

# TRANSCRIPT

## PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

### Inquiry into Budget Estimates 2018–19

Melbourne — 15 May 2018

#### Members

Mr Danny Pearson — Chair

Ms Sue Pennicuik

Mr David Morris — Deputy Chair

Ms Harriet Shing

Mr Steve Dimopoulos

Mr Tim Smith

Mr Danny O'Brien

Ms Vicki Ward

Ms Fiona Patten

#### Witnesses

Mr Tim Pallas, Treasurer,

Mr David Martine, Secretary,

Mr Simon Hollingsworth, Deputy Secretary, Budget and Finance,

Ms Amy Auster, Deputy Secretary, Economic,

Mr David Webster, Deputy Secretary, Commercial, and

Ms Gayle Porthouse, Deputy Secretary, Corporate, Department of Treasury and Finance.

**The CHAIR** — I declare open the public hearings for the Public Accounts and Estimates Committee inquiry into the 2018–19 budget estimates.

All mobile telephones should now be turned to silent.

I would like to welcome the Treasurer of Victoria, the Honourable Tim Pallas, MP; Mr David Martine, Secretary of the Department of Treasury and Finance; Mr Simon Hollingsworth, Deputy Secretary, Budget and Finance; Ms Amy Auster, Deputy Secretary, Economic; Mr David Webster, Deputy Secretary, Commercial; and, in the gallery, Gayle Porthouse, Deputy Secretary, Corporate.

Any witness who is called from the gallery during this hearing must clearly state their name, position and relevant department for the record.

All evidence is taken by this committee under the provisions of the Parliamentary Committees Act, attracts parliamentary privilege and is protected from judicial review. Any comments made outside the hearing, including on social media, are not afforded such privilege.

The committee does not require witnesses to be sworn, but questions must be answered fully, accurately and truthfully. Witnesses found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty.

All evidence given today is being recorded by Hansard. You will be provided with proof versions of the transcript for verification as soon as available. Verified transcripts, any PowerPoint presentations and handouts will be placed on the committee's website as soon as possible.

Witness advisers may approach the table during the hearing to provide information to the witnesses if requested, by leave of myself. However, written communication to witnesses can only be provided via officers of the PAEC secretariat. Members of the public gallery cannot participate in the committee's proceedings in any way.

Members of the media must remain focused only on the persons speaking. Any filming and recording must cease immediately at the completion of the hearing.

I now invite the witness to make a very brief opening statement of no more than 10 minutes. This will be followed by questions from the committee.

### **Visual presentation.**

**Mr PALLAS** — Thank you, Chair. It gives me great pleasure to present in this committee the fourth Andrews Labor government budget. The state budget is a clear demonstration of the government's plan to invest in the services and the infrastructure that all Victorians rely on. It is a clear plan for continued prudent financial management and the maintenance of the state's AAA credit rating. It ensures that Victoria's economic growth is shared by every corner of the state.

Victoria is the economic engine room of the nation, and our economy grew by 3.3 per cent in 2016–17, significantly higher than the national economic growth of 2 per cent. Over the past three years real GSP growth has averaged 3.2 per cent a year. Victoria has not experienced this kind of growth since before the global financial crisis. Victoria's financial position remains strong, testament to the government's track record of strong financial management. The 2018–19 operating surplus is estimated to be \$1.4 billion, with surpluses averaging 2.5 billion over the forward estimates. Net debt as a percentage of the economy is projected to be no higher than 6 per cent over the forward estimates and projected to be lower than the level of the previous government's final year in office. Our financial fundamentals are strong, consistent with our prized AAA credit rating. Average expense growth is projected at 3.9 per cent, below the projected revenue growth of 4 per cent. Projected revenue growth is consistent with the average under the previous government and is well below the 10-year historical average of 5.5 per cent.

As I noted last year and I will again this year, the state's tax settings remain highly competitive. Our tax and royalty take per capita remains below Western Australia, New South Wales and the ACT, and we are now only marginally ahead of Queensland. Further, our economic growth forecasts contained in the budget are consistent with the outlook published by the federal government, the RBA and Deloitte economics. In fact the federal government's forecasts are slightly more optimistic than those contained in the budget, noting that the former is

forecasting GDP growth. On average, on wages growth, we are in fact more conservative than the federal government is predicting, as this graph shows.

Our population grew by 2.4 per cent over the year to September 2017, the highest growth of the states and well above the national average. As the chart shows, the growth has been sustained since 2011. Our population growth forecasts are also consistent with those published by the federal government. Population growth of course is driven by factors outside of the state government's control, but we can choose how we respond to it. Real GSP is forecast to grow faster than the population this financial year and across the forward estimates.

Jobs growth is significantly outpacing population growth, which is critically important in order for all Victorians to benefit from Victoria's economic growth. Victoria's employment growth is the strongest in the nation, with over 330 000 jobs created since the Andrews Labor government was elected. This represents more than 36 per cent of Australia's total employment growth over the period. It will also mean that more than one in 10 jobs in Victoria's economy today have been created during the tenure of the Andrews Labor government. Almost 200 000 of the jobs created in Victoria since November 2014 are full-time jobs, and our unemployment rate sits at 5.2 per cent, which is the lowest it has been in over six years and well down from the 6.7 per cent unemployment rate inherited from the previous Liberal-National government.

We are also going strong to keep investing in infrastructure. Infrastructure investment is forecast to average \$10.1 billion per annum over the next four years, peaking at an unprecedented \$13.7 billion in 2018–19. This is more than double the average of the \$4.9 billion a year from 2005–2006 to 2014–15.

We are also continuing to make it easier for businesses to grow. We have slashed the regional payroll tax rate to 2.425 per cent, the lowest in the nation. These cuts were on top of the increase to the payroll tax threshold from 1 July 2018 to \$650 000, a change that will benefit around 38 000 businesses across Victoria. This will mean in four years that we have delivered tax cuts for businesses totalling \$740 million, and that is triple the level that the opposition delivered in their entire four years in government.

Of course our economic growth means demand for skills is higher than ever before. At the heart of the 2018–19 budget is a landmark \$828 million investment in skills and training. We are making TAFE free for 30 priority courses and a new model for school-based learning, which will give students the opportunity to learn their trade at school and get a job sooner.

This slide summarises a number of the highlights of the budget — some of the key initiatives, as it were. We are investing a further \$1.9 billion to ensure Victorians have a safe, modern and reliable public transport system. We are establishing Regional Roads Victoria, with \$941 million going towards the biggest road maintenance blitz Victoria has ever seen to fix hundreds of regional roads, giving drivers safe, faster and more reliable journeys. With \$110 million we have fast-tracked the completion of the detailed planning and design for north-east link so that the project can be put out to market as soon as possible after the election, should the government be returned. We are providing an unprecedented \$705 million funding boost for mental health initiatives, and \$1.3 billion is being spent on school capital to provide more schools where they are needed.

There are many other worthy initiatives in this budget. The budget is, in addition to the government's previous three budgets, an apt demonstration of how the Andrews Labor government is making use of Victoria's strong financial position to ensure every Victorian gets the services and the infrastructure that they can rely upon.

I would like to take just a moment to touch on issues associated with cost of living. To ensure that people are getting the best possible deal on their electricity bills the government will provide a \$50 payment to all households that use a Victorian energy compare website to search for the cheapest electricity plan. We are increasing the utility relief grants scheme cap to \$650, and we are making regional student passes cheaper to reduce the cost of public transport through the \$1.9 million fare discount program. We have also reduced the stress of car registration costs for Victorian families, introducing three-monthly and six-monthly registration options.

Before I conclude I would like to highlight the government's record investment in regional Victoria. Under the Andrews Labor government almost \$13.6 billion has been invested in regional Victoria. That is almost double the amount the former government invested in regional Victoria. Since we took office over 40 000 jobs have been created right across regional Victoria.

Chair, to put it succinctly, our economy is strong. We are making sure that the building blocks are in place for all Victorians to share in Victoria's growth and prosperity. This is a budget that invests in the projects our state needs and the people we need to deliver them. It is a budget that continues the job of delivering our plan for the future today. This budget will deliver new skills, good jobs, more schools and better public transport and roads. It is a budget that gets things done.

**The CHAIR** — Thank you, Treasurer, for that presentation. I might commence if I may, Treasurer. The budget reference is budget paper 2, page 49, chapter 4, and it relates to table 4.3, which indicates the increase in the employee expenses in the 18–19 financial year. Can you outline to the committee what is driving this increase in employee expenses, please?

**Mr PALLAS** — Thanks, Chair. There has been a level of scrutiny around employee expenses, and that is probably misguided, I have got to say. Sometimes it has become nothing short of unhelpful. So there is a 10.1 per cent increase in employee expenses in the 2018–19 year, and that is expected to moderate to an average increase of about 3.2 per cent over the forward estimates period. To explain this properly it is important to consider two factors are at play that drive employee expenses: first, of course, the number of employees, and second, the wages that they are paid.

On the first point, the government has made a number of policy decisions that require additional staff, in the health and education portfolios most notably. That means more public health workers and more teachers. There is also some criticism of the number of executives that have been hired. Can I make the point in regard to this that, firstly, as I have already mentioned, we are a government that has made a decision that Victorians need and deserve better services. That is what we are committed to delivering, and that means hiring more people. Secondly, I note that we acquitted our election commitments in the 15–16 budget, but we did more than we promised at the last election. Having committed to the funding, essentially, of our Labor financial statement through executive reductions, we are then at liberty of course to proceed to invest in the growth and aspiration of the community. It is what the Victorian people would expect us to do. We are building more infrastructure, we are reforming our education system and we are implementing system-wide reform in areas like family violence, child protection and the NDIS, so it is not something that, as a government, we are ashamed of. You cannot deliver more services or have a coherent infrastructure program without hiring the necessary people to give effect to that and to work towards their achievement.

A significant portion of these expenses, I think, is attributable to the transition to the NDIS, a policy decision over which the states have little control but are nonetheless supportive of. In terms of pricing, there have also been some public sector wage increases that are consistent with the government's enterprise bargaining framework. It is not a surprise to anyone, I would imagine. We have bargained in good faith with the representatives of our workforce, the unions. We recognise their right to share fair compensation for their work, and we have in turn sought productivity increases.

We have been pretty clear in this budget. It delivers additional investments in mental health, in hospitals, in teachers, in support staff, in TAFE teachers and in child protection workers. These are important investments, and quite frankly we are proud of them. They demonstrate where our priorities lie, and we are not ashamed to make investments in enhancing the services that the state provides. So my final comment would be that rather than looking at employee expenses in isolation, it is always worth comparing them as a percentage of government expenditure. And as a proportion of general government expenses, employee expenses are consistent with the long average of around about 42 per cent.

**The CHAIR** — In terms of the increase in the number of employees, do they traditionally tend to be full-time workers as opposed to part-time workers? Are you seeing any trends to more part-time workers being employed by the VPS?

**Mr PALLAS** — I think it would be true to say that we are seeing right across the economy the movement towards more substantial full-time work. The state does have a very clear view about the need to facilitate employment options. It provides for a more productive workforce, and it ensures that more female members of staff, particularly with family responsibilities, get the opportunity to actively participate. We are seeing at the moment some of the highest levels of labour market participation from females, and I think the public sector is no exception to that.

Probably the best data comes from the Victorian public sector report 2016–17. The data indicates that in the year to June 2017 the Victorian public service added 9593 employees. Going through that, it comprises 2800 public health workers — nurses, doctors, midwives. That is in addition to the 1500 teachers and staff in schools. There is also an additional 1000 emergency services and police workers. There is an additional 3500 VPS staff.

Now, I might make the point that far too often the VPS staff are assumed to be and pejoratively addressed as ‘grey cardigans’. Can I say, firstly, that is pejorative of the great work that our public service does, and they should be commended for it. There is a very clear reason why we are a leader in the area of the provision of advice and good policy direction. But more importantly, the additional staff — for example, in DJR — are largely community corrections officers, prison employees. There are 350 custodial officers employed at Victoria Police. There are additional health and social welfare staff at DHHS.

Of course we have got a lot of staff employed on all of the structures put in place to support the delivery of our substantial infrastructure program. So by and large we are seeing a move right across the labour market to full-time employment — about 200 000 of the 330 000 jobs created in the entire economy have been full-time jobs, which bucks a decade-wide trend towards insecure employment. But we do recognise that a variety of choices should be made available to staff in order to ensure that we get the most efficiency out of them and also to make sure that they are not only productive but constructive contributors towards the development and delivery of our agenda, and that means recognising that we provide a variety of options, whether that is full-time or part-time work.

