

# **PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE**

## **Inquiry into the 2022-23 Budget Estimates**

Melbourne—Friday, 13 May 2022

### **MEMBERS**

Ms Lizzie Blandthorn—Chair

Mr Danny O’Brien—Deputy Chair

Mr Rodney Barton

Mr Sam Hibbins

Mr Gary Maas

Mrs Beverley McArthur

Mr James Newbury

Ms Pauline Richards

Mr Tim Richardson

Ms Nina Taylor



**WITNESSES**

Mr Tim Pallas MP, Treasurer,

Mr Jason Loos, Deputy Secretary, Commercial Division,

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

Mr Chris Barrett, Deputy Secretary, Economic Division, Department of Treasury and Finance;

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

Mr Bill Whitford, Managing Director, Treasury Corporation of Victoria; and

Ms Kate Galvin, Chief Executive Officer, Victorian Funds Management Corporation.

**The CHAIR:** I declare open this hearing of the Public Accounts and Estimates Committee.

I ask that mobile telephones please be turned to silent.

I begin by acknowledging the traditional Aboriginal owners of the land on which we are meeting. We pay our respects to them, their elders past, present and emerging as well as elders from other communities who may be with us today.

On behalf of the Parliament, the committee is conducting this Inquiry into the 2022–23 Budget Estimates. The committee's aim is to scrutinise public administration and finance to improve outcomes for the Victorian community.

I advise that all evidence taken by the committee is protected by parliamentary privilege. However, comments repeated outside this hearing may not be protected by this privilege.

Witnesses will be provided with a proof version of the transcript to check. Verified transcripts, presentations and handouts will be placed on the committee's website.

We welcome the Treasurer, Tim Pallas, as well as officers from the Department of Treasury and Finance. Minister, I invite you to make an opening statement and presentation, and this will be followed by questions from the committee. Thank you.

**Mr PALLAS:** Thanks, Chair and committee members. It is a pleasure to be with you here today. I would like to start by acknowledging the traditional owners of the land on which we are meeting and to pay my respects to their elders past, present and emerging.

**Visual presentation.**

**Mr PALLAS:** The last two years have been a challenge for governments and communities right around the world in ways that few of us would have predicted. Confronted by a global pandemic in Victoria, we acted decisively. All up we have invested more than \$44 billion to support the health system, save jobs and protect the community. It created the foundation for Victoria's recovery, which has exceeded expectations and is gaining momentum every day. The Victorian economy suffered an extraordinary shock as a result of the pandemic, as did jurisdictions right around the globe, but we went into the pandemic from a position of strength, with above-trend economic growth five years running. We were confident of a quick bounce-back, but the recovery has been even faster than predicted.

The unemployment rate is the lowest since current records began and labour participation is near a record high. Victoria was leading the nation in jobs growth before the pandemic hit. Following the impact of the pandemic, the jobs recovery has been nothing short of remarkable. Employment has risen by 280 000 jobs since September 2020 and is forecast to keep growing strongly. Victoria is again leading the way: the fastest jobs growth in the country since September 2020 and the fastest growth since we came to government, in November 2014. The jobs recovery has been inclusive, and I am pleased to say that by earlier this year the proportion of workers amongst those exposed groups recovered the most—above prepandemic levels.

Under the coalition Victoria's economy went backwards relative to our national average. In contrast the Andrews Labor government has overseen strong economic growth prior to COVID, well above the national average. The pandemic took a toll on the Victorian economy and the national economy, as you can see on this chart. The budget shows that the outlook for the Victorian economy is strong. It is forecast to grow by 3.25 per cent in 2022–23, following respective growth of 5.5 per cent in 2021–22. In 2021–22 Victoria is expected to have the lowest total revenue per capita of any state or territory. Taxation is expected to account for 37 per cent of total revenue in Victoria and in New South Wales. Royalty revenue is expected to contribute less than 1 per cent of total revenue in Victoria compared to 3 per cent in New South Wales and 23 per cent in Western Australia. Victoria's revenue per capita remains the lowest or second lowest from 2021–22 to the final year of available data, which is 2024–25.

Our priority through the pandemic was to protect lives and to save jobs. We used our balance sheet to do this, but we had a clear four-step fiscal strategy to recover, a strategy that we unveiled in the 2020–21 budget, one we have applied ever since and one that is succeeding. The first step was to create jobs and restore economic growth. The second step was to reach an operating cash surplus, which we delivered a path to in last year's budget, and we will deliver this in full in this coming year. The third step was to reach an operating surplus. With this budget we are delivering on step 3, with an operating surplus of \$650 million forecast for 2025–26. Our budget will recover by an incredible \$18 billion in just four years. We are returning the budget to surplus while delivering the services and infrastructure that Victorians rely on. We are also making progress on step 4 in our fiscal strategy to stabilise debt levels. Net debt will be lower in every year than previously forecast, reaching 26.5 per cent of gross state product in June 2026. The commonwealth government's net debt in the same period is forecast to be almost \$700 billion higher at \$864.7 billion, and that is 33.1 per cent of GDP. Factoring in anticipated rate rises, the interest expense as a proportion of total budget revenue is forecast to remain low by historical standards.

