VERIFIED TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into 2006-07 budget estimates

Melbourne—13 June 2006

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Mr J. Brumby, Treasurer;

Dr P. Dawkins, acting secretary;

Mr J. Byrne, acting deputy secretary;

Mr J. Monforte, acting deputy secretary; and

Mr J. Fitzgerald, acting deputy secretary, Department of Treasury and Finance.

The CHAIR—We now move to the Treasury portfolio. I welcome from the Department of Treasury and Finance Dr Peter Dawkins, acting secretary; Mr Jeff Byrne, acting deputy secretary; Mr Joe Monforte, acting deputy secretary, Mr John Fitzgerald, acting deputy secretary and departmental officers. Treasurer, it is over to you for a brief presentation on the more complex matters regarding the Treasury portfolio.

Mr BRUMBY—Thank you, Chair. If I could say at the outset, Dr Peter Dawkins is the acting secretary of the department. As I think you are aware, we were all shocked and greatly saddened by the sudden death of Ian Little last week. As a mark of respect the committee meetings were postponed to today, and Dr Dawkins is the acting secretary of the department.

The CHAIR—On that, could I just pay tribute to the work of Mr Little, and particularly his work with this committee. We do appreciate it.

Mr BRUMBY—Thank you for that. I am going to run through a few slides, if I can, bearing in mind the 20 minutes I have been allocated. Peter, do you have some slides as well?

Dr DAWKINS—Yes, I do.

Mr BRUMBY—So we will run through those and we will keep them brief. Have they been circulated?

The CHAIR—Yes, thank you.

Slides shown.

Mr BRUMBY—Just a few things on the budget. Some of you will have seen these. The budget fundamentals: budget surpluses running forward at 317, and averaging 316, over the forward estimate period. I will just highlight there the expenditure growth this year; 4.5 per cent rounded out which will be around nominal GDP, going forward at around 3 per cent. As I pointed out for those in the lower house, these are lower levels of expenditure growth going forward than are contained in the federal budget. I might say on the revenue side too you will see that these levels of revenue growth are below the levels of growth forecast for nominal GDP.

You have all seen that slide in the budget papers, just showing that when we came to government net financial liabilities were in excess of 10 per cent of GDP. The general government sector owes money for net debt, and also for superannuation liabilities. The largest of those is the superannuation liabilities. You will see here as a consequence of a number of factors the paying down of net debt with cash surpluses, the prepayment of some of our superannuation liabilities and, more recently, the strong performance of the share market that net financial liabilities today are around 6 per cent of GSP. It has been quite an extraordinary reduction. I do repeat, there are a number of factors that have contributed to that.

The consequence, even when you adjust for the new AIFRS—the new international financial reporting standards where you get a one-off accounting change in what measures net financial liabilities—is that you can see in the forward estimates, going forward, funding the biggest capital program in the state's history since the Hamer government in the seventies, net financial liabilities as a share of GDP will still be around that 7 per cent to 8 per cent mark; well below the 10.6 per cent when we won government in 1999.

The growth numbers running forward for 2005-06, and 2006-07: they are consistent with the national GDP numbers. Again, you have seen those in the budget papers. The unemployment rate: you saw the monthly figure the other day was 5 per cent. It is a good number. Monthly figures do jump around, so expect that to jump around in the future. But that is certainly well below our budget estimate.

I thought this would be useful for the committee, just in terms of trade. I suppose it gives you an idea of the challenges that really face our economy. You can see there the terms of trade. The last huge increase we had was the late sixties, early seventies. They started declining about halfway through the then Whitlam government. You can see the increase here which is the largest in our history. That makes it great for many of the iron ore and gas producers in Western Australia, but it means it is quite difficult for many of our import competing industries in Victoria. So it is quite difficult for parts of the tourism industry and also for our manufacturing sector.

This slide shows how well, in that context, the Victorian economy has been performing. There have been a number of commentators who have been kind enough to make this observation for us. We are clearly not a resource state. If you compare our GDP growth rate with the other non-resource states, including Victoria—so we have included the stronger Victorian number in that—you will see that, for each of the last four financial years, we have outperformed the rest of Australia, the non-resource states, and we appear likely to do so again in 2005-06 if our growth estimate is achieved. It is a strong performance indeed.

Those of you who have been at my budget presentations, you will have seen that graph every year we have been government. What it shows is that every year since 1999 private investment per capita has been above the national average. For the Victorian economy going forward that is where we would like to keep it.

Building approvals have been a huge source of strength for us. The last 18 months, as the residential market has slowed a little, we had a nice, soft landing. That softness has been more than compensated for by strength in the non-residential sector. Until the last month, where we just fell below the line, we have had 50 consecutive months, seasonally adjusted, of building approvals over a billion dollars. Until we got that first billion dollars 50 months ago, we had never achieved this. As I say, the last month we were just below. For the calendar year 2005 Victoria had a high level of building approvals compared to other states in Australia, including New South Wales.

This just shows the non-residential construction pipeline. You can see there how strong it is for us. Construction activity: I particularly wanted to show the committee there the strength of engineering construction for our state because that will help drive transport improvements and productivity improvements going forward. This shows, as you are aware, the doubling and now the tripling of infrastructure investment in the budget compared with where we were in the nineties.

I thought it was instructive, so I have pointed this out in the House. We have now had all of the state budgets, I think, bar Tasmania which I think was today. After taking New South Wales and Queensland into account, the facts remain the same. Virtually all businesses in Victoria with land-holdings between $380,000 and $3.4 million pay the lowest land tax in Australia. Payroll tax: there we are at 5.25 per cent, coming down to 5 per cent, second-lowest rate in Australia, big savings to more than 20,000 businesses. WorkCover — I think you are aware of that — 10 per cent, 10 per cent, 10 per cent. Again, we are now the second lowest in Australia. That is my presentation.

The CHAIR—Thank you, Treasurer. Dr Dawkins, you have 2¼ minutes

Dr DAWKINS—Chair, I would like to provide the committee with a brief overview of the department's outlook for the budget year, focusing on departmental objectives, the new initiatives and how they relate to the overall DTF budget. I think you have the presentation in front of you.

Slides shown.

Dr DAWKINS—The departmental objectives, shown on the next slide, remain unchanged. Three there: sound financial management of the state's fiscal resources; innovative policy advice; whole-of-government approach to optimal service delivery and world class infrastructure. The next slide, probably the most important, relates to DTF output initiatives. The first one there is reducing the regulatory burden. DTF has been charged with the responsibility of leading the implementation of the government's policy announced in the budget on reducing the regulatory burden on business and on not-for-profits: $5 million in 2006-07 for departmental incentives to reduce the regulatory burden; $1.8 million for reviews of regulatory hot spots in specific areas of industry or areas of regulation.

The second one, strategic sourcing of goods and services, provides for the delivery of an integrated and strategic approach to procurement through the establishment of selected whole-of-government contracts for goods and services: $1.322 million 2006-07, which will provide expected savings of the order of $12 million across the whole of government in that year. The third one relates to the SRO, land tax valuations and appeal changes. This is to enable the SRO to bring forward the use of land tax valuations by one year as part of reform of the land tax system—that is, the administration costs of so doing.

The next slide presents the asset initiatives, both relating to the SRO. The first one is maintaining the State Revenue Office's revenue management system, where funding is being provided to progressively upgrade and redevelop its principal software application e-Sys, which plays a critical role in revenue administration and collection activities; $2 million in 2006-07. The second one relates to the municipal valuations; $21 million every two years for the purchase of municipal land valuations from local councils, which is used to assess land tax liabilities.

The next slide shows that we are undertaking an internal initiative to restructure the economic and financial policy division through improved efficiency and flexibility. That involves the consolidation of six outputs into three. The three new ones are listed there. Finally, the last slide shows the overview of the implications of all of this for DTF: the budget situation on the controlled side, which will move to $191 million projected in 2006-07 from $181 million in 2005-06. A breakdown of the budget by output is available in Budget Paper No. 3 that was provided to the committee in a recent questionnaire, so I will not go into that in further detail. That completes my presentation.

