

TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Budget estimates 2019-20 (Treasurer)

Melbourne—Friday, 31 May 2019

MEMBERS

Mr Philip Dalidakis—Chair

Mr Richard Riordan—Deputy Chair

Mr Sam Hibbins

Mr Gary Maas

Mr Danny O'Brien

Ms Pauline Richards

Mr Tim Richardson

Ms Ingrid Stitt

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WITNESSES

Mr Tim Pallas, Treasurer,

Mr David Martine, Secretary,

Ms Amy Auster, Deputy Secretary, Economic Division,

Mr Jamie Driscoll, Deputy Secretary, Budget and Finance Division,

Mr Jason Loos, Deputy Secretary, Commercial Division, Department of Treasury and Finance, and

Mr Paul Broderick, Commissioner and Chief Executive Officer, State Revenue Office.

The CHAIR: Good morning, everybody. I declare open this hearing of the Public Accounts and Estimates Committee.

I would like to begin by acknowledging the traditional custodians of the land on which we meet and pay my respects to their elders past, present and emerging.

On behalf of the Parliament, the committee is conducting this inquiry into the 2019–20 budget estimates. Its aim is to scrutinise public administration and finance to improve outcomes for the Victorian community. The committee will begin with the consideration of the Treasurer's portfolio. The hearings will then follow the order as set out in the published program.

I welcome the Treasurer this morning, the Honourable Tim Pallas, and officers from the Department of Treasury and Finance, and I thank you for appearing before the committee today.

All evidence given is protected by the Parliamentary Committees Act. This means that it attracts parliamentary privilege and is protected from judicial review. Witnesses found to be giving false or misleading evidence may be in contempt of Parliament and subject to penalty.

All evidence given is being recorded by Hansard and broadcast live on the Parliament's website. Any rebroadcast of this footage must be in compliance with the conditions set out in standing order 234. I would ask photographers and camerapersons to follow the established media guidelines and the instructions of the secretariat.

Treasurer, at this point I invite you to make a very brief opening statement or presentation of no more than 10 minutes. This will be followed by questions from the committee. Over to you, Treasurer.

Visual presentation.

Mr PALLAS: Thanks, Chair, Deputy Chair and members. It gives me great pleasure to be here today and to talk about the 19–20 budget, which delivers on the promises to the Victorian people that this government made during the course of the election campaign. It will deliver on our positive plan, while maintaining our strong and steady economic approach. It ensures that Victorians, regardless of where they live, will have access to infrastructure and services that they need. Victoria's economy is powering the nation. Victoria's economy grew by 3.5 per cent in 2017–18—the highest in the nation and higher than Australia's GDP growth of 2.8 per cent. Between 2014–15 and 17–18 Victoria contributed 31 per cent of national economic growth, 33 per cent of growth in public demand, 38 per cent of national jobs growth and more than 40 per cent of national full-time jobs growth. So this is substantially more than our population share of 26 per cent.

Since we were elected the Victorian economy has grown by almost \$55 billion, or 14.8 per cent in real terms. Now, that means that \$1 in every \$7 circulating in the Victorian economy today did not exist five years ago. The contribution to real GSP growth from public and private investment has been an important contribution to Victoria's economic success. Over the past three years the contribution of private business investment to real GSP growth has grown from 0.1 of a percentage point in 15–16 to 1 percentage point in 2017–18. The

combined contribution of public and private investment reached 1.5 percentage points in 17–18—the highest contribution of investment since 2005–06.

Since November 2017 more than 455 000 new jobs have been created in Victoria, and over 70 per cent of those were full-time. In March 2019 Victoria's unemployment rate fell to 4.6 per cent, well below the 6.7 per cent rate inherited, and to put that in context, in the past 40 years Victoria's annual unemployment rate has dipped below 5 per cent just three times. The strength of the labour market is spread right across the economy—16 out of the 19 sectors have added jobs since 2013–14. Health, hospitality and professional services have each added more than 40 000, and the construction industry has added more than 60 000 jobs. So this reflects the significant contributions infrastructure and dwelling investment are currently making and the investments that are underway across the state but also our investment in the delivery of services in health and education that Victorians require.

The labour force participation rate averaged 65.9 per cent in 17–18—the highest rate on record. For other cohorts like females and people under 65 and older, their participation is near record levels, and the female labour force participation rate has increased by 1.8 per cent since 13–14 and is around its all-time high. Victoria's youth unemployment rate is at its lowest level since August 2009, and 3.9 per cent lower than we inherited. Robust economic activity and above-trend employment growth are increasing living standards for Victorians. Real GSP per capita rose by 1.2 per cent in 2017–18—the fifth successive rise in GSP per capita. This continues the longest period of sustained growth in living standards since the GFC.

Our strong economic position is no accident. It is because we have created the right conditions for business to invest, create and to expand, all the while getting on with building the infrastructure that our growing state needs. Government infrastructure investment is expected to average \$13.4 billion over the next four years. That is nearly triple the 10-year average before we were elected in 2014, and our investments are making a real difference, delivering new schools, better hospitals and more reliable road and rail for Victorians. With a focus on building local and hiring local, the government's infrastructure agenda has ensured more than 115 000 jobs for Victorians.

Victoria has continued to be a AAA-rated economy—a testament to the Andrews Labor government's track record of responsible and reliable fiscal management. In fact Moody's reaffirmed Victoria's AAA rating on Monday following the release of the budget. Despite a stamp duty writedown of \$5.2 billion since last year's budget, \$2.4 billion in the pre-election budget update and \$2.8 billion in this budget, our average expenditure growth over the next four years remains lower than average revenue growth. The 2019–20 surplus is forecast to be \$1 billion, with annual operating surpluses averaging \$3.4 billion over the forward estimates. And as we made clear at the election last year, net debt will be stabilised at 12 per cent of GSP over the medium term to fund three major productivity-enhancing Victorian transport fund projects: the North East Link, Melbourne Airport rail and the removal of an additional 25 level crossings by 2025.

I would like to take a moment to note for the committee's benefit that we continue to receive less than our fair share of infrastructure funding. Victoria has a population share of 26 per cent, yet we receive about 17.7 per cent of infrastructure funding. Our task is made significantly more difficult by continued underfunding by the commonwealth government. Where possible the Victorian government will work with the commonwealth to deliver our shared priorities and secure a fair share for Victorians.

While our infrastructure investment helps drive job creation, this government understands that business is critical to growing the economy. For the fourth budget in a row now we are providing payroll tax relief for Victorian businesses to help their businesses continue to grow, create employment opportunities and generate wealth, and help build the state. This will mean that we have provided over \$1 billion worth of business tax relief, more than four times what the opposition delivered in their last period of government, and the budget also invests \$150 million to establish the Victorian Jobs and Investment Fund, which will support new opportunities to strengthen our economy and grow Victorian jobs.

As I noted many times before this committee, Victoria's tax settings remain highly competitive. Our tax and royalty take per capita remains below Western Australia, New South Wales, ACT and Queensland. The budget funds every one of our 84 output election commitments other than the public holidays commitment, which is awaiting legislation. In total the budget provides funding for \$11.4 billion in output initiatives. This means

funding has been provided for, amongst other things, the rollout of three-year-old kinder, Solar Homes, school dental vans, but there is also funding for things we did not promise at the election, like \$195 million for extra train services across Victoria, \$109 million for support for Aboriginal Victorians and more payroll tax relief for regional Victoria. We are keeping our promise to implement every recommendation of the family violence royal commission, with a further \$185 million investment.

The budget fully or partially funds 49 of the 52 capital commitments, allowing infrastructure works to proceed immediately. The funding for the three capital projects in contingency—Maryborough hospital, Geelong hospital and additional police stations—is clearly disclosed in budget paper 3 at pages 127 and 128. In total the budget provides funding of up to \$34.5 billion TEI in new capital investment. We have fully funded the north-eastern, we have fully funded a new hospital for Footscray, we have invested in \$1.8 billion of school capital—and these investments are on top of those already made in the last term of government. We are investing in the infrastructure Victorians need so that they have good local schools, good local roads, reliable public transport and the best health care nearby.

In its first term the Andrews government delivered more than \$13 billion towards the projects and programs that matter most to regional Victorians. This budget continues our commitment, providing \$2.6 billion to deliver local jobs, local economies and local communities through the Delivering for Regional and Rural Victorians program. With investments in local projects and local priorities, this program will help make sure we continue to deliver for regional Victorians and support an estimated 4500 jobs. This is a budget that invests in the projects our state needs and the people we need to deliver them. We are delivering on our positive plan that we took to the election. We will deliver new skills, good jobs, more schools and better public transport and roads. With this budget we are keeping our promises and we are delivering for all Victorians.

The CHAIR: Treasurer, I will lead off today. I thank you for not only being brief but being under your allotted time. Can I refer you to BP3, chapter 1, page 127? That particular BP looks at election commitment funding. Can I ask if you could outline the key areas of the LFS—or *Labor's Financial Statement*—commitments, and what is being done to deliver those commitments to the people of Victoria?

Mr PALLAS: Thanks, Chair. It does give me great opportunity and pleasure to speak about this government delivering on its promises. What we said we would do before the election is what we are getting on and doing. Last term we funded every single one of our output funding commitments and got started with 65 per cent of the capital funding commitments in our very first budget. We got on with the job and we delivered for Victorians the things that we said we would do, like removing those 29 level crossings, and after being re-elected we are doing that again. In fact when we delivered those 29 level crossings, we underpromised and we overdelivered, because we anticipated that we would deliver something like 20 level crossing removals in our first term, either completed or substantially underway.

Now, in this budget, we have again funded every single one of our 87 output commitments that we made at the last election, with the exception of enshrining public holidays to protect penalty rates, which is obviously still before the Parliament. In addition the 2019–20 budget either fully or partially funds 49 of the 52 capital commitments including VTF initiatives, allowing infrastructure works to proceed immediately. So we have been transparent; we have shown that for those that were not ready for this budget we have set that money aside, because we have committed to delivering on all of our commitments.

So these are significant commitments. They are making sure that we are delivering for all Victorians, not just for today—this is a budget that sets us up well for future generations. For example, the Suburban Rail Loop will transform Melbourne by providing a 90-kilometre rail connection circling Melbourne's major employment, health services and education precincts. It will allow people to travel more easily between suburbs and to the airport without the need for them to travel into the CBD and back out on an appropriate line. It is part of what we have described as our suburban transport blitz, which will radically reshape the way that we move around the city, fundamentally changing people's economic opportunities and their assessments of the employment opportunities within their respective communities.

We are also investing \$882 million to kickstart the rollout of three-year-old kinder over the next decade—the largest early childhood reform ever undertaken in our state's history and a long-term investment in the future of young Victorians. And by rolling out solar panels, solar hot water systems or battery storage to 770 000 homes,

transforming our energy sector, we are also investing now so that power can come back into the hands of Victorians for years to come.

The CHAIR: Treasurer, can I follow up and ask: on page 127 again, the same BP3 mention, you talk about the Victorian Transport Fund. Can you expand on what the Victorian Transport Fund actually is and how the investments made by the fund will contrast with investments of previous governments?

Mr PALLAS: Sure. Before the last election, the government put forward a plan to stabilise net debt at 12 per cent of gross state product over the medium term in order to fund what we saw as three major productivity enhancing capital projects, those of course being Melbourne Airport rail link, North East Link and the additional removal of 25 level crossings, bringing the total to 75 by 2025.

This fund and the allocations to it will also accommodate changes in accounting standards from 2019–20. We are adopting those from 1 July, and they will have an impact upon the way that we account for debt in the general government sector. These accounting standards require all governments and private businesses to classify most operating leases as well as financial liabilities for service concession arrangements as part of net debt. The government will deliver these projects while maintaining fiscal and debt settings that are consistent with our state's AAA credit rating. By maintaining our fiscal discipline, ensuring average expenditure growth over the next four years remains lower than average revenue growth, we are delivering operating surpluses in each year.

As a proportion of gross state debt, net debt is projected to be 5.1 per cent as at the end of the current financial year and increase to 10 per cent by June 2023, so this is a careful and a considered approach that means that the government is really able to deliver on our positive plans for the Victorian community, despite Australia's softening property market and the resulting drop in property-related revenue and of course transactions.

So Victoria remains only one of 10 sub-sovereign jurisdictions in the world that actually have a AAA credit rating from both the two ratings agencies relevant to sub-sovereign assessment, and they are Standard & Poor's and Moody's, which I think is really a strong endorsement of the state's fiscal settings and the fiscal parameters that we have put in place in order to apply the rules around how we manage. As a result, with our debt levels and the cost of borrowing comparatively low, it is a good time to invest in transformational infrastructure projects that will benefit the community, both now and into the long term. So this is a purposeful, future-focused investment. What we do not want to do is what our predecessors did in office, and that was basically see debt levels increase to levels above what we had four years previously but without very much really to show for it. So we need to ensure that the infrastructure needs of the future are being accommodated through the decisions we make today.

The CHAIR: So you mentioned just in your answer there, Treasurer, about the additional 25 level crossings. Can I just put a gratuitous bid that the level crossings at Glen Huntly Road and Neerim Road get pushed up the list, and I am sure the rest of your PAEC history will go very smoothly.

Mr PALLAS: Oh, well, I might have to reconsider in that case. Certainly can I say, Chair, that the government is proud of the work that we have done in terms of the level crossing removals. We are proud to be able to ensure that in every part of metropolitan Melbourne where these dangerous and congested level crossings exist they are being removed, but the job is enormous. We are hoping to get something like 75 of those level crossings removed by the time we get to 2025, but there is an enormous number of them across the state. We recognise that perhaps it would have been cheaper and we could have got rid of them more quickly if it had happened decades earlier, but from a government point of view it is critically important that the best time to start is as soon as possible. We have been working hard at this as a government, consulting with local communities, trying to get the sort of infrastructure and design solutions that they see as most desirable, and I would make clear our desire to move on these in a way that is seen as being fair, efficient and sensitive to community needs.

The CHAIR: Now, I do have a question about health care. Is it a fair assessment to say that the budget that you have just delivered is in large part—and I think I have heard you say it, but I do wish to confirm that—in your view a deliverance of the election commitments from the 2018 election? Is that a fair assessment?

