

VERIFIED TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2008–09

Melbourne — 12 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. Brumby, Premier,
Ms H. Silver, Secretary,
Mr M. Duckworth, acting Deputy Secretary,
Mr M. Kane, acting Deputy Secretary, and
Mr A. Fennessy, Executive Director, Department of Premier and Cabinet.

The CHAIR — I declare open the Public Accounts and Estimates Committee hearings on the budget estimates for 2008–09. On behalf of the committee I welcome the Premier, John Brumby; the Secretary, Helen Silver; Mark Duckworth; Michael Kane and Adam Fennessy. There are a number of other people behind the chairs. This one here we will put on the delegation, too, but I do not know your name.

Ms REICHSTEIN — I am Simone Reichstein and I am doing the PowerPoint presentation.

The CHAIR — Other officers need to be up there with the audience or else you can have them at the table, if you wish, Premier.

Mr BRUMBY — No, I think that is all I need.

The CHAIR — They are unable to approach the table. They can sit there, but they are unable to approach the table.

Mr BRUMBY — What does that mean?

The CHAIR — It means if they have contact with you, they will have to go through the secretariat.

Mr BRUMBY — So they go through Mark or through Helen?

The CHAIR — No, through Valerie Cheong. Normally we do not have people behind witnesses.

Mr BRUMBY — That is fine. You do not want them to sit there?

The CHAIR — No.

Departmental officers, members of the public and the 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 the PAEC members at the table. Departmental officers, as requested by the minister, can approach the table during the hearing, if they wish to do so.

Members of the media are also requested to observe the guidelines for filming or recording proceedings in the Legislative Council committee room. I might add for the benefit of the media that in respect of cameras, they should focus on the person who is speaking. I note that last year I think the *Stateline* program did not follow those procedures, and I would like them to be followed this year.

All evidence taken by this committee is taken under the provisions of the Parliamentary Committees Act and is protected from judicial review. However, any comments that are made outside the precincts of the hearing are not protected by parliamentary privilege. There is no need for evidence to be sworn. All evidence given today is being recorded. Witnesses are to be provided with proof versions of the transcript, to be verified and returned within two working days of this hearing. In accordance with past practice, transcripts and the PowerPoint presentation will be placed on the committees' website, plus any other documents that witnesses might wish to tender.

Following a presentation by the Premier on the budget — I am not really looking for an extended presentation of the past; we are looking to the future — members will ask questions related to the budget estimates. Generally the procedure follows that relating to questions in the Legislative Assembly. In other words, we do not normally have supplementary questions, and we expect that replies will be confined to around about 4 or 5 minutes.

I ask that all mobile telephones be turned off, and I now call on the Premier to give a presentation of no more than 10 minutes on the more complex financial and performance information that is the responsibility of the Premier as the Premier.

Overheads shown.

Mr BRUMBY — Thank you, Chair, for the opportunity to present today. I just have a few brief slides, and I know the Secretary of the department, Helen Silver, also has some additional slides on which to present. If I could I will just talk briefly about the department and highlight the key priority areas of the government and also emphasise the critical role the Department of Premier and Cabinet has in overseeing and implementing the government's broader agenda.

In terms of the role of the department, I think you are pretty conscious of that, but obviously it has a key role in supporting the Premier. 'Strategic policy leadership': I think we have seen great examples of that in recent years. Probably the best example is the development of the national reform agenda, which was a product I think of the former Premier and me, then as Treasurer, and the Department of Premier and Cabinet coming together to work out what it is we could do to drive productivity growth. Obviously we have listed whole-of-government initiatives and developing whole-of-government services as well.

In terms of the outputs, you are aware of those — strategic policy, public sector management, and arts and cultural development. I would emphasise arts and cultural development too amongst those. I know you will have the Minister for Arts presenting to you, but this is an increasingly important aspect of what we do as a government. The whole innovation agenda, the whole creative economy — all of these things are important to the livability of our state: not just to livability but also to driving a stronger economic performance.

I just want to put that slide up as well. When I became Premier last year, I identified a number of key priority areas. These are not things, obviously, that are exclusively the priorities of government, but the things which I emphasised at the time as being areas to which I give a stronger priority. DPC has been working closely with me to do that. You will see that in each of those areas we have in fact announced a number of significant initiatives over the last seven or eight months, designed to accelerate reforms and outcomes in these areas.

The recent budget, as you know, we described as taking action for our suburbs and regions, and I think in every sense of the word that is what the budget did. But if you think of the budget in a broader context, firstly in terms of families, it is a strong budget in terms of families, embracing all of the baby boom considerations: maternal and child health, education; local communities, through improved public transport, better planning and improved community safety; jobs, of course, through good financial management, investment in skills, and key economic infrastructure; and of course water and climate change, where we announced some significant initiatives, particularly in relation to climate change, the clean coal fund going forward — \$110 million over the next five years, additional funds, \$72 million extra, for renewable energy, and a big program which was recently supported, too, of the highest solar feed-in tariffs anywhere in Australia. When you put all of that together, it is a very strong package on climate change.

On families, as I said, as you heard the Treasurer and me say very frequently last week, in the last year we have had 73 737 births in Victoria, and that was the strongest growth, I think, or the strongest number of births since 1971, and we need to make sure that we are properly planning for that in the future. We are building a new children's hospital. We are building a new women's hospital, due for completion just in the next month or so. But the budget was about doing even more in this area. So it has a big commitment on health capital works; a big commitment on education — as you know, \$592 million — the biggest investment in rebuilding our schools infrastructure in the state's history by a long, long way; and \$150 million for a cancer action plan.

I should just say on that that yesterday, along with a number of other MPs and particularly government MPs — and the member for Mordialloc was one of those — I walked in the Mothers Day Classic, and said a few words at the start of that. But there was a very positive response to the \$150 million cancer action plan that we announced, so we are just doing, I think, more than any other state and setting a further reduction in mortality rates or an improvement in survival rates by a further 10 per cent by 2015. Cancer is an area where we have done a great deal.

There is the alcohol action plan as well, which we announced last week. Minister Lisa Neville chaired that. There has been some public debate about that, particularly about the 2.00 a.m. lockout, but it was the right thing to do in terms of making sure we properly protect the interests of young people.

If I can just go on to the next slide, local communities, it is important to note that one of the great strengths of our state is our livability. I have said that if you look at the three key elements for us going forward — productivity, livability and sustainability — these are really the key to Victoria's future. So there is a big agenda there for local communities; affordable housing; public housing — of course we had the big boost last year; a big infrastructure package for transport, and there have been a lot of improvements there, whether it was the Laverton short starters, Westall or the Craigieburn improvements.

There is also the bicycle and pedestrian network. I think we probably already have the best bicycle and pedestrian network of any capital city in Australia, and with the additional funding in this budget we will go well ahead of the

other cities, and that is so important in terms of livability. There is also funding to modernise the Victorian justice system, including some additional judges, so that cases can be heard more quickly.

Just finally, on jobs and growing our economy, there is a big skills agenda there. Last year we trained more apprentices and trainees than any other state in Australia, but as in all of these areas we need to do even more in the future. So we have a big skills package. There is some support there for marketing internationally. It is a big budget in terms of tax cuts. No doubt this will come up in questions later and in questions to the Treasurer, who is due to appear probably later this week. Is that right?

The CHAIR — Tomorrow morning.

Mr BRUMBY — No doubt he will comment on these things. But needless to say this is a very good budget in terms of reducing business taxes and creating the right environment to grow jobs into the future. Of course we have the farming package, which I announced with the Minister for Agriculture just two weeks ago. It was well received by farmers and by the Victorian Farmers Federation.

On water and climate change, those initiatives — I mentioned some of them before — are the clean coal technology, the renewables and the feed-in tariffs; Victoria's water plan — \$600 million going into the food bowl, which is a huge project and is the biggest investment in our irrigation infrastructure that the state has seen in 80 years; channel deepening; and our parks and reserves and better protection for our catchments — which again go to the livability of and the quality of life in our state. It is exactly 10 minutes, Chair.

The CHAIR — It is exactly 10 minutes.

Mr BRUMBY — And I will now pass over, if I can, to the Secretary of DPC, Helen Silver.

The CHAIR — She will have to be very quick, because the 10 minutes is up. You have got about 2 minutes, Helen.

Ms SILVER — I am pleased to be here before the committee to present the budget estimates for the Department of Premier and Cabinet (DPC) for 2008–09.

The Department of Premier and Cabinet supports the Premier as head of the government and Cabinet. Just to highlight, we consist of five groups. Since the last briefing we have established one new team to respond to the changing environment — the national reform group. This group leads the Victorian government's participation in the COAG new reform agenda. By undertaking this work as a dedicated team we are trying to ensure that Victoria has a very strong negotiating position across a wide breadth of areas, delivering a coordinated approach across all the Victorian government but also across the jurisdictions across Australia.

The DPC portfolio agencies are as highlighted on the overheads. These agencies provide independent services that aim to ensure the effective management, governance and support of the public sector. The department's role is to ensure these independent agencies are appropriately supported so that they can perform their functions.

As the Premier highlighted, the DPC portfolio also encompasses the following independent arts agencies funded through Arts Victoria, and they are all listed on the slides. I will not go through them individually.

As outlined in budget paper 3 and stated by the Premier today, the Department of Premier and Cabinet is funded against three outputs and the description of those is highlighted against the outputs.

The table on the next slide is taken from budget paper 3. It shows that the department had a 1.7 per cent funding increase from 2007–08 to 2008–09. This increase represents escalating funding and new arts initiatives. There is also a general efficiency saving of \$8.3 million, which has been applied across all three output groups. All arts initiatives funded in 2008–09 contribute to the arts and cultural development output group. I should just point out that 77 per cent of DPC's budget is allocated to the arts and cultural development output group. This output cost has increased by 1.6 per cent overall. As stated, the Minister for the Arts will take you through more detail on that.

The CHAIR — Thanks very much. We might now move to questions to the Premier. You might know from our previous reports that the national reform agenda and productivity is something which is very dear to the heart of this committee, and you have mentioned the role of DPC in terms of lead role intergovernmental issues.

Can you please outline the most recent examples and where we are going in terms of engagement between the Victorian and commonwealth governments?

Mr BRUMBY — There have been a number of examples and historically the national reform agenda is probably the best example of significant reform, which is about driving productivity growth. It is really about two things: it is about investment in human capital; but it is also about regulation reform. I think it is regulation reform that links very much to the last two COAG meetings which we have had in Adelaide and in Melbourne. The Prime Minister is working very closely with the states on regulation reform. We have already made a number of significant announcements about elements of the regulation reform package. The next COAG meeting in June will provide further concrete evidence of harmonisation of regulation areas between the states. That is good in terms of reducing business costs; it is good in terms of reducing unnecessary regulation; and it is good in terms of driving productivity, which is at the core of the agenda.

We have had some other examples of good cooperation — obviously the Murray-Darling Basin agreement recently, and the increased health funding. These are positive things. I think another example, to put it in an even more contemporary framework, is today's submission which our government made to the federal government on the future of the automotive industry. I released our submission this morning out at Futuris in Campbellfield. I note one of the media reports said I had released it in Camberwell. I was actually in Campbellfield.

The CHAIR — I was hoping you were coming to Camberwell!