**The CHAIR** — Just teasing out that previous answer, you talked about the role that some of the VPS employees play or the contribution they make in terms of supporting front-line service employees. There is often that contention, that argument, that the VPS is a bloated bureaucracy and it is not actually delivering front-line services. How would you respond to some of those criticisms?

**Mr PALLAS** — I think a budget is a reflection of every government’s choices, if I could put it as directly as that. Essentially what this government has recognised is that there was a desperate need for an improvement in the quality and the provision of services right across the community, and that requires employing more people. For example, building more schools requires that you employ more teachers and support staff. Building more hospitals requires that you employ more nurses and doctors. If you think about where those choices have been reflected, we have got 2800 public health workers — additional public health workers. We have got 1500 more teachers and staff in schools.

Yes, there are 3500 more VPS staff, but I would make the point that this idea, again, that VPS staff play no productive purpose could not be further from the truth. Managing and overseeing the delivery of good policy and the delivery of efficiently managed and maintained infrastructure and of course making sure that those people dependent upon effective provision of custody services and of preventative services, particularly around child protection — all of those things are important, but they are a reflection of the choices that a government makes. This government is proud to make it clear that this is a choice that we think is sustainable, and I would make the point that our expenditure growth over the budget forward estimates period comes in at about 3.9 per cent and our revenue growth comes in at 4 per cent, so we are living within our means.

**The CHAIR** — Thank you, Treasurer. Just for the benefit of the committee, could you outline to the committee the government’s current wages policy?

**Mr PALLAS** — I suppose the first and most important thing to say about the government’s wages policy is that we acknowledge and support the idea that workers are entitled to reasonable wage increases, and we have been rewarded, I think, in kind by a highly motivated and well-performing public service. The government’s wages policy really seeks to encourage financially sustainable outcomes for public sector entities. We recognise and reward the services that public sector employees provide while also seeking to improve services to Victorians.

Our wages policy looks at, I suppose in a broader sense, four principal priorities. Establishing a fair pay guide: what that means is that as a government we assure increases of about 2.5 per cent a year, including wages and conditions over the life of the agreement. Wage increases under the fair pay guide have to be financially sustainable, but they do not require service delivery improvements to be demonstrated. Secondly, it provides for increases of 2.5 per cent to 3 per cent which require genuine service delivery improvements to be demonstrated.

These improvements may not generate cost savings, but they need to be measured. Essentially if you do not measure anything, you cannot manage it. That might include employees enabling changes that allow a staff member to perform additional functions within the employer's existing budget, effectively reducing additional costs.

The third area is that there is no cap applied to agreement outcomes. There is significant rigour being applied to those outcomes above 3 per cent, including, might I say, a demonstration that the costs of the agreements can be funded internally from fiscally sustainable and ongoing cost offsets. And finally, any variation from wages policy requires consideration by the government substantively.

**The CHAIR** — Excellent. Thank you, Treasurer. I will pass over now to Mr O'Brien. We will have opposition questions now until 9.53 a.m.

**Mr D. O'BRIEN** — Hopefully a bit longer than that, Chair.

**The CHAIR** — The first bank, Mr O'Brien, will be 11 minutes.

**Mr D. O'BRIEN** — Hopefully not 9.53 a.m.

**The CHAIR** — I do apologise — 10.04 a.m.

**Mr D. O'BRIEN** — Good morning, Treasurer. I have got 10 seconds to ask you a question. Treasurer, it was reported in your budget lock-up you confirmed that the government was giving the AFL a sweetheart deal of free land at the harbourfront at Docklands, apparently on a lease of 40 years. Can you tell us what the value in both net present terms and also in nominal dollar terms of this 40-year harbourfront land deal is for the AFL?

**Mr PALLAS** — I suppose the first thing I would say, Mr O'Brien, is that this is a vitally important package of interventions by the government. The overall value of the package in dollar terms for dollars that are committed is of course \$242 million for community and women's sport, and \$231 million with the AFL to deliver a major redevelopment of the Etihad precinct. It will secure the AFL Grand Final —

**Mr D. O'BRIEN** — Sorry, Treasurer, the original announcement was 225 for the Etihad precinct. Are you saying that the land deal is \$6 million additional?

**Mr PALLAS** — No. The 231 is essentially \$5 million to redevelop the National Sports Museum at the MCG and \$1 million to plan the redevelopment of Whitten Oval and Eureka Stadium.

**Mr D. O'BRIEN** — Can I come back then to the question about the harbourfront land for the AFL headquarters?

**Mr PALLAS** — Well, can I go back to the response I gave in Parliament when I was asked this same question, and that is: it was considered by the state to be desirable to provide that land essentially at no cost — well, peppercorn cost — to the AFL for the purposes of being able to secure the arrangements that we have been able to leverage. I would suggest that you look at the entire value of the agreement to ascertain whether or not you think value has been extracted.

**Mr D. O'BRIEN** — I am trying to work out the opportunity for Victorians to work out whether there is value to the agreement. Can you tell us what the net present value and the nominal dollar terms value of the deal on the harbourfront land is?

**Mr PALLAS** — We have not done that work because we have looked at the value of the agreement —

**Mr D. O'BRIEN** — So you have not worked out what it is you are giving the AFL for free.

**Mr PALLAS** — Because we have been focused on what we have extracted by way of value, and that means in a practical sense that the state is extracting value that we see more than sufficiently justifies the opportunity costs and the loss that would be inflicted to the state if we did not extract the benefits. The benefits of the package are of course a 20-year extension to the MCG hosting AFL grand finals until 2057, the securing of other content for the MCG, including some 43 home and away games each year — and 10 of the best 12 Victorian games — the MCC to increase payments to home clubs playing at the MCG —

**Mr D. O'BRIEN** — Sorry, Treasurer, we are talking about the MCG and MCC now. I want to get back to the AFL and the Etihad deal.

**Mr PALLAS** — Mr O'Brien —

**Mr D. O'BRIEN** — Was there a cost-benefit analysis done of that deal?

**Mr PALLAS** — Of the land provision? No, the value —

**Mr D. O'BRIEN** — No cost-benefit analysis, just free land, peppercorn rent.

**Mr PALLAS** — The assessment was of the agreement in totality, and what I am taking you through is the value of the agreement and the benefits the state has extracted. Ultimately I think that the value that the state has extracted far exceeds any costs and certainly the opportunity costs — the loss of our reputation as the sporting capital of the nation — would be quite considerable.

**Mr D. O'BRIEN** — Sorry, Treasurer, just on that. You are arguing that we have given the AFL a free bit of land, effectively, for 40 years in return for a deal on extending the grand final from 2037 — 21 years away. So we have still got 21 years of the grand final at the MCG before this deal even kicks in, and you are saying we should accept that as a good deal.

**Mr PALLAS** — Well, I am glad you are getting your head space into what we get for it. Can I take you through what the state gets for it?

**Mr D. O'BRIEN** — You have just confirmed that there is no cost-benefit analysis.

**Mr PALLAS** — Mr O'Brien, you cannot selectively quote from one element of the agreement and then suggest that that constitutes the total value of it.

**Mr D. O'BRIEN** — You started talking about the MCC and what it will do for clubs. I am not sure how guaranteeing the grand final beyond 2037 is giving any value to Victorians today.

**Mr PALLAS** — All of this has been negotiated with the AFL, the MCC, the MCG Trust, and essentially the entire value of this package is one that I think you should at least be open to hear before you form a judgement about it.

**Mr D. O'BRIEN** — I would like to form a judgement based on the question that I ask, which I think many Victorians are wanting to know: what is the value of the land deal to the AFL for Victorian taxpayers?

**Mr DIMOPOULOS** — He just explained it to you.

**Mr PALLAS** — Well, the value can be in cash —

**Mr D. O'BRIEN** — But you have not. You said you have not actually done that deal.

**Mr PALLAS** — Can I make the point that value can be in cash or kind, and there are certain elements in this agreement that of course will be evident over a considerable period of time — the preservation and assurance of the status of the home-based clubs; the MCC to increase payments to home-based clubs by 200 000 per game indexed; first rights for government to purchase Etihad Stadium —

**Mr D. O'BRIEN** — The MCC is doing this on the basis of having the grand final for another 20 years?

**Mr PALLAS** — Yes.

**Mr D. O'BRIEN** — From today?

**Mr PALLAS** — Yes.

**Mr D. O'BRIEN** — When does that deal kick in for the MCC tenants?

**Mr PALLAS** — Well, as I say, this is once again a clear demonstration that you need to look at the overall value of this package. It assures —

**Mr D. O'BRIEN** — I am trying to work that out. When does the MCC deal kick in?

**Mr PALLAS** — These arrangements kick in, I believe, from first of the season next year.

**Mr D. O'BRIEN** — You believe, Treasurer?

**Mr PALLAS** — Yes.

**Mr D. O'BRIEN** — You are not even certain that that is the deal?

**Mr PALLAS** — Well, okay. Can I say that the agreement has been struck and it has application forthwith, but of course they need to work their arrangements through with each of the clubs, but it is expected that each club going forward will receive something in the vicinity, for playing games at the MCG, of funds of around \$200 000 per game indexed.

**Mr D. O'BRIEN** — Treasurer, can I just ask: going back —

**Mr PALLAS** — Would you like to hear the content of the deal?

**Mr D. O'BRIEN** — You are going off on a tangent that was not directly relevant —

**Mr PALLAS** — There is more.

**Mr D. O'BRIEN** — to the question I am asking.

**Mr PALLAS** — No, it is relevant to the value.

**Mr D. O'BRIEN** — The terms of this deal — you were saying you actually have not done the deal yet on the land. Will you release the terms of that deal when it is completed, on the land?

**Mr PALLAS** — Yes. I mean, I will have to consult with the AFL in terms of what they are prepared to see made, but I could take you through the requirements that the state will set, here and now, if you would like. That will be that the provision of the land has to be available to the AFL for the purposes of AFL headquarters, and they are not to use it for commercial purposes.

Secondly, that the state will coincide the conclusion of those arrangements around about the time that the grand final rights would expire in 2057. So the state has put itself in a very strong bargaining position to ensure that, even beyond 2057, we have a landlocked tenant who is based in Victoria, and our aim is to ensure that we maintain the grand final in perpetuity.

**Mr D. O'BRIEN** — Treasurer, has that agreement about the grand final been signed between the AFL and the MCC?

**Mr PALLAS** — The agreement with the AFL and the state has been signed. I have executed those arrangements and, yes, they are in place.

**Mr D. O'BRIEN** — But hang on, that is between the state and the AFL.

**Mr PALLAS** — Yes.

**Mr D. O'BRIEN** — How does that guarantee that the grand final is staying at the MCG?

**Mr PALLAS** — Well, the other signatories to the agreement I think are the MCG and the MCC trust. The arrangements are, if the AFL has agreed to it —

**Mr D. O'BRIEN** — You think they are, Treasurer?

**Mr PALLAS** — I do not have the document in front of me, but the negotiations it involved —

**Mr D. O'BRIEN** — Could I ask for that agreement on notice, then, Treasurer?

**Mr PALLAS** — What are you asking for? The answer to —

**Mr D. O'BRIEN** — The agreement that the AFL —

**Mr PALLAS** — I am not in the position to produce contractual arrangements that the state has entered into, but if you asking who are parties to it, I can tell you that all the parties involved in the discussions are constructive parties to the agreement — that is, the AFL, the state government, the MCC and the MCG trust.

**Mr D. O'BRIEN** — So that deal has been signed now?

**Mr PALLAS** — It is signed, yes.

**Mr D. O'BRIEN** — As a result, the money — the 225 million for the Etihad deal — that is locked away. What are the terms of that agreement? When exactly will it be paid to the AFL?

**Mr PALLAS** — I am glad you asked about the terms of the agreement. The cash flows associated with the payment to the AFL are contained within the budget papers. If you look at Table 1 on page 73 of BP3, you can see the —

**Mr D. O'BRIEN** — That indicates 72.7 million will be handed over in this financial year, the budget year. When was that deal with the AFL actually signed?

**Mr PALLAS** — It would have been a few weeks ago. I mean, I do not know exactly the date, but it was signed shortly round about the time that it was announced.

**Mr D. O'BRIEN** — Are there any milestones in that, or does the deal require the government to hand over the entire amount?

