point, and you work very closely with your team, so working remotely on day one worked because we knew everyone very well. Now, I know my deputies very well, so you can work remotely because you have built up that rapport over a long period of time, but that slowly dissipates over time as teams change and new people come in—you know, we have had new starters in the department who through the course of 2020 started working for the department but remotely, who may have not ever yet met some of their work colleagues, so over time that makes the challenge quite difficult.

My view on looking forward is I think about it in two stages. We have got the stage where we still have a COVID-19 pandemic—vaccines have started and through the course of this calendar year there will still be a number of restrictions in place in terms of distancing and those sorts of things, and some staff are generally quite concerned about coming into an office environment or getting into a crowded lift or getting into crowded public transport, so through the COVID phase, which is probably going to last for the rest of this calendar year, we are certainly not forcing people to come back into the office, because there are legitimate reasons why people do not wish to. In a post-COVID world, and hopefully one day we can sit here reflecting on this thing as a distant memory, there is no question that through what has happened through the course of 2020 our experiences will very much change the way we work and operate. We have always had a commitment to flexible working arrangements, but I think what 2020 has done is switch it around where in fact a lot more staff will take the opportunity to perhaps work from home when they first get up in the morning, do a few Teams meetings and then come in late morning to avoid the peak-hour traffic or maybe they might come in early and leave at lunchtime and do a bit more work at home in the afternoon. I think what 2020 has shown us is that it is all doable and acceptable and actually works.

I think the post-COVID world will very much be a hybrid model. While a department like mine is an office-based department—there is no question that the bulk of staff, once we get through COVID, will be in the office at various points throughout the week; no question about that—it will be far more flexible. People will be come and go, and I think they will feel a lot more comfortable coming and going. One of the issues is, you know, you can commit as much as you like about flexible work arrangements, but there is no question that people who exercise those flexible work arrangements, who may actually get up at 8 o'clock and work for 3 hours and come in at 11, somehow feel a little bit guilty as they walk through the workplace going to their workstation, that somehow people think, 'Oh, they haven't been working'. I think what the last 12 months has taught us is that just does not make any sense at all. You can actually be very productive. In fact sometimes you do need to sit down in a quiet space out of the office to get a bit of headspace to do some proper reading. I think we will end up in a bit of a hybrid world, which in itself is going to be a real challenge because we have gone from all working in the office to all working from home and we are all in Teams meetings together.

Moving forward, when you have got that hybrid model, where you might have some people in a meeting room and you have got some people dialling in remotely, it is going to be a big challenge not just from an IT point of view—and we are currently in the process of working through what it means for some of our meeting rooms et cetera to sort of facilitate that hybrid model—but just from a cultural point of view. I know in those meetings that I have ever dialled into in the past and I am not physically there, sometimes it can be difficult to engage in the discussion. Sometimes people on the phone hook-up or on the screen feel a bit excluded, so it is going to be a real challenge dealing with the hybrid model going forward. So there is a lot of work that we have recognised as a department we are going to have to be doing. A lot of it comes down to culture. So that is really what we have focused on and will be focusing on moving forward. But overall I think just, I guess, to sort of summarise that perhaps slightly longwinded answer: yes, I think working from home went well for the department, but clearly lessons can be learned. Moving forward, we will certainly be giving staff a lot more flexibility in terms of working arrangements, recognising that we are an office-based organisation and they will need to be in the office at various points through the week.

Ms TAYLOR: Thank you. I would just like to shift gear a little bit towards support for regional communities. Now, for towns and communities across the state, government investment we know can go a long way. The government's $2.7 billion building works package referenced on page 4 of the questionnaire and announced in May 2020 aimed to get Victorians in every corner of the state back to work during the pandemic. Can you outline the government initiatives to stimulate the economy in Victoria 2019–20?