The CHAIR—Thank you very much for that very rapid presentation. We can make sure these overheads go up on our website recognising that you have curtailed your presentation. The first question goes to Ms Romanes.

Ms ROMANES—Thank you, Chair. Treasurer, there has been a lot of commentary in recent days about levels of debt. Chapter 1 of Budget Paper No. 2 outlines the government's financial strategy objectives and priorities and you and Professor Dawkins have elaborated further on those. Could you outline to the committee the financial settings that have been put in place to ensure prudent financial management?

Mr BRUMBY—In part I think I did that before on the slide show, but what is instructive is that you have the surpluses 317 and averaging 316 going forward; the net debt continues to be low by Victorian, Australian and particularly international comparisons. When we were elected to office in 1999, net debt as a share of GDP was 3.1 per cent. Cash surpluses have enabled us to pay that down over recent years. It is currently very low at just under 1 per cent. Even with the largest capital program in Victoria's history since the 1970s going forward, by 2010 that debt will be at 2.5 per cent of GDP. I mentioned that it is the biggest since the seventies. If you go back to the days of the government of the late Dick Hamer, net debt was 28 per cent of GDP. We are presently at about 1 per cent and will rise to 2.5 per cent; so net debt, very sound position.

Net financial liabilities: you have a slide there which shows that the combination of prepayment of superannuation, paying down net debt plus movements in markets and interest rates has meant that liabilities also are at very prudent levels. Standard and Poor's, immediately following the budget on 30 May said:

> Victoria's balance sheet can comfortably afford the budgeted increase in the level of debt that is driven by its capital program. Victoria will remain well entrenched in the AAA rating category.

All of that is consistent with our commitment on sound financial management.

Mr CLARK—In relation to the deal that the government announced recently with Transurban, both in relation to the concession notes and the roadworks and the other aspects of the package that you have negotiated with them, can you tell the committee what independent oversight of probity matters and due process you had in place?

Mr BRUMBY—The appointment of probity auditors is a matter for Treasury and probity auditors are usually provided where there is a competing process in the market to ensure a fair bidding process between the competing bidders and to make sure that the government of the day, or the procurement process, does not favour one bidder over another. In this case, Treasury judged that no probity auditor was required. The advice that we received more generally was from Rothschilds, who provided advice to the government in relation to the price which the government could have got had the government decided to sell the concession notes on the market more generally. As you are aware from what has been stated, I think on the record by the Premier and what has been stated in the parliament by me as well, that advice consistently said that for a price in the market you would pay a discount rate of between 10 per cent and 13 per cent, well in excess of the price which Transurban was prepared to pay.

In relation to the probity auditor question, just for the record, again on advice from Treasury, no probity adviser was appointed for a range of recent developments in Melbourne involving major procurement: the National Gallery of Victoria, the extensions to the Exhibition Centre or Federation Square. They were projects under the former government and there was no probity adviser.

Mr CLARK—Following on from that, I appreciate the information about the probity audit but my question was actually broader than that. It was talking about independent oversight of probity matters and due process which, as you will recall, is a commitment that the Premier made in his 11 October 2000 statement on ensuring openness and probity in Victorian government contracts. He said:

> We intend to entrench independent oversight of probity matters and due process in all major government contracting activities.

So if you did not have a probity auditor, what probity and due process arrangements did you have in place?

Mr BRUMBY—This was a process which was undertaken by the Department of Treasury and Finance. As I have said in the House, there was a negotiating team which was led by the late Ian Little. That team negotiated with Transurban a price for the notes plus a profit share plus the continuation of ACFs going forward. The advice from Treasury to the government was unequivocally that a sale at this price represented good value for the state and certainly far better value than could be achieved through other alternatives. That was the process. There was a Treasury team which undertook the negotiations and reported back to a cabinet subcommittee. On the basis of their recommendations, the government determined to sell the notes.

There was an article in the press today about this matter. If you look at those notes, they have three values. One is the value adjudged at the time by the former Kennett government, which is all on the public record. This was between $269 million NPV and $130 million NPV in 1996. You have to recall the basis on which the notes were constructed. They were constructed to return to the state over a 30-year-plus period in NPV terms what the state had contributed in capital assets to what became a private project, and the value was between $130 million and $269 million: $269 million was on the basis that certain profitability levels would be achieved ahead of target; $130 million NPV was on the basis that the notes would not be payable until 2034. That is the first range of values of those notes.

The second range of values is what you could get for the notes in the open market if you wanted to dispose of them. If the Victorian government put them out in the market, and they are a tradeable security, let somebody bid for them. The unambiguous advice we got—and, I might say, the commonsense advice—was that, if you put them out in the market, and there was obviously additional risk for a new third party to buy them, again the discount rate would be higher than the price which Transurban would be prepared to pay.

The third price you could get for the notes is whatever price Transurban was prepared to pay, and the price which Transurban was prepared to pay was significantly—I repeat, significantly—higher than both of the other two alternatives. The price we have received is $614 million. Of course, bear in mind we sold a tranche of the notes for the Calder-Tulla upgrade for about $150 million, so the state has received in round terms around $700 million NPV for something that was valued by the Kennett government in 1996 in NPV terms between $130 million and $269 million. I do not care how you cut the arithmetic, if you get close to $700 million in NPV and compare it to $130 million to $269 million, you have done well.

As I have said in the parliament, the state will book an accounting profit. The state will book a capital gain, because we had an asset on our book, that was not even required by the Auditor-General to be recorded post forward estimates, which we have been able to sell. As pointed out in an article in the *Age* this morning, if you wanted to invest the money that we received at going bank rates at the moment, building on the compounded interest going forward, you would end up with an amount in excess of the gross amount which was originally established. I do not think it matters how you cut the arrangements—how you analyse it—the state achieved excellent value for money.

Mr CLARK—It is immaterial then to put it at 2.9 per cent. You have taken a discount rate of 9.7 per cent. Why would you do that when you could borrow at around 6 per cent?

Mr BRUMBY—Again, you are making some assumptions there. The discount rate from a 2034 maturation is closer to 6 per cent than it is to 9 per cent.

Mr CLARK—Transurban told the Stock Exchange it was 9.7 per cent.

Mr BRUMBY—They have a different way of measuring for their accounting purposes than does the state. The 9.3 per cent is on the assumption that the notes would start yielding—would be cashable—from 2016-17. If you assume, as the former Kennett government did, that you may not get any benefits till 2034, then the discount rate is much lower; closer to 6 per cent.

The CHAIR—Thank you. Mr Somyurek.

Mr SOMYUREK—Minister, I refer you to page 19 of Budget Paper No. 2. The second-last sentence is interesting:

> Gross state product is expected to improve in 2006-07 as a result of a pick up in the growth of consumer spending and some recovery in net exports.

That is a little bit strange, because our exchange rate is pretty high at the moment. Do we have any statistical evidence to support this assertion?

Mr BRUMBY—I think we do. The national accounts figures that were out last week showed state final demand over the 12-month period at 4 per cent, on track to achieve the forecast for 2005-06. The growth in exports has been good for us over the last year. Over the last three years exports have been difficult for Victoria. The high Australian dollar has made that more difficult, but over the last year the growth in exports was 6.6 per cent, which outstripped the national average of 1.8 per cent. The recent retail trade figures, which were released on budget day, are very good for us. We recorded the highest increase in the value of retail trade in the state in April, almost double the national average increase of 1.4 per cent. We have also had more recently the ABS labour force figures, which showed that Victoria's unemployment rate was 5 per cent, the equal second lowest. For the first time ever, there are 2.5 million people employed in Victoria.

Construction activity figures released on 31 May showed that both non-residential building and engineering construction were at record levels over the last 12 months. The demographic statistics also came out recently, showing that close to one in three migrants coming to Australia are choosing Victoria. Put all of that together and I think it is a good set of numbers, consistent with the budget forecast.

Mr FORWOOD—The last quarter's state final demand, as you know, was 0.1 per cent, well below Australia's average of 0.8 per cent and just in front of New South Wales, which was zero per cent, and the ACT, which was minus 2 per cent. So in Victoria our state final demand was below South Australia and below Tasmania. You can talk about how good it was a year ago. If it were only 0.1 per cent in the last quarter, how confident are you that you will reach your figures?

