

# **PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE**

## **2021-22 Budget Estimates**

Melbourne—Thursday, 27 May 2021

### **MEMBERS**

Ms Lizzie Blandthorn—Chair

Mr Richard Riordan—Deputy Chair

Mr Sam Hibbins

Mr David Limbrick

Mr Gary Maas

Mr James Newbury

Mr Danny O'Brien

Ms Pauline Richards

Mr Tim Richardson

Ms Nina Taylor



**WITNESSES**

Mr Tim Pallas, MP, Treasurer,

Mr David Martine, Secretary,

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

Mr Chris Barrett, Deputy Secretary, Economic Division,

Mr Jason Loos, Deputy Secretary, Commercial Division, and

Ms Gayle Porthouse, Deputy Secretary, Corporate and Government Services Division, Department of Treasury and Finance;

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

Mr William Whitford, Managing Director, Treasury Corporation of Victoria; and

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

**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 with us today.

On behalf of the Parliament the committee is conducting this Inquiry into the 2021–22 Budget Estimates. Its aim is to scrutinise public administration and finance to improve outcomes for the Victorian community.

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

We ask that mobile telephones and computers be turned to silent.

All evidence 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.

We welcome you, Treasurer, Secretary and deputy secretaries, joining us once again. We invite you to make an opening statement of no more than 10 minutes, and this will be followed by questions from the committee. Thank you.

**Mr PALLAS:** Thanks very much, Chair and committee members. It gives me great pleasure to be here today to talk to the *Victorian Budget 2021/22: Creating Jobs, Caring for Victorians*.

I would like first of all to acknowledge the traditional owners of the land on which we meet and pay my respects to their elders past and present.

Last year Victoria achieved what no-one else has. Now we are on the road to recovery. But truly bouncing back will not just happen by chance. We need a long-term plan that helps Victorians recover. That means not only supporting people in the short term but actually investing in their future, too.

**Visual presentation.**

**Mr PALLAS:** In 2018–19, the last full financial year before the pandemic, Victoria's economy was growing at 3.1 per cent. The pandemic had a significant impact on the Victorian economy. However, Victoria's recovery is now underway and the outlook is positive. Business and consumer confidence is elevated,

household balance sheets in aggregate are strong, and monetary policy remains highly supportive. Victoria's GSP is forecast to increase by 6.5 per cent in 2021–22, with strong growth forecast across the estimates.

The government's 'Jobs Plan', announced as part of the 2020–21 budget, included a target of creating 400 000 jobs by 2025, with half of those by 2022. The strength of the Victorian economic recovery means that the interim target has already been met, with well over 200 000 jobs having been created in Victoria since September last year—in fact 243 000.

Last year we announced a comprehensive and deliberative fiscal strategy focused on the medium term. We have made good progress on step 1. We are reducing unemployment and we are restoring economic growth. Our forward estimates also show that we are on the way to achieving step 2, with an operating cash surplus of \$1.1 billion now forecast in 2022–23. Net debt is projected lower in each year of the forward estimates than was forecast in last year's November budget. With strong, balanced and responsible financial management, we are securing our state's recovery. Even more importantly, we are securing our people's recovery too.

The budget also introduces a range of new tax and economic support and recovery initiatives. As the International Monetary Fund has noted, the economic costs of the pandemic have fallen most heavily on those least able to bear them, and it is appropriate for the government to mobilise new revenue from those who can best afford to pay to support an inclusive recovery.

We are introducing modest and targeted tax reforms on high-value landholdings and purchases to ensure that those who have done well during the pandemic, and those that are most able to, contribute their fair share to the economic recovery. The introduction of a windfall gains tax from 2022 on rezoning decisions will also ensure that community shares in large windfall profits, not just property developers.

We are also providing targeted tax relief, including the bringing forward of increases in the payroll tax-free threshold to \$700 000 and a cut to the regional employer payroll tax rate to 1.2125 per cent, and supporting the CBD with temporary stamp duty concessions up to 100 per cent on new properties. These measures also include a new mental health and wellbeing levy, implemented through a surcharge on payroll tax for businesses with national wages over \$10 million. Revenue from the levy will be dedicated to support our record investment in mental health. Victoria's tax system remains competitive. For example, regional employers have by far the lowest payroll tax rate in the nation. In fact Victoria's tax and royalty revenue per person remains lower than New South Wales, Western Australia and the ACT.

Over the past six years our Big Build has been delivering the road, rail, schools and hospitals our growing state needs. This has supported or will continue to support over 177 000 jobs. Government infrastructure investment is expected to average \$22.5 billion a year over the budget and forward estimates, more than 4½ times the average before we were elected in 2014. Across the capital program—1141 projects—there is just a 3 per cent net increase in project cost, and 16 per cent of projects had a variance on completion time frames over the two years from 2019–20 to 2021–22. The vast majority of our projects are on time and on budget, supporting thousands of jobs. The cost of not building would grind our growing state to a halt. This would particularly impact young Victorians who have already borne the worst of the impact of the pandemic.

Approximately half of all Victorians will experience poor mental health in their lifetime, yet for far too long that suffering just has not been taken seriously enough. It is why we established the Royal Commission into Victoria's Mental Health System, and it is why we are delivering the biggest social reform in a generation, building our mental health system from the ground up. While we might think that the cost of fixing the system is too great, the cost of not fixing it is far greater. Last budget we provided \$869 million, the then single biggest investment in mental health Victoria had ever seen, to start the work of fixing our mental health system. Now we are delivering a record \$3.8 billion investment to truly transform the way mental health and wellbeing support is offered in our state. Together these investments will also support 3000 new jobs.

Over the past six years we have made jobs our priority as a government, and as we continue to rebuild, jobs—good, secure and meaningful jobs—must be at the heart of our recovery. This budget will support an average of 38 000 jobs per year over the next four years: \$288 million will further strengthen our reputation as the nation's creative capital, including \$121 million to transform the Victorian screen industry, by growing jobs, developing homegrown talent and promoting our people and our content to the world; \$209 million will further support our

TAFE and training sector and includes up to 12 200 extra subsidised trading places; and \$160 million will highlight Victoria's strength as a visitor destination and rebuild the Victorian visitor economy brand.

This year's budget invests a total of \$3.5 billion in education, helping to make sure that every Victorian child gets a great start to life. Key investments delivered in the budget include \$1.6 billion to deliver new schools and upgrades to existing schools; \$277 million to deliver a comprehensive range of reforms to put student health, mental health and wellbeing at the centre of school communities; \$185 million to support our teaching workforce; and \$167 million to continue the rollout of three-year-old kinder, which I am pleased to say for the first time will be available in every local government area in the state.

As we continue to recover from the pandemic this budget delivers \$7.1 billion to continue improving our hospitals and our health care system. \$3.7 billion will help meet demand for hospital services, including more emergency department staff, extra highly trained specialised therapies and support for new wards as they open. To help alleviate the pressure on our emergency departments, the budget will deliver more than \$759 million for more paramedics, more triage care and support staff for Ambulance Victoria, as well as targeted funding to improve the flow of patients in our busy emergency departments and open hospital beds. And \$50 million will support the establishment of Victoria's capability to manufacture mRNA vaccines.

Our \$80 billion transport infrastructure investment over the past six years has helped connect Victorians to work, study and of course each other. It has also ensured new opportunities for Victorians, supporting thousands of jobs across the construction sector and supply chain. This year's budget provides \$2.3 billion for our rail network, including \$986 million to provide 25 brand-new, modern X'Trapolis 2.0 trains and supporting infrastructure for our metropolitan network. \$265 million will go towards improving our road network, including \$95 million to upgrade and maintain our suburban and regional roads, and \$42 million for a safer and more productive road network freight, and \$21 million will go towards improving the safety and access of our walking and cycling paths.

Chair and committee members, that is just a brief oversight of the budget. It invests in the plan and the projects Victoria needs and the Victorians we need to deliver them, so with this budget we are creating jobs and we are caring for Victorians.

**The CHAIR:** Thank you very much, Treasurer. I will hand the call to the Deputy Chair, Mr Riordan.

**Mr RIORDAN:** Thank you, Chair. Welcome, Treasurer and Treasury officials. My first question to you, Treasurer, is in order for us to facilitate a productive inquiry today, can you confirm for us the amount of days lockdown that the state will hear about in the next hour?

**Mr PALLAS:** Well, obviously that is not a matter related to the budget papers, and more perhaps importantly, Deputy Chair—

**Mr RIORDAN:** Well, Treasurer, I refer to your own speech in Parliament only a few days ago really, and you said that in the lockdown last year you were forced to spend—for the betterment of Victorians you said you spent:

... \$49 billion in the last budget to support families and businesses ...

The three-day lockdown that you snapped on us on Valentine's Day cost us a billion dollars. The reports that your friends in the media and the AFL and others who you have given advance notice to already have escaped the state and fled, so what is it going to cost this time, because we know three days is roughly a billion, so at 10 days are we looking at \$3 billion, \$4 billion or \$5 billion?

**The CHAIR:** Mr Riordan, we are here to consider the budget papers and the budget that we have before us and to inform the Parliament in consideration of these estimates. I would ask you to keep your questions in relation to the current budget and not pose hypothetical questions.

**Mr RIORDAN:** The capacity of this budget to withstand endless lockdowns is absolutely vital. I am asking the Treasurer: what capacity has this budget got for a 10-day lockdown that is going to be announced in the next few hours?

**Mr PALLAS:** Certainly I cannot confirm or deny that. You will hear from the Acting Premier sometime later today once decisions have been finalised, and of course that will be dependent upon the health advice that is provided to the government. The one thing that has kept all Victorians safe has been that this government has listened to that health advice. It may be, Mr Riordan, that you wish that you were in a different place than we are, but—

**Mr RIORDAN:** Treasurer, the question—

**The CHAIR:** Mr Riordan.

**Mr RIORDAN:** Sorry, Chair. I am not asking for health advice. I am asking you, as the head moneymen of the state who has just put a budget together and who has told us last year's lockdowns cost \$49 billion: what capacity does this budget we are discussing have to deal with lockdowns in the state for this winter?

**Mr PALLAS:** Well, Mr Riordan, I did not tell you that the last lockdown cost \$49 billion. I said that the state had invested \$49 billion.

**Mr RIORDAN:** 'In the last budget to support families and businesses through the pandemic'.

**Mr PALLAS:** Yes.

**Mr RIORDAN:** Right, so have you got \$49 billion in this budget for this winter to get us through?

**The CHAIR:** Mr Riordan, could you allow the Treasurer to answer the question.

**Mr PALLAS:** At the risk of trying to hold an economics class here, what we have done is not only provide support but we have also grown the economy. You might have noticed that our economy is—

**Mr RIORDAN:** Have you got capacity for lockdowns in this budget?

**The CHAIR:** Mr Riordan.

**Mr PALLAS:** To grow the economy or to—

**Mr RIORDAN:** To support businesses?

**Mr PALLAS:** Of course we will continue our efforts to support the Victorian people through what will be a very substantial period of engagement with the pandemic that will last, according to the federal government, well into 2022. That is their projection. We stand ready. We stand shoulder to shoulder with the Victorian people. That is what this budget—

**Mr RIORDAN:** So the answer is you do not have a provision?

**Mr PALLAS:** Mr Riordan, we have to deal with the circumstances as they present. We are not going to deny the reality of the consequences of the events that confront this state, we are going to take the necessary actions—

**Mr RIORDAN:** You are going to announce a lockdown in an hour, Treasurer.

**Mr PALLAS:** to keep Victorians safe.

**The CHAIR:** Mr Riordan, it is going to be a—

**Mr RIORDAN:** Have you got money in the budget to deal with the lockdown?

**The CHAIR:** Mr Riordan, could you stop talking over the top of people. It is going to be a very long two weeks if you start this at this point in the proceedings. If you allow the Treasurer to—

**Mr RIORDAN:** Well, if your senior ministers cannot tell Victorians whether they have allowed money in the budget to support businesses and families in another lockdown, we need to know that as the Parliament.

**The CHAIR:** Mr Riordan, as so often is the case, you continue to repeat your propositions rather than allow the Treasurer the opportunity to respond to them. If you could allow him to answer your question, we will get the answer. Thank you.

**Mr RIORDAN:** Well, he has had 5 minutes to tell us whether he has got money in the budget for it.

**The CHAIR:** Well, you have continued to speak over the top of the Treasurer for 5 minutes, Mr Riordan. If you would allow him to answer the question, please.

**Mr RIORDAN:** A simple yes would suffice.

**Mr PALLAS:** Of course the government has a balance sheet, and we apply that balance sheet. We leverage it to the things that are most important to Victorians. For us that constitutes their welfare and wellbeing and the opportunity to ensure that Victorian businesses are adequately supported during the regrowth, which has been nothing short of spectacular.

**Mr RIORDAN:** No, I am talking about another lockdown, not the regrowth. Lockdown today—is there money there to support small businesses? There are a lot of cafe owners, restaurateurs, small businesses out there this morning wanting to know: will you have money in their bank accounts next week like you did last year when you caused lockdowns? Is that ready to go, Treasurer?

**Mr PALLAS:** The government stands prepared. We will of course do what we can. We stand prepared to support Victorian businesses and families, as we have—

**Mr RIORDAN:** Is that a yes, Treasurer? Is that a yes?

**Mr PALLAS:** throughout the entire period. Well, you can interpret—

**Mr RIORDAN:** Is there going to be money in people's—

**The CHAIR:** Mr Riordan!

**Mr RIORDAN:** Chair, this is a legitimate question. I walked here this morning, bought coffees. That is the only thing people in Victoria want to know today: Will you be able to support them if you lock us down for 10 days?

**Mr PALLAS:** As we always have, we will continue to be there for Victorians.

**Mr RIORDAN:** That was not a yes.

**The CHAIR:** Mr Riordan, you have an answer to your question.

**Mr PALLAS:** We will make a judgement based on what decisions are made.

**Mr RIORDAN:** People went to the wall last year, Treasurer, over this.

**Mr PALLAS:** Mr Riordan, no decision has been made. No statement has been made by the Acting Premier. And I think you are getting a little bit in front of yourself. Once a decision has been made, then the government will do what it has always done—

**Mr RIORDAN:** Well, the AFL seems to know. Industry groups seem to know.

**The CHAIR:** Mr Riordan.

**Mr PALLAS:** it will stand shoulder to shoulder with Victorians.

**Mr RIORDAN:** I am sure the CFMEU knows.

**The CHAIR:** Mr Riordan, you are clearly not interested in the answers when you continue to speak over the top of somebody.

**Mr RIORDAN:** Secretary Martine, does the budget allow for lockdowns this winter to support businesses, families and others in the same manner that you did last year?

**Mr MARTINE:** Thank you, Deputy Chair, for your question. And I might refer you to the budget paper 2, chapter 2—I will just find the right page reference—page 22, which talks about the assumptions that the budget is based on. And in box 2.1, the second dot point, the key assumption that is mentioned there is that any:

Any further onset of COVID-19, in Victoria and nationally, is contained and only results in localised, short-term restrictions. So the budget has been put together on the basis of the assumption that if necessary, short-term restrictions would be enacted by governments around the country.

