V E R I F I E D   T R A N S C R I P T

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into budget estimates 2010–11

Melbourne — 11 May 2010

Members

Mr R. Dalla-Riva	Mr G. Rich-Phillips
Ms J. Graley	Mr R. Scott
Ms J. Huppert	Mr B. Stensholt
Mr W. Noonan	Dr W. Sykes
Ms S. Pennicuik	Mr K. Wells

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

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Witnesses

Mr J. Lenders, Treasurer,

Mr G. Hehir, Secretary,

Mr D. Yates, Deputy Secretary, Budget and Financial Management division,

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

Mr J. Fitzgerald, Deputy Secretary, Commercial division, and

Ms P. McDonald, Senior Reporting Officer, Planning and Executive Services, Department of Treasury and Finance.

The CHAIR — I declare open the Public Accounts and Estimates Committee hearing on the 2010–11 budget estimates for the portfolios of Treasury, information and communication technology, and financial services. On behalf of the committee I welcome the Treasurer, John Lenders, MLC; and Mr Grant Hehir, secretary, Department of Treasury and Finance; Mr Dean Yates, deputy secretary, budget and financial management division, Department of Treasury and Finance; Dr Lynne Williams, deputy secretary, economic and financial policy division, Department of Treasury and Finance; and Mr John Fitzgerald, deputy secretary, commercial division, Department of Treasury and Finance.

The other person at the table needs to identify herself for the purposes of the committee and also for Hansard.

Ms McDONALD — Paula McDonald, senior reporting officer, planning and executive services, Department of Treasury and Finance.

The CHAIR — Thank you. Departmental officers, members of the public and the media are also welcome.

In accordance with guidelines for public hearings, I remind members of the public that they cannot participate in the committee's proceedings. Only officers of the PAEC secretariat are to approach PAEC members. Departmental officers, as requested by the Treasurer or his chief of staff, can approach the table during the hearing. Members of the media are also requested to observe the guidelines for filming or recording proceedings in the Legislative Council Committee Room.

All evidence taken by the committee is taken under the provisions of the Parliamentary Committees Act and is protected from judicial review. However, any comments 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 will be provided with proof versions of the transcript to be verified and returned within two working days. In accordance with past practice, the transcripts and PowerPoint presentations and any other documents will then be placed on the committee's website.

Following a presentation by the Treasurer, committee members will ask questions related to the budget estimates. Generally the procedure followed will be that relating to questions in the Legislative Assembly.

I ask that all mobile telephones be turned off.

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

Overheads shown.

Mr LENDERS — I am just counting the numbers, Chair. There are four MLCs here. One day we will get the Legislative Council rules in these proceedings.

The CHAIR — It is a joint investigatory committee of the Legislative Assembly.

Mr LENDERS — Thank you for the opportunity to present. It is good to be back. In 10 minutes I will go through briefly the general overview of where the budget is, and I am sure there will be plenty of opportunity then to go into more detailed areas.

I will start with what the budget is about. The centrepiece of a budget is that you need to have a budget that balances, you need to have a budget that is in the black. We are particularly proud of having a AAA credit rating for our budget while doing all that. There are not a lot of jurisdictions that have maintained a AAA as well as Victoria has. That lets us do a few things. It lets us finish the work of recovery, whether that be from bushfires or whether that be coming out of the global financial crisis. There is work to be done and this budget lets us do it. It also lets us build on foundations.

I am sure the committee will over the next few sessions hear a lot about our education plan, hear a lot about our transport plan, hear a lot about our water plan, and hear a lot about our hospitals plan, all of them being important plans that have a genesis in dealing with where the state needs to go into the future and have a well-costed and budgeted plan to go forward and all have outcomes in the future they seek to achieve. Also, it is a general investment in the future going forward. I would really call this a plan-and-deliver budget.

If we go further, we cannot forget that we are still coming out of a global financial crisis. Anybody who saw the European Central Bank and the International Monetary Fund last night put together a trillion-dollar package to stabilise the European financial system, the global financial crisis may be officially declared over by a number of people, the shockwaves, though, are there. We have been more inoculated from it than anybody else. The graph we see here is really the manufacturing production hit that the Group of Seven nations took during the global financial crisis compared to the oil shock of the 1970s and also to the early 1990s. If you look at where we — as in the Group of Seven, not us — were in that period of time, you will find that the trough that was hit in that production was worse in the GFC than it was during the oil shock and still has not come out.

Which leads us to the next slide, which is what that does and what a state government can do about this. The slide shows us here what happened to business confidence in Victoria and business confidence in the eurozone. The significance of this is that both Victoria and the eurozone took a big hit in business confidence, but what we see on the graph is that Victoria has had a strong recovery of business confidence; the eurozone has not

If we move to the next slide, the reason we have gone to that is because Victoria took action in its budget last year to stimulate economic growth. Our record $11.5 billion investment in capital works last year — us, in partnership with the commonwealth and government agencies — was actually aimed at securing 35 000 jobs in Victoria. These jobs, these builders, these architects, these plumbers and these electricians in new homes and school sites were our front-line soldiers against the global financial crisis. We were bringing forward important capital works projects to stimulate jobs today.

You will see from the next slide the consequences were we did not just secure those 35 000 jobs, we created in Victoria 99 300 net new jobs last year — the lion's share of Australia's jobs and 92 per cent of all new full-time jobs in Australia. The strategy was to bring the stimulus on in capital works and to build up the business confidence, and we have seen the results in employment. If we move forward, we also see there are further shocks still coming with currencies moving around. I might dwell on that later in the day if we get questions on that.

If we can move forward with the slides, I come to the consequence of the global financial crisis and the slowdown; it means we have actually taken a revenue hit in Victoria. If we look at the start of the period, the forecast for what revenue would be coming into the state of Victoria, which is the total bar on the graph — the orange and the darker colour underneath — and then we talk of the darker colour, which is the actual growth in revenue we have had since the forecasts from before the global financial crisis, and you aggregate that, that is $3.8 billion less in revenue than we actually forecast in 2008.

Last year in the budget we clearly focused very strongly on bushfires and the highly targeted assistance we needed to do to go forward. We also took measures to rein in some of the growing costs in our forward estimates. As a consequence of our discipline, despite this problem here, if we move on to the next slide, we see we are now forecasting budget surpluses each year into the future.

We are the only Australian jurisdiction that is doing this — consistency for the four years of the forward estimates. We need to put into context the size of the surpluses in the out years: it is about 3 per cent of budget. For any family or business operator, that is modest, but that surplus is the following year's infrastructure investment. We have plans for all of those infrastructure areas, and those surpluses going into the future enable us to deliver those the following years without resorting to higher borrowings to do so.

We will move on with addressing the borrowings issue. We made the decision last year to modestly increase borrowings to facilitate the capital works which has been the centrepiece of Victoria resisting the global financial crisis. Of course there were many foreboders of doom last year, talking about how dreadful this all was and how unsustainable it all was. I would remind the committee that when I was born in 1958 and Henry Bolte was Premier, state debt was 58 per cent of GSP. Of course 1958 was a very good year I believe, Mr Wells, yet 58 per cent of GSP was debt.

If we are talking today at the end of the forward estimates period, we are talking of government borrowings as a percentage of the GST state debt being less than a tenth of that and dropping. You cannot measure apples with apples exactly, but we can certainly say the difference. We are seeing in each of the forward estimates years debt is a lower percentage of GSP than I forecast last year. Of course it is not only coming down as a percentage of GSP, it comes down in real, live, actual dollars.

Moving forward with the slides: in this budget we are also looking at boosting the economy to grow jobs by support for business. We have got modest payroll tax going forward, coming down to 4.9 per cent, the lowest payroll tax rate in Victoria since 1975 that will assist close to 30 000 businesses and make us more competitive. WorkCover premiums have been cut yet again. When I first started appearing at PAEC — not as long ago as Mr Rich-Phillips; he has been here for 11 PAECs; I have only been here for 9 — WorkCover was 2.22 per cent of wages. It has now gone down to 1.34 per cent of wages.

That is in a context where Queensland just boosted their premiums by 13 per cent. It saves costs to business; we can do it if we manage claims well. We have actually reduced injuries in workplaces. There are modest land tax cuts in the area of retirement villages and residential aged care facilities to encourage growth in an area where the private sector has been slow. We have an ongoing commitment to reduce the red burden by cutting red tape. This budget again increases the targets that have been set in that area for government.

If we keep moving through, we then find it gets us to the highlights of where the budget is. The parameters of the budget are that if you have a strong economy and a well-managed budget sector, what you can achieve is greater jobs and with the greater revenue that comes forward manage your balance sheet better and deliver on the core services that people expect of a state government. We will see lots of jobs here, but we will also see strong delivery in health, education, community safety and transport — the four key areas of any state government. All of these we deliver in services, all of them we move forward along the plans we have achieved, and all of them have a very strong focus on growing regional Victoria.

As part of the growth we are retargeting our first home buyers scheme to encourage more housing growth. We share the aspiration as a government of our citizens, 69 per cent of whom own their own home. We know if you build new homes, you create jobs, and the Housing Industry Association last year credited our first home bonus with 19 000 jobs in Victoria. We know if you boost the housing stock, you certainly take the pressure off rental affordability in Victoria. We know the biggest single issue is housing supply and that is the planning system, but on the demand side all of these measures assist us in going forward.

I turn now to regional rail link, which I think really is a centrepiece of what this government is about. If we talk of what we have done, this is an area where there is an investment in infrastructure that has been neglected for decades. It is an investment in infrastructure in the fastest growing part of Victoria — that interface between the north-western suburbs of Melbourne and the fast-growing regional cities of Ballarat, Bendigo and Geelong. It is a partnership with the commonwealth going forward. In November 2008 the Premier announced a Victorian transport plan for 12 years. As part of that plan he announced three four-year tranches of where programs would be. As part of that plan we were seeking to be partners with the commonwealth, and in May 2008, as part of that plan, the commonwealth announced its contribution towards the regional rail link.

In this budget I am seeking an appropriation from the Parliament for us to formally fund the regional rail link. We had a plan, and because we had a plan we could find a partner. Because we had a partner we could bring this process forward through the plan. I realise, Chair, we are running out of time so I will not go through more of the details, but I would certainly welcome any questions during the hearing where I could go further on this plan.

In conclusion, we have the economic projections going forward. At budget last year I forecast that in 2009–10 we would grow by 0.2 per cent. Many said I was an over-optimistic pollyanna and that we were heading for a recession. That did not happen. We revised them up to 1.5 per cent at the midyear budget update and now to 2.25 per cent in this budget. All the indicators going forward show an economy growing more strongly than we forecast last year. What that means of course is an economy that continues to grow. There will be a quarter of a million more jobs over the next five years. There will be service delivery in all the areas that are critical to a state government going forward. We will see stronger first home ownership, we will see more people with vocational education and training, and you see the outcomes for what you expect from a state government.

The final slide is really what we stand for. We deliver on promises, whether it be each of these plans going forward. We rise to challenges, whether they be bushfires, whether they be global financial crises or whether they be challenges in the health system. We certainly invest in the future of the state going forward.

Chair, those are my opening remarks, and I welcome questions on any of those items or on anything else that members of this committee would like to raise with me.

The CHAIR — Thank you, Treasurer. We have until midday for questions. I would like to begin with the question I am asking all ministers, including the Premier. The budget aims to allocate funds in 2010 and 2011 and of course in subsequent out years for stated government priorities and outcomes to be achieved. Could you please advise the committee of the medium and long-term planning strategy or strategies upon which the budget is based, and has this changed for this year?

Mr LENDERS — Thank you, Chair. It is a very good question. I could probably go on until 12 on this one alone, but I am sure you will not want me to go into that level of detail — —

The CHAIR — I will stop you.

Mr LENDERS — You asked about the medium and long-term, and obviously this budget covers a range of issues. Clearly so far as the estimates go we go out for four years, but the medium and longer-term challenges that we have going forward remain quite profound for us. In my opening remarks I talked about the plans we have in a range of areas. You ask: has anything changed within the Treasury portfolio? It is more a matter of nuancing over the last year rather than profound change within the Department of Treasury and Finance and what the areas are going forward.

Certainly if we talk about the challenges we have as a state, and as I have said to this committee before and certainly previously in budget speeches, you can use me as an example. I was born in 1958 and when I entered the work force there were seven people in the work force for every retiree. If I leave at age 67, which seems to be the targeted age now for retirement, there will be 3.5 people in the work force for every retiree — —

Mr WELLS — I would not count on being 67.

The CHAIR — All right. Without assistance, please.

Mr LENDERS — If Mr Wells would like, I am happy to stay around a bit longer in this job than until age 67. Certainly, the stark reality of using myself as an example of a generation is that I was born in 1958 and when I entered the work force there were seven employees for every retiree and when I leave the work force it will be 3.5 people. That starts to outline the important ongoing goal of boosting productivity. That has been one of the areas that we as a state have had at the forefront. Certainly the Department of Treasury and Finance has seen as one of its key roles how we can keep on focusing on boosting productivity in the Victorian economy. Obviously that productivity lets us deal with the quality-of-life issues that you need for a stronger economy to support that changing and ageing work force.