**Mr PALLAS** — As you can see, the arrangements put in place actually provide for a staged provision of the funds, and of course the state will seek to ensure that the contractual terms that the state is seeking are honoured — that is, the 20-year extension to the grand finals, the content arrangements for home-and-away games, the increased payments to home clubs —

**Mr D. O'BRIEN** — Treasurer, can I just ask for the date on notice?

**The CHAIR** — Order! Ms Pennicuik until 10.12 a.m.

**Mr PALLAS** — I can. I do not have any difficulty with that —

**Mr D. O'BRIEN** — Just the date that it was signed.

**Mr PALLAS** — but it will be a couple of days after it was publicly announced, it was signed.

**Ms PENNICUIK** — Good morning, Treasurer. Good morning, Secretary, and other deputy secretaries, and thank you for coming. Treasurer, I just want to ask some questions about — the reference is budget paper 2, page 6 — where it says:

The government is also in the process of commercialising land titles and registry functions of Land Use Victoria.

Or privatising the land titles office, as I might call it. The land titles office holds a lot of personal information about mortgages — people's names, phone numbers, date of birth and marital status. It scrutinises every title, mortgage and survey of all the properties held in Victoria and has been doing so on behalf of Victorians for more than 150 years, so there are a lot of concerns about privatising the land titles office. Firstly, when that happened in New South Wales, fees went up by some 300 per cent. In the United States, landholders and mortgagees have been required to take out insurance against fraud et cetera with regard to their titles. Can you talk about some of those concerns and what the government has done in terms of fees and the need for expensive insurance?

**Mr PALLAS** — Sure. Thanks, Ms Pennicuik. Can I say that firstly, this is not a privatisation in the context of a divestment of an asset. The state is leasing the asset, and it is not about ideology; it is about getting results. We have always said that we have looked carefully at the state's assets to make sure that we are getting the biggest possible value for taxpayers. The lease of the port of Melbourne I think shows that we have been able to extract considerable value in that exercise. We are now well into commercialising this service. Our expectation

is that it will be complete before the end of year. Our priority is of course to deliver better value for taxpayer assets, ensuring that Victorians' rights are protected, so the proceeds will be reinvested in productive infrastructure.

The process will include a number of protections. I suppose this goes directly to the nature of the question you have asked. We will be ensuring that data security and privacy protections are in place. We will be ensuring ongoing data access for all customers, including government agencies and for public policy purposes. We will maintain or improve current levels of customer service for users of Land services, and we will ensure that any affected staff have their rights and entitlements protected. I think — and I might get Mr Webster to speak to this in a moment — of the, say, 650 employees affected by this proposed change who are currently employed by the land titles office there are about 100 now that will be affected by these changes. And the reason why that number is so small is that the proposal means that there will be no change to the mechanism for setting statutory products and service fees and charges — no change whatsoever.

**Ms PENNICUIK** — And is that for the whole 40 years?

**Mr PALLAS** — Yes, it will be a condition of the sale. With regard to setting statutory products and service fees and charges, there will be no change to the existing arrangements. There will be no proposed changes for the state's legal protections or the Torrens title system — for that system — and no data is being sold to the private sector. I think those have been consistent and underlying themes that have been a key part of this.

Just to give you an appreciation of how this is a substantially different exercise from what the other states have done, a number of essential services will remain in public hands, including subdivisions, applications and survey, Valuer-General Victoria, surveyor-general Victoria, land information and spatial services, government land advice and coordination, and the Victorian Government Land Monitor. So the government will retain ownership of all the registry data with all information accessed by the private sector subject to relevant privacy and data protection laws and regulation.

In addition, of course, the state will continue its role of guaranteeing titles under the Transfer of Land Act, and the registrar of title will also remain under state control, retaining an oversight role over the private operator. The private operator, in our expectation, will be responsible for the commercialisation of land registry functions and transactions for a term of 40 years, after which responsibilities will be returned to public hands. Those services represent the work of about, as I say, 100 of the 650.

**Ms PENNICUIK** — Thanks, Treasurer. So you are suggesting there will not be any fee increases such as has happened elsewhere. The other question is about protecting titles. Your answer begs the question why it is even happening and what is it that a private operator could offer that is not already being offered by the public operator that there have not been any complaints about. Also, just a back-of-the-envelope, the revenue from the land titles office was around \$380 million in the last financial year. If you multiply that by 40 years — and that does not talk about future value — you come to \$15.2 billion of revenue to the state. It begs the question as to what is the government going to actually get in terms of monetary value from this privatisation?

**Mr PALLAS** — If I could hand over to the deputy secretary of the commercial division, David Webster, to take you through, one, the benefits of commercialising and why the value proposition is as it is to the state.

**Mr WEBSTER** — Thank you, Treasurer. I think one of the benefits that we are looking to the private sector to bring is really innovation, particularly around the IT systems and the processing to make a more efficient end-to-end process for people.

**Ms PENNICUIK** — All right, thank you, Mr Webster. That actually raises actual red flags to me, that whole answer that you were just about to go along because it seems to me the land titles office is already efficient and able to do the work that it is set to do. What I would like to know is —

**The CHAIR** — Order! We will come back to that, Ms Pennicuik. Ms Ward until 10.22 a.m. We will come back to you, Ms Pennicuik.

**Ms WARD** — Morning, everyone. Morning, Treasurer. Welcome to the season that is PAEC. I hope you enjoy. Treasurer, a good budget. Thank you. My electorate is pretty happy. I have to say I am pretty dismayed at

the federal government's position on TAFE regarding basket weaving, but I suppose that is a question for another minister. But it is still pretty amazing.

Treasurer, I want to talk to you about infrastructure investment. There is a substantial amount in this budget which will have long-lasting effects across our state well into the future. If I can get you, please, to refer to budget paper 2, page 4. It talks about Victoria's strong financial foundations and our gross infrastructure spend. Could you please talk us through how that compares to historical levels, because it is quite an unprecedented amount of money that the state government is investing across a broad range of projects? Can you please give us some perspective on this?

**Mr PALLAS** — Sure. I suppose the first and most obvious one, picking up the contribution that I made earlier around our infrastructure spend, is that the state is making a very substantial contribution to infrastructure, something I think that has no equivalent in the state's history. This is really a quantum shift in the amount of infrastructure that we are building and the expenditure that we are directing to it.

The government infrastructure investment is expected to average about \$10.1 billion a year across the budget and forward estimates. That is more than double the \$4.9 billion a year that was the 10-year average before the government came to office. It reflects, really, our commitment to substantial and ongoing investment that we are making in quite a variety of projects, whether it is Melbourne Metro, the level crossing removal program, the West Gate tunnel project, the western roads upgrade and of course the new and announced projects that are contained in this budget. That includes, of course, the northern and south-eastern roads package that has been announced in the budget. The 18–19 budget in terms of the new infrastructure investment comes in at about 9.3 billion TEI, underscoring the government's commitment to building infrastructure that will drive the economy into the future.

Of the projects announced in the 18–19 budget, I have already referred to the \$2.2 billion that we have put into the suburban roads upgrade, and I hope the member for Eltham, Ms Ward, is happy with at least some of that package. There is \$1.3 billion for new schools, just an enormous increase in effort in school construction — I think I heard the education minister say it was something like a fourfold increase in capital investment in schools in this budget — and existing school upgrades, continuing the government's commitment to a broader and more substantial program. Importantly, I think, these investments are delivered while maintaining general government net debt at a sustainable level over the medium term.

Total infrastructure investment — the great thing about this project is that it has developed a sense of confidence within the private sector. When we came to government, I will be honest and say that we saw that there was a great longing for opportunities to be put into the market, and they bid aggressively to get that work. We may have fed them a considerable amount since then, and probably that aggression is not being replicated in the current time, but nonetheless this has created, and the ongoing capital works going forward is likely to create, 75 000 jobs in the Victorian economy. So for people who pretend that governments investing in infrastructure has no impact upon the way that the economy operates, I would simply draw their attention to that fact and the fact that we are creating more jobs than any other place in the nation over the time that we have been government.

**Ms WARD** — Thank you, Treasurer. If I can get you to have a look at budget paper 4, page 2, up towards the top, 'Infrastructure that enhances productivity and liveability', there is a line in there:

In 2018–19, a total of \$78.9 billion of state capital projects are commencing ...

How does that factor into what you have just told me in terms of the figures that you have used there?

**Mr PALLAS** — I might actually hand over to the secretary of my department, but that number is total government effort, as it were, as opposed to the effort that is going on just entirely within the government sector proper, so the government authorities and agencies beyond the core public service. So 78.9 billion, is it?

**Ms WARD** — Yes.

**Mr PALLAS** — Yes. So it is quite a phenomenal figure, and it really does demonstrate the amount of effort. I might hand over to Mr Martine to just take you through it.

**Ms WARD** — Thank you, Treasurer.

**Mr MARTINE** — Thanks, Treasurer. If you look at page 6 of budget paper 4, table 1, it breaks down the 78.9 billion into a little bit more detail. As the Treasurer mentioned, that includes existing projects and new projects, both within the general government sector and the public non-financial corporations sector. So you can see in the breakdown of the 78.9 in that table quite a large component of existing projects both in the general government sector and in the public non-financial corporations sector, and then the detail of those particular projects you will find in chapter 1, starting on page —

**Ms WARD** — In budget paper 4?

**Mr MARTINE** — In budget paper 4. It is actually chapter 2, sorry. It breaks it down by department, and it goes through the existing projects and new projects in quite a bit of detail, providing both the total TEI and the amount to be spent in the forward estimates. It also includes those projects in the public non-financial corporations sector, and that then should match up to the detail in table 1 on page 6 of BP4.

**Ms WARD** — Thank you.

**Mr PALLAS** — If I could just supplement that, really what we are talking about here is investments that are made by entities outside of the general government sector, so water authorities are included in that number. We do not typically talk about it in terms of investments in the context of the budget because they have a different authorising environment that would apply. Approval for these capital works is really provided through the annual corporate planning process. Of course as Treasurer and the relevant minister — in respect of water authorities, the Minister for Water — as shareholders we have to authorise those corporate plans and therefore that capital investment. It also includes expenditure on major projects that will not be completed within the forward estimates period published in the 2018–19 budget. These tend to be major transformational transport infrastructure projects.

**Ms WARD** — On that, Treasurer, I know that not everybody appreciates or understands — I suppose I am really referring to those opposite me — the importance of the West Gate tunnel. Could you please talk us through the progress of where that is up to?

**Mr PALLAS** — Yes. Well, it is a vitally important project, might I say. When the West Gate Bridge was originally built it was intended to cover maybe 40 000 vehicles at the time. It is now carrying over 200 000 vehicles, so our dependence upon the West Gate Bridge exclusively for transport is unsustainable. We need to come up with alternatives to it, particularly because of the rapid growth in Melbourne's west but also the need for access from Geelong and Ballarat to the city. So construction of the tunnel is now well underway. The workforce on the project has reached about 1200 people, and we are on track to hit the scheduled completion date of 2022, but of course the completion of that project cannot come soon enough.

**Ms WARD** — That is astonishing — that is 200 000 people a day going across the West Gate tunnel at the moment.

**Mr PALLAS** — West Gate Bridge.

**Ms WARD** — West Gate Bridge, sorry. That is what I meant.

**Mr PALLAS** — Nobody is going through the West Gate tunnel.

**Ms WARD** — No, they have not gone through the tunnel yet. Sorry. Could you also talk us through Infrastructure Victoria and their 30-year vision, in the 40 seconds that you have got?

**Mr PALLAS** — Yes. The establishment of Infrastructure Victoria was an election commitment. Our intention was to establish a body not to remove discussion about our infrastructure priorities from the political domain but rather to provide a more transparent and comprehensive basis for political debate, and it is about ensuring that we have a framework to address our infrastructure challenges. They produced their 30-year strategy, and it definitely achieves a public debate around those things. There are some of the recommendations that the government does not report, and that is as it should be. They are an independent body.

But the big project —

**The CHAIR** — Order! Mr O'Brien until 10.32 a.m.

**Ms WARD** — Thank you, Treasurer.

**Mr D. O'BRIEN** — Treasurer, noting that you are gifting the AFL \$225 million for the Etihad deal, plus an undisclosed sum we do not know for the land deal at Docklands, budget paper 3, page 73, refers to the community sports infrastructure loans whereby community sports clubs will have to borrow money from the government. Can you tell me what the interest rate will be for those loans?

