

VERIFIED VERSION

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into Budget Estimates 2017–18

Melbourne — 12 May 2017

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Witnesses

Mr Tim Pallas, Treasurer,

Mr David Martine, Secretary,

Ms Amy Auster, Deputy Secretary, Economic Division,

Mr Simon Hollingsworth, Deputy Secretary, Budget and Finance Division, and

Mr David Webster, Deputy Secretary, Commercial Division, Department of Treasury and Finance.

The CHAIR — I declare open the public hearings for the Public Accounts and Estimates Committee inquiry into the 2017–18 Budget Estimates. All mobile telephones should now be turned to silent.

I would like to welcome the Treasurer of Victoria, the Honourable Tim Pallas; Mr David Martine, Secretary of the Department of Treasury and Finance; Ms Amy Auster, Deputy Secretary, Economic Division; Simon Hollingsworth, Deputy Secretary, Budget and Finance Division; and David Webster, Deputy Secretary, Commercial Division. In the gallery is Gayle Porthouse, Deputy Secretary, Corporate and Governance Services Division.

All evidence is taken by the committee under the provisions of the Parliamentary Committees Act, attracts parliamentary privilege and is protected from judicial review. Comments made outside the hearing, including on social media, are not afforded such privilege.

Witnesses will not be sworn but are requested to answer all questions succinctly, accurately and truthfully. Witnesses found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty.

All evidence given today is being recorded by Hansard, and you will be provided with proof versions of the transcript for verification as soon as available. Verified transcripts, presentations and handouts will be placed on the committee's website as soon as possible.

All written communication to witnesses must be provided via officers of the PAEC secretariat. Members of the public gallery cannot participate in the committee's proceedings in any way and cannot photograph, audiorecord or videorecord any part of these proceedings.

Members of the media must remain focused only on the person speaking. Any filming and recording must cease immediately at the completion of the hearing. I invite the witness to make a very brief opening statement of no more than 10 minutes. This will be followed by questions from the committee.

Visual presentation

Mr PALLAS — In terms of my presentation, I really just want to start with the proposition that the state budget is really a clear demonstration that Victoria is ideally positioned to maintain strong economic growth into the future. The 2017–18 budget underlines the government's clear plan to maintain Victoria's AAA credit rating, and might I also say our AAA discipline. It is a clear plan to develop infrastructure and services that will benefit all Victorians.

When the government was elected in 2014 the Victorian economy had slowed over the preceding three financial years. Simultaneously unemployment was nudging 7 per cent. Since then the rate of economic growth in Victoria has more than quadrupled from 0.8 per cent in 13–14 to 3.3 per cent in 15–16. In fact Victoria's rate of growth has continued to outpace Australian gross domestic product growth since this government took office.

Key contributors to our continued strong growth are household consumption, business investment and dwelling investment. Supported by low interest rates, business sentiment continues to improve. Victorians are sharing the benefits of this growth with GSP per capita growing at 1.4 per cent in 15–16, which is a vast improvement on negative per capita growth in 13–14.

This is my favourite graph. Our strong economic growth is translated into significant jobs growth in Victoria's labour market. Over 200 000 jobs have been created since November 2014, with over 130 000 of these jobs being full time. That equates to about 250 jobs created a day since the government was elected, and in the last year more jobs have been created in Victoria than the rest of the nation combined. Importantly, Victorians across the state are feeling more confident about their job prospects and the participation rate is near its highest point since 2011, averaging more than 65 per cent in 2016.

All Victorians are experiencing the benefits of strong employment growth. Since the election over 30 000 new jobs have been created in regional Victoria. In 2016 alone over 14 000 new jobs were created in regional Victoria, growing at 2.1 per cent — more than five times the average growth of all the states. Victoria is currently the nation's fastest growing state. Population growth over the past decade was broadly in line with the national average until mid-2013 when Victoria's population growth began to diverge from the national average. This kind of population growth represents an economic advantage for Victoria, but only if we manage it

properly. Broadly, that means doing two things. First, we need to make sure that we remain a safe and competitive place to do business. Second, we need to add enough infrastructure and services to accommodate these new residents.

Victoria's financial position remains strong, reflecting the government's track record of strong financial management. The 17–18 operating surplus is estimated to be \$1.2 billion, with surpluses averaging \$2.4 billion over the forward estimates. Net debt as a percentage of the economy is projected to be no higher than 6 per cent over the forward estimates, below the levels we inherited when we came to government. Our financial fundamentals are strong, consistent with our prized AAA credit rating. We remain one of only two Australian states with a AAA rating from both major credit rating agencies. Our average expense growth is projected at 3.2 per cent, well below the projected revenue growth of 3.7 per cent.

It is important, really, to consider that in a historical perspective. That forecast of 3.7 per cent — that is, of revenue growth over the next four years — is well below the average revenue growth of 5.7 per cent over the past decade, as this chart clearly indicates, and might I say below the revenue growth of the previous government.

The 17–18 budget maintains Victoria's revenue competitiveness. As the chart indicates, we are by no means the highest taxing jurisdiction on a per capita basis — both Western Australia and New South Wales are well ahead and we are only marginally ahead of Queensland. Over the last year the number of small businesses in Victoria grew by 15 000. In an Australian first, we are reducing the payroll tax rate by 25 per cent for all businesses operating substantially in regional Victoria. This will directly reduce costs for around 4000 businesses and provide a direct boost to regional economies. It means Victorian regional businesses will pay the lowest rate of payroll tax in the nation.

We are also bringing forward previously announced increases to the payroll tax-free threshold. Finally, we are reducing red tape for business by raising the payment threshold for businesses. This will mean that they can make annual rather than monthly payroll tax payments. All of these measures will support employers to grow their businesses, encourage job creation, protect jobs and boost local economies.

Strong surpluses and a responsible use of debt mean that the government has been able to drive infrastructure investment to record levels. The 2017–18 budget forecasts that infrastructure investment will average \$9.6 billion per year over the forward estimates. In 2017–18 alone we expect to see more than \$10 billion spent on productivity-enhancing infrastructure. To put that number into some context, the 10-year average before we came to government was \$4.9 billion. This level of investment means that we can keep up with population growth and drive productivity in the Victorian economy. Indeed the record infrastructure investment announced by the government is expected to generate more than 50 000 jobs. Following the release of the commonwealth budget Victoria is expected to receive only 8 per cent of the allocated commonwealth infrastructure funding. That is despite a population share of 25 per cent.

The government is also taking historic action on family violence. It is an issue where everyone has a role to play but where governments must lead. The budget allocates \$1.9 billion to protect victim survivors, hold perpetrators to account and help change community attitudes. The budget commits also over \$2.4 billion in community safety measures. Together with the 446 police who were incorporated in the 2016–17 budget, Victorians will enjoy the safety and protection of more than 3000 extra police officers.

The Andrews government will continue its efforts to improve Victoria's public transport and road system. This budget delivers \$1.1 billion for regional public transport and a further 879.5 million for a more frequent and reliable metropolitan public transport system. We are also investing almost \$2 billion for our roads to help reduce congestion, and this includes 530.6 million for regional road improvements and 300 million for the Mordialloc bypass.

One point three billion is being invested to ensure that we have the best teachers in our classrooms and the best facilities in our schools. This government's infrastructure investment in schools has averaged \$843 million over the last three years, and this brings our total investment in school infrastructure to a total of more than \$2.5 billion over three budgets. In comparison, the former government invested an average of just 237 million in their first three budgets.

This government has already invested more than \$5 billion in the state's healthcare system. The budget delivers a further 2.9 billion to ensure all Victorians receive world-class care and provides funding boosts to the areas that need it most.

Victoria's regional areas are also a key part of the government spend in this budget, which delivers the biggest ever spend in regional Victoria in a single budget — \$4 billion is being invested into regional Victoria. This chart indicates the investments that have been made in regional areas only — that is, non-statewide spends — over the last several years. Our regional centres are growing, and we want to ensure both growth and opportunity are shared equitably across the state.

This budget is a clear statement to the Victorian community about the Andrews Labor government's values and priorities. This government can be relied upon to make the investments required to help the Victorian community succeed. We are managing our finances responsibly. We are driving growth in the economy. This is a responsible budget, a fair budget and budget for all Victorians. It is a budget that delivers for things that really matter.

The CHAIR — Thank you, Treasurer, for that comprehensive presentation. I might kick off, if I may. Treasurer, I refer you to budget paper 2, page 28. There is a graph there, 'Victorian employment growth, year on year', and then there is a reference in there about employment growth being the strongest of all the states. Can you advise the committee a bit about that and why you make that assertion?

Mr PALLAS — Yes. Victoria continues to lead the nation in job creation. More than 200 000 jobs have been created in Victoria since the government was elected — about 250 new jobs every day, as I indicated in my opening presentation. In the year to March 2017 employment grew by an average of 3.4 per cent, and that was the strongest amongst the states and a stark contrast, I think, to the average employment growth for the rest of the nation, which sits at around about 0.6 per cent.

This growth was underpinned by positive contributions from both full-time and part-time employment, and full-time employment increased by over 130 000 jobs over the last year. Victoria has led the nation for total employment growth and full-time employment growth as well; in fact we have created more jobs in the last year than the rest of the nation combined. Compare that to the record under the previous government, where I think only 96 600 jobs were created in the entire government term and less than 17 000 of those jobs were full time. So the Andrews government has more than doubled the coalition's record over a full four years in the first two years in office. That is a pretty impressive record, and it is just a sign of the underlying growth in and strength of the Victorian economy.

At an average of about 5.8 per cent in 2016 the unemployment rate is well below the 6.9 per cent recorded in October 2014. The jobs growth is quite diverse in our economy, and it is expected to continue both in that growth and that diversity. Our participation rate is now 65.9 per cent, more than 1 per cent above the level that we inherited, and that indicates that more people are returning back into the labour market. They are looking for work, and they are finding work of course. Victoria, I think, is an indication of that increasing resilience in the labour market and the optimism underpinning the choices that individuals are making. As the economy transforms, the government believes that we can continue the efforts to create new jobs and protect existing ones. Employment growth is strong across Victoria.

The CHAIR — Just on that, Treasurer, in terms of employment growth in regional areas, can you talk a bit to the committee just about trends in regional areas?

Mr PALLAS — Yes, of course. As I indicated in my presentation, we have seen something like more than 30 000 jobs being created. We have seen those being created in regional Victoria since Labor was elected, with 17 000 of those being full time. Our regional labour market is one of the strongest in the nation. For example, in 2016 employment in regional Victoria grew by 2.1 per cent, which is around five times the average growth of the states.

The diversity of Victoria's regional economies also I think is a major reason for the strength of the labour market. Due to the impact of course of structural change a high share of employment in regional Victoria is now in service-based industries. We know that there is more to be done here, which is why of course we are getting on with the job of delivering that \$4 billion investment into regional Victoria and why we are also trying to take

the weight off the back of employers by an Australian-first approach — the 25 per cent reduction for payroll tax for substantially regional employers.

The CHAIR — Thank you, Treasurer. Now, if I come back to your presentation — I am not sure what number, but it is in the slides as ‘Investing in infrastructure for Victoria’s future’ — I note that in across-the-board estimates government infrastructure investment averages out at \$9.6 billion, with \$10.1 billion in the 17–18 financial year. Can you advise the committee what impact that level of investment is predicted to have in terms of Victoria’s labour force growth and the labour force figures?

Mr PALLAS — Yes, well, I asked Treasury, and it is incorporated into the terms of the budget and it was incorporated into my budget speech. The new infrastructure investment announced by the government is expected to generate more than 50 000 jobs. Examples of that — the \$5.5 billion West Gate tunnel project alone is estimated to add around about 6000 new jobs, including jobs, might I say, for apprentices and former auto workers. We are starting to become a more precise and informed purchaser of infrastructure, and we are seeking to leverage our position in that respect.

The \$10.9 billion Metro Tunnel has commenced, and of course it is estimated to contribute 4700 new jobs. The 17–18 budget invests around \$2 billion in major infrastructure projects that will create thousands of jobs for Victorians, including in regional areas. So the infrastructure investment will help drive future economic growth by making it easier for people to be able to get to and from work — so improving the way that our transport connections operate. That is also to ensure that goods can move more easily around our state and make sure that crops can get from farm to market, and our investment in infrastructure will drive job creation in both the medium and the long term.

