

# REVISED CORRECTED TRANSCRIPT

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into budget estimates 2005–06

Melbourne — 11 May 2005

#### Members

Mr W. R. Baxter  
Ms C. M. Campbell  
Mr R. W. Clark  
Mr B. Forwood  
Ms D. L. Green

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Ms G. D. Romanes  
Mr A. Somyurek

Chair: Ms C. M. Campbell  
Deputy Chair: Mr B. Forwood

#### Staff

Executive Officer: Ms M. Cornwell

#### Witnesses

Mr J. Brumby, Treasurer;

Mr I. Little, secretary;

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

Mr J. Byrne, director, revenue policy, economic and financial policy, Department of Treasury and Finance;  
and

Mr R. Kerr, commissioner, Victorian Competition and Efficiency Commission.

**The CHAIR** — I welcome Mr Ian Little, Secretary of the Department of Treasury and Finance; Mr Stein Helgeby, deputy secretary, budget and financial management division; Mr Jeff Byrne, director, revenue policy, economic and financial policy division; Department of Treasury and Finance; Mr Robert Kerr from the Victorian Competition and Efficiency Commission; and I also welcome all departmental officers. I call on the Treasurer to give a presentation.

**Overheads shown.**

**Mr BRUMBY** — Thank you, Chair. I have a few slides to run through today, and the secretary also has a few slides on departmental structures. Robert Kerr is present today, and he is one of the commissioners on the newly established Victorian Competition and Efficiency Commission. He was formerly a very senior officer in the Australian Productivity Commission. I thought it would be useful to have a slide or two at the end of the presentation on what VCEC is doing and the progress it has made. But first I will run through my presentation. I know you have had your own presentation so I will not dwell on these slides, but the broad budget parameter is there, and the budget highlights you will see on the screen now.

The total estimated investment is \$2.3 billion, which is a very high level of TEI. In terms of health and hospitals, I think you have heard me tell this story before, but if you look over the last few years in Victoria, last year we saw the completion of the Casey Hospital, last weekend was the opening of the new Austin Hospital, and this month we are seeing work commence on the Royal Women's Hospital. In addition in this budget we are committed to the rebuilding of the Royal Children's Hospital. It has been an enormous investment in health and aged care in our state. I should say that in the provincial areas \$115 million has been invested this year just in hospitals and aged care facilities in country Victoria. That is an extraordinary investment to make. It is as much in aggregate, in country Victoria, as governments used to spend in the whole of Victoria on average in the 1990s.

You will see on the screen highlights in terms of police, taxation reform, significant land tax cuts — and I will come back to that later — and the social statement, which was well received across the community.

WorkCover premiums are at an historic low. They are the equal lowest in the scheme's history, with \$350 million worth of savings to business, and over the last two years — 10 per cent cuts. That is equivalent to about half a percentage point payroll tax cut, so it is a significant cost reduction for business at a time when the world economy is very competitive. For first home buyers, the very successful program is being extended.

Budget parameters — I know there were some claims about this being a big spending budget, but on the expenditures shown there, they are increasing by about 5.2 per cent. That is a tiny bit below nominal GDP growth. We are predicting growth at 3 per cent; and inflation at about 2.5 per cent; and total income, of course, is rising by less than nominal GDP. At the same time state taxes are actually reducing in 2005-06.

In terms of the budget surplus, they are a solid set of numbers going forward, averaging \$394 million over the three years of the remaining forward estimates. Net debt is a little higher in the out years. Total borrowings are up by just \$800 million over the forward estimates period. We are running down some liquid assets and there are some finance lease adjustments there as well. Net debt still as a share of GDP is below 2 per cent, so it is a very strong position.

That is the impact of international financial reporting standards (IFRS), and what is interesting about that is that it adds nearly \$6 billion to the book-keep value of the liabilities. It does not actually change them. What is interesting to note is that even in that change in accounting terminology we are still, as a share of GDP, below where we were in 1999-2000. Indicators of financial condition would be the envy of most of the large corporations across Australia. They are very strong. Total liabilities to total assets continues to trend down, unfunded superannuation to GSP continues to trend down, and borrowing costs are below where they were in 1999-2000 and are steady in the years ahead.

The record infrastructure investment: we have done \$10 billion in a sense over the last five or six years; we are going to do \$10 billion over the next four; and this year we will spend pretty close to \$3 billion in capital works, which would be a record high for the state.

Going forward, growth numbers for 2005-06 are fully consistent with what the federal Treasurer said last night. He said that growth in 2005-06 would come off improvements in net exports. That is our view about Victoria as well

in 2005-06. We are a bit more optimistic about 2004-05 than the federal Treasurer was. We will wait and see what the most recent national accounts figures show.

Business investment per capita: I think you have seen that slide. It is a good slide for our state.

On the WorkCover premium rate, we are well below Western Australia, 30 per cent below New South Wales and 40 per cent below South Australia. It is a big competitive advantage for our state.

Employment growth: in calendar 2004 more jobs were generated in Victoria than in any other state, including New South Wales.

Population growth: people tend in a sense to vote with their feet; they move to where the lifestyle opportunities are best and the job opportunities are strongest and they have been moving to Victoria. We welcome the decision in the federal budget last night for an extra 20 000 skilled migrants. We have been pursuing that. We would be happy to see additional refugees as well. We have some great success stories across Victoria in terms of skilled migration and refugees. This slide shows our population growth above the national average this year. It is the first time in 41 years.

Land tax: I am sure you will ask me a question about land tax later, but these are substantial reforms and they give us, as you know, the lowest land tax in Australia for any land-holder under \$2.3 million. They mean that 98 per cent of Victorians pay less land tax in our state than people pay in any other state in Australia. The slide shows the graph. I do not know if the shadow Treasurer has seen that. It is pretty straightforward. It shows the Victoria, New South Wales and Queensland curves and it shows that up to \$2.3 million we are the lowest in Australia.

That concludes my presentation. I am 10 out of 10 again, am I?

**The CHAIR** — Yes, thanks, Treasurer — gold medal.

**Mr BRUMBY** — Thank you. The secretary has about 15 minutes. He has a few slides and then Robert Kerr has just two.

**The CHAIR** — He kept to time for our presentation, too.

**Mr LITTLE** — I am going to try to beat the Treasurer. I would like to provide the committee with just a brief overview of the department's outlook for the budget year, focusing on those things on the slide: the departmental objectives, the new initiatives and then what that means for the overall DTF budget.

Firstly, the objectives of the department are unchanged from last year and they align with the government's Growing Victoria Together framework. There is an objective around sound financial management, as you would expect, with an emphasis on maintenance of a substantial budget surplus. There is an objective around innovative policy advice, in particular to guide government actions to best increase living standards for Victorians. The last one is about resource management: for the department to champion an integrated whole-of-government approach to ensure optimal service delivery and provision of world-class infrastructure.

If I can look now at the output, asset and savings initiatives in this budget as they affect the Department of Treasury and Finance, on the output side there are a couple of increases in appropriation that affect the State Revenue Office. Firstly, there is \$2 million ongoing to allow the State Revenue Office to employ additional staff to increase compliance. That is expected to have an increased revenue payback of about \$18 million per annum, so a ratio of 1 to 9.

**Mr FORWOOD** — Are you sure \$2 million is enough; why do you not put in \$4 million?

**Mr LITTLE** — I think that is sufficient.

**Mr BRUMBY** — You will be able to ask the question later.

**Mr FORWOOD** — Do you want to be the Chair as well?

**Mr LITTLE** — Funding has been provided to the State Revenue Office to implement the new surcharge on inner-city car parks. I think it is about \$400 000, so it equates to a bit under 1 per cent of the revenue to be raised.

On the asset side there is an initiative to improve security for personnel and visitors around the Treasury reserve — control of building access for staff and visitors, mail scanning and physical security. It is an asset project worth \$2.7 million.

On the administered side, you will have heard about the government's decision to extend the first home owner bonus until June 2007. That is, of course, administered through the department and State Revenue Office.

On the savings side, the department has participated in the whole-of-government savings process. There are four elements to achieve savings of a bit over \$31 million per annum in the Department of Treasury and Finance. The first is to move the emergency services superannuation scheme onto the same tax treatment as other Victorian public sector funds and the majority of private sector funds. This achieves a fair slab of those savings, about three-quarters. There are some improvements in our cash forecasting techniques which have allowed us — debt aside — to reduce the interest charges on overnight borrowings. That is about one-fifth of that total savings. Then there are some smaller measures: the amalgamation of three outputs in the asset and liability management area, which has brought about small economies of scale, and some general efficiencies around the area of consultancies and centralisation of communications procurement.

That leads to DTF's overall budget situation on the controlled side: \$181 million projected in 2005-06. That is \$4.5 million or 2.5 per cent below expected 2004-05 levels. The main reasons for those reductions are the savings initiatives on the previous slides and the cessation of some one-off funding programs in 2004-05 around an information technology upgrade and also the whole-of-government stewardship of the changes to Australian international financial standards. We no longer need that funding, so it has ceased.

A breakdown of the budget by output is available in budget paper 3 and was provided to the committee in your recent questionnaire, so I will not go any further. That completes my presentation on the department's outlook. I think I have beaten the Treasurer and I just need to introduce Robert Kerr, who is a commissioner of the Victorian Competition and Efficiency Commission. He no doubt will beat me as well.

