

## **CHAPTER 11: DEPARTMENT OF SUSTAINABILITY AND ENVIRONMENT**

### **Transcript of Evidence**

#### **11.1 Environment and Climate Change portfolio**

*The transcript for the hearing on this portfolio will be included in a future report of the Committee.*

## **Transcript of Evidence**

### **11.2 Water portfolio**

*The transcript for the hearing on this portfolio will be included in a future report of the Committee.*

## **CHAPTER 12: DEPARTMENT OF TREASURY AND FINANCE**

### **Transcript of Evidence**

#### **12.1 Finance, Workcover and Transport Accident Commission portfolio**

*The transcript for the hearing on this portfolio will be included in a future report of the Committee.*

## **Transcript of Evidence**

### **12.2 Treasury portfolio**

# VERIFIED TRANSCRIPT

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into budget estimates 2008–09

Melbourne — 13 May 2008

#### Members

Mr G. Barber	Mr G. Rich-Phillips
Mr R. Dalla-Riva	Mr R. Scott
Ms J. Munt	Mr B. Stensholt
Mr W. Noonan	Dr W. Sykes
Mr M. Pakula	Mr K. Wells

Chair: Mr B. Stensholt  
Deputy Chair: Mr K. Wells

#### Staff

Executive Officer: Ms V. Cheong

#### Witnesses

Mr J. Lenders, Treasurer,  
Mr G. Hehir, Secretary,  
Mr S. Helgeby, Deputy Secretary, Budget and Financial Management Division,  
Ms L. Williams, Deputy Secretary, Economic and Financial Policy Division,  
Mr T. Bates, Director, Whole of Government, and  
Mr S. Schinck, Director, Planning and Executive Services, Department of Treasury and Finance.

**The CHAIR** — I declare open the Public Accounts and Estimates Committee hearing on the 2008-09 budget estimates for the Department of Treasury and Finance. On behalf of the committee I welcome John Lenders, Treasurer; Grant Hehir, secretary; Stein Helgeby, deputy secretary, budget and financial management division; Ms Lynne Williams, deputy secretary, economic and financial policy division; Tony Bates, director, budget and financial management division; and Steve Schinck, director, strategic management division. Departmental officers, members of the public and media are also welcome. In accordance with the guidelines for public hearings I remind members of the public they cannot participate in the committee's proceedings. Only officers of the PAEC secretariat are to approach PAEC members. Departmental officers, as requested by the minister or his chief of staff can approach the table during the hearing. Members of the media are also requested to observe the guidelines for filming and recording proceedings in this room.

All evidence taken by this committee is under the provisions of the Parliamentary Committees Act protected from judicial review. There is no need for evidence to be sworn; however, any comments made outside the precincts of the hearing are not protected by parliamentary privilege. All evidence given today is being recorded. Witnesses will be provided with proof versions of the transcript and the committee requests that verifications be forwarded to the committee within three working days of receiving the proof version, in accordance with past practice. The transcripts and PowerPoint presentations and any other papers tabled will then be placed on the committee's web site. Following a presentation by the Treasurer committee members will ask questions relating to the budget estimates. Generally the procedure follows that relating to questions in the Legislative Assembly. I ask that all mobile phones be turned off, and I invite the Treasurer to give a brief presentation of no more than 10 minutes on the more complex financial and performance information that relates to the budget estimates for the Department of Treasury and Finance. Thank you, Treasurer.

**Mr LENDERS** — Thank you, Chair. I feel cheated. In the Legislative Council we have no time limits.

**The CHAIR** — We do not have supplementaries, and we try and have — you should have read our recent report on accountability, where at least in the Assembly we think there should be some time limits and ministers should not be so loquacious.

**Mr LENDERS** — Thank you, Chair. It is great to be here today reporting on the budget.

**The CHAIR** — Thank you.

**Mr LENDERS** — In the 10 minutes I will certainly go through a presentation about what this budget is about.

#### **Overheads shown.**

**Mr LENDERS** — Essentially it is a budget that is good for families, it is budget that is good for business and it is a plan that builds on the eight years of hard work by this government on diversifying the economy and positioning the state to go forward so that Victoria is an even better place to live, work, invest and raise a family for future generations.

**Mr DALLA-RIVA** — And increased debt.

**Mr LENDERS** — The budget is all about that, and it is an action plan to take us through some of the challenging times in the years ahead — challenges that, as members will know from reading the budget speech, whether they be some of the national and international challenges, or whether they be some of the challenges we have, like the 73 787 babies that were born last year in Victoria and the challenges providing the services for those.

Moving through then: we are starting off on that theme of where our population is. We are a growing state. Australia has dual economies — there are the resource states and then there are the non-resource states — and Victoria is the jewel of the non-resource states. Our economy has been performing more strongly than the other non-resource states, and our population has actually been growing more strongly than the other non-resource states. We are leaping forward there, Steve — leaping forward!

So what we have got here is, with that population growth in place, is a lot of it because Victoria is a place where people want to have families, where people want to live because there are a lot of opportunities in this state — whether it be in Melbourne or whether it be in regional Victoria. We are seeing on this population growth not just

growth in Melbourne, but consistent growth outside Melbourne, and that is a tribute to this government, to the investment policies of this government — whether it be the Regional Infrastructure Development Fund, whether it be a range of other areas to facilitate growth across the whole state, so we are seeing population growing strongly and it is growing across both Melbourne and country Victoria.

I turn now to jobs growth. What we are seeing is more than 400 000 jobs are being created during the life of this government — more than 400 000 — and we are seeing the unemployment rate come down, and come down consistently. In the budget forecasts we are actually forecasting that the rate of growth will slow from what it has been slightly. We will see some of those other measures coming through, whether it be employment, whether it be a range of other measures where there will be a slowing of our economic growth, but it will continue to grow. There are two features of jobs growth. One is that more than 400 000 more Victorians have jobs, young people have jobs. It is a great thing for young working families to have that opportunity. Secondly, the 3 per cent gap between regional and metropolitan unemployment that we saw when we got into government has effectively gone. The two are virtually the same now, which again is a great boost to regional Victoria.

Looking at our GSP growth, GSP is a figure I imagine we will talk a bit about during the next 3 hours. When we got into government Victoria's GSP growth was sort of on par with the other non-resource states, and what we have seen over the last eight years is that our GSP growth is growing faster than the other non-resource states. That growth is what gives jobs to working families; that growth is what lets our standard of living improve in the state. We are consistently seeing Victoria do better than the other non-resource states.

Moving on, an illustration of that is where we are now travelling in Victoria. We had last year the highest building approvals of anywhere in Australia — 20.5 billion in building approvals in Victoria. That was higher than Queensland, a resource state; higher than New South Wales, a third as large again as us in population; higher than WA. I had great joy yesterday, Chair. I went to Brisbane to spruik our budget yesterday morning and to Sydney yesterday afternoon and evening, to encourage businesses in those states to come and invest in the great state of Victoria. It was actually very good to show slides like this in those states to show that Victoria is — —

**The CHAIR** — Did you put an ad in the *Courier Mail* as well, like Mr Beattie used to do in the *Age*?

**Mr LENDERS** — The *Financial Review* was very kind to Victoria in those states, showing that we actually have lower state tax as a percentage of economy now than Queensland. Part of this all comes from these sorts of growth figures.

Moving on: we come to the actual economic projections which, as I describe it, are solid but slowing. We are talking here of economic growth, and we are talking of 3 per cent in next year's budget rather than 3.25 at the moment. About a third of a per cent of that comes from an easing of the drought. The drought is still there, but there is an easing of the drought. We are seeing, going through into the forward estimates year, still strong growth in Victoria — a bit slower but strong.

Then the flow-on, as I mentioned earlier on, comes through to all those other areas: employment, unemployment, inflation and continued strong population growth in Victoria. So the economic prospects are solid, but they are slowing. These figures are really a consensus as to a lot of the economic forecasts that have been out there over the last while, and it is a strong story for Victoria.

We go now to our financial objectives. There are five financial objectives. One of these we are changing in this budget, so I will dwell on the one we are changing rather than the other four. It is to boost the operating surplus to 1 per cent of revenue rather than \$100 million, as it has been since we got into government. That is important for a number of reasons: it sends fairly clearly a signal that we need to have strong operating surpluses to invest in infrastructure for the future, and this is a very clear signal that that is what we need to do every year, if we are going to do that. Operating surplus is also a buffer in challenging economic times, but this is fundamentally one that sends a signal to the market and sends a signal to the community that we are serious about investing in infrastructure on an ongoing and sustainable basis into the future, and one of the ways of doing that is through a stronger operating surplus.

The figure there we have all seen in the budget papers; it brings us to 378 million in this year's budget as what the operating surplus needs to be to meet that new target. We are obviously coming in at more than double the target, forecasting 828 million surplus for the year we are considering and an average of just over 900 through the forward estimates period. What we are doing on that is we are talking of a 4.4 billion infrastructure TEI announced in this

budget. Of course about a quarter of that was announced in the midyear budget update or earlier. That is the largest infrastructure spend, and it is for all the things that you would expect a state Labor government to do that wishes to deliver on the services of health, education and community safety, and what you would want a state Labor government to do that is serious about building the hard infrastructure of rail, roads, ports — all the things that are going to be necessary to boost productivity and, through it, to encourage investment and therefore create jobs for the next generation of employment.

This is shamelessly a budget for the future and shamelessly a budget for jobs in the future. It is widely acknowledged that there is a critical need for this infrastructure, and I would challenge anybody around this table or in the community to identify which bits of this infrastructure are unnecessary to go forward for Victoria to become an even stronger and more vibrant place. What we are seeking to do here now is show that infrastructure just does not come about. What we have put in our forward estimates is infrastructure gets funded through a number of sources. There is the traditional funding of the department's depreciation, there are prudent borrowings, and then there is the budget surplus. They all play a role in this.

It is interesting to note that I have probably found a lone voice in the community that has been arguing against this infrastructure investment in Victoria. It is amazing. When you speak to financial journalists, when you speak to the business community, when you speak to the community generally, they have an expectation that government needs to provide infrastructure, whether it be social infrastructure — schools and hospitals — or whether it be hard economic infrastructure. Put into an historical context, this puts us — government borrowings as a percentage of the economy — at a lower level than we inherited from the Kennett government. I was born in 1958, and it is quite amazing: the debt levels under the Bolte government were higher than they are under this government.

We use surpluses to fund infrastructure. Last year we had an unforeseen higher surplus. We reinvested that surplus then into water infrastructure in northern Victoria and into bringing forward rolling stock on transport that would have been a few years out under Meeting Our Transport Challenges. That is this Labor government's way: we understand surpluses, we invest them in infrastructure. Also there are tax initiatives, tax relief in this budget. I realise, Chair, we are running out of time, so I will take the opportunity if I get any questions on this to respond to it.

I then conclude that this is a budget that is good for families, good for business. It is an action plan to take us forward into the future, to further position and strengthen Victoria's position as a great economy in a great country. Again we will invest in skills infrastructure — the things necessary to continue making Victoria a fantastic place to live, work, invest and raise a family.

**The CHAIR** — Thank you, Treasurer. Thank you also for circulating the slides; it actually makes things go a bit quicker.

Last year we spent a fair bit of time looking at productivity, which we believe is very important, and we want to look this year in terms of one of the fiscal sides — revenue foregone, subsidies and concessions, which are contained in the budget and in the forward estimates. Can you outline the government's approach to these fiscal matters in the budget? And also can you advise the committee of any specific subsidies, concessions or revenue foregone for your department?

**Mr LENDERS** — Thanks, Chair. On the revenue lost and foregone — perhaps if you could reiterate the first part of the question? I was focusing more on finding the appropriate budget paper.

**The CHAIR** — I was talking about the areas we are looking into in terms of revenue foregone, subsidies and concessions in the budget and the forward estimates overall. If you could outline the government's approach to these — I guess that is a strategic sort of question? The second thing is in regard to your department what specific subsidies, concessions or revenue foregone are there, and of course any changes you have made in this year's budget?

**Mr LENDERS** — Thanks, Chair. Clearly chapter 5 of budget paper 4 outlines fairly clearly where the foregone revenue is. I will come to that in a moment. I guess our general approach in these areas is such that transparency is clearly a critical area here. When government is providing either social support or economic support in any of these areas on concessions, it is good to have them all in the one place in the budget context so we have transparency. It is also good so you can have an informed policy debate on whether these are an appropriate way



for the government to provide revenue or not. I guess the opening comment is what we do should be transparent and it should be clear for the community, for PAEC, for the Parliament, for everyone to see where they are.

In this year's budget we have obviously extended concessions in a number of areas. Concessions have been extended in the area of utility relief in water. There has been an adjustment on concessions in that particular area where there is a direct policy change. Some of that clearly comes under the portfolio of the Minister for Community Services and some of it comes under, I guess, my area, as revenue foregone, as Treasurer.

I guess in general terms it is a good opportunity to talk about some of the debate in the community and why it is important to have these things put on the record, where the concessions are. We know the history of concessions on principal place of residence for land tax; that is a reasonably recent phenomena. Some of these go back to the 20s and 30s — some of the land tax exemptions or payroll tax exemptions on charitable institutions, for example.

We have had an interesting discussion in the last few days where a number of non-government schools, for example, have raised the issue of whether there is any state government support for non-government schools. While that is more generally an area in the education minister's portfolio, on the tax side it is quite interesting. Non-government schools, for example, in Victoria do not pay land tax. You can have school sites that are on tens and tens of millions of dollars worth of land. That is support the state actually offers. Parents are making choices to send their children to those schools and are making financial sacrifices to send their children to those schools, but it is interesting often there is no acknowledgement or even sense that the state is providing significant relief in the form of absence of land tax on some of — —

**Mr WELLS** — That is decent of you.

**Mr LENDERS** — I take up the interjection — —

**Mr WELLS** — How could you even consider taxing a school for land tax?

**Mr LENDERS** — The question I got, Chair — —

**The CHAIR** — Can we just keep to the answer, please?

**Mr WELLS** — Do you think it is okay to land tax schools?

**Mr LENDERS** — Mr Wells, once again, draws conclusions. I am answering a question, which was: what are the things in the budget, and I am making the point that there are extraordinary concessions given to a whole lot of bodies in the state, including land tax for non-government schools — one that I am not challenging but I am simply outlining that people are not aware is often there.

If we are on the issue of schools, there is payroll tax — again, total exemption for non-government schools, whereas government schools actually pay payroll tax in a round robin. My point in response to the question is there is a lot of significant relief in budget, in the form of concessions and foregone revenue, that is often not seen. It is a challenge for government.

We reported in chapter 5 of budget paper 4 that it is a challenge for government to show support for this area of the community, whether it be for schools, whether it be for principal place of residence, whether it be for primary producers that is not often evident in the community, which is clearly in our budget papers.

So my point is categorically this is — lest Mr Wells get excited and put out another misleading press release — not a proposal to change policy, but this is simply an observation that there are a lot of these. Similarly on concessions, the government forgoes more than a billion dollars in revenue or makes deliberate contributions to low-income earners and disadvantaged Victorians to assist them with concessions. So the point in response to your questions is: they are all codified here and set out in chapter 5 of budget paper 4. But as far as government policy goes, there is no change to government policy, but greater transparency in these areas is always of particular use in an informed community, and that is what openness and transparency in government is about.

**The CHAIR** — Okay, thank you very much.

**Mr WELLS** — Can I just clarify that point before I ask my question, Treasurer? So you will never consider hitting schools with land tax?

