PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into the 2024–25 Financial and Performance Outcomes

Melbourne – Monday 24 November 2025

MEMBERS

Sarah Connolly – Chair	Lauren Kathage
Roma Britnell – Deputy Chair	Aiv Puglielli
Jade Benham	Meng Heang Tak
Michael Galea	Richard Welch
Mathew Hilakari	

WITNESSES

Chris Barrett, Secretary,

Camille Kingston, Deputy Secretary, Commercial,

Chris Hotham, Deputy Secretary, Budget and Finance,

Kate O'Sullivan, Deputy Secretary, Infrastructure,

Matt O'Connor, Deputy Secretary, Industrial Relations Victoria,

Paul Donegan, Deputy Secretary, Economic, and

Julio Labrin, Chief Financial Officer, Department of Treasury and Finance;

Katrina McKenzie, Commissioner, Economic Growth Victoria;

Sarah Sheppard, Chief Executive Officer, Essential Services Commission;

Tracey Slatter, Chief Executive Officer, Transport Accident Commission;

Kate Galvin, Chief Executive Officer, Victorian Funds Management Corporation;

Michael Larkin, Chief Executive Officer, Treasury Corporation of Victoria;

Andrew Davies, Chief Executive Officer, Victorian Managed Insurance Authority;

Cathy Henderson, Chief Executive Officer, and

Jason Lardelli, Executive Director, Return to Work Victoria, WorkSafe Victoria; and

Paul Broderick, Commissioner, State Revenue Office.

The CHAIR: I declare open this hearing of the Public Accounts and Estimates Committee, and I ask that mobile telephones please be turned to silent.

I would like to begin by acknowledging the traditional Aboriginal owners of the land on which we are meeting. We pay our respects to them, their culture, their elders past, present and future as well as elders from other communities who may be here today.

On behalf of the Parliament the committee is conducting this Inquiry into the 2024–25 Financial and Performance Outcomes. Its aim is to gauge what the government, the courts and Parliament achieved in 2024–25 compared to what the government planned to achieve.

All evidence taken by the committee is protected by parliamentary privilege. Comments repeated outside of this hearing may not be protected by this privilege. Witnesses will be provided with a proof version of the transcript to check, and verified transcripts, presentations and handouts will be placed on the committee's website.

As Chair I expect that committee members will be respectful towards witnesses, the Victorian community joining the hearing via the live stream today and other committee members.

I welcome the Secretary for the Department of Treasury and Finance, Chris Barrett. You are very much welcome, as are the officers who have also joined us here today. Secretary, I am going to invite you to make an opening statement or presentation of no more than 10 minutes, after which time committee members will ask you some questions. Your time starts now.

Chris BARRETT: Thank you very much, Chair, and thank you for the opportunity to speak in front of the committee today. In my short presentation this morning I will cover the following three themes: first, the performance of the Victorian economy during 2024–25; second, an overview of the state's finances over this period; and finally, highlights for the Department of Treasury and Finance.

I would like at the outset to associate myself with your acknowledgement of country and pay my respects to Wurundjeri elders past and present and the Aboriginal elders of other communities who may be here or may be watching today.

Visual presentation.

Chris BARRETT: I will now briefly outline some of the key outcomes for the state's economy over the past year. Victoria's economy has continued to grow in the past couple of years. As is the case nationally, growth has been modest during this period, overwhelmingly due to the impact of monetary policy, which I will come to in a moment. Prior to the pandemic, Victoria experienced solid economic growth, as you can see in this chart. The pandemic's impact is clearly visible, followed by a strong recovery in 2021–22 and 2022–23. The impacts of a rapid increase in inflation and the Reserve Bank's monetary policy response through 13 interest rate rises from May 2022 can be seen in subdued growth across 2023–24 and 2024–25, and that is for both the Australian and Victorian economies. Real gross state product grew by 1.4 per cent in 2023–24 and an additional 1.1 per cent in 2024–25, in a period of subdued but positive economic growth following a period of high inflation and, as I mentioned, tight monetary policy. Among the drivers of growth in GSP, dwelling investment recorded the strongest increase in 2024–25. Public demand, especially growth in Commonwealth program spending, also provided a solid contribution to growth. Victoria's economy was 12.7 per cent larger in 2024–25 than it was in 2018–19 prior to the COVID-19 pandemic.

A key contributor to gross state product in 2024–25 was, as I said, dwelling investment. The level of dwelling investment activity improved, rising by 4.5 per cent in 2024–25 and reaching its highest level in six years, as you can see in the left-hand chart here. This follows a period of higher costs and labour constraints in the construction sector, which had slowed the sector's output in previous years. However, those constraints eased in 2024–25, with more available workers enabling the construction sector to work through a backlog of projects. The average build time for new detached houses has fallen back to around seven months, near pre-pandemic levels, after peaking at close to 11 months, as the right-hand chart here shows. Going forward we expect this to continue, supported by an elevated pipeline of work to be done, further easing of capacity constraints and building costs and higher demand for new housing.

Business investment has grown strongly in recent years, notwithstanding flat growth in 2024–25, and business investment has remained near record levels on a per-worker basis in 2024–25, as you can see in the right-hand chart here. Growth has been broad based, including machinery and equipment and engineering construction, especially projects relating to the energy transition. As you can see in the left-hand side chart, intellectual property has also supported elevated business investment levels in 2024–25; this includes spending on digitisation projects such as data centres and cyber security. Nationally, reported investment intentions in surveys of firms by the Australian Bureau of Statistics point to further growth in 2025–26. There is also a sizeable pipeline of infrastructure work ahead, including renewable energy investment and digitisation projects.

As I went through at last year's committee hearing, cost-of-living pressures and elevated interest rates have been a challenge in the state, nationally and globally. Since that time inflation continued to ease, having peaked at 8 per cent in December 2022 and reaching an average of 2.4 per cent in 2024–25. This is within the Reserve Bank of Australia's 2 to 3 per cent inflation target. In response to that easing inflation, the RBA reduced the cash rate in February, May and August of this year. The decline in inflation in 2024–25 was mostly driven by reduced growth in goods prices as global supply chain disruptions eased and overall demand for goods moderated. Lower global oil prices also led to a fall in automotive fuel costs, while electricity prices dropped significantly, supported by temporary government energy rebates. More recently, national inflation in the September quarter exceeded the RBA's forecasts; annual inflation in Melbourne picked up from 2 per cent to 2.6 per cent in September, as can be seen by the small tick-up on the left-hand side chart right at the end that you can see there.

The growth of the Victorian economy has supported a healthy labour market. Employment grew by a strong 2.5 per cent in 2024–25, and the total number of Victorians in work is currently 3.8 million following strong growth over recent years. As the left-hand chart shows, the share of working-age Victorians in employment and the participation rate continue to remain high, currently at 64.7 per cent and 67.8 per cent respectively. The unemployment rate increased in 2024–25 to average 4.4 per cent, as the right-hand chart shows. The latest data for October 2025 show it is currently 4.7 per cent. This increase in unemployment has occurred alongside a large increase in labour supply, with strong population growth as well as an increase in the proportion of people looking for work. So although employment growth has been strong, it just has not kept pace with very strong growth in the labour supply; still, the unemployment rate remains low when compared to the pre-pandemic average of 5.5 per cent, as you can see on that chart.

We will now briefly turn to some of the key outcomes for the state's finances in 2024–25. During the pandemic the government used its balance sheet to support households, businesses and service delivery. This obviously affected the state's financial position and outlook. In the 2020–21 budget – so this is in November 2020 as the pandemic drove the budget into deficit – the government introduced a four-step fiscal strategy to support Victorians through the COVID-19 pandemic and set a path to restore the state's finances in the medium term. The first step – creating jobs, reducing unemployment and restoring economic growth – was clearly met, with employment outcomes and economic growth, as I have just discussed. The 2024–25 budget introduced a new fifth step to the fiscal strategy: reducing net debt as a percentage of GSP.

In 2024–25 we saw further improvements in the state's fiscal position. The government maintained the strategy's first two steps: restoring economic growth and delivering an operating cash surplus of $3.2 billion. The remaining two steps are on track, with an operating surplus forecast in 2025–26, and debt levels as a proportion of the economy are stabilising from 2026–27. Net debt to GSP is forecast to decline from 25.2 per cent in 2026–27 to 25.0 per cent in 2027–28 and 24. 9 per cent in 2028–29 in line with the fifth step of the fiscal strategy.

Finally, I will outline some of the highlights for the Department of Treasury and Finance in 2024–25. The department's major achievements for 2024–25 include supporting the government's economic agenda and its commitment to delivering its five-step fiscal strategy and growing the Victorian economy; preparing and producing key financial publications, including the 2025–26 budget, the first budgeted operating surplus since the pandemic; helping develop the government's *Economic Growth Statement*; and supporting the development and introduction of the Financial Management Legislation Amendment Bill 2025 to strengthen the requirements and accountability for financial management and to modernise the *Financial Management Act 1994*. We also contributed to an integrated building regulator and insurer, the Building and Plumbing Commission, including transition of responsibility for domestic building insurance from the Victorian Managed Insurance Authority. We supported the procurement and delivery of high-value infrastructure projects such as the Suburban Rail Loop, the North East Link and the high-rise redevelopment program. We provided robust public reporting on Victoria's infrastructure projects through the capital investment dashboard and major projects pipeline, and we managed approval of 29 public sector enterprise agreements, including major agreements as are listed there.

The CHAIR: Thank you, Secretary. The first 21 minutes are going to go to Mr Welch.

Richard WELCH: Thank you, Chair. Thank you, Mr Barrett. Thank you, officers. Mr Barrett, the department has a DTF resource management framework that defines Treasurer's advances. Did you sign off on that framework?

Chris BARRETT: I think the resource management framework is from a few years ago – 2017 I think from memory. I am happy to be corrected.

Richard WELCH: It is still in effect from July 2025 – yes?

Chris BARRETT: It is still in effect. Yes, it is.

Richard WELCH: Do you abide by that?

Chris BARRETT: Yes, absolutely, we do.

Richard WELCH: Right. So, Secretary, in last year's outcomes you told the committee that Treasurer's advances are no longer being used for urgent or unforeseen spending. So how do you reconcile that?

Lauren KATHAGE: He did not say that.

Chris BARRETT: Well, I do not think I said quite that. I was talking about a number of different –

Richard WELCH: I can quote you if you would like.

Chris BARRETT: Yes.

Richard WELCH: It is here. Question from Mr O'Brien:

> … the Treasurer's advances are no longer for urgent or unforeseen spending?

Mr Barrett:

> That has been correct for a little while …

Chris BARRETT: I think what I meant to say was they are no longer only used for that purpose.

Richard WELCH: So, the DTF resource management framework – is that out of date?

Chris BARRETT: No, it is not. There are a number of different circumstances in which Treasurer's advances are used, Mr Welch. The one that I think people traditionally think of is indeed for urgent and unforeseen circumstances, and the government still does use Treasurer's advances for that. So, for example –

Richard WELCH: Then why hasn't the framework been updated, then, and approved by someone? Are you just making your own rules up as you go?

Chris BARRETT: No. And as we have spoken about in this committee before, Mr Welch, the use of Treasurer's advances as the vehicle by which amounts held in central contingency are released to departments we submit is actually an additional layer of effective government, central government.

Richard WELCH: Who determines that policy?

Chris BARRETT: Well, that has been the practice for many years.

Richard WELCH: It may be the practice, but who determined that would be the practice?

Chris BARRETT: Well, I do not think there is anything in the resource management framework that excludes that as a use of Treasurer's advances, Mr Welch. And I was going on to try and explain what the benefit of doing contingency releases –

Richard WELCH: But I am concerned: where is the rigour here? Where is the rigour here? You can basically redefine what Treasurer's advances are of your own accord.

Chris BARRETT: No. I think the rigour is there, Mr Welch. If I might submit that the contingency releases from Treasurer's advances are all transparently laid out in both the DTF annual report and also the annual financial report. I think from memory we added some additional reporting in this year's budget as well. So we have been seeking to bring more and more transparency to that over time, because quite reasonably people have been asking questions about how these are used.

Richard WELCH: Right. If that is the case, then you would have clarity about what is left in your contingency allocations, what that contingency is made up of and where those allocations could go.

Chris BARRETT: Yes, we would have that.

Richard WELCH: Can you provide that?

Chris BARRETT: I will see what can be provided to the committee. As I said, we always disclose which contingency amounts have been released.

Richard WELCH: After the event, yes. But from the quantum that you have set aside you must know what proportion is held in contingency for what.

Chris BARRETT: Yes, we would, and it is also disclosed in the budget papers.

Richard WELCH: No, it is not – not by line item.

Chris BARRETT: Yes, it is.

Richard WELCH: Not by department.

Chris BARRETT: Well, no, not by department, but I just draw your attention –

Richard WELCH: That would be very useful information to know, because this is basically funds that are not appropriated by the Parliament. For example, the SRL East –

Chris BARRETT: I am sorry, Mr Welch, that is not correct. It is absolutely appropriated by the Parliament. They are appropriated to Treasury.

Richard WELCH: Well, yes, but not to the departments.

Chris BARRETT: That is right.

Richard WELCH: For the example of the Suburban Rail Loop East then, you have allocated $870 million in the last year. When was that appropriated to that project by Parliament?

Chris BARRETT: Well, it was appropriated centrally to Treasury. If I might, I would appreciate it if I was able to explain why we do it in this way. In past years you would appropriate the entire amount to the department for, say, a capital project. As the capital program has got larger and larger, we thought it appropriate to ensure that actually money is passed to departments as they achieve key milestones on a project. For example, in DTF – and Ms O'Sullivan can speak to these – we do high-value, high-risk assessments, we do gateway assessments. That is being confident that government is on track and that the delivery agency is on track for delivery of those projects before the funding is released.

Richard WELCH: To be confident that the government is on track – for example, on the Suburban Rail Loop – you would need to know how much the project is going to cost. So how much is the Suburban Rail Loop going to cost?

Chris BARRETT: It is going to cost between $30 billion and $34.5 billion, Mr Welch.

Richard WELCH: Which costing figures are they based on?

Chris BARRETT: They are based on the figures in budget paper 4.

Richard WELCH: From what year?

Chris BARRETT: I think the costing was done in 2022, actually 2021.

Richard WELCH: 2021. Have you requested updated figures for that?

Chris BARRETT: No, we have not.

Richard WELCH: So you are allocating against a four- to five-year-old figure?

Chris BARRETT: Four years old. But the point that I would make about that, Mr Welch, is actually at the time that the costing was done, (a) you built in contingencies, obviously as you do for any project. It was also the time when we had already started to see –

Richard WELCH: How much of that contingency has been absorbed?

Chris BARRETT: Sorry, if I could just –

Richard WELCH: No, I understand that. I just want to know how much of that contingency has been absorbed.

Chris BARRETT: I do not know that we have those figures in front of us, but –

Richard WELCH: But you are allocating against it anyway?

Chris BARRETT: Well, as you go, obviously we keep an eye on the contingencies in the Department of Transport and Planning –

Richard WELCH: But you just told me you do not know what they are.

Chris BARRETT: I just do not have them in front of me right now, Mr Welch.

Richard WELCH: Can you provide them on notice?

Chris BARRETT: I will see if I can provide those.

Richard WELCH: No, I would like them provided on notice, please.

Chris BARRETT: Okay.

Richard WELCH: Yes?

Chris BARRETT: Yes.

Richard WELCH: Thank you. Now, in the 2024–25 year by comparison, in the last year it was $11 billion issued by way of Treasurer's advances. By comparison, in the Commonwealth Parliament, the whole of the nation approved just $1 billion in advances for the Minister for Finance. Aren't we wildly out of step with other jurisdictions?

Chris BARRETT: I would, Mr Welch, make the argument the other way round. I actually think this is better budgeting practice. Now, the Commonwealth does not deliver as many infrastructure projects as we do – nowhere near as many as the states do. I was not meaning to comment on funding; it was just literally delivery. I do think it is a more appropriate budget practice – and I am very happy to defend it as a budget practice – to hold certain amounts of money in contingencies centrally, fully disclosed, that are then released to departments as they achieve milestones, be they program milestones or capital milestones.

Richard WELCH: So we do not have visibility of exactly how much per department per project there is, do we?

Chris BARRETT: With respect, Mr Welch, you do, because they are all disclosed in the DTF annual report and they are disclosed in the annual financial report.

Richard WELCH: Well, with the Suburban Rail Loop we have 'to be confirmed, to be confirmed, to be confirmed', so it is not disclosed at all.

Chris BARRETT: No, there is a reason why the TBC figures are there in budget paper 4, which I will talk to in a moment – because you do not obviously want to disclose what the subcomponents are while you are still in negotiations on the project. But the total amount, the $30 billion to $34.5 billion, is disclosed in the footnote, Mr Welch, to that table, for precisely that reason.

Richard WELCH: Thanks, Mr Barrett. Okay. Secretary, I will move on to credit ratings. Were any credit rating assessments requested in 2024–25?

Chris BARRETT: Do you mean in addition to the public ratings that we have got from the three ratings agencies?

Richard WELCH: Correct. Were any?