**Mr KERR** — You are setting a high standard.

**The CHAIR** — All the slides will be tabled when we prepare our report.

**Mr KERR** — Thank you for the opportunity to update the committee on the work of the Victoria Competition and Efficiency Commission. As you would know, we were established on 1 July last year and our role is to give independent advice on regulatory issues. We do that through public inquiries on matters referred to us and by reviewing regulatory impact statements. We also field competitive neutrality complaints. It is ultimately for others to discern how well we are doing, but just from the internal perspective we feel we have got off to a sound start this year. We have staff and systems in place and we are producing under each of those outputs and meeting the time lines that have been set.

We are doing two public inquiries. The first one given to us is looking at regulatory impediments to regional development. We have had good engagement from rural communities and rural businesses. They have been keen to tell us what they think about regulatory issues as they affect their welfare. We produced a draft report in January and we are now going through a process of fielding responses to that and we will be giving the government a final report in June. Quite a wide range of issues have been raised — things to do with native vegetation, planning issues, food regulation, mining and such forth.

The second inquiry the government has given us is looking at is the regulation of housing construction. The Housing Act and regulations are a bit over 10 years old, so it is quite timely. The government and Parliament and, indeed, the people of Victoria are concerned about the potential costs of regulation on the prices of houses, so we are having a good run through all the regulatory issues there. We will be producing a draft report in June for public consultation and a final report will go to government in September.

The second main heading of our activity is regulatory review issues. It needs to be seen as part of a broader strategy to improve regulation making in Victoria for the benefit of the competitiveness of Victorian businesses. In

particular, the *Victorian Guide to Regulation* was produced a couple of months ago and released by the Premier and the Treasurer.

Our role is to look at two streams: regulatory impact statements (RISs) which relate to regulations made under subordinate legislation; and we also have a new role looking at the preparation of primary legislation through what we call business impact assessments (BIAs). This is primary legislation which may have a significant impact on business competitiveness. We have handled about 30 RISs so far this year. We have had a look at about 15 BIAs and we are producing materials to help the regulation formation process within the portfolios. Equally importantly, we are running out a series of training programs. We have already trained, or at least talked to, 120 officers of various departments, and 70 of them have been through a fairly intensive workshop to allow them to better prepare regulatory statements when regulations are to be changed.

**The CHAIR** — To assist Hansard, there were a lot of acronyms; could people make sure that Hansard has got copies.

**Mr BRUMBY** — I will give a copy of the Treasury code later on!

**The CHAIR** — Thank you. Treasurer, we have had the advantage of reading in the budget papers and also in Mr Ian Little's presentation to MPs that Victoria is still subsidising other states to the tune of \$1.6 billion. I know you and your department have been really active in relation to reviewing the current arrangements. Could you report to this committee on how the Treasury's review has gone?

**Mr BRUMBY** — It is still a matter of great concern to Victoria and indeed to New South Wales that we have the system of horizontal fiscal equalisation (HFE). Even after last night's budget — it is a good example — we are paying \$1.6 billion more in GST payments than we actually get back in Victoria. So it is a huge subsidy which goes to other states, and worst of all it goes to states like Queensland and WA, which have no need for that subsidy. The burden is inefficient, and it is unsustainable in the longer term. We were successful last year at the treasurers conference in winning a review of the processes in HFE. That review has been undertaken by the heads of Treasury, and the heads of Treasury report was tabled this year at the treasurers conference. I have to say that when you read that report — if you take the time to do it — you see it just vindicates the claim about what a antiquated, clapped-out, old system this is.

The committee may be interested to know that almost half of the Commonwealth Grants Commission (CGC) assessments involve the distribution of \$5 million or less. So it has got hundreds of these assessments, and they are just tiny amounts of money. The data which is used is of dubious quality, and there is an excessive use of subjective judgments. Obviously in some states and territories, particularly in the Northern Territory, where they rely on about 90 cent of their funding from this, most of the Treasury staff are experts in how to get money out of the CGC. That is what they do; that is where most of their money comes from! We have won some concessions. We have made some progress. We would like in fact to go much further.

I have to say I was pleased with some of the budget commentary. A number of commentators in the press were saying, 'On the tax side, yes, there are some welcome tax cuts, but really reforms need to go much further and reforms to HFE need to go much further'. It is still the case for Victoria that we are paying much more in GST than we get back. Ian, do you want to comment on that because you were very involved with the review?

**Mr LITTLE** — The results of the review have now been incorporated into the next five-year terms of reference for the Commonwealth Grants Commission, and the CGC has some specific things to do as a result of the review. It is around simplification, use of better data, quality control procedures and seeing whether or not it can lift the model to a higher level using less data so that people can understand it. I am not sure that I could say to the committee that Victoria is going to gain any additional funding out of that in the short term, but I do believe it will make the model more transparent and more people will be able to see what is going on. I think for the long run that is the right thing to do. It is very hard to get changes around that table because there are more people who benefit from the system than those who do not benefit.

**Mr FORWOOD** — You mean logic does not work?

**Mr BRUMBY** — We have made some progress.

**Mr CLARK** — My question relates to the leaking of your budget last week to David Broadbent. Were you aware of the Treasury's attempt to get an injunction to stop that broadcast before the injunction was sought, and are you confident that the leak did not come out of your ministerial office?

**Mr BRUMBY** — Yes and yes.

**The CHAIR** — Thank you.

**Mr BRUMBY** — I am happy to elaborate if you want.

**Mr CLARK** — Given that you were aware of the fact that the injunction was to be sought, I take it you approved and authorised that decision.

**Mr BRUMBY** — I was made aware of this — I did not write the time down, but you have to go back to Monday, 2 May; it must have been 4.30 or 5.00 in the afternoon. I think it was that sort of time frame. I had actually gone out for a quick walk around Collins and Bourke streets, as you do on long days and after a couple of months of preparing the budget. I got a mobile phone call to say that parts of the budget appeared to have been leaked. I thought it was a prank call, but I advised my chief of staff to do two things immediately: firstly, to ascertain from the Department of Treasury and Finance, if you like, the document trail showing where documents go — when they leave Treasury do they go to a designer, a printer, a binder or where do they go? — and secondly, to investigate all options available to the government to preserve the integrity of the budget. It took me 5 or 10 minutes to get back to the office. I did make — as has been reported in the press — a phone call to Mr Broadbent, given the seriousness of the matter, to confirm that he had some documents. He was not particularly forthcoming in that discussion as to what he had or did not have, but it was clear that he had some figures and some elements of the budget. Treasury acted expeditiously, as you would expect it to do, and took the necessary steps to protect the integrity of the budget. That included seeking legal advice and attempting to gain an injunction to prevent the release of the information.

I have to say that all of that in a sense is a little subjective because until the story aired at 6 o'clock — you never know with these things how much is there and how much is not: is it a whole budget document, is it just a cover or is it just a few facts? As it turned out, and as you know from the budget I delivered on Tuesday, there were a number of very large and significant budget matters which were not leaked and which were not aired on Monday night; but notwithstanding that, some parts of the budget clearly were. So Treasury took that action. I was advised — it would have been very close to 6 o'clock — that Treasury was in the Supreme Court; that the matter was being heard and that to protect the integrity of the budget we were seeking that injunction. Obviously I fully supported that action, as any Treasurer would do. Events were moving pretty quickly — you have to understand this — the show was going to air at 6 o'clock, and I guess it was about 2 or 3 minutes to 6 when I was advised by the secretary that we had been successful with the injunction and that attempts were being made by legal counsel to contact Channel 9 to prevent the program from going to air. I suspect that on the night Channel 9 probably let the phones ring out, and the program went to air! As I was told that, obviously I then advised the Premier that we had in a sense, both of us — —

Firstly, Treasury was in the court; and secondly, we had just been successful in getting an injunction. So the Premier was advised at that stage, and — —

**Mr CLARK** — But he was not aware of it earlier?

**Mr BRUMBY** — No, he was not. At that stage he became aware. I have to say that things did move very quickly. You can appreciate that. The program then went to air, and we were then in a position where, again, I was advised we had been successful with an injunction and the Supreme Court and our counsel wanted to know if we wished to pursue that. I discussed that with the Premier, and we took the view — and in hindsight I think it was exactly the right view — that the matter having then been aired by Channel 9 — and I might say it being clear from that matter being aired — that in fact there were no substantive budget documents. It appears there was certainly a cover of a budget summary and some elements of the budget, but there was no foot-high pile of budget documents. That matter having been aired on Channel 9, it would have been quite inappropriate to then try and prevent other media from reproducing what they believed to be in the budget. It would have been quite unfair, and contrary to the view which we have generally taken in government, which is if given a choice between open or closed, the better choice for the public of Victoria is more transparency and openness. We took that view and withdrew the injunction. As you have seen, a number of other media organisations reproduced some of the Channel 9 material.

Some of them wrote their own stories. There is always a lot of colour and light around on budget day. They are the events as they occurred. I think the government acted appropriately. As I said, any Treasurer and Treasury in that position would act to protect the authority and integrity of the budget. We did that, but the matter went to air.

In terms of the investigation, it is under way and has been commissioned by the department with PricewaterhouseCoopers. The investigation is proceeding and will report directly to the secretary of Treasury. I have had one brief, preliminary meeting with PricewaterhouseCoopers, and essentially what I have told them is that it is to be thorough — we want to find out what occurred — and they will report back, we hope, in the shortest period of time on the conclusions of their work.