Productivity is a key part of that. There are a series of other measures around retirement and how you stage retirement income and part-time work and retaining skills. There are multiple areas around there. Within the state itself we pride ourselves very strongly — and certainly in budget paper 2, which Grant has in front of him, there are our objectives which are published for the Department of Treasury and Finance. As I said, there is only nuance and tweaking on those from this year to the last. Clearly, we have had a long-term view that to withstand shocks you have to have long-term plans. We clearly needed to tweak some of those last year, particularly the most significant one, which was the forecast of surpluses, was amended last year in view of the changing times. But the underpinning is to boost productivity and to have a strong work force that lets us do it.

I guess in summation, the three key areas for us to work on going forward are that we need to maintain a competitive economy. In the slides I referred to the two subcomponents of that: the regulatory burden, where the Premier has set me a KPI as Treasurer of a 5 per cent reduction in regulatory burden each year, which, Chair, I am pleased to say, I have met and I am confident I will continue to meet. I think it is an integral part of being Treasurer of this state to meet those objectives. That is the first part.

The second part of competitiveness of course is the taxation burden. I put up the slides before on payroll tax and WorkCover premiums and also on the land tax area. These are important in taking pressure off businesses, which have been withstanding a lot of pressure under currency going up and also the global financial crisis. It also encourages new businesses to come here. I have no doubt that a boardroom in Tokyo, London, Sydney, Brisbane or in Melbourne is making decisions about where to create jobs looks at those headline figures. It looks at the burden on the economy.

The second of the three components is building on skills. Of course on 1 July last year the skills reforms came into place in Victoria, and they will deliver 172 000 more vocational places over the four years, and they are critical for building the economy going forward.

The third and final of them — and I will conclude on this — is the infrastructure. We certainly have seen the infrastructure plans we have going forward, and I have no doubt that issues like the channel deepening make our economy more productive. It is not just the port of Melbourne; it also the cost of importing goods into regional Victoria and exporting them, whether it be the Victorian transport plan — —

Ms PENNICUIK — It's gone up. The cost of exporting has gone up.

Mr LENDERS — Ms Pennicuik may say the costs of exporting have gone up, but I can assure her that from the point of view of businesses, regional or metropolitan, having a port that can have bigger ships going through will both reduce the export costs and reduce the import costs, and that impost on the port might have been a bit less if we had been a bit speedier in getting the project through, but we did respond to the requests of some in the community and some at this table to slow that down.

I would also say that, particularly for vulnerable families, when the cost of imports comes down in the number of commodities that people import, it is also a good outcome to have a better port. The port is part of that infrastructure. The water grid is part of that infrastructure. The transport plan generally is part of that infrastructure. These are all critical components of productivity going forward, and with productivity we can create jobs and give a better future for all Victorians, particularly those who are ageing.

The CHAIR — Thank you very much.

Mr WELLS — Treasurer, I refer you to your comments in the *Age* of 6 May in an article headed 'Treasurer puts hand on heart: no poll war chest', and I think you made some subsequent comments to the *Australian Financial Review* as well. I also refer you to budget paper 2, page 4, the statement that says:

> The budget maintains strong operating surpluses through the forward estimates period in order to fund the government's infrastructure program, while keeping debt at sustainable levels. On average in the period 2010–11 to 2013–14, 74 per cent of the infrastructure program is funded by cash operating surpluses.

And I ask: are you saying that the government intends to maintain operating surpluses at current levels in order to fund infrastructure without further increases to debt above those increases already in the budget papers, or is this just a smoke screen or a con to conceal the fact that the government intends to use these surpluses as a pre-election war chest?

Mr LENDERS — Chair, I was getting hopeful when Mr Wells strayed to the budget papers that we might have an estimates discussion rather than a bit of posturing, but nevertheless — —

Mr WELLS — You do not think that is a legitimate question?

Mr LENDERS — What I will — —

The CHAIR — Without assistance, the Treasurer to answer, please.

Mr WELLS — Do you think that that is not a legitimate question on how you are going to deal with the surpluses over the forward estimates?

The CHAIR — Mr Wells, you have already asked your question. I want the Treasurer to answer, thank you.

Mr WELLS — Why doesn't he start to answer it?

The CHAIR — Thank you. If you keep quiet, then the Treasurer will be able to answer. It is very simple. Show some respect for the proceedings of this committee, please. As Deputy Chair you should do that.

Mr WELLS — Absolutely disgraceful.

The CHAIR — The Treasurer to answer, thank you.

Mr WELLS — Bring him back into line. That is a disgraceful way to answer a question.

Mr LENDERS — The summary essentially of the question is will we maintain surpluses going forward so that we can fund our infrastructure program into the future without resorting to borrowings at higher levels than we have forecast in the budget papers, and the answer is an unequivocal yes.

Mr WELLS — So the surpluses will be maintained at the current levels, so forward estimates as predicted?

Mr LENDERS — Surpluses are what you forecast, and I am absolutely confident that those forecasts are right. As the committee well knows, and I do not think there is any great trick in Mr Wells's question — —

Mr WELLS — No, it is just a straightforward question.

Mr LENDERS — Economic circumstances can change. We believe these are correct. Commonwealth governments can change policy, and sometimes we have seen with the commonwealth we will forecast into a surplus for one year or the other when commonwealth revenue comes in. Sometimes the commonwealth on very short notice will bring revenue from the current financial year and put it into the next or bring it forward. There will always be those aspects that will move from time to time, but the aggregate over the years I am absolutely confident will be the case. What I would say, Chair, to you and the committee is last year there was a lot of scepticism over whether the budget would be in surplus, and I guess the one comment I would make is in the end, despite others saying that the figures were a hoax, that we were running into a recession, my forecast of the economy growing at a quarter of a per cent underdid the growth of the economy. It was a conservative forecast. I am confident that these forecasts are right. I am supported by a very competent department that takes us through sometimes very challenging times in predicting where economic growth is going. There are two things underpinning this of course: one is spending, one is how the economy goes. We know in the budget papers we have the sensitivity analysis to give the committee and the community a bit of assistance in how to make some of those assessments, but I am confident that these forecasts are right, and I am unashamedly pro budget surpluses because they let us deliver infrastructure into the future, something that has been sadly neglected for generations — I think it is fair to say in Victoria we had an infrastructure underspend — and we certainly are seeking to catch up on that so we can deal with those lifestyle issues for the future by growing our economy, by investing in the infrastructure we need, both economic and social.

Mr WELLS — So the surplus will not be used as a war chest for the election? You are putting your hand on your heart, as you said to the *Age* — —

The CHAIR — I think he has answered that question.

Mr WELLS — So we can take it that this will not be used as a war chest?

The CHAIR — The transcript will show that the Treasurer has given an answer to your question.

Mr WELLS — And the Treasurer has just nodded in agreement that that is the case.

Ms GRALEY — We had a question here yesterday about Peninsula Link and there were some rather negative comments from the other end of the table, so I would like to refer you to budget information paper 1, page 14, and ask: given the government's commitments to roads and job-creating projects, can you outline how many jobs will be created as a result of Peninsula Link and what this project will mean for people living on the Mornington Peninsula?

Mr LENDERS — I thank Ms Graley for her question. Certainly the Minister for Roads and Ports has advised me, and I think it is also Treasury modelling, that it will be in the order of 4000 jobs in the construction stage of Peninsula Link. That is exactly that front-line troops against the global financial crisis, that these people have jobs, and of course those people holding the jobs then have greater confidence when they go out into the community, and if you even think across the south-eastern suburbs of Melbourne down to the peninsula, if you have 4000 people with construction jobs and money in their pockets, they are more likely to buy a home, they are more likely to go and shop. Retail is 11 per cent of our economy, and 76 per cent of that is sourced in Australasia, so the flow-on effects are very powerful.

That is an important short-term measure for Peninsula Link, but clearly the major one is what it does for the transformation of the Mornington Peninsula and Frankston and the opportunities that are down there. We are very confident with Peninsula Link. You need to look at it beyond being a road. You need to look at it beyond those things and at the opportunities that it can actually do. So 27 kilometres of road, on the face of it, is 27 kilometres of road.

But if you are someone who is commuting or seeking to do work, or if you are a tradie in Dandenong who has got a job down at Point Nepean, doing some work on a great Victorian investment in a national park there, and you are seeking to go there, it is probably going to save you, several times a day, 10, 20 or 30 minutes in time in getting through Frankston. If you are in Frankston, it means there are less cars on the road going through Frankston at the time. If you are the tradie, you have actually saved time. That means you can quote probably less for doing the work. That is a win-win — a productivity increase for everybody.

There are some great partnerships that have come with it as well. These things are never easy. When you are engaging on a large road construction program, it is not easy. But there have been great partnerships that have developed, including also more walking and cycling paths that go with this.

But the main thing for people commuting to and from work and for people commuting during the day between work, for people who are seeking more leisure and recreation, it will save them time and it will save them money. For the economy as a whole, it will save time and money and will also add significantly to the amenity of Frankston in that it will take a lot of vehicles out of the streets on a daily basis.

I am not sure if that answers the question in full regarding what you are seeking, but it will be 4000 jobs in the immediate term, but in the longer term it is harder to measure what that does to the economy, that boost in productivity going forward, which will be significant by another part of the Victorian transport plan being delivered. Again I think the other feature of this of course was it was a PPP in a new innovative form for Australia. It was also done in record time, which is what you need to do at a time of global financial crisis to bring forward jobs.

Mr RICH-PHILLIPS — Treasurer, I would like to ask you about the government's commitment on infrastructure spending. You have indicated in the budget speech, and indeed in your public comments, a figure of $9.5 billion for the 2010–11 financial year. I take you to budget information paper 1, page 17, which is the table 'Infrastructure investment by TEI — summary'. The table there shows total projects valued at $8.42 billion being existing projects and new projects streaming through in 2010–11. I would like you to reconcile your figure of $9.5 billion when the table shows $8.4 billion.

Mr LENDERS — I think if we are talking, as I said when presenting my slides — we can go back to the slide if you want to, but I will probably describe it and if you saw on the slides — there are a series of coloured parts of the bar. There is the general government sector; there is obviously the public non-financial corporations sector — the ports and water authorities.

Also what I included in that figure, and openly and transparently included in the figure, were the figures from pass-throughs from the commonwealth — whether that be pass-throughs that go through our books or ones that do not go through our books. In terms of some of the pass-throughs, whether it be for housing associations or non-government schools that the commonwealth is funding, what you see is all of those.

The different reconciliation here is how the cash flows go through from that. The fundamental is non-government schools and housing. Some of them go direct to third parties, but we are including them in the figures, as I did in my narrative, because they were a part of the joint state and federal, through general government, public non-financial corporations and the direct commonwealth pass-throughs to housing associations and non-government schools, which in aggregate came to $11.5 billion in the year we are ending. In aggregate it comes to $9.5 billion in the year we are entering.

Mr RICH-PHILLIPS — We have got a mix of the commonwealth pass-throughs, and some of them are included in BIP ones and some of them are not included?

Mr LENDERS — Yes, absolutely. The commonwealth pass-through, for example, in the building education revolution schools for the however many of the 1600 government schools it is, I think it is in the order of 1300 of them where there is commonwealth money coming through on. That obviously goes through a general government sector, but the commonwealth money passing through to the 700-odd, or however many of the 700-odd non-government schools were not passed through our books, we have included them both there in economic terms as a part of capital stimulus. But only part of it is being reported through the budget process, because they are the ones we are accountable for.

Mr RICH-PHILLIPS — Given you have been talking the headline figure of $9.5 billion, are you able to provide the committee on notice with the reconciliation of those extra commonwealth pass-throughs that make up the balance between the $8.4 billion and $9.5 billion you have been talking about?

Mr LENDERS — Yes, will do.

The CHAIR — Good, I was going to ask that too.

Mr NOONAN — Treasurer, I wanted to ask a question about the regional rail link which I think you have described as one of the centrepieces of this budget. It is also I think the largest infrastructure project in this budget. I think it would be fair to say that as it is called 'the regional rail link' it is not necessarily well understood what the potential benefits are with that project in terms of rail commuters in Melbourne's western suburbs. I wonder whether you can provide more details about the estimated expenditure of this project and also the associated benefits both in a regional setting and also in a north-western metro setting for rail commuters.

Mr LENDERS — I am delighted to take the question and describe it in a bit more detail. Firstly, it is a $4.3 billion project. It is clearly one that the Department of Transport is now working in earnest on the procurement, on a range of other measures and how we deal with the project. As I said in my opening remarks, I announced at the end of 2008 the transport plan. The commonwealth money in its budget last year and now the state money are formally incorporating the three together.

What it does is a number of things: there are new stations and 50 kilometres of new track. I will not go into the details of exactly where they are, but in terms of the significance of why, the stations speak for themselves. It deals with a greater capacity for commuters to use this in the growing northern and western suburbs of Melbourne. The track though is significant because what it does is let your regional V/Line trains come in express. I will dwell on that for just a moment because it goes to the second part of your question of what it is doing in the metropolitan area.

