VERIFIED TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2007–08

Melbourne — 4 May 2007

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Witnesses

Mr J. Brumby, Treasurer,

Mr G. Hehir, secretary,

Mr S. Helgeby, deputy secretary, budget and financial management division, and

Dr L. Williams, deputy secretary, economic and financial policy division, Department of Treasury and Finance.

The CHAIR — I declare open the Public Accounts and Estimates Committee hearings on the 2008 budget estimates for the Treasury and the portfolios of innovation and regional and rural development. On behalf of committee members I welcome the Honourable John Brumby, Treasurer, Minister for Innovation and Minister for Regional and Rural Development; and Mr Grant Hehir, Secretary, Department of Treasury and Finance. Also from the Department of Treasury and Finance are Mr Stein Helgeby, deputy secretary, budget and financial management division, and Dr Lynne Williams, deputy secretary, economic and financial policy division. Departmental officers, members of the public and the media are also welcome.

In accordance with the guidelines for public hearings I remind members of the public that they cannot participate in the committee's proceedings. Only officers of the PAEC secretariat are to approach PAEC members. Departmental officers, as requested by the minister or his chief of staff, can approach the table during the hearing. Members of the media are also requested to observe the guidelines for the filming and recording of proceedings in the Legislative Council committee room.

All evidence taken by the committee is under the provisions of the Parliamentary Committees Act and protected from judicial review. There is no need for evidence to be sworn. However, any comments made outside the precincts of the hearing are not protected by parliamentary privilege. All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript and the committee requests that verifications be forwarded to the committee within two working days of receiving the proof version. In accordance with past practice, the transcripts and PowerPoint presentations will then be placed on the committee's website.

Following a presentation by the Treasurer, committee members will ask questions relating to the budget estimates. Generally the procedure following will be that relating to questions in the Legislative Assembly. I ask that all mobile telephones be turned off. I now call on the Treasurer to give a presentation of no more than 10 minutes on the more complex financial and performance information relating to the 2007 budget estimates for the portfolio of the Treasurer.

Mr BRUMBY — Thank you, Chair. Could I also just acknowledge here this morning Mr Robert Kerr, who is one of the commissioners of the Victorian Competition and Efficiency Commission. If there are any questions today in relation to the work of VCEC or regulation reform or some broader productivity questions generally, I know that Mr Kerr will be happy to answer them.

What I propose to do this morning is run through the slides, and then, of course, move onto questions, so I will do that. As tradition would have it, there are two or three slides at the end that the secretary will present about some of the operational matters, and Grant Hehir will do that.

Overheads shown.

Mr BRUMBY — I think everyone is familiar with the budget highlights, and what I will really focus on today is the financials, which I think are of most interest to the Public Accounts and Estimates Committee.

Budget numbers — I guess what I would observe there obviously is the surplus comfortably in excess of $100 million over the forward estimates period, averaging $424 million over the forward estimates period, but also the modest growth in both outlays and in income.

The state economy — nominal GDP growth over the next few years will be somewhere between 5 and 6 per cent depending on what the rate of inflation is. Real GDP growth is 3.25 per cent going forward. So these numbers are very modest, and of course the growth which is forecast here in both income and in outlays is actually less than the growth in the economy as a whole. So it is a financially prudent budget.

I just thought I would show this next slide because obviously there has been some discussion about the level of spending in this budget. This budget has the largest capital spend in the state's history, but in recurrent terms — in other words, what we do in operating terms — it is a conservative budget. This is looking back over the period we have been in government at gross budget spending — this is new spending — and net spending. The difference between gross and net is obviously that sometimes we make savings. In five of seven budgets we have made savings. We also often put aside contingencies for things like hospital demand. So the difference between the gross and the net is often many hundreds of millions of dollars.

So just putting these into perspective — this is in nominal dollars. This is the 06–07 budget — actually I presume that should be 07–08; why is 07–08 missing from that? That is actually the 07–08 number; I apologise for that. So you will see that net new spending is $424 million, and if you compare on budgets earlier, you will see that the previous year was $495 million, the year before that $688 million, then $550 million — again, these are in nominal dollars. Those two years were lower, but they are in nominal dollars. This one here in real terms would probably be pretty close to this year.

Mr WELLS — Treasurer, so does that mean that each year — is there a year missing previously, or is it that it is one year back all the way through?

Mr BRUMBY — I am sorry, they are the right years. They are up to 06–07. My apologies for that — 07–08 fell off the edge of the graph. So in 07–08 the gross is $822 million and the net is $447 million. Again they are nominal dollars. So this year's is equivalent to last year's, less than 05–06, less than 04–05, less than 03–04 and less than 00–01. So in recurrent outlay terms, this is a very fiscally prudent budget. That is another way of showing that. Again there has been some comment about the level of taxes and the level of expenditure. This is total income versus total expenditure. You can see what we have done during government is bring the income and expenses lines closer together; that is good government. There is no point taxing people more than they need to be taxed. There is no point spending more than you need to spend. The best budgets are those which are properly balanced between income and expenses, and that is what we have done.

Again you will see there — here we are in 07–08 — as a share of the economy, as a share of gross state product, total income in this budget is actually less than it was when we were elected. You will see in terms of spending as well, it is about the same as when we were elected: around 13.1 per cent. I have got a table that shows that, I think. I think I have got one later on which shows the detail of that.

Net assets — again one of the comments on this budget is about how much we are spending on assets. One of the untold stories in this budget is just how much the assets of the state have grown during the period of this government. I want to show you that slide because I made a few comments this week — one of our senior Treasury officers, Murray Jones, is retiring later this year. Murray joined us in 1998. The net assets of the state back than were about $14 billion; today they are $44 billion. So the financial position of the state, as I have said on a number of occasions this week, is the best it has been in 50 years.

That is another way of looking at it. Again it is probably instructive for Public Accounts and Estimates to just note that in real terms and in nominal terms net debt and superannuation liabilities are lower today than when we were elected. This is quite an extraordinary achievement. That is where we were in 1999. You can see there that is unfunded super, and this is what we call general government net debt. So up there around the $16.5 billion to $17 billion-mark — as a share of GDP, by the way, it is 10.6 per cent. Even in nominal terms today; here we are in nominal terms, and I will show you a variation on this in a moment — here we in nominal terms: we are billions lower in nominal terms; in real terms we are $11 billion lower. As a share of GDP, that is how you measure it.

I will just show you. We were the first state to introduce international financial reporting standards. When we did it added about $2 billion to the bookkeeping value of the debt. It is only a bookkeeping transaction; it is not real debt. If you want to compare like with like, that is like with like. We need to be clear about this: in real terms net financial liabilities and net debt are massively lower than they were, and even in nominal terms, by the end of this forward estimates period, 10–11, nominal net financial liabilities will be significantly lower — in nominal terms — than they were back then. This is 1999 money and in real terms that $16 billion was equivalent to 10 per cent of GDP. GDP today is $250 billion, so in real terms that figure would be $25 billion — it would be off the graph. That is where it is going to be. This is the strongest set of budget financials in 50 years.

That is another way of looking at it, which I mentioned in Parliament during the week. Here we are, down here, and that is where previous governments have been. It would be useful to have a proper discussion about the asset investment program of governments because it is a good thing to ensure that assets can be paid for — assets that last 20, 30, 40, 50 or 100 years can be paid for by a number of generations and not just the taxpayers of today.

The next slide refers to unfunded superannuation. It is $5 billion lower. Of course, there was some confusion during the week between recurrent and capital outlays. When states have capital obligations they pay for those through the interest expense, which is a recurrent outlay. We measure that by superannuation and finance expenses. This shows, going back to when we were elected, those expenses were 10 per cent of our revenue, our revenue is

$34 billion and they were running at $3.4 billion in present money value terms. Today they are running at 6.5 per cent at about $1.2 billion. We are spending $2 billion less each year in real terms servicing superannuation and interest expenses. That is why we are able to embark on the biggest capital program in history. That is why we are able to put more teachers into schools and nurses into hospitals and why we are able to return a budget operating surplus.

There are savings in the budget through efficiencies in the way in which we run our departments. We have produced efficiencies in five of the seven budgets, and we do that again in this budget. We implement everything we said we would do in Labor's financial statement. In addition, there are some further efficiencies which I have identified which will produce savings of $185 million over the forward estimates period. To put that into perspective, in five of our seven budgets we have saved about $100 million a year, and that figure of $45 million is obviously about half of that number and can be achieved by departments.

You have seen the growth numbers going forward all week, and I will not dwell on them, but the 3.25 per cent is the consensus forecast. We have some that are a bit higher. Access Economics has been up at about 3.9 per cent. They are generally conservative, I must say, about Victoria's growth, but that is the consensus forecast: 3.25 per cent.

With private business investment, it shows our performance compared with the rest of Australia and particularly with New South Wales. It is an extremely impressive picture. One of the manifestations of that is how we are doing with new office blocks, tourism, investment, warehousing and things like the convention centre and new manufacturing capacity. Our share of national building approvals is up from around 20 per cent to nearly 30 per cent today.

Members have seen that people are coming to our state because the economy is good and the lifestyle is good. You have seen that on jobs. Close to 75 per cent of the jobs in Australia have been generated between two states. There is extremely strong regional jobs growth and despite the obvious difficult conditions in many parts of the state, the jobs growth has been quite extraordinary. Regional unemployment rates and infrastructure — I think you have seen all of the things we have been doing over the past few years, building the infrastructure that industry and the community want to see.

The overhead shows the spending; so the TEI in this budget was $3.3 billion and the spend this year, in 2007–08, will be $3.6 billion. That will be the highest ever, exceeded only by next year's. On tax cuts, the land tax cut — as I said in my budget speech, it means land-holders on unimproved capital value between $0.4 million and $4.5 million will have the lowest land tax in Australia.

Stamp duty and WorkCover premiums savings: we have seen that on WorkCover — 1, 2, 3, 4 — no other state has matched our performance. We have the lowest premium rate in history, and we have achieved that with a funding ratio which is still in excess of 100 per cent.

Land tax: this was the cot case we inherited from the Kennett government in 1999. We have been progressively moving that curve into the real world, and here we are in 2008, which gives us a top rate of 2.5 per cent and gives us the lowest land tax, $400 000 up to $4.5 million.

