PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2009–10

Melbourne — 12 May 2009

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Mr J. Lenders, Treasurer,

Mr G. Hehir, Secretary,

Mr D. Yates, Acting Deputy Secretary, Budget and Financial Management Division,

Dr L. Williams, Deputy Secretary, Economic and Financial Policy Division, and

Mr J. Fitzgerald, Deputy Secretary, Commercial Division, Department of Treasury and Finance.

The CHAIR — I declare open the Public Accounts and Estimates Committee hearing on the 2009–10 budget estimates for the portfolio of Treasury. On behalf of the committee I welcome the Treasurer, John Lenders, Mr Grant Hehir, the secretary, Mr Dean Yates, the acting deputy secretary of the budget and financial division, Dr Lynne Williams, the deputy secretary of the economic and financial policy division and Mr John Fitzgerald, the deputy secretary of the commercial division, from the Department of Treasury and Finance. I also welcome departmental officers, members of the public and the media.

In accordance with the guidelines for the public hearing I remind members of the public that they cannot participate in the committee's proceedings and only officers of the PAEC secretariat are to approach the PAEC members. Departmental officers as requested by the Treasurer or his designated staff can approach the table during the hearing. Members of the media are also requested to observe the guidelines for filming and recording proceedings in the Legislative Council Committee Room. That means that the camera in this room is actually only on the person speaking. They are the rules; if you do not follow the rules, then you will be out.

All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act and protected from judicial review; however, any comments made outside the precinct of the hearings are not protected by parliamentary privilege. There is no need for evidence to be sworn; all evidence given today is being recorded. Witnesses will be provided with a proof version of the transcript to be verified and returned within two working days of this hearing. In accordance with past practice, the transcripts and PowerPoint presentations will then be placed on the committee's website.

Following a presentation by the minister committee members will ask questions related to the budget estimates. The procedure followed will be that relating to questions in the Legislative Assembly — in other words, there are no supplementary questions, and I remind members of that today.

I ask that all mobile telephones be turned off.

I now call on the minister to give a brief presentation of no more than 10 minutes on the more complex financial and performance information relating to the budget estimates for the portfolio of the Treasury.

Mr LENDERS — Thank you, Chair. I have a slide presentation, which Darren will take us through and which I will do in less than 10 minutes, and then over to questions and comments.

Overheads shown

Mr LENDERS — In opening, this budget is about five things. Firstly it is about securing jobs, so as part of our infrastructure build bringing forward we are securing 35 000 jobs that otherwise would not be there. We are also very much focused on a AAA, where we have pushed the balance sheet as hard as we can in stimulating jobs and bringing them forward and bringing forward infrastructure while within the constraints of AAA, whether that be in surplus, whether that be in bringing down borrowings over time and whether it be in keeping revenue higher than expenditure — a number of measures which are critical for our AAA.

It is also a budget about partnerships, where this is probably the closest collaboration with the commonwealth that certainly I can recall in many, many decades between state and federal in working together on where we go forward. It is also very much a budget about delivering on core services that a Labor government will, whether it be in health, education, community safety or transport, and focusing on targeted core delivery services. It is also very much a budget about building for the future, whether it is rebuilding from the bushfires or whether it is positioning us with investment in skills, in infrastructure, in a competitive economy — all of the things that are necessary to grow this state, create jobs, well-paying good jobs, in the future for Victoria. They are the parameters of where the budget is. Then I guess I will quickly paint the context.

The world is in a global recession; there are no ifs or buts about that. The IMF has published figures going back to the start of the 1970s, which literally show economic growth. We see from the chart on the screen that for the first time since the IMF has looked at those figures there is a net contraction in the global economy in the year 2009. You can go back to the war or you can go back to the Great Depression or you can use whatever sequences of figures you want, but the reliable ones from the IMF show we are in a very difficult international situation.

What the figures also show, though, is that in calendar year 2010 the world actually starts coming out of that, and that is significant. The IMF also recommends strongly that governments across the world invest in infrastructure, we bring it forward and we do it now, to create jobs and do the infrastructure we need. It is interesting to note the IMF and the G20 between them actually show that there is a $5 trillion US stimulus coming from governments across the world. That identifies two things: the stimulus is necessary, and they are dealing with toxic assets at banks across the world. Our banks are in a much stronger position than most around the world, so that is less applicable to us.

The graph coming up next shows a bit of a picture of why Victoria's estimates are rosier than some others may think they should be. Our major export destination from Victoria is China. China is growing. It is growing at a slower rate, but it is growing, and every bit of evidence coming out of China in the last few weeks in particular has shown that that strength is actually real and going forward, whether it be in inventories, whether it be in investment or whether it be in stimulus package. China is our largest export destination; it is not Australia's, so Victoria is in a bit of a different position from other states.

Our second export destination is New Zealand. While New Zealand is also showing a decline like much of the rest of the world, if you look at some of the trading partners of other Australian states, like Japan and Korea, which have far greater exposure than us, our two major ones are actually performing relatively better. The reason I show that is that part of our estimates for our economy going forward are a bit more robust than some people would have expected for Victoria. But if you look at our economic forecasts going forward, we are pretty much on a consensus of figures for across the country.

If we move on to the next slide we see a couple of other measures here. Our banking system — I touched on it before — we have got a measure here of non-performing loans as a percentage of total loans. The point of putting it up is that our banking system is stronger than most other parts of the world, therefore, the reason is it is here is it is a cause for modest optimism for us bouncing out of the global recession here in Australia.

There are a couple of other measures, such as the spreads, the difference between swap rates, or cash rates from the Reserve Bank, to what banks lend to other banks. We see that that big spike has come down as the financial market has stabilised. It is worth noting that the Commonwealth Bank in the last two or three weeks has done four borrowings without even using the commonwealth guarantee: three domestic ones in Australia and one overseas — I think it was actually in US dollars; they did a small one a couple of days ago. So has NAB, as has ANZ. So that uncertainty in financial markets is commencing to stabilise.

If we look through some of the other areas, you see in the next slide where the share market has gone. The figures looked very gloomy from last Friday — a 27 per cent drop since 1 July the previous year, but earlier this year that drop was actually as high as 41.8 per cent. It peaked, so the share market is starting to bottom out and starting to climb. As we move forward we see the next figure here is consumer and business confidence. It is still very much in the pessimism area, but starting to climb.

President Obama talked about a glimmer of hope, and we are starting to see the economic data commencing to bottom out, and it fits in with what the IMF is saying — that in the calendar year 2010 we will see the world economy starting to rise — and the data that we are starting to see here shows there is a cause for optimism, if you define 'optimism' as that it is bottoming out.

We will keep on going. We talk here about us vis-a-vis the rest of the country. We still see the highest value of building approvals in Victoria compared with any other part of the country. We also see that employment has grown since the end of 2006, but clearly in our forecasts we are going to see unemployment rise and actual employment partially contract in this year. That is a global phenomenon. The chill winds are coming through from across the world. It is a case of what can a state or what can any economy do about it. What we are seeking to do here is set the foundations in place for us to bring forward jobs when it makes a difference, which is now. The investment is in our infrastructure going forward, and as I said, we are in partnership with the commonwealth. There is a series of commonwealth funds. It made announcements out of the health fund, and there will be announcements tonight out of the infrastructure fund. If you look at the bar graph here, it shows that from the time we were elected to government in 1999 to the present, we have quadrupled infrastructure expenditure. In this particular year, with extra commonwealth money, it goes up to almost $7 billion.

The yellow in those graphs is in the commonwealth money that flows straight through to housing associations and non-government schools, which gets you up to over $8 billion. If you add the money we are putting in to water authorities, the port of Melbourne and others it is more than $11 billion in stimulus this year, which then tapers off. That is relevant because we have brought forward a lot of projects that needed to be done and relevant because it keeps us in line with our AAA in that there is an exit strategy for the high borrowings.

Looking forward now to the economic forecasts — they are all in the papers; there has been a fair focus on them. The key figure there is that the economy will slow considerably in this financial year. In the following year it will also be very slow at a quarter of a per cent, and then it tapers up. Going through there we see employment and unemployment — it flows into all those figures. Possibly the most significant figure on that line is the population growth down at the bottom, which is a higher forecast than was in the budget papers at this time last year. Victoria continues to grow, and that is one of the reasons why our economy is strong.

We move on, and go to the AAA. Our financial objective, we varied it this year from 1 per cent of operating back to $100 million. We have achieved that. It is significant in keeping the AAA. We also have an exit strategy for the borrowings and we have sustainable levels of debt, which means reducing at the end of the forward estimates period. We also have a cash surplus in 2012–13.

On the next slide we see where the surpluses are. In terms of a $42 billion budget, these are wafer-thin. But it is an operating surplus. We will possibly be the only state or territory jurisdiction to forecast surpluses for all the forward estimates periods. We will have a better idea of that in four to five weeks time. We see by the end of this forward estimates it is back to more than 1 per cent of revenue target.

We go on and talk of government borrowings. When we were elected government borrowings were 3 per cent of GSP. Every single year since we have been in government they have been less than that. Two budgets ago we started forecasting they would rise by the end of the forward estimates period back to that figure for our infrastructure spend. In this budget we are estimating they will get to just over 5 per cent, which is a departure from where we were, and then start coming down again. The reason for that is the necessity for stimulus. The reason for that is clearly that the operating surpluses we were forecasting are not there, and we are continuing our capital works program.

To put it in a historical context, when I was born in 1958 and Henry Bolte was Premier, debt was 58 per cent.

Mr WELLS — Oh, God, here we go!

Mr LENDERS — You might not like the news, Mr Wells, but when I was born it was 58 per cent. What we are seeing is, it is coming down. We are seeing a continual coming down, and at a time of global recession we are getting modest borrowings. Almost every US state, certainly the US government itself, most of the European Union and in fact most of the world would see them as very modest figures. The importance again is that in a time of need borrowings rise; then they begin to taper off again, as is prudent with this government and any other government that seeks a AAA credit rating.

I have got here — Standard and Poor's have actually put their trigger points in for AAA. Moody's do not publish their trigger points; Standard and Poor's do. We are working our balance sheet as hard as we can at a time of global recession to stimulate the economy, bring forward investment and do it in a way that is within AAA. Of course as I sat down from the budget speech Standard and Poor's reaffirmed the AAA credit rating, so we are working our balance sheet hard.

Let us move on. We want to be competitive and create jobs. Our tax rates as a percentage of state economy are continuing to come down. Queensland's and New South Wales's are continuing to go up.

Let us look at the next slide. When you add royalties to that you see that Victoria actually is a very low-taxing state. We offer good services in this state. We have had to learn for 109 years how to do with less because of the way commonwealth-state financial relations have gone, and we are making the state more competitive. We were the first state to abolish the eight taxes we were required to do under the GST. Only Tasmania has followed us. In fact three states in the last year or so have extended the time in which they are going to wind back the taxes they agreed to do as part of the intergovernmental agreement. We are losing some revenue out of that — there is no question about that — because we did what we promised what we would do and we led the field. The advantage for us is that it actually makes our state more tax-competitive, and that is part of the strength of this state and why we have a stronger performance than some other states.

It is also worth noting we have the red-tape burden reductions which the Premier has made part of my KPIs — over five years, 25 per cent, and we are achieving them. We have the red tape up there. There is a series of things that make a significant difference to the economy. We have been leading on the seamless national economy issues at COAG. This is the sort of thing we need to do going forward to create more jobs in this state and make us more competitive on the Pacific Rim.

The CHAIR — Very quickly, Treasurer.

Mr LENDERS — I will just conclude on bushfires. There is more in the presentation. We all know where we were on 7 February. All of us in this state have memories of it, so I will not go through what happened with the bushfires, but what I will say with the further slides is that what we were required to do as a state was to actually respond quickly. We have issues out of the bushfires like the $350 million for the emergency services for paying for the wages, the 70-odd airplanes and the rest that happened during those fires. They have been recognised in the budget. We also have further money going forward for communications, fire suppression and a range of things as well as assisting individuals and communities affected. The commonwealth has been very generous. They are matching 50-50 in many areas of the bushfires, but there is a bill to the state of almost $1 billion in reconstruction, prevention and going forward. This has been a significant constraint on this budget but one that is necessary, and every Victorian would welcome it. I will conclude on that. The service delivery components follow, coming shortly, but those can probably be as adequately addressed by line ministers.

The CHAIR — Thank you, Treasurer. I will begin by asking about federal grants, because they are now a very significant part of the budget. So from a policy perspective I would like you to comment on them as well as provide this committee, perhaps the secretary can later on, with the lists and descriptions which the department itself has in terms of grants, and of course the accountability mechanisms that we have in dealing with those grants.

Mr LENDERS — On general questions here on grants, this budget is probably the first for Victoria where I think this year for every state and territory the majority of revenue will actually come from the commonwealth. That has been the case before for small states for a number of years, and with the larger states now. Part of that is because, as I mentioned before, we actually abolished eight taxes as part of the intergovernmental agreement. The GST replaced those, so clearly there was a fairly quick skew towards the commonwealth in those areas. But also part of this particular budget is that the commonwealth last year rolled together 70-odd SPPs into 5 new SPPs and actually increased the revenue coming through to the states through SPPs. There are also more — —

The CHAIR — That is 'special purpose payments', for Hansard.

Mr LENDERS — There are also NPs (national partnerships). The commonwealth has rolled out more national partnerships. So certainly with the commonwealth and the grant revenue, approximately 30 per cent of our budget comes from the GST — it is the largest component of the commonwealth — and then the other grant revenues, specific purpose payments and national partnerships, also come forward strongly.