Mr BRUMBY — I am not sure how much motor vehicle manufacturing is in Camberwell, but there is a lot in Campbellfield. In our submission today we highlighted the importance of this industry: 35 000 direct jobs in our state; two-thirds of the motor vehicle industry across Australia is in Victoria; 74 per cent of the research and development is in our state. One of the areas in which we are a leader, I think, is in the innovation R and D in design area. The submission we released today argues that the tariff level should be maintained at 10 per cent until 2015. It argues that the ACIS — the automotive competitiveness investment scheme — ought to be maintained at its current level also until 2015.

We also argue in our submission that the federal government \$500 million green car fund should not just be devoted towards a single new green car but should be disbursed more broadly amongst existing manufacturers to make sure that our cars are cleaner and greener. I stressed this at the press conference this morning, having just returned earlier this year from Nagoya on a meeting with the president of Toyota, Mr Watanabe. I think there is a very strong view amongst the car manufacturers that they want their cars to be cleaner and greener, and if you ask consumers, they want their cars to be cleaner and greener and more fuel efficient. So the submission we made today was about, firstly, maintaining investment and jobs in the industry, maintaining a competitive industry, but also pushing it more strongly towards the environmental technologies.

I just make one final point: we have generally been a government which has supported lower tariff's, but in relation to the automotive industry the reality is that among our competitors, there are very few if any in the world anywhere that have a tariff anywhere near as low as 10 per cent, and over the last few years while we have been busy reducing our tariffs, our competitors have not been busy reducing theirs. In addition we are seeing an increasing level of non-trade tariff barriers. At Futuris this morning I was told they make 130 different seats for the auto industry; they benchmark the very best of any of their plants anywhere in the world, so they are competitive.

But they cannot compete against other countries that have got 30 or 40 per cent tariffs and a whole raft of non-tariff barriers. Our view today was we should maintain that tariff at 10 per cent. I note that not all political parties agree with that position, unfortunately, but we think it is the right position, we think it is the right thing for our state, and we think it is the right thing in terms of investment in jobs in an increasingly competitive international economy.

The CHAIR — Thank you, Premier.

Mr WELLS — Premier, I refer you to table 2.4 on page 85 of budget paper 4, which details the state budget forward estimates in relation to net state debt, which shows that, including non-financial public corporations — —

Mr BRUMBY — Sorry, what page?

Mr WELLS — Page 85 of budget paper 4, at the bottom. We see that debt will rise fourfold from \$5.715 to \$11 billion in 2009 — —

Mr BRUMBY — What line? Down the bottom.

Mr WELLS — The very bottom line.

Mr BRUMBY — You are on net debt, down the bottom?

Mr WELLS — Net debt, yes. It includes non-financial public corporations — \$16 billion in 2010, 19.5 billion in 2011, and 22.87 billion in 2012. Can you provide a guarantee or an assurance to the committee that this state debt will not exceed these estimates?

The CHAIR — Premier, in so far as it relates to the estimates and your portfolio?

Mr BRUMBY — In so far as it relates to the estimates, what I can refer you to, Mr Wells, is firstly, if you look at last year's budget papers in relation to government sector net debt, they in fact forecast that debt would be higher than is forecast for this year's budget paper, and I am talking about budget sector net debt. I cannot recall the figures into the non-financial public sector, but certainly in relation to government sector net debt, the forecast was, I think, \$7.9 billion by 2010. In fact, if you look at this year's budget paper, debt is less.

If you want to look at a pattern in relation to this government, every budget we have brought down has produced a budget operating surplus, as you are aware. But more than that, every budget that we have brought down has also produced a cash surplus. I mention that because we have not always promised to deliver a cash surplus. In fact, in the last two budgets, we have not promised to do that, but as it has turned out, in every budget we have also produced a budget cash surplus.

That is why debt today is the lowest level it has ever been in my lifetime. I was born in the early 1950s, I was born during a period of the Bolte government, and debt today is the lowest it has ever been in my lifetime, and by 2012 it will still be the lowest it has ever been in my lifetime in terms of comparative governments. So that is the debt issue.

I also refer you to budget paper 2 so far as it relates, of course, to the estimates, to page 56. If you look at the table there — this is 'General Government sector debt, net financial liabilities and key ratios' — you can see the figures across the top, the net debt figures and the net financial liabilities figures, but I think the key thing, Mr Wells, is the net financial liabilities to GSP. When we were elected it was 11.9 per cent of GSP; today it is somewhere between 6.8 and 7.9 per cent. By 2012 it will be 8.9 per cent.

As a share of the economy it is significantly lower, and I suppose more significant is the net interest and superannuation interest expense to total revenue. If you were running a business, if you were running a company, that is the measure you would be interested in: how much of your current income do you have to devote to service those liabilities.

When we came to government it was 4.6 per cent, and at the moment, it is 1 per cent, and in 2012 it will be 2.1 per cent, and that is why Standard and Poor's rates the budget so strongly, and says that there is no risk to the AAA rating right through to 2012.

Mr WELLS — Premier — —

The CHAIR — Thank you, Premier.

Mr WELLS — No, hang on.

The CHAIR — Only if it is clarifying insofar as he may not have answered your question, and I actually believe he has.

Mr WELLS — It is to clarify. You have got better hearing than me, Chair, because, Premier, the question was very clear: can you give an assurance or a guarantee to the committee that state debt, as outlined on page 85, table 2.4, will not exceed those limits that have already been placed, and that is that \$5.7 billion in 2008 will rise up to \$22.87 billion. Can you reassure the committee that the debt will not exceed those amounts that are on page 85?

Mr BRUMBY — What I have said to you is if you look at our budget performance over recent years, we have in each successive budget — and have a look at this year's compared with last year's — actually come in below the estimates. We have come in below the estimates.

The CHAIR — Okay. Ms Munt?

Mr WELLS — That is a reassurance that that is what will happen?

Mr BRUMBY — I have answered the question.

The CHAIR — I think the Premier has answered the question twice.

Mr WELLS — Sorry? No, you have not answered it.

The CHAIR — I think the Premier has answered the question.

Mr WELLS — Well, can you clarify the Premier's answer then, Chair?

The CHAIR — The Premier has answered. We move on to the next question.

Mr WELLS — Chair, would you like to clarify what the Premier has said in regards to the debt blowing out further?

The CHAIR — I think we will have Ms Munt's question now, thank you.

Ms MUNT — Thank you, Chair. A big part, of course, of what government does is service delivery, budget paper 3, and a part of that is letting people know what information and services are available. I refer you to page 207 of budget paper 3, under 'Government Information Services and Support'. In your introduction you said that making government more accessible and accountable is your focus. Could you please let us know what actions are being taken to improve the transparency, openness and availability of information on what services are available through government?

Mr BRUMBY — Thank you for the question, and a lot of information is provided on page 207, and indeed on page 206. But when I became Premier last year, I indicated that I wanted to provide more information, more openness, more transparency about what it was that government was doing, and how we make government decisions.

One of the examples of that was the annual statement of government intentions, which has certainly been very well received by the community. We know that from the feedback we have had on the government website, and we know that too from members of Parliament who have been able to go out into their communities and talk about what is on the legislative agenda for the next year and get feedback on that. I think it is a great example of government work, about openness, and about putting the program out there, and that is one initiative.

There has also been a further initiative. We have upgraded the Premier's website. There is an opportunity now for a 'Your say' section, in a sense, for people to feed in their ideas, and they are using that. Transcripts of press conferences and major speeches that I do virtually daily, are now put out on the net, so they are available to the public and they are available to journalists as well. There is a new website which has been launched giving the names of all Victorian public body board members and remuneration bands. We promised to do that and it is out there. Quarterly reports on ministerial travel are now out there. Sometimes they attract comment in the media, but it is a good thing to do to get all that information together and to put it out there so the public can see when ministers travel and what has been achieved through those overseas trips.

As you know, we also introduced legislation to remove fees on FOI applications. Unfortunately that bill was blocked in the upper house, and the government is currently considering its options in relation to reintroducing this measure.

When I became Premier I also promised that we would provide funds to the Parliament to enable the audio and video webcasting of Parliament, and I am able to announce today that audio webcasting will be ready for the August sitting week. If you compare our Parliament to others around Australia, particularly the federal Parliament, we have been miles behind in this regard. In the information age where there is an appetite amongst the public for a

lot more information and copy and content, people want to know what is going on, and I think that to have this webcasting will be a big step forward. As you know, in the budget we provided the additional funding, and the Speaker has advised that that rollout will occur in August this year. I think that will be very positive.

If you put all of those things together I think these are a substantial set of initiatives to further open up government and further provide information. Of course, as you are aware, we gave PAEC a broad reference on government accountability, and we are currently considering the report. It is a very comprehensive report and we will respond in due course. In fact that could be the report sitting — —

The CHAIR — No. I brought the outcomes report, which is the most recent one. In our accountability report, which of course was a unanimous report, we recommended that you move also to video webcasting, so I hope that is on the agenda. I hope that in setting up the audio the IT people will be able to make it easy to bring us on stream some time in the future.

Mr RICH-PHILLIPS — Premier, can I take you to page 46 of budget paper 4, to ‘Reconciliation of the fair value of superannuation plan assets’, which is the bottom table on that page. The table shows that for 08–09 the opening balance of superannuation plan assets will be \$17.5 billion. The budget update last December suggested that for the current year, 07–08, the figure would be \$19.5 billion, so it is showing roughly \$2 billion decline from the budget update to the actual budget.

Mr BRUMBY — Yes.

Mr RICH-PHILLIPS — Can you tell the committee please what proportion of that represents losses in equity markets versus withdrawals by beneficiaries from super funds? How much of the decline is actually money that has been lost?

The CHAIR — Premier, I think this is probably a question for the Minister for Finance, WorkCover and the Transport Accident Commission. It is a very detailed question. I am happy for the Premier to answer broad policy and strategy issues, but — — —

Mr RICH-PHILLIPS — The Premier has responsibility — —

The CHAIR — He does indeed, but in terms of portfolio responsibilities. The Premier, insofar as it relates to your portfolio.

Mr BRUMBY — I am happy to discuss the matter with the Minister for Finance, WorkCover and the Transport Accident Commission and get the information. I know Mr Rich–Phillips would not expect me to have that information off the top of my head today. We are happy to get that.

Obviously share markets nationally and internationally have declined over the last few months. Share prices do go up and down, so that could account for some of that. This is when you market to market. Indeed, Chair, I was looking through the performance of the VFMC just the other day, and looking through its performance in the 1990s. Of course that was a different time and a different era. I think there was one quarter where the decline in the asset values held by VFMC was 4.9 per cent in it was either 1997 or 1998. Share prices go up and down, and I think, of course, with superannuation and TAC and WorkCover you are essentially looking at long-tail liabilities — I know you are aware of this. What you are interested in is a long-term rate of return. You are not after daily fluctuations, or weekly or even yearly fluctuations. You are after a long-term rate of return measured over 10 or 15 years which will pay for the long-tail liabilities. If you look at the performance this decade, and indeed for most of the last decade, there has been a very strong performance, whether it is the super fund or VFMC. They have done well over that medium and longer-term period. I think that is what you need to stay focused on.

Mr RICH-PHILLIPS — How has VFMC performed to date this financial year given your recent inspection of the books?

Mr BRUMBY — I do not — —

The CHAIR — Deal with the estimates.