We now have the second lowest motor vehicle duty. I might refer to that later, because there is a story in the *Australian* today about how that is going to attract business to our state.

This was the table I referred to before, Chair. Again I think it is useful for the committee just to note the actual numbers on revenue and growth. Here is what is worth noting — I think some people during the week have been a bit confused about the real value of money and the nominal value of money — that is the GSP when we were elected, $172 million; this is what it will hit this year, $257 million. That was our expenses then; this is our expenses now. Our economy has grown by around 49 per cent; our expenses have grown by around 49 per cent; our revenue, 44.5 per cent.

Our taxes — as we have been busy reducing taxes, cutting land tax, cutting payroll tax, abolishing taxes under the GST — have grown by 36 per cent. That is the commonwealth's position, and those numbers will stand up to any sort of scrutiny you want to subject them to. That is it, Chair.

The CHAIR — Thank you very much, Treasurer. We now have 1 hour and 50 minutes allocated for questions. I would like to start off by picking up your theme of productivity and ask what will be the impact on productivity of the budget and the portfolio spend?

Mr BRUMBY — I think in terms of productivity, as you know, Chair, we have consistently said as a government that this is the biggest challenge facing Australia. That is why in 2005 the Premier released the national reform initiative. We took that up to Canberra; that has now become the national reform agenda. It is essentially about investment in human capital, regulation reform and competition policy.

Since that went to COAG the Productivity Commission has modelled the benefits of that, and the Productivity Commission has confirmed that the benefits of that will be $11 billion over the next 25 years — so about half a percentage point of GDP growth per annum. The biggest benefit of that will come from the investment in human capital, which is in skills and preventative health programs.

We are making some progress with the commonwealth in areas like early childhood development, to some extent mental health, and more recently diabetes, but we would like the commonwealth to move much, much further. If you compare Australia's productivity performance with the rest of the world, and particularly the United States, it is not a good curve. US productivity continues to rise; Australian productivity continues to decline. I think the single most important thing in this budget, and indeed over the next year — that we can all do in terms of productivity improvements — is support of the national reform agenda. That is the single most important thing.

In this budget, as you will note, there is a whole chapter on economic reform. It identifies what we are doing in that; it identifies how we want the commonwealth to move faster so we can accelerate this agenda.

In terms of this budget, the investment in skills; the investment in preventative health programs, diabetes; the investment we are making in capital works — all of these things will drive a stronger economy and productivity growth.

Most economists would say that there are two major roadblocks in the Australian economy. One of those is lack of investment in productive capital; the second is the skill shortage. In both of these areas I believe Victoria is taking the national leadership position in tackling these problems. We were the first state to significantly increase our spend on capital works — we are doing that again in this budget — and last year, calendar year 2006, we trained more apprentices and more trainees than any other state in Australia, including New South Wales, which has got nearly 2 million more people than us.

The other element of this budget is regulation reform. Again, that is contained within the chapter on economic reform. We are making strong progress on regulation reform. I hope I have the opportunity to comment on that later. I will be making a further major speech on regulation reform in the next four to six weeks.

So I believe this budget does drive productivity. It invests in productive capital. It invests in human capital and skills. It continues with our program of regulation reform. I think, through the tax cuts we have provided as well, it will drive a more efficient economy. That means increases in productivity growth.

Mr WELLS — I want to try to get to the bottom of the confusion surrounding the major water infrastructures. Our dams are down to 29.9 per cent. Euroa ran out of water last night, if you can believe it. I note that over the last couple of days you have mentioned you are looking at a desalination plant, a north–south pipeline, a Latrobe Valley project and stormwater projects. You have said that one of these projects will be chosen, on the Neil Mitchell show. Later on that day the Premier came out and contradicted you. I would like to know where the government stands in regard to major water infrastructures. I note that in your speech you said that you are going to do a study, and you are going to examine.

I also refer you to budget paper 2, page 45, the unallocated provision for future allocations. By my reckoning it comes to around $1.611 billion. How do you intend to fund these water infrastructure projects? Is the Premier right that it will be a number of these projects, or are you right that it will be one of those projects?

Mr BRUMBY — Let me go back to the budget speech, firstly. In the budget speech, I went through all of the water initiatives. They are all set out there. I said the initiatives we were announcing in this budget were the equivalent of producing water savings of 80 billion litres. I made the point that that is the equivalent of a Sugarloaf Reservoir. I then went on to say that we have a number of options. Those options are all well known, and we are examining those — the eastern water recycling plant, desalination plant, stormwater re-use. The government is also examining the proposed north–south pipeline. I then said, and I quote:

> And in the coming months, the Bracks Government will outline our major augmentation plan to meet Melbourne's future water demands.

That is what both the Premier and I have said that we will do in the coming months. All of those plans, in one way or another, have been under study and investigation by the government. The north-south pipeline is more recent, as you are probably aware. A group of prominent irrigators and business people in Shepparton, led by John Corboy and Ross McPherson, have proposed to the government a plan that would pipe water from the north of the state to the south. That plan is also under consideration. As the Premier and I made clear on Wednesday, the augmentation proposals may be a single proposal, may be a combination of proposals, may be more than one. That will be outlined in the plan that we announce at that time.

In terms of what I understood to be the second part of your question, which went to the unallocated capital?

Mr WELLS — Yes, and the funding of these major projects.

Mr BRUMBY — Let me go to the funding, firstly. Under the national water initiative to which the states and the commonwealth are agreed, the general principle — which, as I say, is also agreed by the commonwealth — is that water projects should be self-funding. You are welcome to look this up on the internet and have a look at the national water initiative. That is the agreement which the commonwealth wanted with the states, which says that, as a general rule, water projects should be funded by users.

The reality, however, is that governments over a period of time, and since the signing of the national water initiative, have sometimes chosen to contribute and make a direct capital contribution to water projects. We are not required to — indeed, it is actually proscribed; it is actually prohibited under the national water initiative — but governments do, to accelerate projects, sometimes to bring them forward and sometimes to take the pressure off consumers. But it is proscribed under the initiative and you are welcome to read that.

If you look at the Wimmera-Mallee pipeline, for example, we have contributed $167 million towards it. We do not have to; we are not obliged to, but we believe it is a good project, which, were it not for a government contribution, would never have happened. As you know, governments for the last 25 years have been looking at that project, and no government until the Bracks government came to fund it.

Not all projects require or need government support. A good example would be the reconnection of the Tarago Reservoir, which we have announced previously would be reconnected. In our original water plans, that was due to be reconnected in 2011; that is now due to be reconnected in 2009–10. So that plan has been accelerated, but that plan is entirely funded by Melbourne Water as is reasonable to expect from a large enterprise which has a capital base of billions of dollars and has the capacity to spend hundreds of millions of dollars each year on water projects as it does.

Its biggest project, by the way, at the moment is the northern sewerage connection, which is a $650-million project. Again, the government is not contributing directly to that; the cost of it is paid for by users through the sewerage charges they pay. That has been normal commercial practice under successive governments for a long time.

I mentioned Tarago because it is being entirely funded by Melbourne Water and through existing user charges. That will bring 25 gigalitres of water to Melbourne by 2009-10, and 25 gigalitres is a lot of water. That water will come through in that period because that project has been brought forward by Melbourne Water and by the government.

You asked going forward about how would the government contribute, if it wished to make a contribution, to major projects. As you have referred to the budget — —

Mr WELLS — Page 45, budget paper 2.

Mr BRUMBY — If you look at page 45, you will see 'unallocated provision for future allocation'; if you read across that — 2008-09, $263 million; 2009-10, $532 million; 2010-11, $816 million. That is the first year cash of the TEI (total estimated investment) for that year. The rule which Treasury has applied now for more than a decade is that when you look at a capital provision, you allocate 28 per cent in the first year, 28 per cent in the second year, 28 per cent in the third year, and 16 per cent in the fourth year.

Not every project fits that — if you are building a school, often it only takes two years and it is 50:50. If you are building the children's hospital, it might be over five years and could be 20, 20, 20, 20, 20. If you are building the Frankston triplification, it could be over five or six years as well, so it might be 15, 20, 25 and then 10, 10, 10, 10 or something like that. So it varies from project to project but on average the rule which Treasury has always applied is 28, 28, 28 and 16.

When I say we have been doing that for more than 10 years — if I can refer generally to Treasury in that sense — I would refer you to the last budget of the former government brought down by Alan Stockdale. I am reading from the departmental overview, budget estimates 1999-2000, page 10. I think it is instructive to look at that because it just serves to reinforce the point I am making.

That year the then Treasurer, Mr Stockdale, outlined a TEI of capital projects at $1.35 billion and the 1999-2000 budget allocation was $360 million. I have not got my calculator but I understand that is around the 28-30 per cent mark. That is always the way in which governments have done that.

If you want to work out the TEI from that number, essentially you are multiplying by somewhere between 3 and 4. If you go forward and add up those numbers, then apply them in a way that Treasury has been doing for eons, the TEI which is available to announce and which is fully funded in future budgets is $2.9 billion.

If you were to say, Mr Wells, 'Is that all available for water?', it would not be quite correct to say that, because that $2.9 billion is available to fund a range of capital projects which the government may wish to fund going forward. I am sure that during this third term in office we will fund more hospitals, we will fund more schools and we will fund more roads.

What I can tell you is that that $2.9 billion is significantly more than the remaining value of the LFS commitments which remain to be implemented. The value of those which remain to be implemented is about $1.8 billion, so it is significantly more than that and provides significant budget capacity then for other initiatives which we may wish to announce.

And as the Premier and I have made clear, and the water minister has made clear, we will be making a contribution to a water project or projects, but we are not announcing that today. We did not announce that in the budget, but there is sufficient budget capacity going forward to assist if required in an investment in a water project to either reduce the impact of that on users or to accelerate what would otherwise be the capital program.

Mr WELLS — I just need to clarify one quick point: so the $1.6 billion that is already in here — the unallocated provision for future allocation — how much of that do you think will be put aside for one of these major water projects, taking into consideration what you were saying about the user-pay and the option of the government wanting to make a contribution?

Mr BRUMBY — If I heard you correctly, I think you have misunderstood the answer. The amount which is available for future announcement — the future announcement is $2.9 billion. It is not 1.6; I am not sure where you get the 1.6 from.