**Mr RIORDAN:** Yes, but this government, this state in Victoria, you have only allowed for short-term lockdowns. So is 10 days short term? We are hearing 10 days. So is—

**Mr PALLAS:** Perhaps you should—

**Mr RIORDAN:** Treasurer, I am not talking to you. I am asking Secretary Martine.

**Mr PALLAS:** You cannot put a speculative question to the Secretary.

**The CHAIR:** Mr Riordan.

**Mr RIORDAN:** Would you mind telling the Treasurer to let the Secretary answer the question? The question, Secretary, is—

**The CHAIR:** Mr Riordan, you keep talking over the top of everybody. If you could ask your question and then allow an adequate amount of time for people to answer before you interrupt, you might find you learn more.

**Mr RIORDAN:** I am waiting for Secretary Martine to tell me whether 10 days is what he calls a short-term lockdown or whether it is 104 days. What is the definition that you are using?

**Mr MARTINE:** It is very hard to put a binary number on what is a short-term lockdown and what is a long-term lockdown, because it depends on the nature of the particular lockdown. And I am not in a position to sort of pre-empt government decisions and announcements.

**Mr RIORDAN:** Okay. So Twitter is telling us this morning it is stage 3 lockdown. That means, you know, many of our businesses out there in the struggling CBD will not be opening tomorrow. Are they going to get support from this budget?

**The CHAIR:** Mr Riordan, we are here to ask questions in relation to the budget papers and not Twitter.

**Mr RIORDAN:** I just said ‘this budget’.

**The CHAIR:** If you could please keep your questions to the relevant budget papers, that would be appreciated.

**Mr RIORDAN:** Well, I am sorry. The Treasurer is up now. There is a major announcement coming in the next hour. The Treasurer knows the answer. He has been in the meeting with the Acting Premier. He knows the answer, and he knows what is going to be announced. I am sure—I would hope—the Secretary knows.

**The CHAIR:** Mr Riordan, you are wasting your own time.

**Mr PALLAS:** Mr Riordan, you will have the opportunity to talk to the Acting Premier in due course—

**Mr RIORDAN:** But I am talking to the Treasurer now.

**Mr PALLAS:** after an announcement has been made.

**Mr RIORDAN:** I am talking to the Secretary, and my question to the Secretary is: Secretary, does this budget have the capacity to support people in a 10-day lockdown?

**Mr RICHARDSON:** Why are you so angry?

**Mr RIORDAN:** Because people are angry out there—that is why.

**Mr RICHARDSON:** Stop yelling at people.

**Mr MARTINE:** Deputy Chair, as I mentioned—

**Mr RIORDAN:** I know that you guys—

**The CHAIR:** Mr Riordan!

**Mr RIORDAN:** You filter your emails, so you are probably not hearing what people are saying on the street, but people want to know.

**The CHAIR:** Mr Riordan, there is no need to behave in that way. If you could ask your questions and keep them relevant to the budget papers, I think you will find this will be a more productive session.

**Mr RIORDAN:** After 8 minutes no-one has been able to tell us from Treasury whether there is support there for people for a 10-day lockdown.

**The CHAIR:** Mr Riordan, for 8 minutes you have spoken for seven of them. If you could allow the Treasurer and the Secretary and deputy secretaries to answer the question, you may learn something.

**Mr MARTINE:** Deputy Chair, I cannot pre-empt government decisions and announcements. I am happy to talk about decisions—

**Mr RIORDAN:** If there is a 10-day lockdown—not today; let us say there is a 10-day lockdown in September.

**The CHAIR:** Mr Riordan, we are not here to deal in hypotheticals.

**Mr RIORDAN:** Chair, would you please stop interrupting.

**The CHAIR:** Well, Mr Riordan, if you will keep—

**Mr RIORDAN:** It is a legitimate question. Does this budget have the capacity to support businesses and families on a 10-day lockdown in September?

**The CHAIR:** Mr Riordan, I would appreciate it if you would not yell over the top of me, please, or over the top of witnesses. If you could keep your questions relevant to the budget papers, rather than Twitter or hypothetical propositions, then I think you might find this a more productive session.

**Mr RIORDAN:** I do not think in light of what is happening today in an hour's time it is hypothetical to ask the people in charge of the finances of this state if they have allowed for a 10-day lockdown.

**The CHAIR:** Mr Riordan, at the moment you are dealing in hypotheticals. The public health advice is as it is, and I would ask that you keep your questions relevant to the budget papers. As the Treasurer has—

**Mr RIORDAN:** It is absolutely relevant.

**The CHAIR:** Mr Riordan, as the Treasurer has indicated, the Acting Premier will be here later this afternoon.

**Mr RIORDAN:** Can you please stop the clock? You are wasting our time to protect the government.

**The CHAIR:** Mr Riordan—

**Mr RIORDAN:** The question is simple. Yes or no, Secretary?

**The CHAIR:** Mr Riordan, the question is a hypothetical. If you could keep your questions to the budget papers, that would be appreciated.

**Mr RIORDAN:** It is entirely relevant to the budget. Does this budget allow for supporting Victorians in a lockdown?

**Mr MARTINE:** Deputy Chair, as I have mentioned, they are decisions that governments will make in due course, and they will announce them. Once they are announced, I am more than happy to talk about the nature of those decisions and the financial costs of whatever decisions are made. It is hard for me to speculate on what a cost would be—

**Mr RIORDAN:** Are you seriously saying that in a budget that you prepared in the middle of a pandemic you cannot confirm for the Parliament that you have made provisions for lockdowns?

**Mr MARTINE:** So what the budget includes are all of the—they reflect all of the government decisions that have been made. As I mentioned, the budget is based on economic assumptions that assume that further breakouts are managed in a localised, short-term way, and so that underpins all of the budget forecasts. As these things occur governments will obviously be making decisions about appropriate interventions as required, and we will respond to those at that point.

**Mr RIORDAN:** Okay. We will leave it at: this committee is yet to know.

Treasurer, budget paper 3, page 60, details credit agencies, and last year Victoria was stripped of its long-held AAA credit rating. An *Australian Financial Review* article indicates that you and your government are attempting to embark on budget repair. Treasurer, given the tax hikes and cost blowouts and a pending shutdown, how do you expect Victorians to believe you will actually achieve a \$15 billion budget repair, particularly in light of the fact that this morning we cannot even confirm we can manage support for a lockdown?

**Mr PALLAS:** Well, Mr Riordan, the strategy that the government has put in place is clear. It was outlined not in this budget but in the preceding budget in November, and what it demonstrates is that the government has a four-stage strategy—perhaps the only government with a clearly enunciated fiscal strategy to deal with the circumstances that confront the state. The first step of course was to create jobs and to ensure that we got Victorians back into work. And I think we can say with a fair degree of confidence that we have been able to do that, with some 243 000 jobs having been created from the lowest point in the economic cycle, which was September of last year. What we have also been able to demonstrate is that our economy, if you look at the last quarter figures and you look at final state demand, is running at about double the rate of the national economic growth. So stage 1—we have achieved our objectives and are continuing to make progress—

**Mr RIORDAN:** But you had \$49 billion to do it last year.

**Mr PALLAS:** Could I just finish answering the last question?

**Mr RIORDAN:** Yes, I am just—

**Mr PALLAS:** The second step of that strategy is to make sure that we move to an operating cash surplus, and we have demonstrated that by 2022–23 the government intends being in operating cash surplus. The next thing is to deliver an operating surplus, and finally to therefore stabilise the debt profile and the calls upon the state's balance sheet and our debt profile more generally. That four-stage strategy is the first and probably the most clearly enunciated strategy by any government in the nation about what we are doing. And this budget demonstrates that that strategy is being delivered, and it is being delivered in very substantial terms.

We recognise that a number of initiatives by government have to be made in order to ensure that we keep Victorians safe but we also provide the resources necessary to ensure that Victorians get the services they need and that businesses get the support—

**Mr RIORDAN:** And to keep them safe last year you needed \$49 billion and you are not confirming—

**Mr PALLAS:** Once again, Mr Riordan, you seem to misunderstand the difference between the matters necessary to support businesses—that is \$13 billion—and the matters that constitute countercyclical investment that the state has put in place in order to grow the economy. Whilst both are part of the support and growth of the economy contained in step 1 of our strategy, it is vitally important that you understand the difference between material support for those during the course of a pandemic and the improvement in services necessary

to support Victorians and Victorian businesses during the pandemic, and the investments that we have made not only to take advantage of that support but to grow the economy.

**Mr RIORDAN:** Right. Secretary, Moody's still has Victoria's credit rating on a negative watch. What assurance can your department provide to Victorians that the budget will not lead to any further negative movements by rating agencies with regard to our credit rating?

**Mr MARTINE:** Thanks for the question. We sit down with both rating agencies for detailed discussions after each budget, so we have got a day with Moody's next week and Standard & Poor's in a couple of weeks time. We will go through obviously all of the details outlined in the budget with them at that point, and they will, after that, make their judgements on the state's finances. An important point I will make, which is outlined in a bit of detail in budget paper 2, chapter 4, is that if you compare the finances in this budget with the budget released only six months ago in November, there has been significant improvement on all of the key metrics, which is important for the rating agencies, so—

**Mr RIORDAN:** So the rating agencies are keen to know how we will deal with shocks, aren't they?

**Mr MARTINE:** That is one of the things they look at, but also they look at what has changed since their previous review, and all of the key metrics have improved, which is important for the rating agencies, so—

**Mr RIORDAN:** Yes, I appreciate that, but in light of what you said just before—you said you have allowed for short-term, localised lockdowns as a shock—what if we do not have short-term, localised—

**Mr MARTINE:** Yes, but perhaps to add to the answers to your earlier questions, Deputy Chair, the \$49 billion you are talking about is essentially the budget initiatives in the November 2020 budget. If you look at budget paper 3, chapter 1, you will note that the budget initiatives in this budget add up to \$19 billion plus \$7 billion. So you are talking about \$26 billion of new initiatives in this budget and you are talking about—

**Mr RIORDAN:** Well, the Treasurer did say it was keeping us safe from the pandemic. So what you are saying is it was not actually \$49 billion to keep us safe from the pandemic, it was only \$19 billion?

**Mr MARTINE:** That is effectively the outline of all of the initiatives that cover both economic support and, importantly, extra investment in the health system to deal with the height of the pandemic through the course of last calendar year.

**Mr RIORDAN:** Treasurer, despite promising not to increase taxes when elected, this government has increased 38 taxes. Is this the last budget where you will be increasing taxes?

**Mr PALLAS:** Once again, Mr Riordan, I take exception to you verballing the government's position. In the policies that we produced, in *Labor's Financial Statement*, we made it clear that that was not to fund government commitments.

**The CHAIR:** Sorry to interrupt you, Treasurer. The member's time has expired, and I will pass the call to Mr Maas.

**Mr MAAS:** Thank you, Chair. And thank you, Treasurer, and thank you, departmental officials, for your attendance today. I will say at the outset: I will try to contain my questions at the very least to the next financial year, and I will at best try to keep them within the confines of the Inquiry into the 2021–22 Budget Estimates hearings. If I could take you to budget paper 2, page 4, I note that you have already spoken about the four-point fiscal strategy to return the budget to surplus. I was hoping you would be able to take the committee in some finer detail through the strategy and provide an update as to how that is progressing in returning the budget to surplus.

**Mr PALLAS:** Indeed. Thanks, Mr Maas, and I thank you for the question. Yes, it is vitally important that the government has a fiscal strategy that it focuses on and pursues with focus and rigour. Prior to the pandemic of course the Andrews Labor government demonstrated its strong financial management by adhering to a clear and robust set of fiscal frameworks, including continuous operating budget surpluses, maintaining debt at a sustainable level while delivering improved services and infrastructure. In 2020 of course, like all states and territories, the pandemic severely impacted the state's financial position and outlook.

In 2021 the budget basically forecast operating deficits and increasing net debt in each year over the forward estimates. This was a result of course of the combined impact of lower revenue and increases in critical expenditure to support the state's health and economic recovery effort. The government prioritised the use of its balance sheet to support the Victorian community, and that approach was consistent with the stimulus approach that was adopted by the commonwealth government and other states and by other countries around the world. And indeed that strategy was supported by the governor of the Reserve Bank of Australia, who encouraged governments to stimulate the economy through increased borrowings. So a twofold approach was underway during the last calendar year, and that was: protecting and preserving the wellbeing of the community and investing to do it and, secondly, to make the necessary investments so that we could take the opportunities on the upswing of the economic cycle.

Early economic indicators have demonstrated that the government's stimulus strategy is working, with the economy rebounding strongly. Indeed the rebound has been stronger than any other state. The 2021–22 budget forecast significant improvements in the state's key fiscal aggregates over the budget and forward estimates period. So this improvement is the result of the government's comprehensive and, might I say, quite deliberative fiscal strategy that we put in place in the 2021 budget. That strategy focuses on the medium term, and it also involves those four steps that I took Mr Riordan through: creating jobs and reducing unemployment, step 1; step 2, returning an operating cash surplus; step 3, returning to operating surpluses; and step 4, stabilising debt levels. So the first step in our strategy to create jobs—I think we can say comprehensively we have been able to demonstrate that we have performed exceptionally well. In fact some economic observers have described it as nothing short of incredible. So the state's economic recovery is well underway and it is progressing strongly, as already discussed with the committee. Employment and workforce participation have already recovered to pre-coronavirus levels, and we are well on our way to meeting our 2025 target under our jobs plan.

The second step of course in the government's fiscal strategy is about returning to operating cash surplus. It is an important step because it means what is occurring is that the state has to have sufficient inflows to offset its cash outflows on operating activities, a key pillar of a jurisdiction's fiscal sustainability. So this point is quite fundamental to the success of the strategy.

Indeed the net outflows from operating activities for the government sector is forecast to be in surplus by \$1.1 billion in the 2022–23 financial year, increasing to \$3 billion in the 2024–25 financial year, so a significant achievement really with the position on the 2020–21 budget. It is a demonstration that the government, by recognising that it focuses on the reality of the situation it confronts, makes the appropriate investments in dealing with it and of course recognises that the quickest way through this problem when problems present, such as reinfection events—and we have seen those occur right across the nation—is we have to adopt the most appropriate strategy to get on top of it quickly; fast in, fast out. You have seen it in Western Australia, you have seen it in South Australia; it is effectively the strategy that is being applied across the nation. And we have been recognising that, given the improved economic conditions, the need for stimulus has reduced, so all up we had a \$49 billion budget with capital and output in November, and as the Secretary of the department has indicated, it is about \$26 billion when you add those two—output and capital—together for the purposes of this budget.

So we are winding it back, but we do recognise that we still have to make substantial contributions to growth, opportunity and wellbeing. The key from our perspective is recognising that the greatest opportunity we can provide to this community is the opportunity for jobs and, from jobs, to grow the opportunity to of course consume more and get the economy functioning much more robustly going forward. We have been careful to taper expenditure slowly, and I will stress that. There is no desire to put the brakes on economic activity at the moment, but a tapering back of that high level of counter-cyclical investment that was so vital during the course of the last budget in November. That is entirely consistent with the advice from the Reserve Bank of Australia and of course also the advice from the International Monetary Fund, who have both cautioned governments about prematurely withdrawing policy support measures before recovery is fully entrenched.

We can see that our recovery is faster and stronger than other states, but we also can see that because we have come from a much more substantial economic impact because of a longer shutdown, that bounce back has been essentially much more profound. We need to be in a position to recognise through our investments where the problems are going to remain insidious, where those parts of the economy demographically have been disadvantaged, and particularly the investments that we make have to be focused on addressing that disadvantage. The result of this is that the total expenditure is expected to reach \$86.2 billion in 2021–22 before

reducing by 2.9 per cent in 2022–23, so reflecting the targeted approach and the short-term nature of the initiatives that we are putting in place to fund the public health response, to support the economy from impacts of the pandemic. But expenditure growth is forecast to moderate in 2023–24 and 2024–25, with total expenditure reaching \$87.4 billion in 2024–25.