Mr PALLAS: Absolutely. I think every day and in every community our hospitals and our local healthcare services are there for us. They are there for us when we need them most. So providing the community with that level of assurance that the government is going to make these investments I think is critically important, and that is the reason in essentially four short years we have invested a record \$11.7 billion into Victoria's healthcare and hospital services. But of course we know that when it comes to health and the health of your loved ones, there is nothing more important than getting on and delivering these vital services and, might I say, capacity improvements. So we promised to the Victorian people that we would continue to build the hospital system that they and their families could rely on.

This year's budget delivers just that. It backs in the commitments. It is investing \$5.5 billion to ensure every Victorian can get the best care in the very best facilities. We are building a new \$1.5 billion hospital in Footscray to deliver for Melbourne's booming west, and over the other side of town there is \$6 million to kickstart planning on the 11-storey redevelopment of Frankston Hospital, which should deliver 120 new beds, new operating theatres and expanded child and maternal health services for that community and for local families. So there is \$31.4 million that has been put aside for 30 new inpatient beds and an expansion of the emergency departments at the Royal Children's Hospital, ensuring that this renowned institution continues to offer world-class care to some of our sickest kids, and \$5.9 million to plan five new dedicated children's emergency departments at the Northern Hospital, the Frankston Hospital, the Casey Hospital and of course Maroondah Hospital and Geelong University Hospital, which should give parents increasing levels of peace of mind that their kids will get the calm, the compassionate and the professional services that the moment requires.

For rural and regional communities we are also making Victorians' great healthcare system even better and making sure that it is relevant to their circumstances and their geography—that is, that these services are provided where they live. This year's budget delivers on our commitment to rural and regional communities with vital investments in our hospitals and our health care, like \$136 million to deliver our promise of half a million extra specialist appointments for regional and rural Victoria and allowing patients to spend less time travelling to access specialist care and more time with their loved ones, particularly at a time when perhaps they are concerned about their or their loved ones' health.

There is a further \$100 million for the flagship Regional Health Infrastructure Fund, ensuring that regional Victorians can access the best care and the very best facilities. The fund has already supported some 283 projects, including \$250 million right across the state since it was established in 2016.

The CHAIR: Treasurer, I note that it is a pretty extensive list, and I know that you are one of the strongest supporters of the west, so I welcome that \$1.5 billion contribution. There is a hospital in my patch called the Alfred, so I look forward to next year's budget supporting southern metro and the Alfred.

Can I move to payroll tax. You know that I hate payroll tax with a passion. I think that if I could go back in time and find the person that invented it, I would be happy to sack them before they got the opportunity to convince somebody that we should have done it, but I was very happy to see that you have significantly cut payroll tax in regional Victoria and also extended the threshold for everybody else. I was just wondering whether you are able to quantify or talk about what you believe the benefits will be both in regional Victoria and across the small business sector as well.

Mr PALLAS: Yes, there are a number of payroll tax changes, all of which I think this government is proud of, and this continues the effort that we have put in with regard to payroll tax reduction, particularly for rural and regional Victoria, which is an area of particular satisfaction to me. Often when people look at budgets they think, 'Well, what is the capital contribution or the output contribution that the government is making to local communities?'. Certainly from my perspective the fact that the government is also forgoing revenue that would otherwise be available through what could otherwise be described as concessional allocations, such as reduction of revenue that would otherwise come to the state of Victoria through payroll tax changes, I think is a demonstration that we recognise that fundamentally business is a substantial employer in this state and we have to, to the extent we can, provide the opportunity for business to be able to employ.

So by 2022–23 the payroll tax-free threshold will increase from \$650 000 to \$700 000. Of course that continues the effort that we have put in place in making sure that those thresholds are increased. Increases will be phased in over two years, commencing from 1 July 2021, and the tax-free threshold will go to \$675 000, and then

\$700 000 from 1 July 2022. So the increase in the payroll tax-free threshold is estimated to cost about \$86 million over the budget forward estimates, and the number of businesses that are likely to benefit would be reduced by about 700 in 2021–22 and a further 700 in 22–23.

If you look at the additional changes that we have made—I will just touch on them briefly—we are expanding the payroll tax exemption to all types of parental leave. So from 1 July the payroll tax exemption for wages paid to employees on maternity leave will be expanded to include all types of parental leave. We are also investing in our regions and continuing the work that we have, because as you would appreciate at the moment as a consequence of initiatives this government has put in place, regional Victoria pays about 50 per cent of the comparable payroll tax rate as does metropolitan Melbourne. So by 2022–23 that regional payroll tax rate will be reduced to 1.2125 per cent. That is equivalent to 25 per cent of the metropolitan rate, which is currently 4.85 per cent.

We are seeing very dramatic outcomes as a consequence of this. We have got the lowest regional unemployment rate in the nation, and we have got the lowest regional unemployment rate for Victoria ever on record. That tells us that the continuing efforts in this space are paying real dividends. So I do ask that when people think about, ‘Where is your output and your capital contribution?’, well, think a little bit about where also the forgone opportunity on revenue that the government has put in place can demonstrate where our priorities lie. They are about creating jobs. We recognise that there is an ongoing discussion within the community about the appropriateness and the impost that payroll tax has upon employment, and to the extent that we have a capacity, even in these difficult economic times, we have been making an effort to ensure that where we can forgo revenue and create jobs we are doing exactly that.

The CHAIR: I will pass over to Mr O’Brien in just a moment, but it is worth noting that I think for the first time in at least my living memory of PAEC, which goes back some 15 or so years, we have more people from regional Victoria sitting on PAEC—two from the Labor Party, obviously Mr O’Brien representing The Nationals and obviously Mr Riordan and Ms Vallence from the Liberal Party. I think that speaks volumes for the payroll tax changes you have made to country Victoria. Cranbourne is regional, right?

Mr D O’BRIEN: Yes.

The CHAIR: It is certainly not metropolitan. For someone who lives in McKinnon, I can tell you Cranbourne is a long, long way away. It is now time to pass over to Mr O’Brien. You have the next 18 minutes, sir.

Mr D O’BRIEN: Good morning, Treasurer, Secretary, deputy secretaries. Welcome back.

Mr MARTINE: Good to be here.

Mr D O’BRIEN: Secretary, can I begin with you? Budget paper 5, page 7, has the Auditor-General’s assurance report on the budget papers. Can you advise the committee exactly when the Auditor-General does that review work?

Mr MARTINE: Thank you for the question. The process with the Auditor-General is an ongoing process over a period of time where the Auditor-General and his staff review drafts of the financial statements, which is effectively chapter 1 of BP5. So there is progressive sending across to the Auditor-General versions of what you see in chapter 1, and we go through a process of finalising those with the Auditor-General to the point where just prior to going to print on the budget the Auditor-General then signs off his certificate. So you will note in this budget that the Auditor-General signed off on 23 May, but he and his office had the financial statements for a period of time progressively.

Mr D O’BRIEN: So when was the final version sent to him?

Mr MARTINE: The final version would have been sent to him probably if not that day or the day before.

Mr D O’BRIEN: That day?

Mr MARTINE: I am happy to take that on notice and get you an exact—

Mr D O'BRIEN: That day being the 23rd, you mean?

Mr MARTINE: Yes.

Mr D O'BRIEN: Right. Yes, if we could get an exact, that would be useful, noting that we have got the Auditor-General this afternoon as well, so we can ask him. Secretary, when were you advised about the government's decision to delay the budget until after the federal election?

Mr MARTINE: The Treasurer made an announcement on the morning of Friday, 12 April. I was aware just prior to that that a decision and announcement was about to be made.

Mr D O'BRIEN: When you save just prior to, on the same day?

Mr MARTINE: I would have been advised finally just before, so it was possibly late the day before, and staff in my department were notified, particularly my deputy secretaries, just prior to the public announcement on the morning. So it was probably about an hour before.

Mr D O'BRIEN: So basically you knew when we did, pretty much?

Mr MARTINE: Yes. In terms of a final decision, yes.

Mr D O'BRIEN: How did the government's decision to defer the budget impact on DTF's internal review processes of the budget, given you would have been very well advanced I am sure at the time?

Mr MARTINE: Thanks for the question. So as you recall, the budget was originally going to be released on 30 April. The formal decision was announced on 12 April that it would be delayed 27 days to 27 May. Obviously by the time we got to 12 April we were certainly well advanced in preparing both the budget papers and the set of financial statements for the Auditor-General to clear. So we continued down that path to what I kind of have described with some of my staff as finalising the budget for a fork in the road. So we had a budget finalised prior to a certain event in Canberra, prior to 18 May, and then we were ready to go regardless of the result on the 18th. That budget, which is the one in front of you, was then finalised and we went to print late in that final week.

Mr D O'BRIEN: On that score, did you have two budgets prepared?

Mr MARTINE: No, we just had the one budget prepared, ready to go, as I said sort of a fork in the road. So ready to go one way or the other, recalling of course that a lot of work had been done to prepare a budget to be released on 30 April, which would have been prior to the federal election. So it would have been prior to knowing in any case who was going to win on 18 May.

Mr D O'BRIEN: So in the intervening period then did you make preparations for a Labor federal government? I am just going to say that.

Mr MARTINE: We certainly thought about in the event that the government changed federally on 18 May what changes might need to be made in the current version of the documents that we had. We did not, I guess similar to what generally happens with incoming governments where we are preparing sort of red books and blue books, prepare two versions of the budget. But we certainly thought about what would we need to do if the government changed, and we would have then obviously been ready to go, which we were, either way, on the 18th.

Mr D O'BRIEN: So, Secretary, did any initiatives, programs, underlying assumptions, vary as a result of the re-election of the Liberal-Nationals coalition in Canberra?

Mr MARTINE: So as noted in several spots in the budget papers, the budget includes all government decisions and known information up until 13 May, and it makes the point that it does not include any coalition election commitments that were made by the federal coalition, because they all require discussion and negotiation between the two governments, and that obviously is something that is still yet to happen.

Mr D O'BRIEN: But it would of course have included anything that was in the federal budget at the end of April?

Mr MARTINE: Yes. So we picked up what was in the commonwealth budget but not any of the election commitments.

Mr D O'BRIEN: So in the end did anything change between 12 April and this week, 27 May?

Mr MARTINE: Well, as we progressed through the period between 12 April and 13 May, there are other things that happened. So there is, for example, some additional economic data that flows through. One in particular that springs—

Mr D O'BRIEN: I might say, specifically with respect to the federal government and commonwealth departments?

Mr MARTINE: There were no other commonwealth decisions between their budget and this budget that would have led us to change, remembering of course that they went into caretaker pretty quickly after their budget, so there would be no way that as a caretaker government they would be making decisions to provide Victoria with something that would be relevant to our budget.

Mr D O'BRIEN: So in the end we put the budget off for a month for no reason, really. You can take that as a comment, Secretary. I might move on. Budget paper 3, page 366, notes that the departments has a leadership role, particularly across whole-of-government procurement contracts, it says 'to ensure optimum benefit to government'. Can you indicate to the committee what advice you are departments provided to the government regarding the use of taxpayer funding for the Our Fair Share advertising campaign that was used by the government prior to the federal election?

Mr MARTINE: Thanks for your question, because it gives me, I guess, an opportunity to clarify some of the commentary about that particular issue. Myself and three secretaries were referred to IBAC, and IBAC have referred the matter to the public service commissioner. The public service commissioner has now written to all four secretaries, and all four secretaries have responded to the public service commissioner who has now provided, I understand, some material back. With respect to myself—

Mr D O'BRIEN: Back to you or back to IBAC?

Mr MARTINE: Not 100 per cent sure. That is probably a question for the public service commissioner. I can certainly say what I have done as a secretary and I cannot speak on behalf of the other secretaries. But coming to the nature of the issue, which relates to, and if I quote—

Mr D O'BRIEN: The question was: did you provide any advice to government?

Mr MARTINE: Yes. So I guess the simple answer is that I do not have a role as a secretary in approving advertising, endorsing advertising, reviewing advertising, and certainly do not have a role in funding the programs or even signing off on the invoices. So these kinds of programs are decisions of government; so governments make these decisions. I will talk briefly about my department in a minute, but given I was named as a secretary, I personally have no involvement whatsoever in the particular programs. Like any government decision—and there are many government decisions every week that go through cabinet and cabinet subcommittees—somewhere along the way someone in my department would have provided advice in terms of a brief, but that is the same as any particular matter that goes forward to any government committee.

Mr D O'BRIEN: So was there a tender run for the procurement through DTF or through other departments?

Mr MARTINE: My department had no involvement in any of the campaign, the procurement or anything, so they would have to be questions asked to other departments.

Mr D O'BRIEN: So the campaign therefore must have been funded through the other department outputs.

Mr MARTINE: That is correct, yes.

Mr D O'BRIEN: There was no additional—

Mr MARTINE: There is no involvement in my department in procurement, paying, funding the programs or signing off on invoices.

Mr D O'BRIEN: Okay. Well, Secretary, I guess it gets to the nub of the issue that you refer to with respect to referral to IBAC. The Public Administration Act, section 97C, says that a public sector body, and I will just read this out:

A public sector body that publishes or causes to be published a public sector communication—

i.e. advertising—

must ensure that the public sector communication—

(a) is not designed or intended to directly or indirectly influence public sentiment for or against—

and then it lists a number of things:

(i) a political party;

and:

(v) the current Government of the Commonwealth.

Do you think the advertising met those guidelines? Well, it is not guidelines, it is the act.

Mr MARTINE: That is not really—

The CHAIR: Mr O'Brien, is this a policy question or a financial question?

Mr D O'BRIEN: Well it is both, Chair. It relates to the expenditure of taxpayer funds, so it is fairly clear that it is a financial question.

The CHAIR: I will give you a little bit of leeway, but let us try and keep it focused.

Mr MARTINE: It is not my role to make a comment or form a view about whether advertising meets those requirements because, as I indicated, we do not have responsibility for those particular programs. So perhaps if I quote from the very last part of my letter back to the public service commission with respect to section 97C, and had I acted not in accordance with that section, my simple answer to end my letter was that I did not actually act at all, because I had no involvement and my department did not have any involvement in the procurement or funding of those advertising campaigns. So I am not really in a position to then comment on whether those campaigns met or did not meet. They are really questions for other secretaries who were involved in the process.

Mr D O'BRIEN: Does DTF have a role in setting standards though for such procurement?