Chris BARRETT: No.

Richard WELCH: No. Have you sought any other opinions? Have you sought any external advice on credit ratings?

Chris BARRETT: It has been disclosed in both our annual report and publicly that we have a ratings adviser. So yes, we do use the advice of our ratings adviser.

Richard WELCH: And therefore you have received assessments from that adviser?

Chris BARRETT: I would not say so much assessments as advice on the way through. We find it very useful to have an adviser who has worked within the ratings agencies to help us in our engagement with those ratings.

Richard WELCH: Can the committee have a copy of that advice?

Chris BARRETT: I would have to take that on notice, Mr Welch.

Richard WELCH: Why is that?

Chris BARRETT: Well, I just have to be sure about who the advice has been provided to. There might be elements of it that we have provided in in-cabinet documents. So I am happy to take it on notice.

Richard WELCH: Anything outside in-cabinet we would appreciate, thank you. What modelling has the department done on the effect of a declining credit rating?

Chris BARRETT: The modelling that we have done – and I think we discussed this last time, Mr Welch – is in the back of budget paper 2, which is around the impact of an increase in interest rates on the budget. If you were to experience a rating downgrade, then the effect that you would expect is an increase in interest rates. It depends obviously on the market at the time, but that is the modelling that we have done.

Richard WELCH: What was your forecast for interest rates over 2025–26? Were you expecting interest rates to further decline?

Chris BARRETT: That is a good question, and I am happy to provide it. I do not know whether we have the actual rate number to hand. If we can provide it by the end of the committee, I will.

Richard WELCH: I believe most Treasury documents were assuming there would be further rate cuts, and there have not been.

Chris BARRETT: Yes. From memory, around the time that we struck the budget it was during that period of the so-called Liberation Day tariffs and we were not sure which way interest rates were going to go. From memory, they came down very slightly. But I am happy to provide that information to the committee.

Richard WELCH: Has that affected your Treasury bond rollover program?

Chris BARRETT: Which – the ructions in the market, you mean?

Richard WELCH: Rates not going as expected.

Chris BARRETT: I am happy to get Mr Larkin, if you would like, from TCV to talk about what we have seen in markets for the benefit of the committee. Would you like Mr Larkin to speak to that, or will I just finish?

Richard WELCH: Well, just briefly, on where you thought interest rates were going to go, they have stayed higher than anticipated. What does that mean for your rollover and your plans?

Chris BARRETT: I might ask if Mr Larkin could come up and talk to the conditions that we have been experiencing in markets. But while he does that, and for the benefit of the committee, we do also, Mr Welch – and I cannot remember whether I have mentioned it before this committee before – assume an upwardly sloping yield curve when we put in the interest rate assumptions for the budget. So you will note that interest rate cost is obviously increasing. That is partly around the stock of debt, of course, but it is also because we assume that upwardly sloping yield curve. It is a conservative assumption. You would rather have it that way than the other way. But I might ask Mr Larkin if he wants to talk about what we have been experiencing.

Richard WELCH: Just briefly, please.

Michael LARKIN: Yes, certainly. In short, markets have continued to be very conducive to issuance this year. Yes, there was some disruption around early April following the announcements of the tariffs in the US, but we have found that market access has been very good. There have not really been any constraints on our ability to raise funding, whether it be in Australian dollars or in other markets.

Richard WELCH: Okay. Thank you, Mr Larkin. I would just like to ask a couple of questions about the Silver review. In your annual report you listed four consultancies engaged to support the independent review into the Victorian public sector. What activities did these consultants undertake?

Chris BARRETT: I will just get the page from the annual report, if I may. A couple from Ernst & Young, as you would see, for amounts of – I will use the expenditure rather than the approved project fee.

Richard WELCH: Well, actually it is the activities I am interested in. So what did they do?

Chris BARRETT: Well, I want to be careful, Mr Welch, because obviously the government has not released the Silver review, but there are a number of terms of reference to that review. I will not go to specific consultancies, but you can take these as the ones that were focused on: further strengthening budget operating parameters and accountability, reforming public bodies and entities to realise savings and streamline the operations of government, reforming the structure and size of the Victorian public service and undertaking a range of other major reforms to reduce duplication and scope creep, rein in cost growth and improve effectiveness and accountability.

Richard WELCH: So did they produce a list of deliverables for the departments?

Chris BARRETT: They produced reports for Ms Silver that she has used in the production of her report, Mr Welch.

Richard WELCH: Are they available? Can we have a copy of those?

Chris BARRETT: I am happy to look if they can be provided once the report has been made public. Obviously I could not do that in the interim.

Richard WELCH: Why not?

Chris BARRETT: Well, because it would presuppose what is in the report, and government has not released that yet.

Richard WELCH: No, it is simply advice, isn’t it? It is not the final report.

Chris BARRETT: But it would be very indicative of what the final report would contain in it.

Richard WELCH: Oh, they will be taken verbatim. Do you have the contract schedules, the schedules of work, that were undertaken – the hours, where, what, the actual activities?

Chris BARRETT: I do not have them myself. I imagine Ms Silver would, Mr Welch.

Richard WELCH: You have paid for them with –

Chris BARRETT: Indeed, from the amounts that are laid out in the annual report. We did the back office procurement for those consultancies, Mr Welch, but the choice of consultants and the day-to-day guidance was Ms Silver.

Richard WELCH: But the procurement – you must have known what the activities were, who would they be engaging with and things of that nature?

Chris BARRETT: Yes.

Richard WELCH: Yes. Can we have those?

Chris BARRETT: Well, again, Mr Welch, the report has not been made public, so –

Richard WELCH: No, but I am not asking for details of what they found. I am interested in details of the work provided.

Chris BARRETT: I would have to see if that can be provided, but again, I would think that is after the report has been made public.

Richard WELCH: Why?

Chris BARRETT: Because it might indicate where the report is going.

Richard WELCH: No, no, no – simply, you know, ‘Tuesday we go here, Wednesday we go here, Thursday we go here. We speak to this officer; we speak to that officer.’ How would that indicate anything other than the schedule of work?

Chris BARRETT: The other point that I would make about the schedule of work – I mean, what matters for the schedule of work is the budget, which has been released in the DTF annual report. So you can see the approved fee and you can see how much was spent against it.

Richard WELCH: It is not the same as the schedule of work, Mr Barrett.

Chris BARRETT: Yes, understood.

Richard WELCH: So could we please have the schedule of work?

Chris BARRETT: I will see what can be provided, Mr Welch.

Richard WELCH: Thank you. Now, one of the consultancies, Gilbert and Tobin, made a $3866 donation to the Victorian Labor Party in November 2023. Did the department take any probity assessments in relation to this consultant?

Chris BARRETT: As I mentioned earlier, Mr Welch, the choice of consultants was Ms Silver’s, not DTF’s.

Richard WELCH: But you were paying for it. So do you not have any probity responsibilities in the payment?

Chris BARRETT: We would have provided procurement advice, as in how to procure the consultancies, but the consultants were Ms Silver’s choice, not ours.

Richard WELCH: And you just waved them through?

Chris BARRETT: As I said, they were Ms Silver’s choice, not ours.

Richard WELCH: So no probity checks over who you were signing these cheques off to?

Chris BARRETT: Well, as I said, they were Ms Silver’s choice of consultants.

Richard WELCH: You have said that three times now, but weren’t there any probity tests? You were just signing cheques as defined?

Chris HOTHAM: I am happy to add a little here, Mr Welch. As the Secretary has made clear, the choices of consultants were Helen’s. In terms of providing her support in the contractual arrangements, yes, we looked at a range of documentation that you would effectively have for any procurement, including –

Richard WELCH: In probity?

Chris HOTHAM: Well, I will look into that specifically to your question, but we certainly looked at other interests, conflicts of interest – those types of things.

Richard WELCH: I am happy for you to take it on notice if you can clarify that for me.

Chris HOTHAM: Yes.

Richard WELCH: Thank you. Have you provided any advice actually in implementing the Silver review?

Chris BARRETT: Yes, we have, Mr Welch.

Richard WELCH: What was the advice?

Chris BARRETT: I am not at liberty to disclose that here while the report has not been released publicly, Mr Welch.

Richard WELCH: What are the expected savings?

Chris BARRETT: Well, likewise, obviously I am not at liberty to divulge that here while government has not released the report.

Richard WELCH: And how many jobs will be cut?

Chris BARRETT: The same answer as previous, I am sorry.

Richard WELCH: Thank you. I will move on to the CBS. Is the central banking system presently in overdraft, and if so, by how much?

Chris BARRETT: I might just ask Ms Kingston if she can talk to the current state of the central banking system – if you were aware of that, Ms Kingston?

Camille KINGSTON: Absolutely. Look, I might actually start with a quick explanation of how the central banking system works –

Richard WELCH: No, no. All I am interested in is: is it in overdraft?

Camille KINGSTON: partly because the overdraft is the wrong way to think about it. It is a pooling of government funds, and it is not –

Richard WELCH: No, no. I do not need an explanation of how to think about it. I just simply want to know: is it in overdraft?

The CHAIR: Excuse me, Mr Welch, the explanation goes to the answer.

Richard WELCH: I am asking for a point of fact.

The CHAIR: Mr Welch, the explanation goes to the answer you have asked, so please allow Ms Kingston to answer.

Richard WELCH: I think I am entitled to ask my questions the way I want to ask my questions.

The CHAIR: Mr Welch, Ms Kingston is trying to answer your question, and I am assuming you would like the answer, because the committee would.

Richard WELCH: Well, as long as it includes an answer to the actual question I have actually asked.

The CHAIR: Mr Welch, do you want to ask your question so Ms Kingston can answer?

Richard WELCH: Are we in overdraft?

Camille KINGSTON: Very quickly, it is a pooling arrangement, and it is misleadingly called an overdraft. It is actually an offset arrangement. I think what your question might be getting to is: is there an expense coming out of the CBS? No –

Richard WELCH: No, my question is: are we in overdraft?

Camille KINGSTON: No.

Richard WELCH: So we are in surplus. How much of the overdraft was repaid in 2024–25?

Camille KINGSTON: I do not have that information at hand, but I can see if I can get that, absolutely.

Richard WELCH: So we are not currently in overdraft at all. And you mean because we are in offset, we are not in overdraft?

Camille KINGSTON: Correct, yes. It is misleadingly called an overdraft. That is a matter for the banks; I am not quite sure why they do that.

Richard WELCH: How much is the offset?

Camille KINGSTON: How much is the offset? Again, I will have to get that information for you. But it is the value of all of the government cash deposits held by participating government agencies and departments, so it is the consolidation and pooling of their funds. I will be able to get you that information; I just do not have it at hand.

Richard WELCH: Okay. Thank you. Has the department provided the Treasurer with details on the management of the overdraft offset?

Camille KINGSTON: We would on occasion provide advice. As part of the appropriation each year for the state budget purpose, we have to provision for a certain amount for the CBS in order to be able to transfer the interest earned through the CBS cash deposits back to the holding departments and agencies.

Richard WELCH: Would you –

The CHAIR: Thank you, Mr Welch. We are going to go to Mr Galea.

Michael GALEA: Thank you, Chair. Good morning, Secretary and officials. Thank you for coming along today. Secretary, firstly I would note you have spoken about Treasurer's advances, and I note that pages 9 through I think 30 of your questionnaire detail what those and other budget supplements were spent on.

Chris BARRETT: Yes, correct.

Michael GALEA: Secretary, I would like to ask you about the Emergency Services and Volunteers Fund, though. Budget paper 5 of last year's budget, page 18, outlines the estimated forward estimate income revenue raised from the then fire services property levy. How much of a difference is the ESVF going to make in comparison to the fire services property levy? What difference are we talking in terms of the revenue raised?

Chris BARRETT: Thank you, Mr Galea. From 1 July 2025, as you mentioned, the fire services property levy was replaced by the Emergency Services and Volunteers Fund, which was expected to increase revenue by $590 million in 2025–26 from the expected 2024–25 FSPL revenue level.

Michael GALEA: Thank you. So that is significant increase on the former one. Indeed budget paper 3 for the same year lists the various outlines of funding for the CFA, SES and FRV as well. Noting that it is a transparency measure that these are published alongside funding requirements each year in the *Government Gazette*, can you talk to me about the full picture of how these agencies are funded, where the ESVF comes into that and what sort of role it will play and how central the role is, I guess, in terms of funding?

Chris BARRETT: Yes, happy to, Mr Galea – thank you. So the fundamental concept behind the ESVF is that property owners help fund emergency response services, and the Emergency Services and Volunteers Fund will support the work of a broader range of emergency services that respond to fires, floods, storms and other emergencies – that is, compared to the former fire services property levy. These emergency services include the Victorian State Emergency Service – so VICSES – Triple Zero Victoria, Emergency Management Victoria, Forest Fire Management Victoria, the State Control Centre and Emergency Recovery Victoria. The ESVF will continue to fund Fire Rescue Victoria and the Country Fire Authority – the CFA – so the Treasurer determines and publishes the ESVF rates in May of each year through a process very similar to the former fire services property levy. The fixed charge continues to be indexed annually in line with the consumer price index, and the ESVF will be used to fund a number of the annual budgets of the organisations that I that I just mentioned at different levels. So the ESVF funds 90 per cent of Fire Rescue Victoria's budget and 95 per cent of the Victorian State Emergency Service budget and the Country Fire Authority budget – so both of them are at 95 per cent – and then the other organisations that I mentioned earlier from memory, I think, Mr Donegan, are at 43 per cent. So the $50 pensioner and veteran concession and the single farm enterprise exemption from the fire services property levy will continue to apply under the ESVF.

Other changes to the levy include changing the name, obviously, to the Emergency Services and Volunteers Fund to account for effectively funding a broader range of emergency services. There is also the introduction of a rebate scheme for eligible CFA and VICSES volunteers for their principal place of residence or their farm. The Treasurer has also declared that volunteers with Shepparton Search and Rescue Squad are eligible for the volunteer rebate. We also abolished the vacant land category, with vacant land being allocated to its corresponding land use sector, of which there are a number, and I will talk about those in a minute. From 1 July 2026 a new property classification will be introduced for residential principal places of residence and non-principal places of residence. Residential properties will be charged the non-residential fixed charge.

Other key features of the levy remain the same as under the FSPL, so the ESVF continues to be calculated based on the fixed charge that varies by property type and a variable charge also based on property type and value – and existing concessions in addition to the new ones I was talking about continue to apply. As to how you calculate the ESVF, it is calculated by adding the fixed and the variable charges together. The fixed charge is based on the property's classification, and the fixed charge increases annually, as I said, based on the CPI. The property classification describes the primary use of the relevant land, so each classification has its own rate. There are five property classifications for the purposes of the ESVF: residential; commercial; industrial, which also includes infrastructure and extractive land uses; primary production; and public benefit land. The property classification of the land appears on the owner's rates notice or the levy assessment notice issued to non-rateable property owners. The variable charge is based on the property's capital improved value, or CIV, which would be familiar to most members of the committee, I think. The variable rate depends on the property's classification and is multiplied by the CIV. The ESVF variable rate, I might add, on primary production properties will remain at 28.7 per cent, the same as it was in 2024–25 for the duration of the 2025–26 financial year in response to recent drought conditions in the state.

Finally, maybe just to give a bit of an explanation about the capital improved value, that is the value of land, buildings and other capital improvements made to the property. It is determined by the general valuation process and displayed, as I mentioned, on the council rates notice.

Michael GALEA: Thank you. Indeed we know how important it is for the SES to have that sustainable funding model moving forward that the ESVF will provide, and you rightly also called out Shepparton Search and Rescue, which I know members of the upper house, including the Treasurer herself, have been quite keen on ensuring are also covered, because they perform those same functions. Secretary, through the ESVF but also with the other funding mechanisms that are provided to these agencies, can you confirm that there is ongoing sustainable funding, there are no cuts and there is in fact an increase of funding to these agencies?

Chris BARRETT: Yes, correct, and I might just talk a bit to that, Mr Galea, because I would not want there to be any misunderstandings. Maybe if we go back to 30 May, when the government published a notice in the gazette outlining the levy rates for the year commencing 1 July 2025 and the forecast ESVF funding requirements for relevant organisations and programs in 2025–26 under the *Emergency Services and Volunteers Fund Act*, the forecast funding requirement for each organisation or program – and this is very important – is indicative only, and it comes at a point in time and ahead of the financial year, effectively. It only reflects a portion, a proportion of each budget funded through the ESVF; it does not represent the total funding of an organisation or the funding that an organisation or program will receive in 2025–26. To give you some examples of the types of amounts that it does not include, it does not include unforeseen costs in response to and recovery from emergency events – that funding is obviously dependent on the size of the event and can vary significantly depending on the type of event; it does not include funding held in contingency to be released for specific purposes; it does not include funding from other sources, including fundraising; nor does it include grants from other departments or funding that is held in a trust by the agency or department. Budget estimates from other sources, such as revised output costs and agency financial reports, will include funding from all sources available at the time of publishing. I guess why that is important is because you can have changes from year to year if you have had, for example, as we recently had with the western Victoria bushfires, the emergency services output very significantly topped up. So the 2024–25 figure is higher. The 2025–26 base budget looks lower, but in fact once you add in all of the additional, it may well end up being higher. But the point is you cannot really compare the total funding for the function to the base budgets that are set through the ESVF.