Mr BRUMBY—I have answered that question. For the year, state final demand was up 4 per cent.

Mr FORWOOD—What was the most recent quarter?

Mr BRUMBY—You need to be aware of a couple of things, Bill. Firstly, you always get variations from quarter to quarter. I do not think you were here for the DIIRD presentation. Unsolicited, I offered up that in relation to unemployment numbers the monthly data often jumps around and so too does the quarterly national accounts data. We are seeing a trend in recent years where the ABS subsequently revises numbers quite significantly. I do not know if anyone has the figures here for the 2003-04 financial year, but the ABS has revised up our GSP growth number, and I think the latest number is 5.3 per cent. If I am wrong on that, we will correct the record later.

Over the last four years our GDP growth has been averaging 3.6 per cent per annum. The national figure has been 3.3 per cent per annum. Am I confident that the fundamentals are sound? Yes, I am. Am I concerned about a quarterly figure that is low? No, I am not. You often see those variations in quarterly figures. The fact that after a quarterly figure of 0.1 we are still running at 4 per cent per year indicates that the September and December figures in aggregate must have been very strong and that is not unusual, to see that. As I say, if you put together all of the data that I have indicated in terms of building approvals, employment growth and export growth—and I particularly refer to export growth because the difference between state final demand and GDP, which we will not get until usually October-November from the statistician, is net export growth and this time, for the first time in a number of years, it looks like we are going to have a contribution of GDP from net export growth; whereas in the last two financial years it has been a subtraction from GDP.

The CHAIR—Mr Clark.

Mr CLARK—Yes. I refer again to the package of matters that you negotiated with Transurban. I take it from your previous answer that there was not any independent oversight of probity matters or due process, but can I ask: what external advice did the government obtain? You have mentioned Rothschilds as one but what other sources of external advice did the government have on this transaction? What areas did each external adviser advise on; and can you provide to the committee copies of the external advice that the government obtained, including the Rothschilds report?

Mr BRUMBY—In relation to the external advice, as I have indicated, we received external advice from Rothschilds and, as the Premier has indicated, that advice contained some commercial-in-confidence matters which certainly I am not at liberty to release because they may well affect commercial considerations, including Transurban's share price. All of that advice will be made available to the Auditor-General and he has indicated he will review this arrangement and he will have access to all of those documents in his assessment of this matter.

Mr CLARK—What other sources of external advice did you have apart from Rothschilds?

Mr BRUMBY—The transaction was undertaken by the Department of Treasury and Finance and the three options for the government were, firstly, to do nothing, which would have left us with an asset valued, on the Kennett government's own valuations, at between $130 million and $269 million NPV, okay?

Mr CLARK—Back in those days before the traffic volumes were established?

Mr BRUMBY—No. We are not reassigning, are we?

The CHAIR—Can we stick to the point of issue, please?

Mr BRUMBY—The NPV is the NPV, and net present value—

Mr CLARK—It depends on the timing and the discount.

Mr BRUMBY—Net present value is designed to represent, in a consistent way, the value of the future flow of money. That is what net present value is. You know that. So the net present value was determined by the former CityLink Authority to be between $130 million and $269 million and the whole intent—

Mr CLARK—Based on the forecasts at that time.

Mr BRUMBY—The whole intent—you know this, right, so do not—

Mr CLARK—You should understand what happens when traffic forecasts change. That affects the time of the—

Mr BRUMBY—You know this—

The CHAIR—Can we stick to the point which was—

Mr BRUMBY—So the deal that you negotiated had an NPV of between $130 million and $269. We have achieved an NPV of $700 million and I can see why you want to say it is a bad deal, because it is actually a very good deal for the state, because it means—

The CHAIR—Can we get back to—the point of issue was the external advice, please.

Mr BRUMBY—We have achieved a capital gain on the transaction. We have achieved well above the valuation of the notes on the books and we have been able to put that to use on what is the biggest public roads project in Victoria for decades. The question for you, if I might say so, on—

Mr CLARK—The question for me is what external advice did you obtain?

Mr BRUMBY—I have answered the question and the question for you—are you opposed to the road project? Are you opposed to the—

Mr CLARK—You have not answered the question, Treasurer.

The CHAIR—The question relates to external advice. Could you finish that, please?

Mr BRUMBY—Are you opposed to the road projects?

Mr CLARK—Please answer my question. I am happy to answer the question for the road project.

Mr BRUMBY—Are you in support of the road project?

The CHAIR—Treasurer and Mr Clark, just one moment. The question related to external advice. If the Treasurer has finished with his comments in relation to that, we will move to the next question. Otherwise, the Treasurer can continue. Treasurer.

Mr BRUMBY—The only other point I would make in terms of the advice: obviously we received advice from VicRoads and that advice was important because you have to understand about this road—that Monash-Westgate is the busiest road in Victoria; 160,000 vehicles use it every day. For people that do use it, particularly in peak hour, it is already highly congested. So VicRoads undertook modelling of the benefits which would flow through to Victorian motorists of an investment of close to $1 billion in this road and so their analysis showed an increase of about 50 per cent of throughput and that is substantial throughput. Bear in mind that most of the people who use this road do not actually go on to travel on the toll part of it. They are using the publicly owned part of the road. So there are substantial benefits which accrue to motorists and to the economy generally from upgrading this road. So we got advice from Rothschilds, we got advice from VicRoads and the cabinet committee which looked at this acted on the advice of the Department of Treasury and Finance, as you would expect.

The CHAIR—Thank you. Ms Green.

Ms GREEN—Thank you, Chair. Treasurer, last week the *Fin Review* reported comments by the federal Treasurer which criticised the state budget and particularly the Victorian government for letting its expenses grow at a rate which he said was not sustainable. I will refer you to Budget Paper No. 2, page 34, which details Victoria's revenue and expenditure growth. How does this compare with the Commonwealth's own estimates?

Mr BRUMBY—If you look at the comments that were made on the taxation front, our forecast is for around 10.4 per cent growth and if you look at the Commonwealth's, they have a massive 14.9 per cent over the same period. So our budget not only invests in infrastructure but it also provides a competitive business environment. If you look on the spending side, Commonwealth expenses are set to grow by 14.9 per cent also over the next four years. Victoria is much more modest at 9.5 per cent. So you have got all of that and on the infrastructure side we are spending $12.6 billion over the next four years, so it is a huge infrastructure spend, and I think the criticisms that were made of the federal budget are, 'Is there a plan for Australia going forward?' and most commentators said, 'No, there's not. Nothing on the skills side, nothing on the infrastructure side.' So our budget manages to keep spending going forward at reasonable levels. It manages to keep tax revenues at affordable levels and at the same time invests in what is the biggest investment in infrastructure our state has seen for a long time.

Slide shown.

Mr BRUMBY—I have got a slide on infrastructure—this is in real numbers—so you can see there where we are in 2005-06, $2434 million; for the general government sector it is infrastructure in real terms. You can go back and see we did slightly more in 2003-04 and then you have to go back—I thought there was a number there in the seventies. If you go to the last column, the total general government infrastructure spending in real terms, you will see there, there is a number in 1975-76, so $2.9 billion. Then you run forward for us in 2005-06; the revised figure is $2.9 billion and our estimate for 2006-07 is $3.3 billion.

Ms GREEN—Have you got that in an overhead? It would be useful if that were distributed.

Mr BRUMBY—Yes, we are happy to make—I have got a slide on this too. So that shows the GDP has been running at a faster rate than taxation and total revenue in Victoria, so again when you think of the competitive pressures on business, the strong performance of the Victorian economy, we are really there because we have made the right choices. We have invested in infrastructure, we have invested in skills and we have created a competitive business environment.

The CHAIR—Thanks, Treasurer. Mr Baxter.

Mr BAXTER—Thank you, Chair. Treasurer, as you know, the budget papers are more than 800 pages. They are very difficult for members of this committee to come to grips with, let alone the average citizen, and I see as part of my role on this committee to try and make the budget papers as understandable as possible. I am having trouble reconciling some of the figures, and I refer you to page 155 of Budget Paper No. 3, the Regional Infrastructure Development Fund.