Mr MARTINE: Because we are not involved in the advertising, I would need to take on notice the extent to which there is anything relevant in my department. But nothing springs to mind. The questions you ask are probably more relevant to the secretaries that may have been involved in the process and would be better informed in understanding the linkages between the clauses you quoted.

Mr D O'BRIEN: So do you know which departments then were involved in the expenditure?

Mr MARTINE: Well, given there were campaigns, on my recollection, on health—I am just trying to remember exactly off the top of my head—but they are probably more questions relevant for the other secretaries in terms of health and education, and I think from memory transport was another campaign. Whether they were actually involved, I cannot answer on their behalf.

Mr D O'BRIEN: So it was not a whole-of-government initiative. Can you or can you not give us an overall quantum of the expenditure?

Mr MARTINE: I have no sort of visibility with that. As far as I am aware, these campaigns were paid for by relevant departments. We do not have any role or visibility with that.

Mr D O'BRIEN: Given your role in procurement that I alluded to earlier in the budget papers, does DTF have a role in ensuring that there is value for money in expenditure by departments like this through a tender process, or rather, procurement standards?

Mr MARTINE: I mean certainly more generally, when we provide advice to government, value for money is one of the issues that, just more generally, we certainly look at.

Mr D O'BRIEN: Thank you, Secretary. I might move on and refer to BP3, page 126, which identifies the efficiency dividends from the whole-of-government efficiencies. It identifies \$1.9729 billion in savings over the forward estimates. Is this efficiency dividend applied across all departments and government agencies?

Mr MARTINE: Yes. So there are several elements to the savings outlined on page 126 of budget paper 3. The first line you will see is \$50 million per annum, which is essentially the government's LFS election commitment for \$200 million of savings over four. The following line, 'Whole-of-government efficiencies', picks up several elements which are outlined in—

Mr D O'BRIEN: Is the bit the government did not take to the election.

Mr MARTINE: Sorry?

Mr D O'BRIEN: Is the bit that the government did not take to the election. Sorry, go on.

Mr MARTINE: Those savings were savings that are agreed and included in the budget, whole-of-government efficiencies, and as outlined in the text on page 126 they include several elements, one of which is changing indexation arrangements for departmental funding in 19–20. So traditionally governments are funded at 2.5 per cent every year. The government has made a decision that in 19–20, departments will be funded by forecast CPI, and we are forecasting CPI at 2.0 with indexation at 2.5 per cent from 2021. And then the other elements included in that line are, as you will note in the second part of the second sentence in the paragraph:

... along with expanding the general efficiency dividend from 2021.

The current efficiency dividend is 2.5 per cent per annum cumulative on non-frontline services. Embedded in those savings on page 126 are future expansion of the GED from 2021, and there will be a series of quite comprehensive base reviews across every department through the course of 2019, to in a sense assist the delivery of those savings that are included in the budget bottom line from 2021.

Mr D O'BRIEN: So I am right in saying then that the efficiency dividend across the government is 2½ per cent?

Mr MARTINE: So the original efficiency dividend, which has been around for a very long time, remains. And that is embedded in all of the departmental funding.

Mr D O'BRIEN: And then in addition to the CPI change—the change to CPI—what happens from 2021?

Mr MARTINE: So from 2021 there are additional savings, which I should note are being held centrally, so they have not been allocated to the specific departments yet, because they are subject to the base review process which is being undertaken through the course of 2019. Then with all of that information the government will make a decision, I am assuming, late 2019 in terms of the allocation.

Mr D O'BRIEN: So is there an overall efficiency dividend percentage that can be applied across the forward estimates?

Mr MARTINE: At the moment it is 2.5 for non-frontline that is included in departmental funding, and this includes potential—from 2021—rate increases or base increases. They are all really matters that will come out

of the base review process in terms of what is the best way to deliver on the savings that are included in these numbers that are held centrally.

Mr D O'BRIEN: So as a result you cannot tell us yet what the rate will be across 20–21?

Mr MARTINE: No, but if you look at the numbers—and the Treasurer has talked a bit about this in press conferences—if you look at the numbers you can see sort of a step—

The CHAIR: Sorry to interrupt you, Secretary. That time has now expired, Mr O'Brien. We move to Mr Maas.

Mr MAAS: I would like to take the Treasurer to the topic of jobs and employment. Treasurer, if I could take you to BP2, chapter 2, page 20. Page 20 states that employment growth since November 2014 has exceeded 450 000 jobs. You yourself made reference to that fact in your presentation. How does this compare historically and compare to other Australian states as well?

Mr PALLAS: Thanks, Mr Maas, committee member. Can I say first of all that since the election of the Andrews Labor government—and we are using November 2014 as our base point here—we have created over 450 000 jobs, of which more than 70 per cent are full-time. It is quite an incredible change in circumstance when you think about it, because for decades we have had the situation where we have seen a progressive move to insecure part-time casual employment, but here we have a very substantial bucking of that trend. So it is an unprecedented level of employment growth compared to historic levels. It also means that more than one in eight jobs in Victoria's economy today have been created under the watch of this government—quite phenomenal.

So since November 2014 Victoria has had the highest growth of employment in the nation. All up we have contributed about 40 per cent of Australia's total employment growth since 2014. Now, when you think that we are about 26 per cent of the nation's population you can see why Victoria is an attractive destination, because our economy is running so well and of course because jobs are becoming available. So we are seeing a substantial influx of population from other states. At the moment I think we are second to Queensland in that respect. But this is basically significantly higher in terms of the creation of jobs—significantly higher—than our population share and much higher than population growth. So we are punching above our weight, as it were, both in terms of Victorians who are resident here seeing more jobs being created than population is growing but also as an attractive source of employment opportunities for other Australians.

Under the previous government the unemployment rate rose from 4.8 per cent and peaked at 7 per cent. When we came to government in November 2014 the unemployment rate was 6.7 per cent, and contrast that to the March rate of 4.6 per cent, which is the second-lowest unemployment rate of all Australian states. Of course we rule off the budget, but that number is now back up to 4.9 per cent, if we are talking contemporaneous data, but in practical terms it is still well below the sort of natural average that occurs. In fact, as I said in my opening address, about three times in the last 40 years have we seen Victorian unemployment get below 5 per cent—so pretty phenomenal outcomes.

Under the previous coalition government what we saw was nearly 70 000 additional Victorians finding themselves unemployed. We have reversed that; we are getting on with finding even more jobs for Victorians. Our participation rate in March was 66 per cent—that is people seeking and actually participating in employment—more than 1 per cent above the level that we inherited in 2014 and the second-highest participation rate of all the Australian states. So once again not only are we creating more jobs than the rest of the country, we have got more people seeking to actively engage in the labour market.

Our state of course is the engine room of the Australian economy, certainly in the current circumstances, with historically low regional unemployment and of course the lowest regional unemployment rate of all the states. So we are able to deliver this record employment growth, despite what I would say is a lack of investment from the commonwealth in this area, and I can assure every member of this committee that we are going to continue the effort and the activity to make sure that Victoria gets its fair share of funding from the commonwealth. Now, it does not matter to us who is in Canberra; it matters to us that we get a fair share, because infrastructure provides opportunity, both in terms of employment and in providing long-term economic activity to the state.

Mr MAAS: Can you tell me what employment sectors are driving the growth and what measures are in the budget to support that growth as well?

Mr PALLAS: Sure. Well, Victoria's GSP, gross state product, in 17–18 was 3.5 per cent, and that was led by growth in the construction industry, health care and the social assistance sectors. The construction sector and the insurance sectors have gross value-added results of about 7.9 per cent and 6.1 per cent and 4.9 per cent respectively.

We are looking at numbers in the construction industry. For example, about one job in 10 in the Victorian economy is in the construction industry at the moment, so you can see that the investment that we are making in infrastructure—and might I say, backed in by the investment that is going on in the private sector as well—is having a profound effect upon employment opportunities, particularly in the construction sector. I note the recent ABS comment that was made that Victoria's healthcare and social assistance industry exceeded national growth in part due to the fact of the opening of new facilities and consistent public investment in health by the state government. These investments are not just having a direct and obvious impact in the construction industry, they are having an obvious impact as well in those areas where improved services are providing for the opportunity for greater employment. If you build a hospital, you provide staff to run that hospital and to provide the increased services.

In terms of jobs and impact on jobs, if you look at chart 1.2 in budget paper 2, what you see is it outlines the sectors that have contributed to employment growth over the four years to 2017–18. No great surprise there that we see that construction is going exceptionally well but also that health and hospitality are the standout leaders in this area. Once again our investment in the skills and capacities of Victorians, which is one of the great enablers of revenue to the state—that is, our people are great earners for the state—means professional and technical services are right up there as well. As you can see, jobs growth has a very broad base—16 of the 19 industry groups are expanding. In particular what we are seeing is there has been growth in construction, health and hospitality. Our support for the construction industry through our record infrastructure program and our policies like the Victorian Industry Participation Policy and the Major Projects Skills Guarantee are about the state effectively leveraging its capacity to use its purchasing power to get good outcomes for the community to ensure the Victorians get the benefit of those record infrastructure investments and that program of investments. It really means that there is much more to see here than simply the infrastructure that we are delivering—it is the employment that that infrastructure delivers, but also it is the improved functioning of the economy that attaches to the infrastructure. This budget invests in those sectors where we basically have a comparative advantage, so it is playing to our strengths.

For example, we are investing \$106 million to attract visitors to Victoria's great outdoors. For our tourism sectors of course we have got something like 30 brand-new camp sites, 30 upgraded camp sites, and we have got better four-wheel tracks and walking trails. These are obviously just a little entree into the massive amount of investment, but sometimes it is not the super large investments that matter to local communities. They like to see that the state is making an investment right across the areas of activities and of course planning for things like the iconic Sea to Summit trail in East Gippsland and reduced camping fees so that people can get out and enjoy not only the great economic environment but the great environment that the state offers. There is \$32 million to attract international, interstate and intrastate visitors in this budget, which is growing our state's tourism industry and the jobs that go with it.

We are also investing \$13 million in upgrading our digital clinical technology, which is important. It is about safety, it is about being able to ensure that we have conversant systems that enable better diagnostic imaging, better patient management systems and electronic medical records, ensuring patients are getting the care that they need sooner. There is a further \$117 million to maintain Victoria's leadership in health and medical research. So Victoria has a diverse economy, and it is one that I think Victoria should be proud of its performance on and the wide range of employment opportunities that it provides. Obviously we have had significant growth, and the government is proud to support these industries to achieve their goals and also importantly to create Victorian jobs.

Mr MAAS: Thank you. Can you tell me what government programs and initiatives have led to the strong labour market figures and high employment mentioned in the budget papers?

Mr PALLAS: Well, we delivering record investment in skills and training, and we are ensuring that young Victorians have the skills and training they need to secure the jobs of the future and particularly ensuring that those jobs are resilient and well underpinned by training and that there is clear appreciation of where that jobs growth is coming through in our economy. We also need to recognise that some of the investment that we are making in this area is about recognising not only long-term future demand but immediate demand for jobs within the economy. Our record investment in free TAFE has already seen thousands of Victorians skilling up and preparing themselves for the jobs that are being made by our government's investment in infrastructure and the economic growth and business confidence that has come with it. You can see this in the employment figures, the success that we have discussed already. Unemployment, regional unemployment and youth unemployment are all well below the national average, because basically we have been doing everything we can to make sure that every Victorian has the opportunities to gain the skills that they need and to get work.

We have been giving business also the opportunities to hire, whether it is in terms of our payroll tax reductions for regions or our increase in payroll tax thresholds. They have been of course a consistent focus and effort of this government—those two areas of activity—over the last, well, four budgets. We are building the infrastructure our state needs, which provides tens of thousands of jobs for hardworking Victorians. We are proud of our record and we are proud of the opportunity that these investments are generating, but we cannot squander that opportunity. We have got to recognise that if we are going to invest in infrastructure, then we need to grow the robustness of the economy, and that means making sure that we have the skill base here—a homegrown skill base—to ensure that Victorians are first in line for those high-paying, highly skilled jobs.

So previous governments in my opinion sat on their hands. This government is not wasting its opportunity. We are leveraging our capital investment—whether it is level crossing removals, Melbourne Metro tunnel, healthcare and community services—and Victorians are flocking to these jobs in these projects, skilled up of course by our increasing investment in TAFE, which we are proud of. We have got a broad, diverse economy. The Victorian government is ensuring that Victorians are ready for the opportunities provided by the growth in the economy. One of the areas that I am particularly proud of is our higher apprenticeships, both in the Big Build and also in respect of Victoria Cares. We know where there is growth coming in. If we go back to that graph that I showed you at the beginning that is contained within the budget, the two biggest subsectors of activity within the state is in construction and it is also within health care. What that tells us is, well, we need to make sure not only that have we got the skills for the present but that we skill up so that we have the requisite levels of higher levels of skill that will be required. So higher apprenticeships should have a great contribution to make into the future.

Mr MAAS: Treasurer, you have mentioned infrastructure spending a few times. Can I refer you to budget paper 4, page 2, which outlines the capital works investment across government. Can you tell me how the investment in this budget compares to previous years?

Mr PALLAS: Yes. Thanks very much. I am thrilled to talk about this year's budget, particularly when we are talking about our strong and continuing commitment to infrastructure investment. Investing in this scale of economy-growing infrastructure will benefit all Victorians, make no mistake, both today and for generations to come. Our road, rail, public transport projects will boost productivity, and we know that through the signs that we are seeing coming through in our economy as a consequence of investment that this government has already made in its first term. So it will make for improved access to jobs, it will provide for shorter commute times and better connections for our freight markets, all of which are critically important to the effective functioning of the Victorian economy. The government has responded to Victoria's strong population growth by making significant asset investments in health, education and community safety infrastructure and new and upgraded schools, hospitals and community assets that will improve access to high-quality services that Victorian families rely upon. So investing in our regions will boost both jobs and access to services in the cities and towns right across Victoria.

The 19–20 budget will continue to build on the momentum of the past four years, with our infrastructure investment set to reach a record \$107 billion for projects commencing or underway in the 19–20 budget. This is more, quite incredibly, than the federal government is spending on national infrastructure over the next 10 years. Over the last four years we have been rebuilding our suburban road and rail. We have removed some 29 level crossings, we have completed the Mernda rail extension, we have overhauled the Cranbourne-

Pakenham line, we have upgraded the Monash and Tullamarine freeways—alongside fixing hundreds of kilometres of suburban streets and arterial roads. But, really, as our suburbs grow, what we recognise is that we have got to accept—

The CHAIR: Treasurer, I do apologise for interrupting you, at the risk of getting money for the Alfred Hospital in my electorate. Can I pass off to Sam Hibbins, who also shares part of my electorate in Prahran.