Mr WELLS — The 1.6 is if you total up the amounts that are in the budget paper on page 45.

Mr BRUMBY — That is the cash for that year — spending in that year.

Mr WELLS — These are the three years; these are 08, 09 and 10.

Mr BRUMBY — Yes, but when you get to 10, the balance remaining in 10, again you have got to multiply by between three and four. Do you understand that?

Mr WELLS — Yes. So we are going into the next term of government?

Mr BRUMBY — So you get $2.9 billion.

Mr WELLS — Yes. So it is going into the next term of government?

Mr BRUMBY — Yes. That is the way the numbers have always been done.

Mr WELLS — That is fine. So we could be looking at a water project which will not be resolved in this term of government, it will have to overflow into the next term of government?

Mr BRUMBY — No, I do not think you can say that at all.

Mr WELLS — If you are talking about $2.9 billion, and we only have $1.6 billion in here, and you are relying on the $2.9 billion, then obviously we will be going into the next term of government for the finances.

Mr BRUMBY — I do not think you can make that claim at all. As I made very clear on radio, there are a number of options which are before the government. Some of those options will take many years; others can be completed much more quickly. I am not going to pre-empt that today. Indeed I think I said on radio, I think I was asked a question about the north-south pipeline — I have certainly been asked that in the last few days — that is a project which could be under way very, very quickly indeed. That is a project where there are significant water savings which, if those savings are sold into the market, much of that project could in fact be financed by water savings.

There are plenty of people in the market who want to buy water, so if you invest in water infrastructure and save, let us say, 300 gigalitres of water and some of that is available for growth and some of that is available for trade and some of that is available for the environment, someone will want to buy that water, so they will pay you to purchase that entitlement. On the market at the moment people pay $2000 a megalitre to purchase a water entitlement.

So I do not think your assumptions are necessarily correct. However, it is true to say that some water projects, again as I have pointed out in the Parliament, if you go back to Henry Bolte's days and the Thomson Reservoir, from the time in which he first announced that to the time in which it was full of water was in excess of 12 years, so big projects take a long time, but there are other projects which can be completed much more expeditiously.

Indeed again, do not underestimate the projects announced in this budget, which in aggregate and when complete will produce water savings of 80 gigalitres. By the way, we consume 500 gigalitres in Melbourne, so 80 of 500 is about a sixth of our total consumption. It is a lot of water.

One of the other announcements we made in the budget was the continued funding of our work on the Barmah Choke bypass. Again, we have made an announcement on this previously, but for those of you with an interest in this, there has been debate about the Barmah Choke for many years. The water which flows down the Murray gets choked at Barmah Forest. Much of that water is wasted and/or is then utilised by New South Wales because it just cannot get through the choke and be used by downstream irrigators.

The various assessments on that are that if you put a channel in and go around that, in an average year the water savings from such a channel would be 90 to 100 gigalitres a year; in wet years they will be 230 gigalitres a year. So the point of that story is that you could build a channel and you could secure water savings of between 100 gigalitres and 230 gigalitres a year, which would then be available obviously either for the region or for the environment or for trade with Melbourne.

So there are lots of different ways that this issue can be tackled, and as the Premier and I have made clear before, we want to make sure we have got the right solution, which is right for Victoria's future, and that is why we will make a statement on this in the coming months.

Mr WELLS — Can I just get you to confirm the $2.9 billion — —

The CHAIR — No, I think we will move on.

Mr WELLS — That it will actually be in the next term of government — —

The CHAIR — We will move on to the next question I think, Deputy Chair.

Mr WELLS — Can I get you to confirm that?

Mr BRUMBY — I think you have misunderstood again.

Mr WELLS — No, I just want you to confirm — is what I am saying right?

Mr BRUMBY — You have asked me the question; I just answered it.

Mr WELLS — You have the future unallocated funds, and if you are talking about a total of $2.9 billion, as you have, that part of that will be funded in the next term of government?

Mr BRUMBY — This is the TEI which is available for projects, and if you are talking about water, don't forget, again as the Premier and water minister have made very clear — —

Mr WELLS — I might take that as a yes, I think.

Mr BRUMBY — No, I am answering.

Mr WELLS — Well, I think the $2.9 billion — —

Mr BRUMBY — Hang on, I am answering the question. Do not forget in addition, as the Premier and the water minister have made clear, you are looking at capital funding. There is significant further capacity in the Victorian Water Trust and through the water levy. So again, your assumptions just are not correct.

Ms MUNT — Speaking of election commitments, can I please refer you to budget paper 3, page 5, the second dot point: this refers to the government's asset commitments. Do you think the government will be in a position to fund the remaining commitments by the 2010–11 budget?

Mr BRUMBY — I think I have in part actually answered that question. Of the promises that we made in the election, the capital promises, on the recurrent side we made 172 commitments. We begin work on all of those in this budget. On the capital side we have made commitments — and you would ordinarily expect that you would fund them 25, 25, 25. 25.

I think, again if I might say, Chair, there have been some odd statements I have seen made this week about capital funding, as if what a government promises to do in four years should all be done in the first year. I think the opposition made such a claim in relation to education, and that claim of course is false. What we promised to do is deliver over four years. In this budget we have managed to finance 50 per cent of the capital programs in the first year. The remaining capital capacity going forward is more than enough, significantly more than enough built into the forward estimates to meet all of those commitments with significant additional budget capacity.

I just make another point which I think is relevant. We, as a government, have been probably erring on the conservative side in our revenue forecast going forward. That is, I think, a good thing to do. The consequence of that is that we have produced in fact a cash surplus every year we have been in government. In fact we have ended up at the end of the year with significantly more cash than we had budgeted for at the beginning.

I think looking forward, as I have said, these are the best set of budget numbers in 50 years, and there is significant strength in the balance sheet. So not only is there more than enough capacity to meet all of the election commitments and do more, as I have just been saying to Mr Wells, there is also a significant capacity for other new projects.

Dr SYKES — Treasurer, I would like to focus on the drought which is near and dear to the heart of The Nationals people out there. Yesterday, during the presentation at the budget breakfast, it was indicated that the impact of the drought on the economic growth of Victoria was a reduction in economic growth of the order of 0.75 per cent, which 0.75 percentage point in an economic growth of around 3.25 per cent is the equivalent of a 20 to 25 per cent reduction in economic growth. Given that is a sizable reduction, what is the justification for the government policy at the moment that has drought assistance measures costed out at about $158 to $160 million? If my arithmetic is right, that is about less than 0.3 per cent of the budget expenditure.

Mr BRUMBY — Let me make a couple of points. Firstly, the drought — you mentioned 0.75 percentage points; I think that is the midpoint between 0.5 percentage points and 1.0 percentage points. and until the financial year is over, we do not know what the impact will be, except we know that the minimum will be 0.5 because that is the detraction that has already occurred. But, as you know, there has certainly now been in the west of the state, in central areas of the state and in some parts of Gippsland a very good autumn break. Of course many people in the west and north-west — you have seen them on television yourself — farmers there saying, and some of them might be getting a bit carried away, not only is it the best break in 10 years, but some of them have been saying it is the best break in 30 years. With some decent winter rain we will get good recovery particularly in the grain growing areas.

But we cannot predict forward. You cannot just say at the end of the year. When you are doing the numbers going forward, you assume what the world economy will be. You do not know whether there is going to an S11 or a World War III. You predict on what are the normal known and usual circumstances. So we predict forward for 2007–08 on a return to more normal seasonal conditions.

If the drought were to continue with poor winter rainfall and poor spring rainfall, then obviously we would revise figures in exactly the same way as we did in 2006–07. Do not forget it was not until September last year that we, the Premier and I, announced that we would be announcing a significant drought package. Because, if you remember, last year in winter there were actually good rains — they were late — in the grain producing areas of the state. The Premier and I were up there. People put their crops in, and then the spring rains failed in many parts of the state, so we announced a drought package in September. So you cannot crystal ball and say what is not or what is going to be; you can just predict forward on the best available data. On the best available data we will see a return to more normal conditions and you will get growth of 3.25 per cent.

That brings me to the second part of the question which is quite erroneous in its assumption — that is, you have asserted that $157 million is not adequate. We are signatories to an agreement with the commonwealth which specifies what governments will do when there is a drought. You accept that?

Dr SYKES — Yes.

Mr BRUMBY — Yes, you do. Good! So we are a signatory to that. That $157 million is in excess of what we are required to do. Again, if you are a student of history and think back, particularly to the 1990s when there were a number of periods of dry climatic conditions in the north-west of the state, and of course the green drought in Gippsland, there was scarcely a cent which was provided by the former Liberal-National party government for drought-affected farmers. Many of them in different parts of the state were affected at least as badly as they have been in this drought, and hardly a cent was freed up from Mr Kennett, Mr Stockdale and Mr McNamara.

So we are providing $157 million of additional assistance, on top of what is required under commonwealth-state drought agreements. That assistance, by the way, is making a difference. We have provided $300 000 to every one of the 44 non-metropolitan EC-declared councils. They are spending that money now on capital works and projects in small towns — many, by the way, in your electorate. We have provided money for catchment management authorities. Indeed in the north-west of the state last week, in Horsham, where I announced a further $3 million to assist in the north-west of the state, the councils there and the CMAs were telling me just how many farmers have been employed because of that extra funding we have provided.

On top of that, as you know, we have put up $138 million to assist in bushfire-affected areas. I mention that because there is some overlap in the two areas. What you are seeing is the total expenditure. Additional expenditure by the government, above and beyond what we are required to provide under the nationally-agreed EC criteria — the drought, 157; plus bushfires, 138 — is nearly $300 million.

People always want governments to do more — nothing new in that. People want us to do more in education, more in health, more in drought. But to suggest that this is an inadequate response is, firstly, a rewriting of history — some forgetfulness, I think, of the policy and practice of the National Party in the 1990s — but it also ignores the fact that this is a very significant commitment, and it is there, on the ground, helping farmers. Again you might not recall that we are providing up to $5000 in payments to every farmer with an irrigation entitlement who is getting under 50 per cent of their entitlement. We are providing interest relief for the bigger farmers who have an irrigation entitlement and are getting less than 50 per cent of that entitlement. I have got dozens of letters in my office from organisations and farmers who are very appreciative of that assistance.