Mr BRUMBY—Which one?

Mr BAXTER—The RIDF. That shows the expected outcome for 2005-06 to be $64.2 million, yet earlier in the day you, I think, acknowledged that over the first five years of RIDF $150.4 million has been expended, and you indicated by the end of this year that it would be $174.6 million.

Mr BRUMBY—I did not say that, but anyway.

Mr BAXTER—That is the figure that I wrote down when you expressed it. I am sorry, Treasurer. That shows an actual expenditure this year of $24.6 million. How do I reconcile that with the $64.2 million at page 155?

Mr BRUMBY—As I explained earlier, we committed in our first term to RIDF funding of $170 million, $180 million with interest, or thereabouts; our second term $200 million. The total was $380 million; expenditure approved to date is around $320 million. Between now and the end of the year there will obviously be some further commitments and, as projects commence construction, obviously grants will be paid by the government.

Mr BAXTER—Are you confident, or are you saying that next year's budget will in fact show that $64.2 million was expended for the year just ending, because that seems to be contrary to what you were indicating earlier. The transcript will show shortly what you did say, but specifically it was in answer to a question from Mr Forwood, a follow-up question to mine, that I wrote down the figure that I understood you to have said at the time.

Mr BRUMBY—I will check that number. As I indicated earlier, I am happy to give you a full reconciliation of that to make sure that there is no misunderstanding about it. Again, as I indicated earlier, in terms of the table prepared by the National Party leader, it is apparent that he had been doing some double counting of amounts, but I will make sure that this information is provided to you at the earliest opportunity.

The CHAIR—Thank you very much.

Mr BAXTER—That might be the solution, if you provide us with a reconciliation.

Mr BRUMBY—I will do that.

The CHAIR—Thank you. The Treasurer took that on notice as Minister for State and Regional Development earlier. Treasurer, could you go to Budget Paper No. 2, chapter 7, particularly the area around pages 114 to 118, where a number of COAG initiatives are outlined. For the committee's benefit, could you outline Victoria's own reform efforts in relation to the initiatives agreed at COAG?

Mr BRUMBY—I can. With regard to COAG generally, you will recall that last year the Premier released Victoria's national reform initiative, and I might say there was a huge amount of work done on that by the Department of Premier and Cabinet and the Department of Treasury and Finance. Much of that work built on some of the work which Professor Dawkins had done at Melbourne university with the Melbourne Institute. We developed that into the national reform initiative. That really became, at COAG, the national reform agenda. Essentially, the national reform agenda is about saying that Australia does need a third wave of productivity reform, of microeconomic reform. We have had two previous waves, which were during the Hawke and Keating years. The most recent of those was the national competition policy, and we need a third wave if we are to drive the productivity improvements and the workforce participation improvements that Australia needs to compete with the rest of the world and to combat the ageing of our population. That is what the NRI was about.

In turn, COAG basically agreed with that—the NRA—and the national reform agenda is about human capital. It is about investing in education, investing in skills, investing in preventative health care and, in a related way, it is also about competition reform, regulation reform and appropriate investment in infrastructure. In the budget I announced a new approach to regulation, which I will be elaborating on in a speech in the near future to spell out more of the details of that, but our regulation reforms, I think, will lead Australia. They not only set targets but they also provide the mechanism to achieve those targets in reducing regulatory costs. I think we have led the way also in terms of skills.

Earlier this year the Premier and Minister Kosky released Maintaining the Advantage, our skills package—$240 million over the forward estimates period. Regarding that package, Victoria already has a big advantage in this area. In 2005 we completed training more apprentices and trainees than any other state in Australia, but we want to consolidate and maintain that advantage. Maintaining the Advantage will do that; ditto the initiative announced in the budget, the $500 trades bonus to first-year apprentices. One in three first-year apprentices drop out in the first year, usually because they are not paid well, so this gives them two payments—$250 after six months and after 12 months. That is a good outcome. It is real leadership by the state and it will ensure infrastructure investment, investment in human capital, regulation reform and skills. Victoria sits out there ahead of the other Australian states and the Commonwealth, and we are certainly committed to seeing real results come out of the COAG process.

The CHAIR—Thank you. Mr Clark.

Mr CLARK—Could I again refer to the arrangements that the government has negotiated with Transurban. You may be aware that in the Transurban CityLink concession there was provision for potential early termination of the concession if certain benchmark rates of return were met. Can you tell the committee, either now or on notice, if there is anything that the government has recently negotiated that will affect that early termination option. If so, what effect has it had and, in either event, does the government expect the early termination option to be triggerable prior to the expiry of the full concession period and, if so, when?

Mr BRUMBY—I am having difficulty understanding the question. John Fitzgerald, who heads up our PPP section, was part of the negotiations with Transurban and will be happy to answer the question.

Mr FITZGERALD—I do not believe that the negotiations that we entered into, or the settlement with Transurban, affects the termination arrangements in any way. I am also somewhat confused, or do not potentially understand the full question. Are there particular termination arrangements that you are referring to?

Mr CLARK—My understanding is that if a certain rate of return is achieved—I think it is 17.5 per cent—there is then an option for the state to end the concession ahead of 2034, which is the normal expiry. The question is: does that right remain and what effect does the deal that you have concluded have on that early termination potential?

Mr FITZGERALD—My understanding is that it does not affect those termination arrangements, but I suggest that we take the question on notice to be certain about our answer.

Mr CLARK—Thank you.

The CHAIR—Thank you. Ms Romanes.

Ms ROMANES—Thanks, Chair. Treasurer, in Budget Paper No. 2, in chapter 1, there is a section, pages 14 to 15, on tax competitiveness. It leads with the sentence:

> The competitiveness of Victoria's tax regime plays an important role in underpinning economic growth and investment.

Can you outline how the budget measures add to Victoria's competitiveness.

Mr BRUMBY—I can. Thank you for the question. I elaborated on that earlier, but the tax changes that we have made have reduced payroll tax already to 5.25 per cent. Over the forward estimates period, that will be cut further to 5 per cent, plus of course further reductions on land tax, plus further WorkCover reductions. I have prepared some extra slides on taxes which, if I had time before, I would have run through but I stuck religiously to my time.

Slides shown.

Mr BRUMBY—I want to show you what has been happening with state taxes as a share of GSP. Bear in mind, of course, that since the introduction of the GST, states have been raising less of their own taxes and relying on the Commonwealth for more, so that is why you see that sharp reduction from 1999-2000 down to 2001-02 for most of the states. The key is to look at the continuing trend line for Victoria. It is important for our state, particularly as a manufacturing state, to make sure that our taxes remain competitive, particularly our business taxes. You can see there in the nineties for Victoria's taxes—the red line—there is a share of GSP. For most of the nineties, most of the period under the Kennett government, we were above the average for Australia, and we have since got that down to either at or below the national average.

As I said, the other states have now brought down their state budgets. The state which has a lower payroll tax rate than Victoria is Queensland, which has 4.75 per cent. They also have a higher tax-free threshold. However, their threshold does not carry through the whole of the tax scale as Victoria's does. So while our threshold is lower than Queensland's, about $550,000, it does carry through the whole of the scale. The consequence of that is that, if you compare us to Queensland, which has the lowest payroll tax rate in Australia, for businesses between $2.7 million payroll and $11 million payroll in Victoria, our businesses pay less payroll tax than businesses in Queensland

That is a very important point because we all pride ourselves, I think, on creating the right environment, particularly for small and medium businesses, and for small businesses to become medium businesses. That is exactly that range. Small businesses employing 150 to 200 people pay less payroll tax in Victoria than they would in Queensland, competing against the state with the lowest payroll tax rate. I think I have a slide on land tax.

Slide shown.

Mr BRUMBY—I showed you this quickly before. The dotted red line there is the former government's land tax curve, and you can see those rates there. The dark red line is Victoria 2007. Now, after the two budgets in New South Wales and Queensland—even after their tax changes—virtually all businesses in Victoria with unimproved capital values of between $380,000 and $3.4 million will pay lower land tax than New South Wales and Queensland. Again, that is where we would want them to be. As I have said before, and repeat again, it is hard to get any lower than the lowest.