The CHAIR — Now, if I can bring you back to budget paper 2, page 6, chart 1.3, ‘Number of new jobs in Victoria, by skill and wage characteristics of industries, November 2014–February 2017 (selected industries)’, I note that you are looking at trying to identify I think in that graph where the jobs have been created and in what specific industries. Are you able to just advise the committee what that might point to in terms of the way in which the economy is transitioning or changing?

Mr PALLAS — I think it shows a number of things. The skill of the Victorian people is one of our greatest assets and attributes. Certainly I think the community has a right to be concerned about the increase in insecure employment, which has been a historic trend, and of course the tendency for those insecure forms of employment to be low paid. In addition we have created over 200 000 jobs since we were elected. The majority of these jobs are full-time, so we are bucking a decade-long trend in terms of insecurity of employment. As chart 1.3 in budget paper 2 shows, the industries in which the new jobs are being created are industries where there are higher average wages and skills, and some key sectors that have shown some significant growth, as the graph demonstrates, really, are those professional services, finance and insurance, education and construction.

The fact that jobs growth has been focused in these sectors really reflects changes to the composition of Victoria’s economy. As a government we have committed to making sure that Victorians benefit from those opportunities, which is why we continue to invest in education and training. Our perspective is: if you invest in education, if you skill up the workforce, then the natural consequence of that is you are creating a workforce with a propensity or a capacity to perform high-skill jobs. We know that the Victorian community has higher levels of average education compared to their compatriots across the country, and it is that that enables us to better utilise our key position, particularly around services in those industries that I have taken you through.

The CHAIR — Thank you, Treasurer. Now, if I can draw your attention to budget paper 3, page 111, table 1.29, ‘Revenue initiatives’, obviously there are line items there about bringing forward increases in the payroll tax-free threshold, increasing payroll tax thresholds for annual payments and reducing the payroll tax rate applicable to regional businesses. I was just wondering whether you might be able to inform the committee of the impact of these changes in terms of the Victorian economy and the impact on Victorian businesses?

Mr PALLAS — Well, our expectation is that they will be profound in the areas where they will have the greatest impact. We do value our relationship with business. It was only yesterday that I did an event with a number of representatives from the hotels association — Colleen from the San Remo pub and Ray from the Old Town & Country Tavern in Wangaratta. They both recounted stories about what the consequence of the reduction of the payroll tax would mean to them, and they gave pretty firm illustrations. Colleen indicated that it was sufficient, really, to encourage them to diversify and expand their business, and get some construction done

so they can move into the area of providing B & B facilities associated with the pub. Ray told a story that he saw that there was an opportunity to provide more hours of work and provide greater levels of part-time and casual employment in his pub. So, really, what we want to do is reduce the impediments to the growth of business, particularly small business, so they can develop their operations and make decisions that only they can make about how they run their businesses, expand into new markets and create new jobs. That is really the story of this budget so far as it focuses on business.

The 2017–18 payroll tax cuts will bring forward the time line of last year's tax cuts, so it will reduce payroll tax by 25 per cent for regional businesses, and we have every expectation that it will create therefore more jobs in regional Victoria, and of course the anecdotal evidence bears that out. The payroll tax-free threshold, which will now increase to \$625 000 from 1 July this year and \$650 000 from 1 July 2018, is really a fast-track change set to save business up to \$48 million and to create new jobs. As a result, about 38 000 Victorian businesses will benefit from these changes, and they will benefit by up to \$1200 in each year that the threshold — —

The CHAIR — Thank you, Treasurer.

Mr D. O'BRIEN — Good morning, Treasurer. I would just like to talk about dividends for a little while. The budget paper reference for this year is BP5, page 21. But last year, with respect to the TAC, Treasurer, you forecast a series of dividends that totalled \$1.4 billion and this year, on that page 21 in the table of dividends by entity, there is no reference to the Transport Accident Commission. Why are there no dividends being taken from the TAC?

Mr PALLAS — Sorry, could you just repeat the last sentence?

Mr D. O'BRIEN — Why are you not taking any dividends from the TAC?

Mr PALLAS — This is actually an accounting issue that really goes to the distribution of entity accounting profits to the owner, so what I thought I would do is ask the secretary to respond to the question.

Mr MARTINE — As you would have noticed in the notes of budget paper 5, the table on dividends, there is, as you correctly pointed out, no reference to the TAC. In substance there are dividends being returned from TAC back to the budget, but for, as the Treasurer indicated, a technical accounting reason under AASB 1023 —

Mr D. O'BRIEN — Oh, that one!

Mr MARTINE — for a technical point — —

Ms SHING — Sorry, Mr Martine. Can you give that specific reference again?

Mr MARTINE — AASB 1023. Not that I am an expert on that particular standard, but in a sense what it means is the Auditor-General requires the dividends of the TAC to come back through a different revenue line. Essentially it comes back as a grant rather than as a dividend, so it still comes back as part of total revenue; it is just appearing in a different line. The reason why that is the case is because the technical definition of a dividend is that it represents the distribution of entity accounting profits. You might recall we have had discussions, probably more so in the finance minister's hearings, where we have talked about the difference between economic funding ratios and accounting funding ratios.

Essentially an entity like the TAC has quite a high economic funding ratio. I think from memory it is probably around 160 per cent, so that effectively means it has got 60 per cent more assets than it needs for meeting its liabilities. But what the accounting standards require is an evaluation at an accounting funding ratio, which effectively means you discount using a long-term bond rate rather than expected earnings. Effectively that means that the Auditor-General took the view that there is not sufficient accounting profits to enable that to come back as a dividend so it just comes back as a grant. There is no change in substance in the sense that it is roughly the same order of magnitude; it just comes back in a different line.

Mr D. O'BRIEN — Where is it then? What is the actual dividend? Or how much is it, I guess, is what I am after?

Mr MARTINE — I will see if I can dig out the actual amount. Perhaps if you do not mind, I will endeavour to try and get you the answer in the course of the morning.

Mr D. O'BRIEN — I can continue and you might be able to have someone find it while we are going. Why is that then the case for TAC but not any of the others?

Mr MARTINE — Because the others have sufficient entity accounting profits to enable the quantum of dividends to flow back.

Mr D. O'BRIEN — And that accounting standard that you referred to, has that just changed this year? Why is it in this year's budget?

Mr MARTINE — No, I think from memory it has been in place for some time. But the change I think from memory — I do not have last year's budget paper in front of me, but I am pretty sure from memory last year's budget, and somebody is just looking it up, would have had TAC dividends in that total.

Mr D. O'BRIEN — It did, which is why I am asking I guess.

Mr MARTINE — We will dig out the actual number, but I think in substance it is broadly about the same quantum. It is just coming to a different line. So we will endeavour to try and get you during the course of the morning the exact line in the financial statements that it is flowing through.

Mr D. O'BRIEN — Okay, we might come back to that.

Mr MARTINE — I refer you to page 22 of budget paper 5, table 1.2.4. There is a line on the bottom of that table called 'Other contributions and grants' with a little footnote which says:

Includes contributions from other sectors.

The old TAC dividends that now come in as grant revenue feed through that line, which then feeds through to total grant revenue for the general government sector.

Mr D. O'BRIEN — It is obviously not directly comparable then to work out what the TAC grant or dividend or profit is from that? Can we get that disaggregated?

Mr MARTINE — We will need to take this on notice. I suspect there would be a few other things in that line as well, not relating to this particular issue because the accounting standard issue only affects the TAC.

Mr D. O'BRIEN — Surely it must be possible to get what that figure is so we can compare it to last year — what has been taken out of the TAC.

Mr MARTINE — Yes, I do not think I have got it with me. But I will endeavour to take it on notice and get you that information.

Mr D. O'BRIEN — Is there any suggestion that more is being taken out as a dividend so it no longer can be taken as a dividend as such and therefore has to be paid in a different way?

Mr MARTINE — It is more the technical requirement of the accounting standard, which means that the accounting profit — from an economic funding point of view, their assets are much higher than what is required to meet all of their liabilities. I think from memory it is around 160 per cent.

Mr D. O'BRIEN — I am just having a quick look. That line item you have referred to equates to roughly 2 billion over the forward estimates, so if we could get a breakdown of what it is actually made up of that would allow us to at least compare what you are doing.

Mr MARTINE — The economic funding ratio for the TAC for 17–18 is 160 and remains in the 150s all the way through the forward estimates.

Mr D. O'BRIEN — Yes. That is the ratio, yes?

Mr MARTINE — Yes. So we will endeavour try and — —

Mr D. O'BRIEN — So if I can just clarify, you will get us on notice what the actual breakdown of that 'other contributions and grants' line item is as a table or a document?

Mr MARTINE — Yes.

Mr D. O'BRIEN — Right. Just moving on then, at the same budget paper reference, the SECV dividend or series of dividends over the forward estimates — again it is on BP5, page 21 — last year was forecast over the forward estimates at 290 million. This year it is forecast at 365 million, an increase of 75 million, or 26 per cent. But the dividend for 17–18 has tripled, from 70 million to 210 million. Treasurer, could you explain why the dividends for the SECV have increased so much, given that its main role was, as I understand it, as a legal shell for Alcoa and that obligation has now expired?

Mr PALLAS — Look, I think it comes down simply to a timing issue. We chose simply in, I think, the 16–17 budgeted year, to transfer some of the dividends into the 17–18 financial year. Essentially, if I could give you an appreciation that the SECV contract with the Portland smelter, which ceased on 31 October 2016 — the SECV of course is going to continue to hold the state's investment in Snowy Hydro, and the SECV dividends from 18–19 right through to 20–21 really reflect the dividend inflows that the state is receiving and expects to receive from Snowy Hydro.

Mr D. O'BRIEN — Yes, but that does not explain why it has tripled this year.

Mr PALLAS — Well, as I say, that is in part due to a decision that government took in the previous budget not to take those dividends in preceding years, but chose to take them based on our expectation of capital inflows, gearing ratios. We considered it appropriate to draw down those funds in this year and the years forward, basically reflecting what we saw as being an appropriate inflow.

Mr D. O'BRIEN — But if you say it was a decision taken in the previous budget, in the previous budget the forecast for 17–18 was 70 million. In this year's budget it is 210.

Mr PALLAS — Yes. Well, as I say, we formed the view, and I mean this is really based on a judgement that government makes about the gearing ratios, the profitability of the organisations. Dividends from that PNFC sector are estimated to be higher in 17–18 compared to the 16–17 year. The retained earnings and the improved profitability that estimates of PNFCs, including the SECV, have driven the increase in the dividends. It is as simple as that.

Mr D. O'BRIEN — Okay. Just a further one. The VMIA — last year you forecast a dividend of 165 million; this year you are forecasting a dividend of 365 million. Why are you raiding the VMIA for a further \$200 million this year?

Mr DIMOPOULOS — Can I just raise a point of order and ask for clarification? I thought this area was in the ambit of the Minister for Finance.

The CHAIR — The Treasurer can answer questions.

Mr DIMOPOULOS — That is correct, is it?

The CHAIR — Quickly. I am conscious of the time.

Mr PALLAS — Sorry, you might have to speak up. I do not know if I am getting old —

The CHAIR — Do not worry about them. VMIA, a 200 million extra dividend. Why is that?

Mr PALLAS — It is just a higher funding ratio. Our expectation is that they are performing well, so in 16–17 I think the estimate was 173; in 17–18, 153; and it is sort of around that 153, 155 position going forward. The way that we determine what is an appropriate drawdown is really about the retained earnings and the improved profitability.

Ms PENNICUIK — Good morning, Treasurer, Secretary and everybody else from the department. Thank you for coming today. My question relates to the West Gate tunnel, and I refer you to budget paper 4, page 29. At the start of April a new design for the West Gate tunnel was released, which, among other things, includes a longer tunnel. The design may be changed again as a result of the environment effects statement process. Treasurer, last year's budget provided \$1.46 billion for the project. This year's budget lists both the amount to be spent this financial year of \$44 million and the remaining as TBC. Is the government considering spending

more than \$1.46 billion? And if the project becomes more expensive, is it Transurban or the government who pays for this?