We are establishing the Victorian Future Fund to reduce the pandemic debt burden on future generations. The fund will initially be set up using proceeds from the VicRoads modernisation joint venture. It will be supplemented by investment returns, by land sales and a proportion of future surpluses once net debt stabilises. It is projected to have a balance of around \$10 billion in the medium term, and every dollar will be used to repay COVID borrowings.

The government's Big Build has played a crucial role in our economic and jobs recovery. Our infrastructure investment will average \$21.3 billion a year over the budget and forward estimates. That is more than four times the average before we came to government. All up, our capital works program has supported more than 190 000 jobs since 2014.

We have been delivering this record infrastructure pipeline despite consistently receiving less than our fair share of funding from the commonwealth. Of the \$3.5 billion in new infrastructure investment to the states and territories announced in the March commonwealth budget, Victoria was allocated less than 6 per cent. Treasurer Frydenberg also failed to allow the Commonwealth Grants Commission to take account of COVID-related spending. As a result, Victoria and, might I say, New South Wales are set to be short-changed—in Victoria's case by more than \$3 billion over four years. And under the commonwealth government's distorted GST carve-up, Victoria will lose a further billion dollars a year if the no-worse-off guarantee is not extended beyond 2027.

COVID-19 of course has put unprecedented pressure on our health system and health systems around the world. This budget delivers a \$12 billion pandemic repair plan, delivering more staff, better hospitals and first-class care. The investments delivered in this budget include \$2.4 billion for more hospital staff and to support new wards as they open; \$1.5 billion to increase surgical activity beyond prepandemic levels, reaching 240 000 surgeries a year; and \$698 million so more people will get the care that they need in the comfort of their own home as we continue the Better at Home program. Our investment in health and hospitals will mean that we are training and hiring up to 7000 healthcare workers, including up to 6000 nurses.

Last year we invested a record \$3.8 billion to rebuild our broken mental health system. This budget builds on these investments with \$1.3 billion to take the next step to implement the recommendations of the royal commission. This is not just a social investment and it is not just about saving lives, although we know that it will absolutely do that; it is an investment in our economy, boosting productivity and labour force participation.

This government is investing to build a world-class education system, because no matter their background or their postcode we want every child to have a world-class education and schooling. That will give them the key to unlock their best life. The budget delivers \$1.8 billion to deliver 13 new schools and 65 school upgrades, including upgrades to 36 special schools, meaning that since 2015 we will have upgraded every special school in the state. There is \$779 million to recruit around 1900 teachers, giving them more time to prepare and focus on each student's particular needs, and \$277 million to transform VCE and VCAL to help students graduate into a great job and a rewarding future. This will be the biggest reform to the VCE since its inception.

This budget invests in the road and rail projects that will get Victorians where they are going and get more Victorians back into work. This includes \$780 million for road maintenance works across the state—a 37 per cent increase on the average of the previous decade; \$383 million will be directed to switch on the Big Build, including to prepare for day one of the Metro Tunnel operations; \$250 million for 12 new VLocity trains for the regional network; \$213 million for the first stage of the Mickleham Road upgrade; and \$158 million for accessibility and safety upgrades across the public transport network.

This budget invests \$5.7 billion into our rural and regional communities, and that includes \$2.6 billion to bring the Commonwealth Games to our regions. The government has announced over \$36 billion of new funding in regional Victoria since it came to office, and we have invested an average of \$4.5 billion in regional Victoria, which is around 2½ times the \$1.8 billion per budget under the previous government.

Chair and committee members, that is a brief summary of the budget. It is about the health and wellbeing of every single Victorian. We are investing in hospitals and health care. It is a budget that delivers more staff, better hospitals and first-class care. It is a budget that puts patients first.

**The CHAIR:** Thank you, Treasurer. Deputy Chair.

**Mr D O'BRIEN:** Thank you, Chair. Good morning, Treasurer and officials. Disappointing not to see Secretary Martine here; I hope he is okay. Treasurer, I refer to budget paper 5, page 157, which has the taxation estimates for the state. It lists all the state's taxes that will be levied on Victorian families and businesses. On 27 November 2014, the day before the state election, you stood up at a media conference and said, 'Labor will not introduce any new taxes or increase existing taxes'. Why have you broken that promise?