Mr BRUMBY — My attention was drawn to some results in the 1990s — 1997 and 1998 — where there were very large quarterly losses.

Mr RICH-PHILLIPS — You do not know what the current financial year is?

Mr BRUMBY — No, I do not have that.

The CHAIR — You can ask the Minister for Finance, WorkCover and the Transport Accident Commission those sorts of things.

Mr SCOTT — I refer the Premier to page 204 of budget paper 3 — and I think this was in the slide presentation — and the Department of Premier and Cabinet's objective to deliver whole-of-government services and programs, and I ask: how is DPC helping to deliver on the Premier's stated priority of education, skills and lifelong learning including early childhood development?

Mr BRUMBY — Thank you for that. As you know, when I became Premier I said that there would be a very high priority under my government on early childhood development and giving every child the very best start in life. One of the first decisions I made was to incorporate children's services within the Department of Education and Early Childhood Development and create a stand-alone minister for early childhood development; that has been, I think, extraordinarily well received.

The budget that was recently brought down provides a number of other tangible measures to really ensure that we give every child the best possible start in life. In this budget that has just been brought down, nearly \$55 million is going towards maternal and child health services, to expand those services and to continue our successful partnership with local government in delivering those services. There is \$29 million extra to provide further assistance for preschool aged children with learning delays or disabilities, and that is going to provide around 1000 extra early childhood intervention places across Victoria and 150 extra kindergarten inclusion support service packages.

I mention that because last week when Parliament was sitting, on the Thursday, with the Deputy Premier and the Minister for Community Development, Peter Batchelor, we launched A Fairer Victoria, and there was, I think it is fair to say, very enthusiastic support for those additional places in early childhood development for children with learning problems or disabilities. It is so important that we invest in this area, and this budget I think makes quite a difference.

There is 15 million to provide more home learning environments for children and supported playgroups in vulnerable communities; also, \$10½ million has been allocated to develop the early learning framework. Based on that, there are going to be new transition statements, so if your child is in preschool and going on to primary school, there will be a number of clear evaluations that are made and a report card, if you like, when the child transfers to that school, so that the teachers in school have a good idea of whether the child needs particular support or help in an area. I am very pleased about the initiatives that were taken there, and I think they build on this agenda we have got to give every child the best start in life.

Dr SYKES — Premier, I have got an interest in the drought, and I have two aspects I would like to explore with you. First of all in formulating this budget are the assumptions you have made in relation to the drought, in particular the duration of the current drought and the impact of it. Following on from that is the implications on funding — —

Mr BRUMBY — Where is that in the budget?

Dr SYKES — I am going to lead to that in terms of page 145 — —

Mr BRUMBY — Sure.

The CHAIR — What page?

Dr SYKES — Pages 145 and 152 are the pages that I am leading to.

Is the implication of the drought on funding, in particular investment in regional development, as in table 3.4 on page 145 and on page 152 — by way of background, last year when the budget was done, when you were Treasurer — —

Mr BRUMBY — This is BP 3 you are referring to?

Dr SYKES — Sorry, BP 3, yes.

Last year when you were Treasurer the assumption was made that the impact of the drought would disappear during the calendar year 2007. That one did not quite come out right — that is, the duration — but on the impact, you estimated there would be a 15 per cent reduction in economic growth, which I think turned out to be a correct prediction. On page 145 you indicate there will be a 40 per cent reduction in regional development spending —

The CHAIR — This is the Department of Innovation, Industry and Regional Development; it is not the Department of Premier and Cabinet.

Dr SYKES — Okay, let's stick to the broad picture, go back to the base question: in the formulation of the budget, what were the assumptions in relation to the duration and impact of the drought?

The CHAIR — You have to go to budget paper 2 for that.

Mr BRUMBY — If you go to BP 2, page 34, it refers to that. It is the second paragraph there. Perhaps if I just note it for the purposes of the Hansard transcript. It says:

The latest Australian Bureau of Agricultural and Resource Economics forecast for Victorian winter crop production is 3.8 million tonnes in 2007-08, up 112 per cent on drought-affected 2006-07, but still well below the five-year average. This partial recovery in the rural sector is expected to contribute around 0.3 percentage points to GSP growth in 2007-08...

Dr Sykes, that is 2007-08, the current year. The ABARE forecasts on that are pretty accurate because most of that crop is already in. The next paragraph is the important one I think in terms of your question:

It is expected that a return to more normal climatic conditions will contribute to a further recovery in the agricultural sector in 2008-09. According to the Bureau ... Victoria experienced around average rainfall over summer, and rainfall levels are expected to be around average in coming months.

All we can do obviously in putting the budget together is use the best advice which is available at the time. At the time of putting the budget together, most of the medium-term forecasters were predicting good autumn and winter rainfall. I think it is probably fair to say that in the last three weeks or four weeks, or so, some of those forecasts have become more negative. My attention has certainly been drawn to an article in I think last week's *Weekly Times* which I read, from the Japanese forecasters, who were correct last year in saying that la Niña would fade out and winter rains would be pretty average.

My understanding of the present situation is that the bulk of forecasters are still predicting average or near average rains through winter. But as with all of these things, we just have to wait and see. If you go back to last year, as you would know well, in calendar 2007 there was a fantastic start to the season. We had fantastic April and early May rains, and then it basically stopped for four months.

As you know, a lot of, particularly, grain growers sold on futures markets at high volumes which they were not able to deliver because the rain did not come. So we only use the best estimates that are around. In terms of how governments respond to those things, if you think back over the last two years it has generally been in around September or October of each year that we make a judgement about whether any further ongoing assistance is necessary because it is usually not until that time that you have got a clear and decisive picture of what is happening across the state. At the moment we have a significant number of drought programs in place. As I have said, the economic forecasts which are in the budget are based on the latest advice from the Australian Bureau of Agricultural and Resource Economics (ABARE) and the bureau.

Dr SYKES — Even though you may comment on the commission report there was an article which was reported in the *Border Mail* indicating grave concerns about the future weather this year. It was headlined 'Eternal drought'.

Mr BRUMBY — Yes, I said that if I could wish for one thing at the moment it would be a four-letter word — rain. We all wish for that. I was asked that question just the other day in Ballarat. I think I did refer to the Japanese forecasts as to my concerns about that, because they proved to be right last year. But in all of these things, as you know, it is a fickle business forecasting weather and climate, but if I had one wish at the moment, it would be for great water and winter rains.

The CHAIR — On page 35 the third-last paragraph addresses future risk as well.

Mr NOONAN — You talked about the baby boom, Premier, and over 73 000 babies were born last year — I should say that one of those was mine!

Mr BRUMBY — Did you contribute to that?

Ms MUNT — Well done!

Mr NOONAN — They are very good, thank you.

Mr BRUMBY — Congratulations! I think I saw that baby, didn't I?

Mr NOONAN — You did, a number of times.

Mr BRUMBY — I kissed it.

Mr NOONAN — You probably held it, too. I understand that the staff working under the strategic policy advice and projects referred to on page 205 of budget paper 3 are responsible for implementing machinery of government changes so my question is: what changes are being implemented in relation to your stated priority of education, skills and lifelong learning and, specifically, early childhood development?

Mr BRUMBY — The big thing there was the shift of children's services — early childhood development services — into the new Department of Education and Early Childhood Development. As I indicated in partial answer to Robin Scott's question before, this was a big shift. It has been extraordinarily well received, across the community. I think it is fair to say it has been watched closely by governments elsewhere across Australia and across the world. The reason we did it was, as you know, the evidence in this area is overwhelming. We are seeing this particularly now coming out of the United Kingdom.

Giving every child the best possible start in life is probably the most important thing the government can do in terms of building a strong community, strong society and particularly in creating opportunities for families wherever they live and whatever their income. So we have done that, as I said earlier, in relation to the earlier question; we backed that with significant resources. But this is a very positive shift.

I know that during the 2020 summit in Canberra which I attended — by virtue of my role as the Premier I have the luxury of being able to move around a number of the groups — I spent quite a few hours in the productivity in education and skills group; it is fair to say that a big focus of its discussion was this issue about giving children the best start in life. Participants overwhelmingly looked towards our experience — what we have done in Victoria — to see how it should be done.

Mr BARBER — Nowhere in the budget papers could I find where the government's advertising campaigns — the major public issues advertising campaigns — are described in terms of funding, taking out tourism, which gets a mention. Are you able to tell us what amounts have been allocated for those major campaigns or those which have been authorised in the budget? Part 2 is if you decide to expand or extend one of those campaigns or start off a new one in the middle of the year, which you periodically do, where do you go looking for the money for that?

The CHAIR — Premier, insofar as it relates to your portfolio.

Mr BRUMBY — Yes, so I am just trying to seek that information for Mr Barber.

The CHAIR — I think you will find it on page 207 under 'Government information services and support'. It is the third one down: 'Communication activities/products reviewed by the government communications review group (GCRG)'.

Mr BRUMBY — The official advice I have got is that advertising and communication activities are not independent of program and policy development, their implementation and their evaluation. As such, it is not a stand-alone budget item but, rather, the advertising and communications expenditure is formulated as part of an overall program delivery or output as required by the government output-based management framework. Budgets for communications and advertising are therefore embedded within the overall program budget. So I think that is the formal answer to your question.

More generally, as I have indicated a number of times in the Parliament, the bulk of what government does in terms of advertising is directed towards what I would say are public safety, public health or legitimate public issue campaigns — TAC advertising, all of the WorkCover advertising and, as you mentioned, tourism, which is obviously about jobs and industry development and the environment area, obviously, with things like Sustainability Victoria and the black balloons campaign — which are all things about changing behaviours. Increasingly, the evidence suggests in a whole range of these areas that changing behaviours is crucial to getting good public policy outcomes. I know you have got an interest in the environmental area. The black balloons campaign is a good example where it is changing behaviours; that campaign is being utilised and talked about all around the world. Another great example is smoking.

I still get the occasional email from people who perhaps think our advertising on smoking is too strong and graphic, but the reality is that we have got a responsibility, I think, to get a message out to the community about the dangers of smoking, so we have seen huge reductions in the number of people who smoke in our community.

Ditto, more recently, the issue of alcohol. I said when I became Premier that one of the biggest social issues of our time, if not the biggest, was in fact alcohol abuse and particularly binge drinking amongst young people. The statistics bear that out. If you look at the hospital admissions, they are frightening. At the weekend at the football I was talking to a judge, who just approached me at the football to tell me how much he supported our alcohol task force report, because he sees the impacts of that with young people he is sentencing every day of the week. He says it is tragic what is happening, because kids just drink so much and they are out of control and they ruin the rest of their lives. I mention that because, as part of our response on that alcohol task force — if my memory is correct — I think we are going to spend \$2 million or \$2.5 million on an advertising campaign warning young people about the dangers of binge drinking. Those things occur because we need to do it and we need to change behaviours.

I know it is a long answer, but one other example is the chronic disease area. As you know, we have gone through this thing called an epidemiological transition, where more people are now dying of non-communicable diseases than communicables. A lot of them are behaviour diseases — not exclusively. What we eat, whether we exercise, how much we smoke, how much we drink — these are the things now fundamentally which are affecting our health. It is not so much getting measles or polio or chicken pox; it is the non-communicables. Again, you have got to change behaviours there and educate and inform people, so we do spend money in those areas.