The CHAIR—Thanks. Given your cooperation in hurrying through the slides initially, your answers will make a lot more sense if we can have copies of those slides emailed and they can be incorporated into the *Hansard*. Otherwise people reading the transcript afterwards will be bemused by the comments.

Mr BRUMBY—I am happy to do that. Thank you.

The CHAIR—Mr Clark.

Mr CLARK—Thank you, Chair. I refer to the cessation of the Snowy Hydro sale and ask if you could tell the committee which projects announced in the budget will still proceed according to their original timetable and which projects will need to be rescheduled.

Mr BRUMBY—As you are aware, the Prime Minister announced the withdrawal of the Commonwealth. As a consequence, needless to say, the two other shareholder states also decided likewise. The Prime Minister made his announcement after the preregistration period, when 150,000 Australians had registered, and only days before the launch of the IPO. We had said that $600 million from the proceeds of Snowy would be available for additional capital funding for schools. As a sign, as much as anything, of good faith in the budget that I brought down a fortnight ago, we precommitted $150 million of that: $100 million for a school improvement program and a number of new schools and $50 million for maintenance.

As I pointed out—and the Premier has pointed out in the parliament and elsewhere—all of that $150 million was fully accommodated, allocated and budgeted for in the budget numbers that I presented on Tuesday a fortnight ago. So there is zero budget impact from that matter. The balance of the funding was to be used for further school improvements and what we call regeneration projects focused towards a number of areas where the school stock is both very old and the student performance not as strong as we would like it to be. If I recall, I mentioned in my budget speech a number of those regeneration regions including, I think, Broadmeadows, Bendigo, Altona and Echuca, amongst others.

As the Premier has pointed out in the parliament, and I have pointed out elsewhere, those projects were to have to taken four to five years for the government to complete. As a result now of the withdrawal of Snowy from sale, we anticipate that those projects will take just a little longer, five to six years, to complete. The reason for that is that we have a very large capital program. As you know, we are spending $3 billion a year. We traditionally ensure that in our forward estimates a significant amount of the forward capital spend is unallocated. In the forward estimates there is in excess of $2 billion which remains unallocated. When you take that into account, plus the fact of Snowy not being sold, there will be some dividends which return to the state, which obviously would not have returned to the state had Snowy been sold. If you take all of that into account, the impact on the budget is minimal. As I have said, schools which would have taken four to five years to build will now take five to six years.

The final point I should make is that, being a prudent and cautious Treasurer, I have not brought to book any of the sale proceeds of Snowy, so there is no $900 million or $600 million sitting in any accounts anywhere. Since it had not been sold, it had not been brought to book.

Mr CLARK—Can I clarify, please. Your answer here seems to be internally contradictory.

Mr BRUMBY—To what?

Mr CLARK—First of all, you have referred to some projects that you mentioned in your budget speech as being deferred but, on my reading of your budget speech, they were to be funded out of the $150 million. I am talking about the ones such as Broadmeadows, Bendigo, Altona and Echuca. Secondly, the

Premier told us when he was here that there was to be some rescheduling of some of the projects within the $150 million.

The CHAIR—No, he did not.

Mr CLARK—That was certainly my reading—

The CHAIR—He definitely did not.

Mr CLARK—of what he said in answer to my question.

The CHAIR—No, he did not.

Mr CLARK—I am referring specifically to page 9 of Budget Paper No. 3, the projects listed there. I would be grateful if you could clarify how it appears that on the one hand you are saying some of these projects are going to be deferred and on the other hand you are saying that those that were initially announced are all going to proceed on schedule.

The CHAIR—You can run us through it a second time.

Mr BRUMBY—I think, with respect, there is no inconsistency at all in what I have said. If you read page 9, that sets out where the $100 million will be spent. There is $11 million to plan, build or complete four replacement schools, including Grevillea Park Primary School, Pembroke, Monash Special and Torquay; $6.6 million TEI, as written; and $63 million TEI for the modernisation at 23 schools. All of those are committed. They have all been announced, so there is no change there. There is $23 million to initiate new transformation projects across the state, and that work proceeds.

Mr CLARK—But are you saying Broadmeadows, Bendigo, Altona and Echuca, which you named at page 12 of your speech, were not to be funded out of that initial $20 million for transformation projects or regeneration projects, whichever you—

Mr BRUMBY—No. You do not do regeneration projects involving a dozen schools or more in Broadmeadows, Altona, Bendigo and Echuca for $20 million. That $20 million is for the planning of all of the works which are required in those areas, in what will be the biggest regeneration program that the state has seen. The $50 million for maintenance and the $100 million for the modernisation programs, including $20 million for the forward planning and delivery of regeneration projects, is all funded. That balance of the $450 million will fund the actual capital works of the regeneration projects and any other modernisation programs, depending on the individual costs of those.

Mr CLARK—Will the planning of those works also be delayed?

Mr BRUMBY—No.

Mr CLARK—Will the planning go ahead but there will be—

Mr BRUMBY—No. It is not hard to understand.

Mr CLARK—So the planning is not going to be delayed?

Mr BRUMBY—No. Why would it be?

Mr CLARK—That is what I am trying to clarify. Are saying it is going to be delayed or it is not going to be delayed?

Mr BRUMBY—No, it is not delayed. I am saying the bulk of the remaining $450 million of works was to have been delivered over four or five years. It will now be delivered over five or six years.

The CHAIR—Mr Somyurek.

Mr SOMYUREK—Can we go to the Commonwealth-state financial relations, please, in chapter 5 of Budget Paper No. 2. I seem to recall that at last year's hearing, Minister, you gave the committee a bit of a briefing on what you seemed to believe was Victoria's fiscal subsidy to other states. I recall you talking about horizontal fiscal equalisation and the deficiencies of key equalisation criteria. Chapter 5 of Budget Paper No. 2 seems to present a body of evidence indicating that more substantial reform is required in Commonwealth-state relations. Given that, could you please provide an outline of this to the committee.

Mr BRUMBY—I can. There is an excellent paper which I will bring to the attention of the committee, which was recently released by VECCI and Australian Business Ltd, on reform of HFE. I mention that because Victoria has been proposing to the Commonwealth for some time the importance of reform in this area, and business is now supporting 100 per cent the views which have been put by Victoria and New South Wales. They are doing that because they want to see a fairer and more competitive national economy and, particularly, a fair go for Victoria. There is a table in their paper which shows that in 2005-06 the cross-subsidy from Victoria to other states will be around $1.6 billion or around $313 per capita. In New South Wales it is even larger, about $2.3 billion or $342 per capita. These are huge amounts of money that we are talking about. You know the arguments here about subsidising the economically weaker states, like the Northern Territory, Tasmania or South Australia. We have a slide on this.

Slide shown.

Mr BRUMBY—That shows you the numbers that I just ran through. This is what we expect in 2006-07. They are huge numbers: broadly, $2 billion, $1.5 billion. You will see there that we are continuing to subsidise Queensland and even, to a small extent, WA. It is almost surreal that we should be subsidising Western Australia at a time when they have China-like GDP growth numbers, when literally they are growing by 9 per cent to 10 per cent per annum off the back of the resources boom. Our taxpayers in Victoria are subsidising taxpayers in Queensland and Western Australia. You will see there that we also subsidise taxpayers in the ACT. The ACT has an average income per head which is 30 per cent higher than the Australian average. If you think that through, this is a bit like putting a tax on people in Broadmeadows to subsidise people in Brighton. That is what is happening with this HFE subsidy.

Business is getting on board, and I thank them for that. I think on page 79 of Budget Paper No. 2 we put forward four pillars for reform of HFE. It is built around protecting the fiscal position of the smaller states and territories. Essentially what we are talking about there is Northern Territory, South Australia and Tasmania, and some people arguably would say the ACT but I do not think they really need support.

> Secondly, delivering of greater certainty of GST revenues for all states in the medium to long term; thirdly, reducing the distortions and deadweight costs imposed by the current system; and, fourthly, managing the transition to the new model.