From the state's perspective there is a range of things in here that we need to look forward to — not that we are looking forward to them. Certainly on GST payments, with a decline in the national economy, GST payments to the state have actually declined significantly — by approximately $1.5 billion from the estimate in the budget last year to what is actually in the budget this year for this financial year. At times that figure looked higher, when there were earlier estimates of the commonwealth economy being stronger than what it is. That is a significant issue for our budget.

The commonwealth also in this particular round has brought forward a lot of money because of its own stimulus plan flowing through to the state. You saw in the capital works chart before the money for primary schools, which is approximately, over two years, $2 billion coming through from the commonwealth into the state, adding on to the $700 million we were doing in the schools ourselves over that period. The commonwealth is also pouring money into social housing. The commonwealth also has already poured money into some capital works which have already been announced — like the Parkville comprehensive cancer centre — but there will be other capital works that I would hope would be announced in tonight's commonwealth budget.

So the mix of all those means that in this financial year expenditure, including commonwealth grants, goes up in the order of 8 per cent and revenue also goes up in the order of 8 per cent, netting all that out. After this year, when the commonwealth stimulus package starts to ease off our figures go down to much more modest figures — when that revenue and expenditure from the commonwealth both exit the system from the record stimulus amounts we have now.

The CHAIR — Thank you, Treasurer. The secretary will provide some information with respect to the department.

Mr WELLS — Can I just seek clarification before I ask my question. In the presentation you said we are in a global recession, but I thought over the last few weeks I have heard you say that Victoria is not in a recession.

Mr LENDERS — There is no clarification necessary. From my perspective, two things. Firstly, we are in a global recession — there are no ifs or buts about that; the IMF figures are out there and they are on the screen. From Victoria's perspective I think, firstly, we spend far too much time speculating: are we or are we not? In the end, recession is two quarters of negative economic growth. You know you have been in one a half a year or a year after the event.

From my perspective and the government's perspective, to combat the chill winds of the global recession we need to do everything we need to do now. If in a year's time some academic or some statistician says we were or we were not, well that is all quite interesting. But where we are now is, we need to do everything we can to create jobs in this state and to protect us from this global recession. So I do not think we are in recession. Certainly on the last quarterly data we had, the state final demand figures for the December quarter, Victoria was the strongest performing state in the black. So we are not in any technical sense in there. Where we are when you start measuring in the next quarters — and the state final demand figures do not come out for every quarter, anyway — is academic. What is relevant now is what we can do to protect jobs in this state, to grow the state and position us for the future. The rest will be an academic debate in some months or years time.

Mr WELLS — So the rest of the — —

The CHAIR — You have asked your question; it is now on to the next question.

Mr WELLS — No, hang on. I asked for a clarification before I asked my question.

The CHAIR — You asked a question, actually.

Mr WELLS — No, I asked for a clarification of what he said.

The CHAIR — I said at the beginning that we wanted to be quite strict.

Mr WELLS — I asked for a clarification of what he said before I got into my question. I made that very clear when I asked.

The CHAIR — You did, but I am making it very clear to the committee that we are asking questions here, not sort of going on with empty discussions.

Mr WELLS — I sought a clarification, and I said it very clearly.

The CHAIR — You did say it very clearly — —

Mr WELLS — I asked for clarification before I asked my question.

The CHAIR — But let me say I regard it as a question. I will allow you to ask a question, but I want to be very clear today that you ask a question, and you ask one question.

Mr WELLS — Okay, but then you have to apply the same rules to your Labor mates — —

The CHAIR — I will apply the same rule to everybody.

Mr WELLS — As you do for the other side.

The CHAIR — I do.

Mr WELLS — Is that going to start as of today?

The CHAIR — It starts all the time. I make my procedures really quite clear.

Mr WELLS — Right, I will ask my question, if that is okay?

The CHAIR — That is fine, but in future we are being very direct and immediate.

Mr WELLS — Okay; so the whole world is in recession except for Victoria.

Mr LENDERS — China is not in a recession.

Mr WELLS — Okay, apart from Victoria and China.

The CHAIR — And India.

Mr LENDERS — And India.

Mr WELLS — And India — my goodness, here we go.

Mr DALLA-RIVA — And Zimbabwe.

Mr WELLS — Zimbabwe?

Mr DALLA-RIVA — I don't know.

Mr LENDERS — I think that is in recession.

Mr WELLS — I would like to ask about the AAA credit rating. I refer the Treasurer to page 70 of budget paper 2, in which he has detailed the triggers for Victoria's AAA credit rating, which he had up on the board, in fairness. Standard and Poor's rating is based on a comparison of the state's net financial liabilities as a proportion of operating revenue, which you have also said. You have stated that the ratio is forecast to reach 118.5 per cent in 2013, and that is well short of the 130 per cent trigger, so I understand all that. But what is concerning is that on page 68 of budget paper 2, table 4.5 clearly details net financial liabilities of the non-financial public sector in 2012 as being $62.369 billion.

When you compare that to the total operating revenue of the non-financial public sector, $46.453 billion for 2011–12, then that ratio is actually 134 per cent, which is clearly above the Standard and Poor's trigger. So why is the government happy to use the 118 per cent figure? And I would like to seek details — it is on page 66 of budget paper 2 — of the $11 billion of other liabilities, which seems to have been extracted out of the equation to bring it down below the 130 per cent trigger.

Mr LENDERS — The other one firstly is not financial liabilities. There are two comments that I would make in opening up on the discussion. Firstly, your introductory comments — I will not let them go past — about saying that only Victoria — —

Mr WELLS — No, you mentioned China as well.

Mr LENDERS — The comment, the significant comment — and this goes to ratings agencies — as a sort of a tongue-in-cheek, throwaway line, 'Well, it's Pollyanna here. You are saying Victoria is different from the rest of the world'. Victoria is better inoculated than any other Australian state or territory. I say that without hesitation, because the ones that have traditionally been strong have relied on royalties from ore and coal exports, and they are clearly affected. We have a more diversified economy, we have the highest number of apprenticeships of anywhere in this place, we have had an infrastructure pipeline that left the national government that had been in place — with the transport plan, the water plan, the schools plan. It left the national government actually — —

Mr WELLS — There are lots of plans but not so much delivery.

Mr LENDERS — We are talking about the strength of the economy; the reason our economy is in a stronger strength is because we have had the investment in skills and in infrastructure, and we have had the plans that have let the commonwealth actually put money into plans, projects that are ready to go.

There are other economies in the world that are actually performing reasonably well, but the reason we are relatively performing well — and we would rather see growth much more than 0.25 per cent, we would rather see it at historical 2 per cent or 3 per cent levels, with growing employment and a range of other things — but we are more inoculated than the rest of the world through the actions of this government and people in this state.

On the issue of the ratings, firstly, Standard and Poor's went through these documents and made its own assessment that it was AAA; it gave us an unqualified assessment it is AAA. Secondly, we can start going through the component parts of what gets that AAA rating and what we have met on those component parts is that we have met the test. We have modest borrowings to bring forward, to bring forward infrastructure we need; we have an exit plan which means that those borrowings as a percentage of the economy go down over time; we have an exit plan which means that we have a cash surplus in the fourth year of the forward estimates. All of these tests meet prudent financial management and mean that the AAA is there and we have an exit plan going forward.

There are component parts in the non-financial public sector, the public non-financials sector like the water authorities and the port which are commercial entities, which have their own revenue going backward and forward. They all have corporate plans that DTF advises me of and I sign off as the Treasurer on those. They all have corporate plans that are prudent plans going forward so their borrowings, whether it be the Port of Melbourne Corporation or the water authorities, are all prudent, would meet any test in their own right. As a collective group, we also have them all meet the test of Standard and Poor's and the state itself, in a general government sector, goes forward with operating surpluses every year into the future. All of those operating surpluses are all part of the story.

From the perspective of the state of Victoria's finances, we have one state, Tasmania, which does not have two AAA ratings; we have the Northern Territory which does not have two AAA ratings; we have Queensland which is on a downgrade; we have New South Wales which is on a watch; and we have a number of other states and territories which are quite anxious at the moment. In terms of the global financial crisis and recession, this state has maintained AAA because we have structured the budget around working it to the maximum to achieve the investment without endangering it and because of the historical investment in Victoria and diversification of our economy we have been able to do this.

That is the story out of our budget and we obviously will watch it very closely. This budget was constructed with those five objectives on the front slide in mind, one of which was to maintain AAA, which Standard and Poor's have signed off on.

Mr WELLS — Have you deliberately re-categorised other liabilities to deliberately stay under the 130 per cent Standard and Poor's trigger?

The CHAIR — I think you can follow up further with other questions.

Mr WELLS — That is an important part of the question.

Mr LENDERS — Yes, the answer to my opening — as I answered — —

Mr WELLS — Has Treasury deliberately re-categorised other liabilities to deliberately stay under the 130 per cent?

The CHAIR — Let the Treasurer answer.

Mr LENDERS — I did hear you the first time, and I did mention the other liabilities are not financial in the first instance.

Mr WELLS — Okay, all I need is an answer: have you deliberately re-categorised other liabilities?

Mr LENDERS — The answer is no.

Mr WELLS — Okay, so give us an explanation of 'other liabilities' then?

Ms MUNT (to the Chair) — Four questions?

Mr LENDERS — Before we do a bit of good old workplace bullying here, Mr Wells, let us clearly restate where we are; firstly on this.

Mr WELLS — Workplace bullying?

Mr LENDERS — You said are we deliberately rorting the system — or whatever term you used.

Mr WELLS — No, 'deliberately re-categorised' is what I said — deliberately re-categorised other liabilities to stay under the 130 per cent trigger.

Mr LENDERS — The answer is no and the other assurances that you can have on this are: one, chapter 1, budget paper 4, is audited by the Auditor-General — something I might add — —

Mr WELLS — Please!

Mr LENDERS — You looked mockingly and I know how you voted on this back during the Kennett government to neuter the guy.

Mr WELLS — An Auditor-General should be focusing on historical figures.

Mr LENDERS — The Auditor-General is more tha historical figures, actually budget paper 4, chapter 1 is not historical, it is looking forward. He actually goes through that. Secondly, he goes through the annual financial report at the end of the financial year and looks through both of those. The Auditor-General does, on both forward-looking in chapter 1, budget paper 4 at budget time, and after the event on the annual financial report, looks through this.

I have a high regard for the Auditor-General. I do not like everything he recommends, but I have a high regard for the Auditor-General, he is an independent officer of the Parliament.

Mr WELLS — So do we all.

Mr LENDERS — Secondly, on this, if you are concerned about the veracity of this, we have Standard and Poor's which has actually trawled through all these papers also and asked the questions, 'Is this real or not real; is this a budget that is a AAA budget or not?' and both the Auditor-General has ticked it if you check his certificate here, and Standard and Poor's have just done its release after the budget reaffirming AAA.

I have great confidence, Mr Wells, that this budget meets these tests and it is not just me saying it, as the Treasurer who you would expect to be proud of the budget, it happens also to be the independent Auditor-General and an independent ratings agency that have already both signed off on it.

Ms MUNT — We have spoken about the strength of the Victorian economy, and some of the reasons for that, and I note on page 21, budget paper 2, 'Victorian economic projections …' which are strong, in fact stronger than the Australian economic conditions and outlook mentioned on page 24, budget paper 2. Can you give me a further explanation of why that difference is apparent? Why is that so?

Mr LENDERS — Thank you for the question. There are a number of observations I would make as to why Victoria has a greater strength. I alluded before to the diversification of our economy, and I will report later on in this presentation, for example on my ICT and financial services portfolios. These are two areas of the economy, both of them getting close to 10 per cent of the economy as an example. Both of those — again the chill winds of the global recession have hit both of them — are actually performing more robustly than equivalent sectors in other states in Australia.

There is a whole lot of history for this. Part of it is the nature of our economy. I mentioned before that our exposure is less so. On the slide I showed before, manufactured exports, for example, we talked of China being a particularly strong place in some other areas. If we talked about things like overseas students, for example, coming in, India was not on the graph there because of the nature of where items are. India is another strongly growing economy; again overseas students coming into Victoria from both India and China have not diminished during this global recession.

The investment that we have made in skills over the life of this government with a skilled workforce has delivered dividends to us and our investment in infrastructure has continued, a four-fold increase, so it is not suddenly, like a lot of governments around the world, the IMF says you need to invest in infrastructure to bring it forward now and people start running around in a panic, saying, 'What are we going to invest it in?'.

In our case — the transport plan being a classic — last year there was a long deliberation during the year across all government as to what projects you needed over 12 years to deal with issues in rail, in road, in freight, in urban planning; all of these issues were done in a systemic plan with a 12-year time line, and now, suddenly, the commonwealth and other areas wish to invest. In the state there is an orderly plan that is relevant and that is designed to deal with things necessary in the Victorian economy, so there is a range of these things that all come together.

Your other question on how this measures with other statistics, traditionally — in the last half decade or so — Victoria tends to have been at the Australian mean. We have been the leader of the non-resource states; the resource states have generally performed 1 per cent or 2 per cent better because of the nature of the resources. Another manufacturing state, which I will not mention, north of the Murray has traditionally pulled down where the system is.