So the third step is to return to operating surplus, and this remains a key priority for the government. While the government is still focusing on operating deficits across the forward estimates at the moment, these deficits are now significantly smaller than we anticipated even in last year's budget. So you can see that, having identified a pathway back to an operating cash surplus, we are now rapidly cutting back those deficits going forward and it is within sight, a surplus position, but it is not in the current forward estimates. The operating deficit is now significantly smaller in each year over the budget and the forward estimates relative to the 2020–21 budget.

So to put that in context, that budget was only a matter of months away, in November. We have exceeded our expectations in terms of how quickly the economic return has been, and perhaps no more dramatic demonstration of that would be the fact that we identified that we were aiming to create as an interim target 200 000 jobs in the Victorian economy by the end of 2022. Of course we reached that target in the early months of this year, and that is how quick and how profound the economic bounce-back has been. Our ongoing review of expenditure and new revenue initiatives will gradually of course take effect from 2021–22 onwards, and it will support continued economic recovery and progress against the government's fiscal strategy.

There has also been progress in step 4 in the strategy, which is stabilising net debt. Normally you would expect the stability of debt really to follow as a fourth step as you have been able to wind back those deficits and bring the budget back into surplus, but net debt is now lower in each year than we forecast in the 2020–21 budget. In that budget net debt was forecast to increase to about \$155 billion by June 2024, but this increase is now not forecast until 30 June 2025. That is a substantial extension of the tail of the point that we thought we would be at much earlier, and it means that that debt position is starting to stabilise as the other steps of the agenda that we put in place are starting to manifest themselves and demonstrate that they are working. So overall the government remains committed to its fiscal strategy outlined in the previous budget. It is working, and this budget really highlights the significant progress that we have already made in that respect.

**Mr MAAS:** Thank you, Treasurer. If I could take you now to budget paper 3 at page 138, which takes the reader through changes to the Victorian tax system. Much has been made of this, certainly by Mr Riordan and the opposition as well. I was hoping you would be able to take the committee through perhaps a comparison with other states and how we compare in terms of competitiveness.

**Mr PALLAS:** Thanks very much. I suppose if I have not said it already, I will say it now, and I will probably repeat it a few times going forward: the Victorian economy is the best performing economy in the nation at the moment. In the December quarter Victoria's final state demand was 6.8 per cent, and the ABS labour force figures really showed that the unemployment rate has recovered to 5.5 per cent with a participation rate above the national average. Of course participation rate is one of those things that goes very substantially to economic growth and productivity more generally. Victoria has created more than 243 000 jobs since September 2020. That is approximately half the jobs created across the nation. Comparing to other jurisdictions, the obvious one to compare with is New South Wales—our economies are very similar—whose final state demand for the December quarter was 2.9 per cent with a workforce participation rate which is below the national average, and they have created only 61 200 jobs since September: 61 200 versus 243 000.

Moving to the tax changes outlined in the budget, I think it is important to note that the overwhelming majority of Victorian businesses, individuals and landholders will not be impacted by these changes. The changes to our payroll tax, our land tax and our stamp duty are targeted measures. They are asking those that have done relatively well through the pandemic and those that can most afford to pay to make a contribution towards supporting the fiscal and economic recovery and ensure that we can continue to provide the essential services that Victorians rely on. Beginning with payroll tax, the vast majority of employing businesses in Victoria will not pay the mental health and wellbeing levy. Most Victorian employers of course will continue to have one of the lowest top payroll tax rates in the nation. Victorian regional employers of course will have the lowest payroll tax in the nation, and second place will go to daylight. Our rates are so low when it comes to payroll tax for regional Victoria.

But let us take New South Wales. As a pandemic support measure New South Wales temporarily reduced its payroll tax rate to 4.85 per cent, but it legislated to return to 5.45 per cent by 1 July next year. This will mean that for employers with a wage bill between \$5 million and \$130 million, they will pay less payroll tax in Victoria than they would in New South Wales, even including the mental health and wellbeing levy. So for regional employers, all businesses paying the levy will still pay less payroll tax in Victoria than they would in New South Wales or any other state in the nation. If payroll tax really is the key determinant of where businesses locate—we have heard about this idea that there will be this movement of employers and businesses across the border—the fact is Victorian payroll tax up to that \$130 million levy or rate is profoundly better in Victoria than in New South Wales right across those areas.

Moving on to land tax, firstly I think it is important that we recognise that less than 6 per cent of Victorians pay land tax, and of that 6 per cent less than 8 per cent of land tax payers will be subject to these additional changes that have been outlined in the budget. And for those that are affected the impacts will be modest, so for a taxpayer who has taxable landholdings worth \$2 million the impact will only be \$500 a year. That is 0.025 of 1 per cent of the value of the land and even less as a proportion of the total value of the property, bearing in mind that we charge land tax on lot value, not on the improved value of the asset. So Victoria's land tax will remain competitive. In fact for individual taxpayers with land between \$2 million and \$3.3 million—that is land only—they will continue to pay less tax in Victoria than they would in any other state. So let me repeat that: it will continue to be the lowest land tax of any state between that \$2 million to \$3.3 million threshold. So once again, if we are talking capital flight on the back of competitive taxes, let me say on payroll tax against New South Wales and certainly on land tax Victoria stands well by comparison. Specifically for New South Wales, for an individual who has got \$1 million of taxable land, they will pay more than \$1000 extra in land tax compared with here in Victoria.

**Mr MAAS:** Thank you very much.

**The CHAIR:** Thank you, Treasurer. I will pass the call to Mr Sam Hibbins, MP.

**Mr HIBBINS:** Thank you, Chair. And thank you, Treasurer and Secretary and your team, for appearing this morning. One thing you did not mention in your opening remarks was wages, but you also did mention in a previous response to an answer about accepting advice from the governor of the Reserve Bank. Now, the governor of the Reserve Bank has repeatedly cited state government wage caps as a reason for low wage growth across the entire economy. He has also cited those wage caps as putting at risk or hurting our economic recovery. Do you accept the governor of the Reserve Bank's advice on those matters, particularly considering that this budget is actually reducing the government wages policy from 2 per cent to 1.5 per cent?

**Mr PALLAS:** Well, I will take you through the government wages policy in a moment, but I do not accept that fundamental proposition. But more importantly, I think, we do accept and support the advice that the governor of the Reserve Bank is giving, and that is that governments should, within the context of their capacity, not lead the market down in terms of wages. And indeed investment in wages is a vitally important part of consumer confidence and consumption more generally in the economy, and Victoria has been a very substantial outlier compared to the other states during the course, Mr Hibbins, of 2020, when many other jurisdictions made a very conscious decision to either freeze or substantially reduce their wages offering to the public service.

We did not do that as a government. We basically stuck to the agreements and the wages policy that we had identified. The government of course recognises that it is important that we continue to make an investment in our workforce, and you will see that, whether it is the 3000 additional people that will be required—specialists—to deliver on our mental health agenda or indeed whether it is community protection workers that will be employed. But we do need to recognise that in circumstances where we are asking of business that a continuing effort is made to assist the repair of the economy and the budget position so too we have to demonstrate to the community that we are using the dollars available to us in an efficient way. So certainly if you look at our wages settings, in this term of government I think they have been fair and reasonable in the context of the previous economic environment. The structure and the operation of our current wages policy works well, and it does not require structural change. What is required of course are adjustments to wages policy parameters in the context of what I think is quite a significant fiscal challenge. The state is—

**Mr HIBBINS:** But do you accept that lowering your public sector wages cap will actually act to suppress wages across the entire economy?

**Mr PALLAS:** I do not, because we are still—

**Mr HIBBINS:** That is what the governor of the Reserve Bank says.

**Mr PALLAS:** Well, I do not think he has stated that in context of the state of Victoria. What he said is that if you suppress wages, and I presume he is looking at the behaviour most notably of other jurisdictions—we have, for example, Mr Hibbins, not reduced wages for anybody, any worker in the public service currently covered by an enterprise agreement.

**Mr HIBBINS:** As a point of clarification, the governor of the Reserve Bank in 2019 appeared before the federal parliamentary economics committee and said that federal and state government wage caps of 2 to 2.5 per cent across the country were helping to depress wages by setting the standard in the private sector. Now, you have just lowered it to 1.5 per cent now. You have gone backwards.

**Mr PALLAS:** Well, what we have said of course is we have provided 1.5 plus an extra 0.5 based on performance and negotiated outcomes, so 2 per cent is a more realistic assessment of it. But we will permit wage outcomes of 1.5 per cent with appropriate transitional provisions. Any additional changes to other allowances and conditions will be capped at 0.5. So that is within that 2 to 2.5 per cent range. But I do make the point: compared to other states these arrangements are comparatively quite generous, and certainly during the course of the pandemic—

**Mr HIBBINS:** Do you think it is generous to cut the wages policy to 1.5 per cent?

**Mr PALLAS:** Well, we are not cutting wages; let us be very clear about that. This is for new agreements, not for existing agreements. Agreements that are in place, and that covers the vast majority of the public service, will continue to be honoured. So it is an absolute nonsense to suggest there is a cut in wages. What we are saying is new agreements going forward need necessarily to reflect the material circumstances of the capacity of the state, and we cannot ask business to make a contribution towards budget repair and a responsible management of our finances without the state demonstrating that it is doing exactly the same. This is—

**Mr HIBBINS:** But when you say ‘the state’, that is public sector workers.

**Mr PALLAS:** Well, the state makes choices around budgets. We resource our effort to provide services to the community, and the vast majority of those contributions are in wages. It is our greatest output area.

**Mr HIBBINS:** So it is not just the top end of the town that is helping you get back into surplus, it is public sector workers.

**Mr PALLAS:** Well, there will be no reduction in real wages, Mr Hibbins; let us be clear.

**Mr HIBBINS:** Can you guarantee that, with CPI, given inflation, listed between 1.5 and 2.0?

**Mr PALLAS:** Well, all I can do is refer to where it sits at the moment, and it sits around 1.5 per cent. So under our wages policy that provides for up to 2 per cent, there is every reason to believe that when you look at the existing agreements continuing to run their terms and you look at the provisions that we put in place, that will enable the public service to get to 2 per cent. It is entirely unlikely and I suspect unreasonable to assume that there will be a drop in real wages.

**Mr HIBBINS:** Can you guarantee it? Can you absolutely guarantee that no—

**Mr PALLAS:** Well, I think the policy guarantees it, Mr Hibbins, and if it does not, the government of course reserves the right to review its policy. We are not about a low-wage economy—

**Mr HIBBINS:** But we are in a low-wage economy.

**Mr PALLAS:** but we are about the efficient use of government resources to protect the wellbeing of the community and the welfare of our employees.

**Mr HIBBINS:** Do you accept that we are now in a low wage growth economy?

**Mr PALLAS:** I think we have been in a low wage growth economy, Mr Hibbins, for the better part of a decade.

**Mr HIBBINS:** And what is your plan to increase this low wage growth? Because at the moment you have got a plan to add to the problem, not improve the problem.

**Mr PALLAS:** Well, I understand that the Greens would have a policy that we should just pay wages and not care about the consequence upon the taxpayer, but that is not the position that this government adheres to.

**Mr HIBBINS:** Well, no, let us—okay, you may cast an aspersion about me, but I am actually looking at the advice of the governor of the Reserve Bank, which has actually indicated around a 3 to 4 per cent growth in wages. Now, you are setting a wages cap at 1.5 or, you know, with ability to go up to 2 per cent.

**Mr PALLAS:** Yes, and—

**Mr HIBBINS:** That is lower than the advice of the governor of the Reserve Bank.

**Mr PALLAS:** Mr Hibbins, I do not think the state should necessarily be the outlier in terms of wage outcomes. And let me make the point: we are about one-seventh of the economy; if we start to pretend that we therefore use our wages policy to drive economic opportunity, we can do that to a modest extent, but we cannot pretend that we are 100 per cent of the economy or indeed that the price that we put on labour will necessarily have an impact right across the labour market. What we can do is make a contribution, and we have done that by preserving real wages of workers, by being the best performing state when it comes to public service wages for quite some time—in fact I would suggest the better part of our time in government—but we cannot deny the economic circumstances that we confront. And the government, having made the choices we have, have sought to ensure that there is no reduction in real wages of the workforce.

**Mr HIBBINS:** Given that point that you are citing, that Victoria cannot go it alone, and given that the governor of the Reserve Bank has raised public sector wage caps at the state level and the federal level as, you know, a significant contributing factor to the low wage growth we are seeing across the entire economy, public sector wage caps—have you raised that either through COAG or the board of Treasurers? Are you discussing this with your state colleagues?

**Mr PALLAS:** About the wages of each—

**Mr HIBBINS:** Public sector wage caps and low wage growth.

**Mr PALLAS:** Well certainly, Mr Hibbins, the state of the economy and of course wages more generally are a topic of discussion that you would expect that treasurers would discuss. The state of Victoria, might I say, is generally considered to have adopted a somewhat different approach to the other states, who have actively sought to bring down the value of real wages that they apply to their public servants. That has not been the position of this state. It continues not to be the position of this state, but we have had to moderate wage outcomes, and we have done that deliberately. It has been the subject of discussion, and we proudly stand by the approach we have adopted. We think that it has done more to effectively demonstrate the comparative performance of the Victorian economy than most other interventions. But we do have to realise that we work with a finite resource and we have obligations to the Victorian taxpayer to make sure that that resource is being adequately and effectively deployed to their wellbeing.

**Mr HIBBINS:** How much does lowering the wages policy save the budget?

**Mr PALLAS:** Look, I think in broad terms I will deal with it. What we anticipate is that this policy together with efficiency savings that we have identified will have a substantial benefit—so the measures that we have included around savings, back office costs, adjusting government's wages policy, aligning departmental funding indexation with actual inflation forecasts for non-wage growth. So aggregated, the actions that we are taking to reduce the level of output expenditure, including the revisions to our wages policy, will have an effect

which, together with the \$1.7 billion that we have put in place for base and efficiency reviews—when you add them all together—comes to about \$3.57 billion all up over the four-year forward estimates.

**Mr HIBBINS:** I mean, looking at those savings measures that you have talked about as well, are you putting basically the surplus that you indicated in the long term—I mean, that is where your surplus is coming from, isn't it?

**Mr PALLAS:** I beg your pardon?

**Mr HIBBINS:** That is where your surplus is coming from. It is the savings in the wages.

**Mr PALLAS:** Well, I think it is little banal, really, to simply say that it is only your efficiencies that are bringing you surplus. Of course—

**Mr HIBBINS:** Well, \$1.4 billion in 2024–25 is not a small amount of money, is it?

**Mr PALLAS:** Mr Martine will be more than happy to take you through the speech he gives me and he gives this committee regularly that budgets are made up of literally thousands of decisions. And our fiscal aggregates show us that we are getting greater inflows of revenue into the state's coffers as a consequence of the economic upswing. So there are swings and roundabouts in terms of money coming in—

**Mr HIBBINS:** Can you give me a specific figure for the wages reduction, wages cut? I mean, you have given me a global figure. Do you have a specific figure for the reduction of wages?