Michael GALEA: Sure. Thank you. Looking at those forward estimates, both in the 2024–25 budget but also the 2025–26 budget, comparing the former fire services property levy to the Emergency Services and Volunteers Fund, if the ESVF were to be repealed, that would be a significant black hole then in the budget that would have to be filled, isn't it?

Chris BARRETT: Well, you would have to find that money from somewhere else, yes.

Michael GALEA: Thank you. If I can turn to the annual financial report for the previous financial year, in particular – I am curious – I note that there has been a significant improvement when it comes to net debt to GDP ratio and the interest expense as a percentage of revenue but also in particular the net operating cash surplus. The forecast in the budget was $620 million operating cash surplus. The actual result is $3.2 billion, which is a marked improvement. Can you talk to me through that and the factors as to why we saw those positive results?

Chris BARRETT: Yes. Thanks, Mr Galea, for the question. As committee members would recall from my presentation earlier in fact, step 2 of the government's fiscal strategy was to return to an operating cash surplus. That operating cash surplus was actually achieved in the 2022–23 budget, so we have had three in a row since then. As you said, the 2024–25 operating cash result was $3.2 billion, and it is the third cash surplus since the pandemic. The 2024–25 operating cash result was actually an improvement of $2.6 billion compared with the $620 million surplus forecast in the 2025–26 budget. The improvement you asked me about from the revised budget was primarily driven by lower than forecast payments on goods and services and grants and partly also due to timing of payments across departments. There are also some higher other receipts, primarily due to an increase in fines collections and higher receipts associated with the *Unclaimed Money Act 2008*.

If I move to the net result from transactions, that was a deficit of $2.6 billion in 2024–25. This is an improvement of $1.6 billion compared with the $4.2 billion deficit in 2023–24, and it is an improvement of $816 million compared with the $3.4 billion deficit forecast in the 2025–26 budget. The budget is on track to return to an operating surplus – that is step 3 of the government's five-step fiscal strategy – in 2025–26, as reported in the 2025–26 budget, and obviously we will have the budget update coming out soon. The improved net result from transactions result compared with the revised budget was primarily due to higher than forecast revenue, mainly relating to grants and other revenue and income. This was partially offset by some lower forecast own-source taxation revenue. The level of government infrastructure investment, or GII as we call it, was $23.5 billion in 2024–25, slightly lower than the revised budget of $23.8 billion published in the 2025–26 budget. GII decreased by $732 million in 2024–25, compared with the peak of $24.2 billion in 2023–24. This reflects the government's commitment to a sustainable infrastructure program and returning capital investment to pre-COVID levels.

Net debt you asked about for the general government sector. That was $150.9 billion at 30 June 2025. That was $4.7 billion lower than the revised estimate in the 2025–26 budget. Net debt to GSP of 23.7 per cent at 2024–25 was lower than the revised estimate in the 2025–26 budget of 24.5 per cent . This improved net debt result primarily reflects a higher than forecast net operating cash surplus, which I just spoke about earlier, and some capital gains from the Victorian Future Fund and the Victorian Social Housing Growth Fund. I might add, there is very strong investment performance by VFMC – that is the Victorian Funds Management Corporation; sorry for the acronym – during 2024–25, with the Victorian Future Fund in particular delivering an 11.8 per cent investment return and capital gains of $588 million.

Michael GALEA: Thank you. And just touching again on the net operating cash surplus, you did mention that it has gone up from a $600-odd million forecast to a total of $3.2 billion this year. But I think you said it was 2022–23 that that first went back into surplus.

Chris BARRETT: Ticked over into operating cash surplus, that is correct.

Michael GALEA: How do these results in this year's AFR contribute towards us meeting the remaining steps of that fiscal strategy?

Chris BARRETT: As I mentioned, as you can see in these results, the net result from transactions position is stronger, and that is important because the net result from transactions is what we are targeting the surplus for for 2025–26. In terms of the operating cash, that is a significantly stronger result. The more operating cash result you generate, the less that you are reliant on borrowings to fund your infrastructure programs, so that then in turn relieves pressure on net debt, which goes to some of those figures that I was mentioning earlier to you of net debt in nominal terms being lower, and then as a percentage of gross state product. Now, you are never sure, because gross state product kind of changes its nominal numbers over time, so there can be a bit of a denominator effect there. But we have certainly seen, in terms of the lower numerator on net debt, that has driven a lower net debt to GSP ratio, which as you would recall is step 4, stabilising, and then step 5, reducing net debt to GSP.

Michael GALEA: Which indeed, as we are seeing, that is now.

Chris BARRETT: Yes. By the end of the forward estimates, that is right.

Michael GALEA: Wonderful. Thank you. You mentioned the capital program as well and how the spend is tapering to those pre-COVID levels, and I know it has been a feature of other recent presentations you have made in hearings, this committee as well. If I can talk to you about the operationalisation of one such project, which is very topical since its opening in six days time, which is the Metro Tunnel, I note that the 2024–25 budget included funds to operationalise the Big Build – budget paper 4, page 12. How is that money being spent to ensure that the tunnel can be opening this week, and what if any impact has that had on it being able to be done in this year instead of 2026?

Chris BARRETT: Thank you, Mr Galea. I might just take a step back. The Metro Tunnel project, as you say, has got TEI, or total estimated investment, of $13.5 billion, which is unchanged from the 2025–26 budget. As you said, it will be in operation from 30 November. It is obviously a very substantial investment in rail capacity, particularly for the CBD. The new tunnel connects the Sunbury, Cranbourne and Pakenham train lines through new 9-kilometre tunnels and five new stations, as members of the committee would be aware, at Arden, Parkville, State Library, Town Hall and Anzac. What this really means in particular is more efficient movement of people around the city, and that gets you productivity gains in terms of urban form, particularly by connecting key university, health and employment precincts. But of course every person who is on that rail loop is not on the roads, and so that should reduce congestion within the city as well.

There is high-capacity signalling that has been rolled out, really so that you can get to those turn-up-and-go services, and likewise it is aiming to relieve pressure on the Swanston Street–St Kilda Road tram corridor, and there are new underground pedestrian links to make it easier to interchange with existing stations at Flinders Street and Melbourne Central. In addition to the stations that we are talking about, there are also new tram stops at Parkville, new bike lanes on St Kilda Road and landscaping.

You referred, Mr Galea, to the 2025–26 budget funding $727 million in operating funding to switch on the Metro Tunnel – that is to deliver those extra services for the Sunbury, Cranbourne and Pakenham lines – as well as an additional $99 million to deliver further services across the network. There has also been, as part of that investment, funding provided for wayfinding and customer information and for additional network and customer support for the initial period of passenger services.

I might also just talk briefly to the summer start process and how that startup is going to occur. When the tunnel opens on 30 November, I am told there will be 240 extra services a week through the Metro Tunnel as part of that summer start, and the extra and extended services that I just spoke about will run alongside the existing timetable and run between West Footscray and Westall. Extended weekend services will run through the Metro Tunnel between Sunbury and East Pakenham. Then from 1 February 2026 the new timetable will be in operation across buses, trams, regional and metropolitan trains. From then, all services on the Cranbourne, Pakenham and Sunbury lines will run through the Metro Tunnel. Regional passengers will also then able to connect at key points in the network to use the new Metro Tunnel services, and bus and tram services will also be adjusted to connect with the new services.

Michael GALEA: Thank you. Just as well on the infrastructure spend, the commitment for 100 new schools by next year will be completed with the final 16 schools – four in the south-east, just to make a note of that. Secretary, can you talk to me about the infrastructure spend that has gone into these projects and particularly how it relates to and compares to other states and their capital spend?

Chris BARRETT: Sure, I am happy to. As you mentioned, Mr Galea, that is part of the government's 100 new schools commitment. I think this commitment goes back to 2018. That aim was to have those 100 new schools by 2026, so over effectively an eight-year program. It is really, as you would know, required to meet demand for school provision due to significant population growth across Victoria.

Michael GALEA: Thank you.

The CHAIR: I will cut you off there. Thank you, Mr Galea. We are going to go to the Deputy Chair.

Roma BRITNELL: Thank you, Secretary. My question starts with the department. DTF indicates that it reviewed and enhanced the pricing-for-value guidelines. These allow for the setting of fees above 100 per cent cost recovery and when doing so promotes positive behaviours, or when the public can see a share in value created through service or user differentiation. The High Court found in *Airservices Australia v Canadian Airlines* that fees for service must be related to the cost of the service, otherwise it is a tax. Victoria’s constitution states that taxes can only be levied by Acts of Parliament whereas fees typically are set by regulation. Doesn’t this mean that the pricing-for-value guidelines are encouraging the creation of fees that are in effect unconstitutional taxes?

Chris BARRETT: I am not aware of the constitutional concerns that you are mentioning there or that they have been challenged, Deputy Chair. On the pricing for value, I might see if Mr Donegan has anything he would like to add, but the pricing for value guidelines are really designed to do exactly what they say, which is to ensure that there is an appropriate contribution to the cost of government service delivery by people benefiting from those programs.

Roma BRITNELL: So if they have gone 100 per cent above cost of recovery, how is that not a tax?

Chris BARRETT: Well, it would depend on the value that is being delivered for the service, but I might see if Mr Donegan wants to add anything further to that.

Paul DONEGAN: I think the other thing to add – in practice – is that most fee setting under those pricing for value guidelines is either under or at cost recovery.

Roma BRITNELL: The example I would bring in to discuss is the regulatory impact statement on probate fees, which indicates that the cost recovery will be about 1086 per cent. Isn’t that clearly a tax?

Chris BARRETT: I am sorry, I am just not aware of that regulatory impact statement that you are speaking about there, Deputy Chair. Sorry, I am just not aware of the specific case.

Roma BRITNELL: The issue is that that goes far beyond recovery costs for the service. If you have situations like the probate office increases, how is that value for money and how is that not a tax?

Chris BARRETT: I am sorry, it is not in the budget papers, as I understand, Deputy Chair. Unless you were to refer them to me –

Roma BRITNELL: I am referring to the fact that the questionnaire has got ‘to enhance and review the pricing for value guidelines’ and the purpose of those guidelines is, as I already said, to bring value. So can you give me some advice on whether you have had any legal advice on whether above 100 per cent cost recovery is actually an unconstitutional tax versus a fee for service?

Chris BARRETT: I doubt that we have, Deputy Chair, but I am happy to go and examine the record and see if we do have any legal advice on that. I know that the department of justice, whose area this is in, will have a bit more familiarity with this space than I do, Deputy Chair; I apologise.

Roma BRITNELL: If you have sought legal advice, it would be great, because it should not be set at more than 100 per cent. Otherwise it is subject to GST, and GST is often levied on fees but not on taxes. So if that proves to be the case, will you refund Victorians for any unlawful GST that has been paid?

Chris BARRETT: I think that is a hypothetical at this stage, Deputy Chair. I am not aware of there having been any legal challenge to that or any constitutional concerns to that effect.

Roma BRITNELL: Can you provide a list of all fees that have been set at levels of over 100 per cent of cost recovery?

Chris BARRETT: I would have to check if that is in our area of responsibility in terms of the actual fee setting. I could look at the ones that are in our portfolio, Deputy Chair.

Roma BRITNELL: I would like to have a list of those fees and the associated justification and, like I said, any legal advice.

Richard WELCH: All available – not just Treasury, all available.

Chris BARRETT: We will have a look at the ones in our portfolio.

Roma BRITNELL: Are you able to provide a list of those?

Chris BARRETT: We will have a look at the ones in our portfolio, Deputy Chair.

Roma BRITNELL: Okay. Thank you. I will head on to GSP forecast. I draw you to the real GSP forecast, which for 2024–25 was 2.5 per cent. The national accounts released on Friday show that Victoria's real GSP growth was a mere 1.1 per cent. Why is this forecast more than double the actual, being optimistic, at around 127 per cent?

Chris BARRETT: I think, Deputy Chair, it is a very fair question, and I think both national and Victorian observers were surprised to see those figures that came out last week.

Roma BRITNELL: What evaluation processes are in place to ensure the reliability of those forecasts?

Chris BARRETT: I can speak to those. We have a pretty good record of forecasting GSP over a period of time. As past testimony to this committee and indeed past annual reports and reports will show, we have had a pretty good record of estimating it. In addition to that, Deputy Chair –

Roma BRITNELL: I actually asked what the evaluation processes are.

Chris BARRETT: If I may, I will go straight to that. I wanted to talk about our internal forecasts first, just so you are assured that we take it seriously, which we do. But also, uniquely among Australian jurisdictions, our budget is obviously reviewed and audited by the Auditor-General. The Auditor-General goes out and actually procures their own economic modelling. This is as a method of checking, which is very reasonable for the Victorian people, so they can be confident that Treasury has not made some terrible mistake in forecasting, be they revenue lines or economic forecasts. There were no concerns raised by the Auditor-General in relation to that. But I might just to talk briefly to the broader point: this has really been the effect both in 2023 and 2024, where growth has been the sub-trend, not just for the Victorian economy but for the Australian economy as a whole, which is very much –

Roma BRITNELL: I am actually really quite keen for you to narrow down to the evaluation processes, to reassure Victorians that when you do get it quite wrong, there are some robust processes in place. So perhaps I can ask on notice for those processes to be –

Chris BARRETT: I think I just outlined them to the committee, Deputy Chair, which is the Auditor-General –

Roma BRITNELL: Just the Auditor-General, not your internal ones.

Chris BARRETT: No. Well, we certainly review our performance after every – and the Auditor-General reviews the forecasts as well, is the point.

Roma BRITNELL: So was the Treasurer provided any advice or warnings that the forecast economic growth was unlikely to be achieved?

Chris BARRETT: Not that I am aware of, Deputy Chair.

Roma BRITNELL: Okay. With that lower than forecast GSP figure, will this mean that the net GSP debt ratio will increase?

Chris BARRETT: That would depend – and I actually mentioned it in my answer to Mr Galea earlier – not just on, if you like, the denominator of GSP; it also depends on the numerator. And as I have mentioned, the actual level of nominal net debt has surprised on the downside. As to where the net effect of that nets out, I would not have thought it would change our forecasts, no.

Roma BRITNELL: Okay. And given the 2024 annual financial report was released prior to the national accounts, what GSP growth assumptions were used to calculate the net debt to GSP figure of 23.7 per cent?

Chris BARRETT: They would have been the assumptions that we had in the budget in May.

Roma BRITNELL: So what is the net debt to GSP figure for 2024, given we now know that the GSP growth was lower than even the forecast in the May budget of 2 per cent?

Chris BARRETT: I think for 2024–25 the nominal net debt, Deputy Chair, was $150.9 billion.

Roma BRITNELL: You think?

Chris BARRETT: No, I know it is, because I am just reading it here, sorry. And net debt to GSP in 2024–25 is 23.7.

Roma BRITNELL: So how will this affect the net debt to GSP over the forwards?

Chris BARRETT: Well, as I mentioned in my response to your previous question, it would depend on the path of both GSP and nominal net debt, but I do not expect it to materially change, or at least not materially change in a negative direction, net debt to GSP. When I say negative direction, I mean higher. I would not expect that to change, that trajectory.

Roma BRITNELL: So you have not given any advice to the credit rating agencies about the situation?

Chris BARRETT: Not in relation to that with credit rating agencies, no.

Roma BRITNELL: GSP per capita fell 0.8 per cent per the national accounts. Has the department conducted any modelling on how this will affect wages or the standard of living in Victoria for Victorians?

Chris BARRETT: The forecasts for the impacts in terms of GSP per capita from our forecasts are all in the budget papers as you see them. Obviously there is a budget update coming out shortly, which I am not at liberty to speak about here. But in terms of the lower GSP per capita, it certainly was not only Victoria, unfortunately, that experienced that; it was experienced –

Roma BRITNELL: But it is Victorians that are struggling with the cost of living at the moment, who are concerned about their prices –

Chris BARRETT: But that is experienced nationally as well, Deputy Chair.

Roma BRITNELL: Okay. Yes. The Economic division of the department has the purpose of supporting the government in growing employment, material living standards and economic activity. Has the Treasurer been briefed on this concerning reversal in living standards?

Chris BARRETT: We provide briefing actually for all ABS – well, not all ABS statistical releases but the major ones, and obviously ABS state accounts are substantial ones. So yes, we would have briefed the Treasurer on that.

Roma BRITNELL: So when did you brief –

Chris BARRETT: We would have done that last week, on the day that they came out.

Richard WELCH: If I may – Secretary, so you had no prior indication that your growth rate was coming?

Chris BARRETT: No, that is unfortunately not the way the national accounts work, Mr Welch.

Richard WELCH: Not even any conversations or monitoring of data?

Chris BARRETT: No. I might add, and Mr Donegan may want to extend this, the partial data that you look at have actually been pretty strong. Now, I might also –

Richard WELCH: Strong but wrong.