The final thing I want to say is that if, as occurred last year, we move through this year and poor seasonal conditions continue, I can assure you that we will again examine the assistance we are providing — in exactly the same way as we did last year. This is a budget for 07–08, but I do not know what the weather is going to be like in September or October or November or January next year. If there is a continuing drought, if there are extremely difficult conditions, the government will do exactly the same as what it did in 2002, exactly the same as what it did in 2006, and that is: meet the needs of those communities at the time. The reason we have a thing called the Treasurer's advance is so that governments can meet the unexpected needs that occur. You will remember last time. Last year in September the Premier and I announced that there would be $50 million of savings across departments to contribute to a drought effort. That is how we have achieved some of that $157 million. So, $157 would be more money in one year than the former Kennett government used to spend for everything in a whole budget. I do not say it is not a lot of money, it is a lot of money — $157 million. Our total net new spending in this budget is $446 million. We are spending $157 million on drought. So do not say it is an insignificant amount, because it is just not true to say that.

The CHAIR — Mr Pakula.

Dr SYKES — Sorry, could I clarify — —

The CHAIR — It has been a long answer and we want to try and keep things moving along. Very quickly, please.

Dr SYKES — Thank you. We might agree to disagree on the quantum, but you would be aware, Treasurer, that individuals' outlay to get through the drought ranges from tens of thousands of dollars to half a million dollars plus, so in that context $157 million across country Victoria is not a big quantum.

I note that you said that you would do as you did in 2002, which was not a 1 in 100-year drought, but it was a severe drought for the people in irrigation areas. One of the measures that the government introduced in 2002 was a $20 000 cash grant. Given that that measure was introduced then, and given that you have said you would do the same again in this situation, why have we not had a $20 000 cash grant for affected farmers in the most severe drought in the last 100 years?

Mr BRUMBY — There are a number of reasons for that, but the most important is that while the $20 000 grant was supported by some individuals and some organisations, others were more critical of it in that only a very small number of Victoria's farmers were eligible for it under the criteria that were established.

Organisations like the VFF and the NFF often say to the government that they are concerned if too much assistance is spent going to farmers who are not the best farmers. That is what they say to us all the time. They want to be in a position where the good farmers can continue to succeed. So there was some criticism of that $20 000 — that it was not always going in the right areas. So we reviewed that and decided instead, on this occasion — again following representations from a number of farmers, farm groups and councils, again predominantly in the north-west of the state — that we should look at a rate rebate, which we implemented. It is a 50 per cent rate rebate which we are continuing to implement today.

Dr SYKES — It is for those who are on income support measures, not across the board to farmers in EC-declared areas. It is just for those who are on income support measures — just for the clarification of non-country people.

Mr BRUMBY — Yes, fine. So we have provided the 50 per cent rate rebate and we are also providing the water grants; so we believe that in all of the circumstances that is a better way to focus the assistance.

Now again, it is not for me to say to you, Dr Sykes, but I will: you have a federal budget coming up next Tuesday. You have a Liberal-National party government in Canberra, nationally. Why do you not tell them to provide some more drought assistance?

Dr SYKES — You are the Treasurer and I am the state member and I talking to you, Treasurer.

The CHAIR — Let us move on. Mr Pakula, please.

Mr PAKULA — Treasurer, I refer to page 9 of budget paper 4.

Mr BRUMBY — Sorry, can I just say that I have some figures here for Dr Sykes. As at 28 April, drought/exceptional circumstances funding through the Rural Finance Corporation was $127.2 million that has been lent to 5133 applicants — that is, farmers and small businesses. The average is $24 500 per applicant, and again, as you are probably aware, they get an interest rate subsidy of 80 per cent in the first year and 50 per cent in the second year. So that is a lot of money in loans and a lot of farmers being helped courtesy of the Victorian government.

Mr PAKULA — Treasurer, in budget paper 4, on page 9, if you look at the estimate for 2008-09, the taxation revenue is just a touch under $12 billion. I am curious as to how that has grown since the government's first budget and whether, in your view, that has been a reasonable growth in revenue.

Mr BRUMBY — I have a slide coming up from my presentation that contains the answer to your question. This slide shows our taxes. The reason I have chosen 2000–01 is that since the introduction of the GST, if I had used 1999–2000, it would be quite a misleading presentation because you would see an even larger reduction.

So this is comparing like with like — the taxes we had then and the taxes we have now. The growth in Victorian taxes is 36.1 per cent. That is because we cut payroll tax and land tax. The overall growth in Victorian revenue, which is including what we get from the commonwealth and grants is 44.5 per cent.

Again, looking at some of the commentary during the week, some people get the real value of money and the nominal value of money mixed up. You can see that our GSP has increased from $172 billion to close enough to $260 billion, so the economy has grown very, very rapidly.

But as a share of that economy, we are actually taxing less. I think if you compare our economic performance with particularly New South Wales, this state is doing very well. There was an article, I think it was in the *Australian Financial Review* after budget day, after the budget was handed down, on why the Victorian economy is doing so well, why Access Economics describes our economic performance as quite magnificent — one of the reasons is we have the balance right: we have the skills mix right, we have the capital spend right. Victoria is a very livable state.

For a state that has a lot of manufacturing, and do not forget we have the highest Australian dollar in 17 years, if you are a manufacturing company out there, the last few years have been pretty tough. You have higher input costs coming through, you have a dollar which is as high as it has been in 17 years; so taking some of that pressure off businesses is very important in helping them through a difficult time.

If you added to that graph, by the way, for WorkCover, you would get an even more dramatic reduction in the cost burden on Victorian business from the Bracks government. It is a good story, and it is instructive in terms of getting the balance right.

You might then ask: if you are reducing the share of taxes as a share of the economy, how are we able to put 7500 teachers into schools and 7500 nurses into hospitals? The answer to that goes back to the slide I showed you before on superannuation and interest expense. Because we have been paying down superannuation, because our net liabilities position is so healthy, we have somewhere between $1 billion and $2 billion per year that we used to be spending on interest and superannuation, which is now available for employing teachers and nurses. So that is the answer to the question: how can you cut taxes, employ more nurses and still get a budget surplus? The answer is: by reducing your superannuation and interest expense to the extent we have.

Mr BARBER — Treasurer, I would like to ask you a question arising out of your media release '$281 million boost for water and the environment', particularly to do with the item $38 million for the Shepparton irrigation area. It is an economic and environment question, and if it is all right with you, Chair — —

The CHAIR — It is all right. It is usually Dr Sykes who asks those questions.

Mr BARBER — Can I get him to answer the first one, and then I will quickly follow up with a second one?

The CHAIR — We do not want another 10 minute answer, so okay.

Mr BARBER — A quick question, and there can probably be quick answers. First of all, just dividing the $38 million by the number of megalitres that will be saved to get a dollars-per-megalitre figure produces quite a spectacular result.

Mr BRUMBY — That is not the total project cost, by the way.

Mr BARBER — That was my question. That would produce savings at a much cheaper rate than the market rate, you believe?

Mr BRUMBY — Yes, it would, but it is not the total project cost. I will say it very quickly if I can, Chair: the total capital cost of that project is about $148 million, and the NPV of the operating cost — in other words, what it costs to run it in years ahead, what we then bring back as a capital cost, the NPV — is about $40 million. We would describe the total NPV of that project as $188 million.

The contributions, by the way, towards that will come from three sources, and this might be instructive for Mr Wells as well. They will come from the users in the region through the Goulburn-Murray Rural Water Authority, they will come through the contributors to the Living Murray initiative — the states. We have written to those states. This is presently the only project which is listed as producing savings towards the Living Murray target, so it will get supported.

Our contribution, by the way, of that would be $30 million to $35 million. So in fact the Victorian government contribution — the taxpayers contribution — to this project, if you are still with me, is $30 million to $35 million as a share of the Living Murray and the other states in the commonwealth, plus what we are really doing in this budget is putting in the $38 million that we would have expected the commonwealth to put in.

We asked the commonwealth for funding last June. They have not funded it, they should have, so we are doing that so we can get the savings now. The total project cost is about $180 million, and the water savings are 50 gigalitres. If you work those numbers out, you will get a higher figure — and someone might work that out while we are talking — —

Mr BARBER — That is fine; thanks for that. So not in your media release but in your interview with the *Shepparton News* you said that of the 50 gigalitres created, 38 gigalitres will go to the environment. I am going to ask you to reassure me that the paper has got it right. The Goulburn River, a heritage-listed river, has had an 80-gigalitre environmental entitlement that it has never actually received, because that entitlement comes after 100 per cent sales and 100 per cent allocation is achieved — and it is never achieved. So if in fact you are promising 38 gigalitres for environmental water for the Goulburn, can you please tell me how that will be licensed and regulated and guaranteed and delivered?

Mr BRUMBY — There are two aspects to this. The total water savings are expected to be 50 gigalitres. Of that, 38 gigalitres will be earmarked towards the Living Murray, and that is the basis on which the project would be funded. By the way, just in terms of water policy and national water leadership, that will then mean that Victoria is the first state, indeed the only state, to have completed all of our obligations under Living Murray. So 38 gigalitres goes into meeting that initiative, which, as you know, is an agreed national and state initiative.

There are 12 gigalitres which would then be available for other uses. No-one has made a decision yet about how that water would or could be used. I have suggested broadly, on radio, I think, or in the media, that you could split that. It could be used as water for growth; it could be used for the environment; it could be used, if there was a north-south pipe, obviously, to sell to Melbourne Water. There are a number of possible uses of that water, but we have not made any judgement about that. I would say that within the region there is always demand for water in irrigation areas, so it is very likely that some of that water at least will go towards growth. We have not made a final decision yet. It could all go to growth; it could go to growth and the environment; some could go to Melbourne. That will be a matter for future discussion. But 38 gigalitres goes into Living Murray.

Mr SCOTT — I refer to budget paper 3, page 34 — the section on motor vehicle duty. Why has the government made the change to motor vehicle stamp duty? What was the problem with the old scale? Can you please elaborate for the committee?