In the government administration area the largest single item — on the figures that I saw some time last year — was on government recruitment. We spend a lot on government recruitment. Again, that is about trying to get the best people. We are increasingly putting more of that advertising on the internet — and that is a good thing, because more people use the internet — but that is straight up-and-down advertising about how we attract the right people to the public service.

We have been running a campaign at the moment on water, because there is a lot of public debate about water. I think the total cost of that campaign is \$2.8 million, excluding GST. That includes around \$400 000 in providing free water-saving kits to the public. Again, to put that in context, when you think of the investments we are making in the food bowl and when you think of the desalination plant and you think of the Wimmera–Mallee pipeline, the Gippsland Water Factory and the south-east recycling, in total there is \$5 billion-plus of investment, and it is quite appropriate, I think, out of \$5 billion that we are spending just under \$3 million explaining that to the Victorian people.

The CHAIR — Thank you, Premier.

Mr BARBER — Chair, the Premier has mentioned some amounts for some campaigns, but maybe his department could take it on notice to give us the full list of intentions for this year of spending?

The CHAIR — Yes. We could ask for that, but you would recall from the outcomes report there is a chapter on that, and you will find there are various aspects.

Some are known at the beginning — like the TAC et cetera — and some are developed during the year, so insofar as that is possible. I know the secretary is responsible for the Government Communications Review Group, so insofar as that is available I am sure they will be able to oblige.

Mr PAKULA — Premier, on page 204 of budget paper 3 there is a departmental mission statement, which has two dot points for the mission:

developing coordinating whole of government initiatives; and

delivering whole-of-government services and programs.

In the slide show at the start of the presentation you talked about one of your priorities as being improving urban development and planning, particularly in the outer suburbs, so I am wondering if you could just elaborate for the committee on how your department — particularly given its mission statement — is aiding in the delivery of that?

Mr BRUMBY — I think a good example of this is the budget itself, so the budget was titled *Taking Action for our Suburbs and our Regions*. A good example of how DPC works across government to look at whole-of-government priority issues is the announcements that I made just a couple of months ago with the planning minister, Justin Madden, in relation to urban growth.

As you know, our state population growth has been very strong — it has been growing in fact more rapidly than was predicted under Melbourne 2030 — and that means that we have got to, if you like, pedal faster and work harder to make sure that we maintain livability and we have the services and the infrastructure in the suburbs and in the regions that our communities want.

It also means that we have got to make sure that young homeowners can have the opportunity to buy their first home — that they can get into home ownership. I am pleased in that regard, by the way, to see from the latest figures that Victoria, and Melbourne in particular, are more affordable than Sydney, more affordable than Brisbane and more affordable than Perth. One of the reasons for that is we have had, I think, the balance between our land-release policies and our tax policies in tune and in sync, and we do not have anywhere near the level of infrastructure charges that, say, New South Wales does, but nevertheless we are growing faster than we thought.

The consequence of that was that the number of years of available land supply in the outer suburbs was less than we would have been comfortable with. Our target is 15 years of supply. So the announcement that I made just a couple of months ago — the rezoning of the 90 000 blocks there, so that they are automatically available for development, the creation of the urban growth zones, the new priority development zones — all of these things are about getting more blocks of land onto the market more rapidly than would otherwise be the case. Our estimate, of course, is that those changes will take thousands of dollars off the price of a block of land.

If you link that to what we did in the budget — particularly for first home buyers — what you get, I think, is a package which is the best of any state in Australia. Where there is land coming onto the market, you can still get a house-and-land package that is very competitive.

When I was out in Wyndham last week, \$280 000 — land component is 110, depending how it is structured, the stamp duty is often levied only on the land, and of course you are going to get a \$12 000 first home bonus. So we are, I think, doing better than the other states in this area, but this is a good example of where DPC worked with the Department of Planning and Community Development to come up with a package to really address this problem of land supply coming onto the market.

Mr DALLA-RIVA — Premier, I refer my question to budget paper 4, page 10. On table 1.1, 'Estimated operating statement for the financial year ending 30 June', I note the total expenditure for 2008–09 is in round figures \$37 billion. Given that nine short years ago the expenditure in this state was \$20.3 billion, we have increased almost 100 per cent. Do you seriously think there has been a doubling of services in our crowded trains and trams, in our congested roads and in our overstretched health system?

The CHAIR — Okay, insofar as the question relates to the estimates rather than the hypotheticals.

Mr BRUMBY — What is that, 17 on 20, is it? It is about a 90 per cent increase.

Mr DALLA-RIVA — Ninety per cent, whatever.

Mr BRUMBY — It is a good question, because if you look at the increase in spending in hospitals, in our health system, it is more than 90 per cent. That is the point.

Mr DALLA-RIVA — Roads?

Mr BRUMBY — You will find some areas that are more than that amount — significantly more than that amount — and you might find some areas that are under. The average will obviously come out to 90 per cent — that is what a budget is about. I have not got the figures in front of me. I know last time when we did these the increase in the size of the budget was exactly in line with the increase in the growth of the economy. We have had nine years that, probably in nominal GSP terms, have been averaging 6 per cent plus and, if you compound that forward, you will find that the budget as a share of the economy basically has not changed. In fact I am happy to give the committee the figures — —

The CHAIR — I do not think you need to, Premier. You will find them in table A.6, in the appendix, which has historical figures from 1961–62 — —

Mr BRUMBY — What page are you on?

The CHAIR — Page 256 gives the historical series right through, including the ones going up to 2011–12, which are the out years — page 256 to page 263 — and you will find them under education, health, social security, housing, recreation, transport and communications et cetera. In actual fact in the 1961–62 budget the GSF expenses were only 376 million, and in 2011–12 they are estimated at 41 684 million.

Mr DALLA-RIVA — I only talk about the future for the estimates — —

The CHAIR — Very good.

Mr DALLA-RIVA — As you generally remind us, Chair.

The CHAIR — I know.

Mr DALLA-RIVA — It is good to go back to my year of birth. I am just curious, because it is an issue that people would see the budget doubling in the period that you have been in office as Treasurer and now as Premier. I think it is a real issue in terms of, hand on heart, do you see that we have had a doubling of services over that period, or a 90 per cent increase in services?

Mr BRUMBY — I will just see if I have any advice on health, but the health increase would be at least 90 per cent and probably more. It is an interesting point about government. If you go back, 20 or 30 years ago the biggest single item — actually, it is more interesting to go back, as the Chair has done, to 1961–62 — and what you will find is that by far the single largest item of expenditure was education. In fact education spending was twice health spending. If you go to the budget today, the biggest item of spending is health. That is because we have got an ageing population primarily, and our demands in this area are higher. I think health is now around about 28 per cent of total budget outlay. We have had to invest heavily in that area. We have a lot of young families, we also have an ageing population, and it is appropriate that we do that. I am sure when the Minister for Health is here later this week you will ask him questions about hospital waiting lists. It is appropriate that we invest heavily in those areas. As I said, I think you will find the total budget size is consistent with the growth in the economy.

The other point I make about the budget size is that we have been one of the few state governments that has been actually cutting taxes. I know the Treasurer will go into these things, but you know the story of land tax — 5 per cent down to 2.25 per cent, payroll tax, 5.75 down to 4.95 per cent — —

Mr DALLA-RIVA — I am not a believer. I think there has been an increase, we know, in other areas, so we can move on.

The CHAIR — You have had enough, have you, Richard?

Mr BRUMBY — We have actually been cutting taxes and cutting taxes very significantly.

Mr DALLA-RIVA — Cutting? That is great.

The CHAIR — Let the Premier answer the question, please.

Mr BRUMBY — Of course, unlike other governments — unlike the Howard government — when company tax doubled I did not see the state Liberal Party out calling for the company tax rate to be halved. When

GST revenue doubled, I did not see the Liberal Party out calling for the GST rate to be halved. Where there have been rates, we have actually cut them, so I think our budget has been balanced and appropriately directed.

The CHAIR — Thank you, Premier. Following up on the theme of productivity — and of course skills are a very essential part of productivity — I noticed that one of DPC's roles is to provide strategic policy leadership in regard to, obviously, education, skills and learning. What are you doing in this regard in terms of skills and policy leadership, particularly in this budget?

Mr BRUMBY — There is a lot in this budget in relation to skills. I mentioned before how important skills are to our state — how last year we led Australia in terms of the number of apprentices and trained. I think that is one of the reasons why Access Economics describes our economy as the most impressive of any of the state economies, because whether its infrastructure, skills or investment more generally in human capital, we have taken the right steps to build a strong and competitive economy.

In this budget there are further initiatives to support that. We have extended the apprenticeship traineeship completion bonus for another 12 months; 2.1 million for a new green plumbing training centre in Brunswick. I should just mention that it is just a — —

Mr BARBER — You should have trademarked that word 'green', Premier.

Mr BRUMBY — I appreciate the strong support from Mr Barber for that.

The CHAIR — Green plumbing has been there for a number of years.

Mr BRUMBY — It is just a small initiative but it is a good initiative. If you think of all of the Victorian who are putting in things like water tanks at home; of the numbers in country Victoria who are now going to be putting in solar hot water services because of the new \$2000 grant that we have offered from 1 April this year; and of the feed-in tariffs and what that is going to mean in terms of householders putting photovoltaic cells on the roof there is going to be huge demand for plumbers' services in this area. This green plumbing centre has been very well received by plumbers. I think it is a fantastic initiative. I had some plumbers actually approach me in Geelong last week to say what a fantastic initiative it was and I want to thank them, including the plumbers union, for their strong support for this initiative.

There is 5 million, Chair, for the new workforce partnerships; there is 40 million for a range of TAFE upgrade projects including 15.5 million for the Wodonga Institute of TAFE, 10.5 million for stage 1 of the redevelopment of the Northern Melbourne Institute of TAFE and 11 million for Bendigo TAFE which I was able to announce there on Friday morning. In addition to that the Minister for Skills and Workforce Participation, as you are aware, has released a discussion paper — —

The CHAIR — Just the other day.

Mr BRUMBY — On further reforms going forward, reforms that will drive skills deepening and skills broadening and dramatically increase the number of training places in our state. Chair, I just mention this because if we are to maintain our competitive position going forward — we are not a resource economy; our single greatest asset is our people — investing in these skills is going to be absolutely crucial. So this skills discussion paper will create debate. I know it is creating debate in some areas. There are some areas of it that are controversial but it is all about putting us on the front foot to drive new growth, skills deepening, skills broadening, increased choice and a much stronger economy going forward.

The CHAIR — Thank you very much, Premier.

Mr WELLS — Premier, I again refer you to table 2.4, budget paper 4 on page 85 and the increase in debt from 5.7 to 22 — —

Mr BRUMBY — Sorry, what page? 85? Yes.

Mr WELLS — Same table as before. And the anticipated \$22.872 billion by 2012. Could you please outline to the committee exactly what major infrastructure projects have been assigned to this growing level of debt over the forward estimates period?

Mr BRUMBY — I can get some of that information for you but obviously you have a combination of things, as I think I explained last year when you raised a similar question. The biggest single area of this would be in water projects where you have two phenomena: one is the investment in new projects, of which the largest, obviously, is desal and water recycling at Carrum. You have that but bear in mind that the water authorities, irrespective of what we are doing in desal and the water recycling, still have a very large increase in their works program going forward, part of which is still catchup from the 1990s and part of which is catering for the strong population growth we have seen this decade.