I make this point as well for those who have been involved in bringing down a budget — and Robert, you probably have been in one way or another in the past. You would know that if you are the Treasurer you do not actually get the budget papers until budget day. I do not see the final printed version of the budget until 7.30 a.m. on budget day, nor does Treasury. I think your question was whether I was confident this did not come from someone's office, for example. We do not even have those documents until 7.30 on Tuesday morning. Obviously we have drafts, but what was on TV was not a draft: it was the cover of a document which people have subsequently seen circulated on the Tuesday. Obviously I have also said to the investigators that we want a great deal of scrutiny of the document trail, if you like, which is the people who designed the document, the people who printed the document and the people who bound the document, because it does appear from the television footage that there was the cover of a printed document, which no-one in Treasury, no-one in my office and no-one in the Premier's office actually got until 7.30 on Tuesday morning. It comes up to us in a big printed bubble wrap, so that it is all together.

**Mr CLARK** — Do you get colour PDF versions these days by email before you get the printed versions?

**Mr BRUMBY** — I do not. I am sure the secretary might answer that. I am sure this is a matter which will be examined by PricewaterhouseCoopers. I imagine there would be a very small number of people within Treasury who would email some of these documents. But again there is the matter of security. The run-up to a budget — again as you would know — is a very intense period, particularly for the last month, and probably for four to six weeks before. There is always a team of people from my office who work there every weekend. But again we go to considerable lengths to protect documents and to ensure that material is not emailed around, because you can never be sure about the security of emails. We are very strict with that. As I have said, the documents we work on in their shape and form and indeed in their final text are somewhat different to the drafts that we work on. I just say that what was surprising in a sense about the coverage on television was that it appeared to have the cover of a budget overview, which we do not get until Tuesday morning.

**The CHAIR** — And there was a quick supplementary, given that long answer to a yes and a yes.

**Mr BRUMBY** — I know people are going to ask questions about it.

**Mr FORWOOD** — What was your reaction? Did you mutter quietly under your breath? Did you turn around and hotfoot it back to the office? Did you stop for a cup of coffee? Do you want to describe the feeling when you heard your budget has just been — —

**Mr BRUMBY** — Thank you for the opportunity, but we are a very professional and businesslike organisation. We just got on with the job. We did not blink. I repeat, as it happened there were some elements of the budget obviously, but there was plenty around on budget day, and I have been very pleased with the budget response and the media coverage.

**Ms ROMANES** — Budget paper 2 on page 86 states that the Victorian government supports the application of the national competition policy model to other key areas of reform. What areas of reform do you believe are critical to the national reform debate?

**Mr BRUMBY** — Thank you for the question. If you look at Australia's current economic success you will see that it is due to a lot of factors, but a large part of it is the foundation that was built in the 1980s and 1990s with a series of reforms to build a more competitive economy. Not everyone has always supported those reforms that were made, but there is no doubt in my mind that the competitiveness we enjoy today is due to a lot of decisions that were taken in the 1980s and 1990s, most of them under the Hawke and Keating governments. They were things like the floating of the dollar, the freeing up of the financial markets, reducing tariffs, the introduction

of competition policy, the move to enterprise bargaining — all of those things have given our economy a strong competitive edge. It is remarkable that if you go overseas — throughout Europe and Germany where I was last year — they look at the Australian economy and see the success that has been enjoyed from some micro-reform. If we are to continue with that in the future, and particularly given the enormous size of the trade deficits which Australia is now running, we do need a more competitive economy. So at the treasurers council I circulated a paper which identified five areas for continued reform to drive productivity growth.

The first of those five areas is increased skilled migration. As I said — and I give credit where credit is due — I am pleased to see that in last night's federal budget there was increased skilled migration of 20 000 places. As I also said, we would also like to see more refugee places as well. If you go around Victoria today there are some great success stories in Robinvale, Swan Hill, and Warrnambool. Some of the Sudanese families in Warrnambool have been in camps for seven and eight years. Until they came to Australia they never enjoyed the sorts of freedoms and opportunities which we enjoy, and they are thriving in those communities. So there is more migration, the reintroduction of competition policy, measures to encourage work force participation — which I will come back to in a moment — strengthening our education and skills base and more investment in infrastructure.

On the federal budget last night the things that were unsaid were significant. In the two huge areas for Australia — that is, skills and infrastructure — there was very little on the skills side, and infrastructure has just gone missing. As you saw from our budget last week, we will spend \$3 billion this year on capital works, and we need to spend it. That is the fact of the matter.

I was disappointed there was very little there on infrastructure last night. On work force participation, I should say we have done a lot of work in our department in partnership with the Melbourne Institute of Applied Economic and Social Research and I might say the new deputy secretary of the department, Peter Dawkins, was the former head of the Melbourne institute on work force participation. It is interesting work and we are happy to make it available in the future to the committee. It shows that two of the most important factors in improving work force participation are, firstly, to improve the educational attainment so that the longer you stay at school, the higher the level of skills, the more apprentices and trainees that you train and complete — this is the most significant factor in lifting work force participation. Secondly, it is improved child care. In last night's federal budget there was some recognition of that, which is welcome, and we would like to see even more effort in that regard. Victoria is a good case in point. Our participation rate in the last year has increased by around 1.5 percentage points. There are still lots of people who would love to come back into the work force but cannot find appropriate child care. Those two areas — improving educational attainment and child care — are fundamental in terms of improving work force participation.

**Mr CLARK** — My question relates to land tax. As you know, the critical factors underlying the explosion in land tax bills in recent years have been changes in land valuations and the fact that the brackets have not adjusted to reflect those changing valuations. Can I therefore ask what assumption for increase in land values for 2006 land tax did you use in putting together the changes to land tax that were announced in the budget and in modelling the forward estimates to land tax that appear on page 38 of budget paper 4?

**Mr BRUMBY** — I thought you might ask about land tax so I have a slide on this. I will go to this question so that the rest of the questions can be based on fact rather than supposition. The top line there is the land tax collections which I forecast in last year's state budget. That is the light line at the top. I have constructed this graph so we can compare like with like, as you would want me to do. As you know in last year's budget we removed the smelter reduction levy amount and replaced it with an easement charge which is paid by one taxpayer, SPI Powernet, and which coincidentally replaces around the same amount of revenue as we were getting from the smelter reduction amount. It is a bit less, actually. If you want to compare like with like over that period you need to net out the easement tax. So what you see in other words is what everyone is paying in land tax other than SPI Powernet. The light line is what we expected last year. The black line is how much we will be getting after the tax cuts. I say that because the size of the tax cut in 2005–06 is, as you can see, pretty close to \$200 million. It is up there — it is about 925 down to about 745. Going forward you can see a significant reduction off the forward estimates.

There was another slide which I showed you earlier as well — the other land tax slide. Have you got those figures on the average tax rate, Jeff? As I said before, the effect of the new tax arrangements are that 98 per cent of taxpayers in Victoria will pay less than they are paying in other states. At \$2.3 million they are the lowest in



Australia. The other effect of that, and I might say the answer to your question over the two-year period 2005–06 is 40 per cent, which reflects valuations.

**Mr CLARK** — Is this between 2003–05 and 2005–06? You are saying 40 per cent, or between 2004 and 2006 land tax bills?

**Mr BYRNE** — You have to remember that land tax is based on a land valuation which is approximately two years before. So what we are talking about is the movement in price between 2002 and 2004. That is what is reflected in the land tax between 2004 and 2006.

**Mr BRUMBY** — Just to complete the answer if I can. The effect of this, because I know there have been some examples around, if you look at, for example, a drycleaner in Boroondara, which I think Mr Clark may have mentioned, their 2004 land value was \$1.427 million, their 2004 tax was \$17 173 and their average tax is 1.2 per cent. If you go to 2006, which goes to the nub of your question — what their value will be in 2006 — if their land is \$1.6 million, their 2006 tax will be \$16 343 and their 2006 average tax rate will be 0.99 per cent. Their average tax rate is actually going down. I do not know too many other tax systems, certainly not the federal Treasurer's, when the more you earn or the more wealth you aggregate, the lower your average rate of tax. That is the impact of the tax changes that I announced last week. All of this about people paying more — their average rate of tax is coming down. Their land value is going up. Their wealth is increasing and their average rate of tax is actually reducing.

If you are an income earner and your income goes up, what happens? I will tell you: you pay more tax. You not only pay more tax, your average rate of tax goes up. But under the reductions we announced the other day those taxpayers will be paying a lesser average rate of tax in 2006 than they are paying today. They are real, substantial tax cuts and they mean that 98 per cent of Victorians pay less than they pay in any other state in Australia.

**Mr CLARK** — Treasurer, the example you used was in a municipality which had an indexation factor barely half of the statewide average. If you take the escalation factor Mr Byrne indicated, if you have a property in 2004 that was worth \$1.42 million, they would have paid \$6959 in land tax; in 2006 their property would be worth \$1.5 million and they would pay \$10 230 in land tax — a 47 per cent increase. So you have chosen a very specific example. Can you tell us what modelling you have got of the municipalities based on a 20 per cent per annum increase in valuation?