Chris BARRETT: I am resisting getting too much into death by statistics here, Mr Welch, but there is a very large balancing item in those numbers, which I think took everyone by surprise, including the ABS. But in terms of state final demand, it was actually 1.8 per cent versus our forecast of 2.

Roma BRITNELL: DTF asserts that the short-stay levy is increasing the supply of long-term rental properties and putting downward pressure on rents. What evidence is there to support this claim? Is there modelling that has been done now?

Chris BARRETT: I am not aware of any modelling that we have on that. Mr Donegan, are you aware of any that we have done recently?

Paul DONEGAN: Not beyond the estimates in the forecast.

Roma BRITNELL: So there is nothing to support that claim that this will assist with rental availability?

Paul DONEGAN: Not separate research of the type that you are talking about.

Roma BRITNELL: Any research? There was none done originally, I believe. Has any further research been done post that?

Paul DONEGAN: There was some comparative analysis done of the experience of other jurisdictions that had introduced similar charges.

Roma BRITNELL: So nothing relevant to Victoria's rental availability that will be beneficial from this new tax that has been introduced.

Chris BARRETT: It is probably fairly early to judge that, Deputy Chair.

Roma BRITNELL: You cannot do modelling?

Chris BARRETT: You can do modelling, and to the extent that you do modelling you would probably base it on the experience in other jurisdictions. In terms of the Victorian experience –

Roma BRITNELL: Nothing.

Chris BARRETT: it has been in operation for a relatively short period of time.

Roma BRITNELL: No worries. Continuing on taxes, Secretary, how many times have you given advice in the past financial year about new potential taxes, fees and charges?

Chris BARRETT: I would say, Deputy Chair, without going into the content of our advice, which you would understand I cannot go into – but the timing of it I think is a reasonable question – we tend to advise both at budget for a budget round effectively for making budget decisions, and we advise again at budget updates.

Roma BRITNELL: So only two times? You have not raised that subject other than those times?

Chris BARRETT: I mean, it can come up. If you were asked questions, it could come up other times, but in general we provide that advice.

Roma BRITNELL: So what sort of taxes, fees and charges did those other times cover?

Chris BARRETT: I am sorry, I cannot speak about advice to government, Deputy Chair.

Roma BRITNELL: How many times have you given advice in the past financial year about cutting taxes, fees and charges?

Chris BARRETT: Well, we do provide advice on both, and indeed government has in recent years implemented a few tax cuts, most recently the off-the-plan tax concession, which from memory was announced last year and then extended in December. So we do advise on that, and again, we would tend to provide that advice in those two peak periods of the year.

Roma BRITNELL: So it was just the one conversation around that particular tax?

Chris BARRETT: No, we would provide advice. At the same time we would provide any advice on tax measures, we would provide advice both on tax reductions –

Roma BRITNELL: So what other taxes, fees and charges did this cover?

Chris BARRETT: I am sorry again – advice to government, Deputy Chair.

Roma BRITNELL: Okay. How many times have you given advice over the past year to raise taxes, fees and charges?

Chris BARRETT: I mean, it is the same answer, which is we tend to do it twice a year. I cannot go into the details of what we advise.

Roma BRITNELL: Total taxation increased from $36.9 billion in 2024 to $38.9 billion in 2025. That is a 5.6 per cent increase in taxation. Given taxation increased by 5.6 per cent compared to a 4.7 per cent increase in nominal GSP, isn't it the case that the tax burden on Victorians increased?

Chris BARRETT: I think if you used a point-to-point one year to the other, in any year they may be near each other. As you rightly pointed out, that is pretty close to growth in the nominal economy. I am pretty sure that over the forward estimates our revenue is growing slightly slower than the nominal economy.

Richard WELCH: The economy is shrinking.

Roma BRITNELL: Yes. Has the department done any modelling on the effect of this increased tax burden then?

Chris BARRETT: I might just point out, Mr Welch, the economy is actually growing. It is just growing at a slower rate than we thought.

Richard WELCH: Not per capita. It is negative, isn't it?

Chris BARRETT: Not per capita, you are correct.

Richard WELCH: So it is shrinking, correct?

Chris BARRETT: No. The nominal economy is growing, and as you rightly point out, per capita it is not.

Richard WELCH: The tax burden in total aggregate is going up, but per capita our growth is going backwards.

Chris BARRETT: No, because as I said, as a share of the nominal economy, if anything, revenue is growing slightly slower than the nominal economy.

Richard WELCH: Is it growing in the negative?

Chris BARRETT: No, it is growing. So the nominal economy is growing and revenue is growing, and revenue is growing slightly –

Richard WELCH: But not per capita.

Chris BARRETT: Yes. Per capita is different.

Richard WELCH: Yes. So let us not be selective. Per capita we are shrinking, but the revenue is still going up.

Chris BARRETT: Well, you would need to check whether revenue is going up per capita.

Richard WELCH: Well, in aggregate it is.

Chris BARRETT: I do not have revenue per capita figures in front of me, I am sorry.

Roma BRITNELL: Secretary, how many residential properties with commercial activities have been required to pay land tax for the first time as a result of the lowered threshold, and what is the average amount of the land tax payable?

Chris BARRETT: Sorry, was that question residential or commercial?

Roma BRITNELL: Residential and commercial activities.

Chris BARRETT: Right.

Roma BRITNELL: How many residential properties, sorry, with commercial activities. My apologies.

Chris BARRETT: Residential properties with commercial activities – I might just check if the Commissioner can enlighten us on that. I do not know whether we would have the figures to hand, but if I could ask Mr Broderick to come up.

Paul BRODERICK: Could I just ask if the question could be repeated, if you do not mind, please?

Roma BRITNELL: Sure. How many residential properties with commercial activities have been required to pay land tax for the first time as a result of the lowered threshold, and what is the average amount of land tax payable?

Paul BRODERICK: Okay. Generally speaking, residential properties with a commercial activity do not pay land tax because the principal place of residence exemption applies. If a person conducts some sort of minor activity from their home, they are generally not required to pay land tax.

Roma BRITNELL: Generally not required and some small amount of revenue?

Paul BRODERICK: It is a case-by-case –

Roma BRITNELL: So are there some limits to the revenue that can be generated before that applies?

Paul BRODERICK: No, it is a case-by-case basis. If the predominant activity was commercial, they would fall into the land tax base, but if it is only a minor activity, they would not.

Roma BRITNELL: How many inquiries has the SRO received in relation to this issue, and how long on average has it taken the SRO to respond to and finalise these inquiries?

Paul BRODERICK: I have not got any figures on that, and I can get back –

Roma BRITNELL: Can you investigate that and give me those figures on notice?

Paul BRODERICK: I can, but it would be very few.

Roma BRITNELL: That is okay. You will get those figures for us?

Paul BRODERICK: Yes, I will.

Roma BRITNELL: Yes, okay. And how long it has taken to finalise them and how many are still being finalised – you will take that on notice as well, the inquiries?

Paul BRODERICK: If I can be just –

The CHAIR: Deputy Chair, you can ask Mr Broderick a question. Just afford him the opportunity to see if he can answer. The point is it is a public hearing. He is afforded the opportunity to answer the question. If you do not know the answer to the question, Mr Broderick, the Deputy Chair can then ask if it can be put on notice.

Paul BRODERICK: I just want to be clear about the question, though. Are you asking how long it takes on the phone to get back to people, or are you asking whether there is a –

Roma BRITNELL: No, I am asking how many people have made inquiries and how long it has taken on average to respond to those inquiries and finalise their inquiries.

Paul BRODERICK: Yes, sure. I am happy to provide that on notice.

Roma BRITNELL: How many are still in the inquiry phase and not finalised as well.

Paul BRODERICK: Yes, I will do that.

Jade BENHAM: Can I just circle back. We were talking about per capita, and I understand you have not got per capita growth numbers at the moment. But just for clarity, it is clear that the tax take is greater than economic growth, correct?

Chris BARRETT: No, I do not think it is. That was to my point. I think over the forward estimates, from memory, the nominal economy is growing at about 5.3 per cent or something. Paul?

Jade BENHAM: But the per capita is –

Chris BARRETT: And revenue is growing at about 2.6 per cent.

Jade BENHAM: To the department: is that the foundation for Victorians to ease the cost of living? That to me sounds to me like a recipe for misery for Victorians.

Chris BARRETT: I mean, without offering an opinion on it, it is more just to the point of: you want revenue ideally growing slower than the nominal economy, which it is.

Jade BENHAM: Which it is. But earlier you said – and I wrote it down – that the department's revenue was higher than forecast revenue. So how does that happen?

Chris BARRETT: Well, the revenue might be higher than we forecast but still lower than the growth of the nominal economy.

Jade BENHAM: So you are saying this is a very minor issue to just go over. What is the formula? Speaking from an everyday Victorian's point of view – people who are struggling at the moment with cost of living – that does not sound like the formula for me to ease that cost-of-living burden and that tax burden that Victorians are facing.

Chris BARRETT: I completely understand the cost-of-living pressures that people are facing. I guess my reflection just back is in terms of the nominal economy, you have revenue growing significantly slower than the nominal economy.

Jade BENHAM: So how was the forecast, again, the higher than –

The CHAIR: Apologies, Ms Benham, we will come back to you.

Jade BENHAM: Sure.

The CHAIR: We will come back to you after morning tea, but we are going to Ms Kathage now.

Lauren KATHAGE: Thank you so much, Chair. Thank you very much, officials, for being here. I also want to talk about cost of living, but before I do I just want to take up with my colleague. There is a bit of healthy rivalry between the east and the north. He did note the new schools being built in the south-east, and we do have some new schools being built in the north, including in my electorate, and we are very excited to have those schools coming online. We have got fantastic principals and leaders in place – it is very exciting. But I am also competitive with other states, so in terms of that infrastructure pipeline and that spend, where is Victoria sitting compared to other states?

Chris BARRETT: Is this for schools in particular?

Lauren KATHAGE: The infrastructure pipeline for schools.

Chris BARRETT: Yes. As I think I was saying to Mr Galea, there has been a 100 new schools commitment by 2026. Those are predominantly being delivered in the seven growth local government areas of Melbourne – Cardinia, Casey, Hume, Melton, Mitchell, Whittlesea and Wyndham – and a number of different ones in different years, which I will not bore the committee by going through. In total it is 80 new schools opened in the growth areas, 11 opened in established metropolitan Melbourne areas and nine opened in regional areas. The final 19 new schools opening in 2026 are designed to meet that 100 new schools by 2026 commitment.

You asked what the picture more generally is, and the recent budget brings that total capital investment over the last 11 years since 2015–16 for building new schools and additional stages of schools to more than $4.9 billion. The full capital program for schools has been more than $18.3 billion over the last 11 years, and that is new schools, additional stages of schools, land acquisitions, expansions, school upgrades and maintenance. Now, it is difficult to directly compare investment in school infrastructure across jurisdictions, but that is a very significant, obviously, investment in school infrastructure for primary and secondary schools.

As you know, all students in Victoria have the option of attending a government school in their local area. With that population growth that Victoria has been experiencing – so effectively 1.7 per cent population growth in the budget year, 1.7 per cent across the forward estimates – that does place pressure on existing government schools and drives the need to invest in these new schools, so that is where that additional capacity has been required to ensure government can meet its legislative requirements.

What is also different to other jurisdictions as well, Ms Kathage, is that Victoria is also investing significantly in early childhood through the Best Start, Best Life program, with capital investments in kindergarten and like facilities for four-year-old pre-prep.

Lauren KATHAGE: Thank you for that. Now, I guess the question of cost of living has been raised, and in what ways does the government add or ease pressure for Victorians during cost-of-living stress. So I want to go to a specific initiative, which is the Victorian Homebuyer Fund. I can see in your performance statement on page 160 there are some outcomes measured there in terms of homes purchased in 2024–25 or expected to be settled in 2024–25 through that Victorian Homebuyer Fund. For the benefit of the committee, how does that fund work in terms of helping Victorians to purchase a home?

Chris BARRETT: Thanks, Ms Kathage. The Victorian Homebuyer Fund, or we call it VHF for short, was a shared equity scheme helping Victorians to enter home ownership. It was launched in October of 2021 and initially designed to help 3000 participants. As at 31 October 2025 the VHF has actually assisted more than 16,700 Victorians to settle on their own home. The government announced a final $700 million investment in the VHF as part of the 2024–25 budget; that brought the total investment to $2.8 billion. On 1 July 2025 an extension was announced to help more Victorians into home ownership until that funding was exhausted and also until the Commonwealth’s analogue scheme could be stood up. As I mentioned, $2.8 billion in total outlays – and that final investment of the $700 million was done in a staggered release to make sure it was spaced out and people could benefit for the longest period possible. It is an example actually of what I mentioned earlier: money being held in central contingency, so you are then releasing that funding over time in line with the demand for the program.

Lauren KATHAGE: I can imagine if it had all been released at once you would have had a bit of a glut of buyers on the market and that would have affected pricing, so holding it in contingency, releasing through Treasurer’s advances, benefited the people whom the funding was for.

Chris BARRETT: Correct. The homebuyer fund operates, just to explain it briefly, as a shared equity scheme. The government contributes up to 25 per cent of the purchase price – 35 per cent for Aboriginal and Torres Strait Islander households – when buying a home. That is in exchange then for a proportionate equity interest that the government holds in the property. The government’s contribution reduces the size of the deposits that participants need to save and therefore the size of the loan that they need from the bank, and it made it easier for scheme participants to service the bank loan over time. Additionally, it avoids the cost of lenders mortgage insurance, typically which is required when a bank loan is more than 80 per cent of the purchase price. If government is contributing 25 to 35, then you are not going to breach that 80 per cent threshold. The median VHF participant’s mortgage repayments were around $250 lower per month as a consequence, so that is a saving of about $3000 per year compared to if they purchased the same property with a traditional 80 per cent loan-to-value ratio loan from a bank. I will just say participants buy back the government’s proportional equity interest in the home loan over time.

Lauren KATHAGE: Can we just drill down into first home buyers in terms of how this is tailored for them or how it might benefit them particularly?

Chris BARRETT: Yes, absolutely. The VHF was not exclusively available to first home buyers, but because it has got that very targeted focus – and I will talk about that in a second – it did mean that actually first home buyers were the scheme's largest cohort. Around two-thirds of the participants in the scheme were first home buyers. Eligible participants had to meet the criteria of a maximum purchase price of $950,000 or less in metropolitan Melbourne and Geelong or $700,000 or less in other parts of regional Victoria. They had to earn $140,000 or less per annum for individuals or $224,000 or less for joint applicants or single parents. More than two-thirds of the fund's successful home owners, as I mentioned, are first home buyers, with 25- to 44-year-olds the largest group to benefit since the fund commenced. The median house price of those settlements, by the way, is $617,000. Participants were also, though, eligible for other first home buyer supports, including stamp duty exemptions and concessions and the $10,000 first home owner grants if they met the relevant conditions for those supports.

Lauren KATHAGE: Thank you. I just want to look at the same topic from the angle of tax. I might ask Mr Broderick to come up if he is available. The government has different levers that it can pull to help get people into housing. We have just touched on the first home buyers scheme or program as part of that, and I just want to touch on now, Mr Broderick, if I can, the government's support for first home buyers through the tax regime. Budget paper 5 – this is 2024–25 – page 186 lists the land transfer duties for first home buyers. Can you explain a bit about how many concessions or programs first home buyers are able to access?

Paul BRODERICK: Sure. They can access the first home owner grant, which is $10,000, as Mr Barrett has said. They also get a concession. They can also be eligible for a concession for stamp duty as well. The concessions and all of the benefits are included on our website, so they can go and they can put in how much they expect to pay for the property and then the system will work out exactly what the concession is going to be for each individual under their certain circumstances.

Lauren KATHAGE: All right. So there is a sort of a portal or a way for people to –

Paul BRODERICK: Yes, yes, on our website. It is very easy for people to go in and have a look. There is also a little video about what concessions are available for first home buyers, and that explains the whole concession system.

Lauren KATHAGE: And what is the concession for?

Paul BRODERICK: I have not got it in front of me. I will just have a look.

Chris BARRETT: This is from stamp duty?

Paul BRODERICK: Stamp duty concession we are talking about?

Lauren KATHAGE: Land transfer.

Chris BARRETT: Oh, land transfer.

Paul BRODERICK: Land transfer, yes.

Chris BARRETT: I think it is a full exemption, Paul, isn't it – up to $750,000, from memory? And then I think –

Paul BRODERICK: Yes. That is right, yes. $750,000 is the exemption – yes, that is correct – on the land transfer duty.

Lauren KATHAGE: Thank you. And in terms of concessions for land transfer duties there is also listed there concessions for farmers under 35. Can you walk us through what tax concessions are available for farmers in Victoria?

Paul BRODERICK: Yes.

Lauren KATHAGE: I do like this little blue book.

Chris BARRETT: Definitely. Just a little bit of advertising, because Paul is too modest: that little blue book is very useful, wallet sized, so I highly recommend it. I do have the details here, Paul, if it is helpful.

Paul BRODERICK: Yes.

Mathew HILAKARI: Where is this little blue book available?

Chris BARRETT: It is available from the SRO. I am sure they would be happy to deliver one to you personally, Mr Hilakari.