**Mr PALLAS:** We have been pretty clear. In a press conference—and I would like to see the transcript of that comment because we were very clear, and indeed I was criticised in the costings process media conference that I held in 2014 for refusing to give that commitment, Mr O'Brien. Certainly from our perspective, unlike the Baillieu opposition in 2010 when you did in fact give a commitment in your written policies for no new taxes and charges—you breached that commitment.

**Mr D O'BRIEN:** Sorry, Treasurer. We are actually asking questions about the government not the opposition from 2010. Can I come back? If you dispute that comment—

**Mr PALLAS:** Yes, I do.

**Mr D O'BRIEN:** All right. Well, we will take that on notice, but you cannot dispute that the Premier that same day gave a guarantee to Peter Mitchell on Channel 7. When asked, 'Will you increase taxes?', he said: 'I give that guarantee, Peter, we will not do it. I give that guarantee to each and every Victorian'.

**Mr PALLAS:** Well, there has been an election since then, and what happened between—

**Mr D O'BRIEN:** Even in the first term. Even in that first term, Treasurer, you—

**Mr PALLAS:** Mr O'Brien, we are talking about this budget, and we are talking about the—

**Mr D O'BRIEN:** Okay, now we want to talk about this budget.

**Mr PALLAS:** performance of the government that has been re-elected by the people of Victoria since the comments that you are referring to. I can make the point that we made it clear as we went into the last election that we would give no such commitment, and the reason we did not is we have reduced taxes and charges on 57 separate occasions in the two terms that we have been in government—57 occasions.

**Mr D O'BRIEN:** So, Treasurer, since 2014 there have been 42 new or increased taxes—

**Mr PALLAS:** So in net we are doing better than that.

**Mr D O'BRIEN:** Forty-two new or increased taxes—

**Mr PALLAS:** Fifty-seven reduced taxes or charges.

**Mr D O'BRIEN:** Did you take any of those tax changes to either election?

**Mr PALLAS:** No. What we did take to the election was a very clear statement from me that we were not going to chisel our economy into the sort of granite and inertia that you when last in government had condemned the Victorian economy to. Yes, we have changed the tax mix, because it is about fairness. We, for example, found \$1.1 billion worth of tax breaks for first home owners and people looking to get into their first home. Those were not things that we committed to. Those were things we just did in the interests of the Victorian community.

**Mr D O'BRIEN:** But the opposite of that, if you like—new stamp duty on property transfers between spouses, 2017–18; increased stamp duty on new cars; new stamp duty on off-the-plan purchases. You give with one hand and take with the other, particularly when it comes to housing affordability, Treasurer—about 21 of those 42 increased or new taxes have been on property. How can you possibly say that you are trying to make life easier on a cost-of-living basis for Victorians when you are increasing the cost of the most basic thing: a roof over your head?

**Mr PALLAS:** Well, perhaps, Mr O'Brien, given that you have started the list of tax increases, I will give you a list of tax cuts.

**Mr D O'BRIEN:** No, I did not ask you for that. I am asking you about the tax increases.

**A member:** Forty-two.

**Mr PALLAS:** Yes, as opposed to 57 cuts. So in net we have certainly intervened substantially in order to ensure that we have provided a fair market. Some of the so-called tax increases that you talk about, Mr O'Brien, are about providing a level playing field. Now, you described as a tax increase the fact that we put in place a foreign purchasers additional duty. That is to level the playing—

**Mr D O'BRIEN:** I actually did not mention that, Treasurer.

**Mr PALLAS:** Well, it is in your 43 list, Mr O'Brien, so I am well aware of it, and essentially what we do know is that you do not recognise the other side of the equation. All you do is say, 'We should chisel in granite our tax regime and we should never change'.

**Mr D O'BRIEN:** No, the question—if I go back to the very start, Treasurer—comes down to the fundamental honesty and accountability of the government. You promised no new taxes—

**Mr PALLAS:** When?

**Mr D O'BRIEN:** In 2014.

**Mr PALLAS:** What year is it at the moment? Oh, we are in 2022.

**Mr D O'BRIEN:** And you continue to increase—

**Mr PALLAS:** We have been through how many elections since then?

**Mr D O'BRIEN:** Well, we have had one election since then, Treasurer, and you have just confirmed with us that you did not give any commitments that you would increase these taxes. Can I ask, then, what has been the total tax take of your 42 new or increased taxes since the 2014–15 budget?