Mr HIBBINS: Yes, the Alfred is my hospital, too. Can I just thank the Treasurer and the secretary and the deputy secretaries for appearing before the committee. I would like to refer to budget paper 3, page 126, the new efficiency dividend, so \$1.8 billion worth of cuts to the public sector over the forward estimates. Can I ask: has there been an estimation of how many jobs will be lost because of these cuts?

Mr PALLAS: Well, hopefully none. That is our desire. Quite frankly, Mr Hibbins, you would appreciate that historically this is not the first time that the state has made an effort to reduce through redirected effort our expenditure in certain areas and redirect it somewhere else. So if you look at, for example, the family violence initiatives that the government put in place when we responded to the royal commission into family and domestic violence and our commitment to implement all of those findings of the royal commission, we essentially found through redirected effort of existing departmental expenditure \$1.3 billion worth of effort in what was a \$1.9 billion package of reform in this area. So we have been pretty clear about this as a government, and I make no apologies for this. We will redirect the spend that the taxpayer is seeing applied to the priorities that the taxpayer and their duly elected government sees are important.

This can be a time of uncertainty for members in the public sector, I accept that, but can I also say that we do not see that there will be job losses. In fact, so far as we are concerned, we would see that as being a last resort for government. What we are looking to do is set up a government jobs and skills exchange, where we would basically seek to match those people working across departments in areas where we think, 'Well, you're performing work on programmatic spending that has been going on for decades and it no longer accords with this government's priority, and we would like to look at trying to match you with jobs in areas that do now accord with the government's priorities so that we can effectively ensure that the priorities and the spending in this budget are appropriately accommodated by relieved expenditure within embedded costs across departments'. So from our perspective we are not starting from an assumption that jobs will be lost—just as, might I say, when \$1.3 billion worth of expenditure was redirected through the domestic violence process. We did not start on the assumption that anybody should necessarily lose their job; we started on the assumption that the government elected to implement its agenda should have the right to get into embedded funding. We also started on the assumption that, quite frankly, the taxpayers interests would be egregiously served if essentially all we saw our job as a government to do was to essentially be the beneficiary of providence—that is, wait for revenue to fall into the government's lap and then only spend that upside of revenue.

We are in the process of trying to make the delivery of public services efficient. We are in the business of making sure that the delivery of those public services are also directed toward the priorities that the people of the Victoria saw as important. And, Mr Hibbins, I suppose the other thing I would say is our agenda, our priorities, have always been making sure that we deal respectfully with our staff and with their representative unions in order to effect change, not necessarily to reduce the public sector per se. And quite frankly you will see our expectation is, given the continuing growth that is going on within our economy, within our population base, that you can expect to see that there will be more, that the public service will continue to grow, albeit not necessarily at the same pace that we anticipated or saw happening through the first four or five years.

Mr HIBBINS: So you have said, and I appreciate, that there is a skills exchange being set up. That is a good ambition. And you have said that forced redundancies are a last resort but they still may occur. Are other measures being considered, like voluntary redundancies, not continuing on casual workers, not continuing on people on existing contracts, natural attrition or not replacing employees that leave? Are these measures being considered?

Mr PALLAS: Well, we are in the process of developing a strategy by which we will deal with these issues, and the skills exchange idea is our first priority—that is, trying to match people to areas of activity and focus that the government sees as consistent with its priority. There are industrial obligations that the state is a signatory to and obliged to apply, and the hierarchy of obligations we take seriously and we will meet. So in

respect to a situation where we might not be necessarily able to match people, then there are processes that industrially we are obliged to apply. If you are asking me will we continue every concluding program that is not funded going forward, I can assure you we will not. As a government we believe that we have the opportunity and the right to efficiently deliver services that are focused towards the government's objectives.

Mr HIBBINS: I see from the budget that there is already \$201.3 million scheduled to be cut in 2019–20, so that is obviously very soon. So have any decisions actually been made about which programs are not going to be continued?

Mr PALLAS: So the whole-of-government efficiencies are part and parcel of the process that will be set up through base reviews, predominantly, and those base reviews are all about making sure that we can basically get into a line-by-line expenditure review. It is a process that we intend implementing to ensure that we can get the value for money outcome that the taxpayer would expect of us. And I am quite serious about this, and I do not say this purely for rhetorical purposes: governments do need to expand and recognise that they have to provide increasing levels of services to the community but in an efficient way. So in our *Labor's Financial Statement*, for example, we identified some \$200 million over four years that we would apply in savings across the general government sector. Now, those efficiencies are principally related to the reduction of spending on consultancies and labour hire. The \$200 million a year over and above that, you will see in budget paper 3 on page 126 that there are four lots of \$50 million over the current and forward estimates period, together with 200 million in 19–20, cumulative 462 and 524 and 584. So what are these? They are aimed at delivering \$1.8 billion in savings through a range of further efficiency measures over the next four years, and quite frankly I think any government that does not look to see that its expenditure is being efficiently applied and directed to its priorities is not doing a reasonable job of representing that we are getting value for money. It will include things like aligning indexation of output funding with forecast inflation in 19–20, for example, and expanding the general efficiency dividend from 20–21.

Mr HIBBINS: Can I ask about these expenditure base reviews? Now, the secretary has indicated that they will be completed by the end of 2019, I understand, so just in time for Christmas. Can I ask: will the expenditure base reviews be made public?

Mr PALLAS: Well, the outcomes of the reviews will be clearly public, because the government's priorities will be reflected in its expenditure, but if I take you to budget paper 3, page 126, essentially this is about making sure, under the 'Whole of government efficiencies' heading, that we are capable of investing in priority areas that the government has set. So departments will deliver a range of further efficiency measures. It will be quite transparent in terms of the choices that we make and the consequence of those choices. They will be in the public domain. Just as effectively, the choices that we made when we implemented the Royal Commission into Family Violence and the \$1.3 billion—

Mr HIBBINS: Can I clarify: we will know where the resources are being redirected but we will not know where it is being redirected from?

Mr PALLAS: Well, if you are asking me will the government necessarily make public its basic efficiency reviews—

Mr HIBBINS: Yes.

Mr PALLAS: My view is that these reviews are essentially something towards the internal functioning of government. But are the consequence and the choices made, incorporated within those reviews, secret? No, they will not be, because obviously we will be talking to the relevant and affected union and employees about it. It is hardly likely that those things will therefore be secret, as a consequence. But I do not think that a line-by-line itemised assessment of government expenditure is necessarily fair or appropriate to people who are performing work in areas that might well be identified as being no longer consistent with the government's objectives.

Mr HIBBINS: Has there been any direction given to the base expenditure reviews in terms of will frontline programs and workers still be covered under that review?

Mr PALLAS: It is a matter of fact that they are looking at every line-by-line expenditure. Does that mean that the government expects that there will be a reduction in frontline expenditure? No, but there may be. In employment, for example, we would expect that we would see increasing investment in our frontline services. We are committed to that; for example, whether it is teachers or nurses. In this budget alone I think we have made very clear commitments in that respect, and of course our continuing investment to employ over 3000 police is continuing and occurring. So from a practical point of view, if you note that in the year to 2018 the government employed a significant number of new frontline staff—1500 nurses, 1600 teachers, 900 police, 650 doctors, 400 ambulance workers. We do not anticipate that those sort of key workers will be adversely affected in terms of their numbers and the provision of services.

Mr HIBBINS: I would like to move on to budget paper 2, page 21, CPI. Now CPI has been forecast to grow to 2.25 per cent in 2021 and 2.5 per cent after that, but your wages policy is set at 2 per cent increases. Can you guarantee that no public sector worker will get a real cut in wages through their EBAs?

Mr PALLAS: I suppose if we are looking at the moment, our assessment on CPI is looking reasonably adventurous. The last data that came back pretty much showed that CPI was almost at a standstill for the state of Victoria. Our expectation is that it will live up to this number in due course. So if the question is: do we anticipate that there will be a real reduction in wages? The answer is no. There are a number of ways that people can do better, as it were, in CPI—through the primary pathway, in our policy which talks about a 2 per cent wage increase but also additional payments that can be made if identified productivity and performance areas of improvement that the state values are incorporated. We will then value those and we will reward them for our departmental staff who undertake those services. Additionally, there is a secondary pathway that is available for unions and employees who seek simply to ensure that for the next 12 months they want to simply roll over their existing agreements with a commitment to service-wide improvement as an ongoing part of their workplace, and a number of additional provisions are available for the purposes of ensuring that equal pay in the workplace is a continuing objective. That amount is 2.5 per cent for the standardised rollover. So if you could think about it this way, I would anticipate that a workforce will decide they are either going to go for a 2.5 per cent secondary pathway adjustment or they will expect that they will be better through a 2 per cent adjustment with access to additional productivity. So yes, the base, as it were, is set at 2 per cent, but that does not in any way assume the final outcome, and our policy is pretty clear about this.

If you look at the Victorian wages growth in the March quarter, it has come in at 0.5 of a per cent, so it is going to be pretty close to that amount. So from our perspective we think there is the opportunity for unions and employers to do well. It is just that from a government point of view we are doing what I think the taxpayer would expect us to do, and that is to make sure that we are getting some value for money in the process. We are definitely getting value for money from our public service; there is no doubt about that—the quality of the service that they are delivering, the improvements in services that we are getting from them. But we would be remiss in our job if we did not continue to ensure that we got a continuing effort in this area. We recognise that there has been a substantial shortfall in revenue that has been coming in as a consequence of the land transfer duty writedowns, but nonetheless we are making a very genuine effort to ensure that real wages are being protected in this process.

Mr HIBBINS: I would like to now move to budget paper 3—it is contained I think on page 39 and beyond. It is in terms of expenditure regarding environmental measures, and some of this is coming from the Sustainability Fund. If I could get some understanding about just how much funding is actually currently sitting in the Sustainability Fund and why there is only expenditure of \$103.8 million out of the Sustainability Fund over five years at a time when our waste and recycling system is in crisis?

Mr PALLAS: What I can tell you is that we continue to make drawdowns out of the Sustainability Fund. What I can tell you is that in budget paper 3 what we identify on page 39 going over to page 42 are the specific efforts and outputs in the Department of Environment, Land, Water and Planning. Then when it comes to issues such as climate change and effective water management supply, energy and solar homes, continuing on to environment and biodiversity, we identify where an initiative has been taken out of the Sustainability Fund. So if you look at those pages, which are really the descriptions attaching to the outputs in the Department of Environment, Land, Water and Planning—

Mr HIBBINS: It seems to be a very small amount to be expended over five years when there is already a significant amount in the Sustainability Fund—

The CHAIR: I am sorry to cut you off, Mr Hibbins, but, sadly, your time has expired. If we can move to Mr Richardson. Mr Richardson, your time will expire at 10.10.

Mr RICHARDSON: Thank you, Treasurer, secretary and department secretaries for joining us here today. I am going to jazz it up with a bit of economic growth, Treasurer. We have heard about Victoria seeking its fair share, but flipping that around into the fair share that Victoria provides more broadly, I want to take you to budget paper 2, page 2. Can you please outline for the committee Victoria's contribution to national growth and how this compares to other states?

Mr PALLAS: I think I could open by saying as a general observation that we are punching well above our weight as a state, and this has been a dramatic change from—

The CHAIR: I hope you are not calling the PAEC Chair fat.

Mr PALLAS: Well, weight is an issue that we all have to bear with some degree of sensitivity, Chair.

As a member of the Andrews Labor government, look, I am really proud of Victoria's contribution to national growth. Obviously, under this government over the past four and a half years we have made some substantial inroads. Our economy grew, of course, as I have said on a number of occasions, in that 17–18 period by 3.5 per cent, the strongest in the nation, around about 25 per cent faster than the growth of the national economy—quite incredible. So the national economy grew by 0.2 per cent in the December quarter, and what we are seeing is around about 2.3 per cent over the year. Our state final demand grew by 0.6 per cent in the quarter—about 5.2 per cent over the year to December. This is at least double the annual growth of every other state except Tasmania. Since we were elected the Victorian economy has grown by almost \$55 billion—just incredible—in real terms. Put that another way: one in every seven dollars circulating in the Victorian economy today did not exist five years ago. This is all about wealth accumulation. It is also about opportunity and employment accumulation. In this budget our economic growth is expected to continue to grow. We are expecting 3 per cent growth in this financial year, continuing the longest period of above-trend growth in more than two decades, something I am particularly proud about.

Of course strong economic growth is not an end in itself for this government. Our priority is and remains around employment growth, and we have created more than 450 000 jobs since this government was elected. That means that one in eight jobs in the economy today, once again, has been created under the watch of this government.

Our economic growth—make no mistake—is driving the nation. We are the engine room of our national economy. We are leading the way. I think Victorians have every right to be justifiably proud of the contribution we are making to the national wellbeing compared both to other states, might I say, but also compared to historically where we have sat as a state. We are seeing the benefit of this growth right across the state. Our regional unemployment rate is at record lows now, in the most recent data, and our unemployment is now the lowest in regional Victoria in the nation.

I think if you look at the contribution we have made to national wellbeing, it really is a demonstration that hard work and the commitment of the Victorian people are its just reward. It is demonstrating that we work hard, we work productively and efficiently, we do create jobs and Victorians get a more livable, more enjoyable, a more valuable economy and community as a consequence.

Mr RICHARDSON: I am sure the federal government is happy about Victoria's contribution as well to their bottom line. Treasurer, when you say we are punching above our weight and the engine room of the Australian economy, what metrics is that based on?

Mr PALLAS: Well, I suppose if I take you back to some of the metrics that I outlined earlier in my presentation—and I thank you for the opportunity to reinforce exactly what this means—Victoria, without any doubt, has been a major driver of Australia's economic growth over the past four years. I mean, if you look back before we came to government, CommSec rated the performance of the states compared to their

comparative long-term performance, and Victoria came in about fifth, and now we have had I think four consecutive quarters where we were rated number one or joint number one in the nation in terms of performance. If I take you through some of these figures, if you look at, for example, chart 1.1 in budget paper 2, page 2, what you will see is we are outpacing the nation on economic growth, on consumption, on jobs growth and especially on full-time jobs, so we have got quite a number of outstanding performance indicators. If you look from that period 2014–15 through to 17–18, 31 per cent of national economic growth—31 per cent—was contributed by Victoria.