**Mr PALLAS:** Look, I will have to take that on notice. I think overall there is \$1.9 billion in whole-of-government savings that will be achieved essentially through the cumulative arrangements, and there is \$1.7 billion in base and efficiency review—so the base and efficiency, \$1.7 billion. The more efficient delivery of government savings through ongoing review of expenditure, the review of the forecast inflation, the indexation that is applied to departments' base funding, the non-wage indexation by consumer price index and our wage indexation that is aligned to the government's rebalanced wages policy—those matters; \$1.7 billion for base review, \$1.9 billion for those. But I am happy to disaggregate the numbers for you and take it on notice.

**Mr HIBBINS:** Now, you have previously indicated to the committee that you would not go down the austerity route. But do you accept that, given the significance of the savings measures and given that you are already lowering your wages policy in a time of low wage growth already, these are actually austerity measures?

**Mr PALLAS:** No. Goodness. Look, this is a budget. I cannot believe that you would even—having seen the level of investment that the state is making through this budget, of course \$19 billion of greater output expenditure and \$7 billion of capital expenditure on the back of \$49 billion worth of extra expenditure just back in November, nothing could be more preposterous as a proposition than to suggest that this government is doing anything other than making very considerable investments in the material wellbeing of the community, our workforce and ultimately the functioning of the economy. Austerity measures do not look like anything like this government has put in place.

The obvious thing to mention: on top of employing more public servants to deal with mental health issues and child protection and the continuing contribution of teacher tutors in our schools, this government is investing in building more material wellbeing for the state, whether it is on the infrastructure side, the fact that we have a four-times-greater capital investment through GII going forward each and every year. That does not bear even the vaguest reference in reality to austerity.

**Mr HIBBINS:** These specific measures.

**Mr PALLAS:** This is a progressive, substantial investment in the wellbeing of the community.

**Mr HIBBINS:** So these specific measures you do not see clawing back—there is one financial year, 2024–25, where you have got almost \$1.5 billion worth of cuts to the public sector. You do not see that as an austerity measure. Clearly there are going to be workforce impacts with that level of savings, aren't there?

**Mr PALLAS:** Well, let me make the point that our expectation is that over time we will continue to see the Victorian public sector grow, not reduce. That is not what austerity looks like, Mr Hibbins, when you grow your public sector workforce. What it does mean is that we will expect greater mobility to redirect our employees through the industrial agreements that we have—the better practice employment code, which enables us to redeploy workers to areas of need—and the required improved focus that the government is putting in place.

**Mr HIBBINS:** In terms of the actual positions now that are going to be abolished, what is the impact there? How many actual positions are going to be affected by these savings?

**Mr PALLAS:** Well, there could well be none.

**Mr HIBBINS:** The positions themselves. Not all workers are going to be able to redeploy.

**Mr PALLAS:** Who says? We are putting a substantial investment into retraining the workforce into the areas of need. Now, it may be that you take the view that governments cannot more efficiently deploy to their priorities—I do not know. But if that is your view, then you are effectively consigning yourself only ever to redistributing the growth in the economy that comes in via revenue.

**Mr HIBBINS:** Will you release the basic expenditure reviews? Will you release those reviews?

**The CHAIR:** Thank you, Mr Hibbins. Your time has expired, and I will pass the call to Mr O'Brien.

**Mr D O'BRIEN:** Thank you, Chair. Good morning, Treasurer and everyone. Welcome to the main game today. Obviously this is the thing everyone is watching. I am going to follow on with some questions along the lines of Mr Hibbins, but I will see how you go roving to two different ruckmen, Treasurer, because this will be a slightly different approach. Your media release on 15 May claimed a \$3.6 billion program of initiatives to reprioritise government spending. Now, presumably those are the figures that you just went through—the \$1.7 billion and the \$1.9 billion. How is it that you are actually going to deliver those savings? Employee expenses are now up more than \$30 billion, up 17 per cent, over this budget, and the government has never delivered employee expense growth under 6 per cent. It has averaged even higher than that throughout the seven budgets that you have presided over. How can Victorians have any faith in the credibility of your forecast that you will actually save money on employee expenses?

**Mr PALLAS:** Well, that song by Stealers Wheel keeps coming into my mind. I am being criticised for one thing on one side of the political equation and the exact opposite from the other side—clowns to the left of me, jokers to the right.

**Mr D O'BRIEN:** Give us what the actual answer is then, Treasurer, because you have just tried to say, 'Oh no, we're going to still be very generous to employees, and there's still going to be growth in public sector employees', and yet you are claiming that there are going to be these savings. How can the two match up?

**Mr PALLAS:** If you look at our employee expenses numbers, including superannuation, we are expecting to see an increase of 9.6 per cent this year—that is, from 2020–21 to 2021–22. Now, that is, as you would appreciate, as a consequence of the very substantial investment we have had to put in place in order to assist the community during the ravages of the pandemic. That growth is expected to moderate to 2.5 per cent over the forward estimates for 2024–25. Now, we have been the subject of criticism from Mr Hibbins and his party for seeking to run efficient expenditure and make sure that we can align with the community's needs and therefore seeking to wind back expenditure, and that is exactly what this budget seeks to do. The increases, of course, in the 2021–22 budget initiatives are as a consequence of investing in the delivery in public health services, the government's response to the royal commission into our mental health system and, perhaps most importantly, investing in our government schools, but it also does reflect some growth consistent with public sector enterprise agreements, including things like the recent agreement formalised with Victoria Police, the Victorian public service and paramedics.

So we have had increases, which probably make Mr Hibbins happy and you not quite so happy, but in practical terms what the government is doing is making a very clear and decisive decision to implement the base review findings in those departments that we think have the capacity and are not distracted by structural realignment or indeed not distracted by the pandemic effort that has to be front and centre of their obligations.

Our aim here is to ensure that we can make these changes. We have been front and centre about how we achieve those efficiencies, whether it is a wind back in consultancies on base reviews, the realignment and merger of some activities that have been duplicated across agencies or marketing communications functions. It is about making sure that the taxpayer gets a greater efficiency for the deployment of its effort. Our IT services we think we can refine, improve and coordinate better. Those are the sorts of headline ideas that have consistently flavoured our base review. And from the government's perspective we also anticipate that, yes, there will be a redirection of effort. We have already identified some 3000 people that will be required to deal with our mental health reforms. Some 1000 extra jobs will be required for family and children's services.

But the one thing that I suppose you could get some comfort in is as a government we consistently seek to ensure that we run efficient expenditure to meet the circumstances of the time, and I think it is entirely appropriate that a government seeks to review its efficient spend and deployment of staff in circumstances where we have a highly volatile and changing economic environment. We are moving ultimately, progressively and slowly from a situation where we have been dealing with a pandemic that has ravaged our economy to the repair and the growth of the economy and dealing with the long-term consequences that the community has suffered. So that is a change in emphasis and effort.

**Mr D O'BRIEN:** But, Treasurer, what I am trying to understand is you have talked about savings actually being made—\$3.6 billion—and as part of that you have talked about the reduction in the guaranteed annual increase of public sector wages from 3 to 2 per cent and the reduction of the guaranteed annual base increase from 2 to 1.5 per cent. So that is not a reduction in any way, shape or form; it is just slowing the rate of growth in the future. Is that right?

**Mr PALLAS:** Well, anything above zero is slowing the rate of growth, but in practical terms I think it is not unreasonable for people to expect to get a wage increase. And this government's view, whether Mr Hibbins or you like it, is that we believe that people should have real wage maintenance as a consequence of the great work that they do for the Victorian community. We believe our policy does that.

**Mr D O'BRIEN:** When you tell us there will be efficiencies and there will be savings of \$3.6 billion, how do we believe that that will actually be delivered?

**Mr PALLAS:** Well, I suppose—

**Mr D O'BRIEN:** Sorry to interrupt; I should finish. Correct me if I am wrong, but what you are saying is that none of that will be achieved through public sector wage expenses.

**Mr PALLAS:** Well, it will. We obviously—

**Mr D O'BRIEN:** Well, you are not going to be reducing the dollars.

**Mr PALLAS:** Well, you redeploy staff from one area to the areas where the government is putting its future investment.

**Mr D O'BRIEN:** Redeployment does not change the quantum; it is still the same number of dollars being spent.

**Mr PALLAS:** Well, you still have natural attrition across your public service going on whilst you are redeploying to other areas of effort. So yes, you do see, over time, through attrition, through redeployment, a reduction in your staff wages profile. But to give you an appreciation of how that \$1.9 billion in whole-of-government savings will be achieved, it will be through an ongoing review of expenditure in recognition of course of lower than previously forecast inflation. Indexation is applied to departments' base funding. That is going to be revised.

**Mr D O'BRIEN:** Treasurer, I will come to that in the moment. I am focused particularly on the employee expenses at the moment. You have said those figures that you want to reduce with public sector wages increases. Your 2 per cent wage policy delivered in 2019–20 an employee expense increase of more than 7 per cent. The number of public sector employees only increased 1 per cent, but total wages went up 7 per cent. How can you possibly guarantee that you will actually be making any change given what you have done in the past?

**Mr PALLAS:** Well, look, I will tell you what we have done in the past, Mr O'Brien: we have run consistent government surpluses, the largest that the state has seen before the onset of the pandemic.

**Mr D O'BRIEN:** But you are not now. And now is the time when expenditure is out of control. We have got big deficits.

**Mr PALLAS:** So you are advocating I should be winding back wages—

**Mr D O'BRIEN:** And you are saying that you—

**Mr PALLAS:** and staff.

**Mr D O'BRIEN:** I am asking you about efficiency and getting the budget back under control, and I am querying you on the figures that you actually use. So let us just take a look at some of the past budgets. In the 2018–19 budget, for this year's budget what was expected in the out years was \$28.288 billion for employee expenses. The actual figure in this year's budget for the same year is \$31.725 billion. It has gone up 12 per cent in those years. So you have never been able to actually keep in line with what your expectations in the out years are. If I go just to last year's budget, so only in November, only six months ago, the public sector wage bill has gone up over a billion dollars in six months on what you forecast six months ago. The notion that you are going to somehow save money on the public sector wages is just tosh, isn't it?

**Mr PALLAS:** Look, it may come as a surprise to you, Mr O'Brien, but in the course of a worldwide pandemic, and one that's ravages are very substantial in this state, we have had to increase our expenditure on the services that the community needs, whether that is, in effect, a greater level of expenditure for public health care, for police and emergency services workforces. This growth that you have identified—

**Mr D O'BRIEN:** That is all 2019–20. That is 2021. I am talking 2021–22 now, going forward. Unless you are expecting we are going to be locked down and having police at borders again and having to bring in a whole heap of new contact tracers into the department.

**Mr PALLAS:** Three thousand extra workers to deal with mental health issues, 1000 extra workers to deal with family and community protection—those choices have been made in this budget. I will make the very clear point that in the year to June 2020 total public sector FTE increased essentially to deal with increases in public health care, police and emergency services workforces, and of course that is a clear demonstration of the priorities that the community needed to help us through the pandemic and of course will be required going forward for some time.

The only way you can wind back those expenses is to review the efficiency of that spend, unless of course you want to adopt a more wholesale approach like previous conservative governments who set a target of 10 per cent to reduce the workforce. We are not doing that. We are redeploying workers to where the growth and the need exists in the community, and we will do that because it is a responsible use of funds.

**Mr D O'BRIEN:** So talking about the issue of efficiency, you just touched on it then, but you also talked about making all sorts of changes to consultancies and advertising and everything. If there is no change really to employee expenses, the \$3.6 billion that you are saying you are going to save through efficiency, does that just not just suggest that the Victorian government has been running a grossly inefficient public service and operation for the last seven years?

**Mr PALLAS:** Not at all. We actually value the quality of the work that our public servants do. They do an outstanding job, and perhaps no more—

**Mr D O'BRIEN:** I do not disagree. I am talking about the efficiency of government service delivery. If you think you can get \$3.6 billion, surely that says there has been a problem in the past.

**Mr PALLAS:** Well, I will recall that your party, Mr O'Brien—

**Mr D O'BRIEN:** I am asking you about this year's budget.

**Mr PALLAS:** and your coalition partners were very critical of this government when we first announced the idea of base reviews, which are nothing more than the efficient deployment of resources available to

government. I make no apology for this government's consistent effort to try and ensure that the direction of funds is to those areas where the community's need is greatest. We will continue to do that. I have identified how we intend to do it. I have identified why we intend to not lose specific jobs necessarily but to redeploy public servants. We have got the flexibility, we have got the industrial agreements and we have got the will to do it.

**Mr D O'BRIEN:** So, you mentioned government advertising, for example. The Premier came to power—you did; you mentioned government advertising—

**Mr PALLAS:** Marketing?

**Mr D O'BRIEN:** in the answer to Mr Hibbins. The Premier came to power promising to slash government advertising, and yet we are seeing ads now for three-year-old kinder, we are seeing ads now for the Big Build, all the sorts of things. What percentage will government advertising be cut under these efficiencies?

**Mr PALLAS:** Well, I cannot give you an answer to that because it is not something within my capacity to manage or control.

**Mr D O'BRIEN:** You are the Treasurer. You tell the other departments what money they have got.

**Mr PALLAS:** Departments also have a capacity to make choices around how funds for broad marketing and communications are deployed, unless you are expecting that I deal with every subset of expenditure, Mr O'Brien.

**Mr D O'BRIEN:** I would have thought, though, given as you have said all through this morning the importance of the pandemic and supporting Victorians, that anything that is not directly pandemic related at the moment in terms of advertising people to get vaccinated, to get tested, all those sorts of things—anything other than that surely there would be a clamp down on government advertising at the moment?

**Mr PALLAS:** Certainly there is no doubt that the government's priority is about making sure that the communication we give to the community is focused on their wellbeing at the moment, but wellbeing is managed through a variety of ways and of course part of that is recognising the services that the state provides to the community—it is vitally important that they are aware of them and utilise them. I agree with you that the focus should necessarily be and is necessarily directed towards the immediate needs of the community, particularly during the course of the pandemic—making them aware of offerings that the government has in place for particular support, whether it be community based or business based.

**Mr D O'BRIEN:** Well, what percentage cut will there be to consultancies for government across the board?

**Mr PALLAS:** Look, that would require me to disaggregate across each of the base reviews—

**Mr D O'BRIEN:** But you cannot say there is \$3.6 billion of savings and then not be able to tell me where they are coming from.

**Mr PALLAS:** We have done the work, Mr O'Brien. I have given you the number in aggregate at \$1.7 billion. I have not disaggregated it across each of those savings areas. Those are matters that the government has considered and the government is meeting. We will hold ourselves to account for the base reviews.

**Mr D O'BRIEN:** Has that disaggregation been done? Can it be provided on notice?

**Mr PALLAS:** The disaggregation has been done by department and that has been provided in the budget papers, and we can certainly direct you to those by department.

**Mr D O'BRIEN:** Secretary, is that something that could be provided on notice to us?

**Mr MARTINE:** I am happy to take that on notice. As the Treasurer mentioned, the \$1.7 billion base review savings have been disaggregated by department. They have been allocated to each department, and you will find them in the summary tables in chapter 1 of budget paper 3. At the end of each table it has the new output initiatives. There is a line that is called 'Base and efficiency review'. They have been allocated across, and there

is a paragraph under each department that then goes on to explain the main nature of those savings, how each department will deliver. Essentially it is up to each department and secretary to work out how best to deliver those savings, so you will see in some of the text included there is reference to cutting back on consultant expenditure, doing more in-house; some other departments have a different emphasis. So there are separate words for each of those sitting under each department, and that covers the \$1.7 billion.