**The CHAIR** — You can answer that if you like, but I see no reason. It has been dealt with.

**Mr WELLS** — He raised the point; I am just getting clarification.

**Mr RICH-PHILLIPS** — The Treasurer does not want to answer it.

**Mr WELLS** — So he does not want to answer it, so I will move on to my question.

**Mr LENDERS** — Chair, I am answering the point.

**Mr WELLS** — Hang on. You have given him the chance. You gave him the chance; he did not want to answer it.

**The CHAIR** — I think he actually answered it, but I am — —

**Mr WELLS** — That can only lead to the assumption that — —

**Ms MUNT** — Stop talking for a minute, so he can answer.

**The CHAIR** — If you would just like to be quiet, please, everybody.

**Mr WELLS** — I have asked the question; he did not want to answer it.

**Mr LENDERS** — Chair, as the record will show in my response to the substantive question, I specifically ruled that out. Mr Wells undoubtedly has a press release he will put out, as he normally does, pretending people say things.

**Ms MUNT** — Send an email — —

**Mr LENDERS** — The record will show in my substantive answer I answered his rather emotive supplementary question.

**Mr WELLS** — I gave you the chance to clarify it.

**The CHAIR** — That is what I thought, too. Can we just concentrate on the issues at hand, please, and listen carefully.

**Mr WELLS** — When he refers to that as an extraordinary concession, I mean that is an extraordinary comment. Treasurer, I refer you to your comment just before where you say transparency is a crucial area. I refer you to table 2.4, budget paper 85 — —

**Mr LENDERS** — You have got more budget papers than I have seen!

**Mr WELLS** — Budget paper 4, page 85 — where the net debt will increase from 5.715 in 2008 — —

**Ms MUNT** — That is a surprise question.

**Mr WELLS** — It will increase by \$11 billion in 2009, \$16 billion in 2010, \$19.5 billion in 2011, and \$22.872 billion in 2012. Can you provide a guarantee or an assurance that state debt will not exceed these estimates on page 85?

**The CHAIR** — Okay, Treasurer, I might add we go through the out years, which are four out years, but I welcome you to comment on this.

**Mr LENDERS** — Chair, I thank Mr Wells for his question. What the presumption of the question is, is that these are bad things to have. I guess what he is seeking is an assurance that this government will not provide water infrastructure, will not provide rail infrastructure, will not provide road infrastructure, will not provide hospitals, will not provide schools.

**Mr WELLS** — You have not done it after eight years.

**Mr LENDERS** — I am assuming that is the presumption of his question — that we will either not fund infrastructure into the future or we will cut services to fund them or we will raise taxes. Chair, I am presuming that is what Mr Wells is leading to by his question. So what I will say to him in response to it is: if we are talking of the public non-financial corporations in the state, they operate as business units, and as prudent business units, whether they are funding infrastructure for water, infrastructure for sewerage, infrastructure for port services in the port of Melbourne, they will as business units have business cases that are presented to how they fund their operations like any other business entity in the state of Victoria will. And I might add, they are probably more transparent than many private sector organisations.

As far as the general government goes, as I went through on my slides at the start, we have engaged the community in Victoria about what is necessary to take Victoria forward, and the message unequivocally from the community means that we need to invest in infrastructure — whether it be rail to update a dated system that during much of the 1990s was either flogged off or run down, it involves investments in infrastructure. Chair, I think it is not acceptable to have freight trains running from Mildura at 20 kilometres an hour because investment has not been made in infrastructure on a railway line.

**Dr SYKES** — You have committed the money for four or five or six years have not spent it yet; it is your problem.

**Mr LENDERS** — I think it is unacceptable — —

**The CHAIR** — Can we just have one at a time, please.

**Mr LENDERS** — It is unacceptable that rail services to regional cities like Ballarat, Bendigo, Geelong and the Latrobe Valley get run-down, and this government is actually reinvesting in that rail. President — Chair, this is all about investing — —

**The CHAIR** — Chair — —

**Mr LENDERS** — I am used to the Legislative Council — —

**The CHAIR** — I know, but we are in a committee here today.

**Mr LENDERS** — We are in the Legislative Council committee room. We have invested in infrastructure. We will invest in infrastructure, and the choices for government if it is going to invest in infrastructure and does not wish to have a table like we have here are either that you slash the infrastructure, you slash services to pay for it, or you raise taxes to pay for it. They are the three choices, and I would suggest to Mr Wells he should 'fess up to which of those choices he is advocating.

**Mr WELLS** — Treasurer, can I just ask the question again because you have not answered it? Will you provide a guarantee or reassure the committee that the state debt on page 85 will not be increased above those estimates? Can you please give that assurance? It is a straightforward question.

**The CHAIR** — I think the Treasurer has answered it.

**Mr WELLS** — He is refusing to answer it.

**The CHAIR** — He is not refusing to answer it. In fact if you read the budget papers, they — —

**Mr WELLS** — No, no, I do not need you to answer the question. I am waiting on the Treasurer to give an assurance that those debts will not increase over that forward estimates — —

**The CHAIR** — No, I am commenting on the content of the budget papers. You need to understand what the budget papers are all about.

**Mr WELLS** — You do not need to answer on behalf of the Treasurer.

**The CHAIR** — I am not answering on his behalf. I am trying to direct — —

**Mr WELLS** — Why do you not let him answer it?

**The CHAIR** — I am trying to direct the questions to the estimates, and the estimates go out to 2012. You are asking questions that go beyond that.

**Mr WELLS** — The estimates to go to 2012, and we are asking a question. No, we are just asking — to clarify what the Chair is asking, Treasurer, I need an assurance between 2009 to 2012 to satisfy the Chair's question that over the forward estimates period that the debt levels over that period will not be increased beyond those numbers that are on page 85.

**Mr LENDERS** — Chair, the forward estimates are forward estimates. They are the statement of government intention, which we publish as to what the forward estimates are. So the forward estimates are the government's intention. I know Mr Wells would like to put the press release out he has already undoubtedly prepared in response to a question, but these are the forward estimates: the government's intentions are stated in the forward estimates, and they clear, they are in black and white, they are on page 86 of the budget paper.

**The CHAIR** — Thank you.

**Mr WELLS** — So you are saying that there will be no increase on those debts?

**The CHAIR** — I think you have had a fair go.

**Mr WELLS** — There will be no increase over those debts?

**The CHAIR** — You have had the answer.

**Mr WELLS** — No, there has been no answer.

**The CHAIR** — We all disagree with that.

**Ms MUNT** — You briefly touched in your presentation on the financial objectives of this budget. I wonder if you could expand on that for me, please.

**Mr LENDERS** — The budget is all about the government stating its intention to where we want Victoria to go into the future. So we have the five financial objectives in the budget, and four of them are unchanged. But it is worth touching on them. Our first objective is clearly the one of the operating surplus, which I put on the slide, and that was the one I mentioned. We are varying that in this budget because we are determined to have this investment in infrastructure. We are also determined to have a buffer in challenging economic times. It seeks to do two things.

It is interesting, when you look at the operating surplus in the context of how any of our electors would see it. They see it two ways: one way is it looks like a very big surplus. If you are talking of an \$800 million surplus, it actually looks very big, but when you put it into context of a state budget, 2 per cent of the state budget is actually the operating surplus. From the point of view of businesses, our own citizens, it is a prudent buffer in challenging economic times, but it is not a large buffer — \$800 million in a context of a budget is 2 per cent.

The secondary part, though, is that investment for the future, which then leads on to the other objectives. Our second objective is to deliver world-class infrastructure. And again we describe it: 'to maximise economic, social and environmental benefits'. I think it is worth pausing for a moment on that. It is our second economic objective. It is such a critical one because, if we are to do that, we have to invest in infrastructure. Again, I have yet to go out in Victoria and meet a single Victorian who has said we are investing too much in infrastructure. I have yet to meet a Victorian who has actually come to me and said, 'You are investing too much in infrastructure', which begs the question of those who are actually saying they do not support the budget strategy. They either need to cut infrastructure, cut services to get a surplus up or raise taxes, because you cannot have it both ways. On the second objective it is to deliver a world-class infrastructure. And we are delivering the world-class infrastructure, whether it be items like an enhanced port of Melbourne, whether it be the synchrotron from several budgets ago, whether it be improving the rail services, whether it be the capacity on our rail services, where there are more than 1000 extra services on the rail system, the public transport system, since we came into government. That is all part of it.

Then there is service delivery — to improve service delivery to all Victorians; our third objective. Again we go through the service delivery improvement. We have got 8000 school staff, 8000 nurses, 1800 doctors, 1400 police as but an example, and all the measures in budget paper 3.

Also taxation, we have in this budget four areas of taxation that have been reduced if you count WorkCover premiums as an impost on business — three taxes and WorkCover premiums — and net financial liabilities to maintain the state's AAA credit rating. It is worth noting what Standard and Poor's said this week about our AAA credit rating. I quote from Standard and Poor's press release of last week:

The Victorian state government can easily afford its projected net-debt increases ...

The strength of the government's forecast operating performance and existing low debt enables the state to maintain high capital spending without affecting its current credit rating.

To Ms Munt, that links us to objectives 1, 2 and 5, the Standard and Poor's rating referring on all of them. They are the financial objectives. They are ones we need to continue to watch and monitor, but they are ones that are doing such a huge part to Victoria being a great place to invest and a great place to live, work and raise a family.

**Mr RICH-PHILLIPS** — Treasurer, I would like to ask you about the performance of the VFMC over the last 12 months. On its website it reports that for the March quarter the decline in the value of Australian equities was 15.4 per cent, the decline in the value of international equities was 12.5 per cent in funds managed. Can you tell the committee, please, what the impact has been on the value of funds managed by the VFMC in the financial year to date?

**The CHAIR** — This is an estimate hearing rather than an outcomes hearing, so would you like to rephrase the question so it relates to the estimates, please?

**Mr RICH-PHILLIPS** — It relates to results on page 50.

**Mr LENDERS** — In response to Mr Rich-Phillips, I guess there are a couple of issues that I would raise on VFMC's performance. Firstly, if we are talking to the forward estimates and clearly the effect on government — whether it be from superannuation, the investments in the ESSS; whether it be TAC; whether it be WorkCover — while they obviously have an effect through dividends in the case of the TAC or any of the other 11 bodies that the VFMC actually administers the funds for, it is obviously of great interest for the government how the VFMC performs.

It is also worth noting that the VFMC was rejigged several years ago by government to make it a centre of excellence here in Melbourne. When we consider that 60 per cent of funds management in Australia is based in Melbourne, the former commonwealth government in a ringing endorsement of Melbourne based the future fund here in this unique part of Australia as a great place to do business.

It is also worth noting that the VFMC's task is to be that centre of excellence. Chair, it is interesting to note that since we came to government, if we had not taken the decisions of setting up the VFMC as a centre of excellence and we had put all the money in the bank from WorkCover, TAC, ESSS, VMIA and the other 10 funds, we would actually be \$6.4 billion worse off than we are by actually having set up the VFMC to manage those funds in a way that is for the long-term benefit of Victorians in any of those 14 funds.

It is worth noting that the VFMC obviously has bases, whether it be property, whether it be cash, whether it be domestic equities, whether it be international equities — a whole range of areas. It has a managed approach to getting the best long-term benefits. These are long-term. If you are a person who is being supported under the TAC for the rest of your life because of an injury, or you are under WorkCover or your retirement income is something that you are relying on being managed by this fund, you want long-term returns. The VFMC is providing long-term returns. The benchmark that I will share with the committee today is \$6.4 billion more than if we had invested it in cash for the life of that.

These things go up and down, as every fund based on equities as a large portion of its investment will. It goes up and down. There is not a citizen in the state with an accumulation superannuation fund who has not seen funds go up and down this year, and saw them go up and down five years ago, depending on how the equity markets were travelling at the time.

So the VFMC is the centre of excellence we set it up to be for long term investments, and I guess implicit in the question is what has happened over the last nine months, that is part of the question. Over the last nine months we have seen the ASX drop by a significant amount, we have seen Wall Street, the Dow Jones drop, we have seen the Nikkei, we have seen FTSE, we have seen every single index drop. So VFMC is doing what it was requested to do,

provide long-term benefits for Victorians, and the fact that we have taken this approach rather than putting the money in the bank means that we are actually \$6.4 billion better off than we would have been if we had done the other course of action.

**Mr RICH-PHILLIPS** — And what is the decline in the value of the funds under management this financial year, and the consequence of those market moves?

**The CHAIR** — You can take that one on notice.

**Mr LENDERS** — Chair, I have answered the substantive part of Mr Rich-Phillips's question.

**Mr WELLS** — What!

**Mr RICH-PHILLIPS** — No, you have not.

**The CHAIR** — The question is referred to be answered.

**Mr WELLS** — What sort of stupid answer is that?

**The CHAIR** (to Mr Wells) — Can you behave?

**Mr RICH-PHILLIPS** — The question was on the decline in the quantum of funds under management. You have not answered that, Treasurer. How much have funds declined since 1 July this year?

**Mr LENDERS** — What I have done is responded to Mr Rich-Phillips's question regarding the forward estimates. I have responded in policy terms to what he actually said, and I have responded to him, Chair.

**Mr RICH-PHILLIPS** — I did not ask you in policy terms, Treasurer, I asked you for the decline in the funds under management.

**Mr WELLS** — Why is it a secret? Why is it a secret?

**Mr LENDERS** — We are responding to the forward estimates here, Chair.

**Mr RICH-PHILLIPS** — The VFMC have said that their portfolio of Australian equities is down 15 per cent, their portfolio of international equities is down 12 per cent, and I am asking about the value of that.

**Mr WELLS** — Why is it a secret?

**The CHAIR** — Okay, the Treasurer has answered the question. We are dealing with the estimates. If you wish to ask that in the house, you can do so. Mr Scott?

**Mr SCOTT** — Thank you. I refer the Treasurer to budget paper 2, the chapter starting on page 21, and I would like to ask: how are the short, medium and long-term global and domestic economic challenges being addressed in this budget?

**Mr LENDERS** — Thank you, Chair, and thank you to Mr Scott for his question. Starting off with the short-term challenges, the short-term challenges are being addressed within the budget in a range of ways. From the economic presentation earlier on, we did see a slowing in the growth of the Victorian economy, and part of that slowing in growth in the Victorian economy is being addressed by some of the short term measures in this budget.

One of the most, I guess, exposed or vulnerable sections of our economy is actually our manufacturing sector, particularly as a response to a high Australian dollar vis-a-vis the USA, and a high Australian dollar vis-a-vis our trade weighted index with our trading partners, and of course, China is Victoria's largest trading partner at the moment. It is unique as part of our local economy.

In trying to deal with some of the short term challenges, manufacturing is finding it is difficult in that environment, so this budget has brought three forms of tax relief to manufacturing. It is broader, the whole business community gets some of this assistance, but manufacturing in particular, which we are hearing, is under pressure and is receiving support in this area.

Whether it be land tax, which has now come down — every threshold of land tax has gone up by 10 per cent and the top rate has come down by 10 — which for any manufacturer — I am yet to find a manufacturer that does not pay land tax, but I am sure there are some out there — or for most manufacturers, makes a significant difference, and we have seen our headline rate of land tax now come down from 5 per cent to 2.25 per cent over the eight and a half years of this government, a significant reduction.

Similarly for those manufacturers, we are seeing payroll tax come down. Our headline rate of payroll tax has now come down from 5.75 per cent, when we got into government, to 4.95 as of 1 July 2008. Also, WorkCover premiums have been cut by a further 5 per cent, so again for the short term for a manufacturer, we are now suddenly seeing for the fifth year in a row, that premiums are coming down so that now the premium rate is 1.387 per cent. So they are some of the short-term measures that will be assisting Victorians in where we are going.

Moving to the medium and longer term, the government unashamedly sticks to its agenda of the national reform agenda, which is building on human capital. Skills is clearly a really important and large part of this. Victoria has more apprentices, we train more apprentices than any other state, and we have a strong history, a strong record of assisting in skills, and we have a strong history and record of investing in infrastructure. These are all ones that are critical for us dealing with the long-term challenges that Victoria faces, and this investment will go towards that.

In the interests again of using business as an example, what our business community can expect coming from the budget is three statements coming forward to deal with this. We will have a manufacturing and industry statement, which Theo Theophanous, my colleague, will present after the commonwealth Bracks Review is presented. We will have the manufacturing and industry statement out there as well.