That is incredible in circumstances where we see that what we are doing we are doing by dint of our own effort and the skills and the capacities of the Victorian people, because we are not a resource rich state. This is economic growth spurred by the Victorian people: 33 per cent of growth in public demand, 38 per cent of national jobs growth. From time to time you might hear politicians in Canberra getting up and taking a bow in terms of their contribution to employment in this nation. Given that we have had a pretty rough trot in the past on our fair share of infrastructure funding, then essentially in large measure a lot of this has been done through the sheer hard work and effort of this government, complemented by the private sector, I might add, and their investment, and the skills and the capacities of the Victorian people. More than 40 per cent of national full-time jobs growth—probably the figure that I am proudest of in many ways, because it shows that these are real jobs and they are going to stick around for some time to come. If you put all those numbers up against what our share of the national population is—about 26 per cent—it really does give a dramatic illustration of how well this economy is performing.

Our great state is well and truly outperforming the rest of the nation, we are setting the benchmark for others to follow and we are delivering the most comprehensive improvement to services and infrastructure investment that the state has ever seen.

Mr RICHARDSON: So we are seeing that snapshot—Victoria out in front—on a number of measures. Treasurer, I would ask you, if you will, to take us to what underpins that strong growth and then how does that compare to previous years and particularly previous governments.

Mr PALLAS: Well, this is all underpinned, might I say, by responsible economic financial management. I have to pay tribute to my caucus colleagues, my cabinet colleagues and the Premier in particular, and the Assistant Treasurer, all of whom have held their nerve and stuck to our fiscal parameters: the obligation of this government to deliver healthy surpluses, to not spend more than we earn over an economic cycle and of course to make sure that we stick to our debt commitment, which is no more than 12 per cent of GSP over the medium term. These things are important. I do sometimes, I suspect, get a little bit boring and repetitive to my colleagues—

Mr D O'BRIEN: No!

Mr PALLAS: It is hard to believe, I know—hard to believe. It has been suggested to me by some who are unkind that maybe I keep banging on about this, but if you do not have responsible financial management, if you do not stick to what I describe as our fiscal parameters—the rules that we set by budgeting—then ultimately we do not get the capacity to grow the economy and all the attendant benefit that flows to the community. We do not get the opportunity to provide employment opportunities through our investments, both in services and in capital capacity. So we have created the right conditions also, might I say, for business to invest, for business to create and to expand, and we are also getting on with building the infrastructure that our growing state needs. Might I say, investment from businesses is doing exceptionally well and it is making a very substantial contribution to the growth that we are experiencing. So over our first term what we have done is we have provided \$1.6 billion worth of tax cuts to support the economy. Might I say, we made no commitment before the 2014 election that we would be providing tax cuts, just the same as we made no—

Mr RICHARDSON: Mr O'Brien might want them back.

Mr PALLAS: Yes—just as we made no commitment in *Labor's Financial Statement* leading into our election commitments, leading into this budget overwhelmingly. But what we have done is we have recognised that the best thing you can do for employment is to take the weight off business's back, and where we can—where we have the capacity—a strategic allocation of tax cuts has a clear and beneficial effect. So we are

continuing this record in the budget. As budget paper 2, chapter 1, describes, the increase in public demand from our investment has been quite a very substantial driver of economic activity for Victoria and the nation. It means that this stronger economic growth and more jobs for Victorians are being achieved. It also positions Victoria very well in the long term for sustained economic and productivity growth. We know from international bodies, whether it be the World Bank or the IMF, that investment in public infrastructure has a profound effect upon the productive performance of the economy in the long run, so those investments are producing a very substantial improvement over time.

Our infrastructure agenda—well, we know it is helping to achieve and create about 115 000 jobs in the Victorian economy. I think I get no greater sense of satisfaction than knowing that not only are we building the infrastructure that our community so desperately needs at the moment but we are building an intergenerational range of infrastructure interventions the likes of which this state has never seen. We used to compare ourselves to the Bolte government in the first term, but we have left that well behind. Essentially this is the biggest infrastructure agenda that this state will ever see. What the government understands is that you cannot stand still. If you are serious about creating wealth, economic activity and jobs, then you have got to make investment, and when you invest in small business, when you invest in vital infrastructure, the economy stays strong and it grows, and that growth remains high.

The previous government, quite frankly, I do not think really understood that austerity can often lead to perverse results in terms of our collective aspirations for the growth and the opportunity of the Victorian people. Unemployment was high, the economy was weak and investment in major public infrastructure was almost non-existent. The previous government also made some significant cuts that quite frankly hurt consumers, hurt consumer confidence, tampered with growth—taking \$1 billion out of schools, axing the education maintenance allowance and the School Start bonus and slashing \$1 billion from TAFE, with campuses closed right across Victoria and 2400 teachers sacked. By contrast, this government is getting on with the job.

Mr RIORDAN: On a point of order, Mr Chairman, we are sort of here to talk about this budget. We are sort of having a couple of minutes here of regaling about something that happened six or seven years ago.

The CHAIR: You will have your chance in a few minutes, Mr Riordan. I think it is okay. He only just started. It has been pretty good till now.

Mr RIORDAN: He has only just started?

The CHAIR: He has only just started, so we will cut him some slack.

Mr RIORDAN: Disappointing there is so little to talk about in this budget.

Mr D O'BRIEN: We will let that ruling go for future weeks.

Mr RICHARDSON: Your questions have been in the appendix so far. Get to the budget.

Mr PALLAS: Look, Chair, really all I am doing here is showing by contrast what has occurred in the state under this government's watch and what we inherited and therefore how far we have come, directly in response to the impact that these interventions that the government is making is having upon Victoria as the engine room of the Australian economy. By contrast, we are getting on with the job of ensuring that Victorians are proud of their economy and it remains the envy of the country. I hope that is a sufficiently fulsome response.

Mr RICHARDSON: Thank you, Treasurer. Victoria's role in the ecosystem of the national economy is important as well, and we have seen recent discussion and reports about Australia more broadly being in a per capita recession. What is the per capita economic growth at the moment for Victoria?

Mr PALLAS: Yes. Well, essentially if you look at chart 2.2 in budget paper 2, you will see in that chart the continuing variation of performance of the Victorian economy. If you look at chapter 2, page 20, we have got robust economic activity and above trend employment growth. There are increasing living standards, so real GSP growth per capita rose by 1.2 per cent.

That is real GSP growth. In fact that is the fifth successive rise in GSP per capita. You have heard a lot about being in a per capita recession. This state has not been for the past five years. If you look at GSP per capita numbers in the positive and improving, what that tells us essentially is that this is the best indicator of wealth accumulation right across the population. So those positive numbers are vitally important. In Victoria our economic growth is exceeding our population growth. That is important for the community to have some confidence that population, and particularly of course whether it is overseas migration or interstate migration, is not drying up the opportunities for the current Victorian population. Our strong economy is of course attracting more people. We are second only to Queensland for interstate migration. Basically people want to live here, and from 2010 to 14 there was not a single year where net interstate migration to Victoria topped 10 000 people. Since then there has not been a single year where net migration to Victoria was fewer than 10 000 people.

So our fellow Australians recognise that we are doing something right. Australians of course know that Victoria is a great place to live in and raise a family. It is where opportunity is. It is where jobs are available and being created. So we welcome this population growth because the additional people are in turn contributing to Victoria's economy and contributing to the economic opportunity for our existing population. Our economic growth has exceeded our population growth each and every year under the Andrews Labor government. So if you look at 17–18 GSP per capita, economic growth grew by 1.2 per cent, continuing that average per capita growth of the previous three years. So when you look back before our time in government when average per capita growth—

The CHAIR: Thank you, Treasurer. Mr Riordan, you now get your chance until 10.28.

Mr RIORDAN: Thank you, Treasurer, and entourage. Just returning to budget paper 3, page 126, my question is to Secretary Martine. How comprehensive will the expenditure-based reviews be, and will it go to individual entities? So, for example, in an electorate like mine where I have got 10 small rural acute hospitals across a large region—and I know in the past having been involved in those entities that these 2 per cent reviews, and you have flagged wanting to prop the budget up with these reviews—what sort of effect is that going to have and will it be out to those entities? So, for example, an average small hospital with a budget of around \$40 million, we are talking the best part of a million-dollar cut to their services. Many of us in rural Victoria know that our local CEOs and the three or four staff that they have running the hospital are out cooking barbecues to keep the shows running, so they do not really have a lack of frontline services—they only have frontline services to cut. The Treasurer did flag discussions with unions about this so I was wondering how far does that extend, from your point of view?

Mr MARTINE: Essentially the purpose of the base reviews for this calendar year will be comprehensive, so that is the language that has been used. Effectively it is to examine general government sector expenditure, which is \$70 billion—so revenue is \$71 billion, expenses are \$70 billion. The purpose of the base reviews is to be comprehensive. The process is just kicking off, just starting, and it is going to be governed by a secretary's committee for each of the base reviews. Essentially there is a base review for each department with DPC and DTF combined into one, so it is effectively seven base reviews, and the extent to which those base reviews will then go down beyond the department into agencies will depend on the extent to which those agencies are part of the general government sector. So the intent is to essentially look at all general public sector—

Mr RIORDAN: So you are not ruling out individual small frontline services in rural and regional Victoria being affected?

Mr MARTINE: The idea is to examine everything to then bring it forward to—

Mr RIORDAN: But you are not ruling it out.

Mr MARTINE: In terms of the examination?

Mr RIORDAN: In terms of just saying, 'Well, there are certain services that need to be exempt'.

Mr MARTINE: That is really a decision to come. In terms of the examination of what is in scope to look at the expenditure, then it is essentially all of general government sector expenditure.

Mr RIORDAN: So all services are up for grabs?

Mr MARTINE: The issue of what decisions are made later in 2019 will really then be a matter for what government decides. The other important point about base reviews is that there will also be quite a lot of work on whole-of-government efficiencies, so are there ways to save money across government? More centralised procurement would be a good example.

Mr RIORDAN: Look, I can understand in these big buildings in Melbourne full of thousands of people you can find 2 per cent; that is easy. That is two less photocopiers. I am conscious of frontline services in rural and regional Victoria where they currently do not have the fat to do that. There is already a blanket policy, for example, that there is no backfilling of police in country towns, so a 2 per cent cut to police services in rural and regional Victoria will see even fewer police available to cover country communities. So are we ruling out some baseline services from these cuts, Secretary?

Mr PALLAS: Perhaps if I could take over from the Secretary, as I understand is my right.

Mr D O'BRIEN: No. Chair, the question is to the Secretary.

Mr PALLAS: These are politically focused.

The CHAIR: Where a minister is comfortable answering the question I am entitled to make that call, and I believe the minister at the table is entitled to take that question over.

Mr D O'BRIEN: Chair, if the Secretary says that is a policy decision to be taken by government, that is fine. With a situation where we are asking the Secretary a straight-out question, you and the Treasurer are not entitled to tell us where we can direct it to.

The CHAIR: With great respect, I had briefed the committee previously that it is my view that if the minister at the table wishes to answer the question, given that they are responsible for the portfolio—

Mr RIORDAN: So we do we assume then that the secretary cannot answer the question?

The CHAIR: that they are entitled to take that answer over. Treasurer, please continue.

Mr PALLAS: Thanks very much, Chair. Well, look, I do want to be clear about this in the sense that ultimately any choices that come out of the base reviews will be decisions of government. So this will essentially be simply a line-by-line acquittal of where the expenditure is occurring and whether government forms a view that this is appropriate. It is not the—

Mr RIORDAN: Treasurer, the point of the question is: in rural and regional Victoria particularly there are already very small operating parameters, and are they going to be safeguarded from the 2 per cent recovery? Because 2 per cent cut to a small rural hospitals is probably half the administration staff if you are not going to be sacking nurses and personal care attendants in the aged-care sector.

Mr PALLAS: Look, it is not the government's intention to see that these reviews see that those areas where services are provided—

Mr RIORDAN: But you are not ruling it out?

Mr PALLAS: Just wait, and let me finish the question that you asked.

Mr RIORDAN: I just wanted a yes or no.

Mr PALLAS: No, it is not a yes or no question. This is a complex issue of public administration—

Mr RIORDAN: Well, it is. You are going to either protect small services or you are not.

Mr PALLAS: and I do not want you wandering off and misleading your community and scaring them.

Mr RIORDAN: Well, just say yes or no.

Mr PALLAS: Quite frankly, the government is—

Mr RIORDAN: Just say small country services will be protected.

Mr PALLAS: Well, let me finish, and then you can use my response in whatever way you see fit. The government will look at these items line by line. It is not our intention through our investment going forward to see where services would be compromised or reduced, particularly in rural and regional Victoria, that there will be a cut in services. So if you look at our expenses growth, we intend to see it moderate to 3.2 per cent growth—growth—and our intention of course in this budget was that we would increase the number, for example, of nurses right across the state to move our nurse-to-patient ratios—

Mr RIORDAN: I am not asking about where you are doing that. I want to know where you are cutting, and your answer is that you cannot rule out cuts to basic frontline or back office services—

Mr PALLAS: You are trying to impede a process of genuine inquiry into where the expenditure is occurring. It is not the government's intention to see that there would be a reduction in service delivery—

Mr RIORDAN: No-one in the state of Victoria would have a problem with bureaucracy efficiencies. Frontline services they have a problem with.

Mr PALLAS: in those areas that communities rely upon.

Mr RICHARDSON: Where were you when they were cutting health, Richard? Where were you?

Mr PALLAS: No, he had lost his voice back then.

Mr RIORDAN: Moving on, Treasurer, I now actually have at last a question for you. I refer to budget paper 5, page 23. We note that the amounts equivalent to dividends for the VMIA, TAC and WorkSafe Victoria equate to a little over \$4 billion up to 2022–23. I also note the reference in *Labor's Financial Statement* in 2018 which states that special dividends will be harvested from these entities for the Delivering for All Victorians Infrastructure Fund totalling \$2.3 billion.

And once again, clearly my focus is on the effect on country Victoria. Treasurer, could you explain why you are taking amounts equivalent to dividends over and above the stated need for the new Delivering for All Victorian Infrastructure Fund?