Mr BRUMBY — That announcement, by the way, has been exceptionally well received. I think as you saw we had groups like the VACC, the RACV, the Australian Industry Group and many, many others — Toyota, Ford, Holden — out there one after another saying what an excellent initiative that was. We made the decision because following the High Court ruling in 1997 on excise, the state was left with a very small residual payment on fuel, which we pay to oil companies. That payment has been around $35 million or $40 million per year. It represents 0.43 of 1 cent per litre on petrol. The payment is made to the companies. It has always been my view, and it has been the view of many people in the industry, particularly the VACC and the RACV and the commonwealth government's own fuel tax inquiry, that you cannot say whether that money is passed on or not.

Most people would say it is not passed on. So we are terminating that, and we are putting that money — and more — into cutting stamp duty on vehicles.

The old stamp duty rate was last set back in 1989 when $35 000 was a luxury vehicle. Up to $35 000, it was 2½ per cent; it then went to 4; and then above $45 000 was a sort of a super-luxury rate at 5 per cent. What we have done is really restored it to how it was always intended to be. The luxury car rate now, which is established by the commonwealth for fringe benefits purposes, is $57 009. We have lifted 2½ per cent up to that. That means it takes up to $1400 off the price of a new car.

Why is that a good thing? It is a good thing because newer cars are safer — much, much, much safer. We have had the lowest road toll in Victoria four years in a row — the lowest four years on record. We want to continue that going forward. Road behaviour is important in that, but so too is technology in cars. ABS, air bags — all of those things are fantastic.

The other thing is the environment. I know there was some criticism of this because a lot of cars in that bracket are larger cars. It is true many are larger cars; many are also the hybrids, by the way. The Prius is in that bracket; the Honda hybrid is in that bracket. They will get support as well. But let us not forget with new cars the emissions they put out are miles cleaner than the emissions that came out of cars 20 and 30 years ago, miles cleaner, particularly than the old lead cars. In some parts of the world they actually give you a subsidy — some parts of Europe — to bring your old car in and take it to the tip and crush it to get a new car. In a sense we are providing that encouragement. This is good for safety. It is unambiguously good for the environment because it is getting older cars, many of them bigger cars, many of them gas guzzlers, off the road and people into newer cars. We also announced, as you know, the $50 reduction in the hybrid motor registration, which is, again, just to give a small incentive to people in that area. It has been very well received. I think it is much better value for taxpayers money.

There was an article in today's *Australian.* I do not know if I have it with me, but if you have a look at that, if you get back to your office, it is really about a new growth industry in Victoria. It was saying how everybody in South Australia who is going to buy a car is going to come over the border into Victoria and buy cars in Victoria.

The CHAIR — It is an incentive for manufacturing.

Mr BRUMBY — It is a serious story, because cars will be a lot cheaper than they are there.

Mr RICH-PHILLIPS — Can I ask you about page 56 of budget paper 2, which is the table of net debt and net financial liabilities, and in particular the line item 'Public non-financial corporations net debt' which for 2008 is $4.3 billion rising to $5 billion, and $5.9 billion to $6.5 billion.

Mr BRUMBY — Could you repeat that?

Mr RICH-PHILLIPS — Page 56, 'Public non-financial corporations net debt' — that line item.

Mr BRUMBY — Yes.

Mr RICH-PHILLIPS — Could you tell the committee if there is any provision in those estimates for the water authorities borrowing to fund their proportion of whatever project you ultimately decide to pursue? Has any provision been incorporated?

Mr BRUMBY — The authorities build in some future provision for capital works. You would have to look through each of the authority's accounts to look at that. Sometimes, too, the authorities will have projects on their books in the out years which they might or might not undertake. They always have a little bit of flexibility in determining their priorities. It is a very broad-ranging question — there are a lot of water authorities in Victoria. If you look at South Gippsland Water, for example, are you asking me would the numbers here include their contribution to the Gippsland Water Factory stage 1, for example, which is also going to produce quite a large amount of water savings through providing recycled water, particularly to Australian Paper and to Energy Brix, yes, they are fully built into those numbers. But I cannot speak for every authority.

Mr RICH-PHILLIPS — I guess I am asking in respect of the projects you are currently considering and it would be more a case of has Treasury built in — obviously I assume the water authorities themselves would not yet know if they are making a contribution because you have not yet decided what projects to pursue. Would there be a Treasury provision that is included in that aggregate figure?

Mr BRUMBY — Would there be a Treasury provision?

Mr RICH-PHILLIPS — Would Treasury — —

The CHAIR — Treasury estimate, you mean?

Mr RICH-PHILLIPS — Would there be a Treasury estimate in that aggregate figure in anticipation that one or more water authorities would need to contribute to one of the projects you are considering?

Mr BRUMBY — I think I have already answered the question — that is, there are a lot of authorities. Some will have already built in capital provision for projects they are undertaking. Others have some flexibility on the balance sheet. For example, if you look at Melbourne Water, if my memory is correct, and it just goes to show how this debate has changed since the 1990s, Melbourne Water used to spend only about $125 million a year on capital works during the Kennett government — a shocking underinvestment, an appalling underinvestment in water. That has been lifted to around $250 million a year; it has been doubled since we have been in government. I think going forward they are factoring in a higher level of capital works. They will make judgements about how they apply that provision going forward — they are independent boards — but obviously if there were projects coming forward, we would talk to them about the contributions that various parties can make.

Did I mention before that it will depend on the water project or projects which are chosen in the future? Melbourne Water may choose, depending on which water project or projects are chosen, to purchase water. Again, if there were a pipe coming over the Divide and the water came through, it would buy it. It depends on what price it pays for that water. So there are various ways in which it has the capacity to contribute to projects, but I cannot give you an answer for every single water authority because there are a lot of them.

Mr RICH-PHILLIPS — That figure would hold if there were already provisions within the individual authorities, so there is no aggregate figure that has been inserted by Treasury?

Mr BRUMBY — But that is not the way we do business. We never have. And you would have to ask the question — —

Mr RICH-PHILLIPS — Just to clarify it, this figure is basically — —

Mr BRUMBY — Hang on. You would have to ask the question: why would you bother to have independent water businesses and independent water boards if Treasury just ran them all the time — right? So that is not the way we do it.

Mr RICH-PHILLIPS — So these figures are basically the aggregate figures that have been fed in by the authorities?

Mr BRUMBY — Another bit of information that might be useful for you, if you look, for example, at projects like the goldfields super-pipe, which will produce for Bendigo and Ballarat 50 to 60 gigalitres of water in aggregate for those two cities over time, again the funding for that is built into those authorities' forward capital works provisions. Again that is a good example of a project which, of course, is going to be funded from capital, from some user charges plus from the state government, and we hope obviously in relation to the pipe through to Ballarat that the commonwealth will make its contribution.

Mr RICH-PHILLIPS — So the line of the budget figures that have been fed in by the authorities — their provisions — there is no Treasury adjustment to that? It is purely — —

Mr BRUMBY — It would be quite abnormal to do that. We do not do that.

Mr RICH-PHILLIPS — It is purely existing provisions.

Mr BRUMBY — I will give you another example — the port of Melbourne and channel deepening. We have always said with that project that the bulk of the project will be funded by the port users, which the port users accept. But we have always said we will make some contribution — that is a capital contribution — to that authority. At the appropriate time, and subject, of course, to the successful green light through the panel report on the supplementary environment effects statement (SEES), we will make a capital contribution. That will come from the budget books into the books of the business, which is the port business. But the point I have made to you is that if you look at the water authorities, they are big businesses, big corporations with a big asset base. I think in fact the water sector makes up about half of those numbers going forward, so they are a big part of those public non-financial corporations (PNFCs) going forward. They have strong balance sheets, and they have the capacity to embark on projects going forward, but they have not identified specific allocation because we have not yet got a specific project or projects.

Ms GRALEY — Congratulations on another budget, Treasurer. May I refer you to budget paper 2 and the chart on page 10 referring to taxation revenue as a percentage of GSP. This graph seems to highlight that Victorian tax as a share of GSP is falling, and I am just wondering why this is. Why is this?

Mr BRUMBY — It is actually because we have been cutting taxes, and we have been cutting taxes because we are not a resource sector. We have quite a large manufacturing sector — the largest manufacturing sector in Australia, with the highest dollar in 17 years, four interest rate increases, a lot of cost pressures on industry — and to keep our industry competitive we have had to reduce business costs. In turn that strategy has worked, and I repeat in a sense what I said in answer to the other question. What is instructive, I think, is that if you just look at that graph on the screen, there is the state growth and there is the commonwealth growth, so commonwealth taxes have been growing much, much faster than state taxes.

Mr RICH-PHILLIPS — Does that include the GST?

Dr SYKES — Where is the GST — in the commonwealth or the state?

Mr BRUMBY — It is in neither, because you will not get an accurate or an honest answer if do you that. So it is in neither. I have another graph to show you if you do include the GST, but you will not like it because it is worse.

Ms GRALEY — Show it then.

Mr RICH-PHILLIPS — You are the main beneficiary of it.

Ms GRALEY — Let us have a look at it then.

Mr BRUMBY — We are the beneficiary? Do you reckon we are the beneficiary?

Mr RICH-PHILLIPS — Yes.

Mr BRUMBY — Have a look at that — that is company tax.

Mr RICH-PHILLIPS — You do get the revenue, don't you?

Mr BRUMBY — Who gets company tax?

Mr RICH-PHILLIPS — You do get the revenue from GST?

Mr BRUMBY — No, no, hang on. Who gets company tax?

Mr RICH-PHILLIPS — We are talking about GST. You do get the revenue from it, don't you?

Mr BRUMBY — Do you know the answer to the question? Who gets company tax?

Mr RICH-PHILLIPS — Yes, keep it going.

Mr BRUMBY — The commonwealth government gets company tax. So there is the growth in company tax — 109 percent. There is the growth in the GST pool — 48 per cent.

Mr RICH-PHILLIPS — You do get the GST, don't you?

Mr BRUMBY — Yes. So who is the big winner out of taxation? The commonwealth!

Mr WELLS — So do you still support the GST?

The CHAIR — I think we will try to answer Ms Graley's question.

Mr BRUMBY — We have answered the question.

The CHAIR — Okay.