**The CHAIR** — We welcome that because we did call for such a statement in our most recent report.

**Mr LENDERS** — So, we respond, Chair. We will also have an innovation statement further dealing with those areas and in skills, which I mentioned, my colleague Jacinta Allan has already put out a discussion paper which we will then respond to later this year. So there are three areas dealing with the medium to longer term, plus we will have an ongoing dialogue with the commonwealth in further reducing regulatory burdens, which we do of our own volition and with them, and all of these are building blocks: skills, infrastructure and a regulatory environment are all ones that will add significantly to growing this Victorian economy. So I think that answers the medium, long and short term on the economic. I could go into the social and environmental but the Chair is giving me a wink to say move on.

**The CHAIR** — Maybe in response to a further question, I think, but we need to give everyone a fair go.

**Dr SYKES** — Treasurer, I note that the theme of this year's budget is taking action for our suburbs and our regions. I have an interest in country Victoria, and my question relates to the concessions that are in the budget to help needy country Victorians cope with the rising cost of living, which is often greater in country Victoria than it is in Melbourne. I should add that country Victorians are still hurting severely from the drought, and we do not share your apparent optimism that the drought is easing or over. I can tell you that the pain out there is escalating in terms of domestic violence, emotional stress, suicide and depression.

My specific question relates to measures in relation to energy, water costs and travel. Can you advise why it appears that you apparently have phased out the electricity network tariff rebate for country Victorians; why there is apparently a cap on the increased water charge rebate to 14.8 per cent when water charges in country Victoria have risen by up to 50 per cent; why there is no apparent funding in the budget to honour the government's previous election commitment to connect towns such as Nathalia, Alexandra, Bonnie Doon and Myrtleford to natural gas; and, finally, why there is no apparent increase in the cap of \$30 on the multi-purpose taxi program trip subsidy for the needy people who rely on taxis as a transport option in country Victoria because of the lack of availability of other alternatives?

**The CHAIR** — Thank you. You will not need any supplementaries, having asked five questions, Dr Sykes.

**Mr LENDERS** — That was not double-barrelled; there were multiple barrels on that one.

Dr Sykes raised a number of questions, and I am sure he will take the opportunity to ask some of those specifics to the various line ministers that he will be sitting in this room with over the next several weeks, so I will deal with the

more general response to his questions and leave the specifics either to the line ministers or take them on notice. What I will say in general terms, though, on the issue of the drought what we are forecasting — and it is based on independent statistics from ABARE and from other places — is that agricultural primary production will improve this year vis-a-vis last year.

**Dr SYKES** — From an all-time low.

**Mr LENDERS** — That is what the economic statement is about; that is what the forecasting is about. Clearly we will forecast. We rely on forecasts from scientists and experts, who are not me, who forecast how these things go, and they are forecasting some relief in that area. That is the reason that is in the budget papers. The issue that it is hurting in country Victoria: no-one is disputing Dr Sykes claim that it is hurting in country Victoria. As a government we are out in country Victoria a lot more than The Nationals give us credit for — —

**Dr SYKES** — That is because you do not tell us you are coming!

**Mr LENDERS** — We also have more country members than The Nationals have — —

**Dr SYKES** — We represent more of country Victoria.

**Mr LENDERS** — We will continue to invest in regional Victoria in a whole range of services, firstly because regional Victoria is such a critical part of Victoria inherently, and secondly, because regional Victoria is hurting; there is no question about any of that. Dr Sykes mentioned some other specifics. He mentioned the tariff, the network rebate, which has been one that this government has been quite clear on, letting the contestable market take effect in these areas. Our policy over a number of years has been quite clear as we try to spare regional Victoria and help regional Victoria to adjust to the previous government's decision about selling off the energy utilities at the time — —

**Dr SYKES** — To pay for the massive state debt incurred and inherited by the previous government — —

**The CHAIR** — Could we not have interruptions, please!

**Mr PAKULA** — We are not in the chamber now!

**The CHAIR** — Thank you, Mr Pakula.

**Mr LENDERS** — We have been dealing with the phasing out of some of the measures that dealt with reducing the hardship in regional Victoria that the previous government left it by selling off the energy utilities. That is a process that has been clear and transparent, and there is actually a solar rebate now in regional Victoria to assist in this area.

On the issue of cost of living in regional Victoria, this government has actually restored services in regional Victoria that were slashed and cut, and I used the regional rail network before as an example. That goes out to a lot of regional Victoria where new services have been put on. There has been a massive investment in that, whether it be the investment in passenger lines; whether it be the investment in freight; whether it be the investment in regional bus services that were not there previously; whether it be support to schools across the board in educational maintenance allowance increases; whether it be support in multiple areas across regional Victoria; whether it even be, Chair, the Future Farming statement with \$200 million worth of funding announced by the Premier and the Minister for Agriculture probably about a month ago now, to try to position farming for the future. It is a \$200 million injection into the largest industry in regional Victoria — —

**Dr SYKES** — Two days state income!

**Mr LENDERS** — There a range of services that the government has provided to regional Victoria. I will focus a little bit on transport because I think — —

**The CHAIR** — Not for too long.

**Mr LENDERS** — Not for too long, Chair.

**Dr SYKES** — Get your money's worth!



**Mr LENDERS** — Tim Fischer is not a political friend of the Labor Party. He is a former Leader of the federal National Party. He conducted a review into freight rail in regional Victoria, and he put forward gold lines. All of the gold lines bar one are being funded in this particular budget, which is a massive endorsement of regional Victoria catching up on neglect over most of the 1990s. Also, Chair, on regional Victoria, and I cannot let this opportunity pass — —

**Dr SYKES** — You are not answering the question, but keep going; we are used to that.

**Mr LENDERS** — On assistance to regional Victoria, this government has put a \$3000 first home buyers bonus in regional Victoria — —

**Dr SYKES** — And how many home buyers? What is your budget — \$3 million?

**Mr LENDERS** — For first home buyers who are building a new home in regional Victoria under \$500 000 there is a \$3000 bonus in addition to the — —

**Dr SYKES** — What is the total budget for that — —

**Mr LENDERS** — That is in addition to the \$7000 the state is obliged to pay under the original first home buyers scheme, plus a reduction of about \$2500 on a medium-priced home. This government is investing heavily in regional Victoria, far more strongly than another government did for seven years in the 1990s that Dr Sykes is aligned to. We are seeking to reduce hardship across the state, particularly in regional Victoria, and we are seeking to invest across the whole state, particularly in regional Victoria, to create jobs which are the best investment for the future that any government can assist with in this century.

**The CHAIR** — There are a number of specific things that which I will not follow up.

**Dr SYKES** — Can I just get clarification on the — —

**The CHAIR** — No, you — —

**Dr SYKES** — He suggested a \$3000 home rebate. That is only for 1000 and only lasts one year. Is that correct?

**The CHAIR** — It is in the budget papers. You can read the figures there. There are a number of other things you raised, Dr Sykes, which I am sure the minister will take on notice and follow them up.

**Mr NOONAN** — Thanks, Treasurer. I want to take you to page 75 of budget paper 2. The chapter is titled 'Economic reform agenda'. The question I have for you is really in relation to how Victoria is performing against other Australian states, particularly in relation to some of those economic challenges that are listed on that page that we have seen emerge in recent times. Some of them listed in the bottom half of page 75 go to ageing population, slowing productivity growth, changing global fortunes and environmental issues.

**Mr LENDERS** — Through you, Chair, I thank Mr Noonan for his question. I guess the question focuses on the economic reform agenda and where we go into the future. I deliberately put into my budget speech the line that when I entered the workforce there were seven people in the workforce for every retiree, and when I expect to leave the workforce — probably at a date some years later than Mr Rich-Phillips and Mr Wells would want me to leave the workforce — —

**Dr SYKES** — We will give you a hand to go early, if you like!

**Mr LENDERS** — I am sure five members of the committee will be very willing to speed my exit from the workforce, but at the time I will be likely to leave it there will be four people in the workforce for every retiree. It goes in a sense to Mr Noonan's question and in particular why we need the economic reform agenda to boost productivity. If we do not, it is just not sustainable to have that ageing population without the productivity to sustain it. The national reform agenda for us and the economic reform agenda is all about boosting that productivity so that we can have people retire with dignity on income streams that are affordable in the community, that can be sustained and not only do we have better and more interesting jobs but more productive jobs.

There is a range of things that go forward from there and one of the things that I take great pride in being a Victorian. Probably four members of this committee have still got little marks on their lapels where the little Victoria sign was there from the time during the 1990s when they wore their badges with great pride. I wear my pride in being a Victorian without having to wear a badge because Victoria has led the nation — —

**Ms MUNT** — I want one with ‘sold’ on it.

**Mr DALLA-RIVA** — Is this about the forward estimates or — —

**Mr LENDERS** — Victoria has led the nation in the economic reform agenda. In budget paper 2 — —

**Dr SYKES** — You should specialise in bedtime stories for the little kiddies.

**The CHAIR** — Can we just have one at a time, please?

**Mr LENDERS** — Victoria has led the nation on the economic reform agenda. The national reform agenda, which was presented by this government when the previous federal government was not focusing that strongly on these types of issues, set the scene on human capital. Often when we talk of human capital people’s eyes glaze over: we talk about the whole concept of the skill set; the ability of a young person to get a meaningful job that is productive; and for a person to stay in employment through their life, whether it be part employment, full employment, whether it be a person with a disability being able to participate in the workforce or a person getting towards retirement age who can make that choice to stay part-time in the workforce or full-time in the workforce if that is what they choose to do. The whole issue of developing human capital is one that just does not happen because you think it should happen or say it should happen.

**The CHAIR** — You may need to concentrate on what the Department of Treasury and Finance is going to contribute to the national reform agenda as well.

**Mr LENDERS** — I would be delighted to, Chair.

**Mr WELLS** — And refer it to the forward estimates, isn’t that true?

**Mr LENDERS** — I was just painting the context. We are referring this, Mr Wells — Mr Noonan referred me — to chapter 5 of budget paper 2, which is particular here. In the areas Mr Noonan particularly referred to is a more effective framework for commonwealth-state financial relations. We have much better relations with the commonwealth than we did before December last year. In that time I have met on four occasions with all the other state and territory Treasurers where we have gone through commonwealth-state financial relations to try to work through ways we can value-add to each other; that we can have collaborative federalism. The reform of specific purpose payments is but one example of that where depending on how you measure the SPPs, whether they are ones that we have some discretion on or are straight pass-throughs, between a sixth and a fifth of our budget comes from SPPs.

We are now talking of SPPs that have a lot of the red tape removed, that are focused far more on outcomes and outputs than on inputs and will cut the SPPs down from close to 90 to 5 or 6, the number is still to be determined. This is but one example. I will use my former portfolio of education as an illustration where we had an input measure in a former SPP that the education minister is required to report that all 1594 government schools in the state had two flagpoles flying, had posters on the wall, et cetera. Some of those inputs are being removed and now outputs on literacy, numeracy and others are replacing them. They are the sort of reform areas we are dealing with. It is moving along. There is a lot more to be done. But we have the most collaborative period in commonwealth-state relations that I can remember, and I think the outcomes from that will actually be better results for our citizens across the country which is something all governments should aspire to.

**Mr BARBER** — Treasurer, I would like to ask you about the operation of the congestion levy on city car parking spaces. The objective of the levy as detailed in the second-reading speech was to reduce congestion by encouraging more short-stay car parking spaces versus long-stay car parking spaces. Firstly, can you provide us with any evidence that there are now fewer long-stay car parking spaces and more short-stay car parking spaces from the data that the State Revenue Office would have because it collects the tax. Secondly the government has committed to carry out a full review of the parking levy after it has been operating for three years to assess the

impact of the levy on discouraging long-stay traffic into Melbourne. If that review is due this year, can you tell us how you will go about conducting that review and what we can expect to see from it?

**The CHAIR** — Okay, Treasurer. This is insofar as it relates to your portfolio and to the estimates.

**Mr BARBER** — Which it does.

**The CHAIR** — The first bit does not all that well.

**Mr LENDERS** — I thank Mr Barber for his question and some of his question I will take on notice. I do not have some of that information at my fingertips. I recall seeing some data, and again I will get this to him, that despite the increased use of the central activities district, whether it be shopping, retail and a range of other things, that there was a reduction in long-term stay but I will try to get what information we have to him.

Mr Barber refers to us committing to do a review after a period of time. I think that review is due in 2009 but again I will take that question on notice and get back to him on what commitment we may have made in the second-reading speech. We will conduct a review on the effect of the congestion levy as we said we would, and we will conduct a review with some interest into how it has operated. Often things that are designed for behaviour change take a while to take effect. Our objective remains that we wish to reduce long-stay parking in the central activities district because it clearly takes vehicles off the road at peak times, which is one of the objectives of it. I think I have seen some anecdotal evidence that it is actually succeeding but I will get any information that I can find back to Mr Barber, and certainly welcome a dialogue from him or from the committee as a whole as to ongoing measures that we can put in place to reduce congestion.

We think through this budget, whether it be public transport measures which are clearly an important way, whether it be behavioural measures on public transport like the Early Bird tickets or a range of those things, we need to collectively work at ways that we can reduce congestion in Melbourne, and a congestion levy was an important part of that.

**Mr PAKULA** — At page 75 of budget paper 2 there is a paragraph under the shaded table which talks about the past decade but which goes on to say:

... Victoria faces a number of challenges to economic prosperity, including an ageing population, slowing productivity growth, changing global fortunes and environmental issues.

I think the robustness of the budget is tested when things are difficult, so my specific area of interest is what we are doing, particularly what the budget will do over the forward estimates period to help deal with the difficult issues that are coming up. I would like you to give the committee some information on that.

**Mr LENDERS** — I thank Mr Pakula for his question. In my earlier response to Mr Scott I addressed a number of the business, the short-term measures, that we are dealing with on taxation so obviously will not go back into any of those again. I also dealt with some of the longer term issues of skills and infrastructure which, again, in the interests of more questions I won't go into at length. Some of the challenges Mr Pakula raises for the longer term, and the text at chapter 5 at the bottom of page 75, where some of the environmental and economics intercede on that triple bottom line, or in this case two of the three items of the triple bottom line come together, is what I would like to focus on in my answer to Mr Pakula.

Some of our investment economic and environmental projects in this budget are significant, and possibly unique. The Latrobe Valley, as the committee will be well aware, has 500 years of brown coal reserves. This is one of Victoria's greatest economic assets but also one of our greatest challenges is using that asset in a carbon-challenged environment. In this budget there is further investment in clean coal technology — whether or not it be the establishment of the authority. There is further investment in clean coal technology itself, which obviously offers opportunities for export of a Victorian technology, but more significantly a more effective use of our brown coal reserves to provide cheap electricity to Victoria in an environmentally sustainable manner. But what is very unique in this budget is the investment for carbon capture and storage, or geosequestration, as my colleague, Mr Theophanous, refers to it in Parliament all the time. The advances in carbon capture and storage are significant. It is a big investment of over \$100 million from the state government into technologies in this area. There are opportunities for us — we have trialled a lot of this already successfully in the Otways where gas is commercially stored underground in some of these reservoirs. It is stored and used, so we have seen that work successfully. There are also opportunities off the Gippsland shelf where we have been for 40 years or, if my memory serves me

correctly. We have been taking oil and gas out, and there are opportunities now for us to use those storages for carbon capture. These are again challenges for the future. We can pretend that these issues will go away — they won't. We need to address them. We have an extraordinary resource in brown coal, and we have an obligation to find the best possible ways for clean coal technology and for carbon capture and storage.