Mr PALLAS — Sure. I might throw to our commercial expert on this, but I simply say that the current estimate with regard to this project is still broadly within the lines that we have identified, at about \$5.5 billion. Our expectation is that we have needed to leave the TBC line largely because we do have a genuine process of environmental assessment going on, and of course the final design of the project is therefore yet to be clarified. The government is approaching this process in a very genuine way. I throw to David Webster.

Mr WEBSTER — Thank you, Treasurer. Thanks for the question. The decision of the government to contribute financing of \$1.4 billion has not changed. Should the final costs, which come out after the EES process, go either up or down, then there is a number of levers that the government has to either finance that up or down, including flexing the 1.4 up or down or asking Transurban to finance more or less. So those final decisions will be made as part of the wrap-up negotiations as we go towards financial close.

Ms PENNICUIK — The note to this item in the budget paper says that:

The project is anticipated to be funded through a combination of tolls ... and a government contribution.

Mr Webster, you just said, if I heard you correctly, that the government contribution could go up or down, so it could go up higher than 1.46 billion or lower than 1.46 billion.

Mr WEBSTER — That is correct, but that is the same in any project that we face. You start at the beginning of the process with a budget cost. You then run a market process where you go out and get tenders back in. Those tenders may be higher or lower than you have originally budgeted for and you need to adapt through either financing more or changing scope.

Ms PENNICUIK — The note also says:

The cash flows will represent the state's expected contribution and be subject to commercial negotiations under the market-led proposals process.

I wonder what that process is, but also in that question is, given that there already would have been, I presume, commercial negotiations settling somewhere with the previous project, does that mean there are now new negotiations following the new design and the environment effects statement process?

Mr WEBSTER — No, they are ongoing negotiations, so the process has been that there has been a joint tender process run for what is called a downstream D&C contract, so effectively a preferred contractor has been selected. That design that has come through from that contract process will form part of the EES, so there is a high degree of certainty over the cost because that D&C downstream process has been run. There may be changes which will fall out of the EES process, which will need to be wrapped up in terms of who pays for it and how that is recouped as part of the final negotiations, but there have been ongoing negotiations since it was received.

Mr PALLAS — Can I just clarify that the process of negotiation and engagement with Transurban is consistent with the market-led proposals criteria. It is a five-stage process, and it is publicly available, and I think we are at stage 4 at the moment.

Mr WEBSTER — Yes, correct.

Ms PENNICUIK — Thank you. Could you explain what the \$44 million to be expended this year is for? It is the same budget paper, same page.

Mr WEBSTER — Which page, sorry?

Ms PENNICUIK — Page 29, budget paper 4.

Mr WEBSTER — There are obviously state-side costs, which include the Western Distributor Authority. It includes our lawyers, financial advisers. It includes some of the due diligence that the state side would do. So in all these major projects there are state costs which are on top of the actual costs of the D&C contract or our counterparties, so I suspect that the 44 million is part of the state-side cost, like we have on every other project.

Ms WARD — Good morning, everyone. Thanks for coming along. My apologies, Treasurer, if I am asking you things that you have already discussed in your presentation. Unfortunately there was a car breakdown on the Eastern Freeway this morning, and we know the chaos that they can cause. Can I ask you to speak to us a bit more about economic growth in our state. In your presentation you provided a table about more growth meaning more jobs, and if I can refer you to page 1, chapter 1, of budget paper 2, in the third paragraph it is written:

Victoria's economy grew by 3.3 per cent in 2015–16, significantly above the national average.

This is a terrific result, Treasurer. Can you please talk us through how this has been achieved?

Mr PALLAS — I think it is pretty apparent the lived experience of the vast majority of Victorians is that the Victorian economy is undergoing a resurgence in terms of economic growth, over the last two, three years, let us say, in particular. What we have seen consistently is strong GSP and state final demand numbers coming through. For reference, I suppose, if you look at the 2014–15 year we saw GSP increase by 2.5 per cent, exceeding the budget forecast. Similarly in the 15–16 financial year Victoria experienced GSP growth of 3.3, compared to budget forecasts of 2.5 cent. So the recent state final demand figures really showed a quarterly increase of 1.7 per cent, the highest in the nation for the quarter. So we are clearly experiencing significant growth in recent years.

There are a number of reasons why that is the case, when large parts of Australia are doing less well. Firstly, it is a significant growth premium that accompanies population growth, and this is both a boon and a challenge, might I say, for the government. On the one hand it is going to continue to support economic activity in multiple sectors of the economy, especially housing and retail most obviously, and those are important to the Victorian economy. ABS data recently has shown that Victoria is performing well in those two areas. Obviously from our perspective we have to front up to the challenge of making sure that we can keep pace with that population growth by investing both in infrastructure and services.

The second reason why you are seeing this growth come through is we have been the beneficiary of a much more realistic pricing of the Australian dollar. I think it is trading around about 73, 74 US at the moment, which has benefited many of the Victorian trade-exposed industries. I could go through them, but it is international education — \$5.8 billion of export earnings. It is tourism, which is continuing to perform extremely well. It is manufacturing, which has benefited significantly, might I say, from the lower currency as well as the continuing support of the government.

Thirdly, I think the reason for growth has been a maintenance of the economic momentum, which is really a result of strong government investment in infrastructure and industries.

Ms WARD — Thank you. In your response to me you spoke about having a strong GSP in Victoria, and you talked to us about what the GSP has been over the last two budgets. I did not pick up whether you spoke about what the forecast GSP is.

Mr PALLAS — GSP going forward, I think, is about 2.75.

Mr MARTINE — Three in 16.

Mr PALLAS — Three this year and then 2.75. In fact I think the federal government are putting their numbers at three, which I think is a little ambitious.

Ms WARD — Why do you think it is ambitious?

Mr PALLAS — Well, if Victoria is countenancing a 2.75 per cent GSP growth — and we are the best performing economy in the nation, arguably — then I think a 3 per cent number is ambitious, and of course it underpins your overall budgetary settings. What we tend to do with our estimates is we revert back to trend in the last two years. So 2.75 is about the long-term trend. As you can see, we have been quite conservative in terms of our expectations around the performance of the economy. So we are hoping for some upside, but we are planning on a conservative performance of the economy going forward.

Ms WARD — So how is your budget going to help you achieve that 2.75 per cent GSP that you are forecasting?

Mr PALLAS — Economic growth of course, as I said, has picked up significantly, with GSP consistently outperforming Australian GDP for the first time in a decade. The budget forecasts some robust economic performances over the next four years with GSP, as I say, around about 2.75. The key drivers of the Victorian economy are the three PPPs basically: it is population, it is participation and it is productivity. They have all positively contributed to the state's strong economic performance in 2015–16. In particular overall labour market participation has risen fast enough really to contribute to real GSP growth in Victoria in 15–16 for the first time in five years.

Business conditions have improved steadily over the years. They have combined of course with the government's substantial infrastructure investment, which is both driving confidence and activity. Combined business and public investment has increased in Victoria by 14 per cent since the December —

Ms WARD — Do you think the infrastructure investment that is coming in the budget is one of the main drivers behind the GSP growth?

Mr PALLAS — It is one of the contributing factors, yes, absolutely. How I would attribute it amongst other things — I think if you go back to Treasury's estimates about what \$10.1 billion worth of investment buys you and has bought the Victorian economy, it is 50 000 jobs. And of course 50 000 jobs is 50 000 people who have got a job, got an income and got a capacity to essentially participate productively in the society and in the economy.

Ms WARD — In your response you spoke about productivity, and I know that since the GSP there have been some real challenges internationally, with countries improving their productivity, if you like. This is something that the Chair and I debate regularly around the ins and outs of what productivity really means. It has been a challenge. How has it been a challenge for Victoria and how are we addressing it?

Mr PALLAS — Well, I think if you go to about 2014, productivity in Victoria has increased, which has supported recent economic growth. Productivity fundamentally remains the cornerstone of sustainable increases in living standards over the long term. I do not think there is any way to escape that reality, and it must be supported by investment in both social and also economic infrastructure. That is why the 17–18 budget includes up to 6.1 billion TEI of new infrastructure investment aimed at enhancing productivity and boosting economic growth and improving the liveability of communities for the whole state.

Investing in human capital, I think, is the other key part to lifting our productivity performance. So in the 17–18 budget what we have sought to do — if you look at our education spend, there is 1.3 billion over the next four years to rehabilitate our schools and to ensure that we have got better performing schools. So maintaining productivity growth, I think, is essential for sustaining economic growth into the future. And things have changed. You can actually see us moving from negative territory into positive territory. It is a substantial turnaround, and it is quite a dramatic improvement.

Ms WARD — You talk about investing in human capital, which is interesting. In your presentation you talked about population growth. There is a massive increase in quarterly net interstate migration. I suspect that the investment in social capital that we have got in this state is probably attractive for some, but how is the growth in interstate migration working for Victoria and why is it happening?

Mr PALLAS — It is almost like a cycle of virtuosity in effect. Because our economy is working well people are wanting to move here. Whether it is interstate migration or indeed overseas migration, Victoria's net interstate migration was 16 700 people, and that accounted for almost 14 per cent of the total population growth of the state. In 15–16 Victoria gained net interstate migration from every state and territory, and the largest inflow has been from New South Wales and Western Australia.

Ms SHING — Despite all the money they are getting from the commonwealth.

Mr PALLAS — Yes. There is a nice little map on page 32 of budget paper 2.

Mr D. O'BRIEN — Just a quick one, Treasurer, back on dividends before I hand over to Mr Smith. The same budget paper reference, page 21 of BP5. Last year you forecast dividends from the water authorities of 354 million. This year it has increased from \$170 million to \$524 million. Why such a large 48 per cent increase in the dividends from Melbourne's water businesses?

Mr PALLAS — Yes, I think essentially this really just comes down to the underlying profitability that is reflected in the water authorities. I might hand over to Mr Martine to deal with that, but dividends from the PNFC sector are really estimated to be higher in the 17–18 period compared to, say, the 16–17 period. Look, it is retained earnings and it is improved profitability. Those are — —

Mr D. O'BRIEN — So why then, Treasurer, given that you have unnecessarily placed a water order from the desal plant, adding further to the costs for Melbourne water customers, would you not give some of that money back?

Mr PALLAS — Essentially we are giving the money back. The money going into the state's coffers — —

Mr D. O'BRIEN — Not to Melbourne water customers.

Mr PALLAS — There is \$1.5 billion worth of tax cuts in this budget, and preceding budgets, so as a government we have made a very clear decision to reduce — —

Mr T. SMITH — Ten tax increases.

Mr PALLAS — Of course our revenue growth is well below the long-term average, so I think this is nonsense, this rivers of gold argument.

Mr D. O'BRIEN — It is not for Melbourne water customers who are unnecessarily paying for a water order that we do not need when our dams are over two-thirds full, and you are increasing the dividend by 48 per cent on last year. Why not give that back to Melbourne water customers?

Mr PALLAS — Because we want to run efficient operations in these organisations. The state has taken a dividend, and we have returned that dividend through the decisions that go to reduced taxation right across the board. I mean, we are running, essentially, revenue growth at 3.2 per cent. The previous government ran it at higher than that.

Mr D. O'BRIEN — Given the profitability of the water companies and the fact that our water supplies were at two-thirds and we had good spring rains, was there any consideration given by you to actually cancelling that water order?

Mr PALLAS — Look, let us go just back to basics on this. When you are talking about the dividends that the state retains or draws down from these authorities, that has no direct impact upon what the pricing regime is, because the Essential Services Commission makes the judgements about how water prices are set, so it does not necessarily flow that you will see a reduction in water prices. Similarly, what you can have some confidence in is that through these budget papers you can see the judgements that the government makes in terms of reduction in terms of tax liability. So rather than have a disconnect process where the Essential Services Commission may or may not choose to provide relief, what the state is doing is making a conscious decision that will make relief in certain areas — —

Mr D. O'BRIEN — To take more money. Mr Smith, I am happy to hand over to you.

Mr T. SMITH — Thank you, Mr O'Brien, and welcome, Treasurer. Treasurer, if I could start by asking a direct question to your secretary, in BP2, page 5, it states:

Net debt as a percentage of GSP remains below the level of 6.2 per cent inherited by this government.

Do you stand by that comment as being correct?