I will give you one example: Western Water, for example, you will find in these figures they are spending somewhere between 600 million and 1 billion rolling out the new trunk sewerage infrastructure for the northern suburbs of Melbourne. You do not read about that in the papers. It is not something that the government has gone out and trumpeted in the budgets, but it is crucial investment. Ditto, another big area of increased investment is the sewerage backlog right throughout parts of the Yarra Valley. When we were elected I was staggered to see the figures about the level of unsewered properties in the Yarra Valley, all of them feeding in the catchment of the Yarra River. They were just horrendous. They came about because of the lack of capital spending during the Kennett and Stockdale years. We have been busy catching up, and part of that is reflected in the debt that the water authorities carry forward.

Ditto if you look around the state. I will just stay on water for a moment. The Wimmera–Mallee pipeline is being funded by a combination of state and federal funding but also some debt from Wimmera–Mallee Water. If you look at Gippsland Water Factory there is a \$200 million investment down there funded part by the state, part by the water authorities. Water would be a significant part of that.

You then come to other projects: channel deepening. So there is around \$1 billion there which is being paid for by the users. So you might say it is debt but it is not in a sense debt that taxpayers are meeting. It is debt that the users of the port of Melbourne are servicing and while at the same time, Kim, as you know, keeping the cost of using the port below the comparative costs of Sydney and Brisbane. That is always an appropriate use of debt financing for those instrumentalities. It would be completely unfair to make all of the users of the port in one year — that is the alternative — pay the full \$1 billion. All you would do is put hundreds of companies out of business. It is entirely appropriate that over the next 10 or 20 years all of those users over that period of time equally share the burden of a piece of infrastructure which is going to last for the next 25 or 30 years, in exactly the same way as happened with — if you go back to Sir Henry Bolte's days where debt was 62 per cent of gross domestic product — the then new Children's Hospital, which Dame Elisabeth Murdoch opened when she was chair of the board. Henry Bolte borrowed virtually all of his capital works funds but that Children's Hospital lasted 50 years. It is entirely appropriate for that cost to be borne over two generations of Victorians, not just by everybody in one single year. Imagine if one budget had to wear that.

Water, the port of Melbourne — I am just trying to think of other areas; they would be the two largest. In terms of others I will come back to you because you are really talking about the NFPSs. As I said, there will be existing programs plus the new ones that have been added as large announcements.

Mr WELLS — Just to clarify a point, you mentioned the desal plant.

Mr BRUMBY — Yes.

Mr WELLS — How much debt are you anticipating will be allocated to the desal plant if it is a PPP project?

Mr BRUMBY — You know that the desal plant is not out for tender at the moment. Until the tenders come in and we choose a tenderer we do not know how much it is going to cost and we do not know the financing arrangements. Let us assume that it is 3.1 billion. When that comes in and it is 3.1 billion that is the amount that is put on the books for that, so that is the exact amount. What we do when we announce a project is bring to book what it is we estimate the cost to be. When we get the exact amount that is what we actually put on the book. In this case of, with the desal, of course it is not budget sector debt so it will not come under the budget sector; it is on the books of Melbourne Water.

Mr WELLS — I think you indicated that we could get a list of the major projects that are going to be assigned to that debt moving forward.

Mr BRUMBY — Yes, but just understand they are not all — —

Mr WELLS — I know, I understand.

Mr BRUMBY — They are not all — —

Mr WELLS — If we can get a list that will be — —

Mr BRUMBY — It is a really important point because if you look in the water area the bulk of the increase in water borrowings going forward are from existing programs, which is a combination of a backlog from the 90s and population growth in this decade. The best single example of that is the northern sewer trunk, which is crucial for residential and commercial development there, and that is 600 to a billion. You will find that you have got all the retail authorities plus Melbourne Water plus all the country authorities.

Another example might be the super pipes to Bendigo and Ballarat. Although largely funded by taxpayers off the budget, some of that cost is met by water users, as it is appropriate to do that. All of that is built into their programs as well. If you have a look at the ESC's provisional reports on pricing you will see many of those capital programs identified.

The CHAIR — I should note that in budget paper 3 and in appendix 1 you will find full details in the government sector of the asset program. You do not need to provide those to us because they are already in the budget papers.

Mr BRUMBY — Yes, it is the NFPSs.

Ms MUNT — Can I please refer you to budget paper 3, page 204. Listed under Department of Premier and Cabinet is the heading 'Departmental mission statement' which deals with providing strategic policy leadership. You touched on our walk yesterday, the Mother's Day Classic for breast cancer research — —

The CHAIR — It is very unfortunate that our former member previously here last year, Ms Graley, is also a sufferer.

Ms MUNT — Who also walked yesterday.

Mr BRUMBY — She walked, yes.

Ms MUNT — She was a walker, and sprinted in front of me; I had trouble keeping up.

It was gratifying to see 28 000 prior registrations and 3000 on the day. That is 31 000 registrations, which shows a great well of community support for cancer research. Would you please elaborate for me under providing strategic policy leadership what the government is doing to tackle cancer particularly but also other chronic diseases such as diabetes?

Mr BRUMBY — Thank you for the question. When I became Premier I said that tackling preventive disease and cancer would be the top priority of our government. It has been and it will continue to be so in the future. In terms of preventable disease and tackling chronic disease I think the biggest single initiative we have announced over the last eight or nine months has been the new Work Health initiative, which we have been able to support through the accumulated surplus in the WorkCover scheme to create a new agency called Work Health, which will mean that every single Victorian worker will have the opportunity to be screened and tested at work for preventable disease, and then if they need follow-up to have that follow-up occur.

This is something I feel very strongly about. This initiative is attracting a lot of international attention. A lot of good employers of course are already doing programs like that in the workplace. You will see that a lot of the trade unions as well are also very conscious of this issue and have been running programs throughout their members. I know that the Transport Workers Union is one that has had a very strong interest in this regard in the past. Work Health will build on all of those things and be a much more integrated statewide approach to bring all of these things together, particularly focused around diabetes but picking up some of the chronic disease. I think it will pick up a lot of diabetes and a lot of early-stage cancers when they can be cured.

On the cancer side there have been a raft of initiatives — some in the budget and some before it. Prior to the budget I announced with the Minister for Health \$5 million for the business plan for a comprehensive cancer centre for Melbourne. Again, this is something I have been very supportive of in my previous role as Minister for Innovation. That business case will come to government later this year and look at all of the options in terms of what we need to do and whether we can get the numbers right in terms of future budget projects. That will come back later in the year. As you know, we have got a potential site in Parkville, but we will wait and see what the business case says.

In addition we put through of course the new solarium regulations — I think we all remember that issue — and we were widely applauded for acting decisively in that area. They came into effect on 1 February 2008, and I think at least one if not two other states have since followed our regulation changes there.

We have announced new tobacco targets. By 2013 we aim to reduce the prevalence of smoking in the adult population by a further 20 per cent, a further fifth, which will be fantastic. We have appointed a clinical adviser for cancer, Professor Bob Thomas, and on top of all of that in the budget of course we announced 25 million towards the Olivia Newton-John centre at the Austin and that will be the cancer centre and the health and wellness centre — that will be a fantastic centre. We announced \$73.5 million for the redevelopment at Sunshine Hospital which includes a radiotherapy facility with four bunkers. We also delivered a package of \$150 million to deliver the cancer action plan. So 24 million to reduce major cancer risk factors and avoidable cancer deaths, \$78.7 million over four years for the Victorian Cancer Agency, 28.8 million to empower patients and carers throughout their cancer journey and treatment and \$18.4 million towards boosting the workforce and the skills in this area.

So I think it is a fantastic package of initiatives. I just conclude with this point — that we have probably focused very much in the last 20 years or so in Victoria on the road toll; the deaths coming down from 1034 a year to just over 300 a year. That campaign has really captured public imagination, but of course there are many times more Victorians who die prematurely each year from preventable cancers. If we can further improve our effort in this regard — cut smoking rates, detect cancers earlier, improve treatment and detection, then that will be a great thing for our population. That is what all of these initiatives are about.

Mr RICH-PHILLIPS — Premier, can I ask you about the table on page 10 of budget paper 4, the operating statement — revenue estimates for the next three years in particular, 08–09 through to 10–11. Compared to the budget update the Treasurer released in December, your revenue estimates have all increased for the budget year by roughly \$800 million, for the following year by roughly \$1 billion and for 10–11 also by roughly \$800 million. So you have increased the revenue estimates at the same time as reducing the growth estimates. You have cut growth from 3.5 per cent estimated in the budget update to 3 per cent in the budget. Why have you increased your revenue estimates at the same time as cutting your growth estimates and how realistic are these estimates in view of that changed circumstance?

Mr BRUMBY — As you know, the revenue estimates are all developed by Treasury. They are not developed by the Treasurer or ERC. They are developed by Treasury and the State Revenue Office and they have access to the latest information obviously on which to make those estimates. If you look at our tax base, as you know, the principal elements are, firstly, stamp duty and conveyancing duties. The key drivers there are the health of the property sector and also the commercial building sector. There is actually an article in one of today's papers about the strength of Victoria's commercial sector. There is also an article about how Victoria's auctions are holding up compared with the other states. So those estimates are based on what they believe to be both the volume and price indicators going forward.

In terms of payroll tax, obviously the key factor there is the number of people in jobs and that is the single most important determinant there plus of course wage increases going forward. In terms of things like gaming the key factors there are population growth, economic growth offset of course by the strong approach we have taken to problem gaming and those estimates are based on that. Then you have got a whole lot of other revenue factors as well. In the case of land tax the key factor there is the price of property going forward. We obviously know the valuations in the last year and so we are able to tell with a reasonably high degree of accuracy the receipts in the next year. So all of those things are taken into account by Treasury and the State Revenue Office.

Mr RICH-PHILLIPS — But surely with those underlying factors you cannot be forecasting an increase in them at the same time as you are forecasting slowing economic growth?

Mr BRUMBY — Of course you can.

Mr RICH-PHILLIPS — Slower than you were forecasting six months ago.

Mr BRUMBY — Yes, of course you can.

Mr RICH-PHILLIPS — So employment will rise, wages will rise, property prices will rise at the same time you are saying growth will be less than it was when you did the budget update in December?

Mr BRUMBY — Some years we have had economic growth at 4 per cent and some years we have had economic growth at 2.5 per cent. In both of those circumstances revenue continues to increase and what affects revenue is a whole range of different factors and you should go into some of those with the Treasurer rather than with me, I think. But page 41 of BP 2 talks about these issues and it says:

Taxation is forecast to provide around 35 per cent of —

general government —

revenue in 2008–09. Taxation revenue is projected to be \$13.4 billion ... an increase of \$385 million or 3 per cent on the 2007–08 revised estimate. The growth in taxation revenue in 2008–09 principally reflects the positive impact of continuing strength in employment and overall economic growth as well as an increase in land tax revenue due to increases in land values, partially offset by the revenue initiatives announced in this budget ...

If you look on page 41, payroll tax revenue has strong growth, 5.9 per cent, reflecting employment and wages growth. So you have got two factors: you have got the number of people in jobs and the growth in them plus pay rises. And you have got stamp duty on land transfer. You will see that that is predicted to increase by just 1.3 per cent per annum. Revenue from gambling taxes and slower growth in land tax revenue. So, as I said, all of those figures are put together by Treasury and the State Revenue Office.