**Mr DALLA-RIVA** — We are a mineral state. You can't make that statement.

**Mr LENDERS** — These are specific challenges that we actually face — —

**Mr DALLA-RIVA** — Sorry, no — —

**Mr LENDERS** — I am pleased that Mr Dalla-Riva thinks we are a resource state. I'm very pleased he thinks that.

**The CHAIR** — Can we just have one at a time, thank you.

**Mr WELLS** — We need another grant; a sort of a resource — —

**Mr DALLA-RIVA** — Coal. Maybe not.

**Mr LENDERS** — These are some of the infrastructure issues.

**Mr WELLS** — With coal, excluding coal — resource state.

**Mr LENDERS** — We are talking of road, rail. We are talking also of the specific environmental infrastructure issues here. Carbon capture and storage and clean coal technology are two large ones of those, and this government is investing heavily into the future of this resource use in the state in an appropriate way for the 21st century.

**Mr WELLS** — I refer you again to table 2.4 on page 85 of budget paper 4 about the net debt. Will any of this debt in the estimates for 2008–2012 be set aside for the desalination plant, which we were under the impression was a PPP?

**Mr LENDERS** — As I think Mr Wells knows — I would hope he knows by this time — in the accounting treatment of a PPP there are a couple of steps we need to take forward. Given the nature of Mr Wells's question, for his benefit I will take him through how a PPP works.

**Mr WELLS** — Specific to the desalination plant.

**Mr LENDERS** — I will take Mr Wells through, and I will illustrate for him, using the desalination plan as an example. The desalination plant is an item on which there are some minor cash flow issues that come out of the general government sector, but essentially it is an item that is off budget. It is an item that comes from a public non-financial corporation, as in Melbourne Water. So there is a policy decision made to set up a desalination plant, and until a PPP is actually finalised, that is treated as a normal TEI expenditure from that particular body. How it appears in the budget papers really depends on what the status of this project is — where it is linear in the procurement process. Because there is a decision made to go down the path it is allocated as TEI within Melbourne Water, and I invite the secretary to add to my answer if he chooses to do so.

Then we go out for expressions of interest and requests for tender, and all the procedures come through. There is obviously a public sector comparator component in here. Let us make no assumptions that we come under or over a public sector comparator because we need the bids to be in and these things to happen. Assuming that until we get a successful PV it remains on the books as a TEI. If a successful PV is signed — if that is determined, if that all happens — it converts to a finance lease from the time the asset starts performing for the state.

Its treatment depends, in the case of the desalination plant, absolutely on where we are in the procurement process. We are embarking on a procurement process, there are a number of decisions that have been made on that, so in terms of where that money at the moment lies, it is assumed it is a TEI under Melbourne Water, therefore it appears under the PNFCs. But its status will change if it becomes a PV, and then it becomes a finance lease into the future. I invite the secretary, if he wishes, to add anything to my answer.

**Mr WELLS** — Before that can I just clarify: do you know how much of the forward estimates debt, in budget paper 4, page 85, has been assigned at this point to the desalination plant?

**Mr LENDERS** — The first thing is the forward estimates for Melbourne Water, for the PNFC — not for the state, not for the general government sector — will show the amount of money in there. And I can take it on notice, or if any official wishes to answer the question as to what the amount is in there they can do so. It will be in the order of over \$3 billion.

**Mr HEHIR** — I think that is right, but technically it is quite a difficult question to answer because what Melbourne Water is doing is forecasting its borrowing program necessary to undertake its infrastructure program — it does not actually undertake necessarily a specific borrowing for a particular asset for an overall program — and then looking at how it manages that debt through the life of its asset base. Melbourne Water at the moment is undertaking that program: the Sugarloaf interconnector, the northern sewerage, the upgrade of the eastern treatment works plus a whole pile of other asset investment activity. It forecasts its necessary borrowing program.

TCV undertakes the borrowing for it and then in a macro program on-borrows that to the water authority. To say how much of a specific program is being funded through debt versus its own cash flow is a technically quite difficult question to answer. The dominant proportion of it will be within that increase in borrowings for Melbourne Water.

**Mr WELLS** — That is fine. So over the forward estimates we would assume that there is about \$3 billion of debt assigned to the desalination plant. If the public sector comparator comes in positive and it does go to the private sector, at what point does that debt get written down?

**The CHAIR** — Changed to a lease, you mean.

**Mr LENDERS** — As I answered in my substantial presentation, at that stage, when government gets access, or Melbourne Water gets access to a functioning plant, it becomes a finance lease.

**Mr WELLS** — Yesterday we were able to get a list from the Premier. Is that also in regard to the infrastructure projects that have been assigned to the debt?

**The CHAIR** — We did ask for that, yes.

**Mr WELLS** — So we can assume that that will take place?

**The CHAIR** — Yes. There are a range of things in terms of what is possible too, of course, and there are a range of these organisations so we have to simply assume — you know, there are hundreds of these, so whatever is available. As you can imagine, they all make independent decisions, independent reports.

**Mr LENDERS** — I think, Chair, if the Premier has undertaken to give a particular response, obviously the Premier will respond, but I think it is worth also noting that all of these things are in the annual reports of the individual statutory authorities. There is hardly anything secret or new about them; they are in the annual reports. It is transparent.

**Mr WELLS** — That is fine; we just want a list.

**The CHAIR** — We are looking at this going forward, and we understand this may not be easy but we have asked for it.

Treasurer, we have talked a lot about accountability et cetera, so I would be keen to ask you what prudent financial management activities you are going to undertake to maintain our credentials as a good manager?

**Mr LENDERS** — Thanks for the question, Chair. I really do enjoy questions on prudent financial management. As my upper house colleagues will know, periodically in question time I refer to the fact that we five times a year actually report — various quarterly reports — —

**The CHAIR** — We have a quarterly report in this of course.

**Mr LENDERS** — Or the midyear budget update. We also — and Mr Rich-Phillips gets very excited about this — —

**Mr RICH-PHILLIPS** — *Financial Review* of 16 January 2003.

**Mr LENDERS** — *Financial Review* of 15 January 2003, that is right.

**Mr RICH-PHILLIPS** — Which you never quote in full, which does not give you credit.

**Mr LENDERS** — Which Mr Rich-Phillips is focused on, where the *Financial Review* actually accused us of being too transparent.

**Mr RICH-PHILLIPS** — To the point of confusing matters — be accurate, Treasurer!

**Mr LENDERS** — It is an accusation I am happy to stand accused of.

Prudent financial management in terms of things going forward — probably the most significant item out of this budget clearly is the change to financial objectives. That is probably the single largest item that is a notable change, and what has been happening is that clearly this government through all budgets has been operating on surpluses to assist funding infrastructure.

The surpluses have always been significantly higher than what our target has been, at the 100 million, so the 3.78-fold increase in that amount is clearly the first of those items that I would touch on. Similarly there is the 828 million surplus, which is higher than that, which goes to funding about one-fifth, or approximately one-fifth of the infrastructure in future years. There is also the issue that we have continued to have, like last year, like this year at the end of the forward estimates period, a figure of 2.9 per cent of GSP as transparently forecast and what the level of government borrowings are to fund this extraordinarily substantive infrastructure project.

They are a range of the immediate things in this budget. There is of course the project that the Premier announced in his statement of government intentions — that we would also seek to rewrite the Financial Management Act over the next few years, and that is obviously an issue that we would be in close discussion with the Public Accounts and Estimates Committee on, because it is — —

**The CHAIR** — I have written to you on this. We are going to do an inquiry into this in a parallel sense.

**Mr LENDERS** — Again, it is a very appropriate and convenient way for both arms — the parliamentary arm, through PAEC, and the executive arm, through the Department of Treasury and Finance, and in particular my colleague the finance minister, who will have carriage of this, to work on these issues of transparency and prudential financial management.

The final thing of course that I would say is that the ratings agencies again have looked at where Victoria stands. They have given us a AAA credit rating again. These rating agencies look at dozens and dozens of regional governments across the world. It is the exception rather than the rule to get AAA credit ratings, which is a high endorsement of the financial policies of this government.

**Mr HEHIR** — There is also the Access Economics review of transparency.

**Mr LENDERS** — Yes, Access Economics did its review of transparency in government and gave Victoria as the only Australian jurisdiction an A-plus, Chair, which is appropriate on a day when every school student in Victoria is being tested, getting an A-plus for the Victorian government for transparency from Access Economics is probably, for Mr Rich-Phillips's benefit, as exciting as the *Financial Review* article from 2003.

**Mr RICH-PHILLIPS** — And as meaningless, Treasurer.

**The CHAIR** — I am sure, Treasurer, you will be looking very closely at the year 9 results as well.

**Mr LENDERS** — Indeed.

**Mr WELLS** — Treasurer, the budget papers inform us that between last year's budget and this year's 2008–09 budget you have increased spending over the period 07–08 to 10–11 by \$7.7 billion. Can you tell the committee how much more the teachers EBA will add to this expenditure? My understanding is that the EBA was

agreed to the day before the budget or the day after the budget, so I am not sure how that has been added into the budget. Secondly, can you tell us what are your forecasts of how much the police, nurses and teachers EBAs will cost the budget over the next four financial years?

**Mr LENDERS** — Chair, I thank Mr Wells for his question. He refers to a number of areas generally on government wages policy and how we actually fund the EBAs. I think there are a number of issues that I should touch on firstly. Starting with the teachers EBA, in budgetary terms obviously that was settled after the budget estimates were finalised, but I can certainly say to Mr Wells — and I will take some of the details on notice to get back to him, and some of them will clearly be reported in the Department of Education and Early Childhood Development's annual report, where he will see these figures from last year and he will see them in future years — but the teachers EBA is broadly in accord with government wages policy of 3.25 per cent per annum.

It is skewed, obviously, towards the start of that period and not the end, so it is broadly in accord, with the 4.9 per cent rise in the first year, and then 2.7 in each of the later years, so there is clearly an issue there of adjustment, but it is broadly in accord with government wages policy — government wages policy is 3.25 per cent over a period of time, and in addition there are either productivity offsets or service improvement additions. In this case there are the service improvement additions, which account for those six days a year equivalent for teachers in the secondary system, which equates to approximately three days a year across the whole system, if you put primary and secondary together.

With those service delivery improvements, the budget always has capacity to service delivery improvements — it is a choice that governments need to make, what those service delivery improvements are — but government has provision for that. So it is broadly in accord with government wages policy. There is a bit of a skew towards the first year clearly, and 2.7 per cent per annum in the second, third and fourth years is actually less than government wages policy. There will need to be a form of adjustment for that. I will get back to him with more details of that, but that is broadly in accord with where it is. As I said, it is broadly in accord with government wages policy, with service delivery improvements, which government always has a capacity to factor into any budget.

**Mr WELLS** — So you will get back to us in regards to the total cost of the teachers EBA and the impact of the police, nurses' and teachers EBAs moving forward over the forward estimates?

**Mr LENDERS** — Chair, to make it absolutely clear — —

**The CHAIR** — Yes; can you clarify it, please.

**Mr LENDERS** — To make it absolutely clear, I draw Mr Wells's attention to the annual reports of all the departments, which will have information for him of the wages costs. For DHS, DoJ and DEECD, wages costs will be in each of those annual reports, so when departments normally report, he will find information later in the year on that. I will get back to him specifically on the issue of the teachers EBA.

As I said, we have a line output in our budget where we forecast wages growth in the budget, in the appropriation for that, so what we see is there will be some phase-in issue between the first year versus the second, third and fourth of that, and I guess alerting him to the fact that there is a capacity in the budget for service delivery improvement. Most of the information he seeks will actually come from the annual reports, but I am happy to talk to him on the phase-ins of that 4.9 versus the three 2.7s, and I will take that part on notice.

**Ms MUNT** — My local Victorian Government Business Office in Dandenong — which does a great job, by the way — once told me that in the south-east there is more business than in Perth and Adelaide combined. A large part of that is in Braeside in my electorate, so I am wondering if you could take me through initiatives for taxation reform that would benefit business in the budget?

**Mr LENDERS** — Chair, I am delighted to take Ms Munt or any member of the committee through some of the business tax initiatives that are in this budget. As I said in my opening remarks, I had great pleasure in being in Brisbane and Sydney yesterday, talking about the taxation initiatives that make Victoria a better place to invest than our two largest competitors, by the fact that state tax as a percentage of GSP is lower in Victoria now than in New South Wales, which it has been for a while.

In Queensland, I would stand to be corrected by any of the Treasury officials, but I can never recall anybody ever having claimed that Queensland had anything other than a lower tax rate than Victoria, of course heavily subsidised

for a long period of time by Grants Commission formulae. Chair, I think I described the Grants Commission's speediness as making plate tectonics look reckless, so it is good to see that there is very finally some change in that area.

But on the tax initiatives — for a business in Braeside, if it is a manufacturer in Ms Munt's electorate, they would find, firstly, that the payroll tax — I may have actually a cameo here of one; I had one earlier on. An employer with 50 or 60 staff, for example, will find clearly the land tax on the site will be significantly lower than it would have been if we had not changed the rates from when we came into government. So if your top rate of land tax is cut from 5 per cent to 2.25, that is significantly lower — plus over a number of times we have increased thresholds or adjusted rates over the time we have been in government — so any land taxpayer pays less land tax than they would if we had not have changed the legislation we had inherited from our predecessors. For any small business or large business there will be a reduction.

Secondly, the reduction in payroll tax is significant. Again, if we are talking of a company deciding whether it will invest in the city of Kingston or in the city of greater Brisbane, any boardroom making a decision —

**Ms MUNT** — Kingston, please.

**Mr LENDERS** — In Kingston; they will look at the headline rate of land tax and see that anything between 400 000 and 5.7 million will be cheaper in the city of Kingston than it will be in the city of Brisbane. If they looks at that as a measure, they will see instantly that it is a lower rate, and that is attractive. They will also see that our headline rate of payroll tax now has a '4' in front of it rather than a '5', and that is again a decision on making an investment in — we are talking of new investments coming into Kingston and we are also talking of existing people, who might be footloose; do they move their business elsewhere? They find that with the '4' in front of the rate it is suddenly far more attractive than it otherwise would have been.

The final particular here is — and I will not go into stamp duty changes because that is only when people buy and sell a business, but we can also go into WorkCover premiums, with a further cut of 5 per cent. If we use an example, if there was a medium-sized manufacturer in Kingston with a payroll of \$5.8 million and if we had the tax rates from when we got into government, it would have been \$303,000 on payroll tax; it would now be around \$259,000. The other taxes — that is land tax, stamp duty, bank taxes and those types of things — when we got into government would have been 45 000; they would now be 28 000. WorkCover when we got into government would have been 72, and now it would be 53.

So that medium metro manufacturer with a payroll of 5.8 million, because of changes to taxation since we have come into government, would have seen an \$80 000 a year reduction in business costs, plus with the churn in industry and new investments and a lot of investments being footloose, any boardroom making a decision would see those headline rates of payroll tax, with WorkCover premiums now being 1.387 per cent of payroll, which is because the system is managed more effectively but fundamentally because our workplaces are safer, and less people are being injured. That is why that happens.

Kingston is a very competitive place, and I would say to any business that is looking at a choice between Brisbane and Kingston that you would come to Kingston because business taxes are lower in Victoria than they are in the state of Queensland, and that business moving to Kingston means jobs for young people in the city of Kingston, and that is something that we all should and do cherish.

**Mr RICH-PHILLIPS** — Treasurer, can I take you to page 46 of budget paper 4, 'Reconciliation of the fair value of superannuation plan assets', at the bottom of the page. You will see that for the 2008–09 budget you are estimating an opening balance of superannuation assets of \$17.5 billion.

**The CHAIR** — Turn the phones off, please.

**Mr RICH-PHILLIPS** — When you produced the budget update in December, the same estimate for the opening balance 08–09 was \$19.78 billion. So your estimate from December last year to now has declined by \$2.2 billion. Can you explain why?

**Mr LENDERS** — Chair, I thank Mr Rich-Phillips for his question. There are a number of things on this line for superannuation balances. Mr Rich-Phillips's earlier question on the VFMC is clearly one of those components as to how equities have performed over the last nine months, which he referred to earlier on in his



VFMC question. Again we can go to the record for what I reiterated last time, so there is a strong explanation for how equities are outperforming.