We, as a government, invested heavily in regional fast rail when we were first elected into government as improving those services between the large regional centres and Melbourne, and in particular firstly, it is a service delivery in those areas and secondly, it takes population pressure off Melbourne. Express trains coming in from Ballarat, Bendigo or Geelong, which obviously all go through the regional rail link, are far more attractive for commuters, particularly those working families where one member of the family might be working in Ballarat and one in Melbourne.

It gives you options as to which place you live: Melbourne or Ballarat. If you have a fast express from the centre of Ballarat to Southern Cross station, it gives you options that you otherwise would not have had. The 'express part is critical. Now, if we have an express train running from Ballarat through the system into Melbourne it takes about 6 or 7 minutes on the track to come through; if you have an express train coming through it means you cannot run any suburban trains in that particular block. If you are running suburban trains that stop station to station, you can get approximately three on the line in that same time window required by an express train coming through from regional Victoria.

The extra 50 kilometres of track give you the ability to run those express trains through. So in relation to your question regarding the northern and western suburbs of Melbourne: it lets you run more trains. The long and short of that is: when this project is up and running we will be able to have trains that take 9000 more passengers per hour on the system through the northern and western suburbs. Clearly that infrastructure investment is good for commuters — clearly they would rather come into the city for work or study that way, particularly at peak hour — it gives commuters more choices, and obviously it also takes pressure off the road system. It improves amenity, reduces emissions and boosts productivity — all the pluses that come out of that.

In essence this project will create jobs in the construction phase, but in the long term it disentangles the problem we have had with V/line trains coming into the suburban system which does not have the capacity for all of them. This disentangles it and boosts capacity. That is why we think it is truly a nation building project. These are things that do not happen overnight. They do not happen and get done with an idea and a clicking of fingers;

this involves planning, integration, partnership and now will involve some very elaborate, important engineering work as we go forward in the years ahead.

Mr DALLA-RIVA — Treasurer, I refer you to budget paper 4, page 89. It relates to the non-financial public sector comprehensive operating statement, table 2.2 — in particular the forward estimates for employee expenses — and I put it that in the context of the anticipation of increases given the report last week in the *Age* about the $14 million paid to public service executives in the 2008–09 year, which had little or no relationship with actual performance. In particular, I draw your attention to the bonuses paid to executives in VFMC, VicUrban, WorkCover and TAC, all of which presided over billions of dollars in losses.

I ask: will you immediately release the performance measures of each and every executive who received bonuses as against their performance targets, and will you now release the full Vertigan report on the executive salaries in VFMC, and are you satisfied that the executives of all other government departments and agencies have not behaved in a disorderly way or inappropriately, or have been paid in the same manner as those at the VFMC? In other words, I am trying to work out from the forward estimates, is there an anticipation about this ongoing continuation of performance bonuses without actual performance being achieved?

The CHAIR — Treasurer, in so far as it relates to the estimates, it goes to your portfolio.

Mr LENDERS — In so far as it relates to the estimates, Mr Dalla-Riva refers to the public non-financial corporations whereas WorkCover, TAC, VFMC, Treasury Corporation of Victoria are all actually public financial corporations, so the table does not refer to the bonuses that he was talking about. But in general terms, what I will say to him is that in its annual report, every department will report on these matters. I completely reject his supposition that there is no correlation, as a general rule across government — although he may well question an individual bonus, as he is entitled to — between performance and bonuses; I think it is a slap in the face — —

Mr WELLS — They lose billions of dollars and they get a bonus. Treasurer, are you happy with that?

Mr LENDERS — It is a slap in the face of many dedicated, hardworking members of the public sector for a member of Parliament to generalise and have a go at them all, that they do no earn it — —

Mr WELLS — It's what the committee said as well. You as chairman said the same thing in the committee report.

Mr LENDERS — That is the supposition being put forward. So specifically, the bodies referred to are not the ones he referred to in budget paper 4, so I suggest that perhaps he finds the table if he wants to refer to them; he should read the papers a bit more effectively.

Mr DALLA-RIVA — So you have got no idea about performance. How do you measure the performance in general?

Mr LENDERS — In his general comments about wages going forward, public sector remuneration going forward, I would have thought there would have been a fair few more fundamentals he could have referred to in those areas, particularly how it is that the state of Victoria in managing its budget is the only jurisdiction in Australia to have surpluses going forward. Given that that is half — wages are approximately half the cost of the state budget — I am a bit disappointed that he has not dwelled on those areas. I conclude my answer.

Mr WELLS — So you have no idea how people get their bonuses. None whatsoever. What a joke!

Ms HUPPERT — Throughout the budget papers there are quite a number of references to Victoria's growing population and the challenges that poses. Obviously, one way of dealing with that is trying to decentralise the population, and I note that budget information paper 1 on page 4, there is a chart that shows that 44 per cent of all asset and investment projects are located in regional Victoria, and that 23 per cent are statewide. I wonder if you could perhaps expand on how this is going to affect regional Victoria and point to some of the specific projects which show how that goal, as set out in the budget information papers, is going to be achieved?

Mr LENDERS — I thank Ms Huppert for her question. It is probably one of the most profound things that is happening with population growth in Victoria at the moment, that we and Tasmania are probably the only parts of the country that are actually seeing strong growth outside the capital cities — and sustained growth. It is more than the often observed sea-changers and tree-changers. There is obviously an element of that lifestyle of retirees that goes forward, but there is also a far more fundamental realignment in Victoria where economic growth is inland. Economic growth is in a lots of the regional centres, where for many years there was not. I note that Ms Huppert is a geographer from way back, so she probably has a greater interest in this than perhaps most people would.

One of the profound things that is happening in Victoria is that change. While there is a small number of our regional municipalities that still have population attraction between censuses, increasingly now in Victoria municipality after municipality and certainly every region of the state has actually now got net population growth. Investment in infrastructure is a very important part of this, to improve the lifestyle. There also needs to be a mindset that says we want to grow the whole state and what can we do to make a difference.

Certainly Ms Huppert referred to a series of infrastructure investments, and in this budget there have been some phenomenally large — by Victorian standards — investments, certainly the Bendigo hospital being a classic example. It is the largest investment in health infrastructure in regional Victoria ever. Why is that important? There was a hospital in Bendigo that was clearly old and in need of renewal — that was clearly important — but the reason we invest in these facilities is for quality of life. For someone in Bendigo, you need your modern medical facilities to have treatment. Those treatments could be provided in Melbourne, but clearly if they are provided in Bendigo it instantly means that for everybody in Bendigo and further afield it is 2 hours less to get to those services if you are going by road — if it is not an air ambulance-required type of service. It also means for the families of those people that it is 2 hours less or more to visit your loved ones. It also means there are extraordinary professional opportunities in Bendigo at a growing hospital for nurses, doctors and other health professionals that otherwise would not have been there.

Beyond the health system, we can talk to some of the areas. I get very excited normally about sewerage programs and these types of things, but in Geelong Barwon Water will get a big upgrade in plant in this particular budget. There is an $85 million Barwon Water's northern water reclamation plant in Geelong. If you have got the sewerage system working in Geelong, it helps deal with the population growth. Certainly we are expecting very strong growth out of Geelong in the years ahead. The growth has been coming close to 2 per cent per annum of late. Particularly when the Armstrong Creek development starts happening in Geelong, you need the facilities and amenities to go forward. In Geelong, particularly with this government's investment in rail and road improvements to Geelong, it has become far more possible for working families with breadwinners in both Melbourne and Geelong to operate in that environment where you can commute between the two of them.

We look to upgrades, whether it is the Goulburn Valley and Nagambie bypass — that is a $44 million road project — or the South Gippsland Highway upgrade from Sale to Longford, there are numerous of these individual programs that go to growing regional Victoria.

There are also specifics. If we go across regional Victoria, we see the affirmation, whether it be the rebuilding of schools and modernisation of every school project, all of those are jobs in regional towns. There are also some that are more fundamental. Some areas of the state that are not in those sea change or tree change sort of environments can grow after not having grown for years. One that I always take great pride in, being a minister in this government, is the town of Nhill, a small community in the north-west that was declining in population. Through partnership between the shire and the state government and important interventions through the Regional Infrastructure Development Fund, what we saw was that Luv-a-Duck, which is sort of an iconic Australian manufacturing company has actually been established in Nhill. Ms Pennicuik may be sensitive on this one, It is a strange name for a company, Luv-a-Duck, that kills off a few thousand ducks a day!

Ms PENNICUIK — That is right.

Mr LENDERS — It is a company that has I think the figure is about 70 or 80 manufacturing jobs in Nhill and then probably triple that amount of jobs in the farms surrounding Nhill, where there is actually the extra opportunity of manufacturing and primary production. This was done by the municipality and the state government looking at the edges of Melbourne — the urban amenity sphere did not like some of the broiler chicken and other industries that were there. It was a partnership that actually has delivered jobs in Nhill and stopped the population decline. Of course every job you have in a place like Nhill means it is another person who is likely to be a CFA volunteer, another person in the netball team and another person who has a kid at a school, and it generates growth in those areas.

There is a series of measures here. They are not accidental; they are designed as part of a deliberate plan to grow the whole of the state. We are seeing results in the major regional centres, but we are also seeing them in some of the smaller communities that have not seen growth, in some cases, since the First World War. We are seeing growth again in places now at that level. We are very proud of it. I think these budget measures help set that environment to let communities grow themselves, and the outcomes are real wins for communities like Nhill.

Ms PENNICUIK — I assure the Treasurer that I will keep speaking to the government about ducks and, indeed, chickens. My question relates to the recently released Auditor-General's report on performance reporting by departments, which found that Victorian departments do not have adequate performance reporting regimes. He found that there is a considerable gap between Victoria and he acknowledged the better practice jurisdictions of New Zealand, Canada, the United Kingdom and Western Australia in reporting the extent of achievement of intended departmental outcomes. He also said DTF and DPC have done particularly poorly in relation to performance reporting and that both of these require considerable work to progress the development of their performance indicators.

In his recommendations, he suggests that DTF should review and consolidate existing guidance material for clarity and ease of access, alert departments to the need for increased compliance with the standing directions by the minister for finance under the Financial Management Act and business rules contained in the budget and financial management guidance statements and monitor and report on its effectiveness in assisting departments to consistently implement reporting reforms. My question, Treasurer, is: are you and the department going to follow these recommendations and lead on improving departmental reporting, particularly in the budget papers?

The CHAIR — It just got there by the skin of its teeth in terms of relating to the budget and the estimates. Treasurer, insofar as it relates to the estimates.

Ms PENNICUIK — By way of clarification, Chair, the government discontinued disclosure of departmental objectives in the budget papers in 2004–05, so I ask also: is the Treasurer going to reinstate that?

Mr LENDERS — A very comprehensive question. There are a number of points that I will make about that. Firstly, obviously the Auditor-General's report is one the government reads with great interest. Government always has a dialogue with the Auditor-General, and we treat his reports with great respect and we implement those parts of the report that we think are appropriate, and if not we quite openly and transparently say why we do not.

I think the central point though I would say to Ms Pennicuik and the committee is most of those recommendations in the Auditor-General's report are actually in the public finance bill that we are trying to get through the Parliament. If you are looking at the bona fides of the government in doing this, I am happy to have a dialogue over what in the Auditor-General's report has not actually been addressed by that bill, but the fundamentals are addressed by a piece of legislation we are seeking to get through the Victorian Parliament at the moment, so our bona fides on addressing those issues have actually been — —

You might accuse us of pre-empting him, but we have actually got a bill which I believe has got through the second-reading stage but not the third reading in the Legislative Assembly, which actually seeks to address all these issues. Without dwelling on them one by one by one and, 'Is the government serious or not serious?' — —

Dr SYKES — But there is no penalty for non-compliance in that bill, Treasurer, so it is just a facade.

Mr LENDERS — What we are seeking to do here on this is address it through a piece of legislation which is far more powerful than any individual action of the executive government. I think that essentially sums up Ms Pennicuik's saying, 'What is the government's response?'. We have a response. It is a piece of legislation we are trying to get through the Parliament which essentially addresses the issues in the Auditor-General's report.

Mr RICH-PHILLIPS — Does not the government control its agenda in the Legislative Assembly, Treasurer? Is it not the government's decision to let the bill sit there for six months?

The CHAIR — I do not think that is a question for this committee. It is a question for another place.

Ms PENNICUIK — Chair, I think the Auditor-General in his report acknowledges the bill, but he does make recommendations that are outside what is in the bill, including my other question, which is about more transparent disclosure of departmental objectives in the budget papers. So can you go to that question, Treasurer?

Mr LENDERS — These are all balance, Chair. Mr Rich-Phillips will groan when I say this, but if Ms Pennicuik goes to the *Australian Financial Review* of 15 January 2003 — —

Mr RICH-PHILLIPS — Quote it in full.

Mr LENDERS — She will actually find that that newspaper said we were too transparent; we are actually putting too much information out there with a view to actually snowing the community.

Dr SYKES — Volume does not equal transparency.