Mr MARTINE: Okay. Thanks for the question about the $2.7 billion works package, and it was something that the department was heavily involved in helping shape and providing advice to the government. As you would be aware, it is a package that was announced in May 2020, and it is really about trying to work through a series of initiatives and small works—there are 115 as part of the package—that are spread across the state and that can be implemented quite quickly to generate jobs. The estimate we put on the jobs to be created from the package was around 3700 jobs, and if you look at the components of the package—and there is a good summary in the most recent budget paper 2 in chapter 5—about $1.1 billion to $1.2 billion of the package relates to school upgrades and new schools. If you go through that list you actually recognise that a lot of those projects are actually quite small and dispersed across the state, which is really the intention of the package. To help generate jobs not just in metropolitan Melbourne but across the regions, you need initiatives in which the money is spent widely. You could spend $2.7 billion on a single infrastructure project, but the jobs created are very localised. So in addressing the concerns at that point in May 2020 of the economic downturn and the loss of jobs, the need was to identify projects that could be spread across the state and be done quite quickly, and a lot of those have actually now been contracted. Some have already started.

The CHAIR: Sorry to interrupt you there, Secretary, but the member's time has expired, and I will pass the call to Ms Bridget Vallence, MP.

Ms VALLENCE: Thank you, Chair. Thank you, Secretary and team. Secretary, page 80 of the questionnaire, on COVID, the crisis committee of cabinet made decisions to allocate new funding but also reallocate resources and spending within departments and agencies. Can DTF make that available—I guess a comprehensive list which includes department breakdown and the reallocated resources and spending?

Mr MARTINE: Thanks for the question. It is a very difficult list to put together. There are various components. In terms of the government spending in response to COVID, it is picked up quite transparently in the two Treasurer's advances that we have discussed previously. So there was the 2019–20 $10 billion, of which $2.4 billion was ultimately drawn down, and then there is the drawdown of 2020–21. So those specific COVID-related expenditures are very detailed in the list. Then beyond that a department could incur COVID-related expenses by just funding internally. DTF—

Ms VALLENCE: Is that the reallocation of—

Mr MARTINE: Yes. So DTF is potentially an example on a far, far smaller scale than perhaps some of the bigger departments, obviously. As the priorities changed through the course of 2020 and we were doing work on COVID-related issues, we would move resources and people around.

Ms VALLENCE: In terms of the accounting of that reallocation of resources, is there any list that can be made available to the committee for all departments?

Mr MARTINE: Apart from the drawdown of the Treasurer's advances, there is no centralised list, because it comes down to how much a secretary of a department might have then reallocated resources within their existing outputs. You might recall, as we have discussed in previous hearings, the resource management framework. Funding is appropriated at the output level, and then it is up to the relevant departments—they can move money around within those outputs. So we do not necessarily get that visibility where a departmental secretary might decide—

Ms VALLENCE: Ever? You do not get that visibility ever? Like, will you get that visibility?

Mr MARTINE: Well, it depends on what the issue is. Obviously if there is a series of funding requests that come forward—

To the extent that the government provides a department with additional funding that is COVID-related, that gets picked up, and it would have been picked up in budget paper 3 of the most recent budget in November, because that picked up all the government decisions from the budget update in late 2019 to late 2020.

Ms VALLENCE: And in that same section there, page 80 of the questionnaire, it says DTF provided guidelines for tracking coronavirus-related financial impacts on Victorian government departments. Can you make those guidelines available to the committee?

Mr MARTINE: I am happy to take that on notice. I do not see any particular reason why we cannot provide those guidelines. There is a bit of work that the Auditor-General I think has been doing in terms of trying to track what is a COVID-related expense. I am happy to take that one on notice.

Ms VALLENCE: Okay. Well, thank you. I guess in terms of that, and just to pick up on what you just said there, is it your expectation, then, that the implementation of those guidelines would enable departments to very accurately account, I guess, or disaggregate COVID-related spending?