Mr MARTINE — Thanks for the question. There is a table in the budget papers — and I will just need to remind myself where it is — which has the history of debt as a proportion of GSP. I think it is in budget paper 5; one of my colleagues will dig it out. That shows the history, and it has got a few years there that have a 6.2, a 6.1 and a 6.0, from memory.

Mr T. SMITH — So in November 2014 for the pre-election budget update, which you signed off on, net debt is 5.9 per cent — so you signed off on that in 2014 — which was inherited by this government, but you are saying the debt you inherited was 6.2 per cent. That is surely not correct, is it?

Mr MARTINE — Two things I will just point out there. From memory I think you are correct that the pre-election budget update did have debt at 5.9 per cent of GSP in November 2014; that is correct. The figure at the end of the year, of that financial year, I cannot remember off the top of my head, but I think from memory it was 6.1 — —

Mr T. SMITH — 5.9 per cent.

Mr MARTINE — I certainly stand by the document I signed off in November 2014, which is debt at that point in time as a proportion — —

Mr T. SMITH — So why does this budget say something different, to 6.2 per cent? That is not correct. That is rubbish.

Mr MARTINE — The best way to answer that question is this essentially, as you will note on the front page, is a government budget. The debt as a proportion of GSP in the PBU was 5.9. The debt at the end of that financial year was 6.2.

Mr T. SMITH — That is not — —

Mr D. O'BRIEN — What was inherited.

Mr T. SMITH — That is not what was inherited. The language in this budget is misleading.

Mr MARTINE — All I can give you is the — —

Mr T. SMITH — So this is just Labor spin, isn't it?

Mr MARTINE — All I can give you are the numbers, which in the PBU is 5.9 — —

Mr D. O'BRIEN — Correct, which is what was inherited.

Mr MARTINE — In 14–15, which is 30 June 2015, it was 6.2.

Mr T. SMITH — But PBU 5.9. That is what was inherited.

Mr PALLAS — The last budgeted financial year, 14–15, was 6.2.

Mr T. SMITH — Which you were responsible for six months. This is garbage.

Members interjecting.

Mr MORRIS — You ran up 0.3 and then you claimed you inherited it. Rubbish! It is complete rubbish.

Mr PALLAS — Well, we manage budgets at each and every financial year. We inherited a 6.2 — —

Mr T. SMITH — You inherited 5.9, not 6.2.

Members interjecting.

The CHAIR — Order! One at a time.

Ms WARD — It was your budget.

The CHAIR — Order, Ms Ward.

Mr PALLAS — The pre-election budget update is the final budgeted number at the end of the financial year that we took over — —

Mr MORRIS — Six months after you took office.

Mr PALLAS — 6.2.

Mr T. SMITH — You cannot spin out of this one, mate. Just say you fibbed in the budget.

Mr PALLAS — Do you think somehow — —

Members interjecting.

The CHAIR — Order! It is the opposition's question time.

Mr PALLAS — I do not think you miraculously made \$1.2 billion disappear out of the state coffers. The reality is there was 6.2 in the six months before you lost government and it was 6.2 six months after you lost government.

Mr T. SMITH — It was 5.9.

Mr PALLAS — I think I know what happened — nothing.

Members interjecting.

Mr T. SMITH — It was 5.9. I am pretty sure you do not know what happened, because you told a porky in the budget. It was 5.9.

Ms WARD — It does not work that way, Mr Smith.

Mr PALLAS — I am more than happy to have that argument publicly.

Mr T. SMITH — Well, we are.

Mr PALLAS — 6.2 in the budgeted year before you lost government —

Mr T. SMITH — The secretary just said it is the government's budget which he — —

Mr PALLAS — 6.2 six months after you lost government. What do you think we did?

Mr T. SMITH — The language in this budget —

Mr PALLAS — We spent \$1.2 billion?

Mr T. SMITH — clearly has not been endorsed by the secretary.

Mr PALLAS — I do not think so. Show me where that expenditure occurred.

Mr T. SMITH — It is clearly not endorsed by the secretary.

Members interjecting.

Mr T. SMITH — Mr Martine, in the 2017–18 budget paper, BP2, table 1.1, on page 22, it records that in 16–17 the revised net debt figure is 18.1 billion and in 20–21 the figure is estimated to be 28.9 billion — an increase of 10.8 billion, or nearly 60 per cent. Given that taxes have increased by nearly 4 billion since the election, there was a port of Melbourne lease windfall of 9.7 billion, a GST increase of 4.3 billion between 16–17 and 20–21, I am just trying to understand how debt could be forecast to increase by nearly 11 billion in just four years?

Mr MARTINE — This is page 22 of BP2?

Mr T. SMITH — Yes.

Mr MARTINE — Debt at the end of the forward estimates is 28.9. In a sense the increase in debt essentially over the forward estimates just reflects all of the decisions of government, and that is the net impact of all the decisions of government, and as the government has indicated on several occasions, it was prepared to or is prepared to have debt increase to 6.0. There is a table in budget paper 4 which outlines the list of projects that the government is using to fund with the new debt. It is on page 9 of budget paper 4, which lists a series of projects which add to about 5.5 billion.

Mr PALLAS — And let us not forget too, for the member's attention, the debt in 2010–11 increased by \$11 billion by the time of 2014–15. So in terms of debt accumulation without much to show for it, the previous government did pretty well.

Ms PATTEN — Thank you, Treasurer. I will try to slip two questions into this 5 minutes. In budget paper 5, page 155, it is talking about land tax moving from biennial to annual. The *Herald Sun*, in the lead-up to the budget, was reporting that this change could impact on the asset-rich, cash-poor, generally older people in our community disproportionately. So I am wondering if you can comment on this, and is the government planning to provide any relief or any assistance for this asset-rich, cash-poor community?

Mr PALLAS — There is no doubt in the budget that you will see that there has been a pretty substantial adjustment in terms of land valuations. We have this process in Victoria, and we are the only state that does this, I think, with the exception of Tasmania, which I think does a CPI adjustment every year but every sixth year does a valuation. Most other states do a valuation annually, and what we tend to find as a consequence of that is that you will get these peaks and troughs as adjustment comes through. But it is a very real appreciation of personal wealth that is going on, so I can accept that there is a group in the community who essentially are maintaining assets.

The idea of a land tax is that it requires people to think rationally about whether or not their acquisition and the maintenance of landholdings is in their best personal interest, and ultimately the aim is it should assist the economy if those landholdings are put back into the market. For example, a greater capacity for land to come into the market is exactly one of the things that we kept hearing from the federal government on the side of supply. Certainly our view is that the land values generally undertaken over the past two years have seen taxpayers have an increase. Our land values are partially the result of government investments in infrastructure, so in many cases it is a return to the state of the capacity and the ongoing capacity to make and to recover costs associated with that. Do we have any plans in the near future I think was the nub of your question around land tax relief. Other than that we will now move to an annual process of assessment, which will avoid those peaks and troughs.

Ms PATTEN — But I think that is the issue for people who are on pensions. So they might own a property that is worth a lot, but being on a pension paying annually rather than biennially has —

Mr PALLAS — There is no way to avoid that other than to have a much smoother approach. The point I would make is that these are not householders who are owning their house; it is not their principal place of residence that is being taxed here. These are investment properties.

Ms PATTEN — Yes, got you. Following on a little bit on from that is looking at intergenerational reporting, so looking at the population growth that we have talked about in your presentation. Other states are doing intergenerational reports, and I am wondering if you are planning to do an intergenerational report that will consider the next 40 years of an ageing population, our health expenditure, the growth in our population? Having just come from a Committee for Melbourne report last night, it was very interesting.

Mr PALLAS — Can I say there are no plans from the government in terms of broader intergenerational reports. That is not to dismiss this as being a very significant issue in terms of the shift of onus, which I think is increasingly and might I say disproportionately falling on the shoulders of the young. The reason I think it is important that we attend to these problems with policy adjustments rather than another intergenerational report is every think tank across the country is providing us with proposals but what we know is you have to invest in skills and training. You have to make it easier for young people to move into the property market, and we have to recognise that in many ways the choices we make as a community in terms of our infrastructure investment has to recognise a long-run cost of that infrastructure and the benefit to future generations.

Mr DIMOPOULOS — Good morning, Treasurer and officers. Treasurer, I want to just take you to debt, following on from the previous questions, particularly infrastructure investment. Budget paper 2, page 22, indicates that the government net debt to GSP will essentially be around 6 per cent or less over the forward estimates. I know the opposition referred to aggregate sums like 11 billion, and it might be that it is an unhelpful measure. Debt is always relevant or relative to who is borrowing. If Westpac borrows 50 million, that is okay. If the corner store or milk bar borrows 50 million, that is probably not okay. So with that Dimopoulos wisdom, Treasurer, I just ask you if you could give us a sense of what those forward estimates projections staying at 6 or

below on net debt to GSP means for the Victorian economy generally. And I will ask you a couple of follow-up questions around infrastructure in a minute.

Mr PALLAS — Sure. We are currently in a period of extraordinarily low interest rates. The latest 10-year bond rate published by TCV for the month of March, for example, was 2.98 per cent — about 3 percentage points. So after the GFC, the central banks right across the world substantially cut interest rates in an attempt to stimulate the economy and stimulate economic recovery. This period of substantially low interest rates has, at least to some extent, been a feature of financial markets since the GFC. In short, it is a very good time for governments to borrow in order to increase government investment in productive infrastructure.

There has been a consensus emerging really on this issue amongst economists, public policy professionals, industry associations, a former governor of the Reserve Bank, might I say, and very recently of course federal Liberal Party government treasurers. For example, in 2014 the Property Council of Victoria released its policy platform entitled *Victoria: The Property State*. In it it said that the government needed to raise its debt capacity to invest in infrastructure without compromising its AAA, and those are the key parameters. We know that you can preserve your AAA at 6.2 per cent debt as a percentage of GSP, because the former government had it there. They actually increased it by about \$11 billion, which is broadly approximate with the level of absolute debt that we have seen come through in these forward estimates, and our expectation is that that investment — —

There are three basic strategies that we are seeking to apply here: general government net debt as a percentage of GSP to be maintained at a sustainable level over the medium term, fully fund the unfunded superannuation liabilities by 2035 and a net operating surplus consistent with maintaining general government net debt at a sustainable level over that medium-term period. I would hasten to add that that was not new in the last budget before the election. In our 2012 *Plan for Jobs and Growth* we made it very clear that debt also has a role to play to ensure that the cost of projects is equitably shared over the life of major projects works, and of course that comes to the issue that Fiona raised around intergenerational debt. It is about spreading out the profile of costs so that all generations meet the adequate value of the delivery of this economic advantage.

Mr DIMOPOULOS — Treasurer, just to follow up on something you said a moment ago. I cannot remember the exact terminology. The three key issues around maintaining debt to GSP at 6 per cent and the unfunded liability super. How important is that line? I had not thought about that earlier in terms of the AAA credit rating.

Mr PALLAS — I think they are important in the sense that they show that the government is serious about a long-term strategy. This is not a strategy that this government has put in place. Might I say, it is something that has been in place for, let us say, a decade, and it has been consistently applied by governments of all persuasions. The idea is that you cut down those liabilities as you have the capacity to, and we continue to attend to that responsibility.

Mr DIMOPOULOS — Thank you. In budget paper 4, page 7, under ‘Commonwealth funding’ — a topic that has received a lot of media attention the last few weeks — there is a line that says:

Based on the latest Commonwealth budget publication, the *Mid-Year Economic and Fiscal Outlook (MYEFO)* Victoria will only receive 8.5 per cent of allocated commonwealth infrastructure funding to the states and territories between 2015–16 and 2019–20.

Now obviously this was printed before Tuesday gone, before the federal budget. I have seen some media commentary, but I want to get a bit more of an explanation as to where that puts Victoria, whether that changes what is in this document because of the federal budget on Tuesday.