**Dr SYKES** — Control your staff, Minister.

**Mr LENDERS** — Clearly equities are performing well compared to some technology in the room! Firstly, there has been the way the market has performed, but I think we need to do two things here. The second part of this is that this figure is not just how the portfolio performs, it is also entries to and exits from the portfolio as well. There are a lot of public servants in the revised scheme who are taking 54/11 payments in particular — there are other people taking payments out of the scheme as well, but clearly from the revised scheme they are taking 54/11s.

This is an age and stage when people are taking them, and they are also reflected in that line as a diminution of the assets in the fund. As a fund member takes their 300 000, 400 000, 500 000 or whatever they are taking out of the fund, what you are suddenly seeing is clearly a reduction as well in what is in the fund, so there are a number of aspects to it. I cannot unpack all of those immediately as to what the amount is, but what I will say is the unfunded superannuation liability is an issue that is being reduced year by year. Each year the government makes a — —

**Mr RICH-PHILLIPS** — The assets, not the liability.

**Mr LENDERS** — The liability is the difference between benefits and assets, so the asset goes up and down — —

**Mr RICH-PHILLIPS** — We are talking of the assets.

**Mr LENDERS** — The liability is the gap; that is what the liability is. What we have committed to doing: in fact the previous government, under Ian Smith, set a time line for paying down the unfunded superannuation liability, which was a good thing, and we have actually shortened that time line to the year 2035. We made that decision in about our second or third year in government. So we will have all the unfunded superannuation liability, which is obviously that component pre-95, before contributions were fully funded as they went in, cleared off by 2035, which is our target, and we continue to be on target for that. Some years when the funds are performing — again, VFMC has performed on average — in the last five years its average has been a 12 per cent return, significantly above inflation, a 12 per cent return the VFMC has had over the past five years.

**Mr RICH-PHILLIPS** — The same as the market, Treasurer.

**Mr LENDERS** — Mr Rich-Phillips can ignore the good news if he chooses to, but it has had a 12 per cent return over the past five years. So that return has factored into a shrinking of the unfunded liabilities, and that is a figure that goes up and down according to the performance of the investment portfolio. But what we are seeing is that all unfunded liability of public sector superannuation schemes will be extinguished by 2035. Its return is strong, and over a five-year rolling average it is a 12 per cent return, and I would welcome a debate on this in the Legislative Council with Mr Rich-Phillips at any time, Chair, when there is more time.

**Mr RICH-PHILLIPS** — Treasurer, can you take on notice a reconciliation of that \$2.2 billion decline in the opening balance in the budget versus the budget update, how much is decline in value of investments versus withdrawal of assets by beneficiaries?

**Mr LENDERS** — I will seek to get information on that, as to what component is — I will seek to get information for you on that.

**The CHAIR** — Certainly, and there is some information in the quarterly report.

**Mr RICH-PHILLIPS** — Presumably there has not been an unexpected increase in withdrawals by beneficiaries compared to the budget update. I would not imagine in the last six months suddenly hundreds or thousands of public servants have withdrawn their superannuation, which you did not anticipate when you did the budget update?

**Mr LENDERS** — Chair, through you, not even in Mr Wells's wildest dreams are there that many public servants in the state of Victoria for him to point out. But no, Chair, there are different component parts of that — —

**Mr WELLS** — ABS figures.

**Mr LENDERS** — And I will bring an answer back certainly in general terms on that, and be as specific as I can.

**The CHAIR** — Thank you. We would like that within 30 days. I will just point out once again that we try and confine it to the estimates rather than looking at what is happening this financial year. We will have a break for 5 minutes.

I have received an apology over the phone incident; I am sure it will not happen again. I ask people to make sure they have got their phones turned off, thank you.

**Mr WELLS** — Name them!

**The CHAIR** — I will not, but we are trying to keep a bit of order in the marketplace.

**Mr SCOTT** — I refer, Treasurer, to budget paper 3, pages 356–9. The issue I wish to raise and have you respond to is housing affordability, which is obviously of great concern to a large number of Victorians. What measures has the government taken to enhance housing affordability in this budget, specifically by way of grants and/or taxation reform?

**Mr LENDERS** — I thank Mr Scott for his question. I am delighted we have got a question out of budget paper 3 — the first one for the day. In answering, probably just to speed my earlier response to Mr Rich-Phillips's question, since 1 July last year there were actually \$2.23 billion of benefits paid out of the ESSS super fund. We will get the more detailed answer later on but for his benefit, I did have that information — I could not find it before.

In response to Mr Scott's issue on housing affordability, all of us, when we are in our communities, know that working families are concerned about interest rates and the housing affordability that goes with them, and petrol prices. They are the two things that we all hear wherever we are out and about. Among the measures in this budget to deal with housing affordability specifically in an estimates sense there is the bonus in regional Victoria. That is not of immediate interest to Mr Scott in his own electorate, but as all of us have that great interest in regional Victoria there is a \$3000 bonus that has been added on there. Taking up, I guess, Dr Sykes's point earlier about the amount in the budget which he says implies not a lot of people can take it up, chair, I hope the budget figure is wrong. There is no limit on how many people take it up, but I hope many, many, many more people do —

**The CHAIR** — I appreciate that clarification. I am not sure if Dr Sykes will be issuing a press release immediately —

**Dr SYKES** — There will be no limit on the \$1000 —

**Mr LENDERS** — There is no limit there. In a more general sense on housing affordability, there are two parts here: the estimates deal with part of it, the other side is clearly the supply side. And the announcements by my colleague Mr Madden and the Premier some months ago about 90 000 more blocks being made available — the supply side is clearly a large part of housing affordability. But on the demand side here, one, raising the thresholds of every band of stamp duty on land transfers by 10 per cent offers modest relief for homebuyers, but this budget is specifically targeted at first home buyers. It is unashamedly targeted at first home buyers and obviously regional first home buyers. The first home buyer now can elect to take the advantage of our tax measures act in late 2006, the first act of the current Parliament, which actually left the principal place of residence under half a million where there was a benefit there for purchasers, where the first home buyer had to elect to take one or the other. By simply saying that a first home buyer can take both, we have seen a significant contribution there to first home buyers.

We are talking on a median first home — so the median price of a first home, which is \$317 000 in Victoria. Clearly that is a lesser price than the median house price across a whole state. We are talking of a \$2460 reduction in stamp duty on that particular rate.

It is interesting to note that these measures here are dealing with affordability. It is not a great comfort to someone who is out there buying their home when the houses seem very expensive. It is not a great comfort to them.

**The CHAIR** — I know. My son is going through the process now.

**Mr LENDERS** — I am not purporting to say to anyone buying a home that it is not difficult for them. But what I can say here to this committee is when you look at the median price of homes in Melbourne versus Sydney, versus Brisbane, versus Perth, the median price of a home in Melbourne is actually less than those other three cities. That affordability is partly to do, clearly, with where Victoria is and partly to do with that housing supply aspect, which is probably more an issue for my colleague the planning minister, and what we have actually done to ease supply.

In response to those measures on those three pages that Mr Scott has raised, we have certainly been assisting in removing some of the burden for first home buyers. What we are seeing is, again, the median price of housing in Melbourne compared to those other three cities, which all have comparable prices, appearing favourably. Victoria is a more affordable place than those other three states to buy a home, but that does not offer comfort to families trying to buy homes at the moment where they are finding it tough. But Melbourne is a better place than those other three cities, and Victoria is a better place than the other three states.

**Dr SYKES** — My question relates to water and the investment in infrastructure projects, especially the desal plant and the food bowl irrigation infrastructure upgrade. What is the comparative unit cost of water delivered to Melbourne via, say, desalination, the north–south pipeline, and recycling? Part B is: what is the impact of changing underlying assumptions in arriving at these costs — for example, with a desal plant, if the government used the most likely costs, which are higher than the actual costs used by the government at this stage, and that was identified by the Auditor-General, or in relation to the north–south pipeline, if the water savings are less than estimated and, for example, only 20 or 30 gigalitres flows each year down the pipeline rather than 75 gigalitres?

**The CHAIR** — Treasurer, insofar as it relates to the estimates in your portfolio.

**Mr LENDERS** — Dr Sykes mentioned the Auditor-General's report firstly. The Auditor-General's report made a number of comments on the Victorian water plan. He made some comments on the speed with which the plan was adopted. He acknowledged that that was very speedy. He also acknowledged that there was a critical issue that had to be addressed, which was declining water supplies in Victoria at a time of drought and climate change, and government needed to act quickly. There is a range of issues that arise out of the Victorian water plan. As far as the forward estimates go, we acknowledge the \$600 million contribution here to the food bowl. While that was announced in the mid-year budget update, that is brought forward into these particular budget papers; it is accounted for here.

There is also an amount in here, up-front cash, towards the construction of the desalination plant, which ultimately is a project for Melbourne Water but that is in the budget. Beyond there, there is nothing actually in the forward estimates that actually relates to those projects, because they are ones in public non-financial corporations of Melbourne Water and the others, whether it be the Sugarloaf interconnector, the desalination and a range of those.

However, in general terms I will certainly answer Dr Sykes in where that fits in. What this water plan is is to bring new water into the system, to use the water we have more effectively, and to distribute it around the state in an effective manner. Whether that be Wimmera–Mallee pipeline, of which there is a rephrasing and bringing forward of water in these particular budget papers, whether it be the pipeline to Hamilton, whether it be the Sugarloaf, whether it be the desal, whether it be food bowl, all of those are critical water infrastructure projects. They are ones that the government has embarked on, the Auditor-General has reported on. They are a water plan to take Victoria into the future with this scarce commodity.

I do not have much in particular to add to that, other than they are critical infrastructure investments. My wife did her thesis on Elwood Mead, the first chair of the State Rivers and Water Supply Commission. I claim to have read a little bit about this going back some time when she did her thesis. It is interesting, Chair, that if you go back to the debate on water in Elwood Mead's time and you go to the debate on water now, there was a huge gap in between when we did not talk much about water at all. What we actually have here, Chair, is an extraordinary investment in the Victorian water plan.

**Mr DALLA-RIVA** — Which page is that on — John Lenders's wife? BP 3 is it?

**Mr LENDERS** — A special BP 6 for you, Mr Dalla-Riva. I will give you my wife's thesis — a special BP 6.

This is a massive investment. The critical water infrastructure has deteriorated since Elwood Mead's day. It is 60 or more years now since there has been any serious investment in water infrastructure in the Goulburn system. It has been 60 years since that. We all know where Wimmera Mallee was, where basically we had open channels, essentially running over sand. I exaggerate but only slightly. I do not exaggerate the water leakage number of more than 90 per cent — the water wastage number on the Wimmera Mallee pipeline. The food bowl clearly, with 800 gigalitres out 3000 gigalitres being lost, was again another area we are recovering with this infrastructure.

Dr Sykes asked about the prices. The Auditor-General has commented on these. This was a plan in an emergency to deal with critical water infrastructure. It has been commented on by the Auditor-General. I will take any of his questions on notice, but I do not think there will be anything beyond the Auditor-General's report on some of the areas Dr Sykes has actually raised.

**The CHAIR** — Okay, I am sure he will be able to take it up with the Minister for Water as well.

**Dr SYKES** — Can I just indicate that that was a very general answer. There were no specific answers given to my specific questions. I would appreciate them coming on notice. I think they were quite clearly asking about unit cost for each of them.

**The CHAIR** — Hansard has recorded them. I actually also feel they are probably not in regard to the estimates, but they will be on notice. The Treasurer may look at them.

**Mr LENDERS** — Or, Chair, I may refer them to the Minister for Water.

**The CHAIR** — Or if necessary he may refer them to the Minister for Water.

**Mr NOONAN** — Treasurer, can I take you to budget paper 3, page 307, where the budget talks of major precinct developments through the regeneration of facilities and education projects. I will note in the regeneration category that Altona is, in fact, one of them on the list, and I would ask that you provide some more information about the regeneration program, and if you could tell me anything about the Altona regeneration, that would be of use as well.

**The CHAIR** — It is very much a local interest.

**Mr NOONAN** — There is a local interest.

**Mr LENDERS** — Thanks, Chair, and I thank Mr Noonan for his question and his interest in regenerations. I guess I will start from the macro and then I will seek to answer as much as I can on the Altona project. But starting with the macros, in 2006 we committed to \$1.9 billion in school infrastructure upgrades. We committed \$1.9 billion, we committed to do at least 500 schools, and then in the last budget we delivered \$555 million of that, and we delivered 131 schools in that particular budget plus the Ultranet project, which we rolled out in schools. In this budget, on the macros, we have in these estimates allocated a further \$592 million, and we have actually allocated to bring forward even more of the education spend so that close to two-thirds of the capital spend will actually be in the first two years of this four-year parliamentary term, and that is because we think it is important to bring it forward for Altona and all the other regions where we want to invest in school infrastructure.

I will go down one further level, I guess, then to the regeneration projects where they fit into this overall expenditure. There are a number of areas where the school infrastructure is tired or inadequate or no longer functioning well. There are areas, too, where the local school communities are actually being engaged into what is the better fix and mix of schools in those areas to achieve the educational outcomes for students that both the government, through the Department of Education and Early Childhood Development, and the local community, want. So where there is a juncture of all those within government policy, we have now on a number of areas embarked on large regeneration projects. The largest and a flagship, which last year, wearing a different hat before this committee, I spoke long on, was the Broadmeadows regeneration, but beyond Broadmeadows there are clearly regenerations in Bendigo, regenerations in Colac, regenerations in a whole range of areas that have been funded to date, and a number of other regenerations in regions within the Department of Education's purview, and that is probably more appropriate for the Minister for Education to speak to, and they are actually working on plans for future capital.

So regarding the Altona regeneration, there is a regeneration project which crosses probably the Altona and Williamstown electorates, and I think Mr Noonan's interest is probably more focused on the latter rather than the former, and certainly it is a merger of Altona Gate Primary School and Bayside Secondary College, which is an Altona North site, and there is also a merger of the Altona Secondary College and the Altona West Primary School and their existing sites to form a new P-9 school. So there is funding in this budget for stage 2 of this: \$5 million of the merger project, and the remainder will be accommodated for years 10 to 12 students further down the track.

So this is a microcosm of where this is actually working. What we are seeing here with feeder P-9 schools into the senior secondary 10-12 is a flexible devolved education system under strong frameworks set by the department of education. Local community is on board. This is just, I guess, a sign of this huge infrastructure spend of this government. We will see 500 schools rebuilt or modernised during the life of this Parliament, and this is the further instalment of funding towards those schools in the particular local community Mr Noonan refers to. But also more broadly, we are regenerating schools in areas where there were decades and decades and decades of neglect, and the focus there is so that students in those government schools have opportunities to participate in the exciting 21st century economy and be good citizens who have a better opportunity to achieve jobs. That is important, and that is what this funding will go towards.

**Mr BARBER** — On budget paper 4, appendix B: I have some questions about the transactions in and out of 'Meeting our Transport Challenges reserve'. So if I understand the commentary up-front, there is 10 billion for Meeting Our Transport Challenges projects, of which 5.9 billion is funded out of this reserve. So the first question, I suppose, is why is there a reserve called 'Meeting our Transport Challenges' that does not cover everything in Meeting Our Transport Challenges, and then the second question about the flows is: can you explain to me why interim rolling stock appears as a negative number, that is one, and secondly, given that the Monash-West Gate improvement project's costs have escalated by 362 million which will now have to come out of this reserve, will that mean other projects to be funded out of this reserve now have less money available to them?

**The CHAIR** — Treasurer.

**Mr LENDERS** — I thank Mr Barber for his question, and I will generally answer the question, and I invite Stein Helgeby, the deputy secretary, Budget and Financial Management Division, to supplement my response if he wishes to. Firstly, with the reserve there were two issues there. There was Meeting our Transport Challenges, which was a \$10.5 billion contribution to transport, and then obviously in the forward estimates all that we factor in is what is being done during the four-year period, so I think that is the discrepancy between the reserve and the amount.