**Mr D O'BRIEN:** I think Mr Hibbins may have asked for data on the base reviews. Is that able to be provided to the committee on notice?

**Mr PALLAS:** No, the base reviews are documents that have been considered in cabinet. They constitute, and we have delivered and identified, the savings that we expect to make. As you would appreciate, we will work those matters through now, as is our obligation, with our workforce, our managers and of course the relevant unions.

**Mr D O'BRIEN:** Okay. Can I move back to taxation. The federal budget will increase the funding to Victoria by \$6 billion in this budget. At what point and what date did you become aware, Treasurer, that there would be that additional funding coming from the federal government?

**Mr PALLAS:** You are talking GST allocations?

**Mr D O'BRIEN:** The lot—grants, but GST is obviously the main component.

**Mr PALLAS:** Mr O'Brien, what has occurred in terms of the allocations—and predominately the GST is the principal source of allocations from the commonwealth—we have to be very clear that the commonwealth budget showed that commonwealth grants will increase by \$265.5 million over the four years to 2023–24 compared to the midyear economic outlook. A number of these grants do require the government to make decisions, so a relatively modest uptick in terms of those grants. I have made the point, and I will continue to make the point, that we are seeing GST drop from about 98 cents in the dollar to 92 cents in the dollar from the commonwealth.

**The CHAIR:** Thank you, Treasurer. Ms Richards.

**Ms RICHARDS:** Thank you, Treasurer, and officials for your time with us this morning. Like Mr Hibbins and Mr O'Brien, I am also interested in public services. Throughout the pandemic Victorians have relied on their public services more than ever. I would like to refer you to budget paper 3, page 138. Can you please outline how this budget ensures the government will have the revenue base to continue to provide the essential services that Victorians rely on?

**Mr PALLAS:** I suppose the important thing is that the government continues to ensure that it has the revenue to provide what are essential services that the Victorian community both need and deserve. Whether it is education, health, road, rail, we have run an agenda that has delivered for all Victorians and we have put in place a very substantial strategy to grow the economy by making investments in those areas of opportunity and aspiration that the community require.

Of course the global pandemic has shown us all that governments need to be focused on the needs of their citizens, particularly their welfare in circumstances as we confront at the moment, so that has been our continuing aim and our consistent objective. We are going to continue to ensure that we make it through to the other side, so as a government we provided more than \$13 billion to help communities and businesses through the pandemic. We also invested billions of dollars into our health system to respond to the pandemic's impacts and to also make investments to protect our frontline services. We believe as a community that we are only as strong as our most vulnerable members are and therefore the investment that we have put has been very much focused on those in the community who are most exposed both to the health ravages but also the economic ravages of the pandemic.

So we need to measure our progress by how we look after those most in need and of course by how we create opportunities for everyone, not just the select few who have done reasonably well out of this event. Interestingly, President Joe Biden I think summed this up exceptionally well when he said we need to grow our economy from the bottom and the middle out, and that is vitally important. This is not trickle-down economics that this government is pursuing. This is making sure that we grow from the base and from the bulk of the

community and the economy, looking after the welfare of those people. Put simply, we need what should be described as an inclusive recovery, and that means inclusion has to involve a sense of mutual engagement and collective destiny, and that means of course that many who have done well we are urging to recognise that they have a contribution to make to the wellbeing of the many.

So we are going to continue to progress with our fiscal strategy. The government needs a stable and reliable revenue base to be able to do that. Revenue forecasts have recovered—there is no doubt about that—and they have recovered quite dramatically in many cases, in part through the government's deliberate interventions in the economy, including building confidence, supporting jobs. So what I would describe as counter-cyclical investment is actually working; it is growing the economic activity of the state. So these interventions are likely to be sustained going forward. It is clearly the government's intention to grow the economy, with many of the investments that we have made scheduled to flow through the economy over the next couple of years.

The point I would make is we had the biggest budget that the state has ever seen in terms of interventions and investment in November. We have wound that back in terms of the size of the investments that we have made, but a second investment is now occurring. It has been very substantial. What we have seen is total revenue from the general government sector is expected to be \$74.6 billion in the 2021–22 year—an increase of \$3.3 billion compared with 2021. Total revenue is expected to grow by an average of 4.6 per cent a year over the forward estimates and ultimately reach \$85.3 billion in 2024–25.

In the budget the government has also delivered and strengthened its revenue base through the introduction of new initiatives, targeted initiatives that recognise that some sectors in the community have done reasonably well—they are not as adversely impacted by COVID-19. And what we have seen in a long period of low interest rates is that asset values have very, very substantially increased. Of course those who have substantial assets will see that their wealth is substantially appreciating.

This need is also compounded by the need to arrest the changes that we are confronting from the commonwealth. I started to allude to this to Mr O'Brien, but I think even the Liberal-National parties have agreed that they believe that they need to send a very harshly worded letter to the commonwealth about the way that they are treating the state of Victoria. Believe me, it is nothing short of a disgrace—a national disgrace—because essentially what we have seen here is the commonwealth changing the GST rules and that will cost Victoria \$1 billion a year. Indeed this will be the greatest single writedown against any state in the history of the GST, and it is politically motivated, make no doubt about it. The decision is aimed to manipulate the GST system—

**Mr D O'BRIEN:** The grants commission is politically motivated?

**Mr PALLAS:** The grants commission under direction from the federal Treasurer. It has been taken to advantage big mining states. God knows why you need to advantage big mining states when we are seeing commodity prices quadruple over the last 12 months, two years. It is incomprehensible really to understand why such harm would be sought to be inflicted upon the Victorian economy.

You also have to wonder why any government would ever enter into an arrangement that gave the commonwealth the responsibility to disburse funds on what were preceding taxes, because what we have seen is that the commonwealth likes to manipulate it. Now, I do not say on occasion it has not worked to the interest of Victoria, but rarely, very rarely is that the case. What I can tell you is that we are going to see our GST share drop from about 98 cents in the dollar progressively down to about 92 cents in the dollar and that is going to have a profound effect. Perhaps even more disturbing than the reduction in the revenue is the damage from this happenstance of change that the commonwealth seems to enjoy year on year where it is almost impossible for any Treasurer in any state to be able to make clear and coherent decisions about long-term expenditure because of the fluctuating fancy of the commonwealth and the Commonwealth Grants Commission.

But from our perspective, going forward the government can continue to build on the key infrastructure investments that we have made, whether it be our \$3.8 billion in mental health, whether it be the \$3.7 billion to meet demand in hospital services, whether it be \$3.2 billion for public transport services, \$1.6 billion for school infrastructure or \$1.2 billion to support children and families. It includes the expansion to protect our workforces—\$759 million; and more funding for paramedics and triage care—something that is very real and apparent in the current environment, dealing not only with the pandemic but the backwash of the embedded

problems that the community has suffered. That is why we are seeing a peak in expenditure and that is why the government has had to seek to replenish its revenue base, why it has had to do it in the context where the commonwealth has instituted the single greatest writedown in GST revenues against this state. We do that largely because in order to run our processes of fiscal repair we have had to come to the inescapable observation that we will have to manage this ourselves and the commonwealth are not there to give us much help along the way.

**Ms RICHARDS:** Thank you for those insights, Treasurer. You outlined in budget paper 2, chapter 3, pages 45 to 56, a key reform in this budget is the early intervention investment framework. I am interested in understanding that. Could you perhaps outline to the committee why the government has decided to adopt this particular framework and how you see it changing the way the government delivers services?

**Mr PALLAS:** I would say that this is a work in progress. I have been very anxious not to overstate this because there is a considerable amount of work that needs to be put into this area. But it is good to see that this is not a one-off flight of fancy by this government. We are seeing governments increasingly around the world making decisions about how they best scope what are the choices that are being made between prevention and acute presentations in the way that the government makes choices.

So what we are investing here is in reform that puts people at the centre of service delivery, continuing to transform the way that government delivers services to people, with a shift, really, towards intervention and diversion rather than the acute presentations of problems. An early intervention approach really informs major initiatives in this budget, including the government's response to the Royal Commission into Victoria's Mental Health System. The budget's investment in early intervention, of course, continues to show that the government is focused on pursuing interventions that improve outcomes and also avoid growing acute service usage.

There are many benefits to an early intervention model, sometimes ones that Treasurers have been reluctant to acknowledge. The problem is, and it is a reasonably simple one to describe, that the benefit of the early intervention often does not demonstrate itself, either apparently in the short term but certainly it takes longer for those investments to demonstrate their value. Whether it is early intervention in child and maternal health, whether it is the way that we deal with presentations into our justice, you often do not see the financial return on those interventions until further down the track. But that should not be an excuse for distorting the choices we make as a government, because nobody would argue that early intervention is a bad thing. I mean, the old saying is, 'A stitch in time saves nine', and believe me, that is true if you make the right interventions. But you have to be able to manage it, you have to be able to effectively account for it, otherwise the dollars that we are saving effectively are lost into the ether, and we need to find ways by which we can better account and ensure that we get value for money. So there are many benefits to an early intervention model.

The proportion of government spending on prevention and early intervention programs could be much higher. The government has made a start in recent years, with increased spending in areas such as family violence prevention and child and family services. So acute services will always be an essential part of our response. When people are in need and the requirement is apparent and immediate, then of course government has to provide those services. But it would be a much better world if we could get that balance between the immediacy of the acute presentations and the value of avoiding those acute presentations by investing in the wellbeing of the community earlier. So that is essentially the philosophy underpinning it.

Without early intervention assistance, of course, there is a higher likelihood of people ending up in acute care services and these problems become increasingly entrenched, thus increasing vulnerability, and there is a concern of the impact that this has intergenerationally upon a community. So if you can avoid presentations that are impacting upon young people—we know the early years of life are some of the most dramatic, both in terms of personality but also economic opportunity going forward—early intervention not only saves money but gives people a greater opportunity to actively participate in more well-rounded, robust, happy and economically efficient and valuable lives. There are significant costs to the economy of those lost opportunities. By not providing timely and effective assistance what we see is that people's ability to gain and maintain employment is directly affected, causing workforce participation and labour productivity to decline. So this is a very coherent and well-structured economic strategy. What we need to do is make sure that the accounting accords with the common sense and the economic.

In addition, I think there is also a cost to the budget. The scale of related avoided costs is estimated to be quite large: up to \$93 000 per program participant by diverting young people away from criminal activities; around \$65 million by targeting preventable hospital admissions and unnecessary interventions; and upwards of \$53 million across health services, human services, justice services, by supporting Victorians at risk of falling into chronic homelessness.

And they are just a few examples of the interventions that the government has been making in this area. This makes sense, and not only is it innately common sense but it has to become part of the way that we structure our budgets going forward. So this year of course we are providing a further \$324 million over four years towards 10 initiatives that will intervene and direct effort away from acute services. To support this new approach and to help build on it in the future, the government is also developing an early intervention investment framework similar to the New Zealand wellbeing budget model, and that framework will closely track the success of those first programs that we are putting through this arrangement aimed at delivering specific outcomes and making sure that fewer Victorians end up needing acute care. The package includes initiatives that offer early support to a diverse range of Victorians. It includes people with chronic health conditions, patients waiting to receive elective surgery, Victorians who are at risk of chronic homelessness, families showing early signs of vulnerability and at risk of interacting with the statutory child protection system, and disengaged young people.

The government will build on these initiatives in future budgets. So this is a start, it is not a finish, but it is a critically important start. As a government we recognise that budgeting cannot be all about accounting. These are not just abstract numbers, these are the lives and the wellbeing of Victorians. So making sure that we have got a system by which we can satisfy ourselves that our money is being put to good use and it is being put to good use for early and positive outcomes for the wellbeing of the community—that is what this is about. It is potentially quite revolutionary in terms of the way that we choose to make this work, but we will not do it without being able to demonstrate that it makes good economic and accounting sense as well. So we have got a toe in the water, and you will see more positive outcomes going forward.

**Ms RICHARDS:** Thank you, Treasurer.

**The CHAIR:** Good timing. Thank you. Mr Limbrick.

**Mr LIMBRICK:** Thank you, Chair, and thank you, Treasurer and team, for coming in today. I thought I would start right at the start: budget paper 1, page 1. I will just quote something from your speech that you opened with. I re-read it this morning actually. It says:

If 2020 was a year defined by anxiety and fear ...

This year in Victoria is defined by the relief and joy of normal life resuming.

Workers are returning to offices, shops and restaurants.

Guests are arriving at parties and weddings.

Footy fans are packing into stadiums.

Of course, we must also remain vigilant and follow the expert health advice to keep each other safe.

But there's a new sense of freedom as we leave the house without wearing masks, meet with friends, and plan for a holiday.

That was a week ago. I mean, do you think that is going to age well?

**Mr PALLAS:** I suppose if you turn to the next page, you will probably see my next point, which says, 'But this isn't over until it's over for all of us'. Nobody was in the point of Victoria's declaration of victory. We understand, Mr Limbrick, that we are in a worldwide pandemic, and nobody is pointing a finger of blame around how we have seeded from South Australian quarantine the pandemic back into a community that was effectively, geographically, free of the virus. But it is going to be a problem that is going to continue to pose a risk and confront jurisdictions going forward. We have to recognise that. Every state in the country, I think, has had to confront these seeding exercises, and it is largely because, well, we can pretend this is over but it is not. This is a real risk. It is a real and present danger to the wellbeing of the community. We have to take appropriate actions.

Am I disappointed that of course where we were a week ago is not where we are today? Yes, I am. I think I can say that I am reflecting the general disappointment of the community. We have had a community that has made an enormous effort and, might I say, a bureaucracy who have worked tirelessly to try and keep us safe, but this

dance will go on until we have got to a point where every Victorian has got to a point of being vaccinated, and as quickly as possible.

**Mr LIMBRICK:** Thank you, Treasurer. It certainly does highlight some of the challenges in budgeting, I suppose. I would like to discuss a few things about taxes. I know we have talked about taxes many times before. With the new mental health levy I think it said in the budget paper that you will legislate that all revenue raised will be spent on mental health. How will that work exactly? Is that like a hypothecation, or how do you mean 'legislate'?

**Mr PALLAS:** It will require the government effectively to indicate where the expenditure has gone. What I am told is that under clause 38 the new section 365A of the *Mental Health Act* is to provide that the Consolidated Fund is appropriated to the extent necessary to enable amounts collected by the mental health and wellbeing surcharge to be spent on the provision of outputs within the meaning of section 3 of the *Financial Management Act* that are consistent with and promote the objectives of the *Mental Health Act 2014* and the mental health principles set out in section 11 of that act. So the purpose of the new section 365A really is to enable amounts collected by the surcharge to be spent on the provision of outputs that are consistent with and promote the objectives of that Act and the mental health principles and to ensure that all amounts collected by the surcharge are to be spent on the provision of mental health services. So it is a pretty solid obligation on the state.

**Mr LIMBRICK:** Okay. Thank you. Another thing with the surcharge I would like to ask: it only applies to businesses with payrolls over \$10 million nationally. Do we know what percentage of the workforce works for businesses with payrolls over \$10 million?

**Mr PALLAS:** Well, it is a very small number. If I were to take you through the mental health levy, the investment in the budget of course, as we have indicated, is likely to support some 38 000 jobs, and the jobs that we are proposing to create in mental health, some 3000 of them, will play a very substantial role in that. We are asking the largest 5 per cent of employers to increase their contribution on payroll tax so that Victorians, including businesses, can benefit from the rebuilding of our mental health system. So our expectation is that the \$10 million national payroll will affect about 5 per cent of all Victorian employers.