**Mr PALLAS** — That will be a long-term borrowing concessional rate for the state. Might I say, Mr O'Brien, that there are substantial grant fundings available as a consequence of the programs that we have been announced as part of this package. I think it is a program over its life that has about \$5 million worth of access to funding, because we are looking at new and innovative ways to assist clubs to be able to essentially deliver on what their communities want. It is not in substitution from the state making grant payments. In fact —

**Mr D. O'BRIEN** — Well, to be clear on that though, Treasurer, the Community Sports Infrastructure Fund is an element of a grant, but it is for 18–19 only. There is nothing in the forward estimates for community sport. Can I go back to the question, though: what is the interest rate?

**Mr PALLAS** — As I said, it is a concessional rate.

**Mr MARTINE** — We would need to take on notice the exact rate, but it is a concessional rate.

**Mr D. O'BRIEN** — A concessional rate on the going market rate?

**Mr MARTINE** — Yes. It is probably closer to the TCV cost of funds, which would be roughly about 3 per cent. We can take on notice to get to you the exact amount that has been used for the costing of the actual proposal in the budget papers.

**Mr D. O'BRIEN** — To either the Treasurer or the secretary: will there be any differential between the TCV rate and the rate that is loaned out?

**Mr PALLAS** — Well, if there, is it would be marginal — only an administrative cost, not much, but it would be considerably lower than a commercial loan. It is about providing a revenue stream, and might I say for \$5 million, as opposed to the \$60 million, for community sports infrastructure in this package —

**Mr D. O'BRIEN** — Which I indicated, Treasurer, is for one year only, whereas there is nothing in the out years for community sport.

**Mr PALLAS** — Well, let us look at one year only then, Mr O'Brien. The number that the previous —

**Mr D. O'BRIEN** — That is what the budget says, Treasurer.

**Mr PALLAS** — The budget in 14–15 was \$49.6 million for sport and recreation —

**Mr D. O'BRIEN** — Treasurer, we are talking about the forward estimates today, not 14–15, I am sorry, so —

**Mr PALLAS** — We do not want to talk about what you did.

**Mr D. O'BRIEN** — I am sorry, Treasurer, we will ask the questions and you answer the questions. You do not get to choose what is asked.

**Mr PALLAS** — No, but I am entitled to provide some context.

**Mr D. O'BRIEN** — I am asking you if you can tell me what the interest rate that you are going to charge community sports clubs is, and you cannot tell us the exact rate.

**Mr PALLAS** — Because we are in a process of finalising the way that the bond issuance would work.

**Mr D. O'BRIEN** — Can I ask it this way then, Treasurer: can you guarantee that the government will not make any money on these loans?

**Mr PALLAS** — Absolutely I can. The only cost that the state will extract as part of that process will be an administrative cost, not a profit — an administrative cost — simply for providing the loan. Might I also make it clear that they will be considerably lower than these sporting associations, for the \$5 million that we are talking about, would be able to get through commercial offerings.

**Mr D. O'BRIEN** — Is the \$5 million that you are talking about the administrative cost or the actual value of the loan?

**Mr PALLAS** — That is the entire bond issue. That is the entire loan value.

**Mr D. O'BRIEN** — Sorry, I did not hear that.

**Mr PALLAS** — That is the loan value that the state is providing.

**Mr D. O'BRIEN** — So there is \$5 million worth of loans?

**Mr PALLAS** — Yes.

**Mr D. O'BRIEN** — I understood the announcement at the time said that there was \$100 million worth of loans.

**Mr PALLAS** — Sorry, our hope is that the \$60 million that we are providing for sports grants, and the \$5 million for interest repayments on community sports infrastructure loans — so there will be, just to clarify, a new funding mechanism to deliver up to what could be \$100 million of new and improved community sporting infrastructure —

**Mr D. O'BRIEN** — Thank you for that clarification. The Premier said at the time of the announcement that local councils had asked for this loan facility. Treasurer, can you tell me which Victorian councils asked the government to provide a loan facility rather than grants for sporting clubs?

**Mr PALLAS** — Well, I do not think they asked for it in substitution, and we have not substituted —

**Mr D. O'BRIEN** — Well, you have in the out years, Treasurer. There is nothing there in the out years for grants.

**Mr PALLAS** — I think you have to look at each budget on its merits, and certainly this year's —

**Mr D. O'BRIEN** — That is exactly what I am doing, and there is not much merit in this deal, Treasurer.

**Mr PALLAS** — Might I make the point that if you want to know where there was interest, my parliamentary secretary had discussions with a number of councils. He worked most notably with Hobsons Bay council, who have been seeking to —

**Mr D. O'BRIEN** — And would they prefer to borrow money from the government than get a grant?

**Mr PALLAS** — No, but they do not see it in substitution of effort.

**Mr MORRIS** — Good morning, Treasurer. In BP3, pages 11 and 27, on the north-east link, there is a total of 110 million in there for what is described as 'north-east link — development to procurement', with 6.0 in DEDJTR initiatives on page 11 and 104 million in DEDJTR asset initiatives on page 27. Can you tell us how much money is in the budget across the forward estimates to actually build the north-east link, and can you point to where that money is in the budget papers?

**Mr PALLAS** — Can I be very clear, we have not put any money into forwards other than the 110 million that we have put aside in this budget, the reason being that we want to be in a position to build what we see as the priority road project to Melbourne. For decades it has been in the too-hard basket. We have essentially established the North East Link Authority to develop the business case and to deliver the project, and that is what the money is for — to obtain all necessary approvals and to finalise the business case. We are going to take a different approach to the previous government. We will seek a mandate before we enter into contracts to deliver this project. We did not seek it —

**Mr D. O'BRIEN** — Like the West Gate tunnel?

**Mr PALLAS** — Well, in fact, whilst the West Gate tunnel is substantially larger than the truck action plan, it is a variant on that theme and will provide something very substantially better, but certainly it is backed by authority from the previous government.

**Mr MORRIS** — Just to be clear, you just said that you want to take this out of the too-hard basket and you want to build the road, so you have provided no money to build it. That is what you just told —

**Mr PALLAS** — Sorry, what did you just say?

**Mr MORRIS** — You just told the committee that you wanted to take this project out of the too-hard basket. You wanted to build it, or take it out of the too-hard basket, so you have provided no money.

**Mr PALLAS** — Let us be very clear, we are providing the money to do this project properly. You have to put the money aside in order to make sure that you have got all the necessary approvals. You finalise the business case. You finalise business cases before you commit to delivering projects. I know this is a novel concept for the opposition.

**Mr MORRIS** — Treasurer, the standard approach that you have adopted and some of your predecessors have adopted is, when you have a project, to make provision in the forward estimates. You have answered unequivocally that there is no money in the forward estimates for this project.

**Mr PALLAS** — This project will only proceed if this government gets a mandate to deliver it. Therefore there would be no sense —

**Mr MORRIS** — It is not going to proceed at all if there is no money in the forward estimates for it.

**Mr PALLAS** — I do not think you need to question this government's capacity to deliver infrastructure. The sparks are flying off our infrastructure agenda at the moment. It is pretty clear that we are delivering an infrastructure agenda —

**Mr MORRIS** — No matter the approach taken, if there is no money in the budget, you are not going to build it from fresh air. Your colleague the minister for roads issued a press release on 2 May which refers to the budget and the provision of the additional \$110 million to fast-track the project and said, using his words, 'Ready to go to market within 100 days of a re-elected Andrews government'. If you are going to go to market to build the north-east link within 100 days of your election, where is the money to pay for it? It is a \$16.5 billion project. If you cannot show us in the budget where the money is, how can anyone believe that you actually intend to build it?

**Mr PALLAS** — Just as we have been able to deliver on all the things we promised before the election, you can take us at our word. Importantly the federal government have indicated a willingness to put \$1.75 billion into this project. Whilst we have not seen that money in their forward estimates, we take them at their word.

**Mr MORRIS** — This is not about the commonwealth; this is about no money in the state budget —

**Ms PATTEN** — Good morning, Treasurer, secretaries and deputy secretaries. I would like to talk about gambling taxes on page 142 of the 'Statement of Finances'. As we debated not too long ago in our house, the first instalment of the poker machine licence payments for 2022 to 2042 was payable on 28 February of this year. Is that included in the figures on page 142?

**Mr PALLAS** — With regard to gaming taxes, this reflects all the forward estimate revenues that the state would expect to get from all of those taxes, save and except for any change that we may have announced. So this would reflect the forwards on what we expect to get.

**Ms PATTEN** — So that includes those forward payments.

**Mr MARTINE** — I would need to check with Ms Auster, but I am not sure that they would be part of that particular line. I assume you are referring to, on page 142, the line, 'Electronic gaming machines'.

**Ms PATTEN** — Yes.

**Mr MARTINE** — That is the actual revenue received by the state from the gaming machines.

**Ms PATTEN** — Right, so it does not include the payments.

**Mr MARTINE** — In terms of future payments on the new arrangements, I doubt whether they would actually be in that revenue line.

**Ms PATTEN** — Do you know where they might be in the budget? I am happy to take it on notice.

**Mr MARTINE** — We would have to take it on notice, but I am pretty confident they would not be part of that line because that is representing total taxes.

**Ms PATTEN** — The question was looking at those first instalments of licence fees.

**Mr MARTINE** — I think from memory the first instalments are not due until after 2022.

**Ms PATTEN** — I was of the understanding they were due in February this year.

**Mr MARTINE** — You are talking about the extension of the —

**Ms PATTEN** — Yes, The ones 2022 to 2042.

**Mr MARTINE** — I need to take it on notice. I thought the bulk of the payments were coming in the future, but we will take that on notice and confirm for you.

**Ms PATTEN** — Also, is there anything in the budget for the sale of some of the forfeited poker-machine licences that were given up by, say, for example, the Melbourne Football Club and some of the other operators that have chosen to exit the industry — as revenue?

**Mr MARTINE** — The government has announced a new allocation system for the machines for the next 10-year extension. I am pretty sure — and my colleagues will correct me if I am wrong here — the estimates do not include any forfeiting of any machines. The forward estimates would assume the full allocation of all of the current machines, would be my assumption.

**Mr PALLAS** — The state operates —

**Ms PATTEN** — There will be an adjusted figure probably once Melbourne Football Club and the like exit the industry.

**Mr PALLAS** — No, I think the point the secretary is making is that there is no assumption of the allocations not continuing — that is, there is a cap on the number of machines that are available in the state, and the revenue projections assume that they will be put into the marketplace at some point.

**Ms PATTEN** — Just staying with those breakdowns of the gambling figures, I heard your announcement on the consumption tax yesterday. Do these figures include that? I think you are estimating about \$30 million on that consumption tax.

**Mr MARTINE** — Certainly the budget aggregates include a provision, which is about \$30 million as the Treasurer announced yesterday. That is built into the budget bottom line. It would not be part of that particular revenue line. At the time of the budget it would have been held in contingency. But it is in the total aggregates — about 30 a year, with less of an amount in the first year because the new arrangements start 1 January 2019.

**Ms PATTEN** — Sure. Staying on these payments, we had the Tattersall's lottery licence. I think they got a 10-year extension, and Tabcorp was going to pay \$120 million for that. Where would I find that in the budget? I am assuming it is not on page 142.

**Mr MARTINE** — That is correct; 142 represents taxes. I would need to take on notice exactly which lines of the financial statements of those particular payments would be coming through, but on page 142 the gambling taxes are broken down, so it would be sitting somewhere else.

**Ms PATTEN** — Yes.

**Mr MARTINE** — We can take that on notice and provide that.

**Ms PATTEN** — Is it correct that the total take from gambling, and that is including the licence fees and everything, is forecast to top about \$2 billion for the first time?

**Mr MARTINE** — If you added the five lines on page 142 you would get close. There is no subtotal there, but just eyeballing that, you would get close to the 2 billion. Obviously the biggest one, as you see there on page 142, is the electronic gaming machines.

**Mr PALLAS** — It looks like it is coming close, Ms Patten.

**Ms PATTEN** — That concerns me in my electorate, which has some of the highest percentages of machines. I am wondering whether it concerns you, and I certainly will be asking the consumer affairs minister about the spending that we are going to be doing on problem gambling, but \$2 billion on gambling seems to be a pretty large number for our state.

**Mr PALLAS** — If I could just refer you to budget paper 5, which is the Statement of Finances, chapter 4 on page 150, where it has the gambling taxes. It forecasts revenue of 1.9 billion, so close to 2 billion, in 18–19. The increase is by an average of 1.6 per cent a year over the forward estimates. So in practical terms that is actually substantively below the revenue growth the state is getting overall, which is coming in at 4 per cent. So yes, it is increasing, but it is increasing at a lesser level than the general background revenue intakes of the state.