We are very keen to open up a proper dialogue with the Commonwealth. This is a leadership question for the Commonwealth. There does need to be comprehensive reform, and you have had a whole series of people now saying that reform is needed. I will tell you how silly the present system is. According to the Grants Commission, Victoria spends $115 per person more on hospitals that we need to provide a standard service. The CGC takes money off Victoria and gives it to other states, including Queensland and WA, because they say we spend too much on hospitals, if you can get the logic of that. They say in total we are spending $577 million per year more than we need to on hospitals. That one is a vote winner! They say we should be taking $577 million away from hospitals and, essentially, they are transferring part of that surplus to other states. Again according to the CGC, we are spending $88 per person more on aged and disabled services than we need to in order to provide a standard service. That is just a nonsense! There are more examples when you go through it.

Finally, on the truly bizarre and perverse nature of the funding formula, the CGC calculates that if Victoria cut its spending on hospitals by 10 per cent—that is, around $450 million—we would receive $0.9 million—let us round it out and call it $1 million—more GST. We would cut spending by $456 million—and you can imagine what would happen to treatment and hospital waiting lists—and for all of that we would get $1 million back. People say this is a good system and it does not need reform. Well, it is a broken, clapped-out old system and we want to work with the Commonwealth to reform it.

The CHAIR—Thank you. Mr Baxter.

Mr BAXTER—I would like to go to Budget Paper No. 4, at page 171, which is taxation receipts, and inquire whether the insurance figure given there of $724 million includes the fire services levy.

Mr BRUMBY—I do not believe it does.

The bells having been rung—

Hearing suspended.

The CHAIR—We are into Mr Baxter's question.

Mr BRUMBY—I believe the answer to the question is definitely 'No.' I might ask Jeff Byrne from Treasury to elaborate on that.

Mr BYRNE—Thank you, Treasurer. The $724 million that is referred to is contributions to consolidated fund. The fire services contributions of insurance companies does not go into consolidated fund; it goes into a separate trust account which is used for the benefit of the two fire services.

Mr BAXTER—I discovered this while the absolute majority was on, on page 134, under, 'Taxes on insurance contributions to fire brigades'—so it is there but it is not part of the $724 million, but it is clearly listed as a tax in the budget on page 134 in that case. I am getting nods.

The CHAIR—*Hansard* does not record nods.

Mr BYRNE—That is correct, though it is important to distinguish here that this is a tax on insurance companies. It is not a tax on insurance policies.

Mr BAXTER—Run me past that distinction again.

Mr BYRNE—The tax is levied on insurance companies in the same way that, for example, land tax is levied on a shopkeeper; it is not levied on the customers who go into the shop and buy things.

Mr BAXTER—That is a very technical distinction. The person who was paying an insurance premium, which includes an FSL, is he going to accept that that is not a tax on his insurance?

Mr BYRNE—The fire service levy that is referred to in insurance policies is just a way of labelling something by insurance companies. That is not something that is applied, in any way, by government.

Mr BAXTER—Why do we incorporate it in the budget under 'taxes'? I am having trouble getting to grips with trying to make this distinction between something that the average person perceives to be a tax. We listed it at page 134 under 'Taxes on insurance', but you are endeavouring to make a distinction to say it is not a tax on insurance; it is a tax on insurance companies. I am struggling to get the difference.

Mr BRUMBY—It is a revenue which is received. Mr Byrne's analysis that you use a tax on insurance companies in that sense is correct. It is a charge on them but how they raise that is a matter for them. They choose to raise that by calling it a fire services levy and passing that cost on to their customer. As you know, Bill, this is a longstanding tradition, understanding and contribution by the insurance industry towards the cost of running fire services. The reason for that is very logical: that the insurance companies are the major beneficiaries of the fire services. If the fires get put out quicker, less property is burnt; as a result insurance companies benefit and premiums are lower than they otherwise would be. The fire services levy is a longstanding policy tradition in this state that insurance companies, who benefit from the provision of fire services, should also make that contribution. They are required to make that contribution. How they pay it and how they raise it is a matter for them and common practice is for most of them to list it on a policy as an FSL and to describe it as a tax. It is actually a tax or a charge which is payable by them. They choose to pass it on to their customers.

Mr BAXTER—But you are acknowledging it is a tax on insurance companies.

Mr BRUMBY—I am acknowledging that we list it under table 3.2 because there is revenue which comes in to help fund, and you have to put it under a heading, and you will see all of these headings down here are described as taxes on properties or gambling taxes or taxes on insurance or motor vehicle taxes or other taxes. So they all use the word 'tax' and so it has to fall into one of those boxes, but it is a charge on insurance companies, as Mr Byrne said before.

The CHAIR—Thank you. Ms Green.

Ms GREEN—Thanks, Chair. Treasurer, I refer you to your previous answer in relation to COAG and I note on pages 15 and 16 of Budget Paper No. 3 the government's strategy is outlined to reduce the regulatory burden. Could you please explain what was agreed to at COAG and how the state budget will meet and far exceed its commitments in this area?

Mr BRUMBY—The agreement at COAG was that all governments would maintain effective arrangements to maximise the efficiency of new and amended regulation, to undertake targeted public annual reviews of existing regulation, to identify further reforms that enhance regulatory consistency across jurisdictions and to adopt a common framework for benchmarking, measuring and reporting on the regulatory burden. What we announced in the budget goes well beyond what is required from COAG, so in the section of the budget paper to which you referred we announced the reducing regulatory burden initiative, which is about cutting red tape for business and, I might say, the not-for-profit sector.

We have set a target for administrative burden of 15 per cent over three years, 25 per cent over five years. We are ensuring that the administrative red tape of any new regulation is offset by a measure in the same area—and that could be, for example, things like consolidating application forms and greater use of online technology—and, thirdly, reducing the compliance burden of regulation by funding government departments to conduct hot spot reviews and providing incentive payments similar to the national competition policy to reward reduction of the burden.

We also put aside funding to do that. I believe, consistent with the leadership that we showed last year in the development of the national reform initiative, that in terms of what is now the national reform agenda, we are again showing leadership there in a very positive and constructive way that shows that, in a sense, you can have your cake and eat it too; that you can reduce regulation, and the community as a whole will benefit. We can still enjoy strong protections for things like the environment, but we can reduce the administrative burden on business, drive down those cost burdens and so have a stronger and more efficient economy at the same time. That is what we are looking to achieve.

Mr CLARK—Do you agree with the Premier's expectation that it will be possible for the state to receive dividends in the order of $40 million to $50 million per annum in coming years from Snowy Hydro?

Mr BRUMBY—I agree with those comments. In relation to the draft numbers going forward, if you look at historic returns, they are in that order. From some of the work which was done on the draft prospectus which was developed out of New South Wales and on the basis of targets going forward, we expect that those dividends would also be in that range.

Mr CLARK—Is that notwithstanding Snowy's need for capital over the coming years?

Mr BRUMBY—Snowy does need capital, yes. There is no doubt about that. But Snowy is also quite a profitable company selling a product into a market and a growing economy where you have more states now committed to national electricity reforms which will ensure more trading and more competitive pricing across state borders and, at the same time amongst household consumers, an increased willingness to pay for clean, green energy. You put all of that together and Snowy as an energy company is a well-positioned business. For that reason, we expect it to be a profitable business going forward. On the basis of the preliminary work that had been done on the prospectus for release—and I understand that, as with all the names for the preregistration and prospectus, a lot of that has gone through the pulper in New South Wales now that the deal is off—those dividend projections are entirely consistent with what would have been published in the prospectus.

Mr MERLINO—Minister, I refer you to page 58 of Budget Paper No. 2, which outlines significant projects being delivered or currently under consideration as Partnerships Victoria projects. Could you please outline to the committee what Victoria is doing to continue to enhance the government's Partnerships Victoria framework and what projects are in progress or in the pipeline?

Mr BRUMBY—In Victoria something like 16 PV projects worth more than $4 billion have now been contracted and we have projects worth just over $1 billion in the market or the pipeline. During 2005-06, we contracted the Melbourne Convention Centre. As you know, the convention centre will have 5,000 seats. It will be the biggest convention centre in Australia. Around it will be retail and hospitality investment, so that total investment is in excess of $0.75 billion. It is a very substantial investment.