Mr MARTINE: It is going to be hard. There are some obvious things that you can pick up: quite explicit, new initiatives or programs that have been introduced that are COVID related. Where it gets difficult is where within a department or an output you are moving, particularly, staff around as priorities change. I mean, we all do it constantly as heads of departments. We are always moving our staff around. The extent to which a departmental secretary has explicitly tracked that—

Ms VALLENCE: From a cost accrual perspective I would imagine you would need to do that. There would have to be lines in the sand of which headcount moved or other resources got moved from time to time.

Mr MARTINE: Internally we track it. If we are moving resources between the four divisions in DTF, for example, then my CFO is tracking that, and we are reallocating funding, no question.

Ms VALLENCE: In terms of when you, as you said you would, provide those guidelines on notice, can they also specify how that would enable departments to disaggregate COVID spend?

Mr MARTINE: Yes, and I am happy to take that on notice.

Ms VALLENCE: Thanks. And for all departments, additional employee payments were made—and that was well publicised—of around $100 up-front and $20 a week for staff having to work from home. What was that outlay for DTF employees?

Mr MARTINE: There will be no difficulty in providing it. I am happy to take that on notice.

Ms VALLENCE: Including the aggregate cost and how many DTF employees—a headcount—that that included?

Mr MARTINE: Yes. I am happy to take that on notice.

Ms VALLENCE: Is that still occurring today? Are those payments still being made?

Mr MARTINE: Yes.

Ms VALLENCE: I will just pick up on some of the earlier discussion that was being had in relation to the 2020–21 budget being delayed. You said that discussions were being had around the national cabinet time frame and in March 2020 around delaying the 2020–21 budget. Can you provide advice or let the committee know when you provided advice to the government that the state capital program could not be published?

Mr MARTINE: That would have been, from memory, probably around September 2020.

Ms VALLENCE: Can you make that—

The CHAIR: Can I just remind the member that this is a hearing about the financial and performance outcomes from 2019–20, so if you could keep your questions to that, please, not about the 2020–21 budget.

Ms VALLENCE: Absolutely. Chair, I am just picking up on the about 10-minute conversation from the Member for Cranbourne around the delay of the 2020–21 budget, so I was picking up on conversations around that.

The CHAIR: I think you will find, Ms Vallence, that that question related to other information in relation to the 2019–20 outcomes, so if you could do the same with your questions, that would be appreciated.

Ms VALLENCE: Yes, I will, because of course the Secretary was mentioning around June and August and September and November in relation to that, so I am just picking up on that conversation. So would you make that available, that advice that you provided about not being in a position to produce a state capital asset budget?

Mr MARTINE: I would have to obviously take that on notice because that is effectively advice we provide to the Treasurer which normally we would not provide, but I can certainly say that that was our advice to the Treasurer and the government, that we were not in a position to produce a sufficiently accurate full budget paper 4—remembering that there are elements of budget paper 4 in the budget papers last year. In budget paper 2 there is a whole new chapter, chapter 5.

The CHAIR: And again, Ms Vallence, if you could keep your questions—I am sure the Secretary and his team have come prepared to answer all of your questions—in relation to the financial and performance outcomes from 2019–20.

Ms VALLENCE: Thank you, Chair. I think you mentioned that it was around March 2020 that those decisions and conversations were being had around the complexities and uncertainty of COVID. Were processes being put in place by DTF January–February 2020 and to the end of June 2020 to be able to track capital project budgets and any blowouts? Were processes being put in place on how you would track that, and was the tracking occurring still?

Mr MARTINE: I am just trying to think of the best way to answer that, because they are sort of related but different issues. As a department, as a central agency, we are continually monitoring capital projects as part of our commercial division, not every capital project. The budget paper 4 that we have referenced lists about 2000, so we focus on very much the large capital projects, whether it is high value, high risk or through gateway reviews. That process is ongoing. The issue, though, when COVID hit was the two lockdowns that occurred, both stage 3 through that sort of April–May period and then stage 4 subsequent, and what they meant to the extent that they impacted on what was going to be spent on those projects and the timing. So it was not a matter of pre COVID setting up a new system to get through that process; the issue we were confronting was the delivery managers—and we are talking about 2000-odd projects—given we were in the middle of stage 4 restrictions, not really being able to, understandably, identify with sufficient accuracy what is going to be spent in 2020–21 and, 'What does stage 3 followed by stage 4 mean for the completion date?'. Because of that we then took the view that at that granular level it would not be sufficiently accurate, so then what is published in budget paper 2, chapter 5 is at the more aggregate level. It was not about setting up new systems or processes.