**Ms PATTEN** — Could you tell me a little bit about the academy for special projects? I really was not quite sure what it was, and what was missing, I suppose —

**The CHAIR** — Maybe take that on notice, Ms Patten.

**Ms PATTEN** — On notice?

**Mr PALLAS** — I am more than happy to provide you with information about that.

**Ms WARD** — I just wanted to finish off, Treasurer, my line of questioning, and then I will flick through to the next government person. I wanted to ask you about the north-east link. Treasurer, I am sure that you understand how important this project is for communities in the north-east, north of the Yarra. It is a very important project, and it is a project that needs to be done sooner rather than later. I think you would be hard-pressed to find anybody in the north-east who would not be in the same position. So can you please talk to us about the 110 million that is in this year's budget, what it is for and how it will help speed this project up?

**Mr PALLAS** — Thanks, Ms Ward. The \$110 million that is provided for the north-east link in the 2018 budget represents all the funding that is necessary to get the project ready for market. Our plan really is to fast-track the completion of detailed planning and design so that the project can be put out to the market as quickly as possible. But we do need to be very clear about this. I think I was clear in the previous answer about the fact that we will give Victorians an opportunity to vote based on their own priorities about whether or not this is a project that should proceed. As a matter of priority, we have made it clear that it is our intention to deliver the project. We are pleased to hear that the federal government are supporting that with their continuing contribution, the \$1.75 billion towards the construction of the project. Admittedly, most, if not all, of it is outside of their forward estimates, but nonetheless it is a recognition and a contribution to continue the effort to deliver this vital project. We intend to release the business case for the project well before the election, only to commence a procurement if we are returned in November. I note the opposition's comments following the budget where they have stated that the opposition leader will not proceed with the north-east link if the coalition wins.

**Ms WARD** — Can I say that that is of great concern for people north of the river in the north-east, including the electorates of Eltham and Ivanhoe.

**Mr PALLAS** — And people will get a choice. They want to go back to resurrecting what I call the zombie road, the east–west link. The logic of that decision is very puzzling to me and I think I am not alone. There is a

broad consensus among experts that the north-east link is the highest priority. The RACV have made it clear, for example, that the north-east link and its delivery has been urgently needed.

**Ms WARD** — Thank you, Treasurer. I am glad to hear how strongly the Labor government is committed to the north-east link.

**Ms SHING** — Thanks, Treasurer, for your presentation and in particular your references to regional investment. I note that throughout the budget we have got significant investment not just in infrastructure but also in services and facilities that will improve the equality of opportunity available to people in our regional areas, including as they grow through population growth and development. We do have an \$8.5 billion spend since 2014, but then you had in your presentation a reference to \$4.3 billion over and above that, so I take you to page 9 of budget paper 4 and indeed table 2, which refers to the government's acquittal of the Snowy Hydro scheme. This is something which has received considerable press and has been allocated in large part in the regional Victoria space. Can you outline the rationale for spending the balance of this money on regional Victoria and how that will further deliver a benefit to infrastructure and services within the non-metropolitan areas of our state?

**Mr PALLAS** — Sure, and thanks for the question. Victoria received \$2.077 billion for the sale of the share of Snowy Hydro Limited to the commonwealth, and that table you referred to really makes it clear that of that total, 1.15 billion will go directly to projects in regional Victoria. That means we are investing over 55 per cent of the proceeds of our share of Snowy Hydro in projects that are within regional Victoria. That includes, for example, \$260 million towards regional roads as part of our \$941 million regional roads package. We are also funding a \$313 million investment in stage 2 of the Shepparton line upgrade, and that investment will pave the way for extra services and improved reliability as well as allowing VLocity trains to run on the Shepparton line for the first time ever. We are making sure that Victorian patients get the care they deserve — \$462 million to develop the Ballarat Base Hospital, including a new emergency department and day care centre, as well as \$115 million directed to expand the Wonthaggi Hospital and the new operating theatre and upgraded inpatient rooms. This is all on top of the regional component of our school capital investment, which will benefit regional and metropolitan schools alike.

**Ms SHING** — Treasurer, in relation to your presentation and the total regional investment graph, which shows a very significant spend over the course of the four years of the Andrews Labor government culminating in 4.387 billion for 18–19, slightly less than the 4.470, how does that track and correlate with population growth as it is intended to be recognised in modelling, particularly for growth in regional areas? We know that decentralisation is a big part of what the agenda has been under the four years we have been in government, but the rate of increase in regional investment and the population growth — are we equipped in relation to the bottom line allocation of funding for regional Victoria to meet the growth in numbers as the population expands?

**Mr PALLAS** — Sure. Well, Victoria's regional economy is strong: its employment is growing and the unemployment rate is declining. In 2017 employment in regional Victoria increased by 3.1 per cent while the regional unemployment rate declined 0.3 per cent, down to 5.4 per cent, so we are seeing a growth. Since November 2014 employment has grown by 6.2 per cent, which is above the national average of 4.9. On the capital side of the equation, therefore, we are seeing jobs created. We are seeing population grow overall throughout regional Victoria, albeit, might I say, at a lesser level than we are seeing occur in metropolitan Melbourne. Part of our strategy of course is to invest in regional Victoria, to make greater connectivity to metropolitan Melbourne and to the other communities within regional Victoria, so we have invested \$9.2 billion in regional Victoria since coming to office in 2014. This budget continues that momentum. We are investing \$4.3 billion, which is a record investment in regional Victoria. It brings the total investment that the state has made into regional Victoria to 13.6 billion.

So to put that into context, as my slide demonstrated, this investment is almost 1.8 times the amount invested in regional Victoria by the former government. The clear obligation on the state is to continue to grow the infrastructure, grow the infrastructure investment, provide jobs and most importantly provide incentive to employers to employ and therefore for people to be able to find opportunities in regional Victoria, so therefore the payroll tax rate reduction is a very key part of the story over two budgets. We have increased regional employers' opportunity to employ by reducing payroll tax liabilities for predominantly regionally based employers by 50 per cent.

**Ms SHING** — It is 2.425 per cent — the lowest in Australia?

**Mr PALLAS** — It is the lowest in Australia. Half the metropolitan rate.

**Ms SHING** — Great. What I would like to also take on notice given the limited time we have available is the benefit that that will provide — I understand approximately 4000 regional businesses will derive a financial benefit from that — and to get any information on how that will in fact lead to further investment in job creation.

**Mr MORRIS** — Treasurer, I just want to go back to the north-east link briefly. You have confirmed that there is no money for the project in the forward estimates. The roads minister has said that it will be out to market in 100 days, but there is no money. It is a \$16.5 billion project. You have identified funding of \$110 million, which by my arithmetic is 0.66 per cent of the anticipated cost — so that is 0.66 per cent is actually funded. Given that you are already set to double state debt to \$31.4 billion in 2021–22, will you rule out increasing debt even further to pay for the unfunded \$16.5 billion north-east link?

**Mr PALLAS** — Well, I can tell you absolutely and unequivocally that the government sought a mandate with respect to the way that we managed the fiscal parameters for this term of office, and we will be taking to the people of Victoria a set of fiscal parameters that we see are appropriate in the circumstances.

**Mr MORRIS** — Will you rule out increasing debt to pay for the unfunded \$16.5 billion north-east link?

**Mr PALLAS** — No, I will not, and I will be very clear about this. I have made a number of public statements about the need for a mature discussion about debt. We have the lowest borrowing rates in the —

**Mr MORRIS** — You have already committed to doubling debt, so you will not rule out borrowing even more money to pay for the \$16.5 billion unfunded road?

**Mr PALLAS** — Well, debt is now actually below the level we inherited from the previous government and will, as a percentage of the share —

**Mr MORRIS** — Your projections in this budget have you doubling state debt to \$31.4 billion in 2021–22.

**Mr PALLAS** — But, David, \$48 billion —

**Mr MORRIS** — And you have already told us that —

**Ms WARD** — It is sounding very much like you do not want to build this road, Mr Morris.

**Mr MORRIS** — You have already told us that that \$31.4 billion figure does not include any money for the north-east link, so you are saying that you will consider borrowing more money on top of the \$31.4 billion to pay for the road.

**Ms WARD** — Why doesn't the Liberal Party want to alleviate traffic in the north-east?

**Mr PALLAS** — All I am saying is that the government will not give a position to you now. We will take a position to the election about how we intend managing and delivering, just as —

**Mr MORRIS** — But you will not rule out extra borrowing on top of the \$31.4 billion to fund the unfunded road?

**Mr PALLAS** — Well, you might have heard my speech or you might have read my speech to the McKell Institute.

**Mr MORRIS** — No. I am —

**Mr PALLAS** — I have made it pretty clear that we need to have a substantial ongoing discussion —

**Mr MORRIS** — Your speeches anywhere else may be interesting to some, but actually I am here to ask you a question, and I am seeking the answer. Will you or will you not rule out borrowing additional funds to pay for this road that is unfunded currently?

**Mr PALLAS** — I will not rule it out today.

**Ms WARD** — Mr Morris, you need to talk to people in the north-east and see how much they want this road.

**The CHAIR** — Order, Ms Ward!

**Mr PALLAS** — I will not rule it out today —

**Mr MORRIS** — Thank you.

**Mr PALLAS** — because the government will take its fiscal parameters to the election, and the electorate will make the call, but I can assure you that debt remains, as a proportion of the size of the economy, below the level we inherited and it will remain below the level we inherited from the previous government all the way through the forward estimates.

**Ms SHING** — Plus a \$1.4 billion surplus, Mr Morris.

**Mr MORRIS** — Yes, except that the money for the road is not in the forward estimates.

**Mr T. SMITH** — Treasurer, I suspect this question is best directed to the secretary. In last year's budget the government introduced two new taxes, a vacant residential property tax applicable to owners of residential real estate in certain parts of Melbourne that was not occupied for certain periods of time, and the government also introduced a new stamp duty on spouses transferring interest in property between themselves other than in a principal place of residence. Budget paper 5, page 19 sets out the forecast for both land tax and land transfer duty for 2018–19 and the forward estimates. Could you please tell us how much the new spousal stamp duty in isolation will raise in 18–19 and across the forward estimates?

**Mr PALLAS** — Can I just firstly, while we contemplate how we respond to that specifically, just make the point that we are also reducing taxes and we have reduced some \$740 million worth of business taxes. That is —

**Mr T. SMITH** — Treasurer, it was a very specific question.

**Mr PALLAS** — That is three times more than the previous government gave to businesses in terms of tax cuts.

**Mr T. SMITH** — Treasurer, I am not engaging in a debate with you. I just want an answer.

**Mr PALLAS** — We will take the question on notice because essentially it will require us to get back and compare what the numbers in the previous budget paper provided. But might I say that the aim of these measures is to ensure that we have a sustainable long-term tax base and that arrangements that would be put in place minimise the capacity of tax avoidance measures that may be otherwise put in place.

**Mr T. SMITH** — And the vacant residential property tax in isolation?

**Mr PALLAS** — The vacant residential property tax is a tax that is aimed at ensuring that we get rational use of the properties that are applied within the state, and the point behind it is that we actually do not want to raise —

**Mr T. SMITH** — Okay, I have read your press release. I am just interested in the number.

**Mr PALLAS** — Well, I will have to take it on notice. I think we —

**Mr MORRIS** — You do not know.

**Ms SHING** — It has been taken on notice. There is no need to get aggro.

**Mr PALLAS** — The number will be dependent upon what level of declarations occur in respect of this. Now, if you are asking what the number was that we budgeted for —

**Mr MORRIS** — We are asking about the budget year and the forward estimates. Presumably you had a number but you cannot tell us what it is now.

**Mr PALLAS** — I think the number was —

**Mr MARTINE** — The number would be outlined in last year's budget paper 3, which I do not have with me today. That is the estimate of what we were expecting to collect from both of these taxes, and we can take on notice to consult with the SRO in terms of what has actually been collected. Those amounts will be embedded in the aggregate lines in the tables in chapter 4, but we can consult with the SRO on the actual amount —

**Mr T. SMITH** — You will come back to us on notice, please.

**Mr MARTINE** — that has been collected, compared with what was in last year's BP3.

**Mr MORRIS** — The Treasurer is in charge of tax, but he cannot answer a straightforward question on it.

**Mr T. SMITH** — There are blue notes being passed around in all directions, just for those in the gallery.

**Mr PALLAS** — We are trying to answer your questions, Tim.

**Mr T. SMITH** — Well, you have not done a very good job so far, Treasurer.

**Ms WARD** — No need to be rude, Mr Smith.

**Mr PALLAS** — I do not know if you have seen the state of the Victorian economy, Tim.

**Ms SHING** — They are getting salty, and it is 11.06 a.m. on the first day. This is extraordinary. Is it because you had to walk to your printer?