Mathew HILAKARI: Thank you.

Chris BARRETT: So farmers under 35 years of age who are buying their first farmland property are able to obtain a stamp duty exemption on purchases worth up to $600,000 and a concession. So that is a full exemption up to $600,000 and a concession for purchases between $600,000 and $750,000 as well. And of course this is not just for farmers under 35, but they certainly benefit from it as well: land primarily used for primary production is entirely exempt from land tax.

Lauren KATHAGE: Thank you. And in terms of supporting families and supporting money in back pockets through businesses developing and growing and making life easier for business owners, we know under the economic growth statement that there were goals and work put in to cut unnecessary red tape to streamline government processes. In your annual report it makes note of the department helping with around 40 or so of the initiatives in the *Economic Growth Statement*. Are you able to talk us through which ones DTF is responsible for?

Chris BARRETT: Yes, happy to. Obviously we had significant input into the *Economic Growth Statement* itself, and then there are some relevant actions that DTF is primarily responsible for implementing that are under action two and action four of that statement, which was released in December of last year. So under action two, that is cutting red tape and making it simpler to do business in Victoria, the first of those is reducing the number of business regulators by half by 2030, and that is building on some regulatory reform that has already been done to consolidate regulators in the construction and food industries. That is already underway. Secondly, we established and are responsible for meeting a $500 million red tape reduction target and then also for a new digitisation and AI program to digitise outdated regulatory processes and streamline approvals processes. So that is under action two of the statement, and under action four we have got a specific focus on regional Victoria and simplifying regulation for businesses in regional Victoria.

Lauren KATHAGE: You spoke about consolidating, then, around construction and food. Is that one of the ways that you are working to reduce regulators by 2030 – or what are some of the ways?

Chris BARRETT: There are a number of criteria that we are taking into account there in this focus on halving the number of business regulators by 2030. Obviously, if you have got fewer regulators for business to deal with, then that makes it considerably easier – they have just got one regulator that they need to call, obviously. Also there is some quite useful interchange between regulators. When you put regulators in like areas together, you get more frictionless sort of sharing of best practice. I know the former Better Regulation Victoria commissioner was very strong on improving regulatory practice in that regard. The way that we think about it is that we really try and bring regulators together that are grouped by either the type of business or the type of function that the regulator is performing or the type of, effectively, harm that they are trying to regulate. Food safety is a good example of that; we all know what we are trying to avoid there. So that is that is one way of doing it.

And then the second is about: what is the model and extent of consolidation and what are some of the routes that you can use to that consolidation? So do you merge entities? Do you go for effectively a single digital front door but with the plumbing behind the front door being similar to previously? Do you share operational functions or back-office functions? Or do you even go down the path, often which would require legislation, of abolishing entities or relinquishing functions as well? And then we really do in that exercise of consolidation – and this is highly relevant to, I know, the work that Helen Silver has done as well – ask ourselves the fundamental questions. Is there an ongoing need for this regulatory function? Could the Commonwealth perform this role or is the Commonwealth performing this role? Do any existing regulators perform the same or similar functions? Do any existing regulators regulate the same or similar industries or businesses, or do they regulate the same or similar harms? And what insights do experts in departments provide? Sometimes it might be better for a function to be undertaken in a department rather than in a regulator.

We are building, as I mentioned earlier, on regulatory reform that we have already done in the construction and food industries. The first example of that is the Building and Plumbing Commission, which started on 1 July this year, which brought together the Victorian Building Authority, Domestic Building Dispute Resolution Victoria and the domestic building insurance arm of the Victorian Managed Insurance Authority, so you can see sort of three bodies merged into one. And Safe Food Victoria is going to be established in 2026. That brings together PrimeSafe, Dairy Food Safety Victoria and the food safety functions from the health regulator and Agriculture Victoria. So again, you can see quite some simplification there.

Lauren KATHAGE: It is good to hear that you have got questions that you ask yourself when you are deciding on the need for standalone regulation in a particular space. I guess it strikes me that there are also some principles to base decisions on. In a way, it is a risk assessment, isn't it, or sort of looking across the across the economy and across the field and trying to predict where the risk may be? What principles or what existing information do you use to guide you in thinking through those sorts of things? I can imagine responses to events might lead to change, but on a day-to-day basis what is the guidance there?

Chris BARRETT: I think it is always wise to go back and look at your regulatory practice over time, because obviously new harms emerge in the economy and in society at large that then there is a need to regulate, to deal with, and obviously we have had many examples of that in recent years. But while that is an important response in the meantime, it is always good to go back and actually look at the total stock of regulation, and not just the stock in terms of numbers of pages but the kind of value in terms of the impact for a business – like how much time it takes up for a business in terms of filling out the forms or how many delays it brings into the system that might mean, for example, for developers, they are having to hold land for longer than they would otherwise. There are holding costs associated with that. So it is good to go back and look at that stock over time and say, 'Okay, these regulators have popped up in these different areas as we have discovered new harms, but how can we then, over time, take a step back and think about whether we can make them more efficient?' Often also the state might be the first to step into a space because they are concerned about a harm in a particular area, but then over time the Commonwealth government realises, 'Actually this is a national problem and we need to regulate this nationally.' Obviously you do not want to have duelling state and federal regulators – or if you are going to have duplicated ones, you want it to be very clear who is doing what and that business is not having to fill forms out twice. So those are some of the principles that we look at.

Lauren KATHAGE: In terms of that Commonwealth–state break-up, have you been thinking through where AI sits in terms of Commonwealth versus state regulation?

Chris BARRETT: In terms of regulating AI itself, yes, we have been thinking about it. I would not say that we have a fully landed view, and government has quite a bit of work underway in this space. I know that, for example, at the Commonwealth's regulatory reform round table there was a view expressed there about the approach that should be taken to regulation of AI. I know in the state space we are thinking a little bit more about – I think, from memory, there is a parliamentary inquiry into workplace surveillance and the possible uses of AI, so those are some of the areas that state-based regulators might look more closely at. The Commonwealth might look more closely at what the enabling infrastructure is for regulation of AI across the economy as a whole, while not wanting citizens to miss out on the benefits that they might get from deployment of new technology – just ensuring that new harms do not come along with that.

Lauren KATHAGE: I am very lucky to represent a very entrepreneurial area. Above and beyond the population growth, the new Australians that have moved into my area are starting new businesses at a rapid rate. Are we seeing reflected in the state's books that we have an entrepreneurial spirit coming –

Chris BARRETT: Yes, we are. From memory –

The CHAIR: I am very sorry to stop you there, Secretary. We can come back to that. We are going to take a very short break before resuming at 11:15 am.

The committee will now resume its consideration of the Department of Treasury and Finance. We are going to go to Ms Benham.

Jade BENHAM: Thank you. Chair. I also want to move to a couple of questions to Ms Henderson, CEO of WorkSafe. So if Ms Henderson could come to the table, that would be great. In the meantime, Secretary, did the general government sector over the past year achieve a surplus?

Chris BARRETT: In 2024–25?

Jade BENHAM: Yes.

Chris BARRETT: Cash surplus, but operating as in net result from transactions, no.

Jade BENHAM: So was that above or below forecast? Is it accurate?

Chris BARRETT: The net result from transactions was higher, and I think the cash surplus was higher as well, as per my answer to Mr Galea.

Jade BENHAM: So by how much?

Chris BARRETT: I can get that out for you, Ms Benham – just a second. So operating result in 2024–25, deficit of $2.6 billion; cash result, $3.2 billion. In each case with the operating result – so this is net result from transactions – the expected deficit was $3.4 billion; the final deficit was $2.6 billion, so down. And the cash surplus and the cash result was expected to be $0.6 billion and ended up being $3.2 billion for 2024–25.

Jade BENHAM: Was there any of that in the presentation of yours at the beginning of this hearing?

Chris BARRETT: I do not believe I spoke to those numbers, no.

Jade BENHAM: Any reason why not?

Chris BARRETT: No.

Jade BENHAM: They are pretty important, I would think.

Chris BARRETT: They are better results, yes. They are better results than expected.

Jade BENHAM: We are still running at big losses, though.

Chris BARRETT: Well, operating cash result is positive and has been for some time. Net result from transactions is in deficit in 2024–25, projected for a surplus in 2025–26.

Jade BENHAM: For a surplus in 2025–26?

Chris BARRETT: Correct – a surplus of $600 million.

Jade BENHAM: So the result is a total combined loss over the last six years of $50.6 billion, correct?

Chris BARRETT: I could not validate exactly that number just in front of me, but there has certainly been a cumulative loss over a period of time.

Jade BENHAM: So, again, pretty important to have been left out of the opening presentation.

Chris BARRETT: Well, in that case, obviously that is backward looking; I mean, this is the 2024–25 financial and performance outcomes.

Jade BENHAM: The Auditor-General's report today says:

> Ongoing net operating losses and fiscal cash deficits pose significant risks to the state's long-term financial sustainability.

Agree?

Chris BARRETT: That is why the government has a fiscal strategy to run operating surpluses and stabilise net debt to GSP, absolutely.

Jade BENHAM: So the five-point plan in your opening presentation – does any of that touch on fixing the situation that we are in now?

Chris BARRETT: Absolutely I am happy to speak to that, Ms Benham. Achieving the operating surplus this year is extremely important. I think I am right at this point in time that we are the only state other than South Australia and Western Australia, for reasons that we know all too well and will not go into – and that includes the Commonwealth – that is forecasting an operating surplus for this year. That is an important thing to achieve. Then over the forward estimates the key financial sustainability metric, I guess, is stabilising that net debt as a percentage of the economy. The reason why that is important is because the economy is probably the best measure we have of the carrying capacity for that debt. If you stabilise that – I mean, it would be stabilised at a much lower level than it was prior to the 1980s – it means that you have stabilised the debt at a carrying capacity over time and then can slowly start to reduce it.

Jade BENHAM: The VAGO report today says that the five-step fiscal strategy outlined in your presentation does not address structural challenges facing the budget.

Mathew HILAKARI: No, that is not true. That is a misquote.

Jade BENHAM: The VAGO report states the five-step plan does not address structural challenges facing the budget: agree or disagree?

Chris BARRETT: Well, I disagree that it does not address structural issues.

Jade BENHAM: So, along with Mr Hilakari, you also disagree with the Auditor-General?

Mathew HILAKARI: You are just misquoting his report. Why don't you quote the report if you –

Jade BENHAM: Thank you, Mr Hilakari, it is my time.

The CHAIR: Thank you, Ms Benham. Mr Barrett.

Chris BARRETT: I completely understand the Auditor-General report and respect the work that the Auditor-General does. I think that it is not true to say that stabilising net debt as a share of the economy is not a major contribution to financial sustainability, and it is very hard won after a long period of time post the pandemic – and not just for Victoria, for other states as well – where we are, particularly in terms of stabilising debt and achieving operating surpluses, outperforming other jurisdictions, as I said, again with the exception of WA.

Richard WELCH: Secretary, the general government sector is reporting a net operating loss of $2.6 billion. Is that not correct?

Chris BARRETT: In 2024–25, yes.

Richard WELCH: What is it projected for this year?

Chris BARRETT: The operating surplus for this year is $611 million, I think. Chris?

Jade BENHAM: Okay. I think we have got what we need there. I want to move on to WorkSafe now. These questions are for Ms Henderson. With reference to the WorkSafe questionnaire, page 22 and claims expenses during 2024–25, how many injured worker claims failed the new scheme modernisation requirement of whole-person impairment – which we will refer to as WPI – rating of 21 per cent or higher?

Cathy HENDERSON: Ms Benham, the question of how many workers have failed at the 130-week assessment that 21 per cent whole-person impairment – I unfortunately do not have validated figures at all. We are still working through what draft data we have, and our systems unfortunately are not set up well to identify out those that have failed the assessment on whole-person impairment grounds.

Chris BARRETT: If I might just add, Ms Benham, it was always the expectation that it would take a while for that performance to be able to be tracked over time and for us to have a sense of it. I think the last time we were before this committee we mentioned that it was going to take a while for that to settle down. As you are hearing from Ms Henderson, those numbers are not at that point at this point in time.

Jade BENHAM: So you do not even have preliminary results? Is that data being captured?

Cathy HENDERSON: The data is being captured, but the systems do not lend themselves to dividing out who has been excluded at the 130-week assessment point for the reason of the whole-person impairment calculation or for other reasons.

Jade BENHAM: So you do not know how many of those claims are yet to reach 130 weeks of weekly payments – you do not have those figures at all?

Cathy HENDERSON: We are in the process of validating those figures.

Jade BENHAM: When will those figures be validated?

Cathy HENDERSON: I am aware that we were hoping that by December we would have a better picture. I am hoping that in coming weeks and months we will have a better picture.

Chris BARRETT: If I recollect correctly, that was the case. In reviewing the transcripts, I think we said roughly around December.

Camille KINGSTON: Can I just add that there is a disputation process that also tacks on quite often at the end. A worker whose claim is either rejected initially or subsequently later on down the track after that 130-week period can dispute the outcome of that decision. It is also just important to note that those –

Richard WELCH: That would be marginal to the figures; right?

Camille KINGSTON: No. Quite –

Richard WELCH: When will you have the figures?

Camille KINGSTON: I think, as Ms Henderson said, they would probably be available within the next few months.

Jade BENHAM: Okay. At budget estimates in June we heard that the scheme modernisation estimated by the scheme actuary had a net favourable impact of $1.162 billion for the year ended 30 June 2024 after the introduction of the WPI test. What was the net favourable impact of the scheme modernisation for the year ended 30 June 2025?

Chris BARRETT: Do we have that, Ms Kingston?

Camille KINGSTON: I can tell you what the insurance funding ratio outcome has been.

Jade BENHAM: This was actually directed at Ms Henderson, if that is okay.

Cathy HENDERSON: Ms Benham, it is too early to judge the overall impact of scheme modernisation. What we can say is that the financial outcome –

Jade BENHAM: You projected it, though. How did you come to that figure of $1.162 billion? How was that forecast?

Cathy HENDERSON: I think you referred to that being an actuarial estimate.

Chris BARRETT: It would have been actuarial modelling, Ms Benham. The actuarial modelling does not, obviously, then tell you what the actual numbers are going to be when the scheme is at full experience.

Jade BENHAM: So what are the actuarial projected savings of the scheme modernisation for 2025–26?

Cathy HENDERSON: What we can see is for the 2024–25 results, Ms Benham. You can see that it appears that WorkSafe is moving closer to financial sustainability. That insurance funding ratio result of 112.7 per cent is an improvement on previous years and shows us heading towards our target of an insurance funding ratio result of 120 per cent. It is expected that the scheme modernisation reforms that were passed by Parliament are contributing to that financial sustainability. Our financial result for 2024–25, of course, was also affected by stronger than expected investment returns.

Jade BENHAM: Stronger than expected investment returns. Has there been any modelling ever done on hypothecating revenue from WorkSafe to fund the Suburban Rail Loop?

Cathy HENDERSON: Not that I am aware of, Ms Benham.

Chris BARRETT: Certainly none that I am aware of.

Jade BENHAM: Okay. Can you rule that out completely? Rule out hypothecating –

Chris BARRETT: That would be a matter for government policy.

Jade BENHAM: Okay.

Cathy HENDERSON: Ms Benham, the government has previously committed that savings due to scheme reform would be returned to the scheme for the benefit of workers or for the lowering of premiums. And the Deputy Premier reaffirmed that when he addressed estimates in June this year.

Jade BENHAM: That is a great segue to my next question, and the minister did say that any savings would go back into supporting workers and lowering premiums for business. So given the minister’s statement then and your reiteration of that quote, when will premiums be lowered?

Cathy HENDERSON: Ms Benham, as we are discussing here, it is too soon to see what the overall impact is. WorkSafe is not clearly at financially sustainable levels yet. We hope that is the path that we are on. But a 112.7 per cent insurance funding ratio outcome is not the target. We are heading towards 120 per cent.

Chris BARRETT: And I would add, particularly in view of some of the difficulties that workers compensation schemes are experiencing around Australia – I am thinking particularly of New South Wales – this is a difficult environment for insurance businesses more generally and for workers compensation schemes in particular. So it would be a mistake to try and declare victory too early on this. I do not know if you want to add to that, Ms Kingston.

Camille KINGSTON: The premium setting occurs annually each year, and the minister takes advice from the WorkSafe board and the WorkSafe board forms their opinion based on actuarial sort of analysis that is undertaken each year. So there is a very robust process that precedes the decision around premium setting on an annual basis.

Richard WELCH: Can I ask how reliant on investment returns was this year’s result over, say, the average – the mean – of the last five years investment results? How heavily did we rely on investment returns to achieve a surplus?

Cathy HENDERSON: Investment returns – probably in terms of the increase in revenue over what was expected, investment returns probably were the majority of that.

Richard WELCH: Do you expect that return to continue? Are you forecasting that return to continue at that rate or fall back?

Camille KINGSTON: I might just jump in there. Last year they outperformed the forecasted returns. We are not expecting that same level of performance going forward. There has been an adjustment process undertaken in consultation with – obviously the WorkSafe board itself determines sort of what their investment objectives are. The VFMC then needs to give effect to that. And through that process of consultation, they have modified down their investment return objectives. I cannot recall off the top of my head precisely what they are.