Ms VALLENCE: Okay. Could you perhaps provide that to the committee in terms of how you do undertake the tracking, particularly from a business continuity perspective? We know that obviously things were happening from January, with China's borders being closed, tourism being impacted, international students and so forth. Could you provide to the committee how you would still conduct that tracking of capital projects, how you actually conducted that, and what contingencies you put in place, particularly up to June 2020? I would imagine that that carried on beyond that.

Mr MARTINE: Yes. Happy to take that on notice, remembering though that I do not think anyone foresaw, even when things started developing in China in January, what was about to confront us.

Ms VALLENCE: Yes, and in terms of the percentage of capital projects that DTF did have information on, can you provide a percentage or the names of the projects or a percentage of projects and information from departments that you did have information on capital projects from June 2020? I note that you said that you were starting to prepare the budget papers in January.

Mr MARTINE: Yes, happy to take that on notice.

Ms VALLENCE: In terms of budget paper 2 of the 2019–20 budget, budget paper 2, page 43 refers to the fact that Victoria at that stage had a AAA credit rating. Since then Victoria's credit rating has obviously been downgraded, as has been well publicised. What impact will this have on future borrowings?

Mr MARTINE: It is a very topical question. So as you would recall, which I think was subsequent to our last discussion, Standard & Poor's downgraded the state from AAA to AA. Moody's, in response to the release of the budget, indicated that they would do a review, which I understand is nearly completed.

Remembering that any change in spreads does not change the stock of debt, so it is only relevant to new debt issuance. So just to give some sense of metrics, what was observed immediately after the S&P downgrade from AAA to AA is that spreads moved 3 to 5 basis points. Now, just to put that into perspective, there is still about another $10 billion of debt issuance remaining for this financial year. So 1 basis point, which represents 0.1 per cent on $10 billion, is about $1 million, so a widening of spreads of 3 to 5 basis points on the debt to be issued for the remainder of this financial year is about $3 million to $5 million. Those spreads have probably narrowed a bit, so we are probably sitting at maybe 3 basis points. So the additional interest costs from the S&P downgrade that impacts on new debt issued for the remainder of this year is probably in that order of $3 million. Obviously that is an annual cost, so that will then flow through to the following year and the year thereafter. But it is important to remember that it just affects new debt.

Ms VALLENCE: And during this period that we are considering, to June 2020, what was the role of the Office of Projects Victoria in addressing infrastructure project cost blow-outs in the transport infrastructure program?

Mr MARTINE: I might get Mr Loos just to answer that question. Mr Loos heads up our commercial division, and the Office of Projects Victoria in a sense works hand in hand with the commercial division on infrastructure project oversight.

Mr LOOS: Thanks, David. So the Office of Projects Victoria is an administrative office within DTF. It basically has four key priorities. The first one is around portfolio oversight. So in terms of tracking and, I guess, reporting on major capital projects—

Ms VALLENCE: So on that, in terms of the North East Link Project, for example, what is the total cost to DTF or Office of Projects Victoria? What are you expecting that to be? What are you projecting that to be?

Mr LOOS: In terms of?

Ms VALLENCE: So in terms of that first objective that you have just described of the Office of Projects Victoria, what are you expecting that project for North East Link to be?

Mr LOOS: To cost? I will take that one on notice. That project was announced two budgets ago, and we are currently assessing bids for the North East Link. So we would have had a budgeted cost; I think it was $16.8 billion.

Ms VALLENCE: Okay. Secretary, is it forecast that any foreign labour will be used on the North East Link Project?