**Mr MORRIS** — Sorry, just to perhaps try and move this along a bit, actually what we are looking for is: can you tell us if there is a difference between the forecast last year, which Mr Martine referred to, and what has actually occurred?

**Mr PALLAS** — I have spoken to the head of the State Revenue Office, and the general assessment in terms of the number of declarations — remember the process that we are putting in place depends, firstly, upon self-declaration: do you fit within the definition of a vacant residential property? There have been a number of declarations. There is now a process of enforcement that needs to be put in place. The state revenue commissioner tells me that they have been surprised at the high value associated with the declarations that have occurred to date.

**Mr MORRIS** — Can you give us a figure?

**Mr PALLAS** — I beg your pardon?

**Mr MORRIS** — Can you give us a figure?

**Mr PALLAS** — We are about halfway at the moment to the declarations on the funds that we thought we would pick up —

**Mr MORRIS** — You had some forecasts in last year's budget, which Mr Martine referred to.

**Mr PALLAS** — Yes.

**Mr MORRIS** — We are asking you whether your projections were accurate — whether that is actually what has happened or not.

**Mr PALLAS** — Well, look, I think we are about halfway there. Are we tracking to our projection? The answer to that is no. Remember we have —

**Mr MORRIS** — Okay. Can we have the figures on notice, because clearly we are not going to get them now.

**Mr PALLAS** — I am giving you an assessment. We are about halfway to a number —

**Mr MORRIS** — Treasurer, we are asking for the figures, not for a fulsome assessment about the process, which is what we are getting, with respect.

**Mr PALLAS** — We are halfway to the number we projected we would get by way of revenue. Why are we halfway to the number? It is a new tax —

**Mr MORRIS** — Treasurer, could we have the figures?

**Mr PALLAS** — It has only been applied in two places in the world, and we are trying to make sure that everybody understands their liabilities.

**Mr MORRIS** — Yes. In other words, you do not know what is going on.

**Mr T. SMITH** — Treasurer —

**The CHAIR** — One minute.

**Mr T. SMITH** — I have only got 1 minute to go. I will continue to ask about the vacant residential property tax. Do you have a breakdown of the number of individual taxpayers who have paid this tax and indeed the spousal stamp duty, the location of the taxpayers by suburb or postcode and what proportion of these taxpayers are Australian citizens?

**Mr PALLAS** — We will have to take it on notice. If you are asking questions that specific, Tim, we will have to go to the state revenue commissioner.

**Mr T. SMITH** — That is fine. I am happy for you to take that on notice, Treasurer.

**Ms PENNICUIK** — If I could start by apologising to Mr Webster for cutting you off before, but time was running out, as it does very quickly in these hearings. What I was asking you about was what could a private provider provide over and above what the landholders office already has, and you were saying innovation et cetera, but it appears to me that the landholders office is pretty well state of the art as to how it does its job so far, and I have heard nothing to the contrary. The Treasurer is shaking his head. But what I wanted to ask was with regard to the revenue that I mentioned. Last year it was \$328 million, revenue from the landholders office. Has the loss of that revenue been factored into the forward estimates? I also mentioned the back-of-the-envelope figure of \$15 billion in today's dollars to go ahead 40 years. What is the government expecting it will get for the landholders office, for the privatisation — what return?

**Mr WEBSTER** — Thank you for the question. In terms of the private sector, as you would be well aware, IT moves exceptionally quickly and to keep on the leading edge of IT does require continual investment. I think one of the things we are hoping the private sector brings is that focus in on IT investment, customer experience for people using the land use registry and so forth. In terms of the transaction itself, I think the Treasurer outlined the functions that were to be retained by the state in his earlier answer. In terms of the revenues themselves, all of those revenues in the model that we have derived will actually be retained by the state and there will be fees paid to the private sector provider for the limited services that they provide to the government. So the whole 360 million revenue that you referred to will be retained by the state, and the state will pay, effectively, a fee for service based on the number of transactions for a portion of the current activities — that portion which will be done by the private sector in the future.

**Mr PALLAS** — So we are not forgoing revenue. Can I just give you the specific numbers. The LUV reported \$412.5 million in administrative revenue, comprising about \$382.7 million in land titles income and about 29.8 million in goods and services. In addition to the up-front proceeds expected from the commercialisation, the state will retain the ad valorem revenue stream, which represents a significant portion of the LUV's current revenues. The state will also continue to receive revenues generated by the subdivision and applications and survey functions.

**Ms PENNICUIK** — Treasurer, are you expecting a forward lump sum, and what would that be?

**Mr PALLAS** — Look, I am not going to speculate about the number. If I could give you a minimum number that the state would expect — and I do not want to be held to this, Ms Pennicuik, because we are in a competitive tendering process — we would expect a minimum of \$1.5 billion or thereabouts for the proceeds. Look, I am optimistic, and sometimes my optimism is justified. Certainly the port of Melbourne gave us cause for optimism. We may well do better than that on the upside.

**The CHAIR** — One minute.

**Ms PENNICUIK** — Thank you, Treasurer. Time is defeating me here. If I could just go to another issue, which is the payroll tax issue. Budget paper 5, page 141, talks about the government increasing the tax-free threshold and cutting payroll tax for regional employees, but also elsewhere in the papers wages are expected to only rise modestly and employment is going to fall slightly, but the government is expecting that payroll tax receipts will grow by an average of 5.3 per cent per year. I might have to get this information on notice. So how could you explain, given all those parameters — reducing payroll tax, wage growth very flat and employment reducing —

**The CHAIR** — Mr Dimopoulos until 11.25 a.m.

**Mr DIMOPOULOS** — Thank you, Chair.

**Ms PENNICUIK** — If you could take that on notice.

**Mr DIMOPOULOS** — Good morning, Treasurer and officials.

**Ms PENNICUIK** — All good.

**Mr DIMOPOULOS** — I find it hard to talk over a colleague.

**Ms SHING** — No, you don't.

**Mr DIMOPOULOS** — I thought somebody would hold me to account for that. I want to ask you some questions about the fiscal discipline that you talked about in your presentation, Treasurer, and specifically budget paper 2, page 4, and I will do so without the badgering style of the opposition in their questions so far. But specifically table 1.1, can you unpack that a bit and give us some of the rationale for the variances in that table?

**Mr PALLAS** — Which one are we talking about?

**Mr DIMOPOULOS** — 'General government fiscal aggregates'.

**Mr PALLAS** — With regard to the fiscal aggregates, the surpluses that are forecast in the 18–19 budget are consistent with previous forecasts, and they consolidate the government's demonstrated track record of responsible financial management. The general government operating surplus, which is the net result from transactions, is estimated to be about \$1.4 billion in 2018–19. As I have said previously, we have got forward estimates of \$2.5 billion on average over the following three years.

Over four budgets the government has delivered the highest average surpluses on record in the history of the state. Relative to the 2017–18 budget update, the 17–18 surpluses have been increased by \$329 million. In terms of the 17–18 performance, we have got an operating result of \$2 billion, and that, as I say, is an increase of 329 over the 17–18 budget update. It is primarily due to some of the expenditure being rephrased in 2018–19, partially offset by the deferral of dividends that we received from the Victorian Managed Insurance Authority from the period 2017–18 to 18–19.

Net debt is expected to decrease by \$1.1 billion since the 2017–18 budget, updated to \$20.5 billion, so that is largely due to the receipt of proceeds from the sale of the state's share of Snowy Hydro. Government infrastructure investment — the GII — for 2017–18 is estimated to be 11.6 billion, which is an increase of 9 billion since the 17–18 budget update. So the current level of GII reflects the government's decision, our current estimates for project milestones and also construction scheduling. To put those surpluses into context, every budget that we have delivered has forecast surpluses over a billion dollars.

In this budget we have announced \$9.4 billion of new output initiatives and up to \$9.3 billion of TEI in new asset initiatives. Across the last three budgets the government has invested \$25.6 billion in new output initiatives and \$40.5 billion in new asset initiatives, so you can see that the government has got a strong track record of delivering the infrastructure and the services that Victorians need. And we have been able to do that because our economy is strong. We have seen \$48 billion added to the size of the Victorian economy. Nearly 1 in every \$7 that is circulating in the economy at the moment is additional capacity, and of course that flows into the state's receipts.

**Mr DIMOPOULOS** — Treasurer, I was going to ask you a question on net debt, but just before I do, given that you have just referenced it, there are no page numbers on your presentation but on the one with the heading 'Victoria: engine room of the nation' the second entry in the bar graph says 'Real GSP per capita growth'. What I understand from that is obviously that the population growth Victoria is experiencing is not the only reason for the economic net growth. Is that what this indicates?

**Mr PALLAS** — Yes, effectively real GSP per capita growth is essentially wealth that is being distributed across the economy. It is what share of that growth is occurring across the population of the state. Of course those numbers being in positive territory is great news for all Victorians. It means that our wealth is growing, and certainly from our perspective net debt as a percentage to GSP is expected to be 4.6 per cent by June 2018 and to increase to 6 per cent by June 2021 and to remain at that level in 21–22. Of course a significant driver of that is our infrastructure investment strategies. It is also, might I say, a significant driver of employment and economic activity in the state. It is a virtuous cycle effectively of investment that is occurring here, and we are seeing a lot of employment flow from it. We are seeing a lot of wealth being distributed throughout the economy as a consequence of it. As I say, our infrastructure —

**Mr DIMOPOULOS** — Sorry, but that wealth is in excess of what you would expect from population growth alone?

**Mr PALLAS** — Yes, and indeed the expectation in terms of population growth is that we are getting a much more substantial uplift than just the population growth share. Therein I think lies the substantial point to be made about population growth. If you note that essentially we are getting a net improvement in per capita share, then we are also doing much better than the rest of the nation. It is not purely on population growth. It is largely on the back on both population growth, productivity within the labour market and participation in the labour market, which is now at essentially close to all-time highs, particularly in the female part of the labour market.

**Mr DIMOPOULOS** — Thank you, Treasurer. In the last 3 minutes I just want to talk a bit about net debt. I have a couple of questions. One is: can you take us through the net debt position? I know that you started the conversation with Mr Morris, but I would appreciate it if you could elaborate on it without the badgering.

**Mr PALLAS** — I suppose net debt as a percentage of GSP is expected to be 4.6 per cent, as at June 2018. As I have indicated, it is going to sit around about 6 per cent of the size of the economy. Quite frankly we can talk about absolute dollars or you can talk about the size of the economy. I always think the percentage number is a much more useful indication, just as anybody who has got a debt to service knows it is as much a function of their capacity to pay — in fact, more a function of their capacity to pay — than the level of the debt itself. Government infrastructure investment continues to be above historical levels, and quite frankly the community are expecting the state to invest both in infrastructure and in service provision as our population grows, as our economy grows and as our capacity to meet those needs grows as well. Noting that record infrastructure investment, net debt as a percentage of GST was below the level set by the former government in their final year of office. If you took the 14–15 budget, the former government projected net debt with a total of 23.4 billion. It hit 6.3 billion of GSP in 14–15. We are projecting net debt to total \$19.6 billion in 17–18, or 4.6 per cent of 17–18.

**Mr DIMOPOULOS** — So lower?

**Mr PALLAS** — At the moment it is lower in absolute terms. But in fairness, that is due to the receipt of the funds that the state has from the sale of the port of Melbourne, principally.

**Mr DIMOPOULOS** — Treasurer, just in the last minute remaining, I did catch — I think it was Moody's, I cannot recall exactly — some of the commentary on the day of the budget from one of the rating agencies. I

think it was Moody's. Can you give us a sense from your meetings with them or conversations with them what they feel about the strength of the Victorian economy and the budget?

**Mr PALLAS** — Certainly Victoria's finances are in a strong position. If you look at the key metrics, we certainly have had a consistent positive response as a result of the clear and responsible financial and fiscal framework, so we remain one of only 10 sub-sovereign jurisdictions in the world that is in receipt of a AAA credit rating from both Standard & Poor's and Moody's. The debt matrix that ratings agencies use to assess the state's financial strengths are forecast to improve and will remain stable over the budget period.