Mr DALLA-RIVA — I refer the Treasurer back to budget paper 2, strategy and outlook, at page 45, table 3.5. This is a question previously discussed by Mr Wells. Since your discussions and you have mentioned the 28, 28, 28, 16, we had sat there with a combination of calculators trying to work out how on earth, on the basis of the figures that are provided in the budget, you make the $2.9 billion, as you have stated both on radio and also to the *Herald Sun*, front page. I have gone through a very practical analysis and again I have taken the last figure at 815 and thought that you may have taken the extrapolation of the 28, 28 et cetera into that, and that did not add up. I took the total figure that was $1.6 and did the 28, 28 into the future, and that did not add up. It might be just coincidence, but the last two estimates in 2009-10 and 2010-11 get close to the $2.9 you indicate. There are people in the audience, there is myself, others do not quite understand from your previous response to Mr Wells where the $2.9 billion is allocated. The facts are that in the budget papers that are presented to us today it shows that unallocated provision for future allocation is $1.6 billion.

Treasurer, what is right, the budget papers or your statement, because it does not seem to make sense? You need to maybe explain it, or get one of your officials who can perhaps dumb it down for us, but please explain where you keep making the statement of $2.9 billion when it is not there.

The CHAIR — Perhaps provide us with a table, Treasurer.

Mr BRUMBY — I do not know that I can add to what I said before. I do not think I can make it clearer or simpler and I do not want to be rude, but it is not my problem if you cannot understand what is a basic piece of arithmetic. I go back to — I am not sure how I can make it clearer for you.

Mr DALLA-RIVA — Where does it come from, Treasurer: $2.9 billion, you have indicated 28, 28, 28, 16?

Mr BRUMBY — Yes.

Mr DALLA-RIVA — It just does not make sense on the figures that are provided. We just cannot work this out. So unless there is — —

You could have said $3.5 billion unallocated because you could have picked that up. I do not know where you have picked this $2.9?

Mr BRUMBY — Go back. Seriously you tried to run this same argument out before the election and no-one bought it because what you are saying was just not true.

Mr WELLS — Maybe just reconcile it back to the budget papers.

Mr BRUMBY — No, no, just hang on.

Mr WELLS — Just reconcile it back to the budget papers.

Mr BRUMBY — I have reconciled it.

Mr WELLS — Let us just do it.

Mr BRUMBY — You are the one who does not understand.

Mr WELLS — Let us do it.

Mr BRUMBY — If you run those numbers over, right, it translates to a TEI and there is no change in budget practice here. This is longstanding budget practice. I have taken you back to Stockdale's last budget, for goodness sake.

Mr WELLS — We understand all that.

Mr BRUMBY — I do not think you do understand it; You are having a problem with it.

Mr WELLS — We understand the 28, 28, 28, you explained it very well, but what we are looking at is your statement being reconciled back to this budget paper in front of us and that is what the idea of the public accounts is.

Mr BRUMBY — You can sit down with Treasury after this today for as long as you like.

Mr WELLS — No, we would like you to explain it now.

Mr BRUMBY — No, no, I have explained it in depth. I cannot do any more.

Mr WELLS — Let us reconcile it now.

Mr BRUMBY — I have got the whole of — Kim, I have got — —

Mr WELLS — Let us reconcile it back, you have said $2.9.

Mr BRUMBY — Kim, I have got the whole of Treasury who understands it, who advises me — Treasury that serves different governments with different treasurers of different political persuasions. Treasury understands it, that is what it used to do when Alan Stockdale was here. It understands, but you do not.

Mr WELLS — The total is $1.6 billion in the papers, so are these wrong?

Mr BRUMBY — That is the cash available for the first year spend. For goodness sake, how many times do I have to say it?

Mr WELLS — 08, 09 and 10-11. That is what has been put in the paper — a total of $1.6 billion. Is that right?

Mr BRUMBY — That translates — —

Mr WELLS — No, is that right? The unallocated provisions — is that right, the $1.6 billion?

Mr BRUMBY — That is the unallocated provision available to be spent in that year.

Mr WELLS — Yes?

Mr BRUMBY — Cash.

Mr WELLS — So where is the other $1.3 billion coming from.

The CHAIR — It has been explained; it is 28, 28, 28 — — .

Mr WELLS — Can I suggest, Treasurer — —

Mr BRUMBY — No, wait on! Let us clear this up. When you build the children's hospital — let us call it a billion dollars — it takes five years to build.

Mr WELLS — But that is not unallocated capital.

Mr BRUMBY — Well, what do you think it is?

Mr WELLS — That is allocated capital.

Mr BRUMBY — No, seriously, it is a billion dollars, it takes five years, so the TEI is a billion and the unallocated capital — if you keep it simple — is 200, 200, 200, 200, 200. Right?

Mr WELLS — Yes.

Mr BRUMBY — So that is cash drawn out.

Mr DALLA-RIVA — I understand that.

Mr BRUMBY — So the standard rule, which Treasury uses when they apply across the mix of asset spending — some take a long time, some take a short time; like a school; just a couple of years — the rule of thumb is that 28, 28, 28. It does not mean every project is going to be like that. Some you will do in a year or 18 months, and some will take 10 years.

Mr WELLS — That is all okay. We understand that. That is fine, that is easy, that is straightforward.

Mr DALLA-RIVA — But you have been out there with 2.9 and we just cannot reconcile it back to the budget papers. That is what we are trying to work out.

Mr BRUMBY — Again — —

Mr WELLS — No. Your unallocated provision is $1.6 billion.

Mr BRUMBY — No, no!

Mr WELLS — Is it or is it not $1.6 billion? Is it $1.6 billion? Is this budget paper correct?

Mr BRUMBY — With respect, you are making a — —

The CHAIR — Treasurer, as I understand it, what is being asked for is a table in terms of the unallocated going out to the $2.9 billion, obviously it will go over three years. Can the Treasury officials provide that to the committee?

Mr BRUMBY — I have said we are prepared to have Treasury sit down as long as you like. Just to make it clear, here is Stockdale's budget, 1999–2000. It sets out exactly what I am saying. He says the total estimated cost is $1.3 billion — —

Mr WELLS — But you are going into the next term of government.

Mr BRUMBY — It says the total estimated cost is $1.3 billion — 1999–2000 budget, $360 million. So it is about a quarter or a third, and has always been thus.

Mr WELLS — So you are confirming that you are going to the next term of government to get to your $2.9 billion of unallocated future capital works?

Mr BRUMBY — We always — —

Mr WELLS — Yes, so that is the point we are making.

Mr BRUMBY — We always commit forward. Of course we commit forward.

Mr WELLS — That is right. So it is in the next term of government that is being included your $2.9 billion?

Mr BRUMBY — It is in the forward estimates period. The available TEI to announce is $2.9 billion.

Mr DALLA-RIVA — So why have you been going out in the media telling them 2.9 is what you have got when you have not? You have actually promised it in the budgets, into a period beyond the next election.

Mr BRUMBY — You are making a dill of yourself.

Mr DALLA-RIVA — I tell you: the figures do not make sense.

Mr BRUMBY — The custom that has been applied for aeons — —

Mr DALLA-RIVA — And you will not provide a table. The Chair has asked for a table, to my understanding, yet you have not said yes to that.

Mr BRUMBY — I am happy to have Treasury take you through the whole works. But this is the way they have been set out for ages. Let me repeat: you tried to run this line out before the election. No-one bought it then because your numbers are all wrong. You do not understand basic accounting. It is like your budget response, Kim, where you do not understand the difference between recurrent and capital, for goodness sake.

Mr WELLS — If you capitalise repairs — —

Mr BRUMBY — It is an embarrassment.

Mr WELLS — If you capitalise repairs to buildings, then you can use debt to finance it, which reduces your expenses and increases your surplus, which means your debt level increases. Am I right?

Mr BRUMBY — Do you want to know about debt?

Dr SYKES — Talk to the Cain-Kirner governments!

The CHAIR — Stick to the estimates, please.

Mr BRUMBY — We will just go back to the estimates, Chair. We will go to the statement of finances in budget paper 4. We will go back to the Bolte government 1961–62. We will take a little bit of a trip through time just so you get a bit of education. In 1961–62, on page 216 — —

Mr BARBER — Chair, I have actually read that part of the budget papers.

Mr BRUMBY — It is instructive.

Mr BARBER — Chair, is there any chance I will get a second go — I have missed three out — at asking a question?

The CHAIR — Yes, you will. Just quickly, please, Treasurer.

Mr BRUMBY — Chair, I will just make the point that if you go back and look in 1961–62, the debt payments which were provided for public debt and superannuation exceeded the size of the health budget, not the capital value — the interest payments per annum. So our health budgets — —

Mr DALLA-RIVA — Which year was that, sorry?

Mr BRUMBY — In 1961–62, Henry Bolte — and it is the same pattern the whole way through. Here we have this inane debate today about the financing of capital works, but if you go back to that period, the interest payments under the Bolte government exceeded the size of the health budget as a whole. That would put today's equivalent interest payments at in excess of $8 billion per annum.

Mr DALLA-RIVA — With the greatest respect, the only inane comments have been made by you.

The CHAIR — I think we will move on.

Treasurer, you mentioned the Victorian Competition and Efficiency Commission — we will try to move things along a bit, please — and in various parts of the budget, including on page 92 in chapter 7 of budget paper 2. It is identifying opportunities for improving Victoria's competitive position. What are they looking to do as a result of this budget and their current work program?

Mr BRUMBY — VCEC was introduced just under three years ago. We were the first state to introduce such a commission. Its job is to drive productivity growth, to lead the way on efficiency improvements and in regulation reform. VCEC has done that. They have an inquiry under way at the moment on the Labour and Industry Act. Recently they completed the draft report on an inquiry into food regulation. I think that the reports which the members of VCEC have done have been well received and have helped to give Victoria a leadership position in regulation reform and efficiency.

Robert Kerr, one of the commissioners, is available today, if there are any detailed questions that members would like to ask him about the commission and its work. I think it has been a very valuable initiative. They are independent commissioners, with excellent reputations in business and regulation reform. Robert, of course, comes from the Productivity Commission. I think this has been very valuable for the government in putting extra focus on this area, going forward.

The CHAIR — You might wish to consider in future tabling some of the reports in Parliament — they are very good.

Mr BRUMBY — At the moment those reports are provided and then they are released publicly over the Net. I think that is probably a very useful suggestion. If I could, I will take that on board and respond formally to you in writing. I would probably have to discuss that with the presiding officers, but I think it would be an extremely useful thing to have them tabled to then in a sense build into the procedures of house an opportunity for debate on VCEC.