Mr MARTINE: I cannot really answer that question, because my department does not run the project. The North East Link Authority will be obviously managing it.

Ms VALLENCE: In terms of assessing the cost of that total project, I guess, and that would potentially impact the cost. Is that something that is featuring as part of the strategy?

Mr MARTINE: Off the top of my head I am not aware of any infrastructure projects that we currently have that directly employ foreign labour. None that I can think of.

Ms VALLENCE: Okay. In the 2019–20 financial report it said at page 3 that net debt had increased by $18.8 billion because of additional borrowings required to fund the government's infrastructure program. Now, without a AAA credit rating, that borrowing is going to become more expensive to taxpayers. Is that a fair assessment?

Mr MARTINE: As I indicated, if you put it in a sense of scale, the extra expense on the debt issued this financial year will end up being about $3 million. So on a $10 billion issuance the extra interest cost will be about $3 million. Spreads are so low on bonds at the moment.

Ms VALLENCE: Three million?

Mr MARTINE: Three million.

Ms VALLENCE: Okay. Page 37 of the financial report says government paid $3 billion in interest repayments, I think. Can you confirm that is correct?

Mr MARTINE: Without the document in front of me, quite possibly. But do not forget that relates to the interest on the stock of debt. Changing spreads due to rating downgrades et cetera do not impact the stock. They are all fixed. It impacts on future bond issuance, and as I indicated, 1 basis point on $10 billion represents about $1 million. Because spreads are incredibly low, the actual extra interest cost on the new issuance is going to be in the order of $3 million. Even if it creeps up a bit, maybe $5 million. Obviously that is an annual cost. That will then obviously flow through to those amounts, so the number you are quoting is the interest on the stock of debt.

The CHAIR: Thank you, Secretary. The member's time has expired. I will pass the call to Mr Gary Maas, MP.

Mr MAAS: Thank you, Chair. Secretary, I would like to continue the line of questioning from Ms Taylor when she was going through with you some of the government initiatives to help stimulate the Victorian economy in 2019–20. I take you to the Greener Government Buildings program and the energy efficiency and renewable energy upgrades at regional health services and regional schools. Could you take the committee through that program and some of the outcomes that would come from that?

Mr MARTINE: Thanks for your question. The Greener Government Buildings program has been around for about 10 years now. I will run through it in a minute, but it has achieved some good results over those years. The funding that was provided to the department was coming to an end in 2021–22, and what was then announced more recently is some additional funding of $59.9 million to continue the program. But importantly savings that then come from these investments are being reinvested into that fund to then facilitate more projects, so we are actually expecting that $59 million to leverage about $200 million of projects. But looking back over the last 10 years on the Greener Government Buildings program, it has made over $200 million of energy efficiency improvements to over 400 government buildings. It is estimated it has cut government greenhouse gas emissions by about 5.5 per cent, and it is estimated it is saving around $25 million every year through just reduced energy costs and maintenance costs. They are some of the metrics. Obviously in the current environment there are some important jobs that are created in the building services sector and energy sector, but they are some of the metrics that the 10-year program has delivered so far.

Mr MAAS: Thanks very much. If I could take you to revenue now during 2019–20 and just ask you about the effect that the pandemic has had on government's traditional revenue sources in that time.

Mr MARTINE: Okay. Thanks for the question. As I think I indicated in one my answers earlier, we were forecasting a $600 million operating surplus in the budget update released in late 2019. The actual result at the end of 2019–20 was a deficit of $6.5 billion, and that was driven by a couple of things, one of which was a downgrade in revenue from what we were forecasting. For 2019–20 the downgrade from the budget update to the end of year outcome, which was about six months, was a downgrade of $3 billion, and most of those changes fall into probably two categories. Firstly, there was quite a significant downgrade to our GST revenue of $1.1 billion. What obviously we saw through particularly the June quarter of 2019–20 was a significant reduction in consumption spending, which obviously meant that the GST pool reduced significantly, and that affected our share along with the shares of other states, so that was quite a significant reduction. So $1.1 billion of the $3 billion related to GST, then there was another $1.2 billion relating to state taxes, most of which actually related to payroll tax, which picked up the initiative that I spoke about earlier of the government waiving or refunding payroll tax for businesses with payrolls less than $3 million.