There is Central Highlands Water, which is a water recycling and reclamation project. We have a couple of projects which are in the market: Royal Children's Hospital, which is a very large project, $0.75 billion plus, and Barwon Water Biosolids Management. Those are in the market. The Wholesale Market has also been approved for Partnerships Victoria delivery, and the expression of interest is expected to be released in the third quarter of 2006. Victoria has continued to be a leader in this area, really ensuring that we generate genuine value for money, and that is what everyone wants to see from PPP projects.

It was Victoria's initiative that really brought together the National PPP Forum with all of the state and federal ministers. As a result of that, we have already created a number of initiatives, such as the National PPP Pipeline, some consistency in contractual guidelines and bidding arrangements, and Victoria has provided leadership in that. We are working at the moment on a number of other initiatives to try to reduce bid costs and drive down overall project costs. This includes things like improved interactive tender processes, review of bid documentation requirements and, as I said, greater consistency in contractual arrangements between the states.

I understand that New South Wales is also about to release a set of standard commercial principles. They are very similar to those that Victoria released last year. Again, this will be a good thing, meaning that we have much greater consistency across state borders for what is not only a national but now a very large international market for PPPs. With regard to the quality of the work which Treasury does here in PPPs and policy leadership, I was in Washington early this year and I met with the World Bank because they are strong supporters of PPPs in developing economies. They have been utilising the expertise of the Victorian PPP team in terms of helping some of those less developed economies understand the correct approach to PPPs and the best way to achieve proper value for money. I thought that was quite a feather in the cap of Victoria and particularly the Treasury team for the leadership that they have displayed in generating genuine value for money outcomes through Public Private Partnerships.

The CHAIR—By way of follow up, our PPP team is obviously a very highly regarded asset. Are we finding they are being poached interstate or internationally, or are people coming to Victoria to learn from them?

Mr BRUMBY—I am not aware, John, that you have been poached?

Mr FITZGERALD—No, I am still here. The work in Victoria is very interesting for people, so they are inclined to stay to meet the challenges of that work. We are finding predominantly that people are coming here to learn from us and, where the opportunity exists at relatively small cost, we are participating in forums outside of Victoria..

Mr CLARK—In relation to the land tax forecasts in the budget, in doing that modelling, what increase in land values did you assume between land values for 2006 land tax and land values for 2007 land tax? Of that amount, what proportion is due to the bringing forward of valuations by a year?

Mr BRUMBY—Sorry. What page are we on, Robert?

Mr CLARK—I am referring generally to your forecasts of land tax revenue changes over the forward estimates period.

Mr BRUMBY—Yes.

Mr CLARK—Therefore, what assumed change in land values did you make in performing those calculations as between the land values that apply for 2006 land tax and the land values you expect to apply for 2007 land tax?

Mr BRUMBY—I do not have the detail on that. The revenue forecasts are developed by the State Revenue Office, in conjunction with the Department of Treasury and Finance. They develop those forecasts. As a general rule, I do not second-guess them. I think it is important to have, in a sense, as impartial forecasts as you can get of revenue going forward, and that is the system that we have in place, where I get estimates which are provided by SRO and Treasury. I do not know, Jeff, if there is anything further to add to that?

Mr CLARK—I would be happy for you to take it on notice. You were able to provide the committee with the corresponding figure last year, so if you are able to get back to us for next year, I would be grateful.

Mr BYRNE—That is fine. On the second part of the question, because a number of the factors interact with each other in terms of the effect of bringing forward valuations and the change in the rate and so on, you cannot separate the impact of individual elements. They act in an integrated way.

The CHAIR—Thank you very much. You have taken part of that on notice. Is that right?

Mr BYRNE—The first part we take on notice.

The CHAIR—Thank you very much. Treasurer, if I could take you to Budget Paper No. 2, page 20 of chapter 2, there is a reference that, 'Victoria's economic outlook is indeed strong.' Given your comments on commodities interstate driving much of the interstate growth, what is going to underpin Victoria's growth?

Mr BRUMBY—I was asked a related question earlier. The fundamentals for us are good: business investment is very strong; population growth remains very strong for us. You are seeing strong recovery in net exports after a couple of pretty ordinary years. All of those things together, plus the recovery that we are seeing, or the general strength that we are continuing to see in building approvals, plus our performance in things like first home buyers, go to make up good fundamentals. I will make one point about our growth and the other states, the resource economies. You may have seen in the media that Treasury did some work on the impact of the resources boom on Victoria's GDP growth. That was called 'A tale of two economies: the regional impact of Australia's resource boom'. That work found that, over the short term, Victoria's GDP was about half a percentage point per annum lower than it otherwise would be because of the high Australian dollar in particular on reducing Victoria's competitiveness, particularly for our export and import competing businesses.

The report also found that, in the short run, Western Australia and the Northern Territory are the only jurisdictions where GSP is likely to have been boosted directly by higher commodity prices, as they of course have the most resource-intensive economies. Our performance—as you will recall the slide earlier—compared with the non-resource states is very strong, and I think the combination of getting the fundamentals right, financial management, competitive business taxes, investment in infrastructure, getting the skills equation right, plus the recovery that we are seeing in net exports, good business investment, some recovery it appears in retail trade, all of those things you put together to get a good GDP number, notwithstanding that the commodities boom is reducing our GDP by around half a percentage point lower than it otherwise would be.

The CHAIR—There is a follow-up from Mr Clark on that.

Mr CLARK—Just to clarify that, in pages 20 and 21 of Budget Paper No. 2, the forecasts for the Victorian real gross state product growth show 2.5 per cent for 2005-06 and 3.25 per cent for 2006-07, which is the same as the Commonwealth budget forecasts.

Mr BRUMBY—Yes, correct.

Mr CLARK—Can you explain those forecasts where you have been saying about the Treasury modelling of the resources boom causing the half percentage hit to the Victorian GSP?

Mr BRUMBY—Sorry, can I—

Mr CLARK—Can you explain how 'our forecast growth is the same as the Commonwealth's growth' fits with Treasury's belief that Victoria's growth has suffered as a result of the resources boom?

Mr BRUMBY—To put the question and the answer the other way around, if there was not a resource boom, our GDP numbers would be half a percentage point higher than these numbers that you are seeing here. We are saying that, despite the resources boom subtracting from growth by around half a percentage point per annum, we will still end up with growth that is at or above the national average. I do not know if it is possible to recover that slide that we had before. There was one on GDP growth over the last five years. The average GDP growth for Victoria over the last four financial years has been 3.6 per cent per annum; the average for Australia has been 3.3 per cent. People will say of Australia, 'Well, Australia is 3.3 because New South Wales is dragging it down.' Other people would equally say, 'It's 3.3 because WA and Queensland have dragged it up.' But the point remains that we have performed far more strongly than New South Wales, and New South Wales is a slightly stronger resource economy. They have had the benefit of exports of black coal, which we do not have. We do not have resource export. That is growth in context.

Slide shown.

Mr BRUMBY—You will see there again, the non-resource states is the grey line. We have been consistently stronger, and in the last four years our GDP has been 3.6 per cent and the Australian average 3.3 per cent. I think over the last five years—I will not use the number—if you do the aggregate, we are slightly higher than national GDP growth as well.

The CHAIR—Highlighting these slides reinforces the importance of incorporating them in transcript, so we will make sure that it is done.

Mr BRUMBY—Sure.

The CHAIR—We have got Mr Clark next.

Mr CLARK—Yes. Your budget forecasts have some fairly substantial projections for net contributions by general government to other sectors of government over the coming years. From memory, they have increased quite sharply in this year's budget. Can you explain what the principal items are that are net contributions to other sectors of government? If it is not readily to hand, I am happy for you to respond on notice.

Mr BRUMBY—I do not have the budget page that you are referring to, but my understanding is that they largely reflect the commitments made under the transport and liveability statement. They will be transfers to other sectors of the transport operators—VicTrack.

Mr CLARK—That is the bulk of the increase this year, is it? The extra injection is to VicTrack?

Mr MONFORTE—We can confirm that, get the detail for you, but that certainly explains a proportion of the increase.