Mr PALLAS — I suppose, at first look, if you go to these numbers, they appear to have increased slightly as a result of the 17–18 budget, from about 8.5 per cent to 9.4. However, that is quite deceptive, and the reason I highlight that is that in actual fact our share of infrastructure funding fell over half of 1 per cent as a result of the commonwealth budget, to about 8 per cent. How that occurs is our share of total federal infrastructure grant funding over the commonwealth budget and forward estimates period equals 9.4 per cent, which is well below our population share. However, that number does not account for equity funding injections being made by the commonwealth as part of their budget. So on Tuesday the federal Treasurer confirmed that they are making a \$5.3 billion equity injection to build a second Sydney airport. The first thing that has to be said about that proposal is that it is extremely flaky behaviour by the commonwealth, so much so that the chair of Infrastructure

Partnerships Australia, former Liberal minister Mark Birrell, publicly criticised the move. But the second thing is that nobody seriously thinks that the commonwealth will make their money back on the project. It is effectively adding a \$5.3 billion gift to the residents of Sydney by the Prime Minister.

Mr MORRIS — On a point of order, Chair, this is an inquiry into the Victorian budget, not the commonwealth budget or into Sydney airport. Perhaps we could confine our — —

Ms WARD — We are very disappointed in the commonwealth budget.

Mr PALLAS — I would have thought you might be concerned about the opportunity costs, Deputy Chair.

Mr D. O'BRIEN — I think you should get your act together on the asset recycling yourself.

The CHAIR — Order!

Members interjecting.

Ms SHING — Further to the point of order, Mr Dimopoulos began this line of questioning with a very clear reference to the budget papers and to commonwealth funding, a proportion of which Victoria has significantly missed out on as a consequence of the commonwealth's flaky behaviour, as the Treasurer himself has characterised it. So on that basis, there is no point of order, and I suggest we move on, rather than you running down the clock, Mr Morris.

The CHAIR — There is no point of order. The Treasurer to continue.

Mr DIMOPOULOS — Treasurer, I say this very genuinely: I am stunned that you have just told us that we have less share of national infrastructure funding from the commonwealth after Tuesday's budget. I thought it was actually slightly more, even just a pathetic amount more, but we have less, which is outrageous, but nonetheless. My question is: someone in the opposition — I cannot remember, someone very forgettable — this week in the Parliament made a reference to the fact that we are looking for someone to pay for what we should be doing in an infrastructure sense, so we would go to Canberra with cap in hand. Given what you said in your presentation this morning, that we are spending about double in infrastructure a year — 9.6 billion — than the previous government, I just want to get a sense from you: other states that are benefitting from a higher degree of infrastructure funding, what are they spending themselves? Do you have a comparison?

Mr PALLAS — What are the other states applying to infrastructure?

Mr DIMOPOULOS — Yes. There is an argument that we should be doing our heavy lifting ourselves. Well, what are we doing?

Mr PALLAS — If you look at Infrastructure Partnerships Australia's assessment, essentially the commonwealth, if you take out that equity funding concept, is probably making about the same contribution as the state of Victoria is making in this financial year. I do not really want to be — and it is not my job, really — assessing what the other states are doing, but the commonwealth, around about the same.

Mr T. SMITH — So I will pick up where we left off with regard to the table on page 9 of budget paper 4. The heading says, 'Using prudent debt to accelerate the capital program'. In table 2 on that page there is a list of projects that are said to be accelerated by increasing the state's debt. The first of those projects is the level crossing removal plan, 846 million. How many level crossings does that 846 million involve?

Mr PALLAS — I think in the budget speech I identified that this will get us to a point where we are likely to have 28 level crossings, I think, removed by the time of the next election, up from 21, from memory. So if I could take you through that. The government's level crossing program really has advanced quite strongly. We are doing a lot better than we thought. We committed at the election to get 20 done or substantially underway, I think was our language.

Mr T. SMITH — You promised 50, actually.

Mr PALLAS — No, it is 50 over an eight-year period. That was the election commitment. We will do much better than the 20 that we committed to. The advancing process means that we are on track now to do up to 28

by the end of 2018. Ten level crossings have been removed to date and residents, drivers and public transport users right across Melbourne are already reaping the benefits of that. We have increased our investment in the program to \$6.9 billion, and in doing so we are listening to the community about the sort of infrastructure solutions that best meet their needs and also ensuring that the network continues to operate as best we can, so that we support and certainly do not impede the city's growth.

Mr T. SMITH — On top of the level crossings you have already removed, how many level crossings does that 846 million account for?

Mr PALLAS — As I said, there is work underway. We have already removed 10 level crossings to date. Our expectation is that — unlike our election commitment that we would have 20 removed or substantially underway by the election — we will have 28 completed by the time of the next election.

Mr T. SMITH — You leased the port for 9.7 billion and you said the level crossing removals would cost about 6 billion. Why do we need to go into debt to bring forward level crossing removals that should already have been paid for by the port of Melbourne lease?

Mr PALLAS — I think we have been pretty clear that the infrastructure investment that the state is making is substantially more than just the level crossing removal program. Indeed that is why the Victorian Transport Fund was established. If it was only for level crossings, Mr O'Brien next to you would be very unhappy. In fact we committed that at least 10 per cent of those allocations —

Mr D. O'BRIEN — Only because we forced you to.

Mr PALLAS — would be — —

Members interjecting.

Mr PALLAS — I did not mean to start a fight. All I am saying is this is a much broader infrastructure investment than simply level crossing removals. It is Melbourne Metro, it is our rail upgrades, it is our rolling stock, it is our trams — it is essentially building a network of road and rail right across the state that grows our economy.

Mr T. SMITH — But was not the primary purpose of the port lease to fund these level crossing removals?

Mr PALLAS — Indeed. We said that we would put the funds into the Victorian Transport Fund. The principal call, the first call, on that fund would be the level crossing removal program, but of course to the extent that there were additional funds in, we could apply it to other things. That is why the Victorian Transport Fund and the legislation that establishes it makes it clear that it can be provided to other productivity-enhancing infrastructure, not just level crossing removal.

Mr T. SMITH — But the level crossing removal acceleration in table 2 is not expressed to be funded from the Victorian Transport Fund.

Mr PALLAS — It certainly would be part of the allocations, because the funding is drawn down out of that fund. What do you mean, it is not expressed as being part of that? Do you mean because it is essentially a debt figure?

Mr T. SMITH — Yes.

Mr PALLAS — Our position is of course the level crossing removal acceleration program and all of these infrastructure projects demonstrate that the state is making an investment. As you draw down on your surplus, you increase your debt. It just happens under an accrual accounting system. So the note on that page, for example, makes it clear that these projects will be funded from the proceeds of the sale of the port of Melbourne. A drawdown from the Victorian Transport Fund increases net debt.

Mr D. O'BRIEN — Treasurer, budget paper 5, page 157, refers to motor vehicle taxes and the increase in the duty on new passenger vehicles. This tax will add around \$100 million a year to government coffers, and obviously the cost of new vehicles will increase by the same amount. According to crash data on the data.vic website, which is a government website, 75 per cent of Victorian road fatalities occur where the occupant was

killed in a car that was older than five years. The government's own *Towards Zero* road safety strategy says at page 9:

Actions in this strategy will help achieve major and sustained trauma reductions in the future with —
among other things —

...

the uptake of safer vehicles.

And at page 24 it says:

The Victorian government will do what it can to speed up the transformation to a safer car fleet.

How can your actions in making new cars more expensive be remotely consistent with the *Towards Zero* policy?

Mr PALLAS — If you understand the principal reason why this policy was put in place — and I can tell you I know why it was put in place because I was the minister that put it in place in 2007, a decade ago. The reason we put the policy in place was principally to support and assist the domestic industry. But you are right, newer cars are safer, and a decade ago being able to bring the average pool or life of the fleet to contemporaneous safety standards that existed at the time — side airbags, electronic stability control, automatic braking systems, sorry, ABS systems — what they told us is that if you can bring down the average age of the fleet to something contemporaneous with the time that that charge was entertained, then you would access that technology. What we now know is that policy has actually brought down the age of the fleet to less than 10 years.

Mr D. O'BRIEN — Why not continue it then? Why make it more difficult for people to buy newer, safer cars now?

Mr PALLAS — You make it more difficult for people to buy cars when you increase the taxing regime that attaches to them.

Mr D. O'BRIEN — Correct, which is what you have just done.

Mr PALLAS — Let us not forget that it was the member for Malvern who hiked motor vehicle taxes —

Mr D. O'BRIEN — No, I am asking about your budget, Treasurer, not what we did in government.

Mr PALLAS — by \$580 million in 2014 alone.

Mr D. O'BRIEN — Treasurer, given the causal link, which you have just acknowledged, between the age of vehicles — —

Mr PALLAS — And the fact that we brought down the age of the fleet.

Mr D. O'BRIEN — Sorry, Treasurer, I will ask the question now. Given the causal link between the age of vehicles and the increase in deaths from crashes, did you seek any advice from the TAC or any other agency — the police or others — on the safety consequences of this tax increase?

Mr PALLAS — The government goes through its normal process of assessment of all policies to satisfy itself that they are appropriate, and where we take advice, I suppose, is ultimately up to government.

Mr MORRIS — So the answer is no.

Mr D. O'BRIEN — No, obviously not. Treasurer, you would have no doubt seen the ad in the *Herald Sun* from the VACC on the weekend that was obviously very critical of this tax increase. It appeals to the government to reconsider this budget measure, but it says at the very least, consumers who have already negotiated a price for a new car to be delivered from 1 July 2017 should not be stung by an additional unanticipated cost. So will that be the case? If you have already negotiated a contract now for delivery after the start of the financial year, will the tax apply or not?

Mr PALLAS — Our view is we have given sufficient notice to the market, and that date of operation, 1 July, will apply. There will be no transitional arrangements other than the notice that the state has given.

Mr D. O'BRIEN — So if you have already bought a car now and signed a contract for a car now but it is delivered after 1 July, you will pay the increase in tax?

Mr PALLAS — The point at which the transaction occurs would be the point at which the tax applies. So I do not know what the contractual arrangements are, but if the transaction occurs post-1 July, then the tax will apply.

Ms PENNICUIK — Treasurer, in your budget speech and also on budget paper 2, page 8, you mention that the budget provides \$110 million for plantation establishment to support Victorian timber industry workers in the Latrobe Valley, and in budget paper 3, page 26, it outlines a series of allocations of \$2.5 million over the forward estimates in output initiatives and \$100 million over the forward estimates in asset initiatives. Can you detail what that actually means to establish those plantations, but, more specifically, will these funds be used to establish plantations on Crown land or will private land be acquired, and, if it is Crown land, will it be on logged state forest lands?

Mr PALLAS — The provision of \$110 million for plantation establishment is aimed to support the Victorian timber industry and timber industry workers, particularly in the Latrobe Valley. Funding, as it indicates, is aimed at longer term sustainability of the harvesting industry and the initiative is funded from the Sustainability Fund, so the question that you ask went to state land or is it — —?

Ms PENNICUIK — Will they be established on Crown land or will there be private land acquired, and, if it is Crown land, will this include logged state forests?

Mr PALLAS — No decision as to the land to be acquired has yet been made, so the expectation and the provision is for not only the acquisition of land, so it may be private land, but of course it would only be done through normal acquisition and commercial processes. It may be state land that is looked at, and it will depend upon the suitability of the land for the purpose to be undertaken, and certainly the government's position is that we will assess it upon suitability and proximity to the industry that we are seeking to support.

Ms PENNICUIK — Treasurer, can you just expand on how you assess these unknown projects for suitability?

Mr PALLAS — No. I think you might want to save that one up for the relevant minister.

Mr D. O'BRIEN — Which is?

Mr PALLAS — The minister for forestry issues is Minister Pulford.

Ms PENNICUIK — So Minister Pulford will be overseeing the criteria for where these plantations will be established and what type of plantations they will be, for example?

Mr PALLAS — She is the minister for forestry industries.

Ms PENNICUIK — Treasurer, if I could just follow up from a question raised by Ms Patten with regard to the land tax property valuations that are going from biannual to annual, could you advise what the cost impact will be on local government of moving those land tax valuations to the valuer-general — centralised by the valuer-general — and whether local government will be charged for the service of those valuations?

Mr PALLAS — It could conceptually constitute a saving for them, but we will need to work that through. The government, in centralising the valuation functions to the valuer-general, will also ensure that therefore we are talking annual valuations. Currently, of course, as you know, land and property is valued by local councils or by the valuer-general every two years. The proposed changes are aimed to provide accurate and more timely valuations of land, but policy does not change underlying principles or methodology, so there is no change to that.