What we are seeing on the consensus economic forecasts is that our forecasts from DTF in the budget are pretty well consistent with the consensus for the country as a whole; they are pretty well consistent. One forecaster is a lot more negative, but they are consistent with the consensus. If you follow the normal methodology of where we stand, they match up. If you also follow the strengths of the Victorian economy, they match up. It is interesting that often we are seen to be overly bullish or Pollyannaish over a forecasting growth of 0.25 per cent. It is hardly a radical forecast, but it is one that probably stands out from a lot of other economies that are a lot more negative.

If you look at New Zealand as an equivalent economy to Victoria, we are forecasting 0.25 per cent growth; they are still forecasting shrinking growth, but our population growth is also strong, and that is a significant part of it. As I said in my opening remarks, the forecasts this year versus last year, most of them have gone south in the sense of employment growth and a range of other areas, but population growth is actually stronger than forecast at the same time last year, and that is significant for demand in housing, for demand in services, in so many areas for how you measure GSP.

Mr RICH-PHILLIPS — Treasurer, I would like to ask you about the performance of the VFMC, which obviously impacts on superannuation liabilities. I note the most recent performance data on the VFMC, the 31 March quarter, shows that the VFMC underperformed the benchmark that it sets in virtually all asset categories — cash, index-linked bonds, Australian equities, property and absolute fixed return funds, and the quarterly return was a loss of 4.4 versus the index, which was a loss of 2.6.

I would like to ask you: what are the estimated losses across the general government sector from VFMC investments factored into the revised 2008–09 figures, and what is the impact from the absence of a chief executive, the absence of a chairman, and the fact that the chief information officer is now acting as a CEO on both governance and investment returns in the VFMC?

The CHAIR — Treasurer, insofar as it relates to the estimates?

Mr LENDERS — There are a number of subsections there, Chair. In response to Mr Rich-Phillips, firstly, just a technical correction: Justin Pascoe is the chief investment officer, not the chief information officer.

Mr RICH-PHILLIPS — Investment officer?

Mr LENDERS — He is the acting CEO. In response to that part of the question, obviously the board of the VFMC is in a search for a new chief executive officer following the resignation of Syd Bone. As far as the chair goes, we have a stunning new chair who has been announced to take office in late June: John Fraser will be an extraordinary new leader for the VFMC. He was the deputy secretary of the federal Treasury. He has worked for UBS International, one of the leading banks in the world — obviously a Swiss bank by origin but based in London now, where he is.

The financial credibility of such an international figure being appointed to now chair the VFMC is a real catch for Victoria, and I am delighted to have recommended his appointment to the Governor in Council, because I think he adds extraordinary credibility to an organisation as well. I was speaking to Justin Pascoe at a function yesterday, and I think the VFMC knows the difficult international circumstances it is in and is performing its role well.

In regard to your question as to how it affects the estimates, I guess I disagree with the nuance of the figures you are using. Certainly the quarterly report — the most recent one I have, and I assume we are referring to the same one, which is the period 31 March?

Mr RICH-PHILLIPS — Yes.

Mr LENDERS — I guess where I disagree is how it is meeting benchmarks and the like. For the three months the VFMC has had a performance of minus 4.27. As I showed on my slide before — and the VFMC's investments are obviously more than just the stock market, so that is being simplistic — the stock market to last Friday was down 27 per cent on what it was on 1 July last year, and at one stage that figure had got down to minus 41.8 per cent on the stock market. So the VFMC in a quarter having a minus 4.27 performance — as I said, it is not just equities, there are a lot of other things in it.

Mr RICH-PHILLIPS — Can you just confirm it is 4 point — —?

Mr LENDERS — The figure I have is 4.27, for the period to 31 March 2009 — and on that quarter.

Mr RICH-PHILLIPS — The figure published by the VFMC is 4.41.

Mr LENDERS — Regardless of which one of us is correct — —

Mr WELLS — It is a VFMC figure itself.

Mr LENDERS — I also have a VFMC figure; it could be a transcription error, the point being, though, it is in — —

Mr WELLS — It is the same document.

Mr LENDERS — But the point being, it is in the order of 4 per cent — that is the point I am making — for that quarter. If we are looking at the benchmarks that the VFMC operates with, the Intech investment median manager benchmark is 4.63, and then the Intech investment top quartile manager is 4.23. The point I am making is that the VFMC's performance is on par or better than the two benchmarks it operates, so the benchmark of the top quartile of fund managers or the top half of fund managers; so it is in the range or equal to one or both of those.

Firstly, let us put a perspective on where the VFMC is travelling. With those benchmarks, if we look at the one year, the VFMC is performing 2 per cent better than the median manager benchmark and 1 per cent better than the quartile manager benchmark. If we go to the three-year period, it is performing better by the order of 1.5 per cent to the median manager and about 0.5 per cent to the quartile manager. If we go over the five-year period, it is performing better than the median and roughly on par with the quartile.

The point I make on that is there are a lot of statistics there but we need to manage something like the VFMC in accordance with benchmarks. That is how their executives are judged and their performance is judged. That is how the organisation is judged. The VFMC is performing on par or better than like organisations.

All of us notice the performance of the VFMC; all of us, like every single member of a private or public pension fund on this planet, notice. I am probably guilty of a bit of hyperbole; there probably is one out there somewhere that has actually run a positive result but there would not be many. There would not be many people in our community now who are not getting their statements from their superannuation funds showing losses across the board that are reflective of the fact that the ASX has dropped by between 40 per cent and 27 per cent, depending where in the last few months you wish to look at a line; and if you go back over several years these things happen in cycles. We saw it in 2001–02. This is clearly more severe as part of a global recession.

In terms of the VFMC's performance, it is doing what we wanted it to do — to be a centre of excellence managing funds for the longer term — and on a longer term basis it is still performing better than if we had put it in a bank, in cash. This is a centre of excellence, it is a place that is dealing with the difficulties that the entire world is dealing with and it is performing against benchmarks in its five-yearly, three-yearly, one-yearly and three-monthly returns.

The CHAIR — Thank, you, Treasurer.

Mr RICH-PHILLIPS — Just while we are on this, Treasurer. The most recent benchmarks that I downloaded from the VFMC this morning are entirely different to the ones you have quoted.

Mr LENDERS — Within 0.2 per cent so they equate and properly so.

The CHAIR — That can be clarified and come back to the committee.

Mr RICH-PHILLIPS — If the Treasurer can on notice reconcile them. These are substantial amounts.

The CHAIR — That is right. I just asked for that.

Mr LENDERS — I certainly will.

Mr RICH-PHILLIPS — This was the primary question, what is the actual dollar loss that has been estimated into the 2008–09 estimates as general government?

Mr LENDERS — Sorry, the — —?

Mr RICH-PHILLIPS — The dollar loss that has been factored into the 2008–09 outcomes.

The CHAIR — It is the revised outcome in the revised estimate.

Mr LENDERS — There has been clearly a dollar adjustment. We will take that on notice and get the specific figures back to you, the figure in a budget paper. Clearly if we are looking at the net financial liabilities components of the budget paper, the vast majority — approximately 80 per cent of the adjustment there — is due to variations in discount rates as opposed to investment performance.

It is interesting; it all depends how you measure these. The variation in this is several billion dollars better than it was at the time of the midyear report. So these things move around as the discount rate moves around — the vast majority of the movement comes through changes in the discount rate which have no effect whatsoever on actual dollars going in and out.

If I can recall at this committee a couple of years ago when the discount rate went up I was accused of hiding money for an election slush fund, and then when the discount rate went down I was accused of mismanagement. I guess you can do one or the other; doing both would be very — —

Dr SYKES — We are learning from you, Treasurer.

Mr LENDERS — Doing both would very clever, I would think. But the vast majority of movement is because of the discount rate, and the underpinning of course on all of this is that the ratings agencies continue to rate the state of Victoria as AAA. They see these things but there is no doubt that every investment fund or almost every investment fund in the world has faced the same pressures and the long-term price going forward is that it has an effect on our budget but these move around.

As the rate of return goes up, the discount rate goes up we have larger returns but whole-of-life is how we measure these policies and that is the measure that we will continue to and should continue to go for.

Mr RICH-PHILLIPS — You mentioned Mr Fraser, the new chairman of the VFMC. Is Mr Fraser going to live in Australia once he takes up the position, Treasurer?

The CHAIR — I think you might have had enough, Mr Rich-Phillips. I think we will go to the next question.

Mr NOONAN — Treasurer, I want to ask you about the government's recent changes to wages policy, and I note in budget paper 2, page 97, under the sensitivity analysis table, there is some reference to this. I wonder whether you can outline how the changes to wages policy will impact on the budget position by reference to the sensitivity analysis.

Mr LENDERS — Thank you for the question. The sensitivity analysis attempts for us to measure what will happen if there is a movement in the economy one way or the other. It is a very good question as to the effect of wages on the budget.

Approximately half of our budget is wages. Actual wages themselves are a bit less than that but by the time you do various add-ons — superannuation and others — we are getting to close to half the budget being in wages.

So if you are talking of a wages bill in total approaching the $20 billion mark, and you are talking of a change to wages policy where the base rate is 3.25 per cent down to 2.5 per cent, over a figure of that size that is $150 million a year in rough terms. Then over a four-year forward estimate that becomes $150 million the first, $300 million the second, $450 million the third, $600 million for the fourth before we even do adjustments to adjustments on that. That is a significant thing on a sensitivity analysis as to where the budget is going forward. Certainly in a particularly difficult financial cycle, which the state itself faces, it plays a significant role in to keeping revenue coming in higher than expenses over that period of time.

In a sensitivity analysis that in very rough terms explains a lot of the reduction in what we would normally expect in a forward estimates that go forward year to year without change.

The importance, I guess, in more than just where the sensitivity analysis goes to is also the policy issues for government. There are many governments at the moment and many companies that are actually retrenching people to balance their budgets and that is something that we, as a Labor government, are extraordinarily reluctant to be part of. We had the dialogue with our own public sector workforce where we are saying these are the stark choices we face at a time of significant revenue drop, at a time of global recession.

We have put forward the case that a more modest wage growth commensurate with inflation or slightly better than inflation, and a guarantee of no retrenchments to make budgets balance, is an appropriate policy setting to do in here. So you correctly identify in the sensitivity analysis what the effect on the budget bottom-line is of this, but wages are the single largest component of our budget and we think it is a fair balance.

I noticed recently the Commonwealth Bank, for example, adopted a similar type of policy for its workforce. They said modest wage increases were appropriate going forward and I think it was people under the $100 000 mark had a 1 per cent increase under their EBA and people over the $100 000 mark — actually I think the CEO took a 10 per cent cut if I recall correctly at the time.

But if we look at other private sector organisations, this is a way in times of uncertainty to go forward, because jobs, in the end, are the most significant thing that a government or an employer can offer its workforce — a guarantee of jobs. There are real increases in wages but at much more modest levels than we have had. It has let us have the budget go forward in surplus and let us guarantee those jobs to Victorians with a more modest wage increase.

We think it is the correct policy. It certainly has a significant effect, if we get to the out-years as year upon year. Of course many of these EBA do not take effect until they expire. In teaching, last year we had a wage agreement, if my recollection is correct, in the financial year we are finishing which was 4.9 per cent and then 2.7 in each of the next three years. Clearly, that will be factored into these forward estimates, but when we get to the end of the final year, then we will factor in 2.5 rather than 2.9. Many of the others, like nursing and police, are 3.25, so those savings will start to come through further down the budget process.

Dr SYKES — My question follows on from that question, Treasurer, in relation to the impact of wage increases in relation to sensitivity. You have said, as I understand it, that you expect wages to be 3.25 per cent, reducing to 2.5 per cent increases. How do you factor in and what is the impact of wage increases such as those of apparently firefighters who received 15.75 per cent over the next three years and another group of firefighters receiving a pay increase of 4 per cent? That seems to be out of kilter. I should say that I am extremely appreciative of the efforts of our salaried and volunteer firefighters, but I am asking about the impact of these sorts of wage increases in some sectors on your overall budgeting.

Mr LENDERS — Thanks, Chair. I guess my response to Dr Sykes, first, would be: I would not believe everything you read in the papers that has come from the state opposition. That is my starting point, which I think is the source of the — —

Dr SYKES — This is not actually a state opposition's. It is the AWU state secretary, Cesar Melhem.

Mr WELLS — He is a mate!

Mr DALLA-RIVA — Your union mate!

Mr LENDERS — Chair, what I would say is: I also would expect the secretary of the AWU to be talking up an agreement that he has just signed with his members also. The significance of that particular agreement, the one you particularly mention on the DSE firefighters, is this: it is one that I believe meets government wages policy. It is one that clearly is quite a complex EBA, but the centrepiece of that is there is a 45 per cent loading that went to DSE firefighters at times when there was a fire situation as opposed to times where there was not.

Clearly the difference between that is that DSE firefighters have extraordinary useful things to do, whether it is declared fire or not. The preventive works that are being done are equally important to the state as the works when there is actually a fire being done during a fire season. Your starting point on that EBA is you build into the base the 45 per cent loading that was there in some occasions and other occasions it was not there. Once you build that into the base, then there are a number of issues in that EBA, which is the normal 3.25 per cent growth in wages under the government policy. There are also some productivity issues regarding training for part-time or temporary DSE firefighters.

It is a complex set of arrangements. We have a 45 per cent loading in some years, which is now built over a period of time into a base. From my perspective, it is in accordance with government wages policy. It adds certainty to what goes on in that area. It is an EBA that is being negotiated with the government's workforce which is within wages policy, which is something that this government strongly encourages.