Mr RICH-PHILLIPS — So you are comfortable to forecast an increase in revenue despite forecasting a slowing economy?

Mr BRUMBY — I am comfortable with the estimates that are prepared by Treasury and the State Revenue Office. You would not expect the Premier or the Treasurer to make up their own estimates. That is not our job; our job is to rely on the advice of Treasury and the State Revenue Office.

The CHAIR — We will obviously find some more information on page 23, in chapter 2, which shows the percentages going forward and the various ones you have mentioned.

Mr SCOTT — I refer the Premier to page 206 of budget paper 3. I am cutting into an area of interest of Dr Sykes, but there is a description of strategic policy projects which refers to managing ‘the implementation of the *Growing Victoria Together* strategy and other strategic policy initiatives’, and I ask: how is the Premier’s stated priority of improving services to our farmers being implemented? I know it is a subject close to your heart.

Mr BRUMBY — Thank you for that. When I became Premier, one of the seven priorities I mentioned was improving services to farmers, so I set up a process last year to look at the challenges which face our farming sector and what we could do to provide further support, bearing in mind that over the last couple of years, over and above our responsibilities under the commonwealth-state drought agreements — the exceptional circumstance agreements — we have been providing somewhere between \$150 million and \$200 million extra each year; that is above what we are required under that agreement to do. The support we have provided is very substantial indeed. Nevertheless, I believed that there was more we needed to do, so two weeks ago the Minister for Agriculture, Joe Helper, and I released the Future Farming strategy.

The biggest part of that is over \$100 million to boost productivity through new technology and changes in farming practices. If you look at the big successes Victorian farmers have had in recent years — in the last decade or more — they have really come through improved productivity and they have come through R and D (research and development) and new technologies. So if you look at our grain growers, for example, it is the new varieties of wheat, in particular, that have enabled farmers, with much shorter grow periods, to get through more difficult climatic conditions. If you look at things like fat lambs, it is all of the improvements there, the genetic improvement — —

Dr SYKES — Prime lambs.

Mr BRUMBY — Prime lambs — thank you; I am happy to be corrected — not always, by The Nationals, but on this rare occasion I am happy to be corrected! If you look at that industry — and I know Dr Sykes would agree — it is the investment that has been made, particularly in some of the R and D, and it is the productivity improvements that have kept a lot of our farmers ahead of the game.

I know there is sometimes debate about some of these areas of research and development, but if you think we are going into a period of climate change, where you will get more variability — and I think we are seeing that: hotter, colder, wetter, drier, more windy — then putting the investment into crops, to make sure we have the most versatile and the most adaptable, and looking at things like drought-tolerant and salt-tolerant grasses is going to be very important to us. So there is \$105 million there. There is the creation of Farm Services Victoria, putting a better focus through The Department of Primary Industries on providing those services to farmers. Our extension services over the years have generally been very good, but I think they can be even better. Helping farmers with the latest technology, improved follow-up, improved KPIs (key performance indicators) for some of the work that is provided — I think we can do better in this area. So that is Farm Services Victoria.

There is a package of measures and initiatives to build skills and also to attract young people to farming. I must say I am pleased that Rural Finance, which of course used to be my responsibility as Treasurer, has a first farmers package. We have a first home buyers package; Rural Finance has a first farm buyers package and provide some encouragement there to first farm buyers.

There is money to help businesses plan for and adapt to climate change, including helping farmers with some of those issues; extra money to manage weeds and pests — \$24 million; \$12 million to help rural communities in securing their future and adjusting to change, particularly around health — the new centre for farmer health will be located in Hamilton. I want to stress that, because it is a great partnership between the state government, Deakin University and the trust of Geoff Handbury and the late Helen Handbury. They put \$1 million into that, and they have been wonderful contributors particularly to western Victoria but to philanthropy in general. This is going to make a difference, and it is a great example of the sort of partnerships that make our state stronger.

There will be \$11 million to help farmers capture new domestic and international market opportunities and \$42.7 million to upgrade sections of Victoria's rail freight network. I just mentioned the rail freight network; we had of course what is now known as the Fischer report, looking at what we need to do in this regard. His committee came down and recommended three levels of tracks: the gold, the silver and the bronze. He said we should definitely do the gold, do the silver if we can and do the bronze if we had nothing else to spend our money on, I think! That is the sort of priority he put them in. Minister Kosky advised me during the week that he was kind enough to send a small vase of flowers to Minister Kosky, gold-coloured flowers — I am not sure what type they were — to thank her and the government for the investment in this package on the gold lines as he recommended. So we have made the first start there. In this freight area we have the \$42.7 million plus \$53 million towards the Mildura line; plus of course we have bought back the below-rail business. All of that is very substantial investment in rail freight infrastructure, but I am very conscious and know that there is more to do.

The CHAIR — Dr Sykes has the next question.

Dr SYKES — Premier, I would like to ask a question in relation to securing Victoria's water supplies, which you have covered on a number of occasions so far during the meeting, but just before we do, in relation to drought I will flag — on the agreement with you in relation to the comments you made in an earlier answer when you said that you have been allocating, or spending, \$150 to \$200 million a year extra on drought relief. We have just had the financial performance report tabled in Parliament, and that shows that in 2006–07, whilst \$238 million was announced, the actual expenditure on drought assistance during that period was \$140 million. A lot of it is forward, so the actual spending is not matching up with the announcements, and a lot of it, as you probably know, is coming from levies on departments — a \$50 million levy on departments.

Mr BRUMBY — Yes, but there is nothing wrong with that. I think you are confusing two points. So I am happy to look at the other information for you, but the levy on departments is a good thing. It is essentially savings across all departments to contribute to what you could describe as the greater public good, which is helping our farmers. So farmers have done that and contributed to that. But I will have a look at the expenditure figures and follow them up.

Dr SYKES — My question relates to the securing of water supplies and the food bowl upgrade where, as you have indicated, \$600 million has been allocated and there is also additional money coming in from the irrigators, and it is anticipated that you will get — — one of the benefits of this will be that Melbourne will get one-third of the water savings, which are estimated to be at 225 gegalitres per year. Linked with that is the construction of the north–south pipeline, through which an average, or up to a maximum, depending on which time of the day the statement has been made, that about 75 gegalitres would flow a year.

If the savings were substantially less than the 225, as has been contended by a number of people, how would that impact on the cost effectiveness of the pipeline and that water flowing to Melbourne, as distinct from finding alternative sources of water?

Mr BRUMBY — You have got two issues there, I think, in your question. The first is: is it worth, or is it a good thing to spend a billion dollars on food bowl modernisation? And my answer to that is: yes, it is.

Dr SYKES — You will get no debate from me.

Mr BRUMBY — I think what you are saying in your question is, though, if that billion dollars did not produce 225 gegalitres of savings and produced a smaller number, would it in a value-for-money sense, if I have understood your question, still be an appropriate investment for the government? My answer to that is: yes, it would, because I have always believed that in terms of creating new water, water for farmers, water for the environment and in this case one-third of those savings for urban use, for Melbourne, that you have got to invest in infrastructure to do that and that any balanced water policy should not rely just on things like water buybacks, as some in the water industry would suggest, that there needs to be a balance between investment in infrastructure and, as the federal government is doing, some buyback.

That has always been my view. I hold that view for a second reason — that is, if you do not make that investment in the food bowl region, that region will just continue to see large volumes of water traded out of it. If the food bowl did not occur, in 20 years time that region would not be anywhere near as productive as it is today; it would continue to deteriorate.

So I do not have any doubt in my mind — I know there are different views about this — about the level of savings. Indeed, if you look at the last press statement from the Victorian Farmers Federation, the discussions that we had with Richard Anderson and Geoff Akers, there is an agreement we came to with the VFF that looks at what we do with water savings above 225. I am not aware of anybody in the VFF — certainly not in the discussions we had with them — or the Northern Victorian Irrigators, who have ever suggested savings would be less than 225. The discussion has always been, ‘What do you do if the savings are 250 or 280? Who gets the water above 225?’. As you know, what we have said in relation to that is that we only want 75 gigs and the savings beyond that would be split fifty-fifty between farmers and the environment. Works, as you know, are going to start in the next month or so on the food bowl project. All of the advice that I have seen, all of the consultants’ reports, indicate to me that the savings will be in at least the order of 225 gegalitres, but I know different people have a different view about that. We will start finding out from next year and the year after that and the year after that.

My point to you is that, in a sense irrespective of those savings, the investment in food bowl needs to occur. The water savings will be split — a third, a third, a third — and in the debate to date I have not heard anyone suggest that the water savings would be under 225 gigs. I have had lots of people say, ‘What happens if they are above 225 gigs?’. As I said, in those circumstances the Victorian government does not want any more of that water. It will be split fifty-fifty between farmers and the environment.

Dr SYKES — So in the last year, where Goulburn-Murray Water’s figures expected total losses of only 450 gegalitres, compared with the 900 gigs annually that was the basis of calculating the 225 gig savings, you anticipate that in a year with 450 gegalitres lost, they will still make 225 gegalitre savings — in other words, you are halving the losses.

Mr BRUMBY — I would need to get some technical advice on that. My understanding of all of the advice we have had is that those savings are there, irrespective of the volume that runs through the system. If you talk particularly to Northern Victorian Irrigators and the chair, whose name just escapes me for a moment — —

Dr SYKES — Dudley Bryant.

Mr BRUMBY — This is a point that Dudley has always been adamant about; whenever the system runs, those savings are there. It is a point that is well accepted. Indeed, in the discussions too with the VFF, it was always its view that it put to me that whenever the system runs, those savings are there. I have conceded that if the system does not run at all, then you would not get those savings, but of course in the 100 year history of the scheme, there has never been a year in which the water has never run.

In the future, if the water never ran at all, Melbourne would not be getting its 75 gigs, the environment would not be getting its 75 gigs and farmers would not be getting their 75 gigs.

The CHAIR — Thanks for that. We can always take it up further with the Minister for Water.

Mr NOONAN — Back to page 204 of budget paper 3, it refers to COAG being a, in the words used, 'significant opportunity' for DPC. I wonder whether you can describe how the new commonwealth government's range of COAG actions will be addressed by the state?

Mr BRUMBY — I think I indicated more generally earlier about how COAG has become a — in the two meetings we have had to date — positive forum for change and for addressing the big national issues of our time. The last meeting in Adelaide — of course there were a number of achievements out of that: more funding to the states for health, the first time since 1998. It is the first time in the best part of decade that the commonwealth has lifted its expenditure on health under the AHCA agreement. So that was very positive. Of course we have got the Murray-Darling Basin agreement. And we got a guaranteed share for Victoria carried forward. We got a right of review in relation to a national water plan. And, of course, we picked up a billion dollar commitment towards the food bowl stage 2. All of that, I think, is an example of just how positive COAG can be.

In addition, there have been a number of other significant actions agreed to by COAG: the introduction of a national registration and accreditation scheme for health professionals; there is the business regulation reform agenda; there is an expanded role for the COAG Reform Council; and there have been a number of housing initiatives, including the joint commonwealth-state investment in 600 houses and units for homeless people.