**Mr BRUMBY** — What is an example? I have got all the examples you have used and in every case the answer is a bad one for you. Take a hardware store in Clifton Hill, which I think was another example you have used — —

**Mr CLARK** — That is your example.

**Mr BRUMBY** — You are not interested in the hardware store?

**Mr CLARK** — I am interested, but that is your example.

**Mr BRUMBY** — Self-funded retiree — this is one of your examples from *Hansard* of 5 May — 2004 land value, \$1.34 million; 2004 tax, \$14 789; average tax, 1.1 per cent; 2006 land value, \$1.51 million; 2006 tax, \$14 430; average tax, 0.91 per cent. The change in the value from 2004 to 2006 is 36 per cent, which is pretty close to 20–20, as you are asking me to do, and the change in the average tax rate has been 0.19 per cent, so it is a 19 per cent reduction in the tax rate.

**Mr CLARK** — I do not accept your calculation of the 2006 tax, but we will pore over the figures on that one.

**Mr BRUMBY** — I have all the examples here.

**Mr FORWOOD** — Table them for the committee.

**Mr BRUMBY** — I was being generous to you before. Even where you have a hardware store in Clifton Hill where the change in the land value is 61 per cent, the average rate of tax still reduces.

**Mr CLARK** — What happens to the tax bill?

**Mr BRUMBY** — The tax bill increases.

**Mr FORWOOD** — Thank you.

**The CHAIR** — Finish your sentence, Treasurer.

**Mr BRUMBY** — This is the opposition's new flat earth policy, is it: that when your income goes up and your land value goes up — —

**Mr FORWOOD** — So his income goes up; tell me how his income goes up when his land value increases.

**Mr BRUMBY** — I think you should be talking to Peter Costello.

**Mr FORWOOD** — He is going to sell his land and get the income there, is he?

**The CHAIR** — Mr Somyurek has the next question.

**Mr SOMYUREK** — Treasurer, as you mentioned a few minutes ago, Australia as a nation is reaping the benefits of the economic reforms implemented by the Hawke and Keating governments in the 1980s. As a state Victoria has also experienced rapid growth due to productivity and the competitiveness of the Victorian economy due to economic reform in recent years. One element of the government's plan for further economic reform is boosting the work force participation rates. Australia's ageing population and Victoria's ageing population will be a real problem for the nation and the states in the years to come as far as productivity is concerned. I understand that the main policy instrument available to set this straight is under commonwealth responsibilities such as pensions, superannuation and income tax. I ask you: what sorts of policies are needed to boost the participation rate?

**Mr BRUMBY** — Thank you for the question. In part I answered that before when addressing Ms Romanes's question. Again, I think the work we have done suggests that improving health care is very important. There are many people who are prevented from entering the work force, or re-entering, because their health is not as good as it could be, so improving health care is important. I have mentioned child care.

Delaying retirement is an interesting one. I saw some figures the other day that suggested that in the 60 to 65-year-old age bracket the participation rate today was something like 41 per cent. Ten years ago it was 33 per cent, so many people with the benefits of good job opportunities and improving health are wanting to stay in the work force longer. I do not think they are wanting to work 80-hour weeks, but they are wanting to do some part-time work, so flexible working arrangements are important. Some of these are difficult issues. Obviously flexible working arrangements, particularly for older people, are going to be necessary. From the other point of view, obviously from the trade unions' point of view, they will want to be preserving more full-time positions as well; so these things have to be worked through in a cooperative way.

Welfare reforms are important. Welfare reforms again have to be carefully worked through. They have to be sensitively administered to ensure that people are not penalised for re-entering the work force. I think we are all aware of some of the negative or very high marginal rates of tax that can sometimes affect people. You move out of a job; you put a child in child care; you lose a welfare benefit; you go into the tax system — some of these issues were addressed last night, but it remains to be seen how the debate plays out on that over the next couple of months. All of those things can lead to improvements in the participation rate.

Our record in Victoria is an excellent one. As I said, in the skills area, in educational attainment, last year we trained more apprentices and trainees than any other state in Australia — 46 200. Our school completion rates are the highest of any Australian state, so it is not surprising in a sense that we have one of the best participation rates and we have one of the lowest levels of skilled vacancies. We are doing some things right in Victoria and I guess what we are saying to the federal government is that we would like to work cooperatively together in some of these areas to get some positive outcomes for our state and for Australia.

**Mr CLARK** — I will now raise another tax with you, Treasurer, the new parking tax. On 2 April a spokeswoman for the Minister for Transport was reported as saying that the government was not planning to introduce a congestion tax. Can I ask you, first of all, was that spokeswoman's statement true, and what evidence can you provide to the committee, either now or on notice, about the work you have presumably done since 2 April

to model the impact of that tax that would demonstrate that it is expected to reduce congestion rather than simply generate revenue for the government?

**Mr BRUMBY** — Thank you for your question. Let me start with the observation that in the last few years under our government we have been rebalancing the tax system. You know we have reduced payroll tax substantially — 5.75 per cent to 5.25 per cent. We have been well ahead of schedule in abolishing taxes under the intergovernmental agreement. We have dramatically reformed land tax arrangements, dragging the top rate down from 5 per cent to 3.5 per cent. All of those things have substantially reduced revenue which would otherwise be available to the state, and we have changed those tax arrangements to try and get some of the cost burden off business. At the same time we have made no secret of the fact that there has been some rebalancing of the tax system. We are taking some of those business costs off, which is a good thing to do, and we have introduced two new levies which have environmental benefits and an environmental basis to them.

The first of those is the water levy which was announced as part of Our Water Our Future, a 5 per cent levy raising \$227 million, is it, over four years — I will check the number; I think it is about that amount, it is in the budget papers — which is all going back into water projects. Is it a new charge on consumers? Yes, it is. Is it a sensible charge? Yes, it is. What is it designed to do? It is designed to discourage excessive water use and to invest back into water infrastructure.

The car park levy needs to be seen in the same light. It is designed to discourage congestion in the city of Melbourne. You asked did we do intensive studies of this. We have not done any independent, stand-alone studies, but we have been guided by a lot of the work that has been done by other bodies — for example, the Business Council of Australia. It has put submissions to the federal government, and to any other government that cares to listen, about the costs of congestion. For Melbourne alone the costs of congestion are \$2.7 billion per annum. What causes congestion? Congestion is caused by too many vehicles coming into and through Melbourne at certain times of the day. How do you address that? You address it through investing in public transport. You address it through investing in new road infrastructure. You address it by sending some price signals to people to discourage certain behaviour, in exactly the same way we are doing with water. That is what this is about. It is about a rebalancing of the tax system. It is a levy that is designed to discourage people who drive into the city at 7.30 a.m., park all day and drive home at night. It is saying to them, 'You can do that, but it is going to cost you a little bit more to do that in the future'. That will send a price signal to people that they may be better off taking a tram, taking a bus, walking, cycling; whatever they choose to do.

That is the basis of it. As I have said to the media before, it is something we examined very broadly last year and decided against going down that path because we needed more information about the impact of congestion.

Since then the business council completed all of its work. It believes that congestion costs are huge, that governments have to tackle this even though it is not always popular to do it, and so we have acted on it. Obviously next year the new charges will be in place from 1 January 2006. Next year I am sure you will ask me, the Premier and the transport minister if the plan is working. I think it will be two or three years before we get a good idea of that but we want it to work, and we want to tackle congestion. That is what is driving it. It is not a revenue measure. You can see the budget numbers are pretty solid, and we have got surpluses of \$300 million plus so it is not a revenue measure, it is a rebalancing of the tax system designed to send a signal about the way in which we are trying to tackle congestion.

**Mr CLARK** — Is it true that the government was not planning to do it as at 2 April?

**Mr BRUMBY** — We do not make a final decision on what is in the budget or what is not in the budget until about three weeks before — mid April — so nothing is in the budget until we finally decide it is when we wrap it up and off it goes to the printer.

**Ms GREEN** — Treasurer, I refer you to pages 60 and 61 of budget paper 2 which outlines significant projects being delivered or currently under consideration as Partnerships Victoria (PV) projects, including something that has created a lot of interest in my electorate — that is, the Melbourne Wholesale Fruit and Vegetable Markets. Could you outline what Victoria is doing to continue to enhance the government's Partnerships Victoria framework?

**Mr BRUMBY** — Thank you for that question. The markets, I think, is a very exciting proposal, a big investment, the total estimated investment (TEI) of that will be something in excess of \$300 million, that is what we are putting in but — —

**Mr FORWOOD** — You put in — the government is putting in?

**The CHAIR** — It is in the budget papers.

**Mr BRUMBY** — That is the commitment, that is the TEI, and the total investment will be somewhere between \$300 million and upwards of \$500 million. So it will be a substantial investment. It will also free up port-related land around grape-distribution logistics and other investments.

Partnerships Victoria projects — the most recently contracted project is the Royal Women's Hospital, and there is EastLink, of course, which is Australia's largest public-private partnership (PPP). In terms of enhancing Victoria's framework we have probably taken the national lead on this, as you are aware.

In a speech the Premier made about 15 months ago proposing the establishment of a national PPP council, that has since been established and Victoria provides the leadership on that and we have had three meetings since then — one in Melbourne, one in Sydney, one in Brisbane. We have been driving towards making it a truly national market.

In terms of the things we have been doing, we have been looking at how we can better provide for standard commercial principles across all jurisdictions. We have been also examining the merit of things like an interactive tender process which is really how we improve the bidding process to get better knowledge to all the bidders, to get better outcomes for the bidders and for the state of course, and we have held a number of workshops on issues to address bid costs. I had the first of those back in later 2004.