Mr LENDERS — I will just borrow the secretary's books here. With the budget papers this year — with budget papers 1, 2, 3 and 4, the two addendums to the budget paper and the overview — we find actually that there are 1138 pages of documents, and last year there were 940. Rightfully, as Dr Sykes says, volume is not the answer to this, and we are forever trying to keep these areas as refined and as succinct as we can. Obviously at a time in the future we will need to look at how much of this historical stuff you can just put on the Web rather than necessarily always print in these forms. We will always look at how you can keep these forms succinct, knowledgeable and not full of duplication. But on the issue of outputs and performance, we are probably the only government that I know, or certainly one of the first, in putting Growing Victoria Together, so the highest level you can get on your government objectives going forward is in the papers and reported on, We have the output measures which are in there and reported on.

Dr SYKES — What about outcomes?

Mr LENDERS — And there is a transition area in the middle between the high level and the outputs which the Auditor-General has alerted, which I think the public finance act would actually address. I think I have answered the question — that is, that we, Victoria, have lead the way over time in making these papers more transparent, linked to the long-term issues of the future and we try to link that to the outcomes. There is a gap there which we have addressed in the legislation before the Parliament, and the rest of it is an iterative process. We as a government value the work of the Public Accounts and Estimates Committee, which advises us on ways from PAEC's perception you can make these more effective. We have obviously internal reviews within both the Department of Treasury and Finance for the budget as a whole and the Department of Premier and Cabinet for the Growing Victoria Together components, which we look at to say, 'Can we finesse this further?'. This will always be a matter of balance, but there is an immediate option before the Parliament of Victoria at the moment which I think addresses that intermediate area between the GVT and the outputs in a way that I think the Auditor-General would be delighted with.

Ms PENNICUIK — Does that mean the Department of Treasury and Finance is going to take the lead in monitoring that this happens in future?

The CHAIR — I think that is a matter to be responded to not so much in this hearing. The minister or the government will respond within six months to our report of the audit. The Minister for Finance responds to that. Just in terms of the department's objectives, you will find them on page 244 of budget paper 3.

Ms PENNICUIK — Thanks, Chair.

Mr SCOTT — This is a question that I know the Treasurer will have some interest in, being a former member for Dandenong North. I refer him to budget information paper 1, page 10, and I ask: in relation to the revitalisation of central Dandenong, what works are being done and how much is being invested to ensure that Dandenong continues to be the economic hub of Melbourne's outer south-eastern suburbs?

Mr LENDERS — I thank Mr Scott for his question. It is one that I, as a former member for Dandenong North and also former Minister for Major Projects, have great pride and delight in. I am sure Mr Rich-Phillips, as a member for South Eastern Metropolitan Region, also has great pride in how greater Dandenong is stepping forward with great strides in the revitalisation of central Dandenong. The project was a big investment from this government — a big investment in capital works as a statement of support and working with the community of Dandenong to realise some of the extraordinary opportunities that come from Dandenong having a greater investment in infrastructure and a greater working with the community what it could actually do in the area. Dandenong of course is incredibly well located in the south-eastern suburbs of Melbourne as a place for growth. Whether it be the rail system, the Monash or now EastLink, it is a great confluence of where transport hubs go. Whether it be EastLink, delivered by this government, or whether it be the M1 upgrade, delivered by this government, or whether it be the improving of the rail system, delivered by this government, or the bus systems along EastLink, delivered by this government — all of them add greater capacity for greater Dandenong to be a logical hub for businesses to invest and also for citizens to move to.

The investment through VicUrban has been important for us going forward. It is a $290 million investment. As people will see in budget paper 1, as Mr Scott referred to, we see the money rolling through the system as we go forward. The revitalisation of central Dandenong involved a fair amount of consolidation and infrastructure work in the centre of Dandenong itself and that is moving forward, and rapidly. Whether it be the transformation of Lonsdale Street — there is the removal of central carriageways, the installation of underground services and street lighting — a range of these things in Lonsdale Street are critical. Of course the realignment of Cheltenham Road now as well has assisted considerably in making the centre of Dandenong more of a whole rather than bits and pieces separated by major bits of transport infrastructure. The George Street bridge has clearly been another part of that.

We have seen the movements of some industrial and service groups, whether it be the Grenda group moving out of the centre of Dandenong to another part, which frees up that land for uses that are more attuned and inclined to what would be around the centre. There is also construction of works on City Street, including the Dandenong Plaza and a range of others. All of these are designed to make central Dandenong more livable and encourage growth. We are seeing that being taken up. From the state government's perspective, wearing my Treasurer's hat, State Trustees have now taken up two floors in the Arkana building, which is one of the redevelopments out of central Dandenong. What that means is that over 100 people who currently commute into the city now have the choice to work in Central Dandenong. These are people from the south–east who used to commute into the city but who now go to the regional office in central Dandenong and their who clients who used to commute into the city also now go to the regional office in central Dandenong. At a micro-level, that is an example of where you have taken cars off the road and taken people of the trains, so you have freed up capacity. That is not just the people who work there; it is the clients who go to them as well.

All of these are part of what revitalising central Dandenong is about. By being an anchor tenant in buildings, government encourages development to move forward. Most significantly, central Dandenong is a logical centre for the south–east, whether it be people coming in from Kingston or Casey to the east and west, or people coming from the north and south, all of them grow the area, grow jobs, improve lifestyle and take pressure off the transport system. This is all part of our ongoing planning to improve amenities and deal with population growth. I think it is a great project. It is now coming through its critical years and moving forward, and we are seeing the private sector and community embrace it, now that we are seeing actual results on the ground, far more than it may have in the early years of implementation. I am pleased by this. Chair, I would urge the committee to go out there and have a look. It is a great infrastructure program from this government that is delivering results in committees.

Dr SYKES — Treasurer, I am interested in the GST arrangements for the COAG health agreement. I refer you to budget paper 4, page 217, detailing the forecast GST grants across the forward estimates. Could you provide the committee with a better understanding as to the budget accounting arrangements to be implemented to take into account the recent COAG health and hospitals funding agreement, and the negotiated one-third of GST allocated revenues to be paid for the agreement's additional health expenditure. Specifically, will one-third of GST allocation from the COAG health agreement be quarantined and reported in the budget as a separate line item from the remainder of GST grants — still primarily recognised as a GST grant — or will one-third of the GST allocation for the COAG health agreement be reported as a specific purpose grant?

Mr LENDERS — Firstly, I think table 4.8 — —

The CHAIR — What is the reference again?

Dr SYKES — Budget paper 4, page 217, table 4.8.

Mr LENDERS — Chair, there would be better parts of the budget to refer to than table 4.8, but it is not my job to steer Dr Sykes to where he could better find them. What I would say to him is that the figure he has got there is only for this year. He talks to the forward estimates changes in this table; it is literally the last two years and this year. But I will certainly take his question on board as a serious question.

His specific question is about how we will report it in the forward estimates. The GST arrangements will not take place until way outside the forward estimates. The table we have used is the first year of four years. This is a process that takes effect in years to come. So there are agreements being put in place now where the COAG agreement referred to interim measures which go forward, and then measures where the GST comes into place. Let us deal with when the GST arrangements do come into place.

The arrangement is essentially that state effort that is currently being done by the state is done by the commonwealth, and the corresponding amount of money for the commonwealth to fund 60 per cent of the hospitals comes out of the state's GST allocation. You could do estimates on what that is now. The commonwealth has got an estimate out there of 30 per cent or 33 per cent, whatever they have. There will be an actual figure done as to what the dollar figure is, and then it will come into place. As to the arrangements for how that operates, the details of that are not concluded. There is discussion going on between commonwealth and state officials. It has not yet got to ministerial level. You would expect it to go for a while, because these are serious ongoing issues for us on a stream of revenue that we thought we had going into the future that will be reduced because the commonwealth is taking over some service responsibilities for us.

I think it is fair to say that is an area that the state of Victoria does not take lightly. For us to get the allocation of hospitals funding in the short term that will deliver thousands of extra patient services in Victoria, which we have accepted — incidentally this gets the commonwealth component of hospital funding up from about 41 per cent to 45 per cent in the short term — and then we have commitments from the commonwealth for the 10 years beyond these arrangements, where they commit to and guarantee that, they are significant long–term issues for us. When we get to future budgets, we will clearly start addressing those issues of how we report; whether it is an SPP or where it comes in, they are issues that we will address in the years ahead.

However, the immediate thing for us is that out of the agreement with the commonwealth we have real extra money coming into our hospitals over the next four years that would not have been there. Once you get beyond that period, we have changes to the arrangement of the commonwealth–state financial relations which were clearly part of a very long and detailed debate between the commonwealth and the state. In the end there was an agreement at COAG which delivered services to us now. There were also changes to the GST revenue in the future, which was not our preferred position, but they helped us deliver more health services into Victoria.

Dr SYKES — So from a reporting perspective you will work out the detail, but the end result will be a clear and transparent trail in reporting of that GST?

Mr LENDERS — We will come with the appropriate form. The department will advise me after clearly its own discussions as to where accounting standards go and discussions, I presume, with the office of the Auditor-General as to what the appropriate reporting mechanism is. That is an issue for the department; it is not for me to say what they will recommend to me. But we will clearly report it for what it is.

There will be the hospital system. If we look at the history of course it was 50-50 state-federal; it dropped down during the Howard years from 50-50 to 60-40, where the state picked it up because the commonwealth did not match it. While it put increased money in every year to help, it did not match the health inflation index or the extra service delivery, and what we were seeking to do was to get back to 50-50. We are back to 45 now, not 50, so we have got from 40 to 45. We have not diminished our efforts. The commonwealth has increased its efforts, so we are delivering more health services. How those transactions are reported will be ones that we will certainly come back to in future budgets, if not before. It will be one that logically we will make sure we do not make the accounting standards any more complicated than they already are in doing so.

Mr RICH-PHILLIPS — Could the commonwealth's call on the GST exceed 33 per cent?

Mr LENDERS — I am confident it will not be that. The ultimate figure is what the arrangement is when the transition happens. That is the ultimate figure, so this is a discussion that happens in every state. It is a question very similar, Mr Rich-Phillips, to one my South Australian colleague was asked by your colleague over there. So I am pleased that you are all singing from the same hymn sheet. My answer is the same as Mr Foley's.

Mr RICH-PHILLIPS — You have signed the deal but do not know the detail.

The CHAIR — Can I ask you about borrowings, because this is a very important part of the overall fiscal management of the state, and refer you to budget paper 2, page 65. Over the global financial crisis there was actually a commonwealth guarantee of state borrowings, and the state has also been undertaking borrowings. Can you tell us how the state reacted to this, how you reacted to this and what is the impact of your reactions to this going forward?

Mr LENDERS — I think it is fair to say that was an issue that we gave considerable thought to as a government, as a department and as Treasury Corporation of Victoria as to what the appropriate course of action for us was. Other states — and New South Wales and Queensland have taken up the commonwealth guarantee — clearly felt it was important for them to be able to borrow in a market to get this guarantee to assist them going forward. I do not think there is anything surprising in that. Of course it was in a context where the commonwealth guaranteed all our banks, particularly our major banks, which enabled them to get funds, and I think it is fair to say was an important part of maintaining AA credit ratings on the major banks by the commonwealth guarantee. So it was extending that to the state governments that were finding it harder to borrow money, because it was effectively AAA-rated private banks versus AAA-rated state governments, or in some cases AAA-rated, not all. So there was clearly an issue also in Queensland, which was downgraded, where that was operating.

So the commonwealth came forward and offered to put its guarantee on to state government borrowings. Now from Victoria's perspective, if everybody else went down the path of getting borrowings and all the subnational paper had a guarantee and Victoria did not, it would be a product out there on its own and that was of some concern to us as to how we managed that. But on balance, we thought our balance sheet was strong. We thought we did not need this guarantee. We were certainly of the view why would you pay extra to get a commonwealth guarantee?

The CHAIR — What was the extra cost?

Mr LENDERS — The extra cost depended really on what your credit rating was, but ours was 0.15 per cent.

The CHAIR — Fifteen basis points.

Mr LENDERS — Yes, ours was an extra 15 basis points as a AAA-rated government. So for us, they were the choices we had. Clearly for us our balance sheet was strong. Treasury Corporation of Victoria was managing to meet our borrowing needs, which was an extraordinary achievement given how other bodies and others seeking to borrow had difficulty around the world. But it was testament again to a strong economy, AAA-rated and confidence that we had plans going forward for the future, and we were a robust economy that was not in recession. Unlike some who were predicting it would be, our economy was strong and the ratings agencies did not have an issue with that.

Mr WELLS — Kevin Rudd.

Mr DALLA-RIVA — Kevin Rudd. — just terrible.

Mr WELLS — Kevin Rudd has a lot to answer for. To say those sorts of things was just terrible.

The CHAIR — Treasurer, I ask you to ignore interjections and to continue.

Mr LENDERS — So reputations are quite important, Chair. As we saw, Members Equity Bank had a run on it when its reputation was put under question. Victoria did not. Despite some who threw our state's reputation into question, we did not. We made the conscious decision that we would not need the commonwealth guarantee and I think the decision has been proved correct. It has not just been proved correct that we did not need it, now as the commonwealth guarantee is coming off subnational paper what it means is the complication now for those who have the guarantee is where does that fit into a market as a product that is not around any more. We have had no issue achieving the borrowings we have required, and of course we have saved the Victorian taxpayers probably well over $100 million in the years ahead by, firstly, not having to pay the 0.15 and secondly, our paper coming in at below what other states cost, even with that 0.15 on them.