Richard WELCH: Do you expect there to be a surplus in this coming year?

Chris BARRETT: Maybe if I can just jump in there, Mr Welch, because this might assist the committee, I think the question that you are asking goes to the economic insurance result, so that abstracts from external factors and discounts to projected claim payments using long-term investment returns. That has been improving from a deficit of 838 in June 2022 to a surplus of 827 in June 2025. But particularly –

Richard WELCH: But these are all based on greater than expected investment returns, aren't they?

Chris BARRETT: No, no, they are not. That abstracts from the investment returns. That is right. That is that is sort of a good measure of the underlying result, if you like.

Jade BENHAM: Just quickly, can an increase in premiums in the forwards be ruled out?

Camille KINGSTON: It is a matter for government each year taking advice from the board about what the break-even premium needs to be, so we cannot sort of provide that advice. It is not a matter for us to sort of advise the committee about what government may decide in the future.

Jade BENHAM: So you would not advise the premium to be increased?

Chris BARRETT: I would not go into what we are advising really, Ms Benham. This is a decision for government on a year-by-year basis.

Jade BENHAM: I have some questions about VMIA as well, so could we have Mr Davies to the table, please. Thank you. That would be terrific given there is little very little time left. Thank you, Mr Davies. My question is in relation to VMIA's insurance of the Suburban Rail Loop, the largest premium ever charged in VMIA's history, all taxpayer funded through the SRLA. Has the authority provided any insurance cover relating to the project's funding shortfall or the commencement of the project without the government yet having raised sufficient funds for the project?

Andrew DAVIES: Ms Benham, thank you very much for the question. VMIA is very proud to be able to support major projects such as the Suburban Rail Loop.

Richard WELCH: No, just get to the answer.

Andrew DAVIES: Indeed we have not provided insurance outside of those insurance arrangements required for the project, so nothing in terms of shortfall of funding or anything like that. Indeed that would not be insurance that VMIA would be looking for.

Jade BENHAM: Okay. SRLA's risk document details potential capital raising through hypothecating from the PNFC and NFPC sectors. Has this been canvassed with VMIA, and if so, what was the advice?

Andrew DAVIES: Sorry, could you just refer me to which page that is or what the quote was from – sorry, Ms Benham – so I can help?

Jade BENHAM: It is VMIA's 2024–25 annual report, page 91.

Richard WELCH: It does not really matter.

Jade BENHAM: No. It just has not been canvassed.

Andrew DAVIES: The VMIA annual report, page 91, which refers to our subsequent event note?

Richard WELCH: It is just a question.

The CHAIR: No, Mr Welch, the witnesses are actually asking you to take them to the page so they can understand the question.

Jade BENHAM: Yes – page 91 of the annual report.

Andrew DAVIES: Yes. Thank you. I have page 91 of the annual report.

Jade BENHAM: SRLA's risk document details the potential capital raising through hypothecating from the PNFC and the NFPC sectors. Has this been canvassed with VMIA? If so, what was the advice?

Andrew DAVIES: Not that I am aware of, Ms Benham. I think on page 91 of our annual report we are looking at the subsequent event note.

Chris BARRETT: Are you perhaps referring to the SRLA annual report?

Jade BENHAM: Yes, the risk document.

Chris BARRETT: Sorry, that is not our annual report.

Jade BENHAM: Okay. Sorry. It crosses over with some of the further questions. So, no canvassing has been done?

Andrew DAVIES: No.

Jade BENHAM: No. Okay. What proportion of the SRL's insurance policies or risk are under reinsurance and offshore?

Andrew DAVIES: A very large majority of it is, Ms Benham. We take a minimal amount of risk on major construction projects. We look at the global reinsurance market for risk support for these very large projects. Indeed the Suburban Rail Loop project attracted quite a large number of large reinsurers globally that were very attracted to the risk that we were looking at given all of the work that was done in pre-works for that project.

Jade BENHAM: Okay. So how much in broking fees did VMIA pay for SRL's reinsurance activities, and when you say 'very large' amount of reinsurance, do you have a specific figure?

Andrew DAVIES: I would have to refer back to my notes in terms of the significant figure, and I am not sure I have that one with me.

Jade BENHAM: Are you able to supply that on notice if you do not have that –

Andrew DAVIES: If we think about the size of this project, this is the largest project –

Roma BRITNELL: Can you supply them? Are you able to supply those figures, please, on notice?

Andrew DAVIES: We can certainly take a look at the retention that VMIA is holding on that risk and provide some information about that as appropriate.

Jade BENHAM: No. You mentioned that there was a very large amount of reinsurance. I am after a specific figure.

Andrew DAVIES: On a very large project there was always going to be a large amount of reinsurance. We can take that question, if you like, on notice.

Jade BENHAM: Thank you very much. Do we know how much in broking fees VMIA paid for those reinsurance activities?

Andrew DAVIES: I would have to again take that question on notice. Our broking is very modest.

Jade BENHAM: Great. Thank you. What risks in relation to the SRL did VMIA deem uninsurable?

Andrew DAVIES: I think if you look at the Suburban Rail Loop Authority, all of the insurance arrangements that VMIA has provided have been able to attract appropriate cover in the reinsurance market. There was only one risk area that we were looking at with the management of the Suburban Rail Loop Authority at the time, as to whether it would be appropriate to reinsure for that.

Jade BENHAM: Not the fact that it has not been funded? That would be a pretty big risk, I would imagine.

Andrew DAVIES: A consideration of insurance would be different to a consideration of funding a project, Ms Benham.

Jade BENHAM: How much is the VMIA provision for insuring the SRL project?

Andrew DAVIES: Again, thank you for the question. I think we do not particularly provision revenue for insuring the project. We insure the projects; we take a premium for that insurance activity, so we would not have a provision for that purpose.

Jade BENHAM: How much?

Andrew DAVIES: How much was the premium, did you say? Premiums that VMIA charge to our clients are really confidential between ourselves and our clients. It is a commercial-in-confidence activity. It is not something that would be appropriate for us to be disclosing.

Jade BENHAM: Ultimately, who pays that premium?

Andrew DAVIES: The project co would pay that premium.

Jade BENHAM: And where does the money come from?

Andrew DAVIES: It is a question for others as to where that comes from.

Jade BENHAM: It is taxpayer money, isn't it? So the taxpayer does not have any right to know about any of these things? I appreciate some things are commercial in confidence, but when we are talking about offshore –

The CHAIR: Apologies, Ms Benham. We are out of time. We are going to go to Mr Tak.

Meng Heang TAK: Thank you, Chair. Thank you, Secretary, through you. Still on the Victorian Managed Insurance Authority, the VMIA's response to question 19, Secretary, notes the funding ratio at 30 June was 107.4 per cent. This is an improvement on the previous year. Can you discuss what measures the VMIA has taken to achieve this?

Andrew DAVIES: Thank you very much, Mr Tak, for the question. I think, very importantly, VMIA has been doing quite a bit of work to look at our funding ratio, and indeed thank you for the recognition that it has improved to 107, again back within our preferred range. If I take you back, 2022–23, if you like, was the first time that VMIA started to look at our funding ratio in earnest, and indeed, if you recall at that time, we were on the back of the 2019–20 bushfires and the 2022 flood activity that was occurring, and at that time VMIA's insurance funding ratio, unfortunately, declined down to 110. Management internally to the organisation at that point used it as a soft trigger point for us to do some investigation into how we might think about improving that funding ratio. Subsequently to that we had the Porter Davis collapse, which indeed impacted on that funding ratio further.

But if I speak to the things that we did at the time, we had a look at all of our reinsurance arrangements with a view to saying: could we smooth out the volatility that we take onto our balance sheet by different reinsurance? We chose not to pursue that path. That path would have meant more cost of insurance, so we chose not to pursue that path. We looked at our investment returns to see whether we could make more investment returns. VFMC does a fantastic job for us. We were not able to get more out of investment returns. We turned to the work that we do internally about premium setting, and we did look at how we think about premium setting, given the sorts of risks that we are facing in future. And importantly, we turned to the work that we do around risk advice.

If you think about the role of VMIA as insurer to the state and our opportunity when we have claims in those events to learn from those claims by having a look at all of the analytics of what might cause that claim, we turned then into our risk advisory role and started to think about how we might work with our clients to mitigate risk where it is possible. Indeed something that we have been doing for many, many years now is thinking about how we go about mitigating known risks that we have from the claims experience with our clients, working actively with them around their risk management practices in the state and also working with them on harm prevention initiatives. Those harm prevention initiatives are really looking at multiple benefits, the main benefits in our harm prevention activities and our health system being that our citizens end up getting high-quality care, as they would do in our health system, but where we target better outcomes for mothers and babies through our incentivising better patient safety activities et cetera. All of that has resulted in us focusing on, 'How do we minimise claims?' And if we can minimise claims, we can end up with a better balance sheet outcome with the insurance funding ratio but also a better outcome for citizens. We think that that is the beauty of what VMIA can do in its virtual cycle of insurance claims – lessons from those claims, back into risk advisory work and working with our clients about how to prevent harm as we go forward. In short, we looked at all of the levers that we had available to us. It is true that the government, thankfully, put a stay on dividends from VMIA at the time, but also those investments into harm prevention to try and mitigate risk were really important for us.

Meng Heang TAK: Thank you. Also, at question 15 the VMIA's response notes the net claims expense increase in 2024–25. What are some of the reasons that this was increased? And how has the VMIA acted to reduce these costs?

Andrew DAVIES: Thank you again, Mr Tak. I think it is an unfortunate scenario that our claims experience has continued to increase through multiple years, and reinsurance has been brought up a few times. If I speak about reinsurance, interestingly, when we travel and talk to our reinsurers around the litigation environment et cetera there is often a conversation that we have around the litigation environment in Australia. Indeed it is reasonably surprising to most people I talk to that most of our global reinsurers see Australia as the second most litigious country in the world. It is a reasonably material statement that our reinsurers make when they talk about us being the second most litigious country in the world. Now, the challenge there is that government often is the one with the deeper pockets and standing at the end of the chain of a series of consequences that lead to harm with citizens, and hence we find that coming through in our claims experience. Indeed on that section of the report, we saw around about a 6 to 7 per cent increase in claims experience on a year-on-year basis – quite materially more than what we expected, though, but that 6 to 7 per cent increase runs with inflation and activity against the state, and that is kind of where we saw that claims experience grow.

If I speak to what we do again, our harm prevention initiatives are really targeted at 'How do we minimise this growth where it is possible to do so and working with our clients?' Indeed the strategy that VMIA cut very recently, in the new strategy that we are operating under, essentially has two main goals. The first of those goals is about 'How do we reduce the cost of risk to the state? How do we work with our clients with the harm prevention initiatives that we can do with the lessons we can take from the claims to reduce the cost of risk, wherever possible, to the state?' And in most cases that is going to be about 'How do we change the growth rate of claims down where we possibly can?'

Meng Heang TAK: Thank you. Just one more question, still on this topic: the VMIA's 2024–25 annual report provides some insight into your work – some you have already said – to prevent harm, such as the hospital-acquired complication harms prevention, Mr Davies, on page 16. This not only helps to reduce costs but also benefits patients. Can you talk more about the success of these programs? What are you doing to involve more health service providers in this space?

Andrew DAVIES: Again, Mr Tak, thank you very much for this question, an important question in terms of playing out the benefit of VMIA beyond the obvious insurance and claims payment. It is talking about 'How do we mitigate, where we can, harm across the state?' Indeed the one that you mentioned I will talk to first, if you like – the hospital-acquired complications program.

It is an unfortunate event, but hospitals when you attend them, as good as they are in Victoria, there are consequences at times of hospital-acquired complications. Indeed as it says in our annual report, approximately 2 per cent of hospitalisations result in a hospital-acquired complication. If you think about the attendance that we have growing, there is a growing impact of these complications. Indeed we did the work, as mentioned, on our claims, we identified that while not the primary cause of the claim, around about 25 per cent of our claims have an associated hospital-acquired complication somewhere within that patient's experience, in that patient's journey. Now, these things are quite horrendous for the individual patient, but they are actually problematic for a system. When you think about somebody that receives a complication, whether that be delirium, whether it be an infection or some other acquired complication in the hospital, they also take up a bed for much longer. And if they take up a bed for longer, that is a cost to the health service. It also means that it is one bed that is harder to be able to put the next patient in. You can actually see that works all the way back into things like surgical cancellations, it works all the way back into ramping and other activities, which we know is problematic in health services when beds get tied up.

Our work here started back in November 2022, and it started because we saw this presentation within our claims, but also because we were working with partners such as Safer Care Victoria and a couple of health services. We started with a very small pilot. It is very important that we start with a small pilot and understand the value that we can get out of these kinds of initiatives. We started with three health services with a view that over a two-year period we would pilot with these three health services as to whether we could reduce these harms and improve the outcomes for citizens through our health services. If we speak to that pilot, that pilot was due to be fully evaluated by December. But at the midway of that pilot we saw enough evidence that said that there was value being delivered not only to the citizens out of the reduced harm but value being delivered in terms of reduced length of stay at hospitals and other activities. While we had not seen it all the way through our claims at that stage, we were seeing enough evidence that said that this was worthwhile for further investment. At that point we started to make further investment, and we opened up a scheme where we could invite health services to come forward with new ideas and receive additional funding.

Mathew HILAKARI: That pilot itself – which health services was that run out of?

Andrew DAVIES: The pilot health services – let me just check my notes. I am pretty sure that was Peninsula Health, Barwon Health and I believe it was St Vincent's – those three health services. Indeed we did have one of the members of Peninsula Health come and present to our board partway through as well. That helped us bring to life the outcomes this had for citizens, if you like, and the benefits.

Mathew HILAKARI: And they presented strong views at that time of the benefits of it?

Andrew DAVIES: Extremely strong views – so much so, our board was asking us questions about whether we could accelerate further than what we are actually doing at the moment. Indeed sometimes we look at our investment around harm prevention ourselves and wonder how we actually accelerate that, noting the gains that we have seen.

Meng Heang TAK: Thank you for your answer. It has been very helpful. Secretary, I just want to move on to the *Financial Management Act* reform, if I may. Perhaps through you, one of the outcomes noted in question 2 of the DTF questionnaire is about the DTF's work in supporting the development of the Financial Management Legislation Amendment Bill 2025. It was noted that the Act had not been modernised in 20 years. Secretary, can you tell the committee how these reforms will help the government to meet its fiscal strategy?

Chris BARRETT: Thanks, Mr Tak. As breadth and diversity of the public sector continue to grow it is right, as you say, that we need to enhance transparency and increase accountability for performance and resource allocation. The *Financial Management Act 1994* is the principal legislative amendment underpinning the financial management framework of the Victorian public sector. The Act was written in the wake of the global economic downturn of the early 1990s, but the world has really moved on since then and the public sector has become more complex and sophisticated in the 30-plus years since the Act was introduced, and the legislative framework really needs to align with contemporary approaches to governance, performance and risk management.

In the 2024–25 budget, last year's budget, the government laid out a plan for financial management reform, including a review of the *Financial Management Act*. This review identified opportunities to strengthen the *Financial Management Act* – I am just going to call it the FMA from now on – to ensure it remains fit for purpose, and the government introduced the Financial Management Legislation Amendment Bill into Parliament on 20 May of this year, alongside the 2025–26 budget. The Bill, as you might know, received royal assent on 19 August 2025. It really made changes that improve accountability and transparency across the public sector and its entities, remove outdated aspects of existing legislation and ultimately better reflect the needs of an increasingly dynamic financial and economic environment within government and outside it.

With the passing of that legislation amendment Bill, the government achieved the following amendments to the FMA, including embedding notification processes where there is a risk that a department or a public body's current-year budget may be exceeded; elevating accountable officer responsible body and chief finance officer responsibilities; updating financial management principles to better reflect the expectations of government and the public sector, including the power to include or exclude certain agencies from the operation of certain provisions of the FMA; strengthening the requirements around the creation or the cessation of agencies, which goes a bit to the points Ms Kathage and I were discussing earlier around regulators; updating regulations and direction-making powers; removing the requirement for warrants; and removing the budget update and the September quarterly in an election year, including the September quarterly in a budget update.

Additionally, the government, as you might be aware, supported two further amendments proposed by the Legislative Council. They were a new requirement to disclose Treasurer's advance payments in the mid-year financial report, which builds on the government's efforts to improve transparency and accountability, and disclosure of the Treasurer's advance and contingencies in the 2025–26 budget papers and then also improved annual report transmission arrangements for departments, entities and state bodies, allowing annual reports to be transmitted to Parliament on non-sitting days and strengthening the link to ministerial obligations and accountability. The FMA now requires annual reports to be transmitted by the relevant minister to Parliament within four sitting days or 14 days of receipt of the report and no later than 31 October each year. The minister must also disclose when they received the report. However, the provision for late transmission of annual reports remains unchanged. Government will continue to evaluate and develop both short-term and long-term reform measures to strengthen the role and impact of financial and non-financial performance in government decision-making.