One might assume that land transfer duty would have been significantly impacted in 2019–20, but in fact it was not. That is because there is always a lag on stamp duty, so you buy a property and then there is often a three-month lag before you settle and you pay your stamp duty. The impact on stamp duty will be seen a lot more in 2020–21 rather than 2019–20. In fact the stamp duty variation year on year—so from 2018–19 to 2019–20 stamp duty actually grew by 2.2 per cent, obviously a lot less than what we were forecasting in the budget update, but it did not go backwards. The real reduction is going to occur in 2020–21 as we move into that financial year.

The other reduction that occurred related to gambling taxes, so they were down year on year, so from 2018–19 to 2019–20 they fell by $296 million, which was a material change which represented a reduction of 14.8 per cent, so that was actually quite a material reduction. The biggest change there occurred on electronic gaming machines—$277 million of the $296 million was due to lower tax revenue coming from electronic gaming machines, followed by an $80 million reduction from revenues from Crown Casino, so they were the bigger changes. Gambling revenues were down as well and there were other bits and pieces that fed through to the reduction overall of $3 billion, but the $3 billion contributes to nearly half of the movement between what we were forecasting as a surplus and where we ended up as a deficit.

Mr MAAS: Thank you. You went through the stamp duty implications. I was wondering if there were any alternate approaches considered to offering relief on some of the taxes collected by the SRO.

Mr MARTINE: There is always an interesting question about, you know, what are the best ways to target assistance. You need to think quite carefully as to whether you are adjusting your tax regime or, you know, the obvious alternative you do is providing grants, particularly on the business side. And sometimes you end up doing a combination—remembering that payroll tax generally is not paid by very small business operators. So just giving payroll tax relief on its own does not necessarily help those very small business operators, because there is no tax relief for them. It is a matter of, in these situations, really better understanding those that are affected and what would actually have the biggest impact and assistance for them. So to answer your question, sometimes it relates to a change to the tax arrangements, sometimes it is put purely direct assistance through grants or in this case with the government's response to COVID-19 it was a real mixture of both. There is a combination, as you would see through the budget papers, of tax relief and direct assistance through a whole series of grant programs.

Mr MAAS: And what about assistance to homebuyers?

Mr MARTINE: The bigger assistance to homebuyers occurred in the most recent budget actually, which was to provide a land transfer duty discount for purchasing residential properties up to the threshold of $1 million. And this only lasts for contracts entered into up to 30 June 2021, but if you purchase a new residential dwelling for less than $1 million you get a 50 per cent discount and if you purchase an existing residual dwelling you get a 25 per cent discount. So that was one of the initiatives that was announced leading up to the budget released in November.

Mr MAAS: Thank you. If I could take you to pages 29 and 30 of the questionnaire, it refers to some of the savings measures taken by the department from 2016–17 through to 2019–20. The 2019–20 one says that the department undertook the following actions: (a) it reduced the 'purchase of supplies and services by finding further efficiency measures such as better use of technology and systems'; and (b) it built 'in-house capability to reduce expenditure on consultants and contractors'. Would you be able to take the committee through what that has entailed?

Mr MARTINE: Well, thanks for your question, and as I think I mentioned in one of my earlier answers, we have invested quite a bit of effort in building internal capabilities over a period of time, and our modelling and forecasting is one example. We have been investing quite a lot in that over the last four years. The way we have been trying to deliver on the savings that the department is required to deliver is very much as outlined in the questionnaire: to build up that in-house capability, to reduce our purchasing of goods and services. And a good example of that, which has led to savings, is building up our in-house legal team. We have actually invested some extra resources to expand our in-house legal team to reduce our need to actually go externally. The savings we have managed to achieve in doing that are actually quite significant, and at the moment we are only going outside our in-house legal team on about 5 to 7 per cent of legal matters.