The CHAIR — They are very good reports — on red tape, for example.

Mr BRUMBY — If I can, I will respond formally to you on that.

Mr WELLS — Treasurer, I refer you to the government's response to the Public Accounts and Estimates Committee's *Report on Private Investment in Public Infrastructure* of October 2006. I will make sure that my question links in to this budget paper. The government has rejected recommendation 14, which was that it:

> … jointly fund a study on the potential financing options available to governments to fund public infrastructure projects …

The government has said that, as stated in budget papers 2006–07, around 60 per cent of the government's infrastructure investment program is currently funded by cash operating surpluses. I draw your attention to budget paper 4 at page 12, which shows at the bottom of the list the cash surplus or deficit. We find that in 07–08 we have a deficit of $641 million, and then a deficit of $1171 million, a deficit of $677 million and in 10–11 a cash deficit of $210 million. Based on your response that 60 per cent of government infrastructure programs would be currently funded by a cash operating surplus, if we are operating with a cash deficit, how are we going to be funding the government's infrastructure investment program?

Mr BRUMBY — Again, with respect, you have misunderstood the numbers. From the operating statement we are generating significant net cash flow capacity. That is set out and you will see that on either page 45 in chapter 3 of budget paper 2 or, alternatively, in table 1.4 in chapter 1 at page 12. If you look down, it says 'Net cash flows from operating activities'; can you see that?

Mr WELLS — Sorry, Treasurer — page 45?

Mr BRUMBY — The same page. Go to page 12, chapter 1 of BP 4. Have you got that?

Mr WELLS — Yes, I have that. I am looking at that now.

Mr BRUMBY — Go about halfway down to 'net cash flows from operating activities'. That is what we are generating; that is the cash generated from the operating account, because we deduct off from the operating account non-cash expenses like depreciation. But the operating account is actually generating that amount of cash for us. So we then apply that to capital works.

Again, with respect, you put the question completely the wrong way round. For the capital works that we are constructing in 07–08, for example, we are paying for over $2 billion of that from the cash surplus on the operating account, not from debt. The debt figure comes after you take that cash position, then any asset sales or anything else like that — and sometimes there are blocks of land and things like that which are still sold. You add all that up; proceeds from the sale of any assets or non-financial assets — you will see there $200 million. You then deduct off the total spend, which is about $3.6 billion, and then you go down to the bottom and there should be — go right down to the bottom, which is the cash surplus, or deficit, $600 million.

If I can very quickly, Chair, take you to this historical data again, because for public accounts — I will just be 30 seconds; it just gives you an idea of how much of this capital effort we are funding — if you look at budget paper 4 around pages 200 to 203, the historical data on general government cash flow, I just want to show you that. In fact if you go through to page 205, you will see just how strong the state's finances are and have been under this government. If you look on page 205, table A.1 — general government cash flow statement, again this is the cash we are generating off the operating account. So you look down there in the middle of the page, 'net cash flows from operating activities'; you will see in 2001–02, $3 billion; 2002–03, $1.9 billion; 2003–04, $2.4 billion; 2004-05, $2.5 billion; and 2005–06, $2.6 billion.

If you look back over the other page, on page 204: 2000–01, $2.1 billion; 1999–2000, $2.9 billion; 1998–99 — former government — $1.6 billion; 1997–98, $1.6 billion; and 1996–97, $2 billion. So that is cash generated from the operating account, because it is cash that is available then for assets.

Again going back, just to say how erroneous, Kim, some of your comments have been in the last week about borrowing for a current activity, if you go back and look at the early 90s and 80s you will see here, if you read across on pages 202 and 203 that, yes, actually in that era there were cash deficits on the operating account; right? There were cash deficits. There has never been a secret about that. Have a look at them — $300 million, $400 million a year, continuing into the early 90s. So there were cash deficits then of $400 or 500 million on the operating account. We are running cash surpluses on the operating account of $2 billion plus, which is available for capital works.

Mr BARBER — Cash is king.

Mr BRUMBY — So it is a complete nonsense to say that we are financing operating activities out of borrowings. In fact the operating activities are contributing each year more than $2 billion towards our capital works program. Indeed, to make the obvious point, if we were only constructing capital works at the level of the former Kennett government, which was about a billion a year, we would be running cash surpluses of more than a billion a year, but we would not be building schools, we would not be fixing up the rail system, we would not be building hospitals and we would not be investing in water projects. So we are working the balance sheet off the strongest position in 50 years, and I think those points just illustrate, firstly, the lack of understanding the opposition has had between recurrent and capital and, secondly, the strength of this budget compared to the 1980s.

Ms MUNT — Treasurer, I would like to refer to red tape, and I would like to refer particularly to budget paper 2, chapter 7, page 97. The budget papers refer to *Reducing the Regulatory Burden*, Victoria's policy for reducing the cost of regulation for businesses and not-for-profit organisations. I wonder if you could tell us what progress has been made in that regard.

Mr BRUMBY — There has been a lot of progress made, and we are the first state to set targets in this area. I think in a more global environment, and a more IT-driven global environment, it is very easy for governments to create regulations, and they can be quite a burden for businesses and communities and individuals alike. So we set a target of 15 per cent reduction over three years and 25 per cent over five years. It has been very well received. A couple of other states have now adopted Victoria's policy. One of the things we have been doing in the business sector is trying to reduce red-tape costs particularly through the State Revenue Office for business, so we have recently had a study concluded by the State Revenue Office, and that shows that our efforts over the last five years there — reducing paper, reducing regulation and reducing red tape — have saved businesses more than $10 million per annum in reduced compliance.

This is a significant savings for business, and it is a good example of how, if you look at regulation, if you look at the forms, the administrative burden, the compliance burden that is there, you can make real progress. So we have got the target. Departments are presently reporting to me and the Premier on their targets for reducing the regulatory burden over the next three years.

I should say also that Victoria led the way in payroll tax harmonisation. So you will see earlier this year we agreed with New South Wales to harmonise many of our payroll tax provisions, and I want to compliment Treasury on the great work that it did there because we entered into that agreement with New South Wales. Now all the Australian states at the treasurers council have agreed for a common set of protocols and procedures for payroll tax. That means if you are a business operating in Australia across state borders, as many do, you really only need one set of computer software now to run your whole payroll tax program. You might have a different rate in each state. There will always be different rates — that is a good thing, that is competition — but in all the details and procedures you will have fewer requirements in a single piece of software. That is a good example of how we can really make a difference and again a good example of the leadership that Victoria has shown.

Dr SYKES — This is a fairly straightforward one, Treasurer. One of the media releases emanating from the budget was in relation to more schools in country Victoria, and upgrading. There is a statement referring to securing the future of six more rural schools and a list. There has been $14 million allocated to replace relocatable facilities in six schools which are then named. I am aware that there was a media release on 6 November prior to the election in which you indicated that there was a $70 million program to replace relocatable school buildings with permanent facilities in up to 40 small-to-medium schools. Is it correct to presume that these six and the $14 million is the first stage of that $70 million commitment, and that the 23 schools which you have named as being part of the other part of the first stage will have been relocated or replaced within the four-year term of this government?

Mr BRUMBY — Would you just repeat the last part again?

Dr SYKES — It is $14 million allocated to replace relocatable buildings in six schools. I am asking the question: is that part of the pre-election commitment — —

Mr BRUMBY — Wait, 14?

Dr SYKES — Fourteen.

Mr BRUMBY — Yes, fourteen.

Dr SYKES — Is that part of the pre-election commitment of $70 million to replace relocatable school buildings in up to 40 small schools, of which you indicated that the first 23 of those schools would be done in the four years of the term of this government?

Mr BRUMBY — I will get advice for you from the Minister for Education. But if you are asking, 'Do you provide $14 million for the six schools?', the answer is yes. In relation to the other schools, if you are asking, 'Will they be funded in the remaining three budgets?', the answer is categorically yes. The only reason I am hesitating with the answer is it is not impossible that some of the schools identified in the relocatable program could be funded under general rural schools. I am just not sure of that, but it may be because sometimes there is some overlap between the two.

Again if you are asking, 'Will they all be funded?,' the answer is yes. 'Is there budget provision for that?'; as I have explained many times today, there is more than adequate budget provision for that. And I think in aggregate, of course — if you look at the schools there is $555 million in this budget for schools, which is — —

Dr SYKES — I accept all that, and that is — —

The CHAIR — Dr Sykes — —

Dr SYKES — Can I please — —

The CHAIR — I refer you, Dr Sykes, to page 282 of appendix A in budget paper 3, where you will find the answer.

Dr SYKES — Through you, Chair. I believe we have got confirmation that the pre-budget commitment that you made is going to be delivered on those first 23 schools, including Tawonga Primary School, which is in my area, will, as you have committed, be delivered upon. Is that the commitment?

Mr BRUMBY — Will it be?

Dr SYKES — Yes?

Mr BRUMBY — It was on the list?

Dr SYKES — Yes.

Mr BRUMBY — Categorically.

Dr SYKES — Categorically, okay. Then my question is: is that with or without any additional conditions?

Mr BRUMBY — Sorry?

Dr SYKES — In pursuing this on behalf of Tawonga Primary School — and it is an issue of principle, for which I am using an example, they have been advised that in fact there is a six-stage process through which they have to go and there appears to be no guarantee that the funding commitment promised, resulting in the relocatables at that school, is going to be delivered upon.

Mr BRUMBY — Chair, to be fair, I cannot speak for every primary school in the state. I visit a lot of them. I cannot — —

Dr SYKES — It is a question of principle.

Mr BRUMBY — I cannot speak for every one of them. On the question of principle: what we promised, we will deliver. On our recurrent side we have 172 commitments; we have begun work on each one of those. On the capital side, we promised a capital program, which ordinarily you would fund 25, 25, 25, 25 — we have actually funded ahead of schedule. If you are asking me, 'Are schools that are on the list going to get funded in this term of government?', I have told you categorically yes. And I am told by the secretary of Treasury, who is a former secretary of the Department of Education, that for every school there is a process of, if you like, checks to go through, which have a number of stages to make sure that the capital program entered into drives the right value for money for the state. Tawonga is no different to any other school. You should raise that with the Minister for Education.