Meng Heang TAK: Thank you. Why was it important to include the principle of sound financial management, as you already said, and the expectation that the department and agency work within that budget? Can you –

Chris BARRETT: Yes, absolutely. The amendments there we really saw, Mr Tak, as an opportunity to reset expectations and strengthen accountability for every dollar. We are obviously in a period where we are kind of trying to go through a substantial fiscal consolidation, leading to that operating surplus of this year, and that then supports the government to deliver on its fiscal strategy. It is a signpost for the public sector about the importance of maintaining and continually improving sound and sustainable financial management. Of the elements of the Act that I was talking about earlier, the ones that are most germane to the question that you just asked are around embedding those notification processes when there is a risk that a department or public body's current year budget may be exceeded, that there is actually early advice to me as Secretary and that there is a mitigation plan brought forward, and obviously also updating those financial management principles to better reflect the expectations of government and the public sector.

Mathew HILAKARI: I was interested a moment ago in the answer before this one. You mentioned the September update prior to the election. Can you just talk about that and what that means in terms of transparency?

Chris BARRETT: Yes, absolutely. I mean, that does provide that update ahead of the election, which is very important. The other thing that we of course have ahead of elections –

Mathew HILAKARI: When would it usually be handed down?

Chris BARRETT: When would the September quarter update be handed down?

Chris HOTHAM: I am happy to have a go, Mr Hilakari. I think that the amendment that you are referring to here goes to the prominence of PEBU in an election year.

Chris BARRETT: The pre-election budget update.

Mathew HILAKARI: We all know PEBU; that is a well-known acronym.

Chris BARRETT: Just for the benefit of those watching at home.

Chris HOTHAM: It could be a lot of things, but it is important to us. With the timing of elections now set as November every four years, it effectively created an overlap between the September quarterly PEBU and budget update. So in terms of the amendments, they have really been to crystallise and codify the importance of PEBU, but the September quarterly will not be published in an election year for that reason.

Mathew HILAKARI: And does that allow particularly people who are going to vote a good understanding of the financial situation of the state at that point in time?

Chris HOTHAM: Absolutely it does. As soon as the writs are issued for an election, there is a two-week window or a matter of weeks before the publication of the PEBU. I think it may be two weeks; it may be a little more. But absolutely that document is there well before voting day for the benefit of all Victorians to see the state of the accounts and effectively Treasury and the Secretary's view of those accounts going into an election period.

Mathew HILAKARI: And this is always about transparency and making sure that we can rely on this information and Victorians can go to the polls essentially understanding where things are up to.

Chris BARRETT: Understanding the state books, yes.

Mathew HILAKARI: Thank you so much.

Meng Heang TAK: Thank you. I just have one final question. I have heard a lot about the update and changes. But Secretary, what education and training does the department provide to departments and agencies to ensure that they are able to meet all the requirements?

Chris BARRETT: Thank you, Mr Tak. Time is against us here, so I will be brief. We met, as DTF, with each departmental CFO – that is, the chief financial officers – to discuss the amendments before the Bill was introduced to Parliament. That was in 2024–25. And in 2025–26 we have again met with each departmental CFO after the passage of the legislation to discuss the support and the guidance that they need for implementation. We have drafted transitional guidance for departments and public bodies and provided this through the CFOs to their departments. We also discuss it at the regular CFO forum of departmental CFOs, and I have discussed it at the Victorian Secretaries Board as well.

The CHAIR: Thank you, Secretary. We are going to go to Mr Puglielli.

Aiv PUGLIELLI: Thank you, Chair. Good morning. Just for the panel's assistance, I do have some questions for representatives from the VFMC and the SRO, so just flagging that now – I cannot really see name tags – in advance. But just to kick us off, the Victorian government pays bank fees under the banking and financial services state purchasing contract. Can the committee be provided with the amount of fees and charges that are paid by the state to each of the banks as part of the purchasing contract for the management of our state's accounts?

Chris BARRETT: I might ask Ms Kingston if she can expand here, but I am not sure that we can disclose it.

Camille KINGSTON: No. And that would also be, I think, for the Department of Government Services, not for us. They manage the state purchase contract with the banks.

Aiv PUGLIELLI: Okay. So I would put it to that department with respect to the amounts that have been paid?

Chris BARRETT: Yes.

Camille KINGSTON: Yes.

Aiv PUGLIELLI: Right. Okay.

Camille KINGSTON: They may not be able to disclose it.

Chris BARRETT: They may not be able to provide it.

Aiv PUGLIELLI: I will see how I go with them. Just speaking more broadly to central banking agreements with the state, what key elements are considered in negotiation with the banks to those agreements?

Chris BARRETT: This is for the centralised banking system that were discussing earlier?

Aiv PUGLIELLI: Correct.

Chris BARRETT: I might let Ms Kingston speak to those.

Camille KINGSTON: Just to clarify, is this the central banking system that I was talking about earlier, or is this the contracts that we have with the banks through our state purchase contract for the provision of financial services to the government?

Aiv PUGLIELLI: You might want to differentiate those two for the committee. That would be great.

Camille KINGSTON: The central banking system is that pooling arrangement around cash deposits, which fundamentally DTF manages on behalf of governments and agencies that participate, and that is that offset sort of arrangement that I explained a bit earlier. It is an internal mechanism, really fundamentally, that DTF has, but we earn interest on those cash deposit holdings as they are held within the CBS, and each of the participating departments and agencies have access both to their cash at any point in time but also to any interest earned over the course of a given year. It means that we can reduce the cost of borrowings that we would otherwise have if they were disaggregated across government. So that is the central banking system. The state purchase contract is managed through the Department of Government Services with the relevant banks that we have. They provide a range of services, so payment platforms, for instance, and things like EFTPOS or payroll processes. They also provide cheque management services, although they are being phased out, obviously consistent with the Commonwealth government's commitment in that space. It depends on what you are particularly interested in.

Aiv PUGLIELLI: Yes, particularly with that first component that is within DTF, it would be great to understand that more.

Camille KINGSTON: Yes.

Aiv PUGLIELLI: Particularly with elements within those arrangements that you have arrived at the setting that you currently have, what are the key considerations?

Camille KINGSTON: Fundamentally, it is a mechanism that is used by governments across the world, so we are not unique in that sense. But I think it was in recognition of the fact that there are many accounts that hold cash across government and that it was a more effective means for cash flow management purposes for those funds to be pooled across government, because it meant that where, for instance, one agency or department had a particular cash flow requirement, that could be satisfied, whilst others might not need to access their cash at a given point in time. It was really, I suppose, a financial management tool to most effectively use those available cash holdings. As I said, also a relevant consideration for us was the cost of borrowings over time. You do not want to borrow ahead of time when you do not need to. It was balancing borrowing considerations along cash flow requirements, and it was just recognising that the interest earned obviously would be something that departments and agencies would retain an interest in. That is why those arrangements also made sure that that interest earned continued to flow back through to them.

Aiv PUGLIELLI: Okay. Those deposits that you have referred to, are they what we are talking about being held within the state's one account arrangements with three of the big four banks in this country? Is that correct?

Camille KINGSTON: Yes.

Aiv PUGLIELLI: Okay. In terms of the establishment of those arrangements, was competition considered a key factor in how those were arrived at?

Camille KINGSTON: The procurement of those financial and banking services followed standard procurement practices, so absolutely it was a competitive process. I cannot talk to that; I was not around at the time. The Department of Government Services would have managed that because it was a state purchase contract, but certainly competition would have been a key element under consideration.

Aiv PUGLIELLI: Okay. Just to confirm that, though, would you consider that a competitive arrangement, given that three of the big four banks in this country are party to that agreement?

Camille KINGSTON: Yes. When they were first procured, there would have probably been a fairly extensive set of business requirements, so to speak, that the state would have had, and it would have been necessary and relevant for any of the bidding companies, so to speak, to be able to satisfy those requirements in a value-for-money proposition. Again, I did not participate in the procurement activity at that time, but absolutely I would think it went through a competitive bidding process.

Aiv PUGLIELLI: Okay. Thank you. I might move on to our representative from the SRO if they are ready to go. Thank you so much. It is just in relation to the short-stay levy, which came into operation on 1 January 2025. I will note the State Revenue Office is permitted to disclose levy registration information to councils. Can I just confirm: is that information being provided to councils?

Paul BRODERICK: The short-stay levy, as you are probably aware, is 7.5 per cent of the total amount of revenue that is received for short stays under 28 days, and we have strong communication with the councils about the implementation of that. Some councils have their own little levy as well, but the state one does not override that.

Aiv PUGLIELLI: Okay. But with regard to levy registration information, is that information being provided to councils currently?

Paul BRODERICK: Is the registration for the levy being provided to councils?

Aiv PUGLIELLI: Information regarding levy registration.

Paul BRODERICK: I do not think it is at the moment.

Aiv PUGLIELLI: You do not think it is?

Paul BRODERICK: I can check that. I will take that on notice and get back to you, for sure.

Aiv PUGLIELLI: That would be great, on notice, if you can.

Paul BRODERICK: I will give you a firm answer.

Aiv PUGLIELLI: Thank you so much. This may also need to be on notice; we will see how you go. I would like to know if any councils have requested that information, and if so, which councils?

Paul BRODERICK: Okay. I will take that on notice and get back to you.

Aiv PUGLIELLI: Okay. Can I ask the total number of registered short-stay providers that have paid the levy to date?

Paul BRODERICK: Again, I will have to take that on notice. I do not have that figure in front of me.

Aiv PUGLIELLI: That is all good.

Paul BRODERICK: If I could just say, though: all the major providers like Airbnb, Home Away and all those ones have all registered and they are all paying. So it is working fine in terms of the collection process.

Aiv PUGLIELLI: Okay, thank you. Can I ask the total of the levy funds that have been raised to date?

Chris BARRETT: I think I have got that one for you here, Mr Puglielli. In 2024–25 it was approximately $19 million.

Aiv PUGLIELLI: Thank you. Can I move on to our representative from VFMC, if that would be all right. Thank you. Looking at the 2024–25 annual report, page 6, and that $95.3 billion that is invested in the Victorian Funds Management Corporation, can I ask how much of that is invested in fossil fuels currently?

Kate GALVIN: As you will know, Mr Puglielli, we are a large institutional investor, and we are managing a global portfolio of assets for the benefit of Victorians. As you have highlighted, it is over $95 billion for 31 state agencies. One of the keys to investing a large pool of assets is that you have a diversification in your portfolio, and we take this approach because it generates the best risk-adjusted returns for Victorians. We support the Paris agreement to limit global warming to well below 2 degrees, and we are committed to achieving net zero portfolio greenhouse gas emissions by 2050. We are undertaking engagement with companies on their decarbonisation efforts, and we are supporting climate positive investments with a strong financial return. About 5.5 per cent of our exposure is to the energy sector.

Aiv PUGLIELLI: One to 2 per cent, okay. Thank you. Within that energy sector component, how much specifically is fossil fuels?

Kate GALVIN: We do not really break it down specifically to exactly fossil fuels.

Aiv PUGLIELLI: You do not or you cannot? You do not break it down or you cannot break it down?

Kate GALVIN: We do not break it down. We probably could not look at every individual as extensive investments to look at what percentage of that energy sector is actually in fossil fuels.

Aiv PUGLIELLI: Okay. Are you able in any form to take something on notice to come back to the committee with?

Kate GALVIN: I can come back to you with a little bit more.

Aiv PUGLIELLI: Thank you – much appreciated.

Kate GALVIN: But I should add that – as you know, because we have discussed this in the past – we take an active stewardship approach, so we do tend to invest in companies that are invested in fossil fuels because we think it is really important to support the transition for those organisations and the transition of the economy to a low-carbon economy.

Chris BARRETT: And that stewardship includes voting on shareholder resolutions where there are concerns about the pace of the energy transition et cetera. One of the briefings that we get at the board which I sit on ex officio is around how that shareholder engagement has occurred.

Aiv PUGLIELLI: Okay, thank you. With respect to the components that are in fossil fuels specifically, what is the state's financial risk exposure, if any of those projects were to fail?

Chris BARRETT: I mean, at 1 per cent of funds under management in the energy sector as a whole, that is a relatively small proportion, and if you think about the issue from year to year it is the return on that. So if the corpus is, well, pretty close to $100 billion now, Kate –

Kate GALVIN: Yes.

Chris BARRETT: and you are talking about 1-and-a-bit per cent, it is a maximum of 2 billion across that. And then in terms of returns, if returns are roughly 10 per cent – last year they were above – you can tell that is a pretty small number.

Aiv PUGLIELLI: Okay. Does the VFMC in its current approach consider fossil fuel investment high risk?

Kate GALVIN: It depends. In the event that we think there is no return to be made and too much risk – for example with thermal coal – then we will not be investing. But as a large institutional investor we look for a risk–return trade off. Whilst some fossil fuel investments might be riskier, we would make sure that we were getting adequate return for the people of Victoria from those investments.

Aiv PUGLIELLI: Okay. Just moving on to other investments, the Treasurer has spoken in the upper house on a number of occasions with respect to emerging markets that the state government is currently investing in. Can I ask: what emerging markets does the VFMC invest in currently?

Kate GALVIN: I might take that question on notice, because it is a little bit about how you define 'emerging markets'. We have recently looked at our exposure to emerging markets across our clients and formed the view that we probably have not been remunerated enough for the risk in emerging markets. So that exposure is actually reduced. But as it comes to specific emerging markets, I would have to take that question on notice.

Aiv PUGLIELLI: Thank you. You may need to take this as well in the same way. I would like to know what countries the VFMC is investing in, particularly with regard to emerging markets.

Kate GALVIN: I will take that on notice.

Aiv PUGLIELLI: If we could have some kind of an exhaustive list, if you can manage it, that would be amazing. Can I ask: do any of the emerging markets invested in by the VFMC include extractive industries – things like logging, things like mining rare earths?

Kate GALVIN: Because we invest a large amount of money in a diversified manner globally, I would say that there will be some aspects of our investments that cover those.

Aiv PUGLIELLI: Okay. Thank you. Are there any human rights implications of any of these investments that VFMC feels are appropriate to disclose to the committee?

Kate GALVIN: Not that I am aware of.

Aiv PUGLIELLI: Okay. Thank you. Just onto another matter, looking at budget paper 3, page 193, the line items, particularly for IBAC, Victorian Ombudsman et cetera: can you outline to the committee how much funding was requested by IBAC for the 2024–25 budget year?

Chris BARRETT: I am not sure that we would have those figures in front of us. I know in terms of the request, it is effectively a budget bid, Mr Puglielli, so we do not make budget bids public. Now, if the agency did that, that is a matter for them, but I am not aware that that is a public figure.

Aiv PUGLIELLI: Just to clarify: were you taking that on notice just then or not?

Chris BARRETT: I will see if there is something that I can provide; I strongly suspect it is cabinet in confidence.

Aiv PUGLIELLI: Okay. I would ask a similar question with respect to the Office of the Victorian Information Commissioner.

Chris BARRETT: Yes.

Aiv PUGLIELLI: Probably similarly on notice?

Chris BARRETT: Same answer, so if you ask the ones I can provide what I can.

Aiv PUGLIELLI: Okay. In that case I will add Victorian Ombudsman onto that as well, if that is all right.

Chris BARRETT: Okay.

Aiv PUGLIELLI: Thank you. On another matter, can I ask how the department views the impacts of the public sector wage cap on our overall economy?

Chris BARRETT: I think the public sector wages policy is effectively 3 per cent per annum; that is wages policy that has been in place, I think, Mr O'Connor, since 2023, and that was an increase from the previous one, which was either 2 or 2.5. But it was effectively to try and take account of a higher inflation environment. There is an additional pillar to that, which allows a 0.5 per cent per annum cash amount effectively across the term of the agreement, be it three or four years, that can be added on top of that. So, you know, if you wanted to think about it as 3.5, then you could. I think at that level, that is around wages growth, I think, Paul? Real wages growth in the economy at the moment is around the 3s. We are around about average, so not effectively detracting or adding to that, which I think from our perspective seems appropriate.

Aiv PUGLIELLI: Okay. So just to clarify: the department would not view the wage cap as having dragged the economy overall?

Chris BARRETT: Well, at those levels, not really. So if your wages policy is sitting at 3 to 3.5 and the wage price index is – as Mr Donegan has just informed me it was in 2024–25 – 3.3, then you are around the average, so you are not having that contribution. I would add, it is a very important part of fiscal management as well to ensure that you have a wages policy and that if the actual final wage outcome is above that wages policy, above the 3 per cent, there are offsets found within the agency that effectively pay for that in productivity terms. That is another very important principle of wages policy and fiscal policy, I might add.

Aiv PUGLIELLI: Okay. I mean, with respect to its impact on employment, has the department provided advice to government on lifting the cap?

Chris BARRETT: I am not aware that we have provided advice in relation to that. I think that the recent increase in wages policy in 2023 was more out of a consideration around the higher inflation era that we were experiencing and not wanting to see too much of a period of negative real wages.