Dr SYKES — Can I summarise: with appropriate packaging, a group of workers can get a pay increase substantially greater than 3.25 per cent, providing it is appropriately package.

Mr LENDERS — That is an interesting way of summarising it. Government wages policy is this: we support wage increases of 3.25 per cent up to 4 May; and from 4 May, 2.5 per cent. But we also have with real bankable productivity on top of that, wages can go to whatever level. There is real bankable productivity. This has been an agreement where there is real bankable productivity done within wages policy. It is a good outcome for the workforce, it is good outcome for government. It is accordance with wages policy — exactly what good IR policy, what good EBAs negotiated in good faith with everything on the table can achieve.

EBAs are never easy for government. It is one of the hardest things for government, always ongoing negotiations with workforces, but we engage in that and we think it is a reasonable outcome on all sides in accordance with government wages policy.

Dr SYKES — So 3.25 per cent is a nominal target, but in reality with good packaging and good negotiation you can get salary increases, package increases way and above 3.25 per cent or in the future way above 2.5 per cent?

Mr LENDERS — I think we have two different ways of dealing with this, Dr Sykes. We can describe it, as you say, with good packaging. What I would describe it as is government wages policy with real bankable productivity. I think we are talking of different things or maybe the same thing, but I reiterate that it is real bankable productivity, which has been a good outcome for the state of Victoria by this 45 per cent loading in some occasions being built into a base and delivering what we need from our DSE firefighters — that is, actually fighting fires in times of fire and, when it is not fire, actually doing the very preventative work either to stop fires happening or, when they do happen, make it easier to contain them. That is the role of a DSE firefighter, a flexible workforce. It is an agreement I am confident is in accordance with wages policy.

Dr SYKES — In terms of that improved productivity, can we expect a substantial increase in the amount of areas of prescribed burning?

The CHAIR — I think the Treasurer has answered the question three times. We will move on to the next question.

Ms HUPPERT — I would like to return to the subject of infrastructure spending. In your presentation you talked about the accelerated infrastructure investment in Victoria. In budget paper 3 on page 358, it mentions the investment in Peninsula Link which has a budgeted cost of $750 million under the Victorian transport plan. On page 361 of budget paper 3, the government has allocated half of this amount. Can you outline how the government intends ensuring that Peninsula Link is delivered?

Mr LENDERS — Chair, I thank Ms Huppert for her question. I am very excited about Peninsula Link as a project. It is one that was mentioned in the Victorian transport plan last year. It is a good illustration of why the transport plan was actually not just a plan. Sometimes the community is understandably cynical of governments for having lots and lots of plans, what do they mean, and what is the delivery factor on it?

The transport plan identified that the Peninsula Link was very important — that link from Carrum Downs down to Mount Martha was important to complete the great work of EastLink and also remove what is clearly a bottleneck around Frankston and environs, in that particular area, so it was identified as a project.

The original work, the environment effects statement work was done. There has been work done so that this project could be done. It has been costed. Expressions of interest have gone out now. This is one of those classic conundrums in a sense of state governments. We want this to be done in partnership with the commonwealth government, but we are also acutely aware that firstly, it is needed; and secondly, if we want it to be part of a stimulus package creating jobs now, we need to commence the work, to get it going.

The expressions of interest have been called for by the roads minister and we now have a live project that is out there in the market, that will deliver a great bit of infrastructure but also jobs.

Where we see this is that we have put our money on the table. We are hoping that the commonwealth will match it as one of those projects that we have lodged with Infrastructure Australia for them to be recommending through to the commonwealth on, so it is out there, it will do the job it needs to do. It is probably commencing more quickly with more detailed costing, with more real work and benefits to community than — I do not want to have too much hyperbole here — I imagine almost any other project in Australia if not ahead of any other project in Australia.

It deals with that critical road infrastructure along the eastern edge of Melbourne and south-east of Melbourne that has been there for a long time. My colleague Mr Viney in the upper house quite often talks about how he first found the Scoresby bypass in a *Melway* probably back, for Mr Wells's benefit, in Sir Henry Bolte's time, when it was first recorded as a necessary piece of infrastructure in the *Melway*. Year after year after year, the only thing that actually happened at Scoresby was that *Melway* put it in each new edition, and it ended up being this government that delivered on Scoresby, now known as EastLink.

Mr WELLS — It was a blatant lie.

Mr LENDERS — This government delivered — —

Mr WELLS — It was a blatant lie.

Mr LENDERS — Mr Wells, I think it was hardly a blatant lie that EastLink is in place.

Mr WELLS — You promised it as fully-funded election — —

Mr LENDERS — If you actually drive up Hoddle Street — —

Mr WELLS — It was a blatant lie.

Mr LENDERS — If Ms Huppert were to drive Mr Wells up Hoddle Street, turn right, when you get up towards Collingwood, you can actually drive all the way down to Frankston on a thing called EastLink — the Eastern Freeway and EastLink — through a tunnel.

Mr WELLS — But it was an election lie.

Mr LENDERS — So I think it is hardly a blatant lie.

Mr WELLS — You said it was going to be a fully-funded, taxpayer-funded, costed road. You said that.

The CHAIR — Could I ask members — Mr Wells, thank you — and also the Treasurer to try not to bait each other and just concentrate on the — —

Mr WELLS — And stick to some facts.

The CHAIR — I just asked you to be quiet, Mr Wells.

Mr LENDERS — So in response to Ms Huppert, Peninsula Link is an extension of the reality that is EastLink, so if you do go up Hoddle Street, you can drive all the way down to Frankston without a traffic light on a great bit of infrastructure. This was something that has been in the *Melway* for 40 or 50 years and is actually happening, so Peninsula Link will extend that from Carrum Downs to Mount Martha, and I can assure Mr Wells, through you, Chair, it will be toll free.

Mr WELLS — That's what Bracks said about Scoresby.

Mr LENDERS — It will be delivered.

Mr RICH-PHILLIPS — Why is your promise any more valid than Bracks's was?

Mr LENDERS — I am responding to Ms Huppert, talking about real infrastructure, which is on the plans and will go forward, and it is actually a sign. I mentioned before, we have a growing population and we also are a state that believes if we continue to be a more livable city and state, we need to invest in infrastructure to do that.

It is interesting again, touching on my financial services portfolio which I will address later in the day, what are the things that encourage companies and individuals to come to Victoria. If you have a choice of Auckland or Sydney or Brisbane or Melbourne, if you are locating somewhere to go, the livability index of what it is like to locate here, whether it is accessibility to good schools, whether it is time taken to go from one part of the state to another; whether it be arts and cultural assets, that is important to many people.

The livability index is one of the things that brings people to Victoria, and Peninsula Link is an important part of that whole Victorian transport plan. If you wish to go from one part of the state to the other, it meets the triple bottom line. You are not sitting there at a traffic light, emitting fumes into the atmosphere; you are not wasting your billable time by sitting there, and Mr Noonan nods on this one, being very familiar with the transport industry.

You are not wasting time belching out fumes at an intersection because there is not an adequate road infrastructure, and so it meets all the tests of a triple bottom line, so we are determined to invest in transport infrastructure, whether it be rail, whether it be road, whether it be freight, whether it be the ports, because they are all critical for the economy, they are all critical for livability.

I am delighted that this government has announced it is doing it. I am delighted that the Minister for Roads and Ports is commencing work on it, and I am delighted for the people of that part of Victoria who will use the road, which will improve, in the triple bottom line sense, their services now and into the future, as well as creating jobs in the meantime. It is a good Victorian project.

The CHAIR — Thank you, Treasurer. I just remind members that it is very difficult for Hansard if you have argy-bargy going across the table, and whether it is people reacting. I also remind members that the conventions of Parliament, including parliamentary language, should also be followed in this hearing, but I am particularly concerned about Hansard. They find it almost impossible to deal with if there is more than one person speaking at a time, so I ask people to respect each other and not bait each other.

Ms PENNICUIK — Thank you, Chair. I listened with interest to that last answer, Mr Lenders. Not everybody thinks that the Frankston bypass is a priority. That area is certainly a public transport black hole, but talking about that as well and the fact that it is going to cut through a native flora and fauna reserve is a segue into my question which is about biological assets, on page 56 of budget paper 4, note 18, I notice the state's biological assets are forecast to increase over five years from $42.8 million to $76.4 million. Can you explain what is behind those figures? There is a bit of commentary on page 35, but it is fairly brief, so what are those biological assets?

Mr LENDERS — Chair, I might take the substance of that on notice for Ms Pennicuik. Our investment in biological assets would obviously include the commercial ones like VicForests and the like, which are there, but also our investment in biological assets, I am assuming — and it is probably more an issue for the minister for the environment, who has already been here — would include issues like the acquisition of the four new national red gum parks along the Murray River that we announced last year and are funding in this particular budget. But I will take on notice the more specific details to make sure that that covers off on the areas of acquisition of biological assets that Ms Pennicuik specifically asked about.

Ms PENNICUIK — Just for clarification regarding VicForests, Treasurer, as you might be expecting, seeing as you raised VicForests. I cannot find anything about VicForests in the papers here in terms of: are we expecting VicForests to make a loss again this year or not to make a loss, and also — —

The CHAIR — Do you mean in a future year?

Ms PENNICUIK — Yes, in future years; it usually does make a loss.

Mr LENDERS — VicForests would only appear in here in the sense of a dividend that comes from a public non-financial corporation into the general government sector, and VicForests dividends have historically been, in the scheme of the budget, very, very small. Where VicForests — —

Ms PENNICUIK — Not negative?

Mr LENDERS — VicForests was set up to commercially manage timber in our forests, so it was always a policy balance between, I guess, on one side of the spectrum the unfettered harvesting of timber to create jobs and on the other side of the spectrum the protection of the natural environment. It was always a policy balance between the two. VicForests was meant to act commercially in between so that we could achieve both of the outcomes. VicForests operates commercially. VicForests, though, has been significantly affected by the bushfires. It is no different, in a sense, from many other parts of Victoria in a commercial sense how it has been affected by the bushfires. The reliability of timber supplies has clearly been affected in certain areas.

The biggest challenge that VicForests faces in the present and coming financial years is how does it get that balance right. If there are contracts issued to harvest green timber and you now have black timber there or timber that has been burnt — generally timber that has been burnt has a maximum two-year time when it can be harvested, and clearly it is a policy imperative of government, for a whole range of reasons, that you should harvest the damaged timber while it still has some economic value rather than chopping down new trees, if that is the way to describe it. That is a big challenge for VicForests in this particular period of time, and that challenge — doing the right thing by utilising the asset — will be one that means it will be less profitable, I am sure. I have not had a detailed discussion with the board of VicForests since the fires, only a preliminary discussion, but I would imagine it would be more problematic for them to achieve the dividend the state requires because they are actually doing the right thing on the resource that is out there post fires.

The other thing I would like to say about VicForests and the forestry industry is about the number of people with knowledge of forests and the number of people with heavy equipment who backed up DSE and Parks Victoria firefighters during the time of the fires. There was an extraordinary amount of local knowledge. I would certainly like to put on record my appreciation for VicForests and its contractors, who came to the party well and truly during the fire season to assist those DSE firefighters that Dr Sykes was asking about before.

Mr SCOTT — I would like to make reference to budget paper 3 at pages 361 and 326 in relation to the cycling strategy the government has outlined. This is predominantly for metropolitan Melbourne. Can you outline the plans for cycling in regional Victoria?

Mr LENDERS — Through you, Chair, to Mr Scott. I thank him for his question. The question in itself is quite illustrative that there is a plan for the whole of Victoria. There was a time in Victoria when any plans, like cycling, were very Melbourne-focused, but under this government we have had a focus on the whole of the state. It is probably a question near and dear to my heart, as someone who is a very keen cyclist and could probably do a bit of a litany of a number of the rail trails that under this government have been developed and built up — —

Mr WELLS — Hang on, it was formatted under the previous government, rail trails.

The CHAIR — Let the Treasurer answer, please.

Mr LENDERS — Thank you, Chair, and through you to Mr Scott I reiterate that it is a great joy to be on the rail trails, whether it be the ones through Gippsland, which I have had a lot of pleasure going through, or whether it be the rail trails in the north-east of the state, from Bright right down. Depending how fit you are and what the wind is like, you can go a long, long way down those rail trails. It is great for tourism in the region and it is great for the health and wellbeing of citizens, and we are very impressed with what is there and we are continuing to work further onwards.

In this particular budget there are certainly the Mansfield–Maindample rail trail; the Great Ocean Walk, which involves the realignment and a new walking track from Apollo Bay to the Twelve Apostles; the Oxley–Milawa cycling trail, which I highly recommend because it is flat and quite an easy one to ride along; and the upgrade of the Surf Coast Walk from Torquay to Aireys Inlet. There are also the Murray to the Mountains rail trail and the Port Fairy–Warrnambool rail trail along a disused rail line between Port Fairy via Kororoit and Warrnambool. You see extraordinary use of all of these.

We had a community cabinet in the Grampians, it was probably last year, and it was interesting talking to a number of people. There was a focus on tourism operators, and I remember at the time my colleague Tim Holding was asking a number of the tourism operators, ‘What is the most effective thing you can do? Do you advertise? Do you provide infrastructure?’. When you have had adverse times like when there has been a fire and people think it is unsafe in Victoria, you clearly need to advertise then, but generally the advice is that investment in tourism infrastructure is what actually makes a difference to these regional communities. A refreshing of walking and cycling trails and the development of them are things that just add and add and add to the value of the tourists and also to the communities that service that new infrastructure.