So our AAA credit rating is paying a dividend for us going forward. The decision was a correct one. I think what we are seeing now is the dividend for Victoria for sound financial management is that our borrowings are less than they would be in other jurisdictions. Of course that gives us options to reduce debt, deliver services or reduce taxes by our not needing to find that money every year to service the borrowings.

It was a tough year in which to make those decisions and I am very fortunate as Treasurer that not only did I test a lot of the markets myself on this question, but particularly to have very strong advice from the department and Treasury Corporation of Victoria, that we were very stable in uncertain financial times and the state has come through and saved money as a consequence.

Mr WELLS — Treasurer, I draw your attention to budget paper 2, page 52, where we have a new box labelled 'Victorian government debt strategy'. Does this mean that when you committed to taking Victoria's debt from $8 billion in 2008 to over $31 billion in 2013 you did not have a debt strategy and now you have concluded that maybe you actually need one? Can you define what you mean by 'prudent levels of debt'?

Mr LENDERS — Chair, I think Mr Wells for his question and I am delighted to answer. Firstly, on the box outlining what the debt strategy is, I know last year when I was answering questions on this in the Parliament for Mr Rich-Phillips I outlined very clearly what our debt strategy was and where it was outlined in the budget, but we have actually made it a budget easier for Mr Wells to read. I am pleased he has picked up the box.

Mr WELLS — It's a debt strategy now, the box makes the difference!

Mr LENDERS — I am delighted that we have been able to enunciate the strategy more clearly.

I could not have been clearer last year, that what we were seeking to do with our surplus debt strategy, which we have quite clearly enunciated as a government for a period of time, is essentially we needed to increase our borrowings for general government. For Mr Wells's benefit, even at the biggest amount net government debt forecast in the papers last year was at 16 not 31 . I am not sure where he got that net debt figure of 31 from — certainly not from these budget papers. He may be referring to things other than net debt.

What I would certainly say to Mr Wells — —

Mr WELLS — Non-financial public sector balance sheet.

Mr LENDERS — You referred to net debt being 31 and it was wrong. Net debt at 31 for the general government sector is wrong.

Mr WELLS — That is where you are trying to spin your way out of it. You are asking where it is in the budget papers. It is budget paper 4, page 93.

The CHAIR — Mr Wells, I ask that you go through the Chair.

Mr WELLS — I am going through the Chair.

The CHAIR — You are actually being quite rude in the way that you are conducting yourself.

Mr WELLS — He asked me a question, so I have just told him where it is. He asked me where net debt was and I told him where.

The CHAIR — Go through the Chair, thank you very much.

Mr WELLS — Chair, budget paper 4, page 93, 'non-financial public sector balance sheet', net debt is 31.694 .

Mr LENDERS — Mr Wells was actually referring to page 52, general government, so we can — —

Mr WELLS — No, that is the debt strategy. Can I make it very clear that I referred to the debt strategy on page 52, which is the new box, then asked where the net debt is. That is budget paper 4, page 93. You have asked me a question; I am answering it.

The CHAIR — Mr Wells, can you just slow down, please?

Mr WELLS — You have asked me a question and you do not want me to answer it.

The CHAIR — He is answering the question, if you would not interrupt so much.

Mr WELLS — He asked me a question. What do you expect?

Mr LENDERS — Chair, sometimes — —

The CHAIR — Thank you, Treasurer. Just wait a moment, will you, please? I have explained about three times that we need to go through proper procedure here. It is not a conversation across the table; this is a public hearing. We have Hansard here. Your continual interruptions in that way are disruptive. I ask both the Treasurer and yourself, Mr Wells, to direct matters through the Chair. Treasurer, you have been asked a question in terms of clarification in regard to the figure for debt. There is some elucidation sought. Could you answer, please?

Mr LENDERS — Thank you, Chair. As all of this goes, volume does not often speak for accuracy, but what these tables show is that we have had a strategy in place since the start of the global financial crisis in how to deal with reducing and managing government debt, having borrowings to prudent levels to generate the 99 300 jobs that I put on the screen, the cornerstone of which was 35 000 secured by the government bringing forward its infrastructure program. As of last year, there was a clear chart last year showing that borrowings as a percentage of the economy would reduce into the forward estimates.

The strategy, and we are talking of strategies, was to get us through the global financial crisis to bring forward the critical infrastructure that will generate productivity, revenue and jobs into the future, bring some of that forward to stimulate jobs and then bring back borrowings to a more modest level. That was there last year in the budget as a percentage of GSP; it was clear. By the end of the forward estimates, as a percentage of GSP, borrowings were coming down.

In this year's budget the debt strategy was clearly enunciated in the box and shows that not only are we achieving last year's strategy of reducing borrowings as a percentage of GSP, instead of the borrowings being 5 per cent at the end of the forward estimates they are a bit over 4 . In actual dollar terms, borrowings comes down.

The strategy has been there from the very start. Of course the underpinning of our strategy also is to have budget surpluses so that you have money available that does not need to be used; you do not need to borrow because you actually have a cash surplus. Any prudent household or business knows you need a balance of both your cash surplus and your borrowings; that is what families do if they are buying cars or homes, that is what businesses do if they are investing in capital equipment. There is always the right balance of those.

As I said earlier, the debt strategy of Henry Bolte in 1958 of getting 58 per cent of GSP is a tad different from the debt strategy of this Labor government, which has borrowings at much lower levels, and coming down.

If you are talking of strategies, I would certainly say that Chancellor Merkel in Germany at the moment would be positively dreaming of a debt reduction plan that effectively operates in the state of Victoria. I suggest you could go through the German Länder one by one until you get to 16. I suggest you could go through the Italian regions. I am sure you could go through the French regions. I am sure most of the world would have appreciated this kind of strategy some years ago that we have had in place in Victoria. It lets us grow jobs, boost productivity and see government debt as a percentage of the economy actually decline during the forward estimates period here.

We have a strategy. It is operating. What we are seeing is that we have generated jobs, brought back business confidence and invested in infrastructure with a plan that brings down borrowings within the forward estimates period. It is a plan that has been there. It is more clearly enunciated in these budget documents than last time, because for some people who have trouble finding things in a document we thought it might help if we put it within the first 100 pages.

The CHAIR — I just ask members when asking their questions to be quite clear about the references they are asking the Treasurer to answer the questions on. That would be most helpful. Our finance is quite complex: you have got general government, plus public non-financial and public financial. There is a mixture there. There are general standards which we use. If members, when asking their questions, could be quite specific and quite complete, that will obviously help the answering of the question. Did you want a clarification, Mr Rich-Phillips?

Mr RICH-PHILLIPS — I just wanted to follow up on that point, and ask the Treasurer where in last year's budget does the debt strategy appear, because that phrase is not anywhere in last year's budget papers.

Mr WELLS — I think you have been caught out, Treasurer. It is not there.

Mr LENDERS — Chair, in responding to Mr Rich-Phillips — —

Mr WELLS — No. Where is it?

Mr LENDERS — Chair, regarding being caught out, I could table a document which might actually help Mr Wells from getting caught out, documenting about 10 times that he has not been able to read the papers. The point I would make to Mr Rich-Phillips is this: he says, 'Where does it use those words?'. I have not done a word search on the 900-odd pages on whether it uses those words, but I can certainly say to Mr Rich-Phillips — —

Mr WELLS — Where is it?

Mr LENDERS — I can certainly say to Mr Rich-Phillips — —

Mr WELLS — Where is it? You have been caught out. There was no debt strategy last year. You have been caught out. How embarrassing.

The CHAIR — Treasurer, I think we can say that this is a question that related to last year's budget rather than this year's.

Mr WELLS — But he has referred to it. He said it was a debt strategy from last year.

The CHAIR — I think the Treasurer can take that on notice unless he has an instant answer, and I will move onto the next question.

Mr LENDERS — The instant answer I will certainly say for the debt strategy, even in the current financial year, as a percentage of a GSP government borrowings are less than they were under the last year of the Kennett government. So we have a strategy to bring it down in the good years.

The CHAIR — We will move on to the next question. Treasurer, you can take it on notice.

Mr LENDERS — I have got the answer, Chair. In last year's budget paper 2 in the bottom paragraph of page 56, it actually states:

> The reduction of the net debt to GSP ratio in 2012–13 reflects the government's commitment to repay borrowings, and limit new borrowings by reducing the infrastructure program to lower, historical levels, without compromising the quality of service delivery.

Mr WELLS — Where is the debt strategy?

Mr LENDERS — I actually read it out. Chair, it was in last year's papers. I am not surprised that Mr Wells could not find it.

Ms GRALEY — Treasurer, I would like to talk about a subject of intense interest to people in my electorate and I know to most Victorians. I know you spoke about it in your presentation about the first home buyers and also in the budget papers there is reference to it in budget paper 3, page 357. I would like you, if you can, to advise us what the government is doing to help Victorians into their own homes and how the government is addressing the housing affordability in Melbourne now and in the future.

Mr LENDERS — I thank Ms Graley for her question and her ongoing interest in housing affordability and assisting first home buyers. I think her electorate has probably got the largest number of first home buyers of any in Victoria, so I can well understand her ongoing interest in this. I think the first thing we need to start with housing affordability is what are the causes of affordability and what are the factors that go into it? From our position — and I will go into the first home buyers which Ms Graley asked about shortly — the starting point for affordability is housing supply. Victoria has had more affordable housing generally than equivalent jurisdictions. Across regional Victoria it has been strong and affordable. It goes back to my response of Ms Huppert before about the investment in communities, the land supply, the opening up. But in metropolitan Melbourne it has also been more affordable than the other major Australian cities for a period of time, particularly if you are looking at the median house price for first home buyers coming in.

How does the affordability happen? Fundamentally supply is the largest single component part of this, whether it be the planning system in speeding up from when land gets made available on the outer suburbs to it actually becoming sold to a home buyer who can then get a builder to build on it and move in, or whether it be in the inner suburbs of Melbourne, or whether it be just the planning laws that simply allow greater development of unused land, often government land or density in existing areas. They are the two major parts. Supply is the largest single part. So it is the planning system coming forward, which means that more houses being constructed clearly means that if there is more competition in the market and more product available, it becomes more affordable. That is an area government works with. Whether it be in the private sector itself or whether it be in the national rental assistance scheme that the commonwealth is putting in place for further capital construction, all of these play a part.

However, the specific part of Ms Graley's question from the budget papers is regarding first home buyers and first home ownership. We have unashamedly targeted our first home scheme this year to new home construction. We have unashamedly targeted towards that. We have been moving in that direction with our plan in the last budget. This year we have completely put the resources that are discretionary to us to new home construction. We do that for the three reasons I outlined in the presentation. The first is 69 per cent of Victorians own their own homes or are buying them. That is a figure over time that has been declining. Victoria has held up better than most other states on that figure. We want to keep that figure up, because it is a great aspiration that we share with the community.

The second part of course is, as the HIA said, it generates homes. In the Narre Warren South electorate, you do not have to look far to see new home construction happening. Each bit of that new home construction is another one in what I have described as soldiers in a war against the global financial crisis. It is those electricians, it is those carpenters, it is those bricklayers, it is those plumbers who are out there creating jobs today. The Housing Industry Association said on last year's figures we had that that would secure 19 000 jobs that otherwise will not be there. Nineteen thousand jobs — it is an easy figure to roll off the tongue. But these are families in a global financial crisis that had concerns over job security, who can see a job here, a job here, a job here, a pipeline into the future. For us that component is important, as is the third component which is just more housing stock, and that takes pressure off the rental market.

How we are seeking to do it this year: we are obliged under the intergovernmental agreement to give $7000 to any first home buyer in Victoria with a house, under our legislation, of under $750 000. That will happen; that will not change; we are obliged to do that. But where our discretion comes on top of that is that we will now boost that to $20 000 for a newly constructed house in the metro area, up from $18 000 at the moment, and to $26 500 for a newly-constructed house in regional areas, up from $22 500 at the moment.

When we brought this regional component in the first time we were laughed at by some who said it was Mickey Mouse and would not work. What happened was that instead of 1000 homes, as we predicted, it was 5000 last year in regional Victoria in new homes. In response to Ms Huppert's question earlier, each of them is a potential volunteer for the CFA, a player for the netball team, a customer in a local shop — all those things that stand as obvious.

But in the metro area it means that for first home buyers there is more assistance than in any state in Australia now. Also, particularly if it is off the plan, as much of the construction in the outer suburban areas is, there is no stamp duty on the value of off-the-plan homes from once you sign the contract, so you have the lowest stamp duty for anyone with an off-the-plan house; no other state does it if it is an off-the-plan construction. If you add to it the first home owner grant, it is an incredible opportunity to build you own home and settle and get into the market, and our target has unashamedly been to get people into the market and give them an opportunity that in so much of the world they do not get.