Aiv PUGLIELLI: Okay. Thank you. Just on another matter, at the budget estimates hearings in May this year the committee discussed the potential impacts of tariffs put in place by the United States and how this may affect our exporters and our businesses. Can I ask: was there any noticeable impact of new US trade policies on our state and its exports and other economic activities for the relevant period?

Chris BARRETT: It is a really good question, and I have to say certainly when we were facing budget estimates at the time it all felt like a very concerning and chaotic environment, and we noted that as part of the budget risks at the time; you can read about that in budget paper 2.

Maybe more kind of impressionistically, what we have seen as a pattern of over a period of time is that the final result does not always bear a lot of resemblance to the first announcement. I think we always thought the impact on the Victorian economy – we certainly hoped but also expected – would be a relatively limited direct exposure in terms of impact on our economic growth, and that is what we have seen to date. If I look at in particular the recent figure, although those are for 2024–25, if we are thinking about how we are tracking in 2025–26, our activity is tracking reasonably well against our forecasts. The bigger, longer term risk I suppose is, as I might have mentioned to the committee last time, if you have this kind of uncertainty in the US economy you are likely to see a retrenchment of the US consumer. All other things being equal, that means a poorer US consumer, which means a poorer global economy. But you know, even the IMF have recently revised their global growth forecasts back up from where they went after April.

Aiv PUGLIELLI: Okay. On, again, another matter, can the department provide the committee with an update on negotiations regarding the no-worse-off guarantee for GST between the Commonwealth and the states?

Chris BARRETT: That is a very good question. I think at the moment the no-worse-off guarantee is guaranteed through to the end of June 2029.

Paul DONEGAN: 2029–30.

Chris BARRETT: As you can imagine, Mr Puglielli, we have vigorous ongoing conversations with Commonwealth Treasury, as does our Treasurer, and as part of the intergovernmental processes that we have as well. The update there is that really there is a planned review of the 2018 changes by the Productivity Commission, which from memory has got to report in the early part of next year. Mr Donegan, I think it is the first quarter of next year?

Paul DONEGAN: There is a draft report and then a final report later in the year.

Chris BARRETT: Yes, so a draft report early in the year then a final report. That is probably when we will resume more intense discussions, but as I said, the no-worse-off guarantee itself applies through to 2029.

Paul DONEGAN: Sorry, I did not speak loudly enough before. It is to the 2029–30 financial year.

Chris BARRETT: So in fact to 30 June 2030.

Paul DONEGAN: Correct, yes.

Aiv PUGLIELLI: Okay, thank you. Just reflecting on labour market data, in October the data showed that Victoria had the highest unemployment rate trend in the country at 4.7 per cent, the national figure being 4.4. How does that compare to the 2024–25 period, and what are the factors behind that?

Chris BARRETT: It is a bit higher than the 2024–25 period. Paul will get me the exact number, but I think where we landed in 2024–25 was about 4.5 or 4.4 per cent, so it is up a little bit. As I might have mentioned in my opening slides, it is a bit more of a story. We classically think of unemployment as being jobs lost. This is actually a bit more of a story of the growth in the labour force. The participation rate has been very high – I might add, particularly among women – and employment growth has been positive but just has not been quite keeping up with that growth in the labour force. That gives you a higher unemployment rate, but it is slightly different from the way we have thought about it in the past. And just confirming: 2024–25 was 4.4 per cent.

Aiv PUGLIELLI: Okay, perfect, thank you. Thank you, Chair.

The CHAIR: Thank you very much, Mr Puglielli. We are going to go to Mr Hilakari.

Mathew HILAKARI: Thank you so much, Secretary and officials. I might take us to budget paper 5, page 159, which goes to state revenue. We talk a lot in places like this about the tax take. Mr Puglielli just recently went through some of the GST. I am just hoping you can talk through how much revenue a government receives – without the revenue we cannot deliver the services that we need and deserve in Victoria – but particularly referencing that out on a per capita basis against other states.

Chris BARRETT: Yes, absolutely, and it is a very important question, Mr Hilakari, because there is a very different composition in tax revenue between the different states of Australia. In particular, the biggest difference that people would probably be aware of is royalties on mineral resources. If we look at tax revenue as a whole per capita for Victoria, for example – and unfortunately the actuals lag a bit; we have only got 2023–24 actuals so that we have a proper comparison, and these are provided by the ABS so we know that we are not kind of cobbling it together from different sources – tax revenue per capita, this is tax excluding royalties, for Victoria was $5659, and that is high relative to the other states in terms of our revenue per capita from our own resources. But if you look at royalties per capita, they were literally at $20 per person in Victoria in 2023–24; New South Wales, $362; Queensland, $2315; Western Australia, $4039 – so Victoria, $20; Western Australia, $4039.

Now, we will not unpack the WA GST deal again here or we will be here all day, but it is a very significant difference. And would the tax structure in Victoria be different if the royalties were the same level as they are in Queensland and WA – it absolutely would. When you add that up as a whole and look at the total own-source revenue picture, Victoria is $7320; New South Wales, $7603; Queensland, $9010; Western Australia, $10,619. We always think in Treasury the best way to think about it is total revenue per capita overall, because that then includes the effect of the GST, because the GST effectively operates almost as an absorber for that because of the way the Commonwealth Grants Commission works, and if we –

The CHAIR: Excuse me, Secretary. Deputy Chair, do you have a point of order? Is it you?

Roma BRITNELL: I think the point of order was over here.

The CHAIR: Mr Welch?

Richard WELCH: Yes. I would just like to get a clarification, because earlier in the conversation we asked about revenue per capita and you said that you did not have it, and now you are referring to it.

Chris BARRETT: No. I think it was the forecast that you were asking about in terms of revenue per capita, because it was this question of what revenue per capita was rising at versus the nominal economy. I mean, I do not –

Richard WELCH: No, I think my question was clearly about –

The CHAIR: Excuse me, Mr Welch, there is no point of order. Mr Barrett, if you could proceed with Mr Hilakari.

Chris BARRETT: So these are revenue per capita for 2023–24, because that is the other point: we only have this backward looking from the ABS. So total revenue for Victoria if you take in all sources and look per capita is $12,317; New South Wales, $13,063; and to take another one, Queensland, $16,273. So I can definitely confirm in terms of 2023–24 total revenue figures Victorian total revenue per capita is the lowest in Australia.

Mathew HILAKARI: Yes, okay. For WA it would be a crash in the mining sector, but for Victoria, if we suddenly had $10 billion taken out of our forward estimates and revenue that we received – we do not have that sort of mining capacity, but there might be other external or internal shocks that could cause a significant loss of revenue. What would that have as an impact on our operating results? And if were to say, 'Okay, we're not cutting back on hospitals,' or roads or schools or any of those other services, what would it mean for our forecasting, our operating surpluses across the forward estimates, if that sort of shock came through the system?

Chris BARRETT: Rather than comment on any particular number, maybe I will talk to the mathematics of budget surpluses in the period while the budget is in this, effectively, recovery and consolidation phase over the forward estimates. If you look at the operating surpluses across the forward estimates – and for the benefit of the committee our current forecasts are for $0.6 billion for the budget year 2025–26, $1.9 billion in 2026–27, $2.4 billion in 2027–28 and $1.5 billion in 2028–29. Now, if you add those up, budget year and forward estimates, that is $6.4 billion of operating surpluses in the budget year and across the forward estimates, so $6.4 billion over those four years, effectively. Now, if you had any decrease in revenue or indeed increase in spending in excess of that $6.4 billion, and this is again assuming you changed nothing in policy terms and nothing else changed in terms of what we in DTF call non-policy – so just for the benefit of the committee, that is revenue upgrades, downgrades, underspends et cetera – then obviously anything in excess of that $6.4 billion that we see across the budget and forward estimates would mean printing a deficit in one or more of those years.

Mathew HILAKARI: Okay. That has been a real challenge. When we talked about things like the rating agencies earlier, they have looked to this five-step strategy as one of the most important things in thinking about how this government is going. So what would future governments need to do to continue an operating surplus when it gets down to brass tacks?

Chris BARRETT: Yes. I mean, again, if you had that change in isolation and nothing else was changing, you would need either a windfall in terms of higher revenue or lower spending – that is that non-policy stuff that I was talking about – or you would need policy decisions effectively to either increase taxes or reduce spending by an equivalent amount to hold the same fiscal strategy.

Mathew HILAKARI: So you would just have less services, really? That is the only option, really.

Chris BARRETT: Those would be your choices – cutting spending or increasing other taxes, I suppose.

Mathew HILAKARI: Okay. I might take us to the Fair Work Commission. I am referring to budget paper 3, page 185, and it notes that the key department objective here is to strengthen Victoria's economic performance through fair, equitable and productive workplaces. Could you speak to some of these and why this advocacy is important in Victoria, particularly on those Fair Work Commission submissions that we make from time to time?

Chris BARRETT: I might pass over to Mr O'Connor, who is very much the expert in this area and whose area of the department is Industrial Relations Victoria, which came into DTF. He has been responsible for authoring those submissions.

Matt O'CONNOR: Thanks for the question, Mr Hilakari. You mentioned that the government has been in the habit of providing submissions to some key Fair Work Commission cases. Probably the most obvious one and the most regular one is the annual wage review. As has been the case certainly in the time I have been here, we will always make a submission to that review. We did so for the 2024–25 case, which was lodged on 2 April this year. The submission recommended the provision of a real wage increase returning to pre-COVID trends, which saw the growth in minimum wages exceed headline inflation. It also asked that the commission consider a comprehensive increase in apprenticeship rates of pay, and that in part emerged from the apprenticeship taskforce work that we were doing over that period. And thirdly, there was a specific request to the commission that it consider how minimum wages could be adjusted to improve the gender pay gap and also wage outcomes generally for women, younger workers and older workers. The commission handed down its decision in June this year and decided that annual wages and the national minimum wage would increase by 3.5 per cent from 1 July. This effectively delivered an increase above the rate of headline inflation, which was 2.4 per cent over the 12 months to the March quarter.

Another case of significance in the 2024–25 period were applications made by two employer associations to adjust the penalty rates in the retail awards. The government made a decision to intervene and make a submission in that case. The tenor of that submission was generally to oppose any measures that risked weakening the penalty rates regime and eroding the safety net. The submission that we provided to the commission explored the continuing rationale and importance of penalty rates in modern awards, particularly for workers who are more likely to be younger, female and employed casually, and also raised concerns that the adoption of the proposal in the applications may not appropriately reflect the true value of the entitlements being traded. So the proposal was to essentially absorb some of the penalty rates into annual rates. That case is effectively – I will not say in limbo, but submissions have been made around the further proceedings of that case, given that the Commonwealth introduced legislation in August this year to effectively protect penalty rates in modern awards, I think partly in response to those applications. So submissions have been made by the parties to the Fair Work Commission for its consideration by the 28th, which must be next week, as to the further process of that case. So the commission has not made a decision yet in relation to it, and depending on what they decide, they may not.

Mathew HILAKARI: Our submissions generally reflected the tenor of where the federal government is headed, is that right?

Matt O'CONNOR: By and large, yes. Obviously our submissions were more about what the Fair Work Commission should take into account in addressing the application. The Commonwealth legislation I think is seeking to effectively enshrine those penalty rates from being undermined.

Mathew HILAKARI: Fantastic. I might just take us to the Wilson review implementation. Certainly in budget paper 3 we provided $6.1 million over four years to progress the recommendations. I am just hoping you can touch on what specifically this funding is going towards and how it will assist with the Wilson review recommendations.

Matt O'CONNOR: I am happy to do that, Mr Hilakari. As people are aware, Mr Greg Wilson handed down his report in November, and the government addressed the recommendations by either supporting them in full or in principle on 18 December last year. The recommendations broadly fell into five categories. The first was to establish a complaints referral body as a sort of one-stop shop for people to raise issues and complaints around unlawful or inappropriate activity on Victorian government building sites. Mr Wilson found in his report that often, given the fragmented nature of enforcement in both industrial relations and safety across both the Commonwealth and the state, there was confusion as to where some parties could go. So the government accepted that recommendation, and legislation was recently passed in Parliament to establish that body within what will shortly become known as the Workforce Inspectorate Victoria; it is currently the Wage Inspectorate. So a fair proportion of that $6.1 million has gone to establishing a project team to set that complaints referral body up and then in the future years for actually operating and running that body. That was the first recommendation.

The second recommendation was the establishment of an alliance of regulators and delivery agencies across Victoria and the Commonwealth. Again, Mr Wilson recommended that be chaired by Victoria Police. That alliance has been established and has now met I think on at least four occasions, with another meeting coming up next month. It is chaired by Deputy Commissioner Wendy Steendam of Victoria Police. In terms of Victorian bodies on the alliance, there is obviously Vic Police, WorkSafe, the Labour Hire Authority, the Victorian Infrastructure Delivery Authority and the Suburban Rail Loop Authority. And Commonwealth agencies – Mr Wilson noted in his report that obviously we could not compel the Commonwealth to participate, but I am pleased to say that they have –

Mathew HILAKARI: Chosen to.

Matt O'CONNOR: They have chosen to. The Australian Federal Police, the Fair Work Commission and the Fair Work Ombudsman are also part of that alliance, and that, as I said, continues to meet. That was recommendation 2.

Recommendations 3 to 6 all involved amendments to the Victorian labour hire legislation. It is probably worth noting in relation to this that the system in Victoria has been effectively up and running for about 6½ years. It commenced in April 2019. Industrial Relations Victoria within DTF holds the policy responsibility for that legislation. There were a number of potential changes to the framework being considered independent of the Wilson review, but ultimately the Wilson recommendations have been picked up through amendments that are now in Parliament, as you know, which drew upon those recommendations but also some of the other issues that had been raised by the authority and some stakeholders about the operation of the system generally.

In short, the four recommendations go to setting up a stronger fit and proper person test for an applicant to obtain a licence and, secondly, to broaden the definition of 'labour hire provider', particularly in the context of some of the structures that we have seen evolve over recent years, not just in construction in other places as well, but construction accentuated that.

The third change is to provide the Labour Hire Authority with increased powers to obtain documents. The extension there is mainly around seeking documents from third parties in the exercise of its compliance powers. The existing powers generally go to licence holders or former licence holders, so there was a need identified by Mr Wilson for that to be expanded. Finally, the fourth change to the labour hire regulation will be around the ability of the authority to publish information about its activities, particularly its investigations into unlawful or inappropriate conduct. Again, the current regime to a point restricts that ability to certain limited matters, and in line with the Wilson recommendations that power is being expanded as well.

So they were the labour hire amendments. Recommendation 7 goes to strengthening the Victorian government's power to compel principal contractors to report and respond to unlawful or inappropriate behaviour. IRV has been speaking with Kate O'Sullivan's infrastructure division on some policy work around that, currently consulting with industry around some of those changes. We hope that we will see some changes in that space fairly shortly. And finally, there is recommendation 8, which is a recommendation for the response to the review to be evaluated after two years. I should have said some of the budget funding for recommendations goes to recommendation 7 around some legal work around that, and again a small portion of that goes to the evaluation review, recommendation 8. I think that covers it.

Mathew HILAKARI: That does indeed. I was going to just keep in the same space around the workforce inspectorate. It was the wages inspectorate and has seen some changes which speak to, I would say, some of the success of our policy being adopted nationally. I am just hoping you can talk to some of the organisational changes and that transition that is going on between the former organisation and the upcoming.

Matt O'CONNOR: Certainly. Without going too far into a history lesson – I think I might have mentioned this in previous PAECs – what is sort of forgotten a little bit is that the wage inspectorate, before the wage theft laws, had fairly extensive responsibilities, and continues to, in relation to the enforcement of Victoria's very important child employment regime. It also has responsibility for enforcing compliance with the Long Service Leave Act, so two fairly important areas of work. It also picked up in more recent years responsibility for the owner-drivers legislation and compliance with that, and then as you mentioned, the wage theft laws, which obviously brought more attention to the inspectorate. It had been sitting within the department, but it was enacted as a statutory authority around about that time, with increased resources to enforce the wage theft laws as well. With the Commonwealth's passage of its wage theft laws, they were clearly intended to cover the field and would have effectively invalidated Victoria's laws. The legislation that I mentioned before, to establish the complaints referral body, also happened to be the legislation which abolished Victoria's laws. So all of that has meant shifting priorities for the inspectorate, in a sense, and shifting resources. Once it became apparent that the Commonwealth would be moving into this space, the authority appropriately wound back some of its activities in that space, and that meant a reduction in resourcing and staffing. However, with the new complaints referral coming on board there has been a need, obviously, to look at scaling back up again. You may also be aware that in the government's response to the apprenticeship review, the taskforce review, the option of –

The CHAIR: I am going to stop you there, Mr O'Connor, because I can hear that you are actually very knowledgeable on this subject.

Mathew HILAKARI: I might speak after this.

The CHAIR: To be honest, I am sitting here thinking about that. Thank you, Mr Hilakari. Secretary and officials, thank you very much for appearing before the committee this morning. The committee will follow up on any questions taken on notice in writing. I do have to remind you responses are required within five working days of today, please. The committee is going to take a break before beginning its consideration of the Department of Education at 1:30 pm. I declare this hearing adjourned.

Witnesses withdrew.