These rail trails are just a fantastic way — it is generally VicTrack-owned land and there is a capacity for us to use it. I am not sure, Mr Scott, whether you are a user of rail trails, but I would suggest they add extraordinary value. My only gratuitous advice would be to pick a day when you are not riding into the wind and pick the flat ones. There are a few really good ones. I would not recommend going up a hill a long way into the wind, but they are good.

On a serious note, these are the things that make an extraordinary difference. If we want tourists to go to parts of our state, we need new infrastructure. We need this, and it is ongoing jobs, and it just also means we get to see great parts of our state that we otherwise would not see. There are a fair few of them, and thank you for giving me the opportunity to let people know of my cycling.

The CHAIR — I see your Dutch heritage is coming out in your preference for flat trails.

Mr LENDERS — That’s right.

Mr DALLA-RIVA — Like Mr Rich-Phillips earlier, I am just staggered at the fact that at a time of world recession, as you put it, you can knowingly state that the chairman of the VFMC is living overseas.

The CHAIR — I do not think that is actually to do with the budget, but go on.

Mr DALLA-RIVA — I just make that point, because — —

Mr WELLS — He is going to move back, though, isn't he?

Mr DALLA-RIVA — Hopefully he will move back; he controls a lot of money. Treasurer, I refer you to budget paper 2 and some of the statements that are made at the top of page 13. You state, 'We will secure up to 35 000 jobs in 2009–10'. I also note in the same budget paper on page 29 in respect of Victorian participation and unemployment rates where you have specified that Victoria's unemployment rate will increase by 1.5 percentage points to 5.7 per cent. The facts are that we know — it has been very well leaked — that there is a national unemployment forecast of 8.5 per cent.

This represents a huge difference between what your figures are and what is stated at a national level — something in the vicinity of between 197 000 and 240 000, depending on the variation. Victoria's unemployment rate has been above or equal to the national rate in 54 of the last 57 months, or almost five years. How can you justify this very optimistic budget forecast, and how can you justify an increase of 35 000 jobs?

Mr LENDERS — Before answering that I will reply to Mr Dalla-Riva's earlier comment about John Fraser. I thought we were in Victoria in 2009, not in Albania in about 1972 or in Burma in about 1964. We actually are part of a global economy. John Fraser is an individual who is an outstanding leader. As I said before, he is a former deputy secretary of the federal Treasury. He is the CEO of UBS, one of the largest companies in the world and financial organisations in the world. He has a breadth of experience that will be an asset to the VFMC.

We are in a global economy. As I said, we are not Albania a couple of decades ago and we are not Burma. We actually are part of a global economy. He is moving back to Victoria, his home. He has a home in Victoria. His family is here. He is coming back. He is committed to doing what he needs to do to chair this board. He will do his role as chair well. I think also in a time of global travel and global ICT and communications we do have things called teleconferencing and we do have things called telephones and we do have things called global meetings. He actually comes here for the meetings at his expense, not the state of Victoria's expense, so I think it is a very cheap, xenophobic, old-style Albanian or Burmese innuendo about one of the most qualified people in the world taking up the chair of VFMC.

Moving on then to job forecasts, firstly, Victoria is 24.8 per cent of the population of Australia. There is actually another 75.2 per cent out there that operate in different economic circumstances than Victoria does. Firstly, if we are talking about are our estimates for jobs and the economy right or wrong, we actually are a part of Australia, not the whole of Australia. Firstly, on our forecasts, I am confident of our forecasts. For the reasons I gave before in response to Ms Munt's question, our forecasts are that this economy is a diversified economy, there are different circumstances and we have different export markets from other parts of the country. We are not a place that exports massive amounts of coal and iron ore to Korea or Japan, which have got big declining economies. We actually export to different destinations, and we actually are a different economy.

We are a state that receives approximately $40 million a year — four zero million dollars a year — from royalties out of brown coal. Queensland receives more than $3 billion — as in billion, not million — in royalty revenues from ore and from coal and other things. We are a different economy from the rest. Are our figures correct? You mentioned the well-leaked figures of the federal forecast. I think I would rather sit and wait tonight till 7.30 when the federal Treasurer actually says what the forecasts are and have an opportunity to actually look at their budget papers than paying too much credence to rumours.

Mr WELLS — You know how the Labor Party works.

Mr LENDERS — If you believe rumours, I could go through a long litany of rumours and certain facts that were going to happen in Victoria that proved to be totally wrong. I think I will await the federal budget before making any formal comment on what their unemployment figures may or may not be. Without seeing them or having the opportunity to talk to them formally, I will reiterate why Victoria is different from the national economy.

On the issue of skills, if we look at year 12 retentions — and there is an extraordinarily strong correlation between completion at year 12 and entering into the workforce and holding onto jobs, an extraordinarily strong correlation — we have the highest year 12 retention of any state in Australia. I use the word 'state'. In any state in Australia we have the strongest year 12 retention. If you look at skills in a workforce which position employers to go forward and hold on to skilled workers, we have the highest number of apprentices of any state in Australia. So if you are talking of where an economy goes or how it goes forward, we are a flexible economy. We see employers in Victoria now, as opposed to where we were 17 or 19 years ago when we had a similar economic downturn facing us from international areas, we are finding in a more flexible workforce employers are asking employees to stay on four days a week, three days a week, take leave and negotiate more flexible times. Employers will bend over backwards to do that with skilled workforces more than they will with unskilled workforces. We are seeing that happen.

It is the economic reality here now, if you go out into the business community and talk to employers. People have been scarred by a generation of skill shortages. Employers are seeking to hold on to people with skills. Victoria is better positioned in skills than any other jurisdiction in Australia — fact. We have high year 12 retention — fact. We have a more diversified economy — fact.

Dr SYKES — Not in country Victoria, you do not.

Mr LENDERS — And if we are talking of country Victoria, this government has actually invested, through RIDF — —

Dr SYKES — The year 12 retention rate is less than 70 per cent.

The CHAIR — Let the Treasurer answer, please.

Mr LENDERS — The government has invested, through RIDF, in leveraging projects in country Victoria through the whole life of this government.

Mr WELLS — That is not a good example.

Mr LENDERS — And, Chair, RIDF has meant the leveraging of projects in town after town after town.

Dr SYKES — Big announcements, little cash on the table.

Mr LENDERS — Well, Chair — —

The CHAIR — Could we have the Treasurer to answer.

Mr WELLS — Why would you use that example when the money has not been spent?

The CHAIR — Could we have the Treasurer to answer, please, without any assistance.

Mr LENDERS — In response to Mr Dalla-Riva's comment on whether our job figures are correct and linking it back to expenditure in regional Victoria, I can start citing instances in the micro, whether we talk of the hundreds of cattle underpasses partly funded by RIDF through Gippsland, the area I grew up in. They are job construction, they partnership with farmers, local municipalities, road authorities and RIDF. We can talk about whether it be for the large food exporting items from the north-east of Victoria, around Wahgunyah or around Wodonga.

Most of the new initiatives have been partnerships between companies, between local government and RIDF in dealing with minor bits of infrastructure. They might be the boring — they might be sewerage, they might be bridges, they might be roads, they might be electricity — but they are all things that add to jobs in Victoria and positioning this state to be stronger.

And to get back to Mr Dalla-Riva's point about why we can have confidence in growing jobs in the state and regarding the jobs that he actually mentioned, we are talking in the budget paper of 35 000 jobs being secured that otherwise would not be if this infrastructure expenditure was not there. It is not rocket science to know that if you were going to build a Peninsula Link, for example, and you had hundreds of millions of dollars in that, some of that is direct wages that would not otherwise be there. Some of that is actually the manufacture of products from other parts of Victoria, whether it be concrete culverts, whether it be bitumen or whether it be any of the range of inputs that goes into the construction of a Peninsula Link.

If you are investing in stage 1, the first stage, of a new Bendigo hospital, the site and clean-up and the acquisition work being done, they all create jobs. If you are talking of an investment in the building of hundreds and hundreds of schools, they are all jobs: every single school is work for local architects; every single school is work for local builders; every single school is work for local plumbers, electricians, carpenters, you name the subset you are talking about. Every single investment is a job.

If you talk of the bushfire clean-up, where Grocon actually has the central contracting role to demolish and clean up the 2000-odd houses and businesses, every single one of those is almost inevitably involving local contractors who do the work for the head contractor to deliver it.

Dr SYKES — That is not true, Treasurer, that is untrue.

The CHAIR — Dr Sykes: thank you!

Mr LENDERS — I have been up to Narbethong, I have been to Marysville, I have been to Kinglake, I have been to Churchill, and in all these places we are seeing local companies get work out this.

The point in response to Mr Dalla-Riva's question about whether this will create jobs, yes it will. You do not invest $8 billion without creating thousands upon thousands of jobs. If you actually had a billion dollars invested in infrastructure, like we did in 1999, and you have $8 billion invested in infrastructure now, it is more jobs. If you had $4 billion invested in infrastructure last year and you have $8 billion invested this year, that is more jobs. It is not rocket science. It is basic arithmetic.

Mr DALLA-RIVA — New jobs?

Mr LENDERS — Yes, that is new jobs. If you go to from $4 billion to $8 billion in investment there are new jobs. There is also the securing of existing jobs. In the last three years in Victoria we have now invested in 375 schools — this is infrastructure and that is state investment. If you did not invest in those schools, you would not have the construction jobs that go into the schools. So, Chair, in response to Mr Dalla-Riva's question, there has been modelling done by DTF on the 35 000 jobs being secured. Modelling has been done on that. I actually think the figures are conservative. DTF have advised me of the figures, and therefore I will — —

Mr DALLA-RIVA — And you will tender that document?

Mr LENDERS — I will publish the figures that DTF has provided to me. I frankly think they are conservative figures, but I am not about to go — —

The actual DTF modelling work is on the website, so rather than slaughter a tree or two, I will just direct people to www.treasury, and the information will be there for those who wish to see it.

But the significance is that the IMF has said the most significant thing that governments across the world can do is to bring forward infrastructure you would otherwise do. We as a state had a 10-year plan to rebuild or modernise every government school in Victoria. We are bringing forward our plan, and with the commonwealth's assistance we are bringing it forward even more rapidly. We see as good social policy the need to invest in social housing. We and the commonwealth are accelerating it and bringing it forward. We see as an important part of treating cancer in this state the Parkville comprehensive cancer centre; with the commonwealth we are bringing it forward and delivering it.

All of these are but examples. Whether it be the desalination, the north–south pipeline, the Wimmera–Mallee pipeline or many projects that are often controversial in the community, they all deliver infrastructure in the long term and they deliver thousands of jobs today. Even in regard to the housing assistance changes the other day, the HIA — not the state Labor government, but the HIA — is saying that will bring forward 4000 jobs that would otherwise not be there in new construction.

The jobs are there. There will be a debate about how many and how you measure it. The jobs are clearly there. We are doing what the G20 think we should do; we are doing what the IMF think we should be doing; and we are doing what is sound economic policy in Victoria: bringing forward infrastructure today, creating jobs today, and leaving the legacy for next generation of strong infrastructure.

The CHAIR — Treasurer, I want to refer you to budget paper 3 at page 19. Something of some interest to me over the years is in terms of grade separations. You mention:

> The state government, in partnership with the commonwealth government, will separate the rail and road level crossing at Springvale Road …

It also says you are:

> … planning for future grade separations, at a total of $142 million TEI.

Can you give us some more details on that and what your plan is?

Mr LENDERS — Historically — it is history, not a blame game — Victoria has had far less grade separations than other states. It has just been the way that over many, many years many, many governments have actually planned roads and rail interface. What we now have is clearly a task ahead of us over time to address that.

There has been a couple of fairly large rail separations. We have increased the funding for level crossings and grade separations and a range of other areas over a period of time over a number of budgets, but the way forward for us then is: how do we identify the ones that we need to work on and prioritise and go through? There will be ongoing work going on to grade separations. In the transport plan there was provision for grade separations going forward. Clearly, in your neck of the woods, Chair, Middleborough Road and now Springvale Road, Nunawading are obviously two very significant ones that will benefit a lot of Victorians in those areas.

For us to the challenge is: how do you both go forward and deal with it? It is interesting. We have the capital works for the South Morang line — —

The CHAIR — I wondered about that.

Mr LENDERS — That is going forward from here, for example. It is one of those classic areas where there needs to be investment from Keon Park to Epping, simply to double the line. That is just a historic thing of infrastructure underspend. But from Epping to South Morang there will be no level crossings; it will be all grade separations. That adds to the costs of the project going forward, but it is one of those investments that where you are constructing new infrastructure you can do the work necessary to avoid those level crossings. That obviously, again, has a triple-bottom-line benefit for us, by not having those on those particular intersections.

So there is ongoing work that the Minister for Public Transport will do as to what the forward program is for priorities and where we do it. These are obviously very expensive programs. The Springvale Road one is great because it is a partnership, with the commonwealth is putting in its 80 to our 60 for that to be built. It is bipartisan: both the commonwealth parties were prepared to invest in it. It is a great outcome in partnership; it is a great outcome in what it will be for people who use the area. That is, I guess, fairly symbolic. There is more work being done forward as to where we need to go, and this will need to be something ongoing in investments in future budgets, as outlined in the transport plan, that we continue to invest in grade separations.