Sometimes bid costs can be an issue with PPPs and the reasons for that is because with the PPPs you are essentially funding a project which is construction, security, maintenance and often IT for 30–33 years. You have to think about all of those things at the time you sign the deal. When you do a straight public build on a school or something like that you just build the thing and often governments worry about maintenance further down the track. That has been the history in Victoria.

So for PPPs the bid cost can be a bit higher because everybody has got to think a bit harder and a bit deeper about longer term management issues. But we are working to try to reduce those bid costs and obviously the more we can strip out of bid costs the more entrants you will get and the more bidders you will get, the more value for money you will get for Victorian taxpayers.

**The CHAIR** — There was a supplementary question.

**Mr FORWOOD** — Yes, on the fruit and vegetable markets — budget paper 3 at page 308 shows that there is no money in the forward estimates period for the fruit and vegetable market.

**The CHAIR** — That was announced after the budget.

**Mr BRUMBY** — No, that is not what it shows. What it shows is that until it is tendered — and it says:

Project costing information will be finalised after the completion of the ... tender process.

So the TEI is committed there, it is all in the forward estimates period and that is when we intend to spend it, but we are not allocating it against years because the tender is not in yet. We might get a private developer that says it wants to do it all within 18 months. This is going to be a huge construction project and it is going to do it all, and we need to put our TEI up in the first 18 months. It may be it says it is going to build it in 2007–10 and so on. We do not know the year-to-year budget in fact until that process but I can assure you that at the mid-year budget update or certainly next year's budget you will get the years identified.

**The CHAIR** — It was certainly released on the Thursday after the budget at the announcement of the fruit and vegetable markets.

**Mr BRUMBY** — Yes, it was, but it is the actual cash allocation that we cannot yet determine.

**The CHAIR** — It is in the Treasurer's speech.

**Mr BRUMBY** — In fact the aggregate is shown on table 3.3 under 'Strategy and outlook', at page 37 of budget paper 2.

**The CHAIR** — And your speech. A number of us took a great interest in that location to the north, of the fruit and vegetable markets.

**Mr CLARK** — Could I come back to the issue of the parking tax and in view of the virtues of the tax, which you told the committee about in your previous answer, the government considers it possesses, will the government be considering extending the tax either in terms of increasing the rate of the tax or extending it to other district centres either in metropolitan Melbourne or in provincial cities?

**Mr BRUMBY** — It is not our intention to do that so as I have said to you today, we have announced this, we have said that it will be operational from 1 January 2006, we have identified those areas and we want to see how this works over the next two or three years but there is certainly no intention in provincial areas because they do not have the same issue with congestion. This is about congestion, and I should say that you can see on the revenue that is raised that we will be providing \$5 million a year to Melbourne City Council for urban renewal in transport improvements in their central business district area and you will see on the day we announced this the council also announced a number of other initiatives. It has similar problems with congestion. On the day it announced this it announced it was putting up its on-street parking cost because it has done its assessments of congestion and more than a quarter of the cars that drive around the city during the day are driving around looking for an on-street spot because until recently that was \$2.30 an hour and most of the off-street parking is \$3.00 an hour.

So you have got a huge cost; imagine one car in every four going down Collins Street is just looking for a parking spot, so part of this is on long-term spots. We hope that will then encourage investment in short-term spots because we want to encourage people to visit the city — tourists, shoppers and others — not in peak periods but during the day. So both levels of government are working together to address this. You have heard Melbourne City Council say it is looking at things like a free shuttle-bus service and other things like improving pedestrian walkways, and all of those sort of things to make Melbourne more livable and less congested and get people moving around more efficiently.

**Mr MERLINO** — Treasurer, further to your previous answer on Partnerships Victoria I refer you to pages 60 and 61 of budget paper 2 which outlines significant projects being delivered or currently under consideration as Partnerships Victoria projects. Could you outline the PV projects that were signed in 2004–05?

**Mr BRUMBY** — Thank you for that. One of them was the Royal Women's Hospital which was signed on 11 April. That is a very big project of \$250 million or thereabouts, with service delivery expected to commence in mid 2008. EastLink, you are aware, is Australia's largest project valued at \$2.5 billion and will employ something like 6500 construction workers, and I think will have the cheapest tolls for a toll road.

On PV's project list, the ones that have previously been completed, are the County Court, the film and television studios, the Casey community hospital at Berwick, Wodonga wastewater treatment plant, Spencer Street, which is under construction, and the Echuca-Rochester wastewater treatment plant. I am actually opening that in Echuca either later this week or next week. Enviro-Altona, the mobile data network, correctional facilities, metropolitan mobile radio emergency alerting systems and, as I said, the Royal Melbourne Showgrounds will be PV. The Melbourne Convention Centre is in the market and the Melbourne Markets will be going for its PV. It is a big list.

To put it in perspective, though, it is about 10 to 12 per cent of our total capital spend. I think people think of PV as overwhelming the public works capital spent. It is not. It is 10 to 12 per cent. The numbers will bounce about a bit. Sometimes it will be higher than that; sometimes a bit lower. It is particularly valuable, I think, for this state where there are large, one-off projects. Things like the markets or the convention centre which governments do not do that often are not the bread-and-butter of building schools and so on. There is real value from money for the state in doing that. You get design innovation, financing innovation, and that is why we support them so strongly.

**Mr BAXTER** — Treasurer, I turn to your slide 'People are coming to Victoria'. It is often said that a picture is worth a thousand words. This graph is obviously designed to show that everything is hunky-dory. Is it not a fact that the growth in the state's population has been underpinned by migration of skilled workers and also

refugees and that ABS statistics show that interstate migration is in fact a loss to Victoria and in the March quarter 2004 we lost 178; June, 812; September, 515; December, 998 — so we have a net loss to interstate migration of 2503? It seems to be gathering pace. Is this not an alarming trend?

**Mr BRUMBY** — I did not go right back on the graph but if you go back to 1994-95 — —

**Mr BAXTER** — When we were a rust bucket state under the Cain-Kirner government, people were marching out very speedily. There is no doubt about that.

**Mr BRUMBY** — That is not quite correct actually. They marched out in much larger numbers in 1993–94.

**Mr FORWOOD** — That was the effect of the Cain-Kirner rust bucket.

**Mr BRUMBY** — There has been a variety of causes for that; nevertheless they left in droves.

**Mr BAXTER** — They started coming back when we fixed it.

**The CHAIR** — Could we let the Treasurer speak without a range of interjections?

**Mr BRUMBY** — I think I have summarised this succinctly in the past when I have said that what started as a trickle around 1998-99 — and it was a trickle — coming back to what became a very strong flow by 2001-02. You can see that in the graph. We had levels of interstate migration in Victoria which were unprecedented.

**Mr BAXTER** — Why is it reversed now?

**Mr BRUMBY** — The demographers will say that those numbers will always jump around a bit for a whole range of factors. There is not a lot of research on this, surprisingly, but the demographers will say the numbers jump around a bit. If you look at that graph in front of you, a lot of people would say that after that peak in 2001–02, a lot of people were saying to us — and you may have been one of them, Bill — that the graph would soon return as it was in the 1990s under the Kennett government. In fact the opposite has been true. This is a good news story. Our population growth will come from three sources. It will come from overseas migration, natural increase — which is the rate of reproduction versus the death rate — and it will come from net interstate migration. The combination of those three factors at the moment has given us a rate of population increase which is above the national average. It is the first time in 41 years.

I am not sure of the point you are trying to make but 41 years is a long time ago. There has been a lot of water under the bridge in 41 years, a lot of different governments, a lot of different policies, a lot of changes in interstate and overseas migration. This is the first time in 41 years that we have beaten the national average. I would forget the politics of it. I would say it is a great thing, well done and let's keep it up.

**Mr BAXTER** — The point I am making is that the 2004 figures are showing an alarming trend going in the wrong direction.

**Mr BRUMBY** — There is no alarming trend.

**Mr BAXTER** — The ABS figures show it.

**Mr BRUMBY** — What you have got to look at is the overall growth to Victoria. As I said, we get the growth from a number of areas. Even with migrants, Bill, some people go to one state and then come to Victoria. Some people go to Victoria and then go to another state. People move around before and after they become citizens.

**The CHAIR** — Treasurer, my question relates to the departmental funding model which was introduced in the 2004-05 budget where the departments had for the first time the chance to look with certainty at their future funding levels. Could you give us an outline of the position in this particular budget and how departmental funding models will be clear for all those involved?

**Mr BRUMBY** — I will if I can find some notes on this. The secretary might care to answer because he is an expert on the departmental funding model.

**Mr LITTLE** — We are just implementing the model, really. It was announced last year and it has been implemented, as we said. I believe departments are finding it an advantage because for the next three or four years in the forward estimates instead of looking at a departmental appropriation that is falling because Treasury and Finance kept the wages cost in our budget, that has now been allocated out to departments, and they see a more reasonable set of forward estimates for their department where it is rising a little bit with the underlying inflation rate of about 2½ per cent, something around that.

The quid pro quo for that was, ‘Well, we are providing you with certainty about your overall budget; you need to manage more of the ups and down risks within that budget because you have got the ability to do that now’. It is too early to start ringing bells but I think I am starting to see signs that departments are using the upsides to manage against the downsides. So there is not as much call coming back into the centre to fund negative risks which have emerged because they recognise that that we are giving them the ability to do that. But it is early days. But we are implementing the model and so far it looks like it is moving along as we expected.