**Mr PALLAS:** Well, you would have to net it off against of course the 57 cuts and reductions in charges, Mr O'Brien, otherwise it would be entirely unfair. But I can tell you from the government's perspective in

terms of tax take the state has consistently looked at revenue in the vicinity of \$81.9 billion coming in in this financial year. That is an average of 2.8 per cent growth over the budget and the forward estimates period. Our expenditure, on the other side of the equation, of course to help the Victorian people, to provide support and assistance for business, has been \$99.5 billion in 2021–22, and that of course will reduce by 9.7 per cent to \$89.8 billion in 2022–23. So the government has to look at the entire tax take. It is about fairness, and it is about using our balance sheet to protect the wellbeing of those most exposed during the course of this economic event. And can I also say we have lived our values large as a government by making sure that those who depend upon the requirement of government to support their respective positions, whether it be using our balance sheet to put over \$700 million towards getting homeless into homes or whether it is essentially \$1.1 billion a year of tax breaks for purchasers of property, for first home buyers or of course for those moving into their principal place of residence. So in net we say the number of tax breaks is substantially larger than your contorted and, might I say, incorrect list of taxes that you as an opposition have been flashing around.

**Mr D O'BRIEN:** I like the fact that you can tell that our list is correct when I have not given it to you, Treasurer. But anyway—

**Mr PALLAS:** Well, can I tell you, I have it—

**Mr D O'BRIEN:** BP5, page 157—

**Mr PALLAS:** and I can take it apart for you if you like.

**Mr D O'BRIEN:** Well, they are all there. Are you actually saying that those 42 new or increased taxes are not new or increased taxes?

**Mr PALLAS:** I am saying that in many cases your list is riddled with errors and double counting and that you have misread legislation in various places. You count measures that you yourselves voted for as well as indexation increases, levies applied to save lives, industry support packages funded through levies, overall tax decreases and circumstances where we were simply ensuring that the same rate applied to Victorians equally as to foreign residents. So, yes, I think we could have a lot of fun with your list.

**Mr D O'BRIEN:** Treasurer, the tax take by way of specifically state taxes out of the wallets of Victorian families and businesses is on track to more than double by 2025–26 since 2014, so from \$16 billion in the last year of the previous Liberal-Nationals government to \$35 billion under your current government. Do you understand how this has an impact on cost of living for all Victorians?

**Mr PALLAS:** I suppose the first point I would make is to reinforce the point that as a percentage of the state's revenue we are the lowest taxing state, or revenue-generating state, in the nation. I think that you have to look at it in net. We know that the opposition of course confuse—

**Mr D O'BRIEN:** We are not here to talk about the opposition, Treasurer.

**Mr PALLAS:** Well, we are here to talk about our tax take, and the fundamentals under which you assume a tax take need to be clarified before we get involved in the debate.

**Mr D O'BRIEN:** No, I am not assuming it, Treasurer. Page 157 of budget paper 5—it is your document—an increase to \$35 billion, which is more than double what it was when you came to government. It is easy to say, 'We are the lowest in terms of revenue'. Well, other states have got mining revenue, for example, so they are going to have higher revenues. It is the tax take on ordinary Victorians that I am talking about.

**Mr PALLAS:** As a country member of Parliament, Mr O'Brien, you would know that the regional tax rate for payroll tax is 1.2125 per cent, which is one-quarter of the metropolitan rate and which has all been introduced—those cuts—by this government. That is probably the reason why the unemployment rate in regional Victoria is 3.2 per cent, which is more than half what it was when you were last in government. Our interventions in the tax mix are working. You simply have a view as an alternative that we should never change taxes, and you can never get to fairness in those circumstances.

**Mr D O'BRIEN:** No, no. We are talking about promises not to increase taxes, Treasurer. Everyone understands you have got to adjust the budget from time to time. But your Premier gave an ironclad guarantee

to each and every Victorian that there would be no increased or new taxes, and you have broken that 42 times. That is the point.

**Mr PALLAS:** So you are moving away from my ironclad guarantee. You are talking to a 2014 reference.

**Mr D O'BRIEN:** Only on the basis—I have got the transcript here. So are you saying that what the Premier says does not matter, 'Listen to me'?

**Mr PALLAS:** What you seek as a mandate for each election matters, and what we said before the last election was that we would give no guarantee as to an increase in taxes and charges. Similarly, we gave no guarantee that we would not reduce taxes and charges where we saw it as fair and efficient in terms of making sure that we had a progressive and equitable tax system. That is exactly what we have done.

**Mr D O'BRIEN:** I want to go to your point there of fair and efficient, efficient in particular, Treasurer. The government has overseen nearly \$28 billion of infrastructure project cost blowouts. You talked about payroll tax. We could have had no payroll tax for three years at \$22 billion, for example, and said to businesses, 'Don't worry about COVID. We'll help you recover. We've got your back'. You could have reduced land tax, you could have reduced stamp duty for all Victorian homebuyers; people are struggling with housing affordability. And yet you have wasted \$28 billion on cost blowouts on predominately metropolitan infrastructure. How do you justify that when you talk about efficiency?