The CHAIR — Very good, particularly the process they use these days, which I think is world leading in terms of these arrangements. They are doing them very quickly.

Mr LENDERS — Yes, and Middleborough Road was a classic, Chair. That was done all hands on deck. It was done over a fairly quiet time; it was done over the Christmas and January period. It was extraordinary at the time. When the trains were taken out of action for a period, buses were going forward. The speed at which that project was done, I think surprised many people in that part of the eastern suburbs — the speed at which it was done — and the outcome has been one that has made a big difference.

The CHAIR — Thank you.

Mr WELLS — Treasurer, I would just like to ask you about debt. Page 90 of budget paper 4 shows that the non-financial public sector net debt will rise from $11.2 billion to $31.3 billion in 2012–13. Can we have an assurance that the actual net debt will not exceed the estimates shown on page 90? Can you show us where there is a debt repayment schedule or plan and an estimation of when the increased debt will be repaid, please? Can I also just advise that we spoke to the Premier yesterday who, for some reason, went down the path of liabilities. We want to talk about only the debt figures, not the issue of the liabilities and the superannuation, please.

The CHAIR — I might add that you are referring to just the 'Non-financial public sector balance sheet'.

Mr WELLS — I am talking about page 90, 'Net debt', under 'Fiscal aggregates', $31 263.9 million, 2012–13 estimate.

The CHAIR — That is in respect of the non-financial public sector; it does not refer to the general government sector. I just wanted to clarify that.

Mr LENDERS — Mr Wells asked about the non-financial public sector net debt going forward and he asked a series of questions regarding it.

Firstly, there are two components of this. There is the general government component itself and then the public non-financial corporations, which is the other component, which are overwhelmingly the water authorities and the Port of Melbourne. There are some other bits and pieces there but they are the lion's share of where we are.

There are a couple of issues here, where this fits into where government is going. I can assure Mr Wells where government is here, and part of the reason I put up the graph in my presentation about Standard and Poor's was to show our thinking, that we need to invest heavily in infrastructure within the constraints of a AAA, and that is why that was up there and transparent, where it comes from.

We are talking about the $31 billion in investments here over time that escalate up to that level. I think we need to first drill down into where they are. When we looked at the general government, I had the graph up which shows as a percentage of the economy we see government borrowings decline by the end of the forward estimates period, and I showed that cash surplus in the last year as well, which is part of that.

So as far as extinguishing debt, we see a reduction when we go forward. I do not think there has ever been a government in Victoria's history, certainly I do not think Sir Henry Bolte when he was Treasurer — that actually had the sort of plan Mr Wells is talking about. But it is a legitimate question. If we want to reduce the levels of government borrowings, which is appropriate, because, as a percentage of the economy going forward, these are extraordinary times to bring forward infrastructure and the forward estimates show that on both the general government sector and the non-financial public sector, both of those borrowings as a percentage of the economy go down.

It is more significant in a sense to talk about the component parts of it. A huge part of the non-financial public sector borrowings actually come in the water sector. We announced the Victorian water plan some years ago and this plan is a legitimate area of considerable public debate over where this should go. It is a legitimate issue over whether you should invest money in the Wimmera-Mallee pipeline, should you invest money in the food bowl, should you invest money in desal.

The government clearly has a view that we should, but that is a legitimate public debate about whether you should or should not. But what I think is without conjecture is that each of these water authorities have commercial plans that are actually signed off by government that show that in each individual operation they are sustainable commercial decisions. So whether it be for the desalination plant, we have had the large community debate over the rise in water prices to actually pay for this particular part of capital. We have had the large community debate over the food bowl, over the component that the state pays, the component that Melbourne Water pays, the component that the local Goulburn and Murray users pay, and now with stage 2 of what component the commonwealth pays.

All of these, as individual projects, are commercial. All of them as individual projects, the capital is actually returned by the users, or in some cases by a government capital injection. So the parts of the equation are all individually sustaining parts. They all have business cases, they all have commercial plans, they all go forward over a period of time and, in the case of the water authorities, the Essential Services Commission oversees it and actually charges an appropriate price to recover that capital. That is on the public non-financial component of the non-financial public sector. They are, I think without exception — and I stand to be corrected by either the secretary or deputy secretary if they are without exception — they are essentially commercial plans. If you extract those out of them, that is obviously something that the ratings agencies will look at quite forensically, to see whether or not this is good balance sheet management.

Then we go to the general government sector, which is obviously a bit less commercial, in a sense. When you are talking about building the needs of schools or hospitals and a range of others, you build them because they are service delivery that you want to do, and these services obviously require the government to fund them. They are not in the same category as the non-government sector. But again with those, we talk of the general government, as I mentioned before, where borrowings as a percentage of the economy decline by 2012–13 and also we see cash surpluses returned by 2012–13.

In that sense, it is a long answer to Mr Wells's question, but I think it answers the question, 'Is it sustainable?' — yes. It answers the question, 'Is there a plan to reduce?'. Well, we are seeing that already in the forward estimates with the general government sector and we are seeing it in each individual water authority in the port of Melbourne by their corporate plans. All of them must be commercial, all of them must operate in that nature. So I think on both heads it answers Mr Wells' question.

Mr WELLS — I just need to clarify. The first part of the question was: can you give an assurance to Victorians that actual net debt will not exceed the estimates shown on page 90? That was the first part of the question I asked. The second part is: when do you expect that this increase in debt will be actually repaid?

Mr LENDERS — Chair, I will take that as a supplementary you are allowing.

Mr WELLS — It was exactly the same question I asked in the first place.

The CHAIR — Treasurer, if you have any more to add to what you have already described?

Mr WELLS — Hang on. He has not answered the first and second part of that question.

Mr LENDERS — On that basis, Chair, I think I have answered and I will not answer this question.

Mr WELLS — So you are not ruling out an increase in debt? Is that what you are saying?

Mr DALLA-RIVA — He will not put it on the record**.**

Mr WELLS — I tell you what: that is a classic!

The CHAIR — I so note, before we go to the question from Ms Munt, that in terms of statements the committee appreciates that we have the first ones here in the world which are under AASB 1049, so we appreciate that.

Ms MUNT — I would like to return to infrastructure investment and in particular the Victorian transport plan. That is detailed on page 361 of budget paper 3. I refer to a line item there that is of particular importance to my local area and that is the Dingley arterial that has an anticipated spend from 2009 through to 2012. This is a very important project for my local area and I was wondering if you could detail the advantages that you see from this infrastructure investment for my local area?

Mr LENDERS — Thanks to Ms Munt for her question on Dingley. This is again a piece of the Victorian transport plan that was evaluated last year as to where it fits into the series of things in rail, road, freight and ports that we need to address for the state to go forward. It is obviously one that has been on the drawing board for many years over many governments. I can recall Ms Munt's predecessor, when he was shadow transport minister, forever thundering on about it, but not much really happened during the time he was a member of the government that could have done something about it.

Mr WELLS — Who was?

Mr LENDERS — If Mr Wells listened, he might know.

Mr WELLS — Terry Mulder was elected in 1999.

Mr LENDERS — You have not been listening, Brother; it is a different member I have been talking about.

Ms MUNT — My predecessor.

The CHAIR — Can we have the answer, please?

Mr LENDERS — So when we looked at where Dingley fitted into the 12 years of critical infrastructure projects going forward, clearly there has been a lot of through traffic, there has been a lot of congestion in the area, there have been tens of thousands of vehicles that in a sense have had to find other routes to go through, and the economic benefits to the city of Kingston and adjoining municipalities from this road going through are ones that are being long seen.

The government made a priority some years ago to focus on Scoresby, and what is now EastLink, as the no. 1 priority in the area, acknowledging that work needed to be done on Dingley in the years ahead. That was incorporated last year into the transport plan, a holistic plan going forward. So what we will see is not just the construction jobs that go into this 3.5 kilometre section of road, we expect it to carry in the order of 30 000 to 40 000 vehicles a day.

That will have a significant impact on a whole range of other roads through that part of the city of Kingston and adjoining areas. It will take pressure off, and it will have a triple-bottom-line effect, quite clearly. I am not fully familiar with a lot of the area, but I do know that if you go down Old Dandenong Road or Centre Dandenong Road or some of those roads in the area there where I am assuming some of the traffic goes that uses Dingley at the moment, it is not the optimum way to get from point A to point B, so this will have economic, social and environmental benefits for the area. When it is completed the whole road will be an 11-kilometre connection from Westall Road to the South Gippsland Highway, and that will be a significant boost to the area.

The significance is that this is not piecemeal, this is not ad hoc, this is done as part of a 12-year Victorian transport plan where all of those interconnecting needs that were addressed by government last year have been put out to the community for comment, and work has been done — there has been a sequencing order done of them. This is real funding coming forward in this budget to achieve this part of what is an important part of the jigsaw of things that need to be done for transport in Victoria.

Mr WELLS — I would like to refer back to my previous question with regard to debt. Can I take it from your previous answer that you will not give an assurance that debt will increase over the forward estimates? Further, on page 63 of budget paper 2, it is indicated that 42.4 per cent of new infrastructure will be funded by cash surpluses, with the remainder funded by borrowings. Are you able to provide the committee with the details of the amount of debt allocated to each specific new infrastructure project or groupings?

Mr LENDERS — In responding to Mr Wells, firstly, unequivocally, in the forward estimates of course I am predicting that debt as a percentage of the state economy is going down; it is published in the forward estimates. We are predicting it. We have actually got a plan to reduce borrowings going forward. It is there; it is evident. I cannot commit to what a future Liberal government might do — whether it goes back to the Bolte days.

Mr WELLS — No, it is on the forward estimates, so on the forward estimates you are saying there will be no increase in debt. Is that what you are saying?

Mr LENDERS — What I can say is, in the forward estimates — —

Mr WELLS — There will be no increase in debt over the forward estimates?

The CHAIR — The Treasurer, to answer, please?

Mr WELLS — It is a simple, straightforward question. Is it yes or no?

Mr LENDERS — I have given a straightforward answer. In the forward estimates we are forecasting for borrowings as a percentage of the economy to go down. We are forecasting in 2012–13 as a percentage of the economy on general government, for them to go down. That is a debt reduction strategy

Mr WELLS — We are talking about the actual dollar debt, which I referred to.

Mr LENDERS — We are talking of cash surpluses in 2012–13.

Mr WELLS — Will actual net debt not exceed the estimates on page 90. I must have asked the same question six times now.

The CHAIR — Mr Wells! The Treasurer to answer, please?

Mr WELLS — What about getting him to answer that simple, straightforward question about the actual net debt.

Mr LENDERS — I have a very old-fashioned view of the world. If someone actually asks a question and someone is answering you, you usually tend to listen to the answer before you just repeat the question multiple times.

Mr WELLS — If it could get an answer I would be absolutely — —

The CHAIR — I have asked for respect on both sides.

Mr WELLS — What about a bit of respect to the person who is asking the question?

The CHAIR (to Mr Wells) — Be quiet and let the Treasurer answer.

Mr LENDERS — Regarding the forward estimates, which the Public Accounts and Estimates Committee is inquiring into, general government borrowings as a percentage of the economy will come down over the four years. In the year 2012–13 we have a clearly forecast cash surplus to go forward — in answer to that part.

In answer to how we deal with individual projects, to my knowledge, what the state of Victoria has done since pre-self government is that the Treasury seeks the funds it requires for ongoing capital equipment — its own borrowings— so it capital works its own borrowings as an aggregate, as they are needed, and then reduces those borrowings as funds become available.

To my knowledge we have never had an accounting treatment where we have an individual line item by item going forward. That is a legitimate part of public debate. It is just something that the state of Victoria has not done, and the fundamentals have always been that we look at the aggregates across this area.

When we look forward at that in particular, in the last several years — in the first seven, and I will stand corrected, but I think the first seven budgets of this government — capital works were essentially funded out of the cash surplus or depreciation moneys coming through the budget. In the last three budgets there has been a component; in the two before this approximately 40 per cent was through borrowings, approximately 40 per cent through moneys set aside for depreciation, and approximately 20 per cent through the budget surplus; that was how it was funded.

In this budget, Mr Wells is correct, there is a larger percentage coming through borrowings, and that is a direct consequence of the budget surplus being smaller because of the global financial crisis and the government maintaining and accelerating infrastructure projects.

But what we see going forward — and this is where it fits absolutely into the Standard and Poor’s curve that I showed before — is there is a repayment proposal that sees this coming as a percentage of the economy. If we are talking of examples where the governments have targets for payment, we inherited a target from our predecessors of superannuation liability, for example, being paid off by some time towards the end of the 2030s. We brought that forward to 2035.

So on unfunded superannuation for defined benefit schemes, which was a finite item that would never be added to, there is a program there until 2035 for reducing I guess that generational change that was handed over from decades and decades before. But here Treasury Corporation Victoria seeks borrowings for the needs of the general government sector and seeks borrowings for the needs of the public non-financial corporations, and in these forward estimates there is a plan which shows them as a percentage of the economy reducing over time. I think that acquits the answer.

Mr NOONAN — Treasurer, you made it pretty clear that one of the features of this budget is that it is a partnership budget. I want to refer to budget paper 2, page 76 under the economic reform agenda, and I note that the government has made it clear that there are commitments on the Building Australia Fund. My question is: can you outline how these commitments will impact on the budget?

Mr LENDERS — I thank Mr Noonan for his question. As I said in my opening statement, this is a partnership and this is a fantastic opportunity for us to build on infrastructure that otherwise would have taken years longer for Victoria to do it by itself.