**Mr RICH-PHILLIPS** — Treasurer, I would like to ask you about the State Revenue Office (SRO) and about a couple of issues that have been raised with me — and, I understand, with you. There is a letter I have from the Law Institute of Victoria sent to you last December outlining some concerns their members have with the operation of the SRO. It is quite extensive. There are two particular issues I would like to raise with you.

One is the practice of the SRO with nominations under the Duties Act, which are section 31 nominations where properties are purchased by a purchaser on behalf of someone else, and the SRO is imposing numerous evidentiary requirements above and beyond the requirements of the Duties Act in treating those purchases. And in cases where the evidentiary requirements are not met — despite the fact that they are above and beyond the requirements of the Duties Act and the tax administration legislation — there are instances of double duty being posed. This has been raised with me a number of times both through this letter from the law institute which you received last December and also by a number of law firms — suburban, city, large and small — over the last several months. To the extent that I understand it, the problem has actually got worse since this letter to you in December.

Another area of concern with the SRO relates to its treatment of objections to matters that are to be referred to the Victorian Civil and Administrative Tribunal and its failure under the Duties Act and the First Home Owner Grant Act to refer matters to VCAT in accordance with statutory obligations. The acts lay down a requirement that referrals be made to the Victorian Civil and Administrative Tribunal within a certain number of days, and a number of instances have been raised by the law institute and also by my constituents directly where the State Revenue Office has simply refused to make those referrals in accordance with its obligations under the acts. Because of the letter from the law institute last year, you are obviously aware of these issues.

Are you satisfied with the way the SRO is acting, and what action will you take to end the SRO’s practice of operating outside the scope of the Duties Act and the Tax Administration Act because it should not be imposing requirements above and beyond those in the law?

**Mr BRUMBY** — Thank you for what is a very detailed question. I do not have a copy of the letter in front of me and I will certainly — —

**Mr RICH-PHILLIPS** — I have it if you want — —

**Mr BRUMBY** — I am aware of the letter. I will certainly respond to the specific matter if I can take the question on notice. It is a very detailed question.

Just generally about the SRO, the latter part of your question was whether I think it is doing a good job and whether it is acting in accordance with the law. I think it does a very good job. The secretary has just reminded me of some recent assessments that were undertaken of the SRO’s performance. I will run through them very quickly for you. On the efficiency front, it cost the SRO \$0.49 to collect or disburse \$100 which compares to the National Revenue Office average of \$0.63 in every \$100 and the Australian Taxation Office figure of \$0.94 in every \$100. On the effectiveness front, the SRO’s ratio of outstanding debt to revenue is 1.08 per cent, which compares to the NRO average of 1.36 per cent and the ATO at 3.7 per cent. In relation to customers, which I think is what you are interested in, the SRO’s customers are more satisfied than those of the ATO. The SRO total 84 per cent — —

**Mr RICH-PHILLIPS** — I am not saying — —

**The CHAIR** — Keep speaking, Minister.

**Mr BRUMBY** — Hang on! The ATO individuals are 71 per cent. I would have thought it was a good thing to be the best. In Victoria telephone calls are queued for an average of 7 seconds, the national revenue office average queue is 42 seconds and at the ATO it is anywhere between 2 minutes and 5 minutes.

Finally, on objections — because that was part of your question — 83 per cent of objections are handled within 90 days; the national average is 78 per cent and at the ATO it is 80 per cent. So in all of those criteria — efficiency, effectiveness, satisfaction, timeliness and handling of objections — the SRO is performing better than other state revenue agencies, and in all cases better than the Australian Taxation Office.

I am happy to look in detail at the matters you have raised, but overall under our government and under former governments the SRO has done an excellent job in collecting the state revenue, and I support it 100 per cent.

**Mr RICH-PHILLIPS** — The figure you quoted of 90 per cent of objections handled — —

**Mr BRUMBY** — Eighty-three per cent of objections are handled within 90 days.

**Mr RICH-PHILLIPS** — Is that also within its statutory obligations?

**Mr BRUMBY** — I would have to get that. I can also say that 98 per cent of correspondence is responded to within 21 days. It prides itself on its performance.

**Mr RICH-PHILLIPS** — Will you take it on notice?

**Mr BRUMBY** — I am happy to take it on notice.

**Mr RICH-PHILLIPS** — Thank you.

**Ms ROMANES** — Treasurer, in budget paper 2, page 3, table 1.1 a number of the government's financial objectives are outlined. One of the longer-term ones is to provide a fair and efficient tax system that is competitive with other states. You talked earlier about land tax reform. Could you outline other recent taxation reforms in the budget, and how this positions Victoria compared to other states?

**Mr BRUMBY** — Thank you for that. As you indicated, we have had a discussion today about land tax. We have been ahead of schedule in complying with obligations under the intergovernmental agreement. Last year, as you know, we abolished stamp duty on mortgages. That is good for small business, and it is also great for homebuyers. So if you are buying a medium-sized house, you are saving about \$1200 in duty. We were the first Australian state to do that.

In this year's budget, as part of the intergovernmental agreement, we have also abolished bank accounts debits tax. That disproportionately affects two groups of people; businesses on the one hand, but also pensioners on the other hand who still tend to use cheque accounts. They will be the major beneficiaries. It is about \$250 million. If you think about it, that there are about 3 million Victorian households — that is about \$100 a household, which is a significant reduction. We will be keeping a good close watch on the banks to make sure that the cost savings are passed on to consumers and that they are not recouped in other charges imposed by the banks. There are the land tax changes, and the payroll tax changes that we have made over time — 5.75 per cent down to 5.25 per cent.

All of these things are very important for a state like Victoria. We are still the manufacturing capital of Australia. The number of people employing manufacturing as a share of the economy continues to decline and we will see that trend continuing in the future. But nevertheless, we are the manufacturing capital of Australia and our manufacturers face enormous cost pressures internationally. The other day I saw some numbers. Everyone talks about China. China now produces 79 per cent of the world's toys and 58 per cent of the world's clothes. It accounted for \$1 in every \$5 of growth in world trade last year. Our manufacturers compete directly in many of those areas, so getting some of those cost pressures off manufacturers is very important for their long-term viability.

Overall, the commitments that the Premier and I made successively at the elections in 1999 and in 2002 were to keep Victoria's taxes fair and efficient and at or below the national average. We are marginally below the national average. As a share of gross domestic product we are now 0.55 percentage points below New South Wales and 0.05 per cent below the Australian average.



On the other hand, there has been some rebalancing of the tax system, so we have been drawing down those costs. The water levy sends a price signal about the fact that water is a precious resource; we have to be careful with the way we use it. The gaming levy is not an environmental levy but essentially extracts what is a very large monopoly rent owned by two or three operators. We charge that levy and the money goes straight into the health system, so we are putting that to work for all Victorians.

The basis of the car park levy is environmentally driven to try to reduce congestion in the city and improve liveability. The other measure was the increase in coal royalties, again putting a proper price on that resource. Overwhelmingly there has been a reduction but there has also been some rebalancing which is with an eye to the longer term strategic objectives for our state.

**Mr FORWOOD** — Treasurer, pages 86 and 87 of budget paper 2 talk about specific purpose payments (SPPs). I wonder if you could outline to the committee the criteria you use when deciding whether to accept or not accept offers from the federal government in relation to special purpose payments. I am particularly interested in the one that was in last year's federal budget. There was an offer for funding for respite carers under the Commonwealth-States Territory Disability Agreement (CSTDA) of \$17.4 million, which if we had matched it dollar for dollar would have given \$35 million for respite for carers. I understand that the state has decided not to pick that up and I wonder why that would be?

**Mr BRUMBY** — I will have to take advice on that. I will come back to the question of criteria. On the CSTDA, what the commonwealth often does is take money out of one area — the recent example has been in the housing area where the commonwealth has taken \$6 million out of Victoria each year in relation to supported accommodation. We are seeing this a fair bit. The commonwealth says, 'We are going to take money out of this pot and will offer you this one if you match it'. But of course if we do that it means there is nothing left for what had previously been a joint responsibility. I will take it on notice, but I am only guessing in the CSTDA that that was the reason for it.

As to the overall criteria, there are a range which we use: firstly, the extent of the matching provisions; secondly, obviously the outcomes for Victoria and Australia; thirdly, are we getting a fair go and a fair share? — and I will come back to that; fourthly, does it involve cost shifting?; and finally, are adequate funds provided in the commonwealth's offer for growth in the future? They are the main criteria we use. In some of these areas, such as ACHA, the commonwealth Medicare agreement, Victoria is now providing just under 60 cents in every dollar and it is meant to be fifty-fifty. It is a crippling burden on Victorians that ought to be shared equally by the Australian government.

I mentioned public housing. We had to put more money into public housing in last year's budget. We put in more money again in this year's budget — an extra \$10 million a year for the next five years, so you do the curve on commonwealth funds for housing versus ours, and the only other point is that if you look at page 87 of budget paper 2, it states:

The Victorian government believes it is in the national interest that SPP agreements are negotiated in a cooperative and constructive manner rather than on a unilateral basis by the commonwealth.

It is a fair question, and I will come back to you on that.