**Mr PALLAS:** I think that we need to contextualise it in the sense that when you deliver infrastructure you deliver massive job opportunities. That is why one in 10 workers in this state at the moment is associated with the construction industry—190 000 Victorians are employed in this industry.

**Mr D O'BRIEN:** It is not a question of whether you create jobs with infrastructure, Treasurer. The question is about the waste and the blowouts. You cannot just say, 'Oh, well, we created jobs'. You can create jobs and keep them efficient.

**The CHAIR:** Mr O'Brien, could you allow the Treasurer the opportunity to complete his answer.

**Mr PALLAS:** If you look at, for example, the government. We have delivered on more than 780 projects worth more than \$159 billion. Those are delivered for the people of Victoria. We know that when we look across the country and further afield we are not alone in dealing with the challenges that we confront around commodity price rises, resourcing price rises, skill shortages and a lack of competition because of an overabundance of government activity around construction. So what we do know is if you look at this year's total escalation, it sits around 4 per cent. If we take out the West Gate Tunnel, which is already announced and was announced in December, it is 1 per cent on close to \$190 billion worth of projects continuing or commencing.

We also know that when you look at that Big Build process, the Office of Projects Victoria looked at the challenges of managing major infrastructure projects. They produced a report, substantial elements of which were referred to in last year's budget and again in this year's budget. The benchmarking review focused on 379 large transport and social infrastructure projects greater than US\$250 million across 14 OECD countries. It provides an insight into the performance and challenges of complex project delivery. About one-third of those major transport and social infrastructure projects globally exceeded their estimated schedule, and 53 per cent of major transport infrastructure projects exceeded their estimated cost, with an average cost overrun among these projects of 59 per cent. Now, if you put that for the 1 per cent adjustment on our capital works program this year, excluding—

**Mr D O'BRIEN:** This year. But \$28 billion over the past two terms, Treasurer, just on the—

**Mr PALLAS:** So am I hearing from you that you believe we are getting much better at this as we go along then?

**Mr D O'BRIEN:** Well, you could not get much worse, quite frankly—\$28 billion. I mean, look at the North East Link: from promised at \$5 billion it has gone to \$15.4 billion. West Gate Tunnel—I mean, you have even got that in the budget papers—from \$500 million promised as a supposedly shovel-ready project in 2014 to \$5.5 billion and now \$10.2 billion.

**Mr PALLAS:** I think it is a little unfair to compare the original project to what is being delivered now, Mr O'Brien.

**Mr D O'BRIEN:** Okay. Well, that was the project that was promised. But I have been fair. I have said you revised it to \$5.5 billion and now it is \$10.2 billion.

**Mr PALLAS:** The fact that we exceed our promises is a commendation on the government, not a criticism surely. This is a much more substantial and better functioning facility.

**Mr D O'BRIEN:** You are going to claim this as commendations, Treasurer. Is that right?

**Mr PALLAS:** What I have said to you is 53 per cent internationally of major transport projects exceed their estimated cost, with an average cost overrun amongst these projects of 59 per cent. So the 4 per cent in total on these projects demonstrates a pretty substantially impressive international number.

**Mr D O'BRIEN:** Treasurer, those figures, those cost imposts, the global commodity prices in timber, for example—leaving aside the fact that you are shutting down our native timber industry and are then surprised that timber prices and availability has gone up—that impacts on everything. That impacts on building. Now, a residential builder in Victoria, once they sign a contract, they cannot increase the price, and yet you have got the Premier saying that infrastructure is like doing a kitchen reno—it costs what it costs. Do you agree with him on that? A residential builder cannot say, 'Sorry, the price of the Laminex has gone up; I've got to increase the price of your kitchen by 20 per cent'. Why does the Victorian government just say, 'Well, the taxpayers will just pay some more'?

**Mr PALLAS:** Mr O'Brien, certainly the government recognises that we have to have partnerships with the private sector, particularly when you talking projects of the order of magnitude that the government is producing. Getting an appreciation of cost escalation, how risk should most appropriately be borne, is critically important to our capability and engagement with the private sector. As a government we obviously want the private sector to be interested in delivering these projects, but we also want them to appreciate that we expect rigour around price, and they also need to appreciate that they have a partner in the state government who will not simply cut them loose and see these projects, if their costs escalate, become effectively unable to continue to operate. Given we are talking multibillion-dollar projects, we have to be prepared to work cooperatively and constructively with these industry partners.

**Mr D O'BRIEN:** Speaking of which, and speaking of working with your industry partners, 59 level crossings have been removed, I believe. It might be 60 now.

**The CHAIR:** Sixty. It is Glenroy.

**Mr D O'BRIEN:** What is the cost of each completed level crossing? Could you provide a breakdown to the committee on those, please?