**Mr HELGEBY** — In fact, on the preceding page, page 265, the text there explains that the \$10.5 billion is made up of a number of components of which ultimately only \$5.9 billion is actually the MOTC asset reserve because some of the remainder was to be funded from Better Roads Victoria Trust Account, TAC or VicTrack.

**Mr BARBER** — Yes, I know, that was not my question, it was why.

**Mr HELGEBY** — Why?

**Mr LENDERS** — The series of — —

**Mr BARBER** — Why do we have Meeting our Transport Challenges projects funding of \$10 billion, and then we have that asset reserve that only does six-tenths of it, and the rest of the other money comes from elsewhere?

**Mr LENDERS** — I will respond to that, Chair. I mean, the purpose of Meeting our Transport Challenges in 2006 was to see the very clear plan for exactly that, meeting our transport challenges. It was a plan that would actually — there would be a pipeline there — be a signal to certainly public transport and other road users of what the government would be doing over the next ten-year period where the plan was.

It was a signal to planners that information was coming. It was a signal to industry that a pipeline of work was coming. It is a clear government policy statement, and part of it is funding out of the asset reserve. Some of that is in the forward estimates year, some of it is outside, and some of it is from other sources. That is a shandy of how it is funded. On the particular issue of the rolling stock — and again I stand to be corrected by Stein on this — but the reason why the rolling stock is there is because we actually brought it forward. As I announced earlier on when we

had the larger than expected budget surplus last year, we actually brought forward \$290-something million in rolling stock which was something that was three or four years out. We brought it forward because we could afford to do it. That is what we use surpluses for; for investing in infrastructure. That is why the cash flow has been rephased, because it has actually already happened, and therefore it has been taken out of the forward estimates period — —

**Mr BARBER** — The cash has already gone?

**Mr LENDERS** — It has already been — —

**Mr HELGEBY** — Factored in. It has not all been spent.

**Mr LENDERS** — Yes, but it is factored in. We were factoring in that in a future period we would actually be spending money on rolling stock. We have now brought the rolling stock expenditure forward. That is the adjustment on there.

**Mr BARBER** — Right.

**Mr LENDERS** — On the other one, you mentioned the M1. The M1 has had cost overruns, and no one is hiding from that. It has also been rescoped to be a larger project than we originally anticipated. There are more lanes on the West Gate Bridge; there are a range of things that have happened on there. MOTC was put in place in 2006 as a forward plan for transport. It will be one that, just as with any decent long-term plan, the government adjusts year by year. Sometimes priorities change, sometimes opportunities arise. If you look through the M1 project, some of the sublines of that project actually ran under cost; obviously the project as a whole did not. You will see in all of these that there will be movement every year, but in the end MOTC is a plan that the government has. It is for the forward estimates period and beyond, but in the end it is the right of any governments to vary that plan to year by year and to present it to the Parliament for its approval when we seek appropriation.

**Mr PAKULA** — In the last month or so I have raised the issue of maternal child health services a couple of times in the house. I notice on page 23 of budget paper 3 there is a heading, 'Giving children the best start in life' which has some broad spending outcomes in regard to early childhood services. I wonder if you would give the committee some details about the initiatives of the government in relation to the area of maternal and child health?

**Mr LENDERS** — Through you, Chair, I thank Mr Pakula for his question. As I outlined in the overhead, there are two sides to this. One is the ongoing and detailed consideration the government needs to give to the seamless start to maternal and early childhood. Obviously now there is a blueprint, too, in education, and with the establishment of the new Department of Education and Early Childhood Development the government is seeking to address the first eight years as a very critical, seamless period. There are a lot of service delivery items here that go towards that. Perhaps some of the greater detail on that could come from my colleague Ms Morand in response to questions from PAEC.

In general terms of where we are going forward here, part of it is service delivery. There is \$30 million over four years to ensure that babies and young children up to the age of six receive check-ups, again a very important preventive health measure. Clearly, there is a large component in the budget that deals with that increase to 73 737 babies registered last year, as I mentioned in my opening remarks. There is funding here for five hospitals, effectively, for extra beds and placements. I do not have the list in front of me but from memory they are Werribee, Northern, Casey, Frankston and Monash Clayton — five hospitals — where there are 2800 extra places, effectively, for women to give birth closer to home. That obviously builds on the 11 or 12 we have done in regional Victoria over the last 8½ years. It builds on the services put in so women can have their babies closer to home. This is a particular contribution in this budget to this area.

There are also various extra supports for families at risk. There are an extra 1000 early childhood intervention services places worth \$29 million in this budget. There are a range of services. Carrying out an earlier election commitment, there is \$11 million for kindergarten places to assist families at risk. There is a package ranging from the very basic starting point of women being able to give birth closer to home — dealing with those 73 737 babies registered in Victoria last year — plus that seamless delivery of services from birth to the eight-year-old period that we have so clearly defined with the establishment of the new Department of Education and Early Childhood Development.

It is a mixture of these things to give kids a great start in life. All of us have seen the research which shows that early intervention is far more critical than was probably historically thought. Hence part of the refocus of departments towards children and early childhood development. Methodologies, research, and history changes on a whole lot of these things. I guess this reflects a new science, the new focus, that this is an important time to do it, so it is seamless from birth to age 8. These services are being delivered in that area to assist children and families.

**Mr DALLA-RIVA** — Treasurer, I refer you to page 78 of budget paper 2 — the Strategy and Outlook budget paper — on infrastructure investment. The first paragraph refers to a:

... significant investment program where almost \$30 billion will be spent over the next four years alone on infrastructure projects across the state.

I ask: what percentage of the stated \$30 billion comprises state contributions, and what will be through PPPs?

**Mr LENDERS** — I cannot give Mr Dalla-Riva a specific answer on that because in essence the issue of whether it is a PPP or a more traditional state building project depends on the procurement stage. Firstly, there is a case-by-case issue of whether or not we put a project out to be a PPP. This government has a strong track record on large projects — on wanting to test the market on them to be PPPs — and whether that be on water, and again that is through Melbourne Water, which is the example we used for the desalination plant; or whether it be hospitals like the children's and the women's; or whether it is now the 11 new schools in the outer suburbs where there is a proposal out; or on a number of the large transport projects.

We are open to explore whether a PPP is the best value for money for the state or not but in the end there is an in-principle procurement decision made and then as part of that procurement process there have to be bidders and the bidders have to come in under the public sector comparator. I cannot give a definitive answer as to what proportion will be PPPs simply because it is pre-judging the procurement process. I can get the figure — unless someone at the table can help me — of what percentage of our procurement has been PPPs. I will not make a guess. It is certainly the minority of our procurement. I will get an exact figure. A significant amount of our procurement at the moment is PPPs. For instance, in budget paper 2, chapter 3, table 3.4 we see in the forward estimates that \$231 and \$840 finance leases. In other words, a PPP is coming onto the books. It will depend from year to year but I cannot definitively say what portion of that it will be because of the procurement issues that I outlined in my substantive response.

**Mr DALLA-RIVA** — Given that it is a large amount of money as stated in the budget papers, given that you have said you cannot pre-judge the procurement figure obviously, is it therefore that the anticipated \$20 billion debt that we are going to face in four years time may be as a result of the fact that a lot of these projects are in fact going to be under government run projects and not necessarily under PPPs? Is that where the majority of that debt is going to be associated?

**Mr LENDERS** — Chair, I will repeat some of my response to Mr Wells earlier on. Firstly, whether it is a PPP or whether it is a traditional procurement it ultimately will appear on the government books as capital expenditure required. Whether it is TEI in the first place or whether it is TEI that ultimately through a PV process becomes a finance lease a couple of years later, it will all still appear on the government books. The only difference is how it is characterised as being on the books as it goes through that procurement process.

So we make a decision to fund a project, for example we fund the Kingston Centre in Ms Munt's electorate in this budget. There is an in-principle decision made to fund the project. That will appear on our books as TEI, as capital that is required. If we made a decision for its procurement option to be a PPP, then that would remain on the books as TEI until we actually concluded the contracts for the PPP; then when we receive the Kingston Centre into usage, it would then become a finance lease and still remain on the books.

It is an accounting treatment as to how it is dealt with. But in practice capital investment in important infrastructure assets are accounted for in the budget papers under one of those forms, either on traditional spend or under a finance lease — under one or the other. There is nothing hidden in any of this process. It is all transparent. It is all on our books. I invite the secretary to add to that, if he wishes to.

**Mr HEHIR** — No, I do not think so. The only variation is when the PV is an operating lease in which case it does not come onto the balance sheet of the state. EastLink is an operating lease, I think?

**Mr HELGEBY** — No, EastLink is not an operating lease.

**Mr HEHIR** — Sorry, it is not a finance lease.

**Mr HELGEBY** — It is not a finance lease.

**Mr HEHIR** — It is not a finance lease so EastLink does not come onto the books because it is a private sector operation. But it is only things of that nature which do not end up as a finance lease and on the books.

**Mr DALLA-RIVA** — You would have to say that it does not give clarity to the forward estimates where we are uncertain, even in discussion here, of the \$30 billion. There is some level of confusion as to what might end up being a private functioning project or a government-run or government-built and owned projects?

**The CHAIR** — I am not sure that that is the case.

**Mr DALLA-RIVA** — I am not looking for anything that is hidden. I understand what the Treasurer is saying.

**The CHAIR** — I think it is a matter of decisions not yet having been made in terms of the procurement and the models for certain projects and so on.

**Mr DALLA-RIVA** — Yes, I understand that. How do we work that out?

**The CHAIR** — We should not say anything more than that except there are a number of projects which have been already flagged and the government is going through the process of how it is going to procure them.

**Mr LENDERS** — Chair, I think I could add comfort to Mr Dalla-Riva on this. The Auditor-General clearly signs off on all these papers, and I am sure if there was anything in here that any member of this committee had any doubts about we would hear about it and we would respond to it. But if there is — —

**Mr WELLS** — Signing off on a budget — an auditor signing off on a budget.

**The CHAIR** — We do follow these things on the outcome side of things. We did so substantially this year and will do in the future.

**Mr LENDERS** — Chair, I guess in response, budget paper 2, page 66 goes through possibly part of a response to Mr Dalla-Riva. There are 18 projects, capital investment of 5.5 billion, so essentially that procuring new infrastructure and future Partnerships Victoria projects on page 66 — I said I would take it on notice but I think that actually gives the answer. It probably gives some greater comfort to Mr Dalla-Riva.

**Mr DALLA-RIVA** — Just \$24.5 billion short but I will let you go.

**The CHAIR** — No, I think there are a few decisions to come.

**Mr LENDERS** — Chair, it shows which ones we expect to be PPPs or not.

**The CHAIR** — That is true.

**Mr LENDERS** — I would have thought that this government was absolutely transparent. The opening slides are talking of an infrastructure spend into the forward estimates year. We have gone absolutely up-front and transparent about what our infrastructure spend is in the PNFCs, whether it be the infrastructure spend on water, whether it be on sewerage, whether it be on the Port of Melbourne. Mr Dalla-Riva has a throw-away line about undisclosed amounts but I can certainly give him an outline of what capital is in here. We are up front.

**Mr DALLA-RIVA** — I am just concerned about the finance of it. You have made a \$30 billion commitment. Who is going to pay it? My children, your children — who is going to pay the billions?

**The CHAIR** — Thank you for that. I might just switch the theme onto one of the other financial objectives and strategies, namely service delivery which is to provide improved service delivery for all Victorians. One aspect of that is the A Fairer Victoria package. I know that we have had a number of these and there is another one associated with this year's budget, for example in budget paper 3 on page 21 one aspect of that is supporting people with a disability. From your budget strategy point of view and your macro allocation of services where you have a lot of money involved in this, can you give us the view from Treasury?



**Mr LENDERS** — A Fairer Victoria is something that has been a feature of a number of our budgets. It is a feature that shows that our government is clearly committed to a triple bottom line. Although obviously it has flow-ons into both economic and environmental as well, it is fairly and squarely in the middle of the social policy objectives of the government.

This budget allocates 233 million as probably the centrepiece of A Fairer Victoria this year to disability services over the next five years. That essentially takes reform straight out of the state disability plan. Again that is an area, the detail of which it is probably more appropriate for my colleague the community services minister to address, but as far as it fits into the budget in the context of your question, in implementing aspects of the state disability plan, \$233 million certainly comes to there.

This focuses on capacity-building for people with disabilities. There is a whole range of things. As I said, there is the economic, social and the environmental. Clearly a big feature of this is the social: dealing with people with disabilities and assisting them in dealing with their own disabilities, but there is always an issue in here as well on giving people options to integrate into the workforce to a level they choose. That is always an option when it comes to the economic. So that is a big feature of this budget.

There are also funded initiatives within this. There is \$71 million over four years to expand individual support packages. There is 16 million to expand carer support. Again, if we are talking of a budget that is for families, as I said at the start, clearly many of the carers who are receiving support are family members. There is also \$10 million to strengthen transition to employment support and \$50 million for the strategic replacement and realignment program, stage 3.

With respect to employment support, quite often people with disabilities are excluded from access to the workforce. It is just one of those things that happens. If we are talking, though, on human capital and what we as a community and as a state can actually do to assist people into the workforce part time or even full time, these are the sorts of programs that will assist in doing that. That is the cornerstone of this year's A Fairer Victoria. There are a number of features to A Fairer Victoria, and that is clearly one of them. Last year A Fairer Victoria had in addition to the other programs the huge social housing inclusion. I think that answers the question, Chair, but for more details on any of those I would suggest that you go to the community services minister.

**The CHAIR** — Thank you, Treasurer.

**Mr WELLS** — I note that in your handout you refer to new tax initiatives and WorkCover relief, payroll tax and that over four years there will be a saving of \$170 million. I also refer you to budget on budget, that the actual payroll tax revenue will increase by almost \$360 million in the next financial year. I suggest to you that this is because more small businesses will be caught up in this because you have not altered the threshold. The question is: how many firms with 20 employees or less will now pay payroll tax because you have not altered the threshold in this budget?

**Mr LENDERS** — I thank Mr Wells for his question. There are a couple of things. Firstly, we have altered the threshold above the 1 million level we inherited from the government he was a part of. I would also say on this that it is hardly surprising that payroll tax revenue is going up because we have greater workforce participation than ever in Victoria. We have got 65 per cent workforce participation, we have got 400 000 new people in employment since we came into government, so it is hardly surprising that revenue from payroll tax is going up when employment is going up in the state of Victoria. When people hark back to taxation rates of 1999, we also deliver double the services we delivered in 1999.

**Mr WELLS** — I think we are talking about the forward estimates, Chair. Are you going to bring him back?

**The CHAIR** — Yes

**Mr WELLS** — We are talking about the forward estimates.

**Mr LENDERS** — Going into the forward estimates — —

**Mr WELLS** — I am surprised the Chair hasn't called you back!

**Mr LENDERS** — Going into the forward estimates, what we have here is a growing workforce. The fundamental reason, the main reason why revenue from payroll tax is going up, despite the cuts from 5.05% to 5% announced in the last budget and further announced to 4.95 per cent in this budget, the revenue goes up because employment is going up in the state of Victoria. Employment is going up, wages are going up, so the payroll of the state of Victoria continues to go up, which is the sign of a strong, growing, vibrant and prosperous state with jobs growth. That is the main reason it is going up. This government has provided payroll tax relief previously by putting the threshold up.

**Mr WELLS** — I draw your attention to budget paper 2 and unemployment rates. You have just said that unemployment is falling, or more people are being employed. Your unemployment rate was forecast at 4.8, then it was 4.5 and now it is increasing to 4.75. On the one hand you are saying that the job market is growing but on the other hand you are saying that the unemployment rate is going to increase. Which one is right — the budget papers?