**Mr T. SMITH** — I refer you to page 337 of budget paper 3. It outlines the Parliamentary Services income from transactions, and it says at table 2.23, 'other income' for this year and for next year there is nothing. I am just wondering where in your budget, Treasurer, it has accounted for the \$388 000 that the Australian Labor Party agreed to pay back to the Parliament of Victoria for rorting the 2014 election in line with their promise after the Ombudsman's report was released some weeks ago.

**Mr PALLAS** — The Australian Labor Party has repaid the funds to the government. Exactly where they appear in the audited accounts of the Parliament and the government is really a matter that should be the direction of an inquiry to the President and the Speaker of the Parliament, but certainly I am advised that the funds have been returned.

**Mr T. SMITH** — Treasurer, it is your budget. Budget paper 3 first page says:

Presented by

Tim Pallas ...

Treasurer of the State of Victoria

for the information of Honourable Members

I am one of them, and I would like to know where the money is.

**Mr PALLAS** — As you would appreciate, Tim, the service delivery statements are produced by each of the departments, including Parliamentary Services. If you are looking for greater clarity as to the receipt of a particular sum, your inquiry is probably best directed to the people who produce those numbers.

**Mr T. SMITH** — Did you take part in the red shirts rorting scheme?

**Mr PALLAS** — What has this got to do with the budget?

**The CHAIR** — Order! Mr Smith, that does not relate to the budget estimates.

**Mr T. SMITH** — The Treasurer has answered questions with regard to — well, he has not actually answered the question — where the \$388 000 is accounted for in the budget, and I am interested as to whether the Treasurer took part —

**The CHAIR** — Order! Mr Smith, that question relates to —

**Mr T. SMITH** — in one of the greatest rort perpetuated by the Labor Party on the Victorian people.

**Mr PALLAS** — So is this a question?

**The CHAIR** — Order! Order, Treasurer! Mr Smith, your original question related to 'Where does the money appear in the budget papers across the forward estimates?', which is why I will let the question stand. But you are asking about what action the Treasurer may or may not have participated in in the 57th Parliament. That has no bearing or relationship to the forward estimates. The clock is ticking. If you do not have another question, I am happy to hand over to Mr Morris or Mr O'Brien.

**Mr D. O'BRIEN** — I have a question to Mr Martine. Secretary, budget paper 5, page 159, under table 4.10, 'Payments for health services', lists the 5.23 billion expected to be received from the commonwealth in 2018–19 under the health services reform agreement. But on page 152, under 'Other grants for specific purposes', there is 11.4 billion in 2018–19 and through the forward estimates to 2021–22. Can you advise how much

funding is expected to come from the national health reform agreement in each of 2019–20, 2020–21 and 2021–22?

**Mr MARTINE** — Thanks for your question. Table 4.10 —

**Mr D. O'BRIEN** — That is the national health reform agreement for the current and next year.

**Mr MARTINE** — If you look on page 155, which summarises the 'Grants for specific purposes', you will see the breakdown of the total amount to be provided that were factored into our budget for health, which is a 5.354 billion, which is effectively summarised on page 159, which breaks it down. The bulk of that, as you mentioned, is the national health reform agreement, so that is those numbers in relation to health.

**Mr D. O'BRIEN** — I am then going back to page 152, which has 'Other grants for specific purposes' in the out years because the health figures do not have any of the out years. I am just wanting to know how much funding is expected to come from the national health reform agreement in the out years 19–20, 20–21, 21–22.

**Mr MARTINE** — So you have identified the correct link. The table on page 152, table 4.3, has the 'Other grants for specific purposes'. That is where you can see the 11.847. That is broken down on page 155, as you have noted, just for 18–19. I would need to, I suspect, take it on notice, because I do not think the budget includes the forward estimates for the amounts under the agreement. As outlined on page 159, it just provides the figure. So I will have to take that notice.

**Mr D. O'BRIEN** — Okay. But the question, I guess, is: on that table on page 152, there are out years figures for the other grants. I guess I am wanting to know: how is that figure being calculated, given that that would presumably include future national health reform agreements? Are the assumptions in the out years based on the existing health agreement, the health agreement that is being proposed by the commonwealth or some other formula?

**Mr MARTINE** — We would need to take that on notice. It would be the split of table 4.5 but then continued out for the following three years. Imbedded in the aggregate numbers on page 152 there would be amounts for everything listed in table 4.5, but I will take on notice the exact amounts of what the health component is.

**Mr D. O'BRIEN** — Right. So the question, to be clear, is — and I appreciate your answer; I understand what you are saying — for the out years how that has been calculated and what the assumptions are with respect to the national health reform agreement in particular.

**Mr MARTINE** — Yes, and I am happy to take that on notice.

**Mr MORRIS** — Could I direct a few questions to the secretary on the issue of public sector wage costs. The reference is BP2, page 52. Mr Martine, last year the budget papers, BP2, page 53, said, and I am quoting:

employee expenses (including superannuation) are expected to grow by 4.1 per cent in 2017–18 and moderate to an average increase of 2.9 per cent over the following three years to 2020–21 ...

But this year's budget paper, page 52, says:

employee expenses ... are forecast to grow by 10.1 per cent in 2018–19, moderating to an average annual increase of 3.2 per cent over the forward estimates.

Given that 2018–19 was supposed to be the year when growth and employee expenses started to finally moderate after what has been three years of very high growth, but instead we have got a 10.1 per cent increase in employee expenses, can I ask you: why should the public believe that these budget papers now are accurate when every year of this government has seen a prediction of wage restraint that has failed to materialise?

**Mr MARTINE** — Thanks for your question. The best way for me to probably answer that is: effectively all of the budget and forward estimates, as is the standard convention in both the commonwealth and all of the states, reflect current government decisions. Your reference to budget paper 2 last year and the growth would have reflected the net aggregate effect of all of the government decisions at that point which impact on employee expenses. Over the last 12 months, as a result of a whole range of new decisions made by the current

government, the current estimates in the budget and forward estimates for employee expenses reflect the aggregate effect of all of those decisions over and above what was put in the numbers 12 months ago.

**Mr MORRIS** — Okay. As the secretary of the department I understand you are required to accept what the government says is its public sector wages policy, and that will be implemented and you are therefore required to reflect that policy in the budget even if the government says its policy has never achieved the outcome it claims. Is that correct?

**Mr PALLAS** — The question makes an assumption that I do not think is accurate.

**Mr MORRIS** — No, Treasurer, the question was to the secretary, not to you.

**Mr PALLAS** — You are saying that the government has stated that we failed —

**Mr MORRIS** — Treasurer, the question was to the secretary, not to you.

**Mr PALLAS** — No, but what I am asking is that the question be accurate.

**Mr MORRIS** — No, you are not permitted to intervene. The question is to the secretary.

**Mr MARTINE** — I am happy to, Mr Morris, answer your question. Once again, it simply comes down to the approach which is that the budget —

**The CHAIR** — Order! We might come back to that.

**Ms PATTEN** — Just turning to budget paper 3, page 109, and the procurement reform and talking more about specifically the implementation of the social procurement framework. I am wondering if you could, I guess, elaborate on the benefits of creating this sort of third bottom line and also some advice as to how I can advise the small businesses in my area about how they can take advantage of this new procurement reform.

**Mr PALLAS** — Could I simply make the point that the social procurement, which is about the government achieving better value and making sure that we can also leverage investment in technology, which hopefully will enable reporting on the outcomes of our social procurement framework and reduce red tape, is a responsibility of the finance minister, and I would suggest it is probably best to take it up with him about how those matters are best accessible to small business.

**Ms PATTEN** — Sure, great. Thank you. I will take that advice.

**Mr PALLAS** — But if I can assist you to some extent — and I have just been passed a note — social procurement really is about when organisations use their buying power to generate social value above and beyond of course the value of the goods, services or construction being procured. The government is very keen, quite adamant, to extract value in terms of the leveraging of our investments — social procurement objectives, opportunities for Victorian Aboriginal people, opportunities for Victorians with disabilities, opportunities for disadvantaged Victorians including the long-term unemployed, disengaged youth, women, equality and safety, supporting fair and safe workplaces, a sustainable Victoria, social enterprises and the Aboriginal business sector.

**Ms PATTEN** — Thanks. I will follow that up in more detail with the finance minister. Could I just ask some broad questions around health? I know, Mr Martine, in your presentation last week in Parliament when we looked at slicing up the pie of the budget, health is obviously a terribly significant part. I was speaking to Craig Drummond from Medibank Private the other week as well, and he was describing that we are ageing at four years every 20 years or so. Has Treasury done any modelling on that ageing population or what our strategy is in the next 10 or 20 years?

**Mr MARTINE** — Perhaps I can partly answer the first part of your question, and I will leave strategy for the Treasurer. We model over the next four years a range of factors which touch on what you mentioned, which includes particularly the participation rate. That is where you generally see the effect of ageing. Now, over the next four years we are not expecting a significant change in the labour force participation rate because of ageing, but generally in jurisdictions who do their intergenerational report modelling, which go out for 50 years, that is one of the factors that feeds through — a sort of a change in the participation rate. As you have got the

population ageing, you have got less people of working age participating in the labour market. We factor that in to the extent that we think it has an effect over the next four years. That is probably one of the main variables in terms of how the ageing feeds through.

**Mr PALLAS** — Just to supplement that, the state's total output for health and also for human services is expected to be about \$25 billion in 2018–19. That is 7.7 per cent more than the 2017–18 budget, so you can see there is a factor for both population growth and of course demand growth, and recognition that as the population ages there will be greater demand for services that the state provides.

**Ms PATTEN** — Just finally, in the last few seconds; does Treasury do long-term modelling on this? I appreciate that we look at four years, but do we look further than that?

**Mr MARTINE** — Depending on what the issue is we do from time to time do some longer term projections, not just in health but other areas of government —

**The CHAIR** — Order! Ms Shing until 11.50 a.m.

**Ms SHING** — Thanks very much for that. I assume perhaps you might want the rest of that answer taken on notice.

**The CHAIR** — Ms Patten, would you like the rest of the that answer taken on notice, just for the benefit of Hansard?

**Ms PATTEN** — Yes, thank you.

**Ms SHING** — I would like to refer back again to the presentation that you made and to early answers that you have given in this hearing, Treasurer, in relation to employment and also the skills investments and training investment that has been made that is intended by reference to your speech as well as to public statements and the detail of the budget papers themselves to directly lead to employment in areas of high growth and high demand. In this regard I note that there is a reference at chapter 3 of budget paper 2, page 39, and an economic narrative set out there with a strong focus on job skills and education. How do these various components of the budget link together to continue the momentum that has been delivered around better full-time employment opportunities, better female labour market participation and also the way in which this is intended to assist with growth in regional employment, noting that there are parts of the state where unemployment has remained stubbornly high despite that there are trends moving it in the right direction?

**Mr PALLAS** — I suppose the first and important thing to note about the government's strategies is that we can do some important things that can maintain strong jobs growth, and the most important thing is to make sure we have got a strong economic growth underpinning that. Under this government Victoria has been the engine room of the economy. The growth numbers I have already taken you through — 333 000 people employed, about 36 per cent of the nation's total employment growth. That means about one in 10 jobs in the Victorian economy today have been created under the watch of this government. Total infrastructure investment — of course that plays a critical part. That is 75 000 new jobs expected to be created as a consequence of that. Obviously reducing the payroll tax burden to business and regional business in particular — the 50 per cent reduction over the last two years to 2.425 per cent will have a profound effect.

Then there is recognising that we have to invest in the skills and the skill base of Victorians, and certainly our perspective is that we need to do more to identify the priority areas. TAFE has been doing a great job but they need now a substantial vote of confidence from this government, and they are getting it. Making 30 TAFE courses free — they are priority courses — will ensure that young people will be able to access the training that will be able to meet the community's and the state's needs. Can I say, quite frankly, that will have a profound benefit to the overall economy but also will direct young people in particular, but not exclusively, into areas where they will have an opportunity to move into employment as it is being created, as the state needs it.

**Ms SHING** — So, Treasurer, just to take you then to chapter 2 of budget paper 2, there is a table there on the contribution to annual average employment growth by industry as at February 2018 — chart 2.2. There appears to be an overlap between the industry set out in that table and the courses that have been delivered as part of the free TAFE. Does basket weaving feature anywhere on any of those lists, Treasurer?

**Mr PALLAS** — It is a very noble profession, I am sure, but we have identified 30 priority areas. As you can see, the growth in the Victorian economy which is in chart 2.2 really shows us where the employment is coming through — in construction, retail trade, services. The service sector in the Victorian economy is growing profoundly, and it is employing profoundly. That is why table 3.2 is really focused on those areas where we are getting the demand for employment. Not only are we putting funds into these TAFE courses, but we are also putting an effort into making sure that there is better career advice in schools so that kids can get a better appreciation of where the jobs are coming in.