How it impacts on the budget, which is Mr Noonan's question, is that it has been quite a challenging part of this budget. Traditionally what the state would prefer to do would be to have some greater certainty beforehand as we have traditionally had with AusLink funding or some of its predecessors where there is a round and we will know a bit more where it is and then we build it into the actual budget papers itself, although there have always been examples where money will comes in rounds outside the budget, then the state responds to that and then incorporates it into the midyear budget update or the following year's budget.

Where we stand with the commonwealth is we know there is a series of very good projects that Infrastructure Australia has made an assessment on and I think that is one Mr Noonan is alluding to here. We have seen reports as to what they think are good value or not and now they have gone off to the federal cabinet for their further determination of them.

How it goes in the budget arrangement is it leaves an element of uncertainty here, because we fully expect that some of the Building Australia Fund will come into projects in Victoria as part of our transport plan. Exactly what the projects are, what the cash flows are, what the timelines of those are will be conjecture presumably until 7.30 tonight. Hopefully we will have some certainty at 7.30 tonight, and maybe even after 7.30 tonight we will know where the commonwealth is going but we may still need to get some more detail on where they affect cash flow and the like. That will affect how we correspondingly respond because we will be willing partners with the commonwealth on this.

We have left provision in this budget in capital that we have allocated but not specified. We also have unallocated capital going forward. We also have money in the transport plan; we have money in a range of areas where we have made provisions to do some matching with the commonwealth. Once we know the details of the commonwealth funding, then we can start acquitting either our allocations against that or adjusting cash flows and the like to go forward.

For us, in an ideal world had we known what the commonwealth was doing a month ago would have helped to make these budget papers a bit more complete. But in reality the significance here is the commonwealth is putting money into a Building Australia Fund, and it will release money to states and territories for construction projects.

The commonwealth is putting money into a health and hospital fund and it will release money to the states to work in partnership with us. The commonwealth is putting money into the higher education fund and will release that money and the states and territories will work with it.

As far as our budget goes, there were a number of projects when the budget was printed and went out. There was no provision at that stage made for the Parkville comprehensive cancer centre. We have an allocation in here for working with the commonwealth on that. That is out. We will obviously report in absolute detail as we go forward as to how that fits. Any of the infrastructure announcements that I hope to see tonight coming out of the commonwealth budget will be treated in the same way.

In an ideal world we would have more certainty but we are 99 per cent of the way. We actually have a willing partner who has said the role of a national government is to absolutely accelerate its investment in infrastructure, and this was the commonwealth's view before the full effect of the global financial crisis became apparent. Even with the global financial crisis being apparent, it is saying this is still critical infrastructure we need, and we need to bring forward a lot of this infrastructure for the stimulus component now.

That is how it sort of fits into the parameters of our budget going forward. In one sense, the volume of it is much larger than we have ever had to deal with before by way of commonwealth money but the principle is, in a sense, not that different from what we have had for various stages of AusLink before where we know there is money going to come from the commonwealth; but we have not known the specificity of it. Through our processes where we actually report financials five times a year, including quite comprehensively in budget and midyear budget update, that information becomes available to the public and the Parliament at those times.

The CHAIR — Thank you. Treasurer, the Premier promised yesterday that he would have a talk to you and provide the details in terms of the implications of those commonwealth infrastructure components and what it means for the Victorian budget going forward. He promised to try to get them to us as quickly as possible, excepting of course there are some details which will need to be worked out, as you say.

Mr LENDERS — It is the underlying things on this that is the challenge for us. For example, the amount of money we as a state — and we are delighted to have this problem — through the forward estimates will need to allocate a lot more money for depreciation for example than we otherwise would have done because the commonwealth is making such a significant contribution to these new assets, whether they be in schools, hospitals, and the like. They are costs that fall on the state.

But the reality is the state needs to provide these core services. We need to build on the infrastructure. It is a historical legacy that Victoria has underinvested in infrastructure and that will be a catch-up for probably half a generation or so to do that. We would incur these costs in any case as a state if we met our commitment to increase infrastructure.

The commonwealth being a willing party means that a large part of the capital component of this is being met by them, and we absolutely welcome their contributions.

The CHAIR — Thank you, Treasurer.

Mr WELLS — Treasurer, I refer you to page 8 of budget paper 2 detailing the 2009–10 operating surplus that will be $165 million. Will you admit that you broke a critical promise made following last year's state budget, that Victoria would retain a budget surplus of at least 1 per cent of operating revenue — and I believe that was reconfirmed by the Premier in just January this year?

Secondly, will you admit that this year's forecast surplus is actually phoney and that the budget deficit would be over $2 billion had it not been the result of the cheque from Kevin Rudd of over $2.8 billion, because a significant part of that cheque had a capital component to it?

Ms MUNT — What is the definition of 'phoney'?

Mr WELLS — 'Phoney' — misleading, deceitful, dodgy, deceptive.

The CHAIR — Leaving aside the language, if the Treasurer could answer the questions in a factual way?

Mr LENDERS — Mr Wells asked this question in two parts. In the first one he referred to the table on page 8, which is table 1.1, the five objectives. We are talking here an operating surplus of at least $100 million in each year. That is a short-term target. The long-term target is maintaining a substantial budget surplus. Last year I certainly presented to this committee after government varied the first of those things in the table — to go to 1 per cent rather than $100 million.

The reason we forecast that last year — and the narrative is relevant to Mr Wells's question — is for the government to invest significantly in infrastructure for the longer period with a very heavy reliance on operating surpluses to do that, so that today's surplus is tomorrow's schools, roads and hospitals, and I am probably quoting myself from last year at this committee. We certainly thought it very important to put it into the financial objectives, to state that we would be seeking an ongoing higher surplus going forward. Part of that was a policy of government to actually invest the dividend from this year's surplus into next year's infrastructure. That was an important narrative and an important part of where we are going.

Clearly, this year we have changed that back from the 1 per cent to the 100. Mr Wells correctly says it is a change from what we forecast last year we were doing. He is correct; it is a change from what we said we would do last year. The reason we are doing it is the world has changed. You can pretend that you have not lost $1.5 billion of GST revenue, you can pretend that you have not lost half that much or a bit more again of your own-sourced state revenue and you can wish it was not there — and I wish it was not there — but the reality is: it is.

This government then, in keeping its core financial objectives in place, is maintaining an operating surplus. The jury will be out in six weeks time as to whether the other seven states and territories have done the same thing. I certainly know two of them have already put their budgets out; they have not. The jury is probably out on one jurisdiction, possibly two, whether they actually have operating surpluses.

From Victoria's perspective, any environment Mr Wells refers to where the commonwealth has contributed more money to the states and territories, clearly it has. It has boosted specific purpose payments. Mind you, they have been roughly offset by GST revenue loss. If you look to budget to budget, the forecast last year for 2009–

10 versus what is actually now in the budget in 2009–10, we have roughly lost $1.5 billion of GST revenue, but we have roughly picked up $1.5 billion of SPPs and we have roughly lost half of that amount through own-source state revenue, going down, in very rough terms. It is a different paradigm from where we have been.

In that environment, we have said as a government it is critical to maintain an operating surplus. We pledged that we would have an operating surplus of $100 million on our pledge card back in the 1999 election. We pledged that that is what we will be doing. We are maintaining that. We are setting the parameters where the ratings agencies judge us. It is not just the ratings agencies; it is our commitment to do that AAA. If we look at there, yes, we have changed what our target was from 1 per cent to $100 million. But I think if we are talking of injections from the commonwealth or whatever, it is quite ironic really that Victoria, with that injection from the commonwealth, is operating an operating surplus very few others are. I think that says something about our own financial management.

On the second issue of the contribution from the commonwealth, we as a state temporarily handed over income tax powers in 1942. Last time I looked we did not get it back. What has happened since then of course is that there has been an extraordinary imbalance between service deliveries of the state and what the commonwealth does. Probably — and I would stand corrected on this — if you did a line showing the percentage of all the states and territories' reliance on the commonwealth for revenue over that period of time compared to 1942 and income tax powers get handed over, with the odd statistical glitch of payroll tax and a few things being in and out, you would find that line would be consistent.

The percentage of revenue that states spend on health education, community safety, transport and the like that comes from the commonwealth has gone up, budget after budget after budget. You will probably find in this round that every state and territory has now gone into that situation.

Is Victoria propped up by the commonwealth? We are propped up by the commonwealth in a sense of GST or grants money from the commonwealth to the order of half our budget. We are probably the least propped up of any jurisdiction in the country. This federation is one where income tax, company tax, various royalties, excises are all commonwealth taxes that are the lion's share of the tax.

The commonwealth passes back the GST to the states and on a formula that we think is a bit a bit wonky and could be improved, if we are using some of the colourful language here. We have argued with the grants commission for many years how it should be changed. We think that formula can be improved, but the commonwealth does raise the lion's share of revenue. We are not in the category of a Mexico where virtually everything is raised by the federal government or the national government. But we are also not in the category of a Germany or a Canada where the skew is quite the other way in a federation.

Our budget is supported by the commonwealth to the tune of half our budget. If you start going to jurisdictions like the Northern Territory — and I will stand corrected— probably 90 per cent of the budget is actually supported by the commonwealth at the other extreme. So, yes, the commonwealth does support state and territory budgets. It does pass through the GST to the state of Victoria. We get $9.5 billion — or whatever the GST figure is we get for the state of Victoria this year.

It does pass through specific purpose payments. It does pass through national partnership payments. If you look at this year's budget figures, this expenditure is about 8 per cent higher than the previous year, and it will go down and then it will increase by approximately 1 per cent in the years going out from there. This year expenditure will be 8 per cent higher and income will be 8 per cent higher, primarily because the commonwealth has put its stimulus in. What goes in, what goes out — they roughly balance out.

We have set ourselves a target when we were elected to government of an operating surplus. That is verified by the Auditor-General in chapter 1 of budget paper 4 where he goes over those figures and verifies it. It is verified by the Auditor-General in the annual financial report — so at the start and the end of the financial year. That is the test.

People undoubtedly and legitimately will have arguments about could it be done one way or the other. We have met the tests we have set. The one variation to this is clearly that with the chill winds of the global recession blowing our way, we have moderated our operating surplus.

The choice for government now is to continue infrastructure or to reduce that spend by another $300 million approximately of infrastructure expenditure which would be hospitals, schools, roads, rail — those sorts of services — we made the choice that it was better in these circumstances, heeding the call of the IMF to invest in infrastructure. It was better to have a lower target this year to deliver on infrastructure at a greater level than we would have otherwise been able to do if we had followed that objective of the previous year when the world was a much rosier place than it is today.

The CHAIR — Ms Huppert?

Mr WELLS — Hang on.

The CHAIR — You have had your question, Mr Wells.

Mr WELLS — Whether the surplus is a phoney or not of $165 million because of the capital component of the — —

Ms HUPPERT — In responding to Mr Noonan's question, Treasurer, you talked about the importance of partnerships with the commonwealth. I am interested in the other types of partnerships you referred to in your presentation, which is the more community-based partnerships, and I draw your attention to budget paper 3 and appendix A, page 335, which mentions the multicultural water safety program, and I wonder if you could provide some more details about that for the committee?

Mr LENDERS — I thank Ms Huppert for her question. This is a budget about partnerships, and this is a project which probably in the scheme of a $42 billion budget does not seem a major item, but a $600 000 support for multicultural water safety programs is of great significance for the people affected.

We are a community where approximately one in five Victorians is born overseas. There is obviously quite a strong correlation between the percentage born overseas and those who have English as a second language. All Victorians are entitled to enjoy recreation. What we have seen is, tragically, a number of deaths or injuries through unsafe practices in water from people where the basic advice on safety is not communicated through to people.

I grew up in regional Victoria on a farm, and for us jumping into dams or rivers was something you did as a kid in regional Victoria, but there was an underpinning if you were jumping in a river and diving in, you always needed to look first that there was no snag underneath the water, you needed to look for those safety issues. You did not dive into sand bars — a range of things. If you are brought up in that sort of water environment, that is something that you do. But it only comes about because someone has actually told you about it.

If you have not been fortunate enough to be brought up on a farm or by the rivers in regional Victoria and you go there for your first holiday or your second holiday, and you are seeing other kids doing a range of things, someone needs to be alerted and warned about that. Whether it is for boat safety, whether it is for swimming, whether it is for even just learning how to swim or the dangers of rips on the coast or snags in inland rivers or streams, all of these are areas where you cannot just assume that everybody will know. Language has always been an issue for us as an immigrant society and how we communicate what is going on. So this is a significant initiative in partnership which adds to that safety element.

I welcome the initiative. It is fantastic that in the circumstances where we seek to have, as government, our eye on the game that there is more to government than just looking at economic figures. You also have to intervene on occasions where you can actually help individual members of the community in that environment. So it is great that we are as diversified and multicultural as we are, but there are some challenges for us on this.

If we can make our rivers and waterways and beaches safer, that is good, but there are still extraordinary elements. All of us as parents, as families, need to take some responsibility ourselves for making sure we get that information out to our children and people who are with us. We all know histories and occurrences where that has not happened, but this is a significant thing, so thank you for the question, and I am delighted that this is an investment in safety for our multicultural communities.

Ms MUNT — Could I have a clarification, Chair?

Mr WELLS — You have got to be kidding.

The CHAIR — You have had a few, Mr Wells, so I will allow this one.

Ms MUNT — Is that funding over one year or three years?