By undertaking these changes, what it may mean for some councils — and there are quite a number of councils who perform their own valuations — so this will be the state assuming the responsibility of those valuations,

and that will, of course, take some pressure of the costs of those councils. It will be effectively the state providing those arrangements. There are some councils who already pay for the state to provide those valuations through the valuer-general, and we have made provision in the budget for a capacity for the valuer-general to be able to undertake it. I think of Victoria's 79 councils we expect that there will be a number of councils choosing the option to transfer their responsibility — —

The CHAIR — Order!

Ms SHING — Thank you, Treasurer. Thank you, witnesses, for attending today, and thank you for your presentation. Treasurer, I would like to pick up on a number of things that have been discussed in the regional context, in particular commonwealth funding and the way in which that is set out at budget paper 4, page 7, and the share of commonwealth infrastructure funding, which as you have outlined, has gone down significantly. We are now looking at — if I take you to BP4, page 7 — 8.5 per cent of commonwealth infrastructure funding share over the budget and estimates.

One of the things that we have seen in regional Victoria as part of the regional rail revival package announcement was a commitment of \$1.46 billion upon satisfaction of the commonwealth's obligation with the 2014 asset recycling initiative. It is a bit of a furphy to my mind for the commonwealth and particularly the federal Minister for Infrastructure and Transport, himself the member for Gippsland, to be saying that they look forward to working with the states to come up with a shared package in relation to regional rail investment on the one hand whilst ignoring what we have already put in to this area as part of duplications, upgrades and improvements and whilst also not delivering on this agreement.

Mr D. O'BRIEN — You did not put in anything! It is all federal money.

Ms SHING — So in relation to what has been delivered in the last budget, and I take you to budget paper 3, page 51 — and Mr O'Brien, it is interesting that the second paragraph of that page says that in the last budget \$1.3 billion was invested in better regional rail, so that puts paid to your claim — Treasurer, how has the asset recycling deal that was signed off by the commonwealth in 2014 with the former government, which the current coalition government has now ratted on, impacted upon our capacity to deliver improved regional rail infrastructure for Victorians who, in the main, live in coalition-held seats?

Mr PALLAS — Yes, it is very disappointing, and it has affected it profoundly — let me be clear about that. We have identified on page 51 of budget paper 3 the projects that were affected by the regional rail revival. The short answer essentially is that the commonwealth is effectively seeking to plunder funds that should be available for the state of Victoria. I make that as a very simple point. The asset recycling program is simply the state converting a dividend yield provider to the state, money to the state, that we would ordinarily draw down, for example, from a port, into money that the commonwealth gets on a regular basis in terms of the company tax. So it is not as if this money is a gift from the commonwealth to the states.

Mr D. O'BRIEN — It is! It was only introduced in 2014.

Ms SHING — So, Treasurer, the \$5.3 billion in equity injections for the second Sydney airport through the commonwealth has changed disproportionately the balance between what New South Wales is receiving in commonwealth funding and what Mr Sydney-sider Harbour Mansion, Mr Turnbull, is delivering. What does that look like in the context of widening the gap between New South Wales and Victoria when you look at that commonwealth allocation of funding, particularly around inland rail as well?

Mr PALLAS — Oh, well, I have not done the figures as a consequence of the latest federal budget, but we know that Victoria is depending upon how you measure it between 8 and 10 per cent, and you have to use equity funding stuff as the way of accelerating or enlarging the Victorian government's share. It is really around 8. I imagine New South Wales continues to sit in the high 30s, or thereabouts. Certainly our position is that we inherited from the previous government — and we were pleased to participate in a process of asset recycling. One of the first letters I sent to then Treasurer Joe Hockey was to indicate that we were going to participate in the process and we would continue the strategy of asset recycling, whether it was the previous government's efforts around the Rural Finance Corporation or this government's efforts around the port of Melbourne. The asset recycling principles were very clear; they were elaborated consistently by federal Treasurer Hockey when he said he did not really care what the money was put to, provided it was job-creating, economy-growing infrastructure, and the only exception he seemed to draw was sports stadiums.

What has seemed to happen is that New South Wales got \$2.2 billion — —

Mr MORRIS — They got it done on time.

The CHAIR — Order!

Mr PALLAS — Might I say, Mr Morris — —

Members interjecting.

The CHAIR — Order!

Mr D. O'BRIEN — Incompetent!

Mr PALLAS — All paperwork to the commonwealth — —

Mr T. SMITH — Incompetent Premier's office, incompetent Treasurer's office, did not get the forms in on time.

The CHAIR — Order!

Mr PALLAS — All paperwork went to the commonwealth. Of course they brought forward an early election, they were in caretaker mode and they could not conclude the agreement. So this nonsense that seems to be being spoken that we failed to deliver — I am happy basically for people to scrutinise the flow of correspondence. I wrote letter after letter after letter to the federal Treasurer explaining what our position was. Now, it is true to say that we constantly adjusted our position in an effort to get them to agree. It is also true to say that the commonwealth Treasurer on occasion, quite regularly, did not even bother responding to the letters.

Mr T. SMITH — You told a porkie in the budget and now you are telling porkies now.

Mr PALLAS — But what I am saying is that Victoria ultimately has paid a price for what I think is fundamentally a political game —

Mr DIMOPOULOS — Yes, partisan politics.

Mr PALLAS — aimed to disable the Victorian economy.

Ms SHING — So would you say then, Treasurer, that commonwealth members and ministers from the coalition who reside in Victoria and are representing Victorian communities have in fact been nobbled as part of an inability to deliver infrastructure funding that was the subject of this signed agreement between Denis Napthine and Tony Abbott and then the subject of correspondence between yourself and Joe Hockey?

Mr D. O'BRIEN — I thought we were getting rid of dixerers?

Mr PALLAS — I think it would be good —

Mr D. O'BRIEN — Beautifully read.

Mr PALLAS — if we could start to build a bit of a political consensus around this stuff. I have seen, I have heard, from various members of the opposition, various members of the federal National and Liberal parties, that they are frustrated around these issues and that they believe that Victoria is not being fairly treated. I think it is quite shabby what is happening here.

Ms SHING — It sounds to me from the opposition here in this room, however, Treasurer, that there are certain people within the coalition ranks who do not want Victoria to get this money when in fact the communities — —

Mr T. SMITH — What are you talking about?

Members interjecting.

Mr T. SMITH — You are too clever by half sometimes, you know. You are not as smart as you think you are.

Members interjecting.

The CHAIR — Order! Mr Smith!

Mr D. O'BRIEN — If you are so proud of regional rail, why not put the money towards Melbourne Metro and fund the regional rail yourself?

The CHAIR — Order! Mr O'Brien!

Mr D. O'BRIEN — Like he did for Ballarat, Bendigo and Geelong.

The CHAIR — Order! Mr O'Brien!

Mr PALLAS — Putting aside the histrionics here, I will just say this — and I would make an appeal to the opposition parties here: whether you think that there is a political opportunity, this is \$1.46 billion of effort that could and should and must be applied to these communities. We believe it is the right thing to do. It will enhance a lot of National and Liberal party seats, but, quite frankly, it will enhance the efficiency of the state of Victoria, particularly when it comes to rural rail.

Mr D. O'BRIEN — Why fund Melbourne Metro all yourself and put the regional rail under threat?

The CHAIR — Order! Mr O'Brien!

Mr PALLAS — Let us have an enjoyable argument about who was responsible after the state of Victoria gets the money —

Mr D. O'BRIEN — Why not fund regional rail yourself?

The CHAIR — Order!

Mr PALLAS — to deliver these projects.

Ms SHING — Fantastic. Thank you very much, Treasurer. I would like to take you to BP 3, page 51, and the investments that have gone into the budget as part of rolling stock and further upgrades. There have been significant investment across the regional rail system to improve services. How do we continue to improve upon that and to do the heavy lifting when in fact we do have an infrastructure and asset recycling knee-lock from the commonwealth at this particular point in time?

Mr PALLAS — I think the key to this from our perspective is that the state does have an ongoing commitment to increase our public transport services. In this budget we are committing \$305 million to increase those services, both in metropolitan and in regional areas. That investment also includes \$193 million into public transport on weekends, which will provide additional public transport options. It will also contribute to that night-time economy that our 24-hour public transport on weekends is assisting so well. There is \$66.9 million to deliver trains, trams and bus network improvements, right across metropolitan Melbourne. There is \$43.5 million to address weekend and daily coach services, say, between Seymour and Shepparton, in addition to new train stabling. There is \$2.1 million to deliver an additional 150 morning and evening peak-time services, and of course in this budget there is over \$1.7 billion in infrastructure and further planning to improve public transport services in metropolitan, regional and urban areas, both in the medium and also in the long term.

Ms SHING — Thank you very much, and that is linked into local procurement in relation to production, outfitting and putting of stock onto lines?

Mr PALLAS — Yes. The government has a local procurement strategy. It is great to see — —

The CHAIR — Order!

Mr MORRIS — Treasurer, budget paper 3, page 339, just a question about the output structure. The footnotes to the table, footnotes (b) and (c), ministerial salaries are to be moved from DPC to the Parliament — why is that occurring?

Mr PALLAS — Look, to be honest I suspect that is part of a process to ensure that we have got a single provider of salary rather than two. At the moment what is happening is that members of Parliament get a salary package and then ministers get a package provided by DPC over and above that. This is probably a question you might want to direct to the head of the Premier's department, but essentially the idea would be that you get a single salary that recognises the entitlement. But it is not, can I be very clear, a means by which we are seeking to increase the payments to ministers.

Mr MORRIS — It seems we are changing for no apparent reason.

Mr PALLAS — No, it is to get rid of the two payers, when in effect you might as well get one cheque for one job.

Mr MORRIS — We have had a system that has probably served us for as long as members of Parliament have been paid — —

Mr D. O'BRIEN — Until they started rorting.

Ms SHING — Really?

Mr PALLAS — Spoken like a true conservative.

Mr MORRIS — And we are changing it by virtue of a footnote in a table.

Mr D. O'BRIEN — Until your people starting rorting it.

Ms SHING — You want to talk about rorting?

Mr T. SMITH — Yes, we do actually.

Mr MORRIS — Of course, Treasurer, Parliament is not subject to FOI, so if Parliament had been paying salaries, perhaps we could have asked about whether Adem Somyurek was being paid while he was suspended or whether Steve Herbert misused his ministerial allowance.

Ms SHING — This is a quick grab for the papers. Here we go.

Mr MORRIS — Those sorts of questions simply could not have been put. Is this change not just an effort to sweep further Labor scandals under the carpet?

Ms SHING — That is a pretty short answer to that question right there.

Ms WARD — They have really been focusing on policy today.

The CHAIR — Order!

Mr PALLAS — I think the government has been pretty clear about its desire to make sure that there is a process of transparency in terms of the way that wages are set. The Premier himself has been very clear about the need to come down quite firmly on inappropriate usage of allowances and has put in place a range of safeguards that I think greatly assist. The proposal that into the future adjustment in salaries will be done by an independent panel, I think, is probably a good one. That will provide the level of transparency.

Mr MORRIS — That is not the subject of discussion. The subject of discussion is these salaries will now not be FOIable.

Mr PALLAS — No, but the determinations of the independent panel will be public.

Mr MORRIS — But how they are used will not be FOIable. Whether they are appropriate, whether they are being paid while suspended — all of those things will not be FOI.

Mr PALLAS — If you are serious about this line of inquiry, I can certainly tell that you that our view is that these decisions around entitlements should be public. And I am sure that the Premier will clarify that should you ask him.

Mr MORRIS — Well, we will see, won't we?

Mr T. SMITH — Treasurer, with Victoria's debt set to rise by 10.8 billion in just four years, what will be the effect on Victoria's total annual interest payments if interest rates rise by, for example, 2 per cent, as some predict?

Mr PALLAS — As you would appreciate, we have seen debt reducing in the current financial year down to around about 18 billion. As we say, it is going to, over the long run of the forward estimates, get to around about 28 billion. Might I say that \$10.8 billion that you have identified is less than the 11 billion that the previous government increased state debt, but nonetheless. David, I might throw to you in terms of what you think the debt liability is that we are carrying around about those interest rates.