**Mr LENDERS** — They are both right. In the table we are talking about, table 2.1, we are forecasting employment growth of 2.75 in the current year. We are forecasting employment growth of 1.5 per cent per annum for the next four years. So, yes, we are also forecasting a minor rise in unemployment but on the same chart while we are at it, we are seeing population growth of 1.5 per cent a year for the first two years, then 1.4 per cent. We are seeing employment growth forecast to go up every year at 1.5. Yes, we are forecasting the unemployment rate to go up a quarter of a per cent, but payroll tax is levied on employment, and if employment is going up 1.5 per cent per annum, both the figures are right.

In fact we saw — it was earlier last week or this week — the new labour force figures coming out from the ABS which showed exactly that. They showed employment going up in the state of Victoria in actual numbers, and it saw a minor increase in unemployment going up in actual numbers. That is called population growth and it is called workforce participation. I am surprised that Mr Wells asked the question.

**Mr WELLS** — The question that you have not addressed was: how many firms with 20 employees or less will now pay payroll tax because you have not altered the threshold in this budget? That was the question.

**Mr LENDERS** — I have dealt with the macros around which — —

**Mr WELLS** — I know, but you haven't actually dealt with the question.

**Mr LENDERS** — Chair, Mr Wells likes bullying and cutting across. What I would say to him is — —

**Mr WELLS** — I would not dream of it.

**The CHAIR** — Can we just have the Treasurer, please.

**Mr LENDERS** — I have addressed the issue. We have growing — —

**Mr WELLS** — No, this is about small business.

**The CHAIR** — Would you let the Treasurer answer, please.

**Mr LENDERS** — We have growing employment — -

**Mr WELLS** — When is he going to start answering the question?

**Mr LENDERS** — We have growing employment which is the main reason for payroll tax revenue to rise. We have growing employment, we have higher wages, we have higher workforce participation; that is the main reason. Several years back we did adjust the threshold rate for payroll tax. In this budget we have actually cut the payroll tax rate.

**Mr WELLS** — Would you take it on notice then? Would that be fairer?

**Mr LENDERS** — I will take it on notice and see whether I have the available data. I may not have the data.

**The CHAIR** — Take it on notice, insofar as there is available data. But you are looking at predictions in the future and in fact therefore the data will not be real.

**Ms MUNT** — I am referring to budget paper 3, page 34. I was pleased to see a heading here ‘Tackling family violence’, which I have a particular interest in. Down my way is one of the largest women’s refuges in Victoria. I was also part of the women’s caucus when the former minister, Mary Delahunty, first put together the package, in 2005, of 35 million over four years to tackle family violence. I am interested to see that in this budget there is a further \$25 million being allocated over four years for further initiatives to build on that initial strategy. Could you please detail for me what is contained in those initiatives?

**Mr LENDERS** — Chair, through you, I thank Ms Munt for her question, and I will certainly outline some of the program lines the funding and estimates go towards, and perhaps some of the issues arising from that can be referred to another minister. Certainly, as Ms Munt said, there is 25 million over four years, and it is both focused towards prevention and also meeting the needs of people who are the victims of family violence. It is both. In prevention there is 2 million over four years for a range of measures. There are state prevention issues; there is an indigenous prevention framework as well. These are particular issues on prevention. There is also 9 million to support women and children experiencing family violence. There is \$9 million there for a number of subprograms within that. Prevention is the first 2 million; 9 million is support for women and children experiencing family violence. There is also 8 million towards men’s services, to address men’s use of violence and reduce future risk to women and children.

There are a range of areas that come under the family violence reform package and they build on the money allocated last year for the family violence bill, which again was in the Premier’s statement of government intent and we would propose as a government to take into the Parliament this year to deal with this. So there is the funding for that bill and then there is the funding in those particular areas of prevention, increased support and men’s services in this year’s budget. Collectively they go towards that important social policy objective of government.

**Mr RICH-PHILLIPS** — Treasurer, I would like to ask you about the payment of performance bonuses to senior staff of the VFMC. This is a matter that the committee has just reported on in its outcome report. For 06-07 senior VFMC staff received bonuses averaging \$68 517. The explanation given to the committee was that that was in recognition of the prevailing terms and conditions in the financial services sector. I would like to ask you, though, with respect to the current financial year, the VFMC by its own public data indicates its portfolio is in the order of 15 per cent down compared with the start of the financial year; will performance bonuses still be payable to senior VFMC officers, given the decline in the value of the VFMC portfolio for this financial year? Secondly, given that over the long term, and the VFMC has published data in respect of three and five years and one year, the performance of the VFMC is no better or worse than general market performance — they perform as the market has performed, they have not outperformed the market — why are substantial bonuses payable to VFMC staff?

**The CHAIR** — In respect to how your question relates to the estimates, I am not sure the first part of the question actually relates to the estimates.

**Mr RICH-PHILLIPS** — It does because the bonuses will be paid from this year’s budget.

**Mr LENDERS** — Chair, I think the simplest way to answer — —

**The CHAIR** — They are actually not paid from the budget, but anyway.

**Mr LENDERS** — The simplest way to answer Mr Rich-Phillips’s question is that performance bonuses are not an issue for the Treasurer of the state. They are actually an issue for the board of the VFMC, as is appropriate. We can have a general policy discussion about recruitment and retention and all of those issues. Chair, I will take your guidance on that, but ultimately they are issues for the board of the VFMC and not for me as Treasurer.

**Mr RICH-PHILLIPS** — Can I ask: the bonuses that are payable to VFMC staff are outside the guidelines that are established for the rest of the public service; who has authorised that?

**The CHAIR** — I think we had some — —

**Mr RICH-PHILLIPS** — Was that you as Treasurer who ticked off on VFMC being able to offer bonuses outside the general guidelines for the rest of the public service?

**Mr LENDERS** — I will ask the secretary to answer that one, Chair.

**Mr HEHIR** — The framework for remuneration for public sector entities is under a government body, the name of which I think is GSERP. It sets up a framework of policies for every entity. That policy framework is not the same for every entity; it takes account of differences from different sectors. The current remuneration framework for VFMC was established, if my recollection is correct, about three years ago, it could have been two years ago, after the reforms that the Treasurer referred to earlier, when the VFMC was restructured to make it more market oriented, and the remuneration policy framework in my recollection was done through the normal broad process of how government sets those frameworks of GSERP and how that relates to broader government policy. So the policy is not one that the board sets by itself; it is set by government.

**Mr RICH-PHILLIPS** — In that context then, Treasurer, is it appropriate that when the VFMC is not performing any better than the general market, that they are able to receive performance bonuses of up to 80 per cent?

**The CHAIR** — It might be a matter for the board, quite frankly.

**Mr RICH-PHILLIPS** — Mr Hehir has said it was not set by the board.

**Mr HEHIR** — I am sorry I did not say it was not set by the board. What I said was that the framework for remuneration for VFMC, like every other government entity, is a framework that is established by government and then boards are required to operate within that framework. The framework does not tell boards what bonus they can pay individuals. It relates generally to averages and it does not set rules about when they can and cannot be paid. That is what the board does.

**The CHAIR** — That is up to the board.

**Mr RICH-PHILLIPS** — It was not a matter for the board to set the maximum 80 per cent bonus, though; that was approved by GSERP? Is that correct? Can you answer audibly for the transcript, please?

**Mr HEHIR** — The policy which related to VFMC was set by government, yes.

**Mr RICH-PHILLIPS** — Right; so it is a matter for the Treasurer?

**Mr LENDERS** — There are two issues. The fundamental here is: when is it appropriate for bonuses to be paid or not paid for senior investment managers at the VFMC? The answer to that is: that is a decision for the board.

**The CHAIR** — Okay, and there is a discussion on this in our most recent outcomes paper, including advice from the secretary of the Treasury in that regard.

**Mr SCOTT** — Treasurer, I refer you to budget paper 3, page 37, where it refers to 'Improving the lives of Indigenous Victorians'. You may be aware that in my electorate of Preston there is a significant population of indigenous Victorians. Could you outline to the committee actions in the budget to assist indigenous Victorians?

**Mr LENDERS** — Through you, Chair, I thank Mr Scott for his question. Starting in general terms, if we start with budget paper 3, page 37, we are talking here of a series of things. We are starting off with an additional 36 million over four years for a range of initiatives that directly benefit indigenous Victorians, so the overall is a \$36 million amount. There is also a series of indigenous packages. If we go to budget paper 3 page 37, which Mr Scott refers to, there is certainly 25 million over five years to expand and upgrade the Koori workforce. This is regarding literacy, numeracy, support for students, professional development for teachers and principals. I guess the best way to describe it is a Wannik strategy within education to deal with these literacy and numeracy issues.

Part of this is expanding the Koori workforce in education, to talk of stronger leadership and create a culture of high expectations. If we look at this, Chair — and Mr Scott would certainly know through his own electorate — there are challenges and opportunities in these particular areas for engaging the workforce and engaging the students. I certainly know in my previous portfolios there were some very good examples of where programs were working

and other areas where they were not working, so this really builds on this to give Aboriginal students greater opportunities as indigenous students. There is also 2 million over four years for an indigenous youth employment program, there is also 4 million over four years for organisations to assist them with placements of indigenous students. There are an additional 15 literary specialists to assist in schools with high concentrations of indigenous students.

So there is a range of programs in place in this budget to build on the existing work in government, to assist in areas of indigenous disadvantage. This builds on those programs, so that is particular funding for it. Budget paper 3, page 37, covers off those particular funding areas. They are all again an important plank of the social policy agenda of the government and the triple-bottom line. In the social area, they obviously flow — like all other social policy areas do — into the economic area as well. Perhaps Mr Scott could seek more detail from the Aboriginal affairs minister or the education minister in those particular areas. It is part of A Fairer Victoria. It is a very important addition to reducing indigenous disadvantage and to giving people better opportunities, so I thank him for his question, and it is a significant contribution in the budget.

**Dr SYKES** — Treasurer, my question relates to regional infrastructure. I will just preface my question by indicating that the answers from you to the last two questions I have asked you have been rather generic and did not answer my specific questions. I do note by comparison that you have been able to be much more specific in your answers to questions asked by the government representatives on the committee, so perhaps I need to ask more predictable questions.

**Ms MUNT** — We are asking better questions, that is why.

**Dr SYKES** — Such as a question on the fox bounty, as you indicated earlier, you are prepared for. Having led you down that path, I am not going on fox bounties. My question relates to regional infrastructure. There have been significant cost blow-outs in previous infrastructure projects — for example, the fast rail I think blew out from 80 million to a billion; the Spencer Street railway station; myki ticketing; and, as you said, the M1 is one that is coming to blow-out. If we focus specifically on the Regional Development Infrastructure Fund — which is budget paper 3, page 152 — it is my understanding that in the term of this government, investment in the regional infrastructure fund has been announced in the budget papers as going to be \$580 million, but in fact only 200 million has been spent. If we look at page 152, it appears that the allocation for the Regional Infrastructure Development Fund this year will only be 41.4 million, compared with 88.4 for the current financial year. That is an over 50 per cent drop in allocation to the Regional Infrastructure Development Fund. My question is: why is that so? Is it because of cost overruns in other projects, and will country Victoria have to wear the costs of cost blow-outs elsewhere?

**Mr LENDERS** — Chair, I thank Dr Sykes for his question and note that his party voted against setting up RIDF in the first place, so I will take his question in good faith, that he has now had his road to Damascus and is a total fan of RIDF and retrospectively thinks it was a good idea. It was a shame his party voted against it the first time, and it only came back when the *Weekly Times* hammered them.

As far as the forward estimates go, there is a rephrasing of some RIDF projects there. I will get a more detailed answer back to Dr Sykes on this, but to my recollection I think in budget paper 2 or 4 there is a footnote. The footnote in the budget papers to RIDF will tell us there has been a rephrasing of funds, some of that to do with exceptional circumstances announcements by the commonwealth — what we do or do not do within those particular areas. I will get back a more detailed response to him, but I can assure Dr Sykes that, firstly, we not only set up RIDF originally in 2000 but we also replenished it in the Moving Forward statement in 2006, where the government not only continued RIDF but put extra funding into it and into regional cities as well.

We will continue to use RIDF as a funding source for regional Victoria. Whether it be for those areas to the north-east around Dr Sykes's electorate or everywhere, we facilitate with business and with local councils on these regional infrastructure development projects which have been such a big part of growing employment in regional Victoria. We will continue to fund RIDF. There are some phase-in issues in this particular area of RIDF. No money has been taken out of RIDF to deal with cost overruns, if that is his concern. In fact we do not hear, Chair, of issues like the Hallam bypass that run 10 million under budget and three months ahead of schedule. They do not get mentioned at this committee.

**Dr SYKES** — Ten million is not much compared with 900 million over budget on the fast train.

**Mr LENDERS** — They do not get mentioned very often here, Chair. What I can assure Dr Sykes is we are committed to RIDF. We not only set up it despite opposition, we rolled it out for a further period of time. We will continue to fund it. There will always be some phase-in issues from one year to the next. One year you will have a bigger project, the next year a smaller project. Some of these issues deal with exceptional circumstances, where we match the commonwealth, and the cash flow moves around. We are committed to it, we will continue to deliver to it and it will be used for delivering projects in regional Victoria to make a difference, create jobs, grow communities, which is why it was set up and why it will continue to operate.

**Dr SYKES** — You have only spent 200 million of the 580 that you have committed to, and you are dropping it back in the next financial year. That does not look good, but I will look forward to the more detailed answer.

**Mr LENDERS** — Chair, over the forward estimates we are committed to spending RIDF.

**The CHAIR** — I am sure the responsible minister will give you quite an extensive answer in this area, even get in before you ask the questions, I am sure.

**Mr NOONAN** — Treasurer, I am going to stick with the education theme and point you towards budget paper 3, page 24. My last question was in relation to infrastructure spend in this area, so my question this time is whether you can outline the actions arising from this budget which will assist at-risk students and also increase completion rates in Victoria's schools?

**Mr LENDERS** — Through you, Chair, I thank Mr Noonan for his question. His earlier question was dealing with infrastructure, particularly in his electorate, but as part of the rebuilding of schools, the important one, and I guess this question is far more focused on individual needs of students. There are a couple of things, I guess, that I will address in response to Mr Noonan.

One, the government has set itself a target of 90 per cent completion by students, and that was part of Growing Victoria Together. It was part of our earlier target by 2010 to have 90 per cent of students either completing year 12 or an equivalent. We have seen that rate get progressively closer and closer to 90, and I am confident we have been leading the nation on that, or certainly we are right at the forefront of all the major jurisdictions in getting towards that.

But there is more to be done to achieve that target, particularly in times of very high employment. We are seeking to further intervene to achieve that target, and there are a number of interventions in this budget in that particular area. There is certainly 7.3 million towards increasing demand for VET in Schools subjects. That is an area which specifically assists towards that particular target. Also for at-risk students there is \$33 million put in place to assist with the provision of 70 more student support service officers across schools to particularly assist with targeting students in those areas who are at risk.

All of us who have actually gone into schools where there are VET programs, VCAL programs, a range of other programs that are associated with a school or available in a school know that linking of the student to opportunities in the education system will further improve on their skills and educational opportunities. It will not only assist with achieving that target but far more significantly give that student a better opportunity and outcome.

The correlation between completing school or length of time in school and training, and active participation in the workforce, is very strong. It is not the only ingredient, but there is a very strong correlation. This extra \$7 million towards VET and the extra \$33 million towards student support service officers will go to both those objectives — to the target, but more significantly to those individual students to give them greater opportunities in the workforce.

This is an important investment. It builds on the investment in regeneration of schools. It is more than physical, it is also the social and organisational aspects that go around it, which is all part of us getting towards the target of 90 per cent. But these are all individuals we are talking of, and each of these programs will assist in getting those students into the system.

**The CHAIR** — Thank you. I am sure someone some of it will go to the rural areas as well.

**Mr BARBER** — I would like to ask the Treasurer what actions he will be taken to bring VicForests back into commercial viability. Specifically has he issued any directions under section 9 of their charter, and if so, which ones?