I think all of that has been fantastic. It is fair to say that under the former federal government — I did not attend any COAG meetings, but I think while we were very pleased that the former Prime Minister and federal government embraced the national reform agenda, I think it is equally fair to say that progress on that was interminably slow. With the change in government I think we have seen a new enthusiasm for that, plus we have seen water reform signed off, plus we have seen health reform signed off, plus we are seeing regulation reform and a new commitment to the national reform agenda. So I think at this point in time there is a very positive environment.

Mr BARBER — Premier, I do not know what the figure for the estimates would be, but last year your department gave the office of the Leader of the Opposition 1.4 million and The Nationals 700 000. Do you think that has been a good investment?

The CHAIR — Insofar as it relates to your portfolio, Premier!

Mr BRUMBY — I am just trying to find — —

Dr SYKES — That is the end of our coalition!

Mr BARBER — I've got a laugh out of everybody, Premier, so I will give you a supplementary.

Mr BRUMBY — Wait on, I thought that was the real question.

Mr BARBER — Is it fair that the Greens are not included in that even though we are a parliamentary party?

Mr BRUMBY — Just bear with me one moment. Could you just repeat the real question?

Mr BARBER — In your response to our estimates committee — it relates to the fact that the Liberal Party and The Nationals are funded I guess just generally for the office that they hold in the Parliament, but the Greens and the other parliamentary party that comes to mind are not receiving such support.

Mr BRUMBY — But you are a third party, aren't you?

The CHAIR — No, they are not a third party; not under the legislation.

Mr BRUMBY — No, you are none of the above. What I can say just from the information that I have got here, and it did catch my attention today in preparing for this, is staff numbers — I have got staff numbers for the opposition. Full-time equivalents up to 30 June 2007 in the opposition — there were 10; the expected full-time equivalent result for June 2008 is 17.5. I am not sure what is driving that increase.

The CHAIR — It is probably something more for the Minister for Finance, who is across these sorts of details.

Mr BARBER — Sorry, it actually comes out of Premier and Cabinet's budget.

The CHAIR — I realise that. I am sure the Premier would be happy to take it on notice.

Mr BARBER — Perhaps that information could also be on notice, as it was in last year's estimates hearings.

The CHAIR — They are happy to take it on notice. There is legislation covering the — —.

Mr BARBER — With respect, Chair, there is no legislation covering who gets money.

Mr PAKULA — I am amazed Dr Sykes has not pointed out the difference between the two.

Mr BARBER — It is literally a decision of the Premier's budget.

Mr BRUMBY — The other figure I have shows that just over the last five years the budget for the office of the Leader of the Opposition in 2003–04 was \$1.067 million. Last year, or this year finishing 30 June, it will be 1.420, so it is a 40 per cent increase. I think that will be a bigger increase; that will be one of those examples where spending is going up much faster than the budget as a whole.

The CHAIR — Doubled.

Mr BRUMBY — No, it has more than doubled, and then my understanding is that The Nationals get another \$700 000 on top of that, so those two parties combined are at \$2.1 million. That is a lot of money. I remember back in the good old days when I was Leader of the Opposition the budget was \$700 000, so the budget today for the combined opposition parties, the coalition, is three times the amount it was in the 90s — \$2.1 million. So I think the answer to your question is all of that money is going into the Liberal and National parties.

Mr BARBER — So, Premier, the Greens have to form a position on every bill, don't we?

Mr BRUMBY — I think if it was performance based, you would be doing very badly indeed at the moment.

The CHAIR — Premier, I think you will need to take on notice Mr Barber's question.

Mr BARBER — Especially the bit about whether the Greens can be recognised as a parliamentary party.

The CHAIR — That is related to legislation.

Mr BRUMBY — I think the answer to that is extremely unlikely. How many are there?

Mr BARBER — Three.

Mr BRUMBY — There are three of you. I mean, I think the test — —

Mr BARBER — I think we get double the vote The Nationals get.

The CHAIR — All right, I think we will concentrate on the estimates question.

Mr BRUMBY — Talk to us about how you cooperate with the legislative program.

The CHAIR — Thank you, Premier, for taking that on notice.

Mr PAKULA — Premier, in answer to the last question from Mr Noonan you touched on the national reform agenda. I think as last year's estimates hearings we got a fairly detailed exposition on the NRA. Could you just give us a bit more detail, particularly about the planned implementation in the forward estimates period?

Mr BRUMBY — The key thing there in the national reform agenda is, as I said earlier, that it is investment in human capital and it is regulation reform. In the human capital area they are really the two strands. The first is preventive health care, and the second is investment in education and skills. In the preventive health-care space, the federal government is doing a huge amount of work in that area at the moment. Already it has partnered with us on increasing funding for things like diabetes. There has been some modest increase in funding in that area, which we welcome. There has been a significant increase in mental health funding, which we welcome, and we hope to see more which will come out of possibly this week's federal budget in that preventive health space. I know just from the work that the DHS has done on diabetes in Victoria the savings that can be made in the workforce from reducing diabetes. Diabetes is costing the Victorian economy about \$1 billion a year, and there are great opportunities under the NRA to reduce that.

In education I think the biggest thing is the commitment the federal government has made to 500 000 new training places over next four years. Again, we look forward to a start to that in the federal budget, and that is consistent with all the work that the productivity working group, as part of COAG, chaired by Deputy Prime Minister Julia Gillard has been doing. So I think there is very positive work occurring, it is pretty detailed work, and it is all consistent with that national reform agenda.

Mr DALLA-RIVA — Premier, I refer you to budget paper 4, page 85, table 2.4, and to the previous questions by Mr Wells in respect of the net financial worth of fiscal aggregates at \$20.36 billion in 2008, revised. I am just curious. You mentioned the debt being related to things such as major projects, the desalination plant, water recycling and those types of things. How is it that is considered to be a debt to the state when those projects are PPPs? I draw your attention to the recent announcement of the Royal Children's Hospital, which is a PPP, EastLink, which is another PPP, and so on. I am trying to work out what you are classing as a debt to the state and how you are differentiating that from a debt that is a PPP. While we are on PPPs, as part of that you have the public sector comparators.

Mr BRUMBY — Yes.

Mr DALLA-RIVA — You made reference previously to releasing the PSC in respect of the Royal Children's Hospital, and I will ask you again: are you going to reduce the PSC on EastLink?

Mr BRUMBY — You know about that one on EastLink. It is a Cabinet document and that is how it was dealt with at the time. So you know the answer on that. My understanding is that that position was vindicated in VCAT, wasn't it? That is my recollection as well. But I am sure you are going to ask the Treasurer about that tomorrow. In relation to the broader matters on PPPs, if we are paying the servicing costs then it is on our book; if we are not, it is not.

If you have got, obviously, the EastLink, yesterday, which is a private company — it is not a government-owned instrumentality, it is not a statutory authority or a PNFC — it is off budget, so it does not go on our budget because it is paid for by people who drive along it so it is a private concern. The children's hospital is on the books. The children's hospital came on to the books; in the budget we announced it. That is how we do it.

I am sure the Treasurer would be happy for the Treasury to brief you and go through this if you requested it through the Treasurer — and certainly I used to do that when I was Treasurer — just to take you through the steps with a PPP. But when it is announced in the budget, it is put on the book straightaway as a traditional capital works, so it is on the book there. When it becomes a PPP — in other words, when the payment is made — the exact amount is then also placed on the book so the original amount is taken off and replaced with the new amount.

The reason water would be on is because it is through a government-owned company; while users are paying for that through their water charges, it is a government-owned company. In answer to one of the other questions before, one of the other areas of PNFCs is VicTrack, so the new trains that we will be purchasing in 2009. That is actually a VicTrack purchase, so it is a PNFC. That is another example of where they pay for that so that is part of that increase in debt to which you refer.

The CHAIR — There is a good example of how PPPs are handled on page 93 in terms of the skills project. There was capital up-front and then there is possible service.

Mr DALLA-RIVA — In terms of the PPPs and the PSCs — the public sector comparatives — how do you as the Premier ensure that there is value for money if PSCs are not publicly released?

Mr BRUMBY — They are publicly released now.

Mr DALLA-RIVA — They were not on the EastLink, so how do we know that we have value for money on that?

Mr BRUMBY — You are going over old ground.

Mr DALLA-RIVA — No.

Mr BRUMBY — You are. When I was Treasurer — —

Mr DALLA-RIVA — You fought me tooth and nail that they were restricted. What a change!

Mr BRUMBY — Hang on. Consistent with the election commitment we made in 2006 when we promised to provide more information about PPPs, we did that. It was when I was Treasurer, so presumably in the first half of last year. That information now goes up on the website. There is more information, by the way, about PPPs than you get about traditional public sector procured projects. There is massive information there.

In relation to the public sector comparator, those figures are determined by Treasury. They have a clear formula. It is set out in all of the information, it is there on the net. They take into account what it would cost to deliver that project if it was a traditional public sector procured project, including of course an allocation for risk and an appropriate discount rate. We now use a different discount rate, again, as you are probably aware, for low-risk projects — like a school, for example, which is a very low-risk project — and there are some much higher risk projects. We vary the discount rate accordingly. We then get a PSC. If the bid that comes in from the private sector is better value for money than the PSC, then we go with it.

I just have to say that on PPPs, if you look at the history of this issue, you can probably go back to the Wran government in New South Wales, who probably first introduced a novel form of PPPs to get around loan council restrictions. The Thatcher government in Britain did the same things. Probably towards the end of the Cain and Kirner governments PPPs were used, but more to just try to get things off the book. During the Kennett and Stockdale era a number of the PPPs there were more about ideology and privatisation and not always value for money. What we have tried to do is have it driven by value for money. The way you determine that is a public sector comparator.

Mr DALLA-RIVA — Which you do not release.

Mr BRUMBY — You are wrong on that; we have.

Mr DALLA-RIVA — You never released it. You make the statement. You never did it.

The CHAIR — Thank you, Premier. I would like to come back on the national reform agenda — the COAG reform agenda I suppose it is now called. With the recent meetings, some of which you have already described, there is a range of work to be done by the working groups and the Treasurer in terms of outputs, outcomes, reforms, reform indicators and funding arrangements by the end of the year. Given that your department plays a major role in regard to COAG, can you tell us what is happening? What is going to happen with regard to support for these working groups?

Mr BRUMBY — We have seven working groups. There is health and ageing; there is the productivity working group; climate change; infrastructure; business competition and regulation; housing; and indigenous reform. They are all providing their reports. We saw the communiqué from the last COAG meeting in Adelaide. It was a very detailed communiqué and included the recommendations and the response to the COAG working groups. Those groups are continuing on through this year. The working groups are based around the key elements, if you like, of the national reform agenda. It is a collaborative approach aimed at improving workforce participation and productivity, using incentives to drive reform and also flexibility across the states — to use the jargon,

jurisdictional flexibility — to drive innovation and efficiency. At the March meeting those reforms were focused, as I said, on health, on water, on reg reform and broader productivity. It is a key area for us.

As I indicated earlier, it is really out of work that DPC and Treasury did earlier in government. How do you drive productivity growth, because that is the big challenge for us, and how do we cater for an ageing population? The best way to do that is through driving productivity improvement. That is how the national reform agenda came about. It is a key role for DPC.