All these measures are a further iteration and refinement, further targeting new construction. Victoria is not an island; we do not have a property bubble about to hit; we have a shortage of housing stock. Whether it be the industry associations or whether it be economists, the advice we get from everybody is that there is a shortage. This addresses that issue but, most excitingly, gives families an opportunity to achieve their aspiration of owning their own home. It also takes pressure off the rental market and creates jobs. That is why we do it, and we are very proud to continue it for another year in this budget.

Ms PENNICUIK — It is just a very quick follow-up to the answer the Treasurer gave to Ms Graley's question, which was about the first home bonus. As I understand it, the median price of a house in Victoria has increased by 27 per cent in the last 12 months. I wondered what the Treasurer's thoughts were on the role of first home bonuses, et cetera in that and whether there is a bit of an inherent conflict between the government trying to keep prices down but also factoring in the increase in stamp duty revenue.

The CHAIR — That is not just a quick one, but anyway.

Mr LENDERS — A couple of things to that: firstly, as I said before, the main single component of housing affordability is unquestionably supply. Supply is unquestionably the main component of it. I would say to Ms Pennicuik it is not an uncommon comment that people make about why government is doing that and if there is a cynicism about 'we are doing this for stamp duty revenue', what I would say to people is to look where the revenue comes from. Stamp duty revenue overwhelmingly comes from 5 kilometres from the CBD. In Ms Graley's electorate, if you were talking of an off-the-plan newly constructed home, the stamp duty is very much lower than it would be anywhere else. Everybody who pays any form of tax or duty thinks it is too high; I understand that, but our communities also expect infrastructure and expect services to be delivered. From our perspective, we are doing this because by increasing housing supply we make housing more affordable, which as I said is the planning system. We are targeting it to new construction rather than existing homes, simply to share the home aspiration across the board on those three criteria I mentioned. Certainly by targeting to new construction you get the jobs and you take pressure off the rental market by having more housing stock. They are the — —

Ms PENNICUIK — What about the first bit about the relationship between the bonus and the increase in prices?

Mr LENDERS — We are obliged under the intergovernmental agreement to put a $7000 bonus on everywhere.

Ms PENNICUIK — Yes, but you have added to that.

Mr LENDERS — We are obliged and we have in the last year — I could stand corrected on the exact date; I think it is in the last year — taken advantage of the new commonwealth legislation which means that we can actually means test it or put it on the value of the asset of $750 000. We have no discretion whatsoever in delivering that. That is commonwealth policy that we are delivering. Where we have discretion, we are now targeting it completely without exception to new home construction to boost the stock. That is the policy decision we have made. The $7000 is an issue that is not within our purview. We are obliged to carry it under the IGA and we do so.

Ms PENNICUIK — You did not answer the question, but anyway.

The CHAIR — Thank you for that. I am sure on real estate supply and demand we can argue those problems for a long time.

Mr RICH-PHILLIPS — I would like to ask you about the financing of the desalination plant. When it was announced last year the government said it would be a $3.5 billion capital project. It is coming to book under the finance lease at — —

The CHAIR — Sorry, whereabouts is this?

Mr RICH-PHILLIPS — Budget information paper 1, page 6, at $4.203 billion, so that is $703 million above the announced capital cost of $3.5 billion. Can you explain what the extra $703 million is being brought to book and whether that is a final figure or whether it is subject to further increase?

Mr LENDERS — I thank Mr Rich-Phillips for his question. He cannot quite bring himself to say we are actually dealing with ensuring Melbourne's water future. But I take the point.

Dr SYKES — Just answer the question. It is just a straightforward question.

The CHAIR — The Treasurer to answer without assistance.

Mr LENDERS — Mr Rich-Phillips asks the question about the desal plant.

Ms PENNICUIK — It is a good question.

Mr LENDERS — I agree, it is a good question. I am absolutely delighted that we are actually having some focus on dealing with critical infrastructure needs, making hard decisions for the future and having a procurement method that delivers value for Victorian taxpayers and citizens and are a government that does not squirm or hide from making hard decisions.

This is our insurance for the future. Mr Rich-Phillips asked a question about a $3.3 billion capital figure, and then he talked about $4.2 billion in the finance lease. Some components of the finance lease are commercial in confidence and some components are disclosed, so I will take that on notice because I do not want to tread into the crossover of those areas.

Fundamentally, the finance lease, as Mr Rich-Phillips well knows, includes the capital component and a series of other components, whether they be operating going into the forward estimates years or whether they be some of the other costs that are incurred up-front and therefore put into that particular cost as it is reported. Ultimately, governments only go down this path if you get value for money, and this has passed that test. This has come in under the public sector comparator. I think also on this particular one, this is an extraordinary achievement, in 2009, to conclude a public-private partnership of this size. I look to John Fitzgerald for an affirmative nod; I think this was the largest in the world in 2009, as far as the borrowing requirement or the equity requirement to have a project of the size of the desal.

On the scale of this, Melbourne uses about 450 gigalitres of water a year, roughly, in that band although per head of population it is coming down. The desal is our insurance for a third of that. At a time of climate change and at a time of uncertainty, it is actually an insurance policy that delivers water into metropolitan Melbourne and South Gippsland and West Gippsland and ultimately through the water grid potentially to Geelong and to other places, at a time when our community is looking for some certainty.

With the project here, like all PPPs, you are matching the actual capital cost that would be from government procurement only, and then you are not matching apples with apples because you include the other components of the PPP which go into there. They can be the fees and equity and debt costs that go in there. But the test that runs through this — and of course the Auditor-General always runs his ruler over all of these — in the end is: is it value for money for the taxpayers of Victoria? The answer is yes. Of course, we are not comparing a build-and-construct with a finance lease, which obviously includes operating going into the years going forward.

We think it has delivered the service that is required for Melbourne. We think it is value for money for the taxpayer and, particularly at a time of climate change and particularly at a time of great uncertainty, it is an insurance policy for Victoria that we have reliable water supplies in the years ahead. For all the other discussions that go on there, this is a critical part of a multifaceted strategy, which I am sure the Minister for Water will be more than delighted to take the committee through, for securing Melbourne's and Victoria's water into the future.

Mr RICH-PHILLIPS — You indicated there could be preconstruction costs and also operating costs. This figure of $4.2 billion is what you are bringing to the balance sheet as the asset value. The capital costs were supposed to be $3.5 billion. I assume this extra $700 million is also capital, and because it is going through the finance lease it should not include costs to government separate to the PPP, and presumably it should not include operating costs, either, given that is the capital amount going on the balance sheet?

The CHAIR — We do have footnote (s) on page 7 which talks about the capital cost being $3.5 billion.

Mr RICH-PHILLIPS — That says $3.5 billion, but it does not explain the $700 million difference.

Mr LENDERS — There are series of components, as Mr Rich-Phillips correctly says. There is a construction cost, which is out there as a figure, which would have been the government's own build-and-construct — —

Mr RICH-PHILLIPS — Through the contract.

Mr LENDERS — There is a total project cost, which includes the operating in the years ahead, and then there is that part of the finance lease, which he is describing as the capital cost, which of course in these circumstances will include being capitalised in an amount of professional fees, an amount of debt funding costs and equity costs, as they always are in PPPs. They would be for these purposes included as a capital component of the finance lease, as opposed to the capital for a government own-construct. There is nothing unusual about this. This is the best practice that we see, whether it be in Canada, the UK or in Australia. This is simply how the accounting treatment of these goes forward. But the underlying test for all of this is that it is sound financial management that delivers better value for money for Victorian taxpayers.

Mr WELLS — It is $700 million.

Mr LENDERS — Those who cannot find their way through a budget paper might scoff at this, but this is value for money for Victorian taxpayers going forward, which ultimately means lower water prices for consumers and a reliable water supply on time and on budget into the future.

Mr RICH-PHILLIPS — There was the issue of the operating costs. Is the Treasurer saying the operating costs are being capitalised?

Mr LENDERS — No. What I am saying is that some professional fees, debt and equity costs are being capitalised.

Mr RICH-PHILLIPS — But not the operating costs?

Mr LENDERS — It is all in the project summary on the website. They are being capitalised. The operating costs into the future are not being capitalised. This is a standard way a PPP is reported. The only difference on this PPP, of course, were the debt and equity arrangements at the start where the government played a role.

Mr RICH-PHILLIPS — But surely that was not $700 million worth?

Mr LENDERS — No, I am not saying it was. What I am saying is this is a capitalisation of those professional debt and equity costs, nothing to do with operating going forward, and it is all on the website in the project summary. It is clear, it is transparent and it is value for money for taxpayers, where users of this water will get their water per litre at a lower rate than they would have if it had been a state build over the life of the contract. That is why it is value for money. That is why it is an innovative way of Victoria delivering these services.

It is interesting that — I say every other Australian jurisdiction, and I may stand corrected — if not every, almost every other Australian jurisdiction is copying this Victorian method. We have people from international coming in to look at the Victorian method of PPPs as a way that has worked through the GFC, is a partnership between the public and private sectors and delivers for government services at a lower cost than traditional procurement. If we go through the water projects, the health projects, the projects we have done to date in Victoria, even the delivery of schools with value add, or the convention centre, this is value for money for taxpayers, because we are not lazy; we are about to do the hard work, about to be innovative and do this in partnership with the accounting authorities. So it is a good outcome, and it will deliver water for Victoria.

Mr RICH-PHILLIPS — Treasurer, will you take on notice and reply to the committee on notice with a breakdown of the difference between the published $3.5 billion capital cost and the $4.2 billion that is coming to book?

Mr LENDERS — What I will take on notice, as I said, subject to the caveat before of what is a commercial-in-confidence or not, so reconciling this with the project summary, I will certainly take that on notice for the committee, yes.

The CHAIR — Thank you, Treasurer.

Mr NOONAN — I wanted to ask about the investment in education and early childhood development. Specifically, you say in your introduction that this is a budget that delivers on the government's promises. I note that there was a pledge to fund the rebuild, renovation or extension of 500 government schools by 2011. So specifically, when I look at budget paper 3, page 303, which runs through the asset initiatives, I wish to draw your attention to the substantial investment in regeneration projects and ask whether you can provide the committee some further detail on the regeneration projects and, in particular, indicate how they will provide better education facilities for students throughout the state. I should indicate that one of the those regeneration projects is in my electorate. It is Bayside College, which in fact has received funding for the third straight year as part of this budget program.

Mr LENDERS — Thanks, Chair. I am delighted to answer Mr Noonan's question. Starting, before going to the school which I have some knowledge of, but more in general terms, as Mr Noonan said correctly, the government did commit to rebuild or refurbish 500 government schools during this term. We have not done 500; we have done 553. So again as a government we have a plan. The plan was to send a clear message to school communities, a clear message to the construction industry to say: this is a plan to go forward. Clearly, the Department of Education and Early Childhood Development and its regional officers were working with school communities on being part of that plan, and then of course, when the commonwealth came in with the Building the Education Revolution money, we were in a better position than any other state to actually accelerate some of that work to take advantage of that.

So specifically there was a plan for 500 schools and the regenerations were obviously much larger than most of these, that ability to completely refocus some schools. I am speaking probably more as an ex-education minister here, so I had better confine myself to being Treasurer, but schools are clearly more than just infrastructure. Schools are what you do with them. It is what the blueprint offers; it is 42 initiatives in a blueprint; it is about improving teaching and learning in schools. But you can do that a lot more effectively if you have good buildings to teach in. So if we are talking here, then, about the commitment to roll it out, in a number of places you have ageing buildings and in some case where the structures of the schools are no longer suited to the school community needs. Some of the regenerations are fantastic opportunities of that, where you might have P–10, you might have P–8, you might have primary, middle school, senior secondary — there has been a range of options that different school communities have adopted which they, in conjunction with the department of education, think will actually improve the education outcomes for kids.

So this regen is a classic ability to do that by injecting a serious amount of capital from the state into a project to go forward. Over all, of course, we committed to $1.9 billion over the four years for those 500 schools, and we have delivered on all the money and a little bit more, and all the schools and a little bit more.

But the Bayside P–12, of course, has seen a $32 million commitment now from this government to date on a regeneration going forward. That lets us do an extraordinary amount of good works in the school going forward. I will not pretend to explain to Mr Noonan what is happening in a school in his electorate because I think he will know more about that than I will, but what I can say is: this is exactly what a statewide plan to rebuild, modernise, regenerate and improve educational outcomes is about. Five hundred and fifty-three schools sounds really grand, but in each of those individual schools, it means classrooms where teachers can teach more effectively, where kids can learn more effectively, equipment that comes into the school. Also, what we as a government have sought to do is to roll out more community use of these facilities. So rather than having a school as a stand-alone that is open during school hours during school weeks, it is something that when the school is not using it for educational purposes, the community can use it for others, usually sport, but often for other community activities as well.

I am pleased we have been able to assist in Mr Noonan's electorate with this particular school. Of course it is but one part of the picture, which is that this is one of 553 examples across the state education where becomes easier because we have got the good facilities for teachers to teach and students to learn. I am happy to answer that.