Mr PALLAS: I suppose the simple answer to that is: certainly with respect to the amount that we told the people of Victoria we were taking out and the continuing additional dividend yield, which has been a standard part of activity of governments of both political persuasions, we are doing it in circumstances where we believe that not only are they sustainable as against the operation of these insurance agencies that are oversighting the state's interests and the community's interests. So for example we are continuing to make \$121 million in the Towards Zero road safety package—

Mr RIORDAN: Just on that point, Treasurer, in light of the lack of effect that has certainly been shown this year on the Towards Zero campaign, stripping more funds out of the TAC, does that create a problem in the TAC having sufficient funds to combat what is clearly a growing problem?

Mr PALLAS: Not at all.

Mr RIORDAN: I mean, country lives are not being put at risk by you needing to prop the budget up?

Mr PALLAS: Not at all, not in terms of the yield out of these authorities. So can I take you through the advice provided by Professor Bob Officer, when he gave a costings assessment of the proposals that we were putting to the TAC—

Mr RIORDAN: I guess I am looking at the daily newspaper reports of the lack of effectiveness of the beyond—

Mr PALLAS: He said and I quote:

The opportunity to more efficiently utilise the capital of statutory trading authorities ... through a better matching of assets and liabilities will make available additional capital for the budget. The result is that the analysis underpinning the establishment of the Delivering for All Victorians Infrastructure Fund is conservative and robust. The creation of such a fund from these sources is not likely to have any practical effect upon the delivery of the services.

And indeed—

Mr RIORDAN: Treasurer, if you are taking money from the TAC, that is less money they have road safety, isn't it?

Mr PALLAS: Well, no. Essentially there is no exhaustion of their statutory remit. In fact, the continued taking of funds—

Mr RIORDAN: I think the road toll would indicate they need to spend a lot more money on road safety.

Mr PALLAS: Let me just quote a former Liberal Treasurer of this state, in Kim Wells, when he said:

When it comes to dividends, let me explain to opposition members—

he was lecturing the Labor Party at the time—

because obviously they do not understand—a dividend is declared as a result of ... operations having been done—

Mr RIORDAN: We are not interested in that.

Mr PALLAS: You are not interested in how dividends operate.

Mr RIORDAN: The question is: we have got a road toll that is the highest in 14 years—

Mr PALLAS: It does not affect their statutory remit.

Mr RIORDAN: so it goes back to when you were last in government.

The CHAIR: Treasurer, just a moment. Mr Riordan, I appreciate your desire to have a robust discussion with the Treasurer. You are still the Deputy Chair of the committee, and I think we can just slightly lower the tone and still get your messages across. Back to you, Treasurer. Can I just put on the record that Mr Wells is a friend of mine and I feel slightly conflicted here. Go Saints!

Mr PALLAS: If I could therefore—

Mr RIORDAN: We will move to the next question.

Mr PALLAS: Well, no, in the sense that I have not finished my response, I just want to hand to the committee the statement from Professor Bob Officer, Jeff Kennett's and John Howard's commissioner of audit, that makes it clear that there is no erosion of the statutory remit or the obligations of these insurance agencies, particularly the TAC, because it is relevant to this question, but also WorkCover—

Mr D O'BRIEN: When was that from, Treasurer—sorry, Bob Officer's, *Labor's Financial Statement*? You have taken almost double the amount that you said then, since then—in the last six months.

Mr PALLAS: That's not true. We have taken an additional—

Mr D O'BRIEN: You said \$2.3 billion, you have taken 4.

Mr PALLAS: We took an additional standard dividend. These were additional dividends that we identified for the purposes—

Mr D O'BRIEN: Well in excess of what you said in LFS.

Mr PALLAS: Yes, but—

Mr D O'BRIEN: So do not quote Bob Officer at us when he is talking about a different amount of funding.

Mr PALLAS: These were for the purposes of resourcing our Delivering For Victorians Fund, so that is essentially what we have done. It should have no impact upon the standard dividend yield out of them. It is important that people appreciate this. We have taken this out because as at 31 December 2018 the economic funding ratios, the assets to liabilities using the long-term expected greater return is that the TAC was holding 143 per cent.

Mr RIORDAN: Treasurer, my question was about the capacity of the TAC to manage the road toll issue.

Mr PALLAS: WorkSafe was holding 158 per cent and VMIA was holding 200 per cent. Now that is money that should be put to the wellbeing of Victorians building better roads, building safer transport options—

Mr RIORDAN: Yes, but we know that money has been taken for city roads, not country roads. Secretary, given the budget surplus in 19–20 is \$1.05 billion, budget paper 5, and the amounts equivalent to dividends from the insurers to be harvested in 19–20 is \$1.1 billion, is it therefore true that the budget would be in deficit if it were not for the payments made by the insurers?

Mr MARTINE: Deputy Chair, as you would no doubt appreciate, the 19–20 surplus number reflects literally tens of thousands of adjustments and decisions. So in terms of trying to identify one to say A minus B equals C, there are literally tens of thousands of things that impact and feed through to that line. So yes, you are correct that there are dividends that feed through to the size of the surplus in 19–20, but there are also—

Mr RIORDAN: So it is not a convenience; this, you know, harvesting of more funds from VMIA and TAC was intended, it was not a last-minute top-up for political purposes?

Mr MARTINE: Well, just in terms of that particular question, there are effectively two relevant points to the size of the dividends in 19–20, referencing page 23 of budget paper 5, which we have had a little bit of a discussion on. Yes, the government's election commitment of the \$2.3 billion, of which the TAC is affected, but there were already dividends in the form of grants coming out of the TAC factored into the budget and forward estimates, which would be outlined in the similar footnote in last year's budget papers. So what you see in footnote (a) on page 23 is the sum of both the original dividends and grants plus the government's election commitment.

And sorry, if you do not mind, Deputy Chair, just to very, very quickly answer Mr O'Brien's question earlier about the timing of the final EFS to the Auditor-General, he signed on the 23rd, the Treasurer and I signed the final version on 22 May, which was the day before. That is when it went to the Auditor-General. Then the final version, the final unsigned draft, was actually the day before, the 21st.

Mr RIORDAN: Secretary, in relation to footnote (a), page 23, which refers to annual review process, could you please outline for the committee how the annual review is undertaken and what factors the Department of Treasury and Finance take into consideration in completing the review, and what interaction the outcomes of the annual review have on future forecast amounts equivalent to the dividends?

Mr MARTINE: Sorry, Deputy Chair, I am just reading the footnote. So, working backwards, the dividends essentially are a determination made by the Treasurer of the day, each year, and for the Treasurer to make those decisions we obviously provide the Treasurer advice in doing so. And one of the key issues we look at, which is explained a little bit more in budget paper 2, chapter 5, comes back to a reference that the Treasurer made earlier about the funding ratio of these entities. That is essentially the key issue about the extent to which capital through the form of dividends or grants can be returned back to the centre. And for each of the three insurers, you will see on page 72 of budget paper 2 that each of the three insurers have quite significantly higher economic funding ratios. That effectively means that for every \$100 of liabilities they have to pay, what is the requirement of the assets. And on the funding ratios outlined on page 72, the TAC has an economic funding ratio as at 30 June 2018 of 165 per cent. So that means for every \$100 of liabilities they are currently sitting on \$165 of assets, and these are the net present value calculations. So the decision that the government made as part of its election commitment, and certainly the advice we would be feeding through—answering that question—is there a better use of those assets elsewhere within the government sector, rather than have—

Mr RIORDAN: Or back to taxpayers.

Mr MARTINE: Well, they are decisions that governments need to make, so that is effectively what the budget is about. The money comes—

The CHAIR: Sorry, Secretary, to interrupt. Well, that was a lively session. I will now move to Pauline Richards.

Ms RICHARDS: The less lively Pauline Richards. Thank you, Treasurer, for your time this morning for the presentation, and to the secretary and to the officials as well for the generosity of your time and patience. I would like to follow up on something that was touched on just momentarily with Mr Maas's questioning and then the Deputy Chair's, and I will refer you to budget paper 4, page 16. Obviously there have been some significant investments in metropolitan Melbourne around our road funding—the western road upgrade is one important example—but could you advise the committee and provide some more insight into the investment in this budget in regional roads, something obviously of great interest to so many of us.

Mr PALLAS: Absolutely, and certainly from the government's perspective, being able to make an investment in our regions and growing the performance and improvement of regional roads is a vital part of connecting communities and growing economic opportunity within those communities. Certainly as former roads minister let me say that our road network is the backbone of regional Victoria, connecting communities and making sure that those communities interact, work and have the amenity that they need. But after decades of underinvestment we knew that our country roads were in need of a very substantial overhaul. It is why over the past four years we have invested \$1.9 billion in our state's regional roads as well as focusing and establishing a dedicated country roads authority, Regional Roads Victoria.

This year's budget delivers on our commitment, continuing our work, fixing and upgrading regional roads with a total of \$804 million being invested to improve travel times and also to give regional Victorians roads that they can rely on. We are investing \$400 000 to progress planning, with \$318 million promised for the upgrade of Barwon Heads Road. We are duplicating 4 kilometres of road, and construction of a new bridge over the train line north of Marshall station. There is a further \$52.9 million that we are allocating across the state, which will deliver upgrades, traffic light installations and pedestrian improvements, including investments in our regions. The intersection upgrades, such as the Gisborne-Kilmore Road, the Saunders Road intersection in Gisborne, the Orton Street and Presidents Avenue in Ocean Grove—these are sometimes small investments, but they are critically important to communities to ensure that they get the sorts of outcomes and the safety, not just connectivity, that they are seeking.

Sorry, I understand that your question went specifically to health and what we are doing in the space of regional health.

Ms RICHARDS: Roads.

Mr PALLAS: Roads, it was roads?

Ms RICHARDS: Yes.

Mr PALLAS: I am being poorly advised. Can I say that it is much easier really to make these connections in circumstances where the state has a long-term and ongoing commitment around these matters, so Melbourne's population growth ultimately can be best managed and dissipated through a recognition that the state is investing in the infrastructure that our rural communities need. There is the \$30 million Regional Car Parks Fund, we are building 2000 free public parking spaces in Ballarat's CBD, Traralgon and Morwell and a range of other regional locations. The Victorian budget 2019–20 also delivers on our promised \$60.8 million investment to keep growing the city of Ballarat and to keep it moving, upgrading the city's key intersections and reducing bottlenecks for local drivers. The work also includes improvements to the city's southern gateway, particularly around Albert Street and a new dual-carriage roundabout on Docwra Street. But with investments in regional roads it is also important that we achieve investments around safety, with upgrades to the Magpie Primary crossing as well as an improved crossing at Ballarat High School. This budget makes these stretches of roads safer for local communities. I have no doubt that if you looked at the investments that we are making right across the board, the consistent investment and growing investment that we have made on the

maintenance and management of regional roads, that will continue to play a very substantial role in the safety and the amenity of regional Victoria.

Ms RICHARDS: Staying on the same budget paper—still on budget paper 4, page 16—of course I have Ms Stitt, my friend, on my right, who is always interested in finding out about the western road projects. I am interested in gaining some insights into the economic benefits that this project will have on the city's west.

Mr PALLAS: Thanks very much. It gives me an opportunity to talk about something very close to my heart in my constituency. The \$1.8 billion roads upgrade involves duplicating and improving arterial roads in Melbourne's west, including eight high-priority road projects. The contract for the PPP was awarded in December 2017. Work is well underway with all eight major upgrades now under construction—from Altona North to Tarneit. The upgrade will improve eight main roads across the west. We will also repair and resurface some 37 roads and strengthen seven structures. It is just an enormous investment.

The project will have many benefits for the growing communities in the western suburbs of Melbourne. It will make it quicker and easier for all road users. It will give local businesses opportunities for growth, improve priority truck routes, it will improve access to jobs, it will improve safety for cyclists and pedestrians, with more than 50 kilometres of walking and cycling paths, including three new overpasses along Federation Trail. For those of us who have done the journey—and I have, but not often enough, I might say—you get to those arterial road intersections and it sort of cuts down the value and the amenity and, might I say, the safety of the journey on a dedicated cycling path.

Melbourne's population continues to grow, more than any other capital city, with 60 per cent of our growth happening in our outer suburbs. So this upgrade is vitally important. It is about making the investment where communities need it most, where you are providing the opportunity for outer communities to grow and to connect. These upgrades will prepare the local area for its growing population. The project: one of the great areas of satisfaction is it will create jobs—some 4300 of them in the context of the delivery of the project in addition to the long-term economic benefits that is going to provide to the local communities.

Ms RICHARDS: Just moving around our suburbs slightly, I would like to again stay on the same budget paper, budget paper 4, moving forward to page 15, the North East Link—the missing link, of course, of our middle-ring suburban road map. I am interested in having an update on progress on the North East Link and what effect this \$15.8 billion investment will have on those suburbs to the east.

Mr PALLAS: Well, it will be nothing short of transformational, quite frankly. The budget is again delivering on our election commitments by fully funding the North East Link project—fully funding it. We said we would do it, before the last election. We said we would essentially adjust our debt profile over the medium term to do it, and we have done it.

So the North East Link will take thousands of vehicles off local roads. It will deliver significant time savings for travel, it will also increase the capacity of Melbourne's freight network and finally it will complete that missing link between the Eastern Freeway and the M80 ring-road. The business case released in 2018 shows that this \$15.8 billion project will create more than 10 000 jobs. It will deliver \$1.30 to the Victorian economy for every \$1 invested by the state. The North East Link will connect with Melbourne's existing freeway network, providing continuous flow conditions for long-distance travel right across and through Melbourne and links to key parts of the arterial road network, in addition to providing a safe and efficient freeway connection that moves significant volumes of trucks per day from local and arterial roads onto this substantial and vital freeway connection. North East Link will complete the ring-road from the Eastern Freeway to the M80, which effectively connects the growing northern and south-eastern suburbs. It will upgrade the Eastern Freeway with additional lanes and new technology—toll free, might I say—resulting in considerably faster trips. It will deliver a new busway and dedicated expressway for buses along the Eastern Freeway, resulting in 30 per cent faster trips from Doncaster towards the city, and it will deliver around 25 kilometres of new and upgraded walking and cycling paths.