Where we are fortunate is that we are impeccably well placed, if I might say that, to contribute to that role, because it was Victoria firstly that developed the national reform agenda and the then secretary of DPC is the now secretary of Department of Prime Minister and Cabinet, Terry Moran. He has an excellent understanding of it. Of course, Helen Silver was a former deputy secretary in both Treasury and DPC when the national reform agenda was developed, and until recently was a member of the COAG reform council from which she resigned when I appointed her to the job as head of DPC. So I think we are very well placed to contribute, and it is a good agenda and our challenge is to make sure, in partnership with the commonwealth, that we work to it and get the results from it over the next few years.

The CHAIR — You have got a new national reform group within the department?

Mr BRUMBY — That is correct, we do. It is a very prominent group within the department and again provides a leadership role on the agenda at COAG.

Mr WELLS — Premier, I refer you again to table 2.4, page 85, budget paper 4, in regards to the estimated non-financial public sector net debt of \$22.8 billion, and I also refer you to your answer to Mr Dalla-Riva's question in regard to PPPs and the debt. Can you please outline what strategies are in place to repay this debt, or will this debt become the responsibility of someone sometime in the future?

Mr BRUMBY — I am just going to take you to the table I mentioned in my answer earlier. Who has got a good memory? Oh yes, thank you very much. Hang on, that was not the one I referred to earlier, no. Who can find that? Who has got a good memory? This is specifically in relation to the NFPCs?

Mr WELLS — This is in relation to the \$22.872 billion debt that is on page 85, table 2.4.

The CHAIR — You have got to understand that that table is a combination of table 2.3 in regard to the public non-financial corporations sector plus the estimates, which is what we are dealing with.

Mr WELLS — I understand. I think the Premier can answer it.

The CHAIR — I am just trying to clarify this as chair of the committee in terms of what we are talking about.

Mr BRUMBY — Thank you, Chair. If you go to budget paper 2, page 56, this is what I referred to earlier. So your question is, 'How do you pay for this?', and the answer is — —

Mr WELLS — No, what strategies are in place?

Mr BRUMBY — The strategies that are in place are running budget operating surpluses going forward and maintaining a strong budget balance sheet, and the fact is the payments in this area will consume a much lower share of budget in the future than has been the case in the past. So go to page 56, if you would — —

Mr WELLS — Yes, I am on page 56.

Mr BRUMBY — Particularly the net interest and superannuation interest expense to total revenue, which when we won government was 4.6 per cent.

Mr WELLS — I have got in front of me.

Mr BRUMBY — Round it out to 5 per cent.

Mr WELLS — Yes, I have got it in front of me.

Mr BRUMBY — Okay, so round it out to 5 per cent, which is \$1 in 20 — \$1 in 20 of total revenues going towards net interest and superannuation interest expense. Today we are at 1 per cent, which is \$1 in 100. So we were at \$1 in 20. I think I said the other day in Parliament, I was being generous to our predecessors, \$1 in 50. I was referring to net interest. This is net interest in super.

Mr WELLS — We are not talking about the interest repayment. I understand that. What we are talking about — —

Mr BRUMBY — What do you think matters?

Mr WELLS — - That is fine. If there is not a strategy in place to repay the actual debt, then say so. You were starting to answer the question in regard to the interest repayments on this debt, so I am looking at more the capital amount of the actual debt and what strategies are in place to repay the debt, not the interest.

Mr BRUMBY — The debt is repaid over time through cash surpluses, operating surpluses and loan programs. And again, I am not the Treasurer. I mean, you should be asking the Treasurer about these things, but there will be tables somewhere in the budget papers that go to the borrowings programs and the repayment programs. So these are decisions which TCV makes from time to time depending on their borrowings programs, and when it is timely to pay out debt and when it is timely to take on new debt depending on what interest rates are and what borrowing costs are. So again if you look at page 71 — —

Mr WELLS — Budget paper 2?

Mr BRUMBY — Yes.

Mr WELLS — Yes, I know, but we are talking about the servicing cost.

Mr BRUMBY — Yes, management of the debt portfolio. That is what you asked about.

Mr WELLS — No.

Mr BRUMBY — Hang on, you have asked about management of the debt portfolio.

Mr WELLS — We are going around in circles here. We are talking about not the repayment of the interest — —

The CHAIR — Okay, you have made the question clear.

Mr WELLS — We were after the repayment of the actual capital amount of the debt.

The CHAIR — Let the Premier to answer.

Mr BRUMBY — It says:

Management of the debt portfolio continues to be based on the key objectives of achieving relative certainty of interest costs, while minimising borrowing costs and refinancing risk, and managing the financial and operational risks in a prudent manner.

Victoria minimises its interest rate risk primarily by borrowing at fixed rates ... The state's debt portfolio is structured to maintain a relatively even maturity profile over a term structure out to 10 years, but with some longer dated securities being held where liquidity is available.

So when you go forward, Kim, and you look at the net debt figures, what they include is some borrowings and some repayments.

Mr WELLS — Yes, absolutely.

Mr BRUMBY — Some borrowings and some repayments, some borrowings and some repayments, and the schedule builds that into account. What you are seeing going forward is a debt level which, as a share of the economy, is significantly below where it was when we were first elected and, more importantly, it shows that the servicing cost of that debt is at a fraction of what it was when we were elected. I am not sure what it is that you are driving at, but if the objective, which is our objective in government, is to make sure you can invest in hospitals and

schools and have the money to pay for nurses and teachers, then the debt servicing cost is important, same as a household mortgage, and ours is going down.

Mr WELLS — I understand, but I take it from your answer there is no strategy in place to repay the actual debt in the forward estimates. I mean, you have spoken about the servicing costs and I fully understand that as a recurrent expense, but it is the actual repayment of that debt. Anyway.

Mr BRUMBY — The repayment of the debt, as I have just read to you from page 71, is built into the TCV profile — —

Mr WELLS — I know it is a profile.

Mr BRUMBY — Of course it is a profile: that is what we are referring to. You will find in one of the budget papers — and I am sorry it is not my job: I am not the Treasurer any more, but you will find in one of the budget papers — that there is a table which shows the net borrowing and lending program and shows how the profile adjusts over time. They run this to best advantage. They pay out debt when it is opportune to do it or when they might be able to borrow internationally at very low rates, for example, as they have been able to in recent years, and then you would use that — you might borrow it — but pay out a lot of the high-price debt from previous years.

Sometimes it is also better to prepay superannuation than it is to pay down debt depending on the relative cost of finance. If my memory is correct, to date as a government we have prepaid something like \$5 billion of superannuation liabilities because when you take into account the after-tax cost of doing that — because we get some tax benefits as a state from prepaying — you get a much better return on capital. All of those things are taken into account by Treasury.

Mr WELLS — Premier, just a quick clarification: when you refer to the operating surplus, are you referring to the interest repayments or are you talking about the pay-down of the actual debt? In your comment earlier you referred to operating surpluses moving forward; I understand that, but are you referring to the operating surplus being used to pay down debt or being used to repay interest?

Mr BRUMBY — The operating surplus is the net result from transactions after you have paid all your operational expenses, which include the interest on government sector net debt, but does not include the interest on PNFCs because that interest is paid by the respective PNFC.

Ms MUNT — If I could change the subject a little, I understand the Department of Premier and Cabinet strategic policy advice and projects branch manages the Tsunami Disaster Reconstruction Fund. I think the government committed \$10 million to that fund, and I wonder if you could let us know how that money is being spent?

Mr BRUMBY — I could. In fact, I spoke at the Sri Lanka National Day earlier this year. It is the first time they have ever had a Premier present at their national day celebrations. The Governor was there as well, and it was the first time they had ever had a Governor there. It was a fantastic occasion, and I was delighted to be there.

During the night I outlined how we had expended some of those funds that were announced at the time of the tsunami. We had completed two projects: the *Victorian Gardens Settlement Project — \$3.2 million — for 84 families in southern Sri Lanka who lost their homes in the disaster. They have each received a furnished house connected to water, sewerage and electricity, and I have seen some of the photos of them. There is the Ruhunu school — \$1.2 million — in partnership with Plan Australia. That school has been completely rebuilt and now has 3000 students.

There are four projects which are in progress: Health for the South, which is a \$3.5 million partnership project with corporate donors and the Alfred hospital to establish an emergency and trauma reception capability at Karapitiya Hospital near Galle in south Sri Lanka. There is the Eastern Technical Institute Strengthening Project — \$625 000 — in partnership with Holmesglen Institute of TAFE. There is the Victoria-Jaf Fishnet Manufacturing Factory Project — \$850 000 — in partnership with Caritas Australia, France and Sri Lanka. It is a fish net manufacturing facility. There is also a project in the Maldives, which is a capacity-building project — \$460 000 — in partnership with Australian Volunteers International.

As circumstances had it I was the first Australian minister to visit Sri Lanka after the tsunami, less than a week after it hit. With the then Australian ambassador I travelled down to Galle. You had to be there to see the extent of the tragedy and the decimation of areas and households. I know our assistance was a very large amount, and not something typically a state government would do, but taking into account all of the circumstances of the tsunami and its impact throughout the region, and the very close bonds we have with Sri Lanka, with the huge number of Sri Lankans living in our state, it was appropriate to do this.

To have seen the photos, as I did, a couple of years later of those areas that were just completely decimated — just destroyed — and families just literally washed away, our assistance was a wonderful thing, shows you that our intervention, I think, in this case, was completely justified and has brought enormous public good.

The CHAIR — Thank you, Premier. There is time for one more quick question on the Premier's portfolio.

Mr RICH-PHILLIPS — Premier, in April you announced the end of the gaming duopoly, and indicated that it was the government's view that compensation would not be payable under the existing licences to the two operators. The budget papers report that potential obligation as a contingent liability. Can the committee take from that that the government does not yet have sufficient advice to categorically rule out an obligation to pay those refunds, given you continue to list it as a contingent liability?

The CHAIR — On what page?

Mr RICH-PHILLIPS — Page 237 of budget paper 4.

Mr BRUMBY — As I have indicated publicly, the government has made an informed decision based on a range of information that we do not believe there is an obligation to pay those amounts, but as I have said publicly, I am sure the companies will test that in the courts. As we have done in the past we have listed that as a contingent liability.

I think that is fully consistent with good auditing practices. If there is any potential liability for the state, which we are aware of, then normal accounting practice would have you note that. I repeat: cabinet formed a view based on a range of information that there was no obligation, and it is our view that there is no entitlement. But I repeat, as I have said publicly, I am sure this will be challenged in the courts. At the end of the day that will be a matter for courts to determine. But I should say, too, that were that to be challenged in the courts and were companies to be successful, then there is no payment of course until 2012.

Mr RICH-PHILLIPS — Do you know the value of the possible exposure?

Mr BRUMBY — No, I do not.

The CHAIR — Ask the Minister for Gaming.

Mr BRUMBY — You can ask the Minister for Gaming that question. He actually might be here in another capacity in a moment, but you are not allowed to ask him today.

The CHAIR — That is correct.

Mr RICH-PHILLIPS — You do not have a figure for the potential exposure?

The CHAIR — We will take it up with the minister.

Mr BRUMBY — As I say, the government formed the view, based on a range of information. It is the right decision for the state, and I hope when the legislation is presented on changes to the gaming structure, that it will be supported across party lines.

The CHAIR — Thank you for that. I thank Ms Silver and departmental officers for their attendance.

Witnesses withdrew.