The CHAIR — That is a fair enough question.

Mr LENDERS — It is over two years.

Dr SYKES — I have a clarification, Chair. Is decommissioning Lake Mokoan part of your water safety strategy?

Ms PENNICUIK — I think teaching water safety and swimming is very important.

Treasurer, on page 195 of budget paper 4, at the bottom is the 'landfill levy'. Part of the taxable income is reduced by 2.5 per cent, but on page 417 of budget paper 3 it tells us that waste generation per capita continues to increase over the long term.

There are no estimates in the budget papers that point to anticipated revenue from the landfill levy. Can you give me some information about that? The other one is: would the government be looking in the future to raising the landfill levy — for example, in New South Wales it is $47 a tonne as opposed to $9 here, and it will be increasing in New South Wales — in order to encourage new jobs in the recycling industry and to move towards your own target, towards zero waste strategy?

Mr LENDERS — The approximately $2 million difference that Ms Pennicuik refers to, I will take on notice and get back to her on that. I do not have that detail at my fingertips. The question on why a change or would we contemplate increasing the landfill levy, that issue is one I will leave for my colleague Mr Jennings to lead in the policy sense on rather than me pre-empting as to where government may or may not go in that particular area.

I think it is fair to say, though, on the issue that Ms Pennicuik is correct: we do need to address this. There are opportunities for green jobs in this area, and we also need to put levers in place to make sure that industry more efficiently cleans its act up. I recall being grilled at this committee by Mr Baxter, in particular, if I recall, a few years ago about the long-term containment facility at Nowingi, which I had carriage of as major projects minister at the time, and in particular about the policy aspects of what that implied.

The whole purpose of category B waste at that stage going to a contained facility was that it was going to be more expensive: firstly, it is expensive to look after it, and secondly, you wanted the drivers in industry that said that the best option is not to say, 'We can just dump it somewhere at very little cost'. We need to start managing our own waste.

The challenge for industry and government, in a sense, as a builder is no different from anyone else's. It is: how do you manage and contain your waste on construction sites? The days of just dumping it somewhere as a solution, if it was ever appropriate, is certainly no longer viable and appropriate.

The policy question Ms Pennicuik raises is an absolutely legitimate one and one that certainly we as a government and a community have been part of a very active debate. I particularly recall the Nowingi component of it because it focused a lot of the discussion, 'Are you putting waste from one part of the state to another part of the state; is that appropriate; should you manage it on site?'. We are seeing lots of very active examples now on government construction projects and private construction projects where waste is often managed on site and stored on site. So it is not just that out of sight, out of mind mentality that was often there. This can be very expensive for the costs of building but it is also very expensive not to deal with them, because the state also needs to deal with the issue going on.

One of the legacies of probably not just modern Victoria but any modern industrial economy is that attitudes have changed over the years as to the nature of the problem and possibly part of that is industrialisation, part of population growth and part being the different way we think about. On these particular ones I will certainly take on notice the specific issue as to why there is the revenue variation from land levy.

I will certainly refer to my colleague Gavin Jennings the issue of what is the appropriate policy going forward. Just as I enunciated to Ms Pennicuik, government is certainly very conscious that there is a series of conflicting demands here, and we have certainly sought in the case of the long-term containment facility at Nowingi, unsuccessfully, a way of finding a custom-made way of dealing with that going forward.

Dr SYKES — We won that one, didn't we.

Mr LENDERS — If Dr Sykes was interjecting, and I would not acknowledge interjections — —

Dr SYKES — But we did win it, didn't we? Common sense prevailed.

Mr LENDERS — What we have seen with that is that it has put even more pressure on managing on-site and in other areas. This is an issue that is going to be the focus of government in this state wherever we are for years going forward, because there are no easy answers to this. But the answer is not to ignore it either, so we have got to get that balance right.

Ms PENNICUIK — If the levy is going down but the per capita waste is going up, there does seem to be an anomaly.

Mr LENDERS — Again, we will get back with specific details. I know the levy was waived in large parts of Victoria during the bushfires clean-up. Whether that is the reason for that amount going down, I do not know; I am only speculating. But certainly government and municipalities waived the levy right across the board as part of the clean-up to take financial pressure off and to speed up some of the cleaning up going on. That may be the reason, but I will specifically get back with details.

The CHAIR — We will seek the information on notice

Mr SCOTT — I would like to ask a question regarding the Industry Transition Fund, which is referred to in budget paper 3, appendix A, at page 326. Treasurer, could you please outline the criteria which underpin the Industry Transition Fund to help businesses through the global financial crisis?

Mr LENDERS — I thank Mr Scott for his question and his interest. I guess representing the northern suburbs, close to the epicentre of manufacturing, he is probably as attuned as anybody to some of the pressures that are facing challenges, particularly those component parts manufacturers who are part of supply chains. Often they are smaller businesses, and they are clearly feeling those chill winds of the global recession going forward.

The Industry Transition Fund arose out of the industry and manufacturing statement last year that I had the pleasure of announcing with the Premier when I was acting minister for industry. How do we deal with some of these companies that are financially viable, where there is a strong long-term future and there is an absolute niche to go forward? It is not just protectionism in the old sense. These are ongoing companies. But there are specific instances of this global contraction that make the short term for them more difficult.

They have got good business plans, they have got good products and they have got good people. We face challenges in this. There are examples I have had brought to my attention by members of Parliament where there is an Australian or a Victorian company that has secured an international contract and then the parent company of that Australian subsidiary might then expatriate the work back home and say there is a strong demand.

You have places like Japan and Germany; at the moment, if I recall, the last figures I saw for Germany showed manufactured exports I think had halved as part of the global recession. So we have a significant structural adjustment that is happening across the world, and so this transition fund is exactly that: it is a transition fund. It is not just a bailout.

It is where the Department of Innovation, Industry and Regional Development will sit down and look at a series of criteria and say what the principles are that it can use. One of these principles is that there is a $2 million cap on financial assistance to any firm and a firm may make one application. So it fits in logically with this being one-off assistance funding.

The other principle is that it is only for two years to get us through the current arrangements. This should not be the sole source of funds for a proposal. Firms should be able to look at additional sources of income, whether that be an equity injection from the shareholder, whether it be support from another level of government, whether it be support from a business partner. It might be a component parts company that has some support from the larger manufacturer it is applying to. There are a number of criteria in there. It also needs to be for business as usual. It is not to meet an international creditor who has decided not to pay. It is not to fund redundancies. It is for business as usual for a company going forward.

These are particularly challenging circumstances for governments, and Victoria is not unique. I would imagine there is probably not another government of a manufacturing jurisdiction in the world that does not face the same challenges. We need to be able to assist industries in partnership. Ms Huppert used the term 'partnership' before in her question. We need to assist industries in partnership with other industries and their own workforces to go forward in these particular areas. There are lots of illustrations we know of where there are good Victorian companies that have an extraordinary future and it is just the current transition that is the challenge for them.

These are the sorts of criteria that we have put in place, and we announced it last year. There has been a fair amount of ongoing dialogue with industry. I know the Australian Industry Group was quite critical earlier on, saying that it actually was not going out the door fast enough. The original tests we set were probably a bit strict. We have now on our website got tests that are a bit easier for companies to actually get assistance from this fund. That has been a work in progress, but our objective here is, during these particularly difficult times, if we can assist companies.

It is interesting the pressures companies have been under. In the budget last year we had a fairly strong package of payroll tax relief, WorkCover premium relief and land tax relief to try and assist some of these very companies at the time when the Australian dollar was 98 cents US. The dollar has gone back — and I look to Lynne Williams — to about 75 cents, or something in that order now, so that particular pressure that was on from the strong dollar has eased off, but the new pressure has emerged from just a slowing down of world manufactured exports between countries. This is our way of assisting. I think the criteria are right, but again we will monitor these particularly closely, because these are ongoing, viable, advanced manufacturing jobs in particular that we want to protect in Victoria in an environment where they will actually add to our skills base for the future.

The CHAIR — Thank you, Treasurer. A final question on the Treasury portfolio.

Mr WELLS — Treasurer, I refer to the budget forward estimates in general. Given that your government has so far announced more than $550 million of spending that was not detailed in the budget papers anywhere, I ask: where are these unaccounted for announcements detailed in the budget? For example, there is the first home owners grant, there is the cancer care centre, which you have mentioned, and I believe there was a volunteering strategy. Will there be any other unaccounted for announcements that were supposed to be in this budget? Is this an example of the government managing our economy from one media release to the next photo opportunity?

The CHAIR — Ignore the second part and answer the first part quickly, please.

Mr LENDERS — Chair, this is the government, not an opposition. Mr Wells has raised a couple of issues and legitimate questions, like the first home buyers, for example.

Mr WELLS — It has got 'TBD' written in there.

Mr LENDERS — Mr Wells is looking to budget paper 3, where it has got 'to be determined'. If he goes to budget paper 4, chapter 1, the Auditor-General through the contingencies would have seen that the government was actually factoring in $125 million to be rolled over for the year. Unfortunately that was just one of the printing time lines of budget papers that are printed about a week before whatever it is — the Thursday or Friday before the budget. The government at that stage was still finalising the details of the — —

Mr WELLS — So will there be an updated version of this?

Mr LENDERS — Chair, there will not be an updated version of budget paper 3, but there will be the midyear budget update and then the actual budget next year. The annual financial report will finalise all those.

The government made the policy decision — and Mr Wells's question is a very legitimate one; you would not want governments to be doing things on the run by media release — to roll over for one year the first home buyers grant. Firstly the government was trying to find out what the commonwealth was doing — and we could not find out what the commonwealth was doing — because obviously the two have to be done in conjunction. Secondly we were also still doing some work ourselves and modelling with the HIA as to what the most effective way would be to create jobs in the stimulus. Mr Wells is correct in budget paper 3 it says 'to be determined', but it is reconciled through budget paper 4, chapter 1, where the Auditor-General will have seen these items where we saw the $125 million going forward. Yes, the policy was a change, where it skewed it more towards new construction so that that would, one, be stimulus for jobs, and secondly it actually would be assisting with boosting the housing stock.

Our housing prices are more affordable than they are on the rest of the eastern seaboard, because it is more a supply issue than a demand issue — we have made more land available — but also you have the absolutely legitimate issue that there is a shortage of rental stock. Part of that on the social housing end is being addressed by the commonwealth and states' intervention in more social housing stock. But the other part that is addressed by the first home buyers component is that it actually will generate more housing stock, and then the flow on will be that there will be more rental stock, and that should take some of the pressure off rental prices, which is an issue for many Victorians at the moment.

On the issue about the comprehensive cancer centre and where these other issues fit into the budget, what we have is right through the budget we have made allocations for capital. There are allocations for capital and then there is unallocated capital. It is not unusual in budgets. We put in capital allocations for projects that are going to go forward. Sometimes we do not specify what they were, because there is future agreement still required with another level of government — almost always the commonwealth, although occasionally there is a border issue with another jurisdiction or occasionally relations with other parts of government or commercial ones with other companies. So we make a capital provision in allocated capital to actually match where the commonwealth is going forward.

As I said in response to an earlier question — from Mr Noonan I think that one was — some of that is quite uncertain, and that — —

Mr WELLS — But did you not make the announcement the day after?

Mr LENDERS — With the comprehensive cancer centre, Chair — through you — when the budget went to print, which was late Thursday or Friday — I think it was, Dean? It was Thursday or Friday, anyway, when those budget papers went to print in the week before the budget, and that was the situation we had, therefore we have made provision — we have made provision in transport, we have made provision in health and in a range of areas — for capital that can be allocated towards commonwealth projects.

The commonwealth then chose to announce a comprehensive cancer centre, and we welcome it. It is a great initiative for treating patients with cancer needs and research that Victoria needs, and we welcome it. Similarly the commonwealth could equally have made a number of decisions in transport or other areas between the time the budget papers went to print and their budget, or post their budget. From our perspective these papers show allocated capital, these papers show unallocated capital and these papers show fully funded Victorian projects that have been announced and are out there. These papers show indicatively where we think we are going forward with the commonwealth, like in the transport plan, for example. We have a full transport plan in there and the indicative time line we think it will run, but it by definition will vary from year to year. If the commonwealth says it will fund a program — that is, at year 3 or 4 of our program; not no. 1 — and they are going to fund it, clearly we will juggle our program to be a partner with the commonwealth.

With the papers, in one sense it can be a bit frustrating, because people would like more certainty in them.

Mr WELLS — Or inaccurate.

The CHAIR — Mr Wells is saying 'inaccurate' — —

The CHAIR — I think we need to move on to innovation, thanks, Treasurer.

Mr LENDERS — I would say on this one, Chair, though, that these papers are where the government thinks it is when the budget papers go to print, and any variation to that will: one, be recorded in the midyear budget update; and two, any variations are recorded in the schedules to the appropriation bill that will be presented to the Parliament in the following year. The appropriation bill that the Premier introduced and I spoke to in the house last Tuesday actually has the variations from the appropriation from the previous year, so everything is accounted for.

In a ideal world, everything would be in the papers, but there were many moving, interlocking parts, and this is an accurate reflection at the time. But it will be updated, as is always the case, with more information, which will be good news for Victoria, with more investment infrastructure through our partnership with the commonwealth.

The CHAIR — Thank you, Treasurer. I also thank Mr Hehir, Mr Yates, Dr Williams, Mr Fitzgerald and Mr Bloomfield for their attendance.

Witnesses withdrew.