**Mr LENDERS** — VicForests — I think, Steve, we have a slide there, if it is still accessible, just to paint the picture of where VicForests is with the bushfires that we have had in East Gippsland and the Central Highlands over the last five years. There has clearly been a sustainability issue, that Mr Barber raises, with VicForests and with forests generally. There are clearly issues on sustainability, there are issues on how we balance it, there are issues on our auctioning system, there are issues on harvest and haul. There is a whole range of issues that arise which VicForests is tackling to commercially deal with forests. There has been a transition as we have moved to this model, and there have been issues on sustainable yield primarily through forests. If we cannot get the slide up, that is fine. I did have a map showing what area there was.

I do not recall giving any — I am just racking my brain. Over the last 10 months I do not recall any directions to VicForests. There have been a number of discussions that certainly the department, I and my office have had where we have been talking of a whole range of sustainability issues and a way forward for VicForests. I think my memory is about to be refreshed on a direction here.

**Mr BARBER** — It is just the *Government Gazette* order.

**Mr LENDERS** — Sorry, 2003 — —

**The CHAIR** — It is probably not to do with the estimates.

**Mr LENDERS** — That probably helps explain why I cannot recall giving a direction, because I was not the Treasurer in 2003.

**Mr BARBER** — Will you in this coming year, with the commercial issues that have arisen in the last year?

**The CHAIR** — Let us look to the future.

**Mr LENDERS** — Mr Barber asked me will I give directions on commercial issues in the next year. I certainly will have a dialogue with VicForests on how it is dealing with some of the emerging issues it has in managing timber options, in managing the harvest and haul contracts, in its strategic plan. I will do that in conjunction with advice from my department. I am not anticipating giving any direction at this stage, but I will certainly keep the committee informed if that changes. But this is anticipating giving a direction on something that may happen in the immediate future. I may see whether the secretary wishes to add anything to my answer on that particular question.

**Mr HEHIR** — If your question relates to directions about corporate plans and statements of corporate intent, then I think the original direction is ongoing.

**Mr BARBER** — That was set up — —

**Mr HEHIR** — Those entities provide corporate plans et cetera.

**Mr BARBER** — Yes. It is just that here in the budget papers you have got, under ‘GBE Performance Monitoring and Financial Risk Management’, ‘corporate plans reviewed and assessed, 187’. I do not know what proportion that is or whether VicForests is one of those 187. It will be reviewed and assessed this year, every year?

**The CHAIR** — There are 300-odd entities.

**Mr BARBER** — A two out of three chance.

**Mr HEHIR** — VicForests is monitored by the department for the Treasurer, yes.

**The CHAIR** — Thank you for that.

**Mr PAKULA** — On page 24 of budget paper 3 there is a heading ‘Improving school outcomes’. It goes through the *Blueprint for Government Schools* and some funding for early childhood development and school

reform. I suppose what I am interested in is, coming out of that header, what specifically within those programs does the budget do to address the apparent disparity in school performance across the state?

**Mr LENDERS** — Chair, through you I thank Mr Pakula for his question. Education has been the government's no. 1 priority, so I am pleased to take estimates questions on the education area and particularly out of budget paper 3. There are a number of things. In response to a number of questions we have touched on performance in schools, we have touched on the regeneration projects as, I guess, vehicles for dealing with both the physical, and organisational and academic areas of schools.

Part of this budget, which gives foundation to the existing blueprint and obviously assists with the work in the new blueprint, which is being consulted at the moment, is more than \$71 million — I think that is the figure on page 24, which we are talking of — to help lower-performing schools. What we are seeking to do here is to absolutely target those lower-performing schools in the state, to assist them with giving their students the best opportunities in life that our education system can provide for them.

There are a range of things that will come into there. Some of them, in response to Mr Pakula, are issues like getting the best teachers to move to the areas where there is a greatest need of teachers. This is an area I am sure the education minister will be very enthusiastic in talking of. But we have some fantastic teachers in schools where the challenges are not as high as in some other government schools, so there are incentives in this budget, as part of this \$71 million, that actually enable the best teachers to go from high-performing schools to areas that are not performing as strongly, so to assist those students in an area. Incentives for best teachers to work where they are needed most are certainly one part of it.

Another part of it is new school improvement leaders to work with schools in improving their performance. It is interesting. I guess in any organisational sense leadership in an organisation is very powerful, very strong. To actually get school improvement leaders to go into areas that are more challenged for all sorts of reasons, whether they be historical and depending on how you measure them, but getting those leaders to move to the areas where they are needed the most is another part of that. There are executive contracts for principals in some of these areas, again to get principals out there, to offer better opportunities for them, more accountabilities for them. There are executive contracts for high-achieving principals in some of the more difficult schools. They all build into this \$71.4 million in this year's budget to assist with those areas.

Another part there is getting some partnerships going between high-performing and low-performing schools. We have seen lots of anecdotal evidence of this working. We have seen lots of international data on this working. This 71.4 million facilitates, offers a vehicle, for this to actually work more effectively. There is a range of things in there that are all about enhancing school performance.

There is also money for getting 75 outstanding graduates in government schools into hard-to-staff subject areas, to employ 75 graduates. There may be opportunities for some members around this table to actually go into government schools with their skills as part of those 75 high-performing, outstanding graduates in different areas. Also there is a lot of work in maintaining — \$22 million into the literacy improvement teams, again to get those core skills out. If you are a student and you want to have that opportunity, the challenge for our system is how does that student come out literate, numerate, a whole range of those other attributes which are such an important part of the department's goals in education. This \$71.4 million actually for school improvement in a range of these areas I have outlined, and some more I am sure the minister would be delighted to outline, will assist in giving students these opportunities.

If we drill down to the difference it can actually make, the largest of our regenerations is Broadmeadows. Historically how you measure student performance in those areas has not been strong. It has been incredibly disappointing. It is the reason this government has injected as many resources as it has to give those students the same opportunity as students in any other part of the state. You do that by good buildings, good school leadership, good teachers, good programs and other support that is necessary for the students to give them a great chance. They are opportunities. Opportunities in a place like Broadmeadows in building links with industries are very important. Broadmeadows has a very large manufacturing component.

A lot of these industries are looking for skills, and the industry and the education system can partner each other. There are a lot of opportunities here, and I think the outcomes of this will be something that we can all be proud of in years to come.



**The CHAIR** — Okay, thank you, Treasurer.

**Mr DALLA-RIVA** — Thanks, Chair. Treasurer, earlier in your presentation you went back to 1962, so I will take you back under table A.3 under the statement of finances in the budget paper, page 250, where you go back to 1999 through to this financial year.

**Mr BARBER** — Down the timetable.

**Mr DALLA-RIVA** — The employee expenses in the budget have increased at an average of 9.7 per cent per year. The latest budget has forecast — and that is on table 1.1 on page 10 — annual increases of 6.9 per cent in employee benefits over the next four years. If the actual increase in public service benefits reaches 10 per cent — or nearly 9.7 per cent, as it has in the previous years — the budget will need to find an additional \$1.5 billion over the forward estimates. So can you guarantee that the budget will not exceed the annual average 6.9 per cent increase, given that no budget under this government has ever achieved that; it has always been at an average higher level?

**Mr LENDERS** — Chair, in commenting on government employment there are a number of comments that I would make. Firstly, if we are talking for the future I would hope to have a consistency; it is the same party that was actually calling for the highest paid teachers in the country while cutting taxes and not investing in infrastructure. But leaving that aside, going into the future, what our estimates will continue to show in employment is a range of things. Clearly when we look at the forward estimates for employment growth we factor in wages. That is obviously a component. These figures are obviously factoring in superannuation; factoring it as a component. But it also factors in ongoing increased service delivery. To stretch it over from where Mr Dalla-Riva started in 1999 to paint the picture through to the end of the forward estimates period, Chair, just to recount, this government — and it is reported in these forward estimates — has actually engaged at least 8000 nurses, 1800 doctors, 1400 police, 8000 school staff, just to start on some of the service delivery aspects that we have actually put into our budget papers.

We have also seen the state growing. Our population, as we saw in the earlier figures, is growing at 1.4 to 1.5 per cent a year right through the forward estimates period. Yes, we are seeing employment in government growing, but it is growing as, one, the state is growing — the state continues to grow in population — and, two, unashamedly we have delivered in service delivery. We got elected — and it goes to one of those five financial objectives of service delivery that you yourself drew attention to before, Chair, where we actually deliver services. And delivering services means doctors, nurses, teachers, police. So employee benefits are expected to increase over a period of time.

If we also go through to — and I would be interested in reconciling the different budget figures. We are talking about employee benefit expenses increasing by an average of 5.43 per cent a year. I would be interested in, and perhaps I will take on notice, reconciling those various tables Mr Dalla-Riva is using versus the other tables we have got. And we have got employer expenses going up. Some of this comes from government wages policy. We are adding 3.25 per cent per annum to wages; that obviously is component. We have also got commonwealth SPPs other than through on-passing, where on average we were having to put \$140 million a year extra into our wages bill because of the consequences and expectations of commonwealth SPPs. So they come onto our payroll. They are funded by the commonwealth.

We have also got employee expenses associated with own-source revenue for schools, TAFEs and hospitals. That is \$33 million a year on average, which you add into the equation. We have got additional employee expenses as a result of these budget decisions and again issues rising out of indexation. So they are the service delivery areas that I talked about before, and more paramedics in the ambulance service, which we announced as part of this, and more medical staff. We have got expenses as a result of policy decisions across the board. So there is a range of areas in this budget that all go to why our employee expenses are rising. But the core is we have wages policy of 3.25 per cent, our population is growing at 1.5 per cent, and in the areas like health, education and community safety there is a strong correlation — not a direct correlation, but a strong correlations — with staff numbers that arise out of that. And then there are those commonwealth SPPs which come on and the on-costs or the extra staff employed at schools, TAFEs and the like. So they paint the picture of why that line is going up.

So we will continue to deliver more services as they have been committed to. They are obviously included in the budget. We have seen in health a \$700 million-plus expansion in the health budget. A lot of that is actually in service and staff numbers. That will continue to be the case. We will prudently and modestly manage these issues,

but when we are providing more services for Victorians the largest part of any budget is the wages costs of delivering those services.

**The CHAIR** — Thank you, Treasurer. We have time for two more quick questions. What role is the department playing in the COAG national reform agenda working groups? You and the secretary might tell us because we did not have a discussion about it yesterday.

**Mr LENDERS** — I might open up, Chair, and then the secretary might respond further. Certainly we payroll Victoria as a large state. Our central agencies, both DPC and DTF, play a key role in payroll in all working groups. We have a lead role on the working group dealing with deregulation, their business deregulation issue. That is a role that Victoria leads on, and it is certainly a role that we are determined to work for the reasons outlined earlier on — it deals with those whole human capital, infrastructure issues. But on the human capital and productivity issues there are enormous steps and gains that we can make by reducing regulatory burden.

We have no concern whatsoever of regulating where it is targeted. It is specific. There is a business case for it, and we offset the burden somewhere else. We have no issue with it, but we do seek to reduce unnecessary burden. So that is one of the strong focuses for Victoria. We have certainly led the way on SPPs. We are certainly leading the way on a whole lot of competition policy issues we are doing to reduce red tape. I have certainly reported. I will hand over to the secretary now, but I have certainly reported previously on the role we have played in reducing the burden in WorkCover, on removing unnecessary administrative burdens. We certainly have in the whole fair trading regime — whether it be telemarketing and others — in the past we have done a lot of work in this area. We are harmonising now on payroll tax. Victoria and New South Wales have a common outlook, which reduces the cost of business across the board, which we have led.

These areas feed very much into COAG and into the working parties. Now a number of other jurisdictions are signing on board because they can see the benefit of this work, led by Victoria and New South Wales. We will forever seize the opportunity of a new national government that wants to work collaboratively with states on a national reform agenda. We will seize the opportunity. We will participate in all the working groups. I must add that they do add stress across the board to every jurisdiction, whereas Treasury officials here are seeking to prepare budgets and do the other important things in the Victorian jurisdiction. But Grant and his team will roll up their sleeves. They will be off there at every forum to add value so that the commonwealth can learn from what Victoria has done, and we can play our part in reducing regulatory burden and assisting. I might hand over to the secretary now if he wishes to add anything.

**The CHAIR** — You do not have to. You can give us more detail in writing if you like.

**Mr HEHIR** — I think that covers it. There is a senior official from the Department of Treasury and Finance on all of the COAG working groups. We participate actively in all them. On top of that, there is a working group from the Treasurer's ministerial council on reforming specific purpose payments, which we actively participate in as well.

**The CHAIR** — You report by the end of the year, I think. A final question from Mr Rich-Phillips.

**Mr RICH-PHILLIPS** — Treasurer, just as matter of clarification, I take you to budget paper 4, page 12, which is the general government balance sheet. You will see on that that the borrowings listed for general government are listed at 6.7 billion for 08, rising to just under 15 billion for 2012, which is a 6.3 billion increase, consistent with the text. However, in budget paper 2 on page 51 the same table is reproduced. You will see the line items are the same — total assets et cetera, liabilities, financial assets and non-financial assets — but the difference is the borrowings line. In the table on page 51 borrowings are actually shown as 7.3 billion, rising to 15.6 billion, which is an increase of 8.3 billion. Can you reconcile why one table is suggesting borrowings will rise by 6.3 billion and the other is different and suggesting a rise by 8.3 billion? Given that everything else on the table is the same, why are the borrowing figures different?

**Mr LENDERS** — We will get back specifically to Mr Rich-Phillips, but I think we have the borrowing line and the other line on the one table, versus the single line on the other one. We will get back specifically with him on an answer to that reconciliation that he seeks. It is obviously in chapter 1 of budget paper 4, which the Auditor-General actually has formally signed off on. But I am confident that that is what it is — the two lines on the one table.

**Mr RICH-PHILLIPS** — So it is in essence the same table.

**Mr HEHIR** — It is how we have consolidated the table.

**The CHAIR** — So it three lines in one, and it is seven in the others. There is obviously some sort of collapsing there.

**Mr RICH-PHILLIPS** — Borrowings in one is not equal to borrowings in the other.

**The CHAIR** — You will be able to give us an explanation of how those two tables can be reconciled, please.

**Mr HEHIR** — It is borrowings and deposits held. The two of them actually do reconcile. Those two lines do go together.

**The CHAIR** — It is probably more than two because it is 15.6 in 2012.

**Mr RICH-PHILLIPS** — So what is shown as borrowings on page 51 is borrowings and other provisions on page 12?

**The CHAIR** — I think it is probably deposits held as well. Can you give us a clarification? It is probably three lines rather than just two.

**Mr LENDERS** — It is probably worth commenting in a sense, in closing, on that. I did not mention in here that this is the first budget where the GAAP/GFS harmonisation is actually starting trying to flow into the accounts. We have talked over a number of years about that process going through. There are a number of measures in here. They have all got the explanatory footnotes on them. The text goes through the whole way how some of the accounting standards are varying. This is very good for us in Victoria, in concluding, because we can now actually start matching far more effectively apples with apples with other jurisdictions than we previously had been able to. We had the generally accepted accounting principles. Some jurisdictions — like the commonwealth and New South Wales, notably — a few years ago were just using GFS and a range of other things. Obviously at the annual financial report the accounting standards applied, but we were doing it in May of one year, the other jurisdictions were catching up 16, 18, 20 months later. So it is worth noting as we all start moving through — and this is an iterative stage on some other jurisdictions — it will be far more effective at budget time matching apples with apples than we have ever been able to before. So I guess that is a positive progression. It has been a long iteration of this happening, but Victoria has always been in the lead. Victoria and the ACT have been in the lead on this form of accounting. Finally the more recalcitrant places are finally catching up. It is good to see.

**The CHAIR** — This is true. This concludes the consideration of the budget estimates for the Department of Treasury and Finance, at least those parts which are the responsibility of the Treasurer. I thank the Treasurer and departmental officers for their attendance today. There will be a number of issues which are being followed up, which I am sure the Treasurer has in hand. We would appreciate it if those matters could be provided to us within 30 days.

**Witnesses withdrew.**