The CHAIR — You could take that on notice and pass it to him, Dr Sykes.

Mr PAKULA — I am mindful of Mr Barber's desire to get in another question, so I will be brief. Treasurer, I refer to page 34 of budget paper 3, in the third paragraph under 'Land tax', and the changed land tax quantified at $508 million over the term. Can you give the committee some sense of what that change will mean for business costs?

Mr BRUMBY — I can. I have a couple of examples here, actually — fortuitously.

Dr SYKES — You just happened to know it was coming, just by chance.

Mr BRUMBY — Just by chance I have a couple of examples. But I will be brief, because I know Mr Barber has only had one question. A hotel in East Gippsland, with a land value of $2 000 000, the savings to that business will be $7000 — a percentage tax reduction of 24 per cent. A transport operator in Greater Geelong, with a land value of $1.8 million — tax savings of 20 per cent, $2770. A chemical company in Greater Dandenong, with a land value of $2.8 million — savings in land tax announced in this week's budget, $8000, the reduction in land tax is 23 per cent. These are big savings.

We have always had low land tax, at the bottom end of the bracket, for small land-holders. The rate reductions we have provided now mean that between $400 000 and $4.5 million we have got the lowest rates of land tax in Australia, and that is where most of our businesses are and most of the jobs are. Again, I am conscious of what I said before in terms of manufacturing businesses, transport, warehousing and all of those. Where they have got cost pressures, this will release significant cost pressures.

Mr BARBER — Treasurer, I would just like to go back to stamp duty relief for motor vehicles.

Mr BRUMBY — Yes.

Mr BARBER — Just by way of background — you can respond to this in your answer, if you like — the passenger fleet is now 1 litre per 100 kilometres less efficient than it was in the 1990s — that is with air conditioners, bigger cars and more features that weigh more. My question is about the modelling that Treasury and other departments would have conducted in looking at this initiative. When you cut a tax, some of it goes to the producer, some of it goes to the consumer, there is some rise in demand, and how much is to do with a range of factors.

You must have modelled the effect of this on your own revenues, and so you would be able to tell me whether that modelling showed an increase in sales of those cars affected by the duty or, I suppose in the alternative, do they end up just putting the money in their pocket — the consumer, that is? What did that modelling show by way of increased sales for those vehicles? Based on that, what did other departments' advice say, maybe with respect to the impact on sustainable transport, greenhouse gas emissions and so forth — that is, the other departments' advice?

Mr BRUMBY — Sure. I am not aware of your statistic about the overall fuel use in the vehicle fleet increasing. I must say I am surprised by that, and I would be happy to receive some more formal information on that, if you can provide it.

I think it is generally accepted that newer cars are certainly much cleaner, as I said, much safer and generally more fuel efficient — not all of them, but generally more fuel efficient. For example, I announced this policy down at Toyota in front of its Toyota Aurion, which is a six-cylinder car with a 200 kilowatt engine, but the most advanced six-cylinder engine in the world, which has amongst the very best emissions in the world and uses only 9.9 litres per 100 kilometres in the city and the country. So I think that is a very good example. You can imagine it replacing an old Toyota Crown from 20 years ago. It is a good thing for the environment.

The other thing you asked was: did we model demand-supply responses? We did not do that, and Treasury, in its calculations going forward — we are always fairly neutral in our revenue assumptions going forward — was fairly conservative. We did not assume a demand shift, and we will wait to see what the market does, but we did not build that into the numbers going forward.

The final point I make, from your perspective and with your concerns in terms of fuel use, is that obviously we have terminated a subsidy that is going towards fuel. I would have thought you would say that was a good thing to do if you are concerned about increasing levels of fuel and greenhouse. We think on balance, putting aside the issues of whether the fuel subsidy is passed on or whether it is not, we think on balance this is a better way to use taxpayers money.

It is more transparent, it is more open, and I certainly believe that there will be very positive environmental benefits from getting people out of old, many of them lead-based cars — and I know they put the additives in now — but replacing those and getting them into new cars. Eventually of course, the more new cars you sell, the more it pushes down through the second-hand fleet as well. So we will just agree to disagree on this, because I think it is a positive environmental initiative.

Mr SCOTT — My question relates to budget paper 2, page 68, under the heading, 'Horizontal fiscal equalisation reform…' where it states:

> The Victorian government considers that the current approach to GST distribution is fundamentally flawed.

Is Victoria still subsidising other states?

Mr BRUMBY — We sure are, and we are subsidising other states to the tune of $1.3 billion. When you think about it, this is a scheme that started back in the 1920s, really to compensate Queensland and WA for the fact of tariffs. We had all been manufacturing in Victoria and New South Wales, and tariffs have largely disappeared since the 1920s. This program still exists, though. It is antiquated, it is outmoded, it is inefficient, and it does result in Victoria continuing to subsidise other states.

We do not mind subsidising South Australia, Tasmania and the Northern Territory, but we certainly object to subsidising Queensland. It is just a nonsense that we should be subsidising Queensland. We put this view to the federal Treasurer. Regrettably he has been reluctant to embrace reform; to grab hold of the reform baton and make changes which would drive a much stronger national economy. When you think about it, it is penalising us to the tune of $1.3 billion a year. For every dollar a Victorian pays in GST, we get only 88 cents back. The two larger states, Victoria and New South Wales, are lumbered with this anachronism from the 1920s.

We proposed an alternative model. It is a good model. We are happy to look after the smaller states; we think Queensland should pull its weight as well, and all of the modelling that has been done on this shows that if you did move to a better, more improved system, you would see significant economic benefits for the whole of Australia.

Finally and very quickly, Chair, we have also made progress. Victoria really led the campaign at the Treasurers council to try to clear up some of the administrative operations of the grants commission, and we are making progress doing that. The grants commission is now applying fewer and fewer classifications and criteria to work with their undertaking, and that is an improvement. But, really, this is not a matter for the grants commission, this is a matter for the federal Treasurer, and he needs to bite the reform bullet and do what is the right thing for Australia as a whole.

Mr RICH-PHILLIPS — Treasurer, in your budget speech you refer to $4.7 billion of water projects, when you said:

> … we have invested $1.7 billion in water and catchment projects, along with more than $3 billion committed by water authorities.

Can you give the committee a list of those projects, in particular we are looking at what the project is, how much it cost, whether it was committed by government or an authority and in what financial year?

Mr BRUMBY — I am just trying to find it; I have a very long list here.

Mr RICH-PHILLIPS — If you want to go through the major ones and perhaps table or provide the full list?

Mr BRUMBY — I just want to have a look at it. It has got all of the projects. We can get that information to you. Just to reiterate, what I said in the speech was $1.7 billion towards water and catchment projects — that is, water projects and of course the catchment management authorities which do such an important job in managing those catchments, and the authority. We are happy to do that. I do not think I have the presentation here — I did have a slide in some of my general budget presentations which goes through the huge number of water projects across the state. I do not think I have got it with me today, but we would be happy to get that information for you, and I am sure that the water minister can elaborate on that when he appears before this committee as well.

Mr RICH-PHILLIPS — Are there any larger projects you want to mention now from that list?

Mr BRUMBY — Happily. If you look at it running across from the west of the state — this is just during the term of our government — the project commenced under the former government and completed earlier on in our government was the final stage of the Northern Mallee pipeline scheme. Off the top of my head — I do not know the numbers on that — but I think it was probably a TEI of $100 million or something-plus to finish that. The Wimmera–Mallee pipeline scheme, which is now, as you know, moving to stage 2 without delay. That is a $501 million TEI.

In the west of the state there is a huge number of projects. I know I opened the new recycling facility at Hamilton. That is not a big project, I think it was $6 million to $10 million or thereabouts. There is one there, one at Portland and a raft of smaller water recycling and sewerage treatment projects. My guess is if you added it up in the regions, just the investment that has gone into water recycling and sewerage treatment, there would be a couple of hundred million there.

Moving across the top end of the state, there is the Woorinen pipeline which has been completed under our government. There is the Tungamah pipeline running across the top of the state, and there are a couple of others, the names of which I cannot recall. In the Goulburn region there have been a number of other projects and I do not know that I have a list of them — I do not think I do, which is a pity.

In the north-east of the state we have done the Wodonga waste water treatment program, which was done early in government. We move down through Gippsland we have obviously got the Gippsland water factory which we funded, which is a TEI now in excess of $200 million. Around Melbourne there are a number of projects including at Altona, which we visited the other day, and Werribee and further works at Carrum, which are recycling projects.

In the regions we are doing the Bendigo super-pipe, the Goldfields super-pipe and there is the announcement we made in the budget of the funding for the Shepparton project, which is a TEI, as I have said, of $188 million. In the budget we have a further $10 million for farms, other recycling projects, for stormwater projects in urban areas and the $20 million for rebates on efficient households and water products.

There are the contributions we have made towards meeting our targets under the Living Murray scheme. I apologise as I do not have a list of those in front of me. There is the project I mentioned earlier on Tarago, which is being funded by Melbourne Water, and that will be bringing water to Melbourne by 2009–10 — that is 25 gigalitres of new, fresh potable water. On top of that there are a number of projects in industry which together have saved somewhere between 15 and 20 gigalitres of water.

At Leongatha — I have a list of some of these in 'rural projects' and they may come up under the regional development portfolio later. Leongatha would be the largest of those, with about 1.6 gigalitres. Australian Paper recycling and Energy Brix recycling and all the ones we have done in industry have been about 14 gigalitres of water. If you add all of that investment, you start getting some significant numbers.

On top of that you are seeing significant investment in sewerage infrastructure, particularly in places like the Yarra Valley where there was a huge backlog after the Kennett years because Melbourne Water was not able to adequately maintain its effort. That meant inflows into rivers and streams were far more polluted than they should be. There is a big investment that has gone into that area as well.

I will get a list. That is just a quick run around the state. I am sorry I did not have all the projects but you can get an idea of the expansiveness of the programs right across the state.

The CHAIR — As a final question, I ask you to take on notice what resources and staffing costs the department anticipates applying to servicing the Public Accounts and Estimates Committee hearings in the 2007–08 financial year based on experience in the past. I thank the Treasury officials for their participation today.

Witnesses withdrew.