**Mr PALLAS:** Mr O'Brien, the budget paper that deals with these matters of course deals with each and every project as it—

**Mr D O'BRIEN:** No, it does not, Treasurer. It has a big global figure for two different level crossing removal packages. It does not have the individual—

**Mr PALLAS:** Because it is a single constructed program, Mr O'Brien.

**Mr D O'BRIEN:** Surely you can tell the Victorian people what each individual level crossing package cost.

**Mr PALLAS:** What we do know is that the level crossing removal program, as contained within the budget papers, has a TEI of \$6.3 billion.

**Mr D O'BRIEN:** I am asking for the individual cost—

**The CHAIR:** Thank you, Treasurer. I am sorry to interrupt you, Deputy Chair, but your time has expired. I will pass the call to Mr Maas.

**Mr MAAS:** Thank you, Chair, and thank you, Treasurer, for your appearance this morning. Thank you, Treasury, as well. We note the absence of Secretary Martine, and we of course wish him a speedy recovery. Treasurer, if I could go to fiscal strategy, which would seem like a logical place to start, I think it was in the budget back in November 2020 where we first started to hear this notion of four steps. Indeed BP2, chapter 1, page 3, under the heading ‘Strong financial management’, talks about the government’s four-step fiscal plan. I was hoping that you would be able to explain for the committee what the reasoning behind the four-step plan is.

**Mr PALLAS:** Thanks very much, Mr Maas. Let me also say that I am really pleased to be able to take you through this. I have heard commentary of late that the government does not have a plan. Now, we have had a plan that we announced in our November budget in 2020, and it is one that we have consistently reported on, and I think with a fair degree of confidence can say that we are progressively demonstrating that we are meeting the targets that we set for ourselves. I think in many respects it is far and away a clear and demonstrated strategy the government is putting in place, one that we are holding ourselves to account to and certainly one that does not have a comparator in any other jurisdiction in the nation, most notably the commonwealth government who do not seem to have any view about how they manage fiscal repair.

The government has a proud record of strong and responsible fiscal management. Of course prior to the pandemic the government consistently adhered to a robust fiscal framework that really saw us deliver constant operating surpluses and maintain debt at a sustainable level while also delivering improved services and infrastructure for the Victorian people. Of course, like most other governments around the world, when COVID-19 struck we had to look at a different approach. We were forced to act, but we did it robustly and we did it decisively as a government. Throughout the pandemic the government prioritised the use of its balance sheet to protect the wellbeing of Victorians, the Victorian economy and of course Victorian businesses, making sure that families and communities were well provided for as best we could in the context.

This approach was consistent with the stimulus approaches in Australia—and might I say around the world—and was supported by the Governor of the Reserve Bank of Australia, who encouraged governments to stimulate the economy through increased borrowings. Indeed each treasurer of each state and territory signed up to a common statement saying that we needed to use our balance sheet, we needed to go into debt, in order to keep the community whole. It did not matter what their politics were, they all understood the challenge that we confronted. Despite this, we always knew that we would only be doing this for as long as the community needed it, that countercyclical effort and activity, and we would need to begin a process of being serious about budget repair at some point, and we are and that is well underway. That is why in the 2020–21 budget the government developed a robust fiscal strategy to manage the extreme circumstances that the state was facing and also to provide the foundations for our recovery. It involved a four-step plan to support Victorians through the COVID-19 pandemic and to restore the budget in the medium term.

The four-step plan provided a clear framework. Step 1 was to create jobs, reduce unemployment and restore economic growth; step 2 was to return to an operating cash surplus; step 3 was to return to an operating surplus; and step 4 was to stabilise debt levels. In developing that four-step plan the government knew that supporting the economy and the community through the pandemic would be vital to the state’s economic and fiscal recovery. But it was more than that. It was important that Victorians knew that they had a government who prioritised their health and their wellbeing above all else. Ultimately their wellbeing had to be front and centre of our fiscal strategy because you can get no repair with an economy and a community that are unable to take the opportunities of the upswing in the economic cycle. The community still needed us to continue to support health systems, support businesses and workers most impacted by the public health restrictions. That is why the Andrews government injected \$44 billion worth of support to help steer Victoria through the worst of the pandemic. Over \$13 billion was allocated to support Victoria businesses.

I am pleased to report that the outlook for the Victorian economy is positive, with the economy forecast to grow by 3.25 per cent in 2022–23, and that is set to follow expected growth of 5.5 per cent in 2021–22 amid the economy’s recovery from the effects of the COVID-19 pandemic. So this really does vindicate the government’s decision, despite the calls of some, not to go down a path of austerity—we chose not to do that; we believed that we had to prioritise the interests and the wellbeing of the Victorian community—which would only provide a temporary and ultimately illusory benefit. That is, if we were to pursue austerity it would provide a temporary and illusory benefit. It would retard the growth of the economy, it would reduce the revenue inflows to the state in a repairing economy, and therefore a repairing revenue base, and the government’s coffers. Ultimately in the short term any satisfaction that we took by holding onto our balance

sheet at the expense of the Victorian community would mean that in the long term our economy would not grow, and it would be fool's gold. We would have short-term relief for long-term pain. So the evidence was clear from the global financial crisis that this strategy would have had a long-term detrimental impact upon the government's ability to deliver services, to grow the economy and to create jobs.