**Mr LIMBRICK:** That is the employers, though. How many people work for those companies that have those \$10 million payrolls?

**Mr PALLAS:** Oh, look, I would have to take that on notice in terms of giving you the numbers.

**Mr LIMBRICK:** All right. Yes, if you could take that on notice, that would be great. There has been some talk about—I am not sure whether they were unintended consequences or not. I know that universities and some other businesses have been saying that, 'Oh, we didn't see this coming'. Will there be any sort of exemptions to this, or is this just the way it is?

**Mr PALLAS:** Well, the government's intention is that the levy as stated should apply in the terms that it does, recognising that universities are very substantial employers. Certainly from our perspective we have put in literally hundreds of millions of dollars of support to the university sector during the pandemic. We accept that our university sector have made a substantial contribution to mental health, but that is really not an excuse to exculpate themselves or might I say any other good employer that cares about the wellbeing of their workforce. What I have said to the vice-chancellors of the universities is the government stands prepared to have a discussion with them about how we can continue to assist them through what will be substantial ongoing ravages of the pandemic. They will particularly be one of the more directly hit industries, as you would accept, and we are in discussions about what we can do not to dilute the focus and the consistency of the mental health levy but what we can do to assist them, given that our expectation is that these costs to them will come somewhere in the vicinity of about \$50 million a year collectively in terms of payroll tax.

We accept that they are probably not in a strong position to be able to do that at the moment, and we are going to work with them and see what we can do. I do not want to give them an exemption to the provision of this, because quite frankly there will be many other businesses who deservedly and realistically will be able to say, 'Well, we've had a pretty hard time of it too', but we do need to recognise that businesses are the principal beneficiary of these arrangements: \$1.9 billion worth of improved productivity by addressing mental health

concerns—over \$14 billion worth of retarded economic opportunity as a consequence of our mental health problems right across the community, as the mental health royal commission told us.

So our aim here is not to put in place exemptions but rather to deal with the specific manifestations of the problems that each industry confronts in terms of dealing with a pandemic rather than to say, ‘You’re a special case in terms of your obligations to mental health’.

**Mr LIMBRICK:** Thank you, Treasurer. And on the topic of universities, on budget paper 2, page 109, there is a statement in there about how international students equated to \$13.7 billion in service exports in 2019 and two-thirds of our population growth in 2018–19. Obviously everyone knows that this is a huge part of the Victorian economy. However, what sort of confidence do we have that these students are going to return? Because I know that there have been international universities openly trying to steal Victorian students. I think I read something about the UK—they were advertising, you know, ‘Come to us instead’. Like, how do we know that these students are going to come back, and what is the impact if this sector suffers substantial student losses?

**Mr PALLAS:** Well look, they are a vital part of the economy of Victoria, our universities. And I might say that is why we have stood in contradistinction to the federal government, who really have not given any assistance to this sector through the trepidations of the pandemic. And I say that because I do worry for the sector in the long term. We know that the expectation of the commonwealth contained within their budget is that we will not see a return of university foreign students until some time in 2022. They have already effectively lost a full academic year in terms of bringing in students, bringing in the revenue that is such a vital part of universities. And of course they are themselves a vital part of the innovation and entrepreneurship that we see as necessary to grow the state.

So yes, we are concerned about the fact that there will be delays. I know there are discussions going on with the commonwealth around how we might be able to bring them in, whether it be from this state or other states. I know New South Wales and South Australia and indeed the ACT have put forward proposals about bringing in at least some demonstration and giving some hope to the markets in which we provide our foreign student university opportunities, but as yet we have not been able to land that. And I know that the vice-chancellors at the universities are very concerned about the failure to at least give some hope into those marketplaces. And you are absolutely right; there is no doubt that there is predation going on of the market, and we need to be able to give some hope to the administrators of universities and those academics who have found that their careers have been curtailed due to a lack of activity.

But the long-term impact this will have upon our international education and of course the innovation of our universities sector is quite troublesome. So from a government point of view we are very focused on what we can do to try and bring this activity in. In this budget, the 2021–22 budget, we put some extra funding into our TAFE sector. We have recognised that our TAFEs are encountering difficulties of a similar nature in terms of the loss of student bodies. But of course we continue to make investments in our university sector, whether it be for student welfare payments or whether it be for payments that we have made in terms of higher education investment and innovation strategies, to try and relieve expenditure that the universities themselves would otherwise have either avoided or had to bear themselves during the course of the pandemic. There are challenges ahead for the sector, and I think this government is very conscious of them.

**Mr LIMBRICK:** Thank you, Treasurer. Back to taxes again: with this new windfall gains tax, the question has been put to me, and I do not know the answer—I have spoken to a bunch of people about it, and they do not know the answer—how does the cost base for that work? Presumably the idea is that when there is rezoning and the owner of the land gets a benefit, then there will be a jump and then you tax that benefit. But how do you figure out what the original cost base is? Because that has not been clear.

**Mr PALLAS:** Yes, we have got a way to go with this tax. You will appreciate it is not included within the taxes that are otherwise being dealt with through the state taxation legislation.

**Mr LIMBRICK:** But it must be in the revenue estimates.

**Mr PALLAS:** From 1 July 2022 it is in the revenue estimates, and we anticipate that there will be legislation required. We have also indicated to the industry that we know that this is an issue of concern for them and we are going to work with them to deal with it. But we do need an arrangement that will ensure that

the community gets its fair share of the value generated from the governments' rezoning decisions, and by 'governments' I mean at state and of course local government level. We know that there are substantial windfall gains that accrue to landholders when the value of the land increases due to the actions of government, including at the stroke of a pen, really, with government decisions to rezone land. We saw that at Fishermans Bend, which saw massive windfalls and left the state to pick up the tab, really. It is around how you provide for public infrastructure at the new rezoned land the state has to acquire at those higher rates. So we need a system that effectively identifies the arrangements. The way that the tax applies is the difference between the value of the land before and after it is rezoned as determined by the Valuer-General of Victoria.

**Mr LIMBRICK:** Okay. That makes sense, then. This concept of a windfall gain because of a decision by government, I think you said, at the stroke of a pen—if we are going to be consistent, shouldn't we be providing compensation when government actions cause values to decrease?

**Mr PALLAS:** It is hard to imagine what those actions might be.

**Mr D O'BRIEN:** It could be a wind farm next door, for example.

**Mr LIMBRICK:** That is a good example actually.

**Mr PALLAS:** If we get on this slippery slope—and there is an argument about whether it does or it does not—when government makes decisions to invest in infrastructure in and around communities, should we take a capital uplift for that right across the board? It becomes, from the perspective of government, about making a balanced value judgement about where government needs revenue and where probity is best served by putting in place measures to avoid effectively a process where the sugar remains on the table for those who are motivated really to get a positive outcome. We need to ensure that there is integrity in those rezoning processes, and this is a vital first step to doing that.

**Mr LIMBRICK:** One final question: at what point would that windfall tax be payable? Is it at the point of rezoning? One of the things that has been brought to me is people are worried how this might affect funding, because developers are not going to get all the money until they actually sell the thing. So when is it actually going to be payable?

**Mr PALLAS:** Well, there will have to be engagement with the industry, but taxpayers will have the option to defer paying the liability until the next dutiable transaction or subdivision of the land. This will allow cash flow to be managed for some of the payers when the tax liability is incurred at the time of the rezoning.

**Mr LIMBRICK:** Okay. That is a good answer, thank you. One other question I had that was put to me: will it apply to existing landholders or will it be grandfathered and only be for new ones?

**Mr PALLAS:** It will apply for new rezonings. If you are saying, 'Are we going back retrospectively and fitting up people who have taken a massive windfall gain?', no, that is not the intention.

**Mr LIMBRICK:** No, but the reason I ask that is that people speculating that a zoning might occur is already factored into some of the purchase prices already.

**Mr PALLAS:** Well, they can factor it in all they want. They will be dealt with on the basis of the zone at the time. If a rezoning occurs post the passage of the legislation, post 1 July, then the liability will accrue.

**The CHAIR:** Thank you, Treasurer. I will pass the call to Mr Richardson.

**Mr RICHARDSON:** I think it is Ms Taylor.

**The CHAIR:** Ms Taylor, sorry.

**Ms TAYLOR:** All good. Good morning, Treasurer and department officials. If I could refer you to budget paper 3, pages 138 to 140, noting that our government has introduced a number of targeted revenue measures that increase the progressivity of the tax system, can you please explain how these changes will support the fiscal and economic recovery?

**Mr PALLAS:** I suppose the first and most important thing about the question is that the government recognises that the pandemic has been a substantial economic event and it has had an impact upon the way that certain elements of the economy have performed. Economists will tell you that progressive taxation models are not only fairer but more efficient. And from the government's perspective we very much take the view that we are committed not only to making sure that those who have the greatest capacity to pay make a contribution to the wellbeing of the community but also to the fiscal repair that is a vital part of the strategies that the government is putting in place.

I suppose the key to what we are doing is making sure that the system that we put in place is competitive with other tax systems as well. I have taken you through the sorts of problems that we have encountered in, say, comparison with New South Wales, where the progressivity of the tax system I think has been able to be demonstrated to be much more advantageous to business here even after the investments that we are looking at. Take, for example, the investment we are making in terms of land tax. The government is focusing effectively on high-value assets. We are not essentially hitting principal places of residence, so every home owner in the state is unaffected by the tax. Our land tax system of course is one that looks at the cumulative value of land holdings. They are based on the unimproved value of the land, so the tax that is payable is essentially due to the value of the block. That is, I think, a vital demonstration of the government's continuing commitment to make sure that we have put in place effective arrangements to ensure that Victorians get the support and assistance they need through a revenue base that has substantially improved because of asset value appreciation.

That is why we have focused in the revenue repair initiatives around stamp duty and around land tax, and they have produced very substantial asset appreciations. We know, for example, around the value of property CoreLogic are anticipating that we will see property prices increase by about 13 per cent over this calendar year. When you are talking about multimillion-dollar assets, let us take, for example, a \$2 million property—a stamp duty property at the point of purchase—you will see about a \$2000 increase around the stamp duty. But you will also see a capital appreciation over a 12-month period in that purchase of—let us call it 10 per cent and be conservative—some \$200 000 worth of wealth appreciation.

And the same effectively applies to land holdings, albeit much more profoundly in the sense that all the land tax system does is tax on the value of the land asset, not the improved value of the asset. So that basically means that we are putting in place a progressive system, that those who have the capacity to pay do pay. We also putting in place a system that is competitive in many material senses compared to interstate, of course our most obvious interstate comparator point being New South Wales. The practical consequence of that is this will have minimal impact upon our capacity to retain and attract jobs in this state, because the most obvious alternative still remains substantially higher for many of the substantial and material tax interventions that we have made.

**Ms TAYLOR:** If I could now refer you to budget paper 4, page 3, chart 1, really zoning in on the infrastructure pipeline, both planned and underway, I was wondering if you could outline some of the new infrastructure initiatives in this year's budget.

**Mr PALLAS:** The 2021–22 budget includes \$7.1 billion worth of TEI—total estimated investment—in new infrastructure investments. Now, these commitments take the pipeline of new and existing projects to in excess of \$144 billion. We measure this by a metric known as government infrastructure investment—GII. This measure is intended really to capture investment funded or facilitated by the government, and it includes both the government's direct investment and the cash flow estimates for projects being delivered by the private sector through public-private partnership arrangements. So GII is inclusive of investment across all forms of infrastructure investment, and it includes new expenditure in rolling stock, mental health facilities and schools.

The GII is expected to average \$22.5 billion a year over the budget and forward estimates, which is 10 times more than under the previous government—a phenomenal number—and it is inclusive of funds committed on major productivity-enhancing projects, including North East Link, the Metro Tunnel, the West Gate Tunnel, Melbourne Airport rail and the removal of some 75 level crossings by 2025. I mentioned in earlier remarks that the state's current success as an economic and jobs powerhouse owes a lot to the Big Build. Victoria has got the largest infrastructure pipeline in its history by quite some margin at the moment, and our building program will have generated about 177 000 jobs since 2014.

So in terms of the highlights, our infrastructure program this year provides for \$986 million for some 25 new metropolitan trains and to upgrade the Craigieburn train maintenance facility, providing local jobs and services.

Some \$386 million will be provided for our new road safety strategy to develop and deliver new safety technology and improvements; \$265 million for our roads, improving intersections to deal with travel times and planning for the future of our road network; \$242 million in the next step towards turn-up-and-go services in our city's south; and \$94 million to enable high-capacity trains on the Melton and Wyndham Vale lines—or that corridor rather. The 2021–22 budget will invest \$1.7 billion in health and public sector residential aged care and mental health infrastructure, and the key focus of course in these areas will be our hospital election commitments, which we are delivering, and continuing to invest in mental health.

So the significant commitments included in that subset, as it were, are \$898 million to redevelop the Maryborough hospital, build paediatric zones in emergency departments at five hospitals, expand Angliss Hospital, construct a new emergency department at Swan Hill and build 10 community hospitals right across regional and metropolitan Victoria; some \$507 million provided to expand our infrastructure capacity in Victoria's mental health system, including new youth facilities and more acute and forensic beds; and \$65 million for public sector residential aged care, and that will build more beds, particularly in places like Rutherglen and the redevelopment of Camperdown and Cohuna.

Then there is \$1.6 billion that will go into our schools and communities—13 new schools and three additional stages of new schools, and we will expand the capacity to accommodate the growth of six new schools. We will acquire sites for more schools to be built in seven local government areas. What you are seeing here is not only dealing with demand as it presents at the moment but the government making investments, particularly in our education system, to ensure that we build the infrastructure in our education sector to deal with existing demands.

Of course there is our Level Crossing Removal Project, which is ahead of schedule, with 46 crossings removed so far. We said we would have 50 done by the end of 2022—well, we are well in advance of that. Our Big Build, which is, I am sure, a matter that the housing minister will no doubt talk to you about with great glee, is investing \$5.3 billion to increase economic activity. We know that when you invest in public sector housing, social housing, you get the biggest economic multiplier you can get in any state intervention area, and we see that as a clear demonstration of the government's continuing investment in counter-cyclical economic investment. State support—those investments are likely to support 10 000 jobs on average per year during the Big Build's delivery.

**Ms TAYLOR:** Thank you. I note there is a significant body of investment across rolling stock in this year's budget, as highlighted on page 114 of budget paper 3. Could you please outline some of those initiatives? I would probably be particularly interested to hear about initiatives like new trains and—look, to be honest, how they will benefit commuters across Victoria, really. I cannot just think about my own electorate.

**Mr PALLAS:** Well, thanks very much.

**Ms TAYLOR:** Or region for that matter.

**Mr PALLAS:** Yes. Well, you are dead right. The rolling stock is a big part of this year's infrastructure spend. The government has committed over \$7.5 billion to improve rolling stock right across Victoria. Whether it is a new standard gauge, V/Locity for the north-east line or an investment in renewing our tram fleet, we have committed to getting passengers home as quickly and reliably as possible. So the 2021–22 budget invests over \$1.6 billion into new rolling stock, infrastructure and maintenance to improve the reliability, accessibility and safety of our metropolitan and of course our regional rail, tram and train services—well, our train services in regional and our tram services of course in metropolitan Melbourne. The major component of the rolling stock initiative is that \$986 million that I briefly directed you to, which is about designing and manufacturing some 25 X'Trapolis 2.0 trains and upgrading that Craigieburn train maintenance facility.