In late 2018 we put the project out to the market just as we said we would upon re-election to government, with the government calling for expressions of interest from builders to deliver the project in early 2019. Two major construction firms were short-listed to deliver the first \$200 million package of works on the North East Link,

which will start in 2020. Builders are also being sought of course for the delivery of the much larger \$7 billion to \$9 billion primary packages. That will involve tunnel construction. The procurement process will take more than 18 months to complete. This is a very complex project, but make no mistake, the North East Link is a big project. It is an exciting one for Victorians, and the Andrews Labor government will get it done.

Ms RICHARDS: This is a project so many of us are looking forward to and watching with great interest. We have spoken about regional roads, western roads and north-east roads; some pretty significant investments going on. We also have significant assets across the state. Can you explain to the committee what investments we are making in road maintenance in this year's budget? It is an important element of safety, I understand.

Mr PALLAS: Absolutely. It is vitally important. The government is not only investing in new roads but also fixing and maintaining roads right across Victoria's suburbs and regions, with investments like \$425 million to carry out maintenance costs across regional Victoria and an additional \$229 million for further maintenance costs across metropolitan Melbourne. So this investment once again will improve travel times. It will boost safety, which is of vital importance, building on last year's unprecedented investment and the establishment of Regional Roads Victoria to target thousands of kilometres of country roads that are in need of repair. Not only are we repairing the roads but we are also undertaking a huge roadside clearing program across metropolitan and regional Victoria, which will hopefully minimise the risk of grassfires and bushfires, including grass cutting and the removal of fallen trees and undergrowth. The investment goes not just beyond the upkeep, maintenance and improved safety of the roads, it is about making sure that the roads are minimised as points for risk associated with roadside vegetation. As part of our maintenance program we are also improving roadside infrastructure, including repairing and replacing damaged assets such as signs, safety barriers and fences, which obviously play a very important role in road safety. The road maintenance investment will give drivers safer, faster and more reliable journeys and boost freight productivity.

Ms RICHARDS: Treasurer, I would like to leave roads behind for the time we have left and refer you to budget paper 3, page 21. I would be delighted to hear some more about some of the life-changing investments we are making, in particular one that has been close to the hearts of so many people who live in Cranbourne, and that is three-year-old kinder. Can you take me through how the government is going to deliver on that commitment and what impacts you anticipate it will have on our education system over the next few years?

Mr PALLAS: Absolutely. This will be a vitally important change to the circumstances of young people. Quite frankly, being able to provide opportunity for young people, particularly educational opportunities and connecting them into our health and welfare services as early as possible, I think is vitally important. The 19–20 budget invests \$1 billion in early childhood development, and the government's election commitment—'Ready for school: kinder for every three-year-old'—will receive \$598.6 million over five years. It will also have a TEI of about \$283 million. It will enable Victorian children to access 5 hours per week of subsidised three-year-old kinder by 2022, which will increase to 15 hours over the decade. But it is a substantial investment that the Andrews government is leading, and it is our intention of course to progressively expand that. That significant investment will, in our opinion, boost the number of services, build new and upgrade existing facilities and create new jobs right across the early childhood sector. We have got new funding in the budget that will also support initiatives relating to maintaining access to four-year-old kinder, support for construction and upgrade of early learning facilities and robust sector education and opportunities. We will make sure we have got the regulatory framework right to ensure that these services are produced in the most efficient way.

Ms RICHARDS: As you no doubt know, Cranbourne is home to many thousands and thousands of young families, and so I find any discussion of education always leads me to questions about school capital upgrades, and we have seen some terrific examples of that. I was wondering if you could outline for the committee what the government is investing in this budget in school capital upgrades and how this compares to perhaps previous governments? We are always interested in being able to see what we can do better.

Mr PALLAS: Absolutely. An investment of \$1.4 billion is being made in this budget, which means 17 new schools and additional stages at schools will be constructed. Additionally we are looking at some 59 schools right across Victoria that are going to receive upgrades that will improve their educational outcomes and a further 44 schools will receive planning funding to prepare for their upgrades. So when the rubber hits the road, when this government seeks to demonstrate its commitment to building the Education State, it is being seen not

only in the growth in our teaching services and the improving number of schools but in the upgrades to existing schools, so through that investment more than 130 schools—

The CHAIR: Sorry, Treasurer. As delightful as that answer was panning out to be, I now get the pleasure of passing on to Ms Vallence.

Ms VALLENCE: Thank you for your time today. My question is to the secretary. Looking at budget paper 2, page 72, again on the dividends insurance topic, picking up from before, is there any precedence in other jurisdictions for varying the capital adequacy assessment as you have done in the budget?

Mr MARTINE: Thanks for your question. This is something that governments continually do. They look at the asset base of entities and make decisions that are appropriate. It is not an unusual thing for governments, both in Victoria going back many years and no doubt in other jurisdictions as well, to make decisions about better use of assets across government. That is essentially what this issue is effectively about, the question of, ‘Are there significant surplus assets that could be better used?’. And that is something that governments have always done and no doubt will continue to do.

Ms VALLENCE: And had you sought and been provided with by the Auditor-General any advice on the appropriateness of this adjustment?

Mr MARTINE: These adjustments do not impact in any way on the audit-cleared financial statements. In fact you will note at the start of budget paper 5, and we talked about it with Mr O’Brien earlier on, the Auditor-General has signed off on the accounts. The accounts include the dividend and grant payments that are outlined in the financial statements, including the ones from the TAC that we talked about earlier.

Ms VALLENCE: So no?

Mr MARTINE: Sorry?

Ms VALLENCE: So no in terms of seeking and being provided with advice by the Auditor-General?

Mr MARTINE: In a sense it is not really the role of the Auditor-General to make decisions on the extent to which capital should be returned. So in fact, without putting words in the Auditor-General’s mouth, I am sure if I asked the Auditor-General, ‘Do you think we can take these dividends back?’, he would not answer the question because it is not really an Auditor-General question. His role is to ensure that those payments come back in accordance with accounting standards, which they do, which is why they are outlined in chapter 1 of BP5, and they are the accounts that the Auditor-General has signed off on.

Ms VALLENCE: Moving on, then. We have got a question about land tax. It is a technical question, so we would appreciate—I believe in the gallery we have the CEO of the State Revenue Office. It would be appropriate to ask a question to him, please.

Mr MARTINE: It might depend a bit on the nature of the question. So if it is a policy question, that is very much my department. If it is a question around collections, so perhaps—

Ms VALLENCE: Okay, so I will ask the question. The question, as I said, is related to land tax and budget paper 5, page 161, and the growth in revenue across the forwards that that page shows. In particular to land tax exemption on agricultural land, has there been any change to the collection of the tax on agricultural vacant land?

Mr MARTINE: In terms of what is included in this budget? Because there have been no changes in this budget. The tax initiatives outlined in this budget are outlined in budget paper 3.

Ms VALLENCE: The assessment. Referring to the assessment.

Mr MARTINE: In terms of the current, I am not aware of any change in terms of how the current law is being implemented.

Mr RIORDAN: So there are no changes to the interpretation of ‘vacant land’?

Mr MARTINE: I am happy to take that on notice.

Ms VALLENCE: Take it on notice.

Mr MARTINE: I am not aware of anything. Happy to take that one on notice.

Ms VALLENCE: Take it on notice. So I guess, you know, in terms of the definition as well, the definition of what is 'exempt agricultural land'. If you are needing to take this on notice, perhaps, particularly about the definition, does it exclude associated activities such as sheds, cellar doors, car parking? As I mentioned, it is a technical question, so perhaps if we have the benefit of having the CEO of the State Revenue Office here, perhaps he may be in a position to answer for us today.

Mr PALLAS: I think we will take it on notice and will provide you with a response. I do not really want to put our public servants who have not been prepared—that is, who we have not identified as being part of the witness list—

Mr D O'BRIEN: He is on the witness list.

Ms VALLENCE: My understanding is that he is a witness. He is listed as a witness. So on the basis that he is listed as a witness I would appreciate him to provide an answer.

Mr PALLAS: Yes, if he is listed as a witness, that is fine. I am happy.

Mr D O'BRIEN: We are happy to take it on notice if he does not have the answer.

Mr BRODERICK: I am not aware of any change in the definitions of vacant land for primary production purposes.

Ms VALLENCE: So no change? Not aware of any definition?

Mr BRODERICK: Not aware of any definitional changes, but as has previously been said, I can take that on notice and we can get back to you if there has been something I have missed, but I am pretty certain there is nothing.

Ms VALLENCE: Okay, so we will take it as no change, but you will come back on notice. And so are there changes in the collection on tax on agricultural vacant land?

Mr BRODERICK: Not that I am aware of, no.

Ms VALLENCE: And have there been any changes to the procedures and processes in making retrospective changes to previously granted exemptions?

Mr BRODERICK: I am not aware of any of those.

Ms VALLENCE: Not aware, so we will take that as a no?

Mr PALLAS: No, you will take it as, 'not aware'. And look—

Ms VALLENCE: Let me finish, please.

Mr PALLAS: Look, you have got to accept the witness's evidence as it is offered. It is one thing to try and catch me out, that is part of the game. He is trying to answer the question as directly and honestly as he can, and if there is something that he has missed, he will provide you with the information, but please, ask the question and he will answer it as honestly as he can.

Ms VALLENCE: Thank you. I have asked that. So who is it that grants exemptions, if there was to be one?

Mr BRODERICK: What type of exemption are you talking about?

Ms VALLENCE: To procedures and processes in making retrospective changes.

Mr BRODERICK: In making retrospective changes to?

Ms VALLENCE: So should there have been an exemption that has been granted in the past, and retrospectively seeking to change that and—

Mr BRODERICK: An exemption for land tax purposes for primary production land, you are talking about?

Ms VALLENCE: Land tax on agricultural land.

Mr BRODERICK: Then the question is: who would be making the exemption?

Ms VALLENCE: Yes.

Mr BRODERICK: Who would approve the exemption?

Ms VALLENCE: Yes, who does that sit with?

Mr BRODERICK: Usually the exemptions are provided by the law, and they are assessed in the office, where there is an exemption or not. So if you are talking about an exemption on primary production land, the land in question—if there was a particular question about whether the land was primary production land—usually the process is the person or company applies for a private ruling, and the person who is delegated officer in that office would make that decision.

Ms VALLENCE: Thank you. I look forward to receiving clarification on notice. We will move on and—

Mr PALLAS: Have you finished with the witness? Can he leave?

Ms VALLENCE: Yes, I said thank you. So we will move on, and a question to you, Treasurer. In budget paper 4, in terms of Victorian transport projects, the question is: in the election the Prime Minister committed to \$2 billion for fast rail to Geelong. Will the government accept funding for fast rail to Geelong?

Mr PALLAS: Well, obviously we have indicated that we will seek to work as positively and cooperatively as we can with the commonwealth. We have to do these projects appropriately. I mean, obviously it is very difficult to seriously contemplate an allocation of what was identified as \$2 billion and I think only about \$50 million in the forward estimates period of the recent federal budget, so—

Mr D O'BRIEN: A bit like the airport rail link, Treasurer.

Mr PALLAS: Well, of course. The airport rail link needs to come first, and that is our point.

Mr D O'BRIEN: Which you have got no money for, so—

Mr PALLAS: And we have got, and we are grateful for, the \$5 billion that the commonwealth have contributed towards the airport rail link. We have reached an agreement with the commonwealth about that. What we are very keen to ensure is that these projects are dealt with sequentially and are being taken seriously by all participants who are injecting finances into them. So we will see that, from a government point of view, it is vitally important that we build these in the right order. Obviously the Melbourne Airport rail link must necessarily come first because it will provide the necessary connection into Southern Cross station.

Ms VALLENCE: Treasurer, the question just was, will you accept the funding for—

Mr PALLAS: Of course we will be working with the commonwealth. But the question becomes, will we accept funding for a project that probably will not be able to be substantially complete for quite some time, and, well and truly beyond the forward estimates period? In the forward estimates it would appear nothing more than planning money could be done. We need to get our investment around, for example, the western rail upgrade, which will provide for electrification to Wyndham Vale, which is a necessary precondition to being able to do this. So billions of dollars on sequential investments have to occur first. This is not a question of us saying we do not want to do it. Long before the Prime Minister actually offered money for a fast rail to Geelong, we have already said as a government we are committed to that—and to Ballarat, might I say—but

we have got to unclog the electrified access to Wyndham Vale. We have got to make sure that that pathway from Sunshine station to both Geelong and Ballarat is free. It will take many years and it will be beyond the forward estimates before those investments are directed towards capital upgrades.

Ms VALLENCE: This is a question to you, Secretary. It was mentioned earlier, I think, around some funding from election commitments, that you had prepared the budget prior to the federal election and that some federal election commitments from the coalition were not included in the budget because discussions, review and negotiations needed to take place. So given the ad campaign for a fair share from Canberra, federal Labor commitments, had they won, would they have been included in the budget?

Mr MARTINE: Perhaps if I can before answering the question just clarify something. There are no coalition election commitments included. So it is not just some, there are no coalition election commitments included. Certainly anything that was outlined in the last commonwealth budget, which was a coalition budget, is included, but no commitments since.

In terms of what would have happened on the morning of 19 May if the government had changed, it would really have depended on some discussions between the new government in Canberra and the Victorian government—the extent to which things would then get finalised. Remembering that of course to deliver the budget on 27 May we needed to get to the printers, which we did sort of on the Friday. So it is a bit hard to speculate what may have happened, because it was a different result, but there would have then needed to be some issues sorted out pretty quickly.

Ms VALLENCE: So, to clarify, the review and negotiation that you would need with the coalition would not have needed to have occurred with federal Labor?

Mr MARTINE: No, there always needs to be discussions between two governments. And if the government changed, then there may have very well have been discussions and agreements. I certainly, where I sit in my role, had no visibility or discussion with oppositions in Canberra et cetera. That is, effectively, not my role.

Ms VALLENCE: Moving on, Treasurer, the 2019–20 federal budget included \$360 million to complete the duplication of the Western Highway to Stawell. This has not been incorporated into the state budget. Will the government accept this funding and complete the duplication of the Western Highway, and if so, when will it be completed?

Mr PALLAS: Well, I think the important thing for us to recognise with regard to all election commitments and contributions that have been contained is that the government will need necessarily to assess them, as the secretary has rightly—

Mr D O'BRIEN: Treasurer, this is not an election commitment. This was in the federal budget.

Mr PALLAS: I see. But nonetheless from the government's perspective it is not from our perspective an issue that—

Mr RIORDAN: We were told the budget had all election commitments.