Mr DALLA-RIVA — I refer the Treasurer to budget paper 2, page 39. It relates to the issue of employee expenses and I ask: given we have an anticipated growth every year of 4.3 per cent, I am curious as to whether bonuses have been paid to the staff of ministerial offices, including members of the government's own media unit; how many bonuses have been paid over the last three years; and what anticipation do you have of paying staff of ministerial offices bonuses into the forward estimates in light of the increase as outlined in the budget paper?

The CHAIR — Insofar as it relates to the estimates in your portfolio.

Mr LENDERS — The ministerial staff he refers to are paid through the Department of Premier and Cabinet. On that one, I think he had his opportunity yesterday to ask the relevant minister. But in general terms we are talking of growth. Of course the growth in there is government wages policies, the actual EBAs that are paid. Also in a state that is growing in population by 2.14 per cent, while government as a percentage of the economy is growing slower than the economy as a whole in Victoria, in fact during these forward estimates the size of government will actually contract in Victoria. Within that constraint we are putting on more nurses, more teachers and more police. We are putting on a lot of people in the public sector going forward for those actual greater service deliveries. That is the underpinning. That is wages growth, as every member of the community will expect an element of wages growth. Above and beyond that — —

Mr DALLA-RIVA — Yes, but the question was about ministerial staff, Treasurer.

Mr LENDERS — That is the purview of — —

Mr DALLA-RIVA — I am asking about bonuses.

Mr LENDERS — Ministerial staff are employed by the Department of Premier and Cabinet.

Mr WELLS — Yes, but in your department?

Mr DALLA-RIVA — Yes, but in your department?

Mr LENDERS — No, ministerial staff are employed — —

Chair, some people do not read budget papers well and do not understand administrative arrangements well.

The CHAIR — Through the Chair.

Mr WELLS — Are they getting paid bonuses in your department? It is a simple question; just answer it.

The CHAIR — Through the Chair. You are not going through the Chair.

Mr WELLS — Through the Chair, are they being paid bonuses in your department?

The CHAIR — Okay, he has been asked that question and he is answering it. The Treasurer without interference.

Mr LENDERS — As I answered before I was shouted down by a rather loud person — —

Mr NOONAN — Not for the first time.

Mr LENDERS — What I answered for Mr Dalla-Riva's benefit — his colleague will not let him hear the answer I offer him and said at the very start — was that ministerial staff are paid and are on the payroll of the Department of Premier and Cabinet.

Mr DALLA-RIVA — Including their bonuses?

Mr LENDERS — Including the Department of Premier and Cabinet. I said that in my answer and you had the Premier here for 3 hours yesterday — —

Mr DALLA-RIVA — But you get the information as the Treasurer. How do you get the figures?

The CHAIR — One at a time without assistance.

Mr LENDERS — Chair, I have concluded my answer.

Ms HUPPERT — Treasurer, in your presentation when you are looking into the future and in particular how the budget is dealing with the situation we will find ourselves in five years time, you talked about 19 000 more public transport passengers carried at peak. I know a large number of these public transport passengers will be carried on our rail network. I wonder if you could outline some of the measures in the budget to address safety and service concerns across the rail network.

Mr LENDERS — I thank Ms Huppert for her question and her interest in safety on the rail network. Firstly, one of the delightful things, I guess — how can I phrase this? — there are always more challenges when you actually roll out more rail. When you actually build rail systems back to country Victoria that had been closed down previously and whether it be — —

Mr DALLA-RIVA — South Morang.

Mr WELLS — Are you going to open the one to Mildura? You promised it. Why do you always get so jumpy about Mildura?

The CHAIR — Can we not have any interjections?

Mr LENDERS — Whether it be the services that have gone to Maryborough which were previously closed, Ararat, or whether it be the services that have been extended right through regional Victoria or metro Melbourne, this government actually builds new rail services.

Mr WELLS — Open the services you promised.

Mr LENDERS — Even on new lines, like the line to South Morang that has been committed to by this government in a budget last year and work is happening on, whether it be the new tram lines going out to the eastern suburb through your electorate, Chair, whether it be the new rail services duplication of lines that are speeding up — all of them mean patronage can go up. We have seen on the metro system patronage going up at about 10 per cent a year for a number of years, and certainly in the time I have been appearing at PAEC for a number of those years. Now on the country system we are seeing extraordinary growth in the system to the point where we have had to put more rolling stock on because what we thought were real targets but which others criticised as being overly ambitious when we brought the system in, we are now suddenly seeing we need to put more services on because our community is responding very well to better public transport services.

However, Ms Huppert asks the question about security on those services. One of the great things is that the more people use the service, the more secure the services become. But we acknowledge and realise that with these greater services and by giving even greater security to people who are using them, we have boosted the personnel; whether it be personnel actually on trains themselves or whether it be in this budget in particular, we have had a strong focus on stations. Twenty stations have been upgraded to premium stations, which essentially means there is someone at the station from the first train to last train. This brings up now to almost half the stations in the metro system that have that high level of service. Metro as a franchisee has also boosted its staff, and not for quite those lengths of time but it has boosted its staff across a series of stations going forward. This is a part of making our system more secure.

The other part is we continue to roll out more police across Victoria. Since we have been elected to government we have in every single budget in that time allocated more resources to boost police numbers. I have been at PAEC nine times; this is my ninth PAEC. In each of those plus the two budgets before that we have increased the number of police on the beat in Victoria. The combination of actually staffed station, more police, better services and more people using the services — all of these together — have painted very much a scenario where it is encouraging people to use them.

We are constantly aware of the need to improve our system further, but the reality on all of these matter is it is always a balance between what your borrowing levels are, what your taxation levels are and what your service delivery levels are. We think we have a balance which grows jobs and delivers more services and does it in a prudent way that manages our borrowings into the future. All these things come together, but particularly in this budget there are 20 more premium stations, which will make a big difference to thousands of commuters every morning and every evening as they go to and from work.

Ms PENNICUIK — Treasurer, in budget paper 4, page 58, it appears that the value of biological assets has been revised downwards, from $51.2 million in last year's budget to $31.4 million, and the trajectory of the estimates for future years has dropped from 76.4 to 46.7 by 2013–14. My question is: what is the explanation for this, and secondly, what proportions do agriculture, commercial plantations and any forests occupy within these figures?

Mr LENDERS — I wish I could be more succinct for Ms Pennicuik, but I will take that question on notice as to what proportion each of those biological assets is.

Ms PENNICUIK — And the reason for the drop in the value.

Mr LENDERS — I will give her a comprehensive answer to the level of the subsets of those assets. I will take it on notice.

Ms PENNICUIK — I look forward to it, Treasurer.

Mr SCOTT — In budget paper 2, page 8, there is reference made to infrastructure spending. The piece of infrastructure spending I want to concentrate on is the Parkville comprehensive cancer centre. Can you outline how the Brumby Labor government is partnering with the commonwealth to build the $1 billion comprehensive cancer centre, Victoria's first fully integrated purpose-built centre for cancer research and treatment?

Mr LENDERS — Chair, I am very happy to take that question. In opening, I think it goes again to my comments about the regional rail link process that Mr Noonan asked me about — that is, how we do have a plan, how we work in combination with the commonwealth and how you can achieve a lot by actually having a plan and having partners.

Comprehensive cancer treatment is something that we as a state are absolutely committed to in our planning going forward. I am sure that is an area that the Minister for Health will speak on very eloquently to this committee. Cancer is something that everybody is affected by in one way or another. The community knows the more we can treat this in a comprehensive fashion, the more that we can integrate prevention, treatment and ways of treatment going forward and be the place Victoria needs to be into the future. Parkville is clearly the centrepiece of that treatment, but even in this budget the work in partnership with the commonwealth in Ballarat in boosting facilities in this area and previous work that we have done ourselves or in partnership with the commonwealth in other regional centres like the Latrobe Valley has also been making treatment closer to home. The beauty of this of course is that it is a partnership with the state government. We are putting in in the order of — I am trying to find the exact figure — $420 million. The commonwealth is putting in a similar amount, and then the private sector or philanthropic or various other trusts are putting in an amount equal to about 20 per cent of the project, in rough terms.

Firstly, getting all of those together — we are getting the research and the treatment in the once centre — is the way forward. This was part of the list of items that we wanted to do in our health plan going forward. Last year at the commonwealth budget time this and regional rail link were the two very large projects of the commonwealth for which its budget committed to working in partnership with Victorian on. The commonwealth, the philanthropic sector and the state government together are now able to deliver this centre going forward, and this budget formalises that appropriation for this centre to be built in the years ahead.

It is all about reducing cancer. There is a series of objectives that we have that this will assist with. It is a world-class centre of excellence. If we can have this in the top 10 in the world, it means we will get a lot better researchers and cancer treatment professionals in the centre, which is something which is not just good for treatment but also good for the biotech advancement that we can do as a job creator in Victoria. The research out of this will be a very powerful contributor to treating patients in innovative ways into the future. It is exactly the type of critical infrastructure that we need to build for the future to improve service delivery to individuals who need this treatment, and this can be done far more effectively in a partnership. The whole is bigger than the component parts here. Again, this is an example of how we will contest with the federal government on health and hospitals issues into the future if we think there are better ways the state can go forward, but we will also work very collaboratively with it for the shared purpose of treating more patients more quickly and more effectively.

Dr SYKES — Treasurer, my question relates to payroll tax, and in particular the threshold payroll tax, which in Victoria, as I understand it, is $500 000, whereas in some other states it is up to $1 million. How many businesses in Victoria would have a wages bill between $500 000 and $1 million, and what is the total amount of payroll tax that they pay each year?

Mr LENDERS — Firstly, I will correct Dr Sykes. The threshold is $550 000, not $500 000, but what I understand as the principle he is seeking to get to is the range of businesses. We certainly have in the budget papers a figure for the forgone payroll tax for those underneath the $550 000 — what they would be paying if the government did not put that exemption in place. From memory — and I will get the exact figure — that is in the order of about $2 billion of payroll tax relief for small businesses by the fact that we have the threshold and have the exemption in place. That is certainly the case, so we periodically — —

In fact I underestimated. Page 237 of budget paper 4 talks of $2.7 million or $2.8 billion in the revenue that is actually forgone. But the question I guess Dr Sykes is looking is: what are businesses in that band paying on payroll tax? I will say a couple of things to Dr Sykes. Firstly, payroll tax is now at the lowest level it has been since 1975 in Victoria, so it has come down. Clearly in doing so there is a lot of forgone revenue that has come off in payroll tax going down over the period of time, but on balance we as a government, in the seven payroll tax cuts that we have put in place, and predecessor governments would have made similar decisions, look at what the balance is between taking pressure off business by tax cuts or taking the pressure off business by investing in infrastructure which actually helps business do its job.

I was talking before in response to Ms Graley about the time it might take a tradie going from Dandenong down to Point Nepean. The actual cost in an infrastructure project if you are saving 15 or 20 minutes or half-an-hour of time is also a cost to business above and beyond payroll tax. We seek to get a balance periodically of that. We brought down the headline rate, because that means 31 000 businesses will pay less payroll tax than they otherwise would have done. Also by bringing down the headline rate, it is that comment I made earlier about boardrooms making decisions in different parts of Australia and the world as to where to locate jobs and look at that. If you were like the Boeing Corporation, which recently put 300 jobs into Melbourne rather than keeping them in Sydney, the determinant for a US company like Boeing would be they would look at payroll tax rates, workers compensation insurance rates and health insurance premiums. They would probably be the three things that they would look at as the headline rate in the boardroom in making a decision. Obviously health insurance is an issue that is not relevant to corporations generally here, because that is something that is picked up by the state and national governments, but they will look at those headline rates, and this headline rate means that you are getting more jobs in Victoria, and that will flow through to small businesses by getting the on-flow of those jobs coming through. If you talk of 300 jobs at Boeing in Port Melbourne, that will not just be jobs for that large international company; that will be many, many more jobs — the flow-on effect for small businesses who can actually operate off that. The payroll tax rate cut has been specific.

For the record, Chair, I would be very surprised if any other government in Australia reduces payroll tax in this budget cycle. Three already have their budgets out, and Victoria was the only one with a payroll tax cut. I would be very surprised if there were any governments at a national or regional level in the European Union or probably in the United States that are doing payroll tax cuts at the moment. There may be some — and I would be pleasantly surprised — but I would be very surprised if there many in that category.

Dr SYKES — Chair, I respectfully listened to the minister's answer, but I did not hear an answer to a very specific question.

The CHAIR — I think we can take that on notice. You will want the number of those between $550 000 and $1 million. Was that your question?

Dr SYKES — The number of businesses that have a wages bill between $550 000 and $1 million per annum, and how much payroll tax do they pay per annum?

Mr LENDERS — Chair, I will take that on notice. I would imagine it is roughly in the order of those who pay payroll tax at the moment, but I will take that on notice and get you as accurate a figure as I can.

The CHAIR — Thank you, Treasurer. I remind members that our secretariat will go through the responses and for questions which asked for information we will follow them up with respective ministers as well.