Mr MARTINE — I probably cannot directly answer the question of how the numbers might change with, for example, a 2 per cent increase in interest rates. Perhaps if I point you to budget paper 5, note 1.5.3, page 38. That is where you will find the total interest expense broken down. In that line you will see the interest on interest-bearing liabilities in 17–18 at 1.253 billion.

Mr T. SMITH — Is that referring to Treasury Corporation of Victoria debt?

Mr MARTINE — Yes. There is a paragraph underneath that table.

Victorian general government sector debt is expected to mainly comprise fixed-rate facilities from the Treasury Corporation of Victoria and finance lease liabilities.

Mr T. SMITH — How much of that debt is set to mature within — you can probably take this on notice, to be honest — one, three, five, 10 years and then more than 10 years?

Mr MARTINE — I am happy to take that on notice.

Mr T. SMITH — Thank you very much. What is the average interest rate spread between those terms of bond currently issued by TCV?

Mr MARTINE — I would probably need to take that on notice as well.

Mr T. SMITH — Can you also provide a table of TCV loans to state-related entities, including who has taken a loan, their purpose and the amount?

Mr MARTINE — I will take that on notice as well.

Mr T. SMITH — Cool. In terms of the Treasury Corporation, can we ask about the deputy chair, Cassandra Kelly? Is Ms Kelly still based in New York? Is she still flying business class at TCV expense to attend TCV board meetings in Melbourne? Is she still put up in 5-star accommodation at TCV expense while attending board meetings in Melbourne?

Mr PALLAS — I believe the answer to all those questions is yes. She is a great contributor, might I say, to the functioning of the board. It is not unusual for the state of Victoria; even the previous government had internationally-based board members. It is important that we get an exposure. Cassandra Kelly has established an international firm. She is the CEO of Pottinger, for goodness sake, and for the state of Victoria to be able to access her expertise — —

I think about half of the board meetings she does not actually attend in person. She does through the use of modern technology from New York. To actually understand what is happening at the heart of the financial markets from somebody who is such a senior player in the financial markets is a massive benefit to the state of Victoria.

Mr T. SMITH — Can you provide the committee with an itemised list of all travel and accommodation and other expenses paid for and reimbursed by TCV for the benefit of Ms Kelly as well as other board members?

Mr PALLAS — No. The committee and various members of the opposition have sought items through FOI, through questions on notice through the Parliament. Those answers have been provided, and I consider those adequate in their content.

Mr T. SMITH — That is a no. Is Ms Kelly a friend of yours?

Mr PALLAS — No. I know she is a friend of Julie Bishop's. I have gone onto the internet and I have seen the fact that she has a very wide range of friends, mainly on the conservative side of politics, might I say, Tim. I met her once before she actually was appointed. I understand she had been appointed by the New South Wales Liberal government to a number of boards.

Mr T. SMITH — Are you aware, Treasurer, that her company donated 20 grand to the Labor Party just before she was appointed?

Mr PALLAS — I do not know. Did her company donate anything to the Liberal Party? Are you aware? Oh, you are not aware of that?

Mr T. SMITH — I am asking the questions here, Treasurer.

Members interjecting.

Mr PALLAS — There are some people who see it as a civic duty.

The CHAIR — Order! I do not think the Treasurer can realistically be across all the donations to the parliamentary — —

Ms Shing interjected.

The CHAIR — Order! Ms Shing!

Mr MORRIS — Treasurer, if I could just come back to the question about travel and accommodation and other expenses. You indicated that information had been provided to several parties, which is of no interest to this committee. This committee is actively seeking the information. Are you refusing to provide that information?

Mr PALLAS — I am making it clear that there are processes that this committee and others can go through for the purposes of accessing it.

Mr MORRIS — This committee is not in the business of FOI. As a parliamentary committee it should have access to all information unless it is cabinet in confidence.

Mr PALLAS — I will provide you with a response. It might not be what you want, but it will be a response.

Mr MORRIS — Will you provide that information that has been sought or not? If not, why not?

Mr PALLAS — I will provide a response.

Mr MORRIS — No. I did not ask for a response. I asked for the information we sought.

Mr PALLAS — I will provide a response, and the content of that response will be in terms that I consider appropriate.

Mr MORRIS — In other words, you are refusing to provide the information to the committee.

Mr PALLAS — I do not know that you are the arbiter about what constitutes appropriate material.

Members interjecting.

The CHAIR — Order! Ms Patten for 5 minutes.

Ms PATTEN — Treasurer, can you talk me through bad and doubtful debts from budget paper 5, page 42? There is \$205 million in doubtful debt and 159 in bad debt. I am just interested in what constitutes bad debt and doubtful debt.

Mr PALLAS — I will have a crack at it, and anybody around me who has got a better informed view about what this means will no doubt put a contribution in. What we do tend to do is recognise that there are fees and fines that are due to the state that have been on the book for such a period of time that it is unlikely that they will be provided or returned to the state. Quite often they fall into the category of traffic enforcement, including toll enforcement arrangements. That tends to be one of the principal areas for the failure and that is where the state does tend to write off a lot of liability.

Ms PATTEN — Is it possible to get a bit of a breakdown of that?

Mr PALLAS — We will see what we can do.

Ms PATTEN — That is great. Just turning to the vacant residential property tax in budget paper 3, page 113. I am interested, representing the inner city, in how you will assess if a property has been vacant for six months. Do you have any idea of how many are vacant? In the last budget you introduced the absentee landowners surcharge, and I am wondering how those two might interact. Is the intention of this that we will increase the sales and we will open up those properties to rental or back onto the property market? And do you think it will have an effect on affordability by doing this?

Mr PALLAS — That is certainly one of the principal objectives here. It is about making sure that there is a rational usage of an asset that really should be applied to the wellbeing of the community. We know that there is a shortage of affordable rental accommodation in the city, so adding more stock to it rather than just having vacant properties, I think, is an important thing. It is about trying to promote behaviour change, encouraging owners to make their properties available for purchase or rent.

Ms PATTEN — Do you anticipate that that surcharge will actually influence those landowners to sell rather than rent?

Mr PALLAS — Well, we will have to monitor it, but the plan is that it is a 1 per cent charge on the value, so if you are talking an asset valued at half a million dollars, you are talking \$5000 a year on top of normal land tax values that will apply.

Ms PATTEN — And then you have got the absentee landlord surcharge as well.

Mr PALLAS — Additionally. The aim of these taxes collectively is to ensure, firstly, that where it comes to foreign purchasing surcharging people who are buying into this market external to the state and have not been paying taxes up until the time they buy into the community pay their fair share. We are not about driving out investment but we are recognising that we need the asset.

You asked another question — what the number of properties — —

Ms PATTEN — Yes, I was looking at the numbers and how many vacant properties you think there are and how you might ascertain whether a property is vacant.

Mr PALLAS — Okay, I will do it quickly. We do not know for certain; we think it could be between 10 and 20 000 properties in the areas identified. The Grattan Institute has put that number much higher at 50 000. We do not think that is likely. How will we find out? Firstly, by self-declaration and then data matching from the State Revenue Office against usage of water and electricity.

Ms WARD — I would like to continue on with the questioning around housing if I may, Treasurer. I know that it may not be something of concern in the leafy inner suburbs but it certainly is in the bushy outer suburbs. The issue of housing affordability affects both parents in my electorate — as it does in all the outer suburbs, especially those who have got older kids living at home that still have not been able to afford to move out; and I see you raise your eyebrows there, I think you are well familiar with this story — as well as people who are trying to save to get housing, and I know that there are a number of things in this budget referring to that. If I can get you to look at budget paper 3, page 19, where you've got line items under 'Homes for Victorians', can you please explain to us what the economic effects are going to be for the Homes for Victorians package?

Mr PALLAS — The Homes for Victorians, I think, is the Andrews government's strategy to improve housing affordability, access and choice, so the housing package is the largest in the history of Victoria. In terms of effort, all up it comes to something in the vicinity of \$2.8 billion. There is no doubt that buying a first home is getting harder. The Real Estate Institute of Victoria recently reported that the median price for a house rose by 7.6 per cent in Melbourne in the March quarter. It is up now to \$826 000 if you use that datum point, and it rose by 3.2 per cent in regional Victoria as well.

Good forward planning by the Victorian Planning Authority is a key part to this. They have maintained a 15-year pipeline of land supply. Victoria is seen as being the leader amongst the states in terms of the supply side interventions that we are putting in. The benefits of better forward planning are pretty clear, I think. First home owners in Victoria can currently purchase land in growth corridors for \$200 000 less than a comparable lot in Sydney and lower than every other major capital bar Perth and Adelaide. So it is not just by comparison with Sydney that we are doing well, it is the volume of opportunity that we are putting into market that is having an impact upon the price.

We have taken action to make sure that that remains the case by boosting the land supply, cutting delays in approvals to make housing more affordable and the rezoning of 100 000 lots within two years in seven of Melbourne's growth councils. That will help tackle housing affordability head-on, and certainly we are also increasing the investment in the speed-up process by bringing zoned land to market by an additional \$16.6 million, by actually working with councils so that they can have the resources necessary to be able to get their side of the equation up and running as well. We are abolishing stamp duty of course for first home buyers up to \$600 000, and there are cuts to stamp duty on homes valued up to 750. The doubling of the first home owners grant for regional Victorians — I think all of this collectively has an impact on the market.

In many ways I suppose the point that I want to make is that there will be a lot of talk, particularly from the opposition, about the increases in taxes. These are just changed choices that this government is making. We are taking the liability and the effort off the back of first home owners in terms of stamp duty liability, just like the previous government decided to put \$580 million onto vehicle charges.

Ms WARD — So there is substantial assistance, Treasurer, for people to try and get their first homes, but what are we doing in terms of the unemployment rate for young people? It is one thing to help people who are able to save money, what is happening to help people actually get into work? How is the labour market actually helping young people, 18 to 24 years old?

Mr PALLAS — All right. What we are seeing of course is youth unemployment numbers still unacceptably high, around about 13 per cent, I think, of the labour market at the moment — 13.2 per cent in fact. What that tells us is the government needs to make key interventions. How do we do that? A proper education and making sure that, particularly for those moving into the tertiary areas, we continue to invest in our TAFE system. The resurgence of the TAFE system, I think, is a tribute to the performance of both the current minister and Minister Herbert, who preceded her. Might I also say that the government's success around the Back to Work scheme has had quite a significant advantage for those particularly exposed workers who have difficulty being able to get back into the labour market, whether it is because they are from industries that have been disadvantaged or whether it is for long-term unemployed workers. So direct assistance together with education investments.

Ms SHING — Thanks, Treasurer. I might just pick up where Ms Ward has left off. One of the things that I would like to look at in a regional context is the impact of payroll tax cuts, and you have referred to that in your opening remarks and in response to questions from the Chair. How will that in fact provide incentives for small to medium enterprises who operate substantially in regional areas in relation to links to greater participation in the job market and perhaps addressing unemployment and underemployment when we have got various figures around youth unemployment? I speak as a representative of Gippsland and in parts of the world where we do have large-scale and long-term unemployment figures that have required a lot of work and require innovative approaches to job creation.

Mr PALLAS — Yes, thanks very much. I suppose the youth unemployment rate in regional Victoria also is a matter of concern, but it sits at around about 9.8 per cent overall. Certainly what we could do to take some of the weight off business, I think, is a key part of that, and reducing payroll tax for regional Victoria by 25 per cent — from 4.8 to 5 per cent to 3.65 per cent — will have a very substantial impact on businesses.

I relied upon in my opening address the anecdotal evidence of two publicans, but if you listen to Paddy O'Sullivan from the AHA, they have done their own analysis of the cumulative effect of the changes that we are making upon regional operators. They have said publicly that the impact will be in excess of \$10 000 worth of taxation being taken off publicans in their respective areas. So it will slash costs for around 4000 businesses, and let us hope the sort of experience that the AHA are accounting is writ large across regional Victoria. It will support regional businesses to grow. It will encourage them to create jobs, and it will also ensure that every region shares in the benefits of the state's economic growth.