The CHAIR: In fairness the budget was delivered just under a week before the election was called, so the ability for that budget to then flow through—

Mr D O'BRIEN: Over a month before the state budget was handed down, Chair.

The CHAIR: Just one second. They went into caretaker a week after their budget was delivered. Danny, you saw fit to interrupt, so I am just providing that context. You are asking questions about hypotheticals—

Mr D O'BRIEN: I am not. It was in the federal budget, well before the state budget.

The CHAIR: The writs have still yet to be issued for this current—

Mr D O'BRIEN: It is nothing to do with the federal election.

The CHAIR: Yes, but you are asking about a budget that was delivered by the previous government, by a government that is yet to have writs declared—

Mr D O'BRIEN: Can we just get an answer, Chair? We just want an answer to a simple question.

The CHAIR: I think your level of excitement is far beyond the level of intelligence of the question.

Mr PALLAS: Can I just ask: what section of the Western Highway are we talking about?

Ms VALLENCE: The duplication at Stawell.

Mr RIORDAN: To Stawell.

Mr PALLAS: As you would appreciate there, the budget paper incorporates—budget paper 4 at page 82—a section from Ballarat to Stawell, and that is contained on page 82. Now, I assume that we are talking a second and subsequent section.

Ms VALLENCE: I will just clarify: it is Ararat to Stawell.

Mr PALLAS: We will take it on notice and give you advice back on it.

Ms VALLENCE: I appreciate that.

Mr D O'BRIEN: In the same vein, Treasurer, the past two federal budgets have had \$132 million for the Princes Highway duplication between Traralgon and Sale, and the past two state budgets, including this one, have not had the matching \$33 million commitment. Indeed in budget paper 4, page 83, you have now got that duplication listed as a completed project, but in fact there is still 16 kilometres to go. Are you ever going to provide funding for the Princes Highway east duplication?

Mr PALLAS: The government will make investments based on, firstly, our priority in this budget to honour our commitments to the Victorian people. We gave a commitment to the Victorian people that we would make the infrastructure investments that we identified and prioritised in our *Labor's Financial Statement* before the election. Those are our priorities. We will honour those. And when capacity is available, and should the next stage of Princes Highway east be seen as a preferred repository of capital funds of the state, we will make those contributions, but not before that.

Mr D O'BRIEN: Treasurer, going back to the wages policy, you told us in 2015 that general employee expenses will increase at around 3.4 per cent a year, and you said that was consistent with past governments, which was 12 per cent over the last term. The actual increase in employee expenses was more than 35 per cent over the last four years. These budget papers forecast a 10 per cent increase. How do you expect Victorians to believe that you can keep employee expenses within that 10 per cent bound over the next four years when you have over doubled them in the past?

Mr PALLAS: I suppose Victorians can have a fair degree of confidence that when they look at the outcomes of this budget overall they will be able to see that I am the Treasurer who has delivered the highest average surpluses this state has ever seen.

Mr D O'BRIEN: Treasurer, that is not the question. The question is: in your last term you said, 'We'll keep employee expenses to 12 per cent over four years', you actually delivered 35; how can we believe that you will deliver 10 per cent in the next four years?

Mr PALLAS: Because the state had a capacity to provide more staff, more services, to the sorts of areas like the Deputy Chair has been complaining about, afraid that there might be some reduction in those services. The government has made investments to grow the number of people employed, providing vital services to a growing state and a growing economy. We do that when we can, and as it appeared that because the state had such services—

The CHAIR: Sorry to interrupt, but it is time to move on to my colleague Ms Stitt.

Ms STITT: Good morning, Treasurer, and good morning to DTF officials that are here with you today. I wanted to ask you a couple of questions about regional investment, which is obviously a significant part of this year's budget. Turning to chapter 1 of BP3 at page 6, and noting the Delivering for Regional and Rural Victoria program outlined on that page, are you able to give the committee some background on the government's approach to making sure that we share our wealth across our state?

Mr PALLAS: Absolutely, and quite frankly what is happening in rural and regional Victoria at the moment is a very clear demonstration of the government's efforts to grow the whole state—to make sure that not only is our investment around infrastructure and services being shared across the state but importantly that our effort to ensure that the private sector, particularly in regional Victoria, is getting the support and assistance from government by taking as much weight off their back as possible in terms of their tax liabilities where the government has the capacity. Whether it is payroll tax reduction, which is now at 50 per cent of metropolitan payroll tax levels and will drop down to 25 per cent, or the fact that a business seeking to start up in rural and regional Victoria can expect in the future to be able to get a 50 per cent concession on their stamp duty for the acquisition of business properties for the undertaking of its work and employment, I think that is all about where the government sees priority.

So with \$2.6 billion for the Delivering for Regional and Rural Victoria's program, we are investing in the jobs, the projects and the services that, quite frankly, matter to regional communities—the ones that they call for, like restoring Her Majesty's Theatre in Ballarat and giving the Bendigo community modern law courts. And the investment is not just about this community infrastructure, it is the attendant jobs that flow from it—4500 jobs. So we need to take a whole-of-government approach to investing in regional and rural Victoria. It is not about one agency or one department; it is about making a coordinated effort around investment across all portfolios.

Our capital investment in regional Victoria in our first term totalled \$13.6 billion. That is almost double the investment of the former coalition government in rural and regional Victoria in hospitals, schools, TAFEs and roads. If you think about what the size of the revenue base of the state was in those four years, it has probably grown by about 25 per cent—thereabouts. What we have been able to do is, massively over the odds, increase our effort and investment in rural and regional Victoria.

Basically we have had a jobs focus in making that investment. Our view is it does not matter where you live; every Victorian deserves the security of a good, stable job and a decent wage. And our investments across the state, whether it be in hospitals, in schools, roads and rail, are driving the creation of thousands of jobs in rural and regional Victoria. And in fact, as I have said on a number of occasions, the fact that we are currently at the lowest level on record of regional unemployment, the fact that we have seen essentially currently an unemployment rate of about 4.2 per cent, the lowest level of regional unemployment in the nation, is testament to our investment and strategy. It is working, and regional Victoria is finally getting not only its fair share but its economic opportunities that flow from those investments. Our investment right across the state, whether it be hospitals, schools, roads and rail, are really driving that creation of jobs, and from our perspective we have now cut of course the unemployment rate by 2.4 per cent in regional Victoria since we came to government.

A cornerstone of our investment in regional Victoria is the road network which connects communities to work and to market and to each other, quite frankly, and we have invested \$1.9 billion in our state's regional roads since coming to office, as well as establishing a dedicated road delivery agency/road management agency that lives and operates and provides services in regional Victoria—Regional Roads Victoria. This year's budget continues our work of aiming to fix and to upgrade our regional roads network with a \$485 million contribution over the forward estimates.

So fixing regional roads, investing in regional rail, delivering community infrastructure right across the state—things like the Bendigo law courts, the upgrading of the Glenelg River campground, the upgrading of boat ramps in Hastings—we are getting on with the job. I am sure the member for Gippsland South will be pleased to hear about investments in his electorate, including an upgrade to Sale Primary School, new marine search and rescue vessels in Port Albert, Port Welshpool, Waratah beach and Woodside beach, so yes, regional Victoria—

Mr RICHARDSON: He is not here to hear the good news.

Mr PALLAS: I am sure somebody will pass it on to him at some point. So investing in regional Victoria, delivering the jobs and infrastructure that people in our regions and across Victoria deserve.

Ms STITT: Can I take you to page 14 of BP3 and ask about the government's investment in regional health with the further \$100 million in the Regional Health Infrastructure Fund. Could you describe for the committee what that fund has achieved to date and what else the government is doing to support health care in regional Victoria?

Mr PALLAS: I think as a government we have been pretty clear that we believe that every Victorian deserves great health care, and that should be regardless of where they live. The health of loved ones is a priority for this government, it is a priority for the communities that so depend upon prompt access to good health care. Every Victorian deserves health care that they can rely on. Certainly our perspective is that the flagship Regional Health Infrastructure Fund has already supported 283 projects right across the state. We are topping it up with a further \$100 million in this budget. We have also provided a further \$60 million for a new rehabilitation centre in Bendigo Hospital, \$7 million for planning the redevelopment of Latrobe Regional Hospital and \$2.4 million that has been put aside for the redevelopment of the Wangaratta hospital. We are also delivering on a key commitment that we made to regional communities to provide an extra half a million dedicated specialist appointments. The private specialist system can be extremely costly—we know that—and this will save Victorians thousands of dollars and hours of valued time that otherwise would have been spent away from family getting access to specialist care, so bringing care closer to home, making it more available to rural and regional Victoria.

Ms STITT: I note that on page 6 of chapter 1, BP3, government support for drought-affected farmers is listed in table 1.4. Are you able to give the committee a little bit more information about how the government is helping our farmers prepare for recurring drought and dry seasonal conditions in Victoria?

Mr PALLAS: Certainly. We have invested \$45 million as a government in a drought support package to help farmers, recognising particularly Gippsland and northern Victoria, where conditions have been particularly tough. Our approach has been to provide immediate financial support and support long-term infrastructure to prepare for future drought. With our \$5.6 million farm business assistance program we have delivered a cash injection directly to the pockets of farmers so that they can spend it on what they need, whether it is for feed, whether it is rates or anything else for that matter. This budget expands that scheme to eligible businesses in Wellington, East Gippsland and north-west Victoria.

We have also provided \$5 million to extend the program of on-farm drought infrastructure support grants for lasting on-farm infrastructure, basically to assist not just the immediate needs but also to provide for farmers in the current drought and prepare for future droughts. So we are delivering with an on-farm emergency water rebate scheme in Victoria to provide targeted relief to Victorian stock producers, and the package is also being provided through improved access to emergency water supply points. Additionally, for the longevity of the sector, we have also invested \$143 million to expand the biosecurity services system, ensuring our state's clean and green reputation, and also importantly protecting the livelihoods of Victorian producers from pests, disease and invasion of plants and animals. Our relief is to go towards easing the burden of drought-affected communities, and we are continually monitoring the conditions right across the state.

Ms STITT: Great. Treasurer, I know you have already touched on the unemployment figures in the state this morning, but I would like you to, for the benefit of the committee, give us a little bit of insight into why you think we have had such a strong outcome in regional Victoria, with the unemployment rate falling to 4.2 per cent, which is the lowest in Victoria's history, as I understand it. Could you take us through what you think some of the reasons are for that great outcome.

Mr PALLAS: Yes. I think the obvious one is that we are not a one-trick pony when it comes to the investment that we are making in rural and regional Victoria. We have recognised that we have to make investment in these communities in order to ensure that they get the opportunity to grow and to prosper but also to understand that these investments have to be targeted to ensure that we also allow the private sector the opportunity to grow as well. So that means the taxation relief that we have specifically targeted to regional Victoria has had a real impact. Yes, the services are growing, just as our investment in services right across the state are growing. Our labour market conditions are the strongest in the nation—there is no doubt about that.

Our employment growth is forecast to enter a sixth year of above trend growth, the strongest cycle since the 1980s.

What is happening in the state of Victoria is also happening, but perhaps in a more dramatic way, might I say, in regional Victoria, given that its unemployment rate is now comparatively lower than metropolitan Melbourne's. There are not lot of occasions when we can sort of point back historically to those performances. In practical terms what this means is, yes, we have been able to create more than 450 000 jobs right across the state. But if we look, for example, to our regional employment growth, we are basically seeing things like a 6.2 per cent growth in employment across regional Victoria: Ballarat gets 4.1, Bendigo 1.2, Geelong 6.2. You can basically see the figures right across the state demonstrating progressively, whether it is year-on-year or whether it is any three-month period, that the investment is working, whether it is an investment in infrastructure and the massive almost doubling of infrastructure investment that the state has made with respect to ensuring that we deliver the infrastructure that rural and regional Victoria wants—and that almost doubling is by comparison to the preceding record of the last government. But our record investment in TAFE is already seeing thousands of Victorians skilling up, preparing themselves to become job ready.

Our investment continues to grow right across the state. Victoria has a broad and, might I say, diverse economy, recognising the contribution that rural and regional Victoria makes in that respect, whether it be in our food and fibre sector or indeed alternatively in areas such as the provision of some of our outstanding achievements around new manufacturing—Carbon Revolution in Geelong. These are investments that pave the way to future employment and activity going forward.

Ms STITT: In the remaining time that I have, I just wanted to take you to a very significant part of the Andrews Labor government's second term, and that is the mental health royal commission. I refer to pages 51 and 92 of chapter 1 of BP3. There is a total of \$17.2 million funding for the Royal Commission into Mental Health, so in the short time that we have left this morning I wonder if you can highlight what that funding is for and outline the role of the royal commission.

Mr PALLAS: Yes. One of the promises that this government made before the election campaign was to deliver a royal commission into mental health. I suppose too often our mental health system has failed people. Too often people have gone without the help that they need, and the royal commission is really about redressing that and also recognising that communities need an opportunity to have some input into the thinking about the systems and the responses that governments traditionally have made over a long period of time. The royal commission will help us understand the shortcomings in the current system with regard to mental health care, and to provide some practical recommendations so that Victorians can get the services that they need. The \$13.6 million on page 92 that I was referred to provides money for the operational cost for the royal commission, while the \$3.6 million on page 51 provides complementary services to the Office of the Chief Psychiatrist and also for a campaign that is aimed to reduce the stigma around mental health. Of course far too often these problems have been covered up and not dealt with in a way that I think the community's expectations would like to see.

We are talking about family members. We are talking about many people in the community who are presenting who are not getting the care they need because of the stigmatisation of the problem. We need to address that as well as the systems of response that can be made available to people in these circumstances. The government has got more than 20 roundtables across the state to hear from experts, including Victorians who actually live the experience of mental health problems or the provision of services to those with mental health problems. More than 8000 Victorians made submissions online to help shape the terms of reference.

The CHAIR: Treasurer, it is with deep regret—on probably the most important policy area that we were talking about throughout your 3 hours of testimony in the Treasury portfolio—that it is my unfortunate duty to tell you that your time is up. I am sure everybody watching this live stream around the world will be disappointed at that. Nevertheless I do want to thank you and the officials for appearing before the committee today. The committee will follow up with questions that you have taken on notice in writing and responses will be required within 10 working days of the committee's request.

Witnesses withdrew.