**Mr FORWOOD** — Yes, if you could, and if it is possible, the committee would be interested to know how many times we do say to the commonwealth, 'You keep your money because the terms and conditions are too onerous'. Are there 5 a year or 10 a year, and what is the quantum? If possible that would be of interest to us.

**Mr BRUMBY** — I will look at that. It is a very difficult area, particularly since the GST arrangements. The state now relies on the commonwealth, under GST arrangements, SPPs and other grants, for just over 45 per cent of our total revenue, so you can imagine if we said to the commonwealth, 'No, we do not like the AHCA offer, thank you very much', I would have to find a lot of money. So they are difficult areas and they were under former governments.

**Mr FORWOOD** — And will continue to be under future governments.

**Mr SOMYUREK** — Minister, you indicated earlier in your presentation that Victorian employment was likely to grow by 3 per cent in 2004-05. This is higher than expected. Can you advise the committee why this is the case.

**Mr BRUMBY** — The employment numbers over the last year have been very, very strong for us. The labour market has been very strong, and that is because Victoria is a great place to be. People and events and investment are moving into our state. Programs like the first home buyers program are very popular. I think I have mentioned this before. As a share of total housing loans now there is a higher percentage of first home buyers among housing loans in Victoria than in any other state; so many of these policies are actually attracting investment and are generating jobs.

In terms of the employment growth going forward, in the 2004 calendar year we generated more jobs than in any other state — 87 600 jobs. We have seen an increase in the participation rate as well and, going forward, we would see the economy growing in Victoria particularly through increased export activity and our strong pipeline of construction work. The pipeline of construction work is at a record high level.

**The CHAIR** — Housing and construction affordability — do you have any information on that and its effect on employment in particular?

**Mr BRUMBY** — Affordability has been improving, but off a pretty average base. It is a national issue essentially, and the last graph I saw had a slight improvement in affordability. First home buyers helps that. If you are buying below the median house price you end up with cash in your pocket and that helps. There is a variety of data around on what is happening with property prices in Victoria. I think at last count there were six or seven different experts who measure these things, and they all give different answers. The Reserve Bank thinks in Victoria the property market at the moment is flat.

There was a survey I saw in the press the other week suggesting that property prices in some parts of Melbourne were continuing to decline. I should say our best guess on this, our conveyancing revenue returns, are running right on schedule. We predicted an 11 per cent decline for the 2004-05 year, which was a combination of a flat value and a decline in volumes as fewer houses went on to the market, and we are running exactly on track; so our best estimate is that the market is flat at the moment. It probably decreased a little in the last calendar year, which was a good thing — the market was overheated — and it is probably flat now and we would be pretty happy if it keeps in that direction for a little while, as affordability improves.

**Mr BAXTER** — Treasurer, just a quick question on how the government sees the role of the Rural Finance Corporation, putting aside the good work the corporation does in administering special programs such as exceptional circumstances, and turning to its lending practices, does the government see the RFC as simply a commercial lender in the market or something more than that?

**Mr BRUMBY** — It is primarily a commercial lender in the market, but having said that, the RFC does meet a niche in the market. Certainly, as you would be aware, because of the nature of the funding arrangements and the cooperative status of many of the larger dairy companies in Victoria, RFC is able to make loans to the dairy industry at a rate which is more competitive than others in the private sector. It is a commercial lender; it is also very competitive, and because of the intersection of ownership patterns in the dairy industry and federal tax arrangements, it is able to make loans to companies like Tatura Milk and Murray Goulburn, and others in the dairy industry, at what are very competitive rates, and that is a good thing for Victoria, given our strength in the dairy industry.

RFC also administers our drought programs; it administered some of the assistance following the bushfires; it administers the federal government's drought programs through interest rate subsidies and it does an excellent job in that. It has also been involved, as you would be aware in the past, in places like Gippsland in the late 1990s, where the agricultural economy was very flat. There were many sub-economic land-holdings and it was given a charter — I think under the former government and continued under ours — to buy up some of those properties, aggregate them, improve them, re-fence them, get rid of rabbits, and sell some of them and return some to park, and it did that at no cost to the taxpayer. The RFC is probably interested in whether there are any further opportunities in any other parts of the state for that sort of activity, intervening a little in the market with some government direction to improve farm productivity, perhaps help some people get out of the market and aggregate some holdings into more competitive levels. So we are not planning any real changes in the focus of the Rural Finance Corporation. I think it is the last remaining state-owned rural bank. We have been asked before will we be keeping it or will we be selling it. My view on that is that it does have an important role in the market. We have relocated it to Bendigo, if you know, and it is our intention to keep it in public hands in the year ahead and if possible see an expanded role in some of those areas I have mentioned.

**Ms GREEN** — Treasurer, on page 18 in chapter 2, budget paper 2 outlines the Victorian economic projections which you showed us a bit of a slide on as well. How does the Treasury economic forecast of 3 per cent compare with those of private sector forecasters and yesterday's commonwealth budget, and could you outline your views on the economy going forward?

**Mr BRUMBY** — Our forecast for 2005-06 is 3 per cent. I think it is fair to say that you always get a range with private sector forecasts. In general, probably most of those would be a little bit below where we are at. Having said that, we have generally been more correct than the private sector forecasts on economic growth. So we have said 3 per cent. I note that last night the federal Treasurer was saying that the budget for Australia as a whole is 3 per cent for 2005-06 and my guess is that we are right with our forecast.

What is going to drive that? Access Economics predicts that in calendar year 2005 the state that will actually have the strongest increase in exports is Victoria. The reason for that is that we took a real hammering, as you know, in the drought. It took us a while to recover. Then the dollar went up to US80 cents. We still have not fully recovered; there is a way to go. They are predicting growth of exports of 14 per cent. Exports are about 20 per cent of GDP, so if you get that sort of growth in exports it translates into pretty good GDP numbers. So the forecasts are right.

The one caveat is the one I mentioned earlier, and it is a serious caveat — that is, if we do not get decent rains in the north of the state in the next two weeks, three weeks probably at the outside, we are in serious trouble. I do not want to be a doomsayer on this, but at the moment in some parts of the north of the state we are already past the optimum time for winter crops. If it does not rain in two or three weeks, you will see a lot of farmers in the Mallee — even the southern Mallee, running into the Wimmera — just will not bother to plant. In turn, they are not going to be generating expenditure and income locally and they will not be getting income from the sale of their crops next year, in January and February.

Last time that occurred, in 2002, it knocked about 1.5 percentage points off our GDP and the historical jobs data shows that we dropped about 30 000 jobs in country Victoria as a result of the drought. So I do not think any of us should underestimate the significance of this. Treasury would say there are always a few dark clouds out there and you sort of dodge them and make your way ahead.

**The CHAIR** — In this case, maybe we want some!

**Mr BRUMBY** — That is right. On this one, we want a big dark cloud and we want it to drop right over Victoria — right over the north of the state! It is the one thing that can really throw some of the forecasts out. We do need that rain and it is quite a serious issue for us.

**Mr CLARK** — My question relates to the government's infrastructure investment program. You may recall that last year I asked you about the deletion from the budget papers of a table that showed fixed asset purchases by departments and asked you to consider reinstating it in the budget papers — and, indeed, the committee went on to recommend that. It does not seem to have happened this year, so can I ask you whether you can again provide to this committee the table showing fixed asset purchases by departments in the format that you provided it to the committee last year?

**Mr BRUMBY** — Just one moment. I have some nodding heads around the place. That means either that it is in there or we can do it. I think it is in there. I think it was a suggestion put in good faith last year and we took it on notice, and we always try to accommodate where we can — we aim to please. *Statement of Finances*, chapter 1, page 47 has 'Purchase of property, plant and equipment by department' over the forward estimates period.

**Mr CLARK** — In that case, I welcome that. I was looking where it was before but it has appeared somewhere else, which is very pleasing. Can I, then, move on to page 209 of budget paper 4, which gives some further detail about the allocation of the infrastructure investment program. You will see there that it explains that a large part of the increase in the government's infrastructure program is for contribution to other government sectors — \$328 million going as contribution to other government sectors, to help finance \$348 million of infrastructure investment by the non-financial corporations sector. My question is whether either now or on notice you can give details to the committee of which bodies in the non-financial corporations sector that money is going to fund and what those bodies propose to invest in with that funding?

**Mr BRUMBY** — We will take that on notice and get that information for you.

**Mr MERLINO** — Treasurer, I refer you to page 3 of budget paper 2, which contains an outline of the government financial policy objectives and strategy. What are the financial settings that have been put in place to ensure prudent financial management, specifically to maintain a AAA credit rating?

**Mr BRUMBY** — Thank you for that. I think in summary, as you know, we have always committed to a \$100 million surplus. We have delivered that in every budget. I should say that we have also to date delivered a cash surplus every year. We do not have a policy commitment to do that, but we have always delivered that to date. In 2005-06 we will be delivering a cash surplus as well. So it is a strong set of numbers.

On the other side, as I said before, net debt was over 3 per cent of GDP when we came to government. We have paid that down to around 1 per cent. Over the forward estimates period we will let that move up a bit to around 1.9 or 2 per cent, which I think is prudent and I might say has been very well received by groups in the community, particularly the business community — the Business Council of Australia, VECI, AIG and others — for doing more on the capital works and infrastructure side. So our net debt as a share of GDP will still be less than it was when we were elected.