Of course these will be designed and manufactured predominantly in Victoria, so we have got that double benefit that I have spoken regularly about in the budget, making sure that we deliver the services that the community needs and of course in this case the rolling stock that the community needs for growing demand on our public transport network. But also it produces and retains the jobs that the community needs. In particular, that is a vital part of the government's rolling stock strategy. We said that we would resuscitate manufacturing in this state for rolling stock, and this is probably as clear a demonstration as you can get. The new higher capacity trains are going to provide more reliable journeys, be more energy efficient, improve accessibility for

passengers and replace the ageing Comeng fleet of trains on the metropolitan line; 60 per cent local content and manufacturing, providing a massive boost to Victoria's local manufacturing and rolling stock industries, and they will support around 750 direct jobs for the state.

So this investment will allow us to phase out the Comeng fleet, the longest running trains on the metropolitan networks. They have given us wonderful service, but all good things must come to an end, and with the new trains set to run through some of Melbourne's fastest growing suburbs—like the Craigieburn, Upfield and Frankston lines—the budget invests \$97.7 million to extend the life of some of our oldest trains and trams on the network, and that will ensure that these trains can continue to operate safely while we build and deliver the new X'Trapolis over time. So the funding that we have put in place is very much focused on making sure that we give people transport choices and we give a clear demonstration of our support and commitment for growing our public transport offering, whether it be by fixed six-car configuration, compared to the coupled three-car configuration of the Comeng that they will replace. There is nothing more Melbourne, I suppose, than our trams, and we are putting \$368 million in this year's budget to build on our \$1.5 billion worth of commitment to that network and that commitment of course to deliver 100 next-generation trams. That includes construction of a new tram maintenance facility in Melbourne's north and upgrading the Southbank depot to assist in their rollout. Perhaps I will leave it there.

**Ms TAYLOR:** Thank you. I note that there is a discussion about how Victoria—and we have already touched on this—is placed to deliver an unprecedented pipeline of work, and I might direct you just to page 18 of budget paper 4. So this therefore will mean a lot of work for government departments and agencies to manage. It would be interesting to get your perspective on how we ensure the state continues to realise value for money across their investments.

**Mr PALLAS:** Thanks very much for the question. As I mentioned earlier, you know, since 2014 the Andrews government has announced infrastructure investment that has supported or will support something like—well, more than—177 000 jobs in the economy. It is a very dramatic demonstration of the growth and activity that is going on. Our state capital investment program, whether it be in transport, in health, in education, social housing, emergency services, indeed the arts—all of these areas constitute a part of the GII, which averages \$22.5 billion a year over the budget forward estimates. That is more than four times the 10-year average to 2014–15. So this is not just a blip; this is a long-term commitment from the government to just shift the dynamic in terms of the interventions that government sees as appropriate for the purposes of investing in infrastructure, because without the infrastructure to deal with the needs of the community, we compromise the future.

**The CHAIR:** Thank you, Treasurer. Mr Newbury.

**Mr NEWBURY:** Thank you, Treasurer and officials. Treasurer, the media is just reporting that the government has announced a seven-day lockdown, Victoria's fourth lockdown. Mum-and-dad small business owners are scared, and after last year they have no money left. This will be the first lockdown announced since JobKeeper ended—the first lockdown since JobKeeper ended. Jobs and livelihoods will be destroyed if the state government does not financially support the businesses it closes down today. Treasurer, given that we are talking about people's lives—this is mums and dads and families and their lives and livelihoods—what commitment of financial support will you give small businesses right now?

**Mr PALLAS:** Well, I will make the point that we have stood side by side with Victorians, Victorian businesses, when the necessity for lockdowns has occurred in the past, and we will continue to do that. I am not in a position to obviously talk about an announcement that has just been made and what that will mean in terms of government support. But I will also make the point, Mr Newbury, as you do, that JobKeeper has fallen off, and of course the obligation, in terms of maintenance for the community, has been a substantial part of the commonwealth's intervention. That is no longer an ongoing part, given the termination of JobKeeper, and we would hope that the commonwealth would partner with the state in order to ensure, to the extent that disadvantage is clear, the partnership that has underpinned the relationship so far. The continuing effort that the government has put in place to look after the wellbeing of the community of course is something that we take seriously. We are not in a position to make any announcements or statements at the moment. You would appreciate that we will have to look at how this event unfolds. But you can be assured, as every Victorian can be assured, that this government will stand with them.

**Mr NEWBURY:** Treasurer, as you were speaking, and I accept that you are not willing to make a commitment, I am receiving a flood of contacts. I am sure all the members of the committee are receiving a flood of contacts from their constituencies, from small businesses in their constituencies. One of them is saying to me, has just texted me as we are talking—trying to call me—to say, ‘I am scared. I need compensation from the government now’. What do you say to my small business?

**The CHAIR:** Sorry, Treasurer. I just interrupt to remind Mr Newbury, as we did Mr Riordan earlier, this discussion is in relation to the consideration of the budget estimates, and I would ask you to frame your questions in that regard, please.

**Mr NEWBURY:** What support is provided in the budget, and what would you say in that regard to the small business who has contacted me right now?

**Mr PALLAS:** Well, the first thing I would say, Mr Newbury, is no announcement has been made. I was responding to what you put to me as if it were fact, and my understanding is that the Acting Premier is yet to make an announcement. So to the extent that I have responded to your observation, can I say—

**Mr NEWBURY:** Did you just get bluffed?

**Mr PALLAS:** I have—beg your pardon?

**Mr NEWBURY:** Did you just get bluffed into confirming it?

**Mr RIORDAN:** It is because he lied.

**Mr NEWBURY:** Did I just bluff you into confirming it? Is that what I just did?

**The CHAIR:** Mr Riordan, you have had the call. The call is with Mr Newbury.

**Mr NEWBURY:** I think I just bluffed you into it.

**Mr Riordan** interjected.

**The CHAIR:** Mr Riordan, you talked over your own time. I suggest you not talk over your colleague’s time, and I suggest you both allow the Treasurer the opportunity to answer the questions.

**Mr NEWBURY:** Treasurer, there are businesses contacting me, I am sure with tears in their eyes. This is not a game. This is about people’s lives and livelihoods. They deserve more than hollow words. They deserve commitments from the government. They deserve support from the government. Why won’t you give it to them right now?

**Mr PALLAS:** Well, that is a ludicrous question. First of all, this government has given enormous support—more support, Mr Newbury, than any state government in this country.

**Mr Riordan** interjected.

**The CHAIR:** Mr Riordan, you have talked through your own time. I suggest you not talk through your colleague’s time.

**Mr PALLAS:** The government has made provision in its November budget, as was quite apparent through the support we have given to business. But I think it would be entirely ludicrous for you to suggest that a state government should be left to manage this issue on its own. The commonwealth has stood shoulder to shoulder with us. Are you suggesting that they should not? Are you suggesting that the state should be the sole provider of support to this community? Because if you are, you are consigning people who have not yet had an announcement made—

**Mr NEWBURY:** Well, this is just a ridiculous deflection.

**Mr PALLAS:** You are consigning those people to a substantially less—

**Mr NEWBURY:** Can you please speak to the small business, who I put to you—I put a small business to you.

**The CHAIR:** Mr Newbury.

**Mr PALLAS:** So you are only concerned about what the state might do for the wellbeing of businesses. So it is all political so far as you are concerned, Mr Newbury. This is just a game for you.

**Mr NEWBURY:** Treasurer, small businesses are contacting all of us, I am sure with tears in their eyes. Deflecting to the federal government is silly. Can you please respond to what you are going to do?

**The CHAIR:** Mr Newbury, these hearings are not about constituent matters that may be being sent to us as we speak. They are in relation to the budget papers, and I would ask you to keep your questions in that frame.

**Mr NEWBURY:** Thank you, Labor Chair. Treasurer, in March last year Victoria was the last state to provide support to small businesses—the last state. The Auditor-General later assessed that support, or part of the support, and was scathing, and exposed systemic government failures which ended up hurting small businesses. I am sure those failures led to the closure of businesses. Why should scared Victorian mum-and-dad small businesses have any faith in the Labor government now?

**Mr PALLAS:** Well, what is your question? Does it have anything to do with the budget or are you just playing politics, Mr Newbury? Because in a pandemic let me assure you politics does not work. It does not deal with the virus. It does not attend to the welfare of the people that you pretend to be concerned about. Let me tell you this government, through its actions, has demonstrated a substantial and continuing resolve to look after the wellbeing of Victorians, to help them through this, and your request—

**Mr NEWBURY:** To that point, what is in the budget for the small businesses who are going to be affected by the lockdown now?

**Mr PALLAS:** Well, the budget looking backwards identified the support that the government has given in terms of the previous expenditure.

**Mr NEWBURY:** I am pretty sure that small businesses in Victoria are not looking at the budget papers looking backwards today. They are locking their stores this afternoon, and they do not want to go to the budget papers, Treasurer, and look in the past. They do not want to know.

**Mr PALLAS:** Look, enough of the speeches, Mr Newbury. There are people out there who are very concerned about what is happening. Perhaps we should inject a few facts into the situation rather than your speculation, because can I assure you I have not been part of any decision made this morning because I have been attending this committee. So I do not know with certainty, and you have got to a position where you have effectively stated something. You bluffed—no, you lied, sir—to this committee, and that is an outrage. This is about people's wellbeing and welfare, and I for one do not intend using them as cannon fodder for some cheap political show.

**Mr NEWBURY:** Well, you have just referred to facts. Can you provide a fact as to what support you are providing small businesses moving forward?

**Mr PALLAS:** Well, we have already provided \$13 billion worth of support for businesses, but small businesses as you would appreciate play a crucial role and have been a very central focus of this government. From the onset of the pandemic we have moved quickly to support businesses with a Business Support Fund dedicated to small businesses and the hardest hit sectors in the community. We have made contributions where no others have, Mr Newbury.

**Mr NEWBURY:** No, I appreciate your reflection on the past.

**Mr PALLAS:** I am glad that you appreciate our evidence.

**The CHAIR:** Mr Newbury, you are not allowing the Treasurer the opportunity to answer the question.

**Mr NEWBURY:** I am asking him to answer the question that was put to him. I am not interested in the past, and I understand the Treasurer referred to the historical nature of the budget. I am talking about tomorrow. What is happening for them tomorrow?

**The CHAIR:** Mr Newbury, you asked the Treasurer what was in the budget and he is attempting to answer your question. If you would cease speaking over the top of him.

**Mr PALLAS:** Mr Newbury, whatever comes of announcements that are made, the one thing Victorians can be assured of is that we will stand with them and support them through this. How and in what material terms, we will ultimately have to make a decision about that. That is what governments do that care about the wellbeing of their community. Let us hope that the federal government are prepared to act in concert with us.

**Mr NEWBURY:** I appreciate your point. Secretary, earlier you acknowledged that the budget is based on the future risk of, quote, 'short-term, localised restrictions'. With the government set to announce a statewide week-long lockdown, by your own admission isn't this budget just blown out of the water?

**Mr MARTINE:** Thanks for your question. The answer is no, not at all. As I outlined in the answer to I think the Deputy Chair's question earlier in the hearing, page 22 of budget paper 2, chapter 2, outlines our key assumptions that underlie the budget, and as I noted in my answer earlier, one of the key forecast assumptions we used is that any future onset of COVID-19, whether it is in Victoria or in any other state—so nationally:

... is contained and only results in localised, short-term restrictions.

**Mr NEWBURY:** Thank you, Secretary, and on that point could you please define for me 'localised, short-term restrictions'?

**Mr MARTINE:** As I think I indicated in the answer to the Deputy Chair's question, it really depends on the nature of the restrictions that get announced as to whether you can actually say restrictions of X days are short term and restrictions of Y days are medium term.

**Mr NEWBURY:** I mean, that is a bureaucratic answer if I have ever heard one. What is a short-term, localised restriction?

**Mr MARTINE:** As I indicated, it depends on the nature of any announcement. We have had—

**Mr NEWBURY:** Are four weeks short term? Are two weeks short term?

**The CHAIR:** Mr Newbury, could you allow the Secretary the opportunity to answer your question?

**Mr NEWBURY:** Well, I have asked for a specific answer and I have not yet got one.

**The CHAIR:** That is because you are speaking over the top of him.

**Mr NEWBURY:** Thank you, Labor Chair.

**Mr MARTINE:** So if I can draw on what has happened here in Victoria over the last 12 months, we have had essentially two specific Victorian restrictions. We had the lockdowns last August that lasted through probably six weeks and beyond and then we had the five-day lockdown in February. And clearly—

**Mr NEWBURY:** Would you describe last year's as short-term?

**Mr MARTINE:** I would describe the February lockdown earlier this year as a short-term lockdown, which is consistent with the assumptions we are using here, and I would not describe the lockdown last August that lasted for seven weeks as a short-term restriction.

**Mr NEWBURY:** So going to page 23, which predicts strong growth returning to pre-coronavirus levels by the July commencing quarter, it also acknowledges that the March quarter, which included the lockdown that you just spoke of as short-term, recorded moderate growth. Wouldn't the announcement of a statewide lockdown of perhaps a week, going to your March notation on that page, shred any credibility to the heroic, strong growth assumption?

**Mr MARTINE:** Just referring to page 24, there is a useful chart, chart 2.3, which actually spells out what happened each quarter in terms of economic growth. So you can actually see the significant reduction in the June quarter last year, which was reflective of the very first time all states across the nation went into lockdown. What you do then see is for the September quarter—and that picks up the main lockdown, so the main lockdown here in Victoria, which started in August and was largely in the September quarter—economic growth in that quarter only fell by another 1.4 per cent. You then see quite a large pick-up in the December quarter of 5.7 per cent, and I would not describe the extra growth in the March quarter as soft—it is still coming up pretty strong. And then we start getting back to more normal growth beyond, so—

**Mr NEWBURY:** Can I refer you back to page 23. There is a clear acknowledgement that the growth was not quite as strong.

**Mr MARTINE:** Of course, because as you have a steep decline, as you can see in the chart on page 24, and you get the initial pick-up, which is 5.7 per cent in December, then quite naturally growth in the following quarters is not going to be as high as that. And you see that in some of the national figures. So, for example, growth for the rest of the country, excluding Victoria, in the December quarter was only 2.4 per cent. So often the more you fall, the more you can then bounce back, and once you get that bounce-back effect you then start going back to normal growth. So the growth in the—

**Mr NEWBURY:** So on that point, you are saying that the lockdown in February did not have an effect on growth?

**Mr MARTINE:** The short-term lockdown in February in our view had a minor impact on the economy. I am not going to suggest it did not have an impact—all lockdowns do. But for a short-term lockdown—and these are difficult things to model because you have got to make an assessment on how much activity is simply deferred for the period; so there are people who would have undertaken certain activities that put them off for five days and then undertook that activity, so in that sense the activity is deferred—we do not think it is as much as what has been speculated in the media about the five-day lockdown in February, but there is an impact on the economy, no question about it.

**Mr NEWBURY:** So therefore the prediction of strong growth returning to pre-coronavirus levels may be an assumption that cannot be achieved.

**Mr MARTINE:** I would not speculate on that. It really depends on what happens—

**Mr NEWBURY:** But the budget is framed on that assumption.

**Mr MARTINE:** The budget is framed on further outbreaks being managed with short-term restrictions. So clearly if there was an event like last year, then the March quarter and June quarter might be difficult.