Of course there is our Head Start apprenticeship program — the idea that we will be able to, in 100 schools for some 1700 students, pilot the opportunity for people to come out of school with an apprenticeship after a 13th year of school, an optional 13th year of school. I think we have demonstrated that as a government we have been looking at where the demand for jobs is coming through in the economy. We are doing more to make sure that we are connecting into business, to make sure that we know where they believe the demand for jobs is, and where the shortcomings in the education system to date have failed to adequately address those skills needs. So I think making those investments is a critical part of ensuring that young people get every opportunity to participate in the growing nature of our economy.

**Ms SHING** — I note in this regard that in regional centres there have been over 41 000 regional jobs created, with more than half of those jobs being full-time positions. The areas of growth based on the output measures to date, and the figures stated under the ABS, include Geelong, Morwell, the south-west and Ballarat. That is in contrast to the previous government which created fewer than 10 000 jobs and went backwards on full-time jobs. How do we continue the momentum around delivering jobs, particularly jobs for women and for young people, in regional areas to make sure that they can earn locally and live locally as well?

**Mr PALLAS** — Indeed. I think we do need to recognise that what is happening in employment in regional Victoria is quite substantial. In 2017 employment in regional Victoria increased by 3.1 per cent, while the regional unemployment rate declined by 0.3 per cent to 5.4 per cent. The efforts that the government needs to make are multifaceted. Obviously the payroll tax reduction is a substantial part of that. Not only the halving over two years, two budgets, of payroll tax for predominantly regional-based employers, but also the lifting of the threshold which 38 000 businesses right across the state will now benefit from — lifting that threshold to 650 000. Additionally there is our continuing commitment to infrastructure so that regional communities are adequately connected, but importantly jobs will flow from that. As we have said, overall 75 000 jobs have been created as a consequence of this government's effort to invest in infrastructure, and regional Victoria is reaping its share. As I have said, we are 1.8 times the investment over the four-year term of this budget compared to what the previous government invested in rural and regional Victoria. The final area of obvious investment is the work that we are doing around skills and skills development. I might say that some of those skills are obviously specifically directed to regional Victoria —

**Ms SHING** — And to women. Treasurer, I would like to again refer to the *Gender Equality Budget Statement*, which is the second one the government has put out. Noting that there are really persistent structural barriers that exist for female labour market participation, what is in the budget and how are other measures intended to increase female participation across the board?

**Mr PALLAS** — We are very proud of the *Gender Equality Budget Statement*; it is now the second time that this statement has appeared. It basically identifies a record \$1.9 billion which was made in the previous budget to stop the scourge of family violence, implements the 20 days of paid family violence leave in the VPS and also identifies the gender pay gap and the implementing policies to address it. From the government's perspective of course this year there is \$22.8 million to continue to deliver Respectful Relationships as a core component of the Victorian curriculum. Respect for women is a critical part of their capacity to participate in the labour market. Now it might seem a counterintuitive view, but essentially we need to recognise that the failure to provide for the fair treatment of women in the workforce is one of the key impediments to full and robust economic participation in our economy. So taking away those impediments that are generally attached principally to woman, around child-rearing responsibilities and family responsibilities, is a key part of that.

**Ms SHING** — Thank you very much for that, Treasurer. I am happy to gift my last 8 seconds to the opposition. We just give and give and give.

**Mr MORRIS** — Treasurer, the Victorian Heart Hospital, BP4, page 62, identifies that project with a budget of \$543 million. Given that you told Victorians in the last election that this project would cost taxpayers

\$150 million, why are taxpayers on the hook for this massive cost blowout on a hospital which, almost four years on, is yet to commence?

**Mr PALLAS** — Obviously the Victorian Heart Hospital is a vital part of this government's offering to the community. It is world-leading in terms of our desire to ensure that we provide adequate services to the community, and from our perspective the heart hospital is a key part of that offering. Is your question around the cost?

**Mr MORRIS** — The question was you went to the election with a costing of 150 million; it is in this budget for 543 million. That is a 362 per cent blowout in the cost of the project, a signature policy that you took to the election. The question is: why?

**Mr PALLAS** — It would inevitably be as a consequence of the desire to make sure that we provide a quality product into the market.

**Mr MORRIS** — So you were not offering a quality product when you said it was worth 150 million?

**Mr PALLAS** — Part of the TEI included a contribution from Monash University of 65 million, and it also provided funding for 17–18 and in the 17–18 budget. The estimated completion date has been revised, really, to reflect that the final scope and time lines are approved by budget and by government. Might I make the point, talking about delivering quality product —

**Mr MORRIS** — Treasurer, you have not gone within a bull's roar of answering why this project is now more than three and a half times more expensive than the figure you gave to Victorians at the last election.

**Mr PALLAS** — Well, the government has made a decision that we believe a larger project is warranted. I have heard the same question and the same response from the former Treasurer on a variety of projects, where he described it as 'scope enhancement'. Well, this is a very substantially improved scope. This is a world-leading —

**Mr MORRIS** — So you took a key policy to the election, and then you scrapped it and you have decided to do something else that costs more than three and a half times as much.

**Mr D. O'BRIEN** — Made it bigger — sounds like the West Gate tunnel again.

**Mr MORRIS** — Yes, except that blowout is even worse.

**Ms SHING** — It is like watching an episode of *The Muppets* over there.

**Mr MORRIS** — Treasurer, the Auditor-General in a recent report found that the level crossing removal program has blown out from the estimated 5 to \$6 billion, the estimate that you took to the last election for 5 or \$6 billion, to be at least \$8.3 billion — so a 38 per cent blowout. It is not 360 per cent, I agree — it is 38 per cent — but it is still an enormous amount of money. Can I ask you, how much more will the level crossing removal program cost, given that you, at this stage with the 38 per cent blowout, are not even halfway to achieving the aim of removing 50 level crossings?

**Mr PALLAS** — Well, we are actually a very substantial way. Our expectation will be to have something like 29 to 30 of these level crossings removed by the time of the next election, and our commitment was —

**Mr MORRIS** — You are not there yet, and the costings are where we are at the moment, so I am asking you how much more it is going to cost.

**Mr PALLAS** — We are substantially in front of where we said we would be at the time of the next election because our —

**Mr MORRIS** — In terms of cost, absolutely you are — substantially in front.

**Mr PALLAS** — No. Our commitment on the delivery of these physical assets was that there would be 20 either complete or substantially underway. We have already met that requirement first up —

**Mr MORRIS** — We are asking about the cost.

**Mr PALLAS** — You are asking also about our delay in delivery, and you are wrong on that.

**Mr MORRIS** — No. The cost blowout is based on not being even halfway there. When the project is complete what is the actual cost of the blowout going to be?

**Mr PALLAS** — As we indicated, some 28 level crossings are expected to be completed by 2018, and that is eight more than we promised we would deliver in our first term. Nineteen of those level crossings have been removed. Eleven train stations have been upgraded to date. That is over and above anything that we indicated in our level crossing removal program. The cost to complete —

**Mr MORRIS** — So you did not scope the project properly; is that what you are saying?

**Mr PALLAS** — We have taken the opportunity not to build obsolescence into the project, and we have enhanced that project.

**Mr MORRIS** — So you planned obsolescence.

**Mr PALLAS** — Well, I do not know how you deliver projects, but if you have an opportunity to improve signalling, to improve your rolling stock offering, to upgrade stations, none of which —

**Mr MORRIS** — So you did not scope the project in the first place. The plan you took to the election was flawed, and your costings were wrong.

**Mr PALLAS** — No, you are wrong. None of this is necessary for the purposes of meeting our election commitment. We have taken the opportunity to do more.

**Mr MORRIS** — The question was: how much more is it going to cost?

**Mr PALLAS** — As much as the government believes is appropriate, given the opportunities that are presented.

**Mr MORRIS** — Can you give us a figure, because that is a ‘how long is a piece of string?’ answer to that one.

**Mr PALLAS** — We will make a judgement based on what we see as being appropriate at the time given the opportunity. To complete the project —

**Mr MORRIS** — So you cannot give us any idea of what the final project is going to cost.

**Mr PALLAS** — If you would listen for the answer, you might hear an answer. The cost to complete the program is estimated to be \$6.8 billion. It will deliver not only the benefits that we foreshadowed in our policy, but it will go further than that and it will —

**Mr MORRIS** — Treasurer, the Auditor-General has already found that it is going to cost \$8.3 billion. Are you contradicting the Auditor-General?

**Mr PALLAS** — The number that you are referring to, I presume, is the metropolitan network modernisation program, not the level crossing removal program, which comes in at \$6.7 billion — and that is of course in BP4 at page 27. I think you are confusing two things here. One is about —

**Mr MORRIS** — I do not think so.

**Mr PALLAS** — Explain to me how you describe one project, one set of capital works, with another. This is essentially a project that is aimed to not only enhance and modernise our rail network and to do it while we are taking the opportunity of level crossing removals —

**Mr MORRIS** — Clearly I am not going to get an answer on that one. Can I ask you —

**Mr PALLAS** — I gave you an answer. It is 1.676 —

**Mr MORRIS** — You have contradicted the Auditor-General, but beyond that you actually have not given us any proof —

**Mr PALLAS** — Sorry, 6.761 —

**Mr MORRIS** — that that figure is based in anything other than a guess. Treasurer, speaking of guesses, at the election you said that the Metro Tunnel would cost \$9 billion. Now you say it is going to cost more than \$11 billion. I know it is easy to throw these figures around, but we are saying an extra \$2000 million. Can you tell us whether the figure of 11 billion includes trains and signalling for the project, or will those costs be an additional cost, and if so how much it will be?

**Mr PALLAS** — So the Metro Tunnel has approved funding of \$10.9 billion as a result of key contracts being finalised at the end of 2017. The project completion date is tracking ahead of the original schedule.

**Mr MORRIS** — But it is a 20 per cent cost blowout.

**Mr PALLAS** — So the project is now expected to be operational by the end of 2025. The tunnel and stations public transport partnership contract has been signed. It is publicly available and, along with a project summary, was tabled in the Parliament in February.

**Mr MORRIS** — Treasurer, the question was whether that \$11 billion figure, which you have essentially confirmed, which is a 20 per cent blowout or more on what you said it was originally going to cost —

**Mr PALLAS** — Sorry, I just told you that the project was approved at 10.99 billion.

**Mr MORRIS** — The question was: does that figure include the necessary trains and signalling for the project?

**Mr PALLAS** — The rail alliance —

**Mr MORRIS** — Or will they be at an additional cost?

**Mr PALLAS** — Well, I might simply throw over to Mr Webster for a greater explanation of what is essentially a responsibility of the public transport minister, but I do accept that from our perspective there will be enhancements on this network. What we are doing is meeting the obligations —

**Mr MORRIS** — Are the trains going to cost more, is the signalling going to cost more, on top of the \$11 billion? It is a pretty simple question.

**Mr PALLAS** — The Metro Tunnel project is approved and will be delivered at 10.99 billion.

**Mr MORRIS** — Correct — well, not correct. You have already given us that information. Does it include the necessary trains, the necessary signalling?

**Mr WEBSTER** — I could refer to budget paper 4, page 136, that reports on the high-capacity Metro Trains PPP, which are the trains that will operate in —

**Mr MORRIS** — So is that in the 11 billion or not?

**Mr WEBSTER** — That has been previously budgeted, so it is in the existing project's total TEI on page 136 as 2.17 billion.

**Mr MORRIS** — On top of the 11?

**Mr WEBSTER** — On top of the 11.

**Mr MORRIS** — On top of the 11; thank you.

Treasurer, the Auditor-General found that the costs of the level crossing removal program increased by more than 38 per cent to \$8.3 billion at July 2017. I am quoting that figure from the Auditor-General's report so I do

not think there is any argument about who is right on that score. Apparently we know more about your project than you do.

**Mr PALLAS** — Is that a question?

**Mr MORRIS** — No, it is just correcting the record.

**The CHAIR** — Order! I would like to thank the witnesses for their attendance: the Treasurer, the Honourable Tim Pallas, Mr Martine, Mr Hollingsworth, Ms Auster; Mr Webster and Ms Porthouse. The committee will follow up on any questions taken on notice in writing. A written response should be provided within 10 business days of that request.

**Witnesses withdrew.**