Perhaps just as an aside, but an important point, our in-house legal team actually won the in-house legal team of the year award in 2020 at the Australian Law Awards, which was both public and private sector and was a national award. So our team is very proud of that, and I am very proud of our team. Not only have they built up a really good capability and it is very effective, it has actually meant we are saving money. As I said, the bulk of the advice we are now getting is in-house, and for only 5 to 7 per cent of legal matters we now go external.

Mr MAAS: Very good. Thank you. In terms of further savings measures, that is also indicated in 2017–18, was it that the department found further savings in that space or was that only later on?

Mr MARTINE: It has been a common theme. You will note in the answers to those questions relating to 2016–17 and 2017–18 and also 2019–20, it has been a general theme of ours over a number of years to try and reduce the purchase of goods and services externally by using our own in-house resources. A department like DTF, the large proportion of our expense is people. I mean, we are a people organisation who do analytical work and provide advice, so that is the bulk of our work. The less we can spend on contractors and professional services, the more we can ensure that those savings can be delivered without reducing our workforce. Our workload has not reduced. In fact in the last 12 months, I suspect like a lot of departments, it has been a pretty heavy workload. So certainly our theme over the last few years has been very much focusing on the purchasing of goods and services and really asking the question, 'Do we really need to pay for someone outside to provide that sort of information or assistance?'. And sometimes absolutely you do need to. There are certain things that come up from time to time that warrant getting external advice, and then there are other things that we have now brought back inside. And the legal services is just a good example of that, where it has actually saved some material dollars in terms of helping us meet our budget.

Mr MAAS: Just continuing on that theme, page 4 of the questionnaire says that DTF manages 17 common use whole-of-Victorian-government goods and services contracts totalling about $1.2 billion expenditure. $1.2 billion—that is a lot. Would you be able to run us through what this entails and why DTF is best placed to run these contracts?

Mr MARTINE: Okay. So we manage what we call state purchasing contracts, which are a subset of the total amount spent by government in aggregate on goods and services, and we manage 17 state purchasing contracts, which add up to about $1.2 billion. The Department of Premier and Cabinet manage the ICT state purchasing contracts and Justice manage the legal services, and then we manage state purchasing contracts such as fleet, banking services, printing and professional advisory services. That is the role of an area in our corporate and government services division. We manage that both to improve the delivery of services but also to achieve efficiencies, and we report annually in our annual report, and I think the most recent annual report we released talked about on a $1.2 billion spend delivering savings of just over 10 per cent. So you are looking at about $120 million, $121 million in savings that we have estimated that have been delivered because of the SPCs that would not have occurred if the SPCs did not exist.

Mr MAAS: Okay. Thank you. In the short amount of time I have remaining I will just take you to the social housing build. Just further on housing, if you could explain how the government has engaged with the community housing sector and improvements that can be gained for social housing in Victoria.

Mr MARTINE: Okay. There was quite a big announcement, a $6 million program—the Big Housing Build—that was announced late last year. $5.3 billion of that is effectively to construct around 12 000 new homes, of which 9300 are for new social housing, replacing 1100 sort of old housing units, and there are about 2900 for affordable homes for first home buyers and renters. So it is quite a significant investment that has been made in terms of our social and affordable housing, and that represents about $5.3 billion of the package. There is another initiative which also forms part of that package, which is really not so much for social housing but to help first home owners get into property through a sort of home equity kind of scheme.

Mr MAAS: Thank you. Time's up.

The CHAIR: Thank you, and the member's time has expired. Thank you very much, Secretary Martine and all of your officials, for attending here and appearing before the committee today. The committee will follow up on any questions which were taken on notice in writing, and responses will be required within five working days of the committee's request. The committee will now take a break and resume at 1.30 pm with the Department of Health and Human Services. Thank you very much, Secretary Martine.

Witnesses withdrew.