**Mr NEWBURY:** Or if there were lockdowns of more than three to five days, for example.

**Mr MARTINE:** No, but we are talking about very—I mean, you have got to put it in context of the size of the Victorian economy. The size of the economy is \$450 billion, so for the lockdown in February, once you take into account what economic activity was deferred, you are probably talking about \$300 million to \$400 million to \$500 million. So you have got to put it in context of the size of the whole economy.

**Mr NEWBURY:** Treasurer, Victoria's debt levels are now \$156 billion. Our state has the largest debt of any state or territory in Australia. Who is purchasing the debt?

**Mr PALLAS:** Overwhelmingly domestic banks are the principal purchaser. We have got a few asset managers, domestic asset managers. Overwhelmingly it is domestically purchased debt. Just to take you through the numbers specifically: major Australian banks, 33 per cent; domestic and asset managers, 23 per cent; international asset managers, 17 per cent; other Australian deposit-taking institutions, 11 per cent; central banks and sovereign wealth funds, about 9 per cent; and the Reserve Bank of Australia and other domestic governments, 7 per cent.

**Mr NEWBURY:** Are you willing to provide a detailed breakdown to the committee?

**Mr PALLAS:** Well, what was that?

**Mr NEWBURY:** Well, I am mean a clearer breakdown, an identifiable breakdown.

**Mr PALLAS:** Well, look, I will take that on notice. We will have to talk to, I suppose, Treasury Corporation of Victoria, who sell those bonds.

**Mr NEWBURY:** On that point, I do understand that the committee was previously guaranteed that breakdown, and later that breakdown was denied to the committee. What assurance do I have that you taking that on notice will not reach the same outcome?

**Mr PALLAS:** Well, it could. It could well. What I am saying is I have to talk to TCV about what they see as being commercially appropriate in the context of the market that they operate in. So I will go back and speak to them and see if they consider it appropriate in the circumstances.

**Mr NEWBURY:** Treasurer, earlier, when giving evidence in support of the tax attack in the budget, you justified those taxes as being targeted at those who can afford to pay. Why do not you just say what you mean—that this tax attack is an envious class-based tax attack?

**Mr PALLAS:** Well, issues of class might be a matter of concern to you, Mr Newbury, but they are certainly not for me or for this government. Our aim is to make sure that we provide for all Victorians according to their needs and that we seek revenue where we can from those who have a capacity to provide it.

**The CHAIR:** Thank you very much, Treasurer. I will pass the call to Mr Richardson.

**Mr RICHARDSON:** Thank you, Chair. I will work on my alliteration and give it my best shot, Treasurer. A change of speed, because if only politics worked against a pandemic, I want to refer you to budget paper 2, pages 1 and 2, which discuss the government stimulus in response to the pandemic and how that has helped drive the Victorian economic recovery. I am wondering for the committee's benefit if you could please explain how the Victorian government has sought to use the state government to help drive the state's economic recovery.

**Mr PALLAS:** So this is in respect of the stimulus investment that we have made? Well, of course the key for the government has been to make sure that the investment we make and continue to make is about ensuring that we have a strategy that deals with the evident need within the community. One of the most obvious things you can do for the purposes of stimulus is to assist businesses to make their way through the pandemic.

**Mr RIORDAN:** On a point of order, Chair, just if I may?

**The CHAIR:** Deputy Chair.

**Mr RIORDAN:** It has concerned the Treasurer all morning that he has been here and has not been aware of the Acting Premier's announcements on the lockdown.

**Mr PALLAS:** What has that got to do with this?

**Mr RIORDAN:** Just for your benefit, Treasurer, your Acting Premier has announced a seven-day lockdown—

**The CHAIR:** Mr Riordan, that it not—

**Mr RIORDAN:** and the official note is out. It may be of benefit—

**The CHAIR:** Mr Riordan, you are out of order.

**Mr RIORDAN:** in answering the final questions that—

**The CHAIR:** Mr Riordan, you are out of order.

**Mr RIORDAN:** He may be able to frame his answers—

**The CHAIR:** Mr Riordan, you do not have the call.

**Mr RIORDAN:** in a context that is not relevant for the rest of the state.

**The CHAIR:** Mr Riordan, could you please not speak over the top of the Chair? You understand that that is not a point of order, I am sure.

**Mr RIORDAN:** I think it is very relevant.

**The CHAIR:** Mr Riordan!

**Mr RIORDAN:** It has been stated many times today that the Treasurer is unaware of what is happening in this state, and I think it is important that he knows.

**The CHAIR:** Mr Riordan, you may think it is relevant to conversation, but it is not a point of order.

**Mr RIORDAN:** Mr Richardson may have questions related to the state's capacity to pay for a seven-day lockdown, and I think it is important that both Mr Richardson and the Treasurer are now aware of what are very, very important circumstances.

**The CHAIR:** Mr Riordan, you are being extremely rude. Could you please stop speaking over the Chair. There is a point of order, and Mr Richardson has the call.

**Mr RICHARDSON:** Thanks. If I need advice, Treasurer, from Mr Riordan on my questions, I will seek it afterwards, but I will ask you to continue.

**Mr PALLAS:** Well, on past form I am not sure I would quite agree.

**Mr RIORDAN:** I am sure the good people of Mordialloc will be pleased to know that you going to ask questions on their behalf.

**The CHAIR:** Mr Riordan, could you please cease? Thank you. Mr Richardson.

**Mr RICHARDSON:** Continue, Treasurer. Sorry about that rude interjection.

**Mr PALLAS:** Well, I am not sure I am necessarily going to take Mr Riordan or anybody associated with Mr Newbury at their word, given his past performance for this committee.

**Mr NEWBURY:** Turns out it was right.

**The CHAIR:** Mr Newbury.

**Mr PALLAS:** But more importantly—

*Members interjecting.*

**The CHAIR:** Mr Riordan and Mr Newbury, if you would rather be somewhere else watching the news, then you are more than welcome to leave, but for those who want to participate in this committee, could you please cease interrupting both the Treasurer and the committee member who has a call. You have both had your turn, and you are being extremely rude. Mr Richardson has the call.

**Mr RIORDAN:** I notice you stopped the clock for this interruption.

**The CHAIR:** Mr Riordan.

**Mr PALLAS:** I wonder if I could ask you to repeat the question. Something got lost.

**Mr RICHARDSON:** Yes. Sorry, Treasurer. I will go to the substantive nature of the question around economic recovery and take you to budget paper 2, pages 1 and 2, which discuss the government stimulus in response to the pandemic and how that has helped drive Victoria's economic recovery. In the context of supporting Victorians through this pandemic, could you please explain for the committee's benefit how the Victorian government has sought to use the state budget to help drive the state's economic recovery?

**Mr PALLAS:** Absolutely. Can I make the first point that our economic performance has effectively led the nation. Our economic growth, despite all the trepidations that this state has had to endure—some of which, I would argue, those in the opposition have taken great glee from—and despite all of that, Victorians have outperformed our expectations. Our economic growth has averaged 3.3 per cent. Our employment growth has averaged 3.1 per cent over the five years to 2018–19. Now, that is the strongest growth of all the states. In fact of course the pandemic in Victoria has created—

Before the pandemic we saw some 520 000 jobs created in this state since the government was elected, and that is more than any other state or territory over that time. In saying that, I think there is no doubt that there has been a significant impact on the Victorian economy. Our output economically and our employment contracted sharply in that June 2020 quarter as public health restrictions were introduced. Our output weakened across that September quarter, as Mr Martine has indicated. However, these measures were effectively necessary.

Mr Richardson, there are some who would argue we should deny the material circumstances that we operate in, that we should not take the necessary actions to preserve public health, but from an economic point of view and from a public health point of view it makes sense that the interventions that the government made then and continue to make put the wellbeing and public health front and centre. Evidence here and around the world really points to the fact that you cannot run a strong economic recovery if you have not successfully managed the health crisis. So because of that approach in managing the pandemic, our economic recovery is well underway. And yes, we will, as I have said previously, continue to confront, as every jurisdiction will, the re-emergence of the virus into the community until we have got the community to acceptable levels of vaccination, and that needs to happen as a matter of priority.

Victoria, however, is now in a very strong economic position. In the December quarter our state final demand grew by a staggering 6.8 per cent—what is now double the national average. We expect the economy to continue to grow quite substantially going forward. We are once again leading the nation on jobs growth. Again, that 520 000 prior to the pandemic: of course there was that economic event as a consequence of social distancing, but now since the lowest point, the September period, we have got 243 000 jobs having been created in this state.

From a government point of view we are going to continue to support the critical economic response, because that is a vital part of our recovery. The government has provided more than \$13 billion to help communities and businesses through the pandemic. Every Victorian should know that this government has invested more in their wellbeing than any other state and will continue to be there front and centre for the wellbeing of the Victorian community and make the right decisions to preserve and to protect their wellbeing and to be there for the purposes of investment to grow the economy. So we have invested billions into our health system, we have responded to the direct impact of the pandemic and we have protected our frontline workers.

You cannot get an economic recovery unless you get a recovery from the trepidations of the pandemic in the community. Make no mistake: this extraordinary recovery has not happened by accident. It is built on the foundation of the state's strong economic fundamentals, the government's long-term infrastructure pipeline and the hard work and belief of the Victorian community. This is a collective effort, and it is reaping collective rewards. The challenges are still going to confront us. They are going to confront us on an ongoing basis, as they will every other jurisdiction in this nation, but we are in a far better position than those who have denied the challenges that have confronted them and sought to do what the state opposition sought to encourage us to do—to just open up, and we know how that played out around the world. It led to wholesale human suffering and misery, but it also led to profound economic dislocation, which we are still not seeing play out here.

We are already seeing that our investments—our investment in public health, our investment in the resilience and the wellbeing of the Victorian economy and community—are paying dividends. Our economy is rapidly recovering, Victorians are emerging essentially from the long-term trepidations of the pandemic and the budget continues to make those targeted investments that Victoria and might I say Victorians need. So these investments will drive our state's recovery by focusing on the fundamentals that confront us, whether it is rebuilding our mental health system or supporting families and children, investing in our schools and our hospitals and continuing to build the infrastructure that grows our economy, recognising that if we invest now we are effectively investing not only in our future wellbeing but in the wellbeing of future generations.

In saying that, some regions and sectors of the economy are going to take longer and are still experiencing higher rates of economic disadvantage and unemployment. The government stands ready to support these parts of our economy. As we have in the past, so we will in the future, as we have demonstrated in terms of the choices and the priorities we have put in this budget. Examples of this are the \$160 million that we have put in this budget to support the tourism sector to drive visitation and employment and our \$107 million that we have put into assisting Melbourne's CBD. So when people ask, 'What is the government doing going forward to support businesses that are enduring difficulties as a consequence of the pandemic?', it is materially there, it is transparent, the effort is obvious and it is not a once-off event—the government continues to make those investments.

Might I say we have also put in place effective reductions in tax liability for those areas of industry that have demonstrated difficulties, most notably for those CBD-related businesses that are having difficulty moving their building stock. We have put in place tax cuts. We have ensured that we will continue to grow economic opportunity by once again reducing our payroll tax levels to well and truly the lowest in the nation. And why are we doing that? Because it is an investment in the Victorian people, it is an investment in recovery and it is a statement of optimism for the future by this government. We understand that you can talk this state down all you want, and there are many on the other side of the Parliament that do not control the Treasury benches that see it as part and parcel of their job. We see our job as standing with Victorians, as making the investment that will help see them through but also making choices about how we grow our economy, how we intervene in the trepidations of this economic event and how we give Victorians continuing assurance that this government puts their welfare front and centre.

**Mr RICHARDSON:** Treasurer, I want to take you to the Victorian budget of November and, outlined in that, a jobs plan for Victoria. As you have mentioned, we have already exceeded the interim target of 200 000 jobs and we are on the way to achieving the 2025 target. For the committee's benefit, what initiatives has the government taken in this May budget to help create those employment opportunities?

**Mr PALLAS:** Indeed. So I am pleased really to inform the committee that according to the latest data from the Australian Bureau of Statistics, the April labour force figures, more than 243 000 jobs have been created in Victoria since September 2020. So the strategy that the government enunciated in the November budget in our jobs plan is working, and I do not think there could be much argument about that. To put that into context, 243 000 jobs since September of last year is more than half of the jobs in the entire nation. In a population sense, Victoria is 26.2 per cent of the nation. So, yes, we have challenges that confront us, and they will continue to confront us, but people can be assured this government's track record in creating wealth, in generating economic opportunity and in growing jobs faster than anywhere else in the nation is working exceptionally well.

I thought just for a moment I would compare the pair and share this note with you, Mr Richardson, which is how Victoria is travelling by comparison to New South Wales, and in particular how we are going in terms of jobs and job recovery. I am happy to have this circulated to the committee or not; I can take you through its terms easily enough. Total employment in Victoria since March 2020: Victoria's total employment has increased by 6500 jobs. Since March 2020 New South Wales has lost 33.4 thousand jobs. Full-time employment has grown by 22.7 thousand jobs in Victoria, and it has fallen by 72.4 thousand jobs in New South Wales. Full-time female employment has risen in Victoria by 30 700 jobs and it has fallen by 21.1 thousand jobs in New South Wales.

Now, that is since the onset of the pandemic and it is despite the fact that Victoria has had to endure the trepidations of a much more substantial lockdown dealing with the onset of the pandemic in this state. So let there be no doubt or argument about the comparative performance of the Victorian labour market. It has demonstrated that regardless of the challenges that are thrown up to the Victorian people, they are up for it. The Victorian economy is up for it, and it is enduring, and it is flourishing in circumstances where they have had to put up with quite a considerable challenge.

Employment is now forecast in 2021–22 to grow by 2.5 per cent, faster than the national average of 1.1 per cent. The unemployment rate will likely have already peaked. It could rise modestly in the short term due to the end of JobKeeper, although we are not seeing as much a profound impact. And the one thing that does seem to be consistent is we are constantly confounded by the optimism and the growth underlying the Victorian labour

market and our economy more generally. So if you look at the strong result for the April labour force statistics, the unemployment rate has fallen to 5.5 per cent, the same as the national average.

In saying that, we are not going to rest on our laurels, and we understand that challenges will continue. This budget includes significant investment to enable us to create jobs. As you have asked, this year's budget builds on that work, and it will support some 38 000 jobs over the next four years, each year and every year over the next four years. One example of measures undertaken by the government to support jobs is the investment we have made in Victorian TAFEs and our training centres. This is really at the heart of our jobs plan. It is about not only making sure that we have got greater labour mobility but we have got the capacity to ensure that young people get access to the skills of a changing and growing economy, one that is becoming increasingly globally competitive. It is identifying those shortages in the labour market and giving young people the great opportunity to focus on careers that will be around for the future and that will play a very substantial part in the Victorian economic resurgence. We have made an investment of \$89 million in additional training places to meet demand, recognising that we do need to have a much more responsive demand-led training system, and \$99 million in increased government contribution for subsidised training and investment in system reform.

So the budget also contains targeted measures to sectors where the employment levels have not recovered as quickly as other parts of the economy, and the budget does recognise that through a \$280 million Creative State strategy.

**The CHAIR:** Thank you very much, Treasurer. That concludes the time we have available for consideration with you of the estimates in relation to the treasury portfolio. We thank you, as well as the Secretary and deputy secretaries, for appearing here today. The committee will follow up on any questions taken on notice in writing and responses will be required within 10 working days of the committee's request.

The committee will take a short 15-minute break before resuming consideration with you in relation to your economic development portfolio. Thank you.

**Witnesses withdrew.**