Mr BRUMBY—In relation to the transport and liveability statement, as I have indicated on previous occasions, all of the reconciliation of the commitments which the government made will be fully reported in budget papers—the amount that we have allocated, the amount which is committed, the balance outstanding—so that each year in the budget papers you will get literally a page by page and a line by line account of our progress in implementing TLS.

The CHAIR—Thank you. Ms Romanes.

Ms ROMANES—Thank you, Chair. Treasurer, in Budget Paper No. 3, on page 336, in the asset initiatives table, there is provision for an initiative to maintain the State Revenue Office revenue management system. Can you outline for the committee the purpose of this initiative.

Mr BRUMBY—This is funding which has been allocated to the State Revenue Office to upgrade and redevelop its principal software application—which is called e-Sys—over four years. It has been a very successful tool for the State Revenue Office in administering tax in an efficient and reliable way. e-Sys has so far contributed to operational productivity improvement of 48 per cent over the last three financial years. It has also enabled new e-business transactions for payroll tax, which is Payroll Tax Express, meaning that over 90 per cent of all payroll tax transactions can now be conducted electronically. When you think about that and you think about the savings that means for businesses, it is very important. So what the investment outlined in the budget papers will do is fund a series of regular updates to e-Sys. This will extend its useful life to 2015-16 and possibly beyond and it will avoid a major upgrade commencing in 2008-09 which could have cost anywhere between $45 million and $60 million.

In complimenting the SRO, I should say that we run one of the most efficient revenue agencies anywhere in Australia—I would say arguably the most efficient—and it is a great credit to SRO. I think the establishment of the new facility in Ballarat also did much towards that, with a great working environment, fantastic staff productivity and with the very latest technology. The result of that is that in a 2005 survey, 98.5 per cent of taxpayers rated the SRO electronic transactions as satisfactory or better, with 32.7 per cent rating them as excellent. So they do a good job. Operating this system has also produced internal savings. SRO was the first government organisation in the world to achieve the IT best practice certification for this technology.

The CHAIR—Thank you. Mr Clark.

Mr CLARK—As you know, in this budget the government has net output initiatives of just under $2 billion and net new asset initiatives of a bit over $3½ billion. On the forecasts in the budget papers, do you expect the budget will be in a sufficiently robust state next year to be able to responsibly have a similar level of initiatives?

Mr BRUMBY—We will start the budget process, as we do, later this year. We usually start it around October. Obviously, if the people of Victoria express their confidence in the current government, we will be re-elected and begin again the ERC process early in the new year. I would not make any judgments about that capacity at this point in time. I just brought down the budget two weeks ago. As of this point in time, the estimated budget surplus over the forward estimates period beyond 2006-07 is $316 million per annum. That is the starting point. But you are dealing with a budget of $32 billion, so revenue numbers can move around. GST payments can move around. They are a strong set of numbers, but I am not making judgments now about capacity. That is what I do each year when the budget comes along.

Mr CLARK—So you cannot be confident that this year's level of expenditure is sustainable?

Mr BRUMBY—If you go back over the budget papers since we have been in government, each year is a different number. No two budgets are alike. This year the gross output expenditure was in the moderate levels but, after netting off deductions and contingencies, the net output call on budget was relatively small. They vary from year to year. Some years we have had bigger numbers; some years we have had smaller numbers; some years we have had droughts; some years we have had bushfires; some years we have had to bail out the transport companies, which cost us $200 million a year. It varies from year to year. The numbers going forward are very strong and comfortably within the AAA credit rating, but I will not make judgments about the extent of next year's budget until I consider next year's budget.

Ms GREEN—Treasurer, I refer you to Budget Paper No. 2, on page 27, the stunning figures on housing construction and what is in the pipeline there. Could you outline to the committee how successful the first home owners bonus has been. Are you likely to extend it?

Mr BRUMBY—It has been very successful for us. I think in the last year we had more first home buyers in Victoria than in any other state in Australia. That shows you the strength of our economy compared with New South Wales. It is instructive, because New South Wales has a complete stamp duty exemption up to $500,000. But the reality is that for Victoria the combination of the cash grant, our lower property prices, our other concessions which are available—the concession card holders and the off the plan concessions—and the attractiveness of regional Victoria means that in affordability terms we are still up there as No. 1. In fact, the recent work which REIA did showed that Melbourne was the most affordable major capital city on the eastern seaboard.

In 2005 first home owner grants for Victoria were 40,214 and for New South Wales 39,000. They have 1.75 million more people than us and we are getting more first home buyers. I think it shows the success of our urban development policies; it shows the attractiveness of Victoria as a place to live; it shows our higher income per household in recent years, which has been solid; it shows the benefit of our first home owners grant, plus the concessions, plus the off the plan. If you put all of that together, as I say, we now have more grants being paid in our state than any other state in Australia. The reason we know about that is because there is the $7,000—which, by the way, the states now pay for, the old, so-called federal grant—but that is administered still on a consistent national basis, so we know how many of those are approved in each state. Victoria is approving more of those than New South Wales or, indeed, any other state.

The CHAIR—Thank you. Mr Clark.

Mr CLARK—Minister, I refer you to Budget Paper No. 4, page 39, note 3 on dividends, income tax and rate-equivalent revenue. The numbers there are big increases on the corresponding numbers in the previous estimates; for example, the budget update. Can you give the committee an indication of the main reasons for the increase, and perhaps on notice you could provide us with a breakdown of where the dividends, income tax and rate-equivalent revenue are expected to come from in terms of which statutory authorities are going to be making those dividend payments.

Mr BRUMBY—As I see the numbers here, 2006-07 dividends are $769 million. Are you saying that is a big number?

Mr CLARK—Yes, and income tax, bringing it to $958.1 million total et cetera.

Mr BRUMBY—It is a larger number than the 2005-06 revised estimate, that is correct. The dividend revenue is expected to increase by around $180 million. That is fundamentally driven by a number of developments: firstly, a tax dividend in 2006-07, which reflects the anticipated strong operating result in 2005-06, again driven by strong investment markets; there is a special dividend from Treasury Corp, which is overcapitalised, $34 million in 2006-07; an extra $40 million from SECV; and the water authority is an increase of $27 million. If you put all of that together, it is a little higher. I think, just looking back over recent years, in 2004-05 the aggregate was $948 million, the 2005-06 revised was $826 million and the 2006-07 forecast is $958 million. Yes, it is true, it is a larger number than 2005-06—I think it is about 15 per cent larger—but in nominal terms it is only $10 million higher than 2004-05. In real terms it is probably slightly lower than 2004-05.

Mr CLARK—Yes, but they are also big increases on your previous forward estimates, across all the previously forecast years.

Mr BRUMBY—Part of that has been, as I said, TAC and, in the earlier years certainly, the WorkCover Authority. It is reflecting excellent claims management in both organisations, returning operating surpluses, plus their non-operating performance—so their share market performance—has also been strong. As a result of that, they have been quite profitable and it is appropriate to return that to the general government sector, where it is then available for increased expenditure in schools and hospitals, the sorts of things which governments are elected to do, and that is precisely what we have done with it.

Mr CLARK—Can you provide the committee with a breakdown of your expected dividends from the different authorities?

Mr BRUMBY—I would have to take advice on that. I am not sure we normally do that. I can give you what is in the budget paper.

Mr CLARK—You have provided at least some further information for previous years. There is no separate breakdown available these days in the budget papers.

Mr BRUMBY—I am happy to provide what has generally been provided. We want to be open and transparent, but I will take advice about what we have done in the past and what we can do.

The CHAIR—Thank you very much. That concludes the consideration of budget estimates for the portfolios of Treasury, State and Regional Development and Innovation. I thank the Treasurer, departmental officers, those who have appeared as witnesses and the people in the two departments who have probably worked extensive hours on those briefing folders, providing us with our budget questionnaires so comprehensively. I place on record our appreciation to everyone involved. There are a couple of issues, Treasurer, that you have taken on notice and another where you will take advice. There will be a couple of questions in addition to what you have taken on notice that will be forwarded to you. Thank you.

Committee adjourned.