Ms SHING — So in relation to the sharing of benefits, again I will take you to Gippsland, an area which has not traditionally received, over successive governments, its required allocation to grow and to thrive, often in industries and sectors which have been undergoing significant change. To that end, and putting aside general expenditure that will benefit the entire state around improved facilities and services and growing that social investment, what has Gippsland received in the course of this particular budget and part of the overall \$4 billion spend for regional Victoria, and how will that contribute to increased stability and jobs participation as well as growth in the jobs market?

Mr PALLAS — Sure. Since coming to office in 2014 the government has invested more than \$8.5 billion in infrastructure and services right across our regional areas. That investment is built on the values that we do need to make a continuing commitment over a substantial period of time. If I could recount some of those specific investments in the Gippsland area, they really go in large measure to upgrades to increase the frequency, reliability, punctuality and safety of our roads infrastructure investment, which focuses on things like the South Gipps highway east of Coonawarra through the Black Spur, the upgrade of key road bridges —

Mr D. O'BRIEN — Thank you, Darren Chester.

Mr PALLAS — the Bass Highway at Korumburra, Wonthaggi — —

Ms SHING — Did you just thank Darren Chester for \$435 million for the Gippsland Highway?

Mr D. O'BRIEN — You wouldn't be doing the Black Spur if it were not for Darren Chester, and you know it.

Ms SHING — Sorry, the \$266 million for the transition — —

Mr T. SMITH — Closed down Hazelwood on your watch!

Ms SHING — Have you ever been to the Latrobe Valley?

Members interjecting.

Mr PALLAS — It is good to see that success has many parents, Chair, so Princes Highway east, Princes Highway between the Lloyd Street off-ramp around the Moe area, Princes Highway east around Longwarry — —

The CHAIR — Order!

Mr T. SMITH — Bill Shorten is really keen at the moment on putting Australians first, Australian jobs first, so is there no-one in Melbourne, Treasurer, who could be the deputy chair of TCV?

Mr PALLAS — There are a lot of very talented and capable people in Melbourne who could be.

Mr T. SMITH — So why are we flying someone back from New York?

Mr PALLAS — I see that Victoria is a place that competes with the world not with itself, and we have to have an international perspective. I mean it may be that you enjoy pulling lint out of your navel, Tim, but our perspective is that — —

Mr T. SMITH — Treasurer, what I want to know, mate, is why Victorian taxpayers are paying for someone to fly back from New York to attend a board meeting in Melbourne for a Victorian government body? Why?

Mr PALLAS — Because it is a very worthwhile undertaking. We have one of the leaders in her trade, who is directly connected to what is happening at the financial centre of the world, able to provide — —

Mr T. SMITH — You will not tell us how much it costs. You will not tell us why you will not have anyone from Melbourne do this job. You are flying this woman back, whose company is a donor to the Labor Party. This stinks, Treasurer.

Mr PALLAS — There was not a question there. Have you got a question? Or was that the grab?

Mr T. SMITH — The Treasurer will not answer the question.

Mr MORRIS — Treasurer, can I move to a rather different subject: the national approach to gambling. The reference is BP5, page 156. Given that no agreement has been reached at the CFR on a common approach or indeed a model for a point of consumption online wagering tax, why has the government already counted revenue from such a tax in the contingencies in the forward estimates?

Mr PALLAS — Well, I think the first point to make is that there has been an agreement that we would reach a national approach in respect of these matters.

Mr MORRIS — Yes, but there is no national approach yet.

Mr PALLAS — Certainly there is no provision in this year's budget for the revenue coming in. Certainly if you were to read articles in the newspaper, you might have a feeling that the state of Victoria is about to be awash with a very substantial bonus of something like \$150 million a year. Can I be very clear about that: those numbers bear no relationship to reality. The state has made an overall modest provision around what contingencies will look like, but we cannot nail down or have a specific number for a variety of reasons, one of which you have quite rightly identified, and that is the model under which the application is to be applied is yet to be resolved by the Treasurers, and what arrangements need to be put in place to achieve that revenue stream, of course, is yet to be resolved, so it is a very contingent provision, and it is certainly a very modest contingent provision.

I also make the point that the motivation between all the Treasurers around how we need to address this, might I say with the exception of the Northern Territory, is that there is an obligation that attaches to us as well with respect to responsible gaming. This is not just about revenue; it is about recognising that for people sitting on their couch, using the internet to game, we have to have ways of identifying what is happening so that we can make appropriate interventions. Might I say that this was not a political issue. This was something that all of the Treasurers from all perspectives viewed as an imperative for us to get on top of.

Mr MORRIS — I certainly have no disagreement with the point about responsible gaming, but clearly no matter how modest the contingency that has been set aside, you obviously had a figure in mind to actually put it in contingencies in the first place. So can you tell us what that figure is, and when it will commence?

Mr PALLAS — Certainly in terms of the commentary that we have incorporated into the budget papers, we agreed on an approach. Have we put a disaggregated number in terms of the contingencies that we have made provision for? I would say that we have not. Has the government got a view about what that number might be? I think it would be misleading and inappropriate for us to identify and disaggregate a contingency allocation, because of the work that we are doing, and might I say that we are respecting the processes that the states and the commonwealth are putting place.

If we come out and say it will be X million dollars — and believe me it will not be anything like \$150 million a year, which has been picked up in today's media — if we pick a number, then we are basically identifying — —

Mr MORRIS — But, Treasurer, clearly you have picked a number, because it is in your contingencies. You have also determined what year you anticipate it to commence. All I am asking you to do is to tell us what the number is. We now know it is less than 150 million, so we have advanced a little bit. But it could be 149 million; we do not know.

Mr PALLAS — I said it was considerably less, and can I be very clear? I do not intend disaggregating our contingency allocations, because they are contingency for a reason. As a state we have a process that we need to

work through, and it would compromise our ability to work through from a position of good faith with the other jurisdictions involved. Might I say we also have to talk to the industry, we have to talk to the sporting codes, we have to satisfy ourselves what the offsetting costs of this would be, and we do not know yet, because the model itself has not been developed.

Mr MORRIS — So we have got a new tax, the 11th new tax, under a government that claimed it was not going to introduce any new taxes.

Mr PALLAS — No new taxes to pay for our election commitments.

Mr D. O'BRIEN — You are unbelievable!

Mr MORRIS — And yet the 11th new tax — potentially \$149 million — and you will not tell the committee how much it is and when you expect it to start.

Members interjecting.

The CHAIR — Mr Smith, will you let the Deputy Chair ask his question.

Mr MORRIS — Why can you not simply be honest with the committee and with the taxpayers who are going to have to foot the bill for this and tell us —

Mr PALLAS — Because I have to be honest.

Mr MORRIS — how much you expect it to be, because it is in your budget. It is propping up your surplus over the out years. It is in there. It is obviously a significant amount of money and you will not disclose how much it is or when you expect it to start.

Mr PALLAS — Because it would be dishonest with people to nominate a figure in circumstances where it is highly problematic exactly where it comes in.

Mr MORRIS — Clearly you have.

Mr PALLAS — We have been very, very conservative about that number and we have done that for a reason — —

Mr MORRIS — Give us the conservative figure, no matter how conservative. I applaud that.

Mr PALLAS — What you need to be assured of is I gave certain assurances to other treasurers and to the commonwealth that we would work cooperatively together. If I start putting a number on this, then I undermine the cooperative way in which, might I say, Liberal and Labor treasurers are approaching this. I intend honouring the commitments I have given.

Mr MORRIS — So we are going to impose a new tax, but we will not tell anyone how much it is or when it is going to start.

Mr PALLAS — I am going to impose a regime that ensures that the state of Victoria, which is losing taxes to the Northern Territory — the revenue shift — is protected and responsible gaming provisions are put in place.

Mr D. O'BRIEN — Treasurer, budget paper 2, page 53, outlines that employee expenses are expected to grow by 4.1 per cent this year — 2017–18 — and moderate to an average increase of 2.9 per cent over the out years. Last year you forecast that employee expenses would grow 5.5 per cent and then moderate to 3.2 per cent. Given that you have actually got employee expenses growing by \$1 billion a year, how can we have any faith that those figures are going to ever be met?

Mr PALLAS — The employee expenses contained within the budget papers, including superannuation, are expected to increase by 4.1 per cent in the 17–18 financial year. They are expected to moderate to about 2.9 per cent over the forward estimates.

Mr D. O'BRIEN — That is what you said last year.

Mr PALLAS — This is as diligent an approach as we can put together, and it is a genuine reflection of the priorities that the government is setting.

Mr D. O'BRIEN — It is not really working, is it?

Mr PALLAS — For example, we make no apology for the fact that we are investing in family violence — —

Mr D. O'BRIEN — Could I just clarify then, Treasurer, what is the actual government wages policy? Is it still 2.5 per cent plus 0.5 per cent?

Mr PALLAS — Our wages policy remains as it has always been at 2.5 plus a recognition of adjustment, but you are going to have also recognise that 2729 extra police are incorporated into our projections.

Ms PENNICUIK — Thank you, Treasurer. If I could return to the issue that was raised by Ms Patten before with regard to the vacant residential property tax. As you mentioned and has been recorded in the press, identification of who is liable to pay the tax will be based on self-reporting to the State Revenue Office. My question is: how will the government monitor that people are self-reporting and will there be any sanctions for not self-reporting?

Mr PALLAS — It is part of the State Revenue Office. Can I tell you, as the Treasurer, that I think the State Revenue Office do a wonderful job. They do an outstanding job. Might I say that the process, firstly, is a self-declaration process, but that is not unusual. That is how it occurs in respect of most arrangements. As we have say in 'Homes for Victorians', it will be based on self-assessment with subsequent enforcement action being taken by the SRO on the basis of publicly available information and of course information that would otherwise be available to them through their engagement with the utilities. The first thing is to identify whether or not the property is vacant by self-declaration. The second thing is then to data match to satisfy themselves that those declarations are correct. They are quite professional in this area and we have every confidence that they will be able to identify over time whether or not there is a deliberate effort to avoid these charges.

Ms PENNICUIK — My question was: what would the sanction be for not — —

Mr PALLAS — Will there be sanctions, I suppose is your question. Yes, as in the normal course — —

Ms PENNICUIK — Do we know what they are?

Mr PALLAS — We will find that detail for you. I do not know exactly, but generally there is a surcharge for failing to meet and comply with the requirements to self-declare.

Ms PENNICUIK — I know in overseas jurisdictions they are quite steep — the sanctions for non-reporting — so I was wondering if the government was heading in that direction.

Mr PALLAS — Obviously our intention is to make sure that people honour their obligations in terms of self-reporting. If, for example, people fail to declare land tax liable properties, they are obliged and must meet a charge for the failure to comply with their obligations. I would expect a charge to comply would also be applied here. Exactly what it is, I can undertake to provide that to you.

Ms PENNICUIK — Thank you, Treasurer. Under the bill there is a strict definition of 'vacancy' in terms of occupancy for less than six months a year, and some exemptions hang on the principal place of residence, which has no definition under the Land Tax Act. In other words, proving the exemption may also require proving principal place of residence. What is the definition that will be used by the SRO for 'principal place of residence' and what proof will be required? We have had a few issues with this over the last few months.

Mr PALLAS — It will be the same definition that is being used for land tax. Of course you are exempted under land tax obligations for a principal place of residence. I also want to make it clear that there will be a number of practical exemptions applied, and they will include properties being used as holiday homes or those that are used as a separate place from the principal place of residence. A city unit, for example, will be exempted for work purposes, deceased estates, homes owned by Victorians who are temporarily overseas, people moving into nursing homes et cetera.

Ms PENNICUIK — So a city unit used for work purposes, how would that be established?

Mr PALLAS — We are in the process at the moment of drafting up those regulations and we have undertaken to the property industry that we will discuss that with them. It will require a period of frequency of use and we want the industry to have some input into what that might look like.

Ms PENNICUIK — Treasurer, will you need many more staff in the State Revenue Office to monitor and enforce compliance?

Mr PALLAS — We will have an increase in compliance staff, yes.

The CHAIR — I would like to thank the witnesses for their attendance: the Treasurer, Mr Martine, Ms Auster, Mr Hollingsworth, Mr Webster and Ms Porthouse. There were five questions taken on notice. The committee will follow up with you in relation to those questions. If those responses can be provided in full and in writing within 10 working days of the committee's request, that would be appreciated.

Witnesses withdrew.