I want to ask you about superannuation liabilities — our long-term liabilities are very important — and the consideration of that for our committee as we examine the budget and report on it to Parliament. I notice you have got discussion of this on page 50 of budget paper 2, and also of course in budget paper 4 there are the assumptions in regard to liabilities for superannuation. You will find that on page 41 following in budget paper 4. There is extensive treatment there, but can you tell a little bit to the committee for the record about the state's superannuation liabilities and how the forecasts have changed since last year's budget?

Mr LENDERS — Thank you, Chair, for a question in what is a very complex area. The starting point in our forecasts going forward, if we look at our superannuation expense, is if we put the superannuation expense for employees who are on the 9 per cent accumulation fund amount to one side, because it is simply paid periodically by the departments to the super funds and in budget terms it is simply a 9 per cent add-on to the cost of wages, then we look to the other two sides that I would address. The next one that is probably less complex is the ongoing superannuation component for employees in defined benefits schemes. Again, we will have an actuarial assessment of what needs to go in for the future, and that will again be put aside quarterly or monthly, or whenever the particular department puts the money aside, into the ESSS fund for those components. Again, that is an actuarial assessment — is it the correct amount? — and that will clearly be reviewed triennially, and also that effect will be reviewed.

The third — and probably the one I think you are addressing is the most complex in a sense — area is those unfunded superannuation pre-1992 which the state has and how that is going forward and we are affected, so I will confine my remarks to that third component, which I think is what you are referring to here in the budget charts. The way forward for us is, firstly, in the long-term planning going forward, in our first term in government we made the decision to completely pay off the accumulated defined benefits super by 2035, and we are on track to do that. That is again the superannuation entitlements of public sector workers that are not being funded by governments previous to that time were picked up and funded by 2035. That has its moments — when the discount rate goes up and down, and particularly the earnings rate of the ESSS goes up and down — and that can become more challenging. It was challenging during 2002–03, when the equities market went a long way south. It was even more challenging last year, when the global financial crisis saw going from 30 June to 30 June the value of the all ordinaries drop by about 26 per cent, if I am correct. If you go through sub-periods through that, I think at one stage it dropped to about 40 per cent before it picked up. The treatment for that in the forward estimates then is we do a market to market of the funds. We look at what the discount is going forward.

What we actually see from the projections there is essentially that the unfunded superannuation liability has basically peaked in this period — as it always was going to peak, given the nature of what the workforce was — and then it will start coming down to 2035 and completely extinguish.

Going forward the only defined benefit schemes we have that are still open are police, ambulance, fire and, while it is not technically described as a defined benefits scheme, the judicial pensions, which, while they are not actually in a fund, effectively are the same. Everything else — all the other schemes — are closed to new members.

If we go forward, looking at that scenario — and I refer, Chair, to a number of charts which go forward; there is the employer contributions. It is note 7, I think, on 51 that was one of the ones you referred to. There is the ongoing service costs, which is above the line, which is essentially the difference between — traditionally it originally was the performance of the funds as they were described by the funds themselves. So if the fund said it was going to do a return of 8 per cent a year, you would measure there whether it had achieved that or did not achieve that, and that would appear in the current year's accounts.

Then you move to the new accounting standard, where it was the long-term bond rate which was used as the discount rate. It has been a long discussion clearly between the Department of Treasury and Finance and the

Auditor-General and the accounting profession generally over whether that is the most appropriate measure to use, given that with the long-term discount there was a disconnect quite strongly over the last few years on that.

The treatment being used now is one that is based far more on the wage inflation going forward, the accounting treatment in here that clearly has been signed off across the board to try to smooth out some of those changes that have been there on this unfunded liability component, which we have addressed each year in questions at this committee.

The long and short of what you say is that the funds are performing better, primarily because the strange distortion of the discount rate has been partially addressed by the discount rate itself, the long-term bond rate changing. This clearly has an effect also on the public financial corporations, WorkCover and TAC in particular, but also it has been by a discount rate that is more attuned to movement in wages going forward. But the most significant thing is we will have paid off the unfunded super by 2035, which was the plan we had, which was shorter than the plan of the previous government.

We certainly are dealing with the day-to-day, the ongoing additions to both the defined benefit schemes and the accumulation schemes. They have been dealt with on a daily basis, so there is no addition to the unfunded liability, and we continue to reduce the unfunded liability every year. I am very confident we will achieve 2035. I am sure there will be some Treasurer in the future — if I am not Treasurer, Mr Wells, at age 67! — there will be some Treasurer in the future who will probably bring that forward at some stage.

The CHAIR — Thank you, Treasurer. I did refer to the superannuation assumptions. If you could just take on notice and provide the committee with an explanation of the differences in terms of the assumptions between the four statutory schemes that you mentioned on page 42 of budget paper 4.

Mr LENDERS — I will take that on notice, but the main difference between them is those that like the ESSS are indexed to CPI have different assumptions from those that are indexed to wages. But we will take further detail on board.

The CHAIR — Thank you very much. Mr Wells?

Mr WELLS — There are no other questions, Chair?

The CHAIR — I just asked one question.

Mr WELLS — Treasurer, I refer you to budget paper 2, page 13. The graph shows that Victoria will be the highest taxing state in 2009–10 and will remain well above the average tax effort over the forward estimates. I know you only like to refer to the graph on the next page, which misleadingly includes the resource royalties of other states in measuring their tax efforts.

However, since Victoria only has a small resource sector compared to Queensland and the west, why have you suddenly introduced a brand new box using this new tax comparison when there was no such comparison until last year's budget because the difference has always been there. Is it not because you suddenly realised Victoria would overtake New South Wales as the highest taxing state in the country?

Mr LENDERS — The general comment, then the specific: the general comment is if Mr Wells thinks royalties are not a tax, I suggest I might introduce him to the Mining Council of Australia at the moment, who is a bit energised about these areas. If he is so out of touch with business that he thinks you should not be regarding royalties as an impost for business — —

Mr WELLS — Can you just answer the question?

Mr LENDERS — If you are — —

Mr WELLS — Just answer the question!

The CHAIR — Through the Chair!

Mr WELLS — Why all of a sudden do we have this brand new chart?

The CHAIR — Mr Wells, your interruptions are not appreciated.

Mr WELLS — He is inviting comment and interjection.

The CHAIR — Let me make it quite clear that we do not have to invite interjections — —

Mr WELLS — Yes, he is; he is inviting interjection.

The CHAIR — I urge you to restrain yourself, Mr Wells, and resist the temptation to interject; Treasurer, if you could answer the question?

Mr LENDERS — Thank you, Chair. This is the second year at least, if not the third year, that the royalties as part of GSP have been in there. It is certainly something I have alluded to since I have been Treasurer on the basis that if you are talking of the ability of a state to raise revenue to deliver its services, a state that raises about $40 million or $48 million in revenue from royalties, as we do, versus a state like Queensland at the peak of the royalties, which, if my recollection is correct, was raising in the order of $3 billion from royalties — and Victoria is racing $40 million from royalties — —

Mr WELLS — I understand that. Why the new box?

Mr LENDERS — Chair, I am explaining why it was in there. Why I put it in there when I became Treasurer was because if you are having a discussion of abilities of states to deliver services, royalties are highly relevant. The chart that remains in there, because we are open, transparent and accountable — —

Mr WELLS — But you keep referring to the other one.

Mr LENDERS — And we leave the taxation chart in there regardless of whether it looks good or does not look good, Chair — —

Mr WELLS — It is the highest taxing state in the country.

Mr LENDERS — The one thing I would say to Mr Wells on this about highest taxing state — there are two things I will say to him in the answer. Firstly, no other state is cutting taxes — in fact New South Wales raised land tax last year — and we extended our — —

Mr WELLS — Are we the highest taxing state?

Mr LENDERS — Whether it was abolishing mortgage duty into the future — —

Mr WELLS — We are the highest taxing state. Is this graph wrong?

The CHAIR — Without assistance!

Mr LENDERS — Secondly, what I would say to Mr Wells — —

Mr WELLS — Is this graph wrong?

The CHAIR — Without assistance! I think it was suggested last year that if members keep interjecting, it is impossible for Hansard. There is a normal process for this committee, and indeed for any committee, which is that members ask questions through the Chair and then the witnesses answer the questions also again through the Chair. It is most inappropriate and most improper for people to keep interrupting all the time. It is actually very poor parliamentary behaviour.

Mr LENDERS — Chair, the graph in here referring to the traditional method of taxes as opposed to the royalties — which I have included, and I think the mining industry would see as an impost — but going back to Mr Wells' question on a consistent graph, which just simply refers to the more traditional description of state taxes, this state has cut taxes. Last budget New South Wales and others extended taxes like the mortgage duty which they were obliged to abolish under the intergovernmental agreement. They extended them. I think it was New South Wales, Queensland and South Australia that extended taxes. To date, only Victoria and Tasmania have abolished all eight taxes that we were obliged to. I think the simplest answer for Mr Wells is if you are looking at taxation per head of population — —

Mr WELLS — No, percentage of GSP.

Mr LENDERS — Or percentage of GSP, whichever you wish to use — —

Mr WELLS — So it shows that we are the highest — —

The CHAIR — I asked you before, Mr Wells.

Mr WELLS — It shows that we are the highest — —

Mr LENDERS — Chair, whichever you wish to use, however you wish to spin it on Mr Wells' part, the reason — —

Mr WELLS — 'Spin it'?

The CHAIR — Ignore it.

Mr WELLS — 'Spin it'?

Mr LENDERS — The reason New South Wales's taxes— —

Mr WELLS — Did you say 'spin it'?

The CHAIR — Ignore it, please, Treasurer.

Mr LENDERS — The reason New South Wales's taxes as a percentage of the economy came down was simple.

Mr WELLS — It is their fault?

Mr LENDERS — It was simple. We did not raise taxes like they did. If your revenue from stamp duty has dropped by 40 per cent in the GFC in New South Wales — unlike 23 per cent in Victoria — because your economy has taken a bigger hit, you are not going to raise as much revenue because you have gone belly up— —

Mr WELLS — Right, so it is New South Wales's fault we are the highest?

Mr LENDERS — If your unemployment rate is higher and therefore your payroll tax revenue— —

Dr SYKES — We are still the highest taxing state.

Mr LENDERS — Your payroll tax has gone up in Victoria and not down because you have a stronger growing economy, of course you will look more attractive to New South Wales. If what was Mr Wells is suggesting, and I am sure he isn't — —

Mr WELLS — No, I am only looking at your graph.

Mr LENDERS — I am sure he isn't.

The CHAIR — Without assistance.

Mr LENDERS — If what he is suggesting is that a way of measuring the success of the state is by how much your housing market collapses — —

Dr SYKES — It is by how much tax you charge.

Mr LENDERS — Or if you are measuring the success of the state by how much your unemployment goes up — which is reflected in these state taxes — then he may well wish to do that. But from my perspective, I am proud that we are the only state that is cutting taxes. We are the only state that has 92 per cent of new jobs in the country and therefore stronger payroll tax revenue.

We are the state whose housing market has stood up better than any others; we have the highest number of first home buyers. For all those reasons, these revenue areas as a part of our economy have actually not collapsed like they have in other states. But I do remind the committee, Chair, that Victoria, looking through the forward estimates, actually has a smaller government sector as a percentage of the economy at the end of the forward estimates, because we are lean, we are efficient, we deliver services well, and we also — —

Dr SYKES — No cost blow-outs.

Mr LENDERS — As I speak, every person in this room, Chair, will today see $0.60 out of their pocket roll across the border into another state — $0.60 per person, per day, is how the GST still discriminates against Victoria — —

Mr WELLS — So why don't you do something about it?

Dr SYKES — That is a $10 billion blow-out — —

Mr WELLS — You whinge about it, but we never see any action.

Mr LENDERS — So what we are seeing here, Chair — —

The CHAIR — Without assistance.

Mr LENDERS — Chair, I think that answers the question regarding both tables 1.4 and 1.5. Under both indices, Victoria has withstood the GFC better. We have cut taxes — —

Mr WELLS — By charging higher taxes.

Mr LENDERS — Chair, we have reduced taxes in Victoria — —

The CHAIR — Ignore interjections, please.

Dr SYKES — What does that line say?

Mr LENDERS — In fact, if we go through our lines, payroll tax has come down seven times during this government, including in this budget — —

Mr WELLS — The threshold is still the highest — the lowest in the country — —

The CHAIR — Ignore that.

Mr LENDERS — Stamp duty, Chair, in the 2008–09 budget — —

Dr SYKES — That is the payroll tax.

Mr LENDERS — In the 2008–09 budget we increased the thresholds on every single level of stamp duty, so people paid less than they were before and less than they would be now — —

Mr WELLS — So aggregate amounts have decreased? Are you saying that?

The CHAIR — Mr Wells!

Mr LENDERS — Chair, if we talk of all the tax measures, we cut taxes. We have done the eight IGA taxes. Only Tasmania has done that as well.

Mr WELLS — Is your graph incorrect?

Mr LENDERS — Chair, I think I have answered the question — —

Mr WELLS — Is your graph correct?

Mr LENDERS — Victoria is growing. And because Victoria is growing and has more jobs, we can deliver more services while cutting taxes — —

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

Witnesses withdrew.