It also provided a backdrop for the development of the jobs plan which was first outlined in that 2020–21 budget. You recall that in that plan the government indicated a target for itself of creating some 200 000 jobs by the end of 2022 and an all-up total of 400 000 jobs by 2025. So despite some challenges in 2021, as you have seen, the omicron and before that the delta waves that have hit the Victorian economy during this budgeted year, the current budgeted year, despite all that I am pleased to say to the committee that Victoria has created 280 000 jobs since September 2020, which was the low point of the economic cycle of the pandemic. It is the best performing state in the nation. Given this, the government are confident that we have well and truly delivered on the first step in our strategy: economic growth running at about 50 per cent faster than the rest of the nation and of course jobs growth the best in proportionate terms in the nation. Full-time employment now, quite interestingly, is well above its prepandemic levels, and the workforce participation rate is near a record high as well. The unemployment rate is at 4 per cent—that is the lowest since current records began—and the underemployment rate, which really reflects employed workers who want to work more hours, is at its lowest level since 2002.

That is quite a stellar performance of the Victorian economy, and quite frankly we do not take the credit for it; the credit belongs to the Victorian people. Their resilience and their perseverance have demonstrated that they have not only prevailed in these circumstances but they are prospering. And the road map that we set out is showing that this growth we have is shared across the state. With regional Victoria we are seeing the unemployment rate sitting even lower than it is in Victoria at 4 per cent—it is at 3.2 per cent in regional Victoria. That is a near record low. So the strategy of supporting the vulnerable and protecting the economy delivered strong foundations for the management and impact of COVID-19, and it also ensured that the economy was in a robust position to bounce back once those restrictions were eased. Ultimately getting Victoria into work provides the catalyst for the government to begin working through the next phase of the fiscal strategy.

**Mr MAAS:** Thanks, Treasurer. I was hoping that you would be able to expand a bit on that in terms of the why and the reasoning behind it—why the government set out the fiscal plan—and I guess as a second part how the government is measuring itself or how we are progressing against the plan.

**Mr PALLAS:** As I mentioned in my substantive answer, prior to the onset of the pandemic we had a clear fiscal framework. We had a proud record of delivering consistent operating surpluses and having debt at sustainable levels. We did not accept that what had gone on in the past was a solution to the problems that confronted us during this crisis. We had to change the way that government operated, and we did it for very good reason. We put the wellbeing of the Victorian people front and centre and the wellbeing of the state's balance sheet as a secondary consideration to the wellbeing of Victorians, and we knew that in the long term our investment in their welfare would pay dividends. There is no doubt that the pandemic changed things. It challenged governments right around the world just as it challenged communities, workers and of course businesses. So we acted quickly, we acted decisively to protect the Victorian community, both from the health event and of course also from the economic event that came with the pandemic.

But as a government we knew that we needed to plan for the future. This could not simply be a case of chasing our tail, trying to rectify the problems that presented themselves as they presented. We had to think about what a long-term future looked like and how we took the opportunities that the pandemic presented in terms of the way that the economy was changing, the way that communities were changing. In the course of this environment we saw that there were opportunities available to the state and to the community. So the government made it clear that we would commit to that four-step fiscal strategy. Now this was just after the lowest point in the economic cycle, so we plotted a path out that we would hold ourselves committed to all the way through, and we continue to do exactly that. I have every confidence that this four-step plan is well and truly on the way to demonstrating its value—a clear path back to surplus and to stabilising debt as a share of GSP. Importantly, recent economic indicators have shown that the strategy is working, with the economy rebounding strongly in part due to the measures included in the jobs plan, which was incorporated into that 2020–21 budget. As a result, the 2022–23 budget is forecast to show significant improvements in the state's key fiscal aggregates when compared to the 2021–22 budget update, which was released in December 2021.