More broadly, though, net debt is only a small part of the liabilities of the state. The bigger liabilities are the overall what we call net financial liabilities, which include the biggest liability, which is superannuation. There is a very positive story on this, and that is that as of today those net financial liabilities are 8.6 per cent of GDP. Over the forward estimates period they continue to decline and they decline to at least 8.5 per cent and, depending on some other assumptions you make, they could decline by an even greater amount than that. It is a great story for the state.

Just on the net debt again, as I said, we will be at 1.9 per cent of GSP by June 2009. We were at 3.3 per cent in 1999 and back in 1995 — obviously prior to some of the privatisations under the former government — Victoria was at 16 per cent. So there has been a dramatic continual reduction. In turn, that has meant we have had more funds available for schools, hospitals, nurses and teachers. Paying down some of that debt over the last four years was exactly the right thing to do. We had a strong economy, strong revenue growth and a big building capital works program, but we managed to pay down some of that. Now we are able to utilise that balance sheet strength to add about \$3 billion to our capital works program in the years ahead.

**Mr CLARK** — Treasurer, my next question is a fairly open-ended one, but I think an important one: do you consider that the Treasurer has a role in accounting for what services are delivered with the funding that is provided to various departments in the budget, and ensuring high quality and results for the money that is provided, or, in other words, to what extent do you have responsibility for the performance measures that are disclosed in the budget papers and for ensuring that high standards of result and quality are achieved with the money that is provided to departments?

**Mr BRUMBY** — The delivery of programs is obviously primarily the responsibility of ministers. That is the way the system works. We have departments and ministers and they get budget appropriations and their job is to deliver those programs and those policies and do it in a way which is efficient and delivers value for money. More generally, obviously I have an interest in the aggregate as to how budget allocations are translating into improved services for Victorians. So in the health area, for example — I think I mentioned this in the budget speech — we have increased funding significantly, from \$3.5 billion to \$5.3 billion per annum, and we are treating something like 20 000 extra patients per year. So we are getting productivity improvement in terms of increased throughput in our hospitals. In our schools we are getting higher completion rates, and in most areas we are also getting higher achievement rates in terms of literacy, numeracy and other academic outcomes. In crime, our average crime rate I think is now 23 per cent below the national average. So in aggregate obviously I do look at those broad outcomes.

On the specifics, the Minister for Finance and I also recommend to the expenditure review committee periodic pricing reviews in certain areas to see the way in which we are allocating resources, whether the outcomes we are getting are achieving value for money for government, whether the prices we are providing are right and whether the structures are right to deliver those services in the future.

**Mr CLARK** — I mean in relation to performance measures and your role in making sure that there is an adequate set of performance measures for what is being achieved in different departments.

**Mr BRUMBY** — I do not tick off the specific performance — if I have understood the question — —

**Mr CLARK** — To what extent do you feel it is your job to centrally drive that form of accountability, and to what extent do you believe it is appropriate to leave it to departments and ministers to set their own standards by which they will be reported on and judged?

**Mr BRUMBY** — If I am clear on the question — obviously when ministers submit to the expenditure review committee with a proposal for a new program my job in particular and more broadly the role of the expenditure review committee is to ensure that it is a worthwhile expenditure that drives value for money. This is also, as I said, a key role for the Minister for Finance in terms of outputs achieved. It is a specific responsibility of his, and I will let him know that you may wish to follow this up with him. The key point about my role is really in aggregate — looking at whether in putting an additional \$2 billion into health we are improving the quality of treatment, increasing the volume of treatment and getting value for money. The whole of ERC has an interest in that. I think that is probably all I can add.

**The CHAIR** — My question relates to the Treasurer's advance, which we are familiar with. Looking at the figures for 2004–05 we see it was \$474.3 million, and this year we are looking at \$281.2 million. That is a significant reduction. I asked a question on departmental funding models before. I am just wondering what impact the new departmental funding model has on that and whether there are any other items that are relevant to what this committee would probably see as a significant improvement in those figures.

**Mr BRUMBY** — Could you give me a moment? I just want a piece of paper on the Treasurer's advance because it is actually quite a technical area. I might let the secretary make some preliminary remarks.

**The CHAIR** — I thought it might have a bit to do with the departmental funding model, and I wondered whether that assumption was correct.

**Mr BRUMBY** — In part it does. The 2004–05 Treasurer's advance appropriation included provision of around \$142 million for wage agreements. They were particularly for nurses and teachers and had not been finalised at the time of 2004–05. You will remember we were having those negotiations, but we did not actually sign them until after the budget.

**The CHAIR** — Yes.

**Mr BRUMBY** — So we had this interregnum, if you like — you are correct — between the new departmental funding model and the traditional system. We actually included that amount, which was \$142 million. If these agreements were to be finalised before the introduction of the departmental model from 1 July 2004, the departments were to be eligible for supplementation from the Treasurer's advance for these EBAs. So the reduction in Treasurer's advance in 2005–06 therefore largely reflects the fact that the wages contingency has now been fully allocated to departments.

**The CHAIR** — Thank you very much.

**Mr CLARK** — My question relates to the Mitcham–Frankston tollway, or EastLink, or whatever you care to call it. When the Minister for Transport announced the intention to take the whole project forward as a public-private partnership on 23 September 2002 he announced a cost estimate of between \$1.5 billion and \$1.8 billion less an expected 10 per cent saving for doing it as a PPP — or in other words, \$1.62 billion. At the end of the process it is now going ahead with a capital cost of \$2.5 billion, so my question is: what went wrong with the PPP process which was supposed to save \$180 million but instead has ended up costing \$700 million more, at least, than the original estimate?

**Mr BRUMBY** — I think the simple answer to that is the answer you have just been given by way of interjection — it is much bigger, and it is much better. The original project that was proposed by government was quite a different project to that which has actually been delivered and signed under the PPP agreement, and there have been an enormous number of enhancements.

**Mr CLARK** — Some \$250 million worth on my count!

**Mr BRUMBY** — You have included 5 kilometres of the Dandenong southern bypass, which is untolled; you have the completion of the Ringwood bypass, which is also toll free; there has been 40 kilometres of bike and walking paths for cyclists and pedestrians; and there has been in aggregate terms, capital and recurrent, something

like \$200 million investment in public transport — the SmartBus and various things along the route. This started off as what you would do with the leanest possible roadway if you had to build it, and it ended up with substantial enhancements which will drive significant lifestyle improvements for people who do not want drive along it but want to walk or cycle along it and for public transport users who can take the SmartBus, and there are improvements which are being made to park-and-ride facilities and a number of the rail stations in the area. In relation to the Dandenong southern bypass — if you know that area — the road will come across there and will open up a large part of the redevelopment which needs to occur in that Dandenong area to give it commercial strength and a housing hub, which Dandenong really needs; and, of course, you have the Ringwood bypass. If you put all of those things together, what you get is a very good value-for-money proposition. How do you test whether it is a value-for-money proposition? You look at the toll rates which are being charged and compare them to other comparable toll rates in other states. On most sections of the tollway, as you know, on average they are the lowest in Australia, and for most sections they will be the most competitive in Australia. So that is why we say it is a good value-for-money proposition.

**Mr CLARK** — Last year you told us at this hearing and in the budget papers that the estimated cost was \$2 billion. That was after a lot of the improvements you have outlined were incorporated. What change occurred between this time last year and the final bids and announcement when you went from \$2 billion to \$2.5 billion?

**Mr BRUMBY** — I am happy to check the record from last year, but I am not sure you are right in saying that because he had not signed the contracts by last year.

**Mr CLARK** — Budget paper 4 of last year says on page 191 that:

... Final tenders were lodged on 27 April 2004.

Estimates of the cost of the project are in the order of \$2.0 billion.

**The CHAIR** — In the order of!

**Mr CLARK** — And you repeated the \$2 billion figure when you spoke to us last year. So it has turned out to be \$2.5 billion?

**Mr BRUMBY** — I do not have the numbers here. On parts of it there are also extra lanes. I forget the numbers — —

**Mr CLARK** — Perhaps you would come back to us with the details.

**Mr BRUMBY** — In addition to the Dandenong southern bypass, the Ringwood bypass and the bicycle paths — if my memory is correct — there is something like 15 kilometres of extra laneway that was provided for in the bid which the government chose. So this is where they went beyond specification and added an additional lane along some sections to give increased throughput. So that, as I understand, is the reason why it has gone from \$2 billion to \$2.5 billion — you had about that amount of additional improvement.

In terms of value for money I will make a quick point. One of the things that has happened since we signed off on that contract is that new EBAs have been signed between EastLink and, in the first instance, the Australian Workers Union. If you ever want to understand the importance of some of these major private sector investments, where they achieve things that probably by and large governments do not through traditional procurement, here is one huge project — \$2.5 billion — that has driven further improvements and benefits in working arrangements through the negotiation of a new EBA. In other words, more efficient work outcomes have been driven by this project as well. You can put a value on that. I do not have the value, but that value has to be worth something, too, in driving value for money on that project and more broadly across the economy as it has driven workplace reform and change.

**The CHAIR** — Thank you, Treasurer and departmental staff, that has been extremely helpful. We do appreciate your time and the efforts of all of the people who have prepared for this. We only have the chance to talk to a few witnesses, but many people have done a mountain of work. I thank all of them. I also thank the PAEC staff. As a result of today you will be given copies of the Hansard transcript shortly, and there will be a couple of follow-up questions as well as the ones you have taken on notice.

**Witnesses withdrew.**