Total revenue for the general government sector is expected to be \$81.9 billion in 2021–22, an upgrade of \$3.9 billion from the 2021–22 budget update, largely due to the continued strength of Victoria’s property market. Revenue growth is then expected to average 2.8 per cent a year over the budget and forward estimates, reaching \$91.4 billion in 2025–26. So we are seeing the revenue base of the state replenishing in no small part due to the growth in the economy. Total government sector expenditure is expected to reach \$99.5 billion in 2021–22 before reducing by 9.7 per cent to \$89.8 billion in 2022–23. Now, that reduction reflects the targeted and short-term nature of interventions and initiatives that the government took to fund the public health response and to support the economic recovery. Expenditure growth is expected to remain moderate over the forward estimates, reaching about \$90.8 billion in 2025–26. Government infrastructure investment, our GII, is expected to average \$21.3 billion a year over the budget and forward estimates, and that reflects the continuation of the government’s commitment in the Big Build and of course the vitally important role that it plays not only in employment but in the economic enrichment of the state.

In terms of how we are progressing against our four-step strategy, I will outline to the committee an analysis on each of the steps. The first step, creating jobs, reducing unemployment and restoring economic growth, has progressed well, as you would appreciate. I have already outlined to the committee that employment has risen strongly in recent months as public health restrictions necessary to contain the delta and subsequently the omicron outbreaks were eased and the demand for workers increased. The omicron variant was another challenge that we had to confront for the Victorian labour market in January 2022, although employment declined only modestly and had fully recovered by February. So, as previously mentioned, this is a cornerstone of our fiscal strategy. This is the key part of our plans—that is, that we grow the economy and that we create jobs.

The second step in the government’s fiscal strategy, returning to an operating cash surplus—we are planning to see an operating cash surplus of \$1.3 billion from 2022–23 onwards, increasing to \$5.5 billion in 2025–26, an improvement since the 2021–22 budget update. The third step is returning to operating surplus. This is important as it is where the government generates sufficient revenue not just to cover its cash expenditure but also to support the ongoing replacement of its existing asset base. Importantly, the 2022–23 budget shows that net results from transactions from general government sector are forecast to be in surplus by \$0.7 billion in 2025–26. In fact that is about \$652 million. It is clear that there is an \$18 billion turnaround in just four short years, and it shows the really significant progress that we are making on our fiscal plans.

The fourth and final step of the fiscal strategy is stabilising net debt as a percentage of GSP. This remains an important step in the medium term for the state. It is critically important to the government. The step involves progressively improving the operating cash flow surplus to pre-pandemic levels. Those surpluses will fund a higher proportion of capital expenditure, reducing the reliance on borrowings. While both net debt and net debt to GSP are still projected to rise over the forward estimates, the rate of growth will slow in 2022–23, and it will continue to reduce further over the medium term. This reduction can give Victorians confidence that we are making immediate progress on this, highlighted by the fact that net debt is expected to be lower in each year of the forward estimates compared with the 2021–22 budget update—in fact to the tune of \$7.8 billion by June 2025.

A cornerstone of step 4 is the Victorian Future Fund, and that fund will initially be established using proceeds from the VicRoads modernisation joint venture. That is currently progressing. The investment returns from the fund will be quarantined, and they will be returned to the fund so that its balance will grow over time to offset borrowings. But both the initial investments and future returns will be quarantined to be used to repay COVID-19 borrowings. So overall, it is clear that the government is tracking well against that four-step strategy, and we remain steadfastly committed to ensuring its success. It has proved a pathway towards economic enrichment of the Victorian people.

**Mr MAAS:** Thanks, Treasurer.

**The CHAIR:** Sorry to interrupt you. The member’s time has expired. Mr Hibbins.

**Mr HIBBINS:** Thank you, Chair. Thank you, Treasurer, and your team for appearing this morning. I want to ask you about the Victorian Future Fund that you have established in this year’s budget. The budget is not going to be in surplus for another four years, so that is not going to be paying down the debt in the near term. So in reality with the Victorian Future Fund you are privatising VicRoads and selling off land to pay down the debt incurred from COVID. Is that correct?

**Mr PALLAS:** Well, no. I do not know how you can manifest a joint venture as a privatisation. We retain the real ownership of the asset, we continue to get revenue streams out of the asset and we do defer or ameliorate risk to the state as we build on the IT systems that will be vitally important going forward.

**Mr HIBBINS:** Hang on. So a private company will be paying the government an up-front fee, a private company will be taking over the licensing and registration function and a private company will then take the revenues from that licensing and registration function.

**Mr PALLAS:** No. Let me take you through what this actually does. The government retains an interest in our joint venture. We retain representation at board level, we regulate the pricing that attaches to all existing structures that are currently provided by registration and licensing and we continue to maintain a share of revenue coming in from the operation of this. Yes, we expect that for the right to be able to run an efficient and responsive registration and licensing system as part of a joint venture with the state that the state will get a capital payment from the joint venture party—

**Mr HIBBINS:** The joint venture party, which is a private company.

**Mr PALLAS:** Yes. Well, it—

**Mr HIBBINS:** I mean, we are getting into, I think, sort of weasel words here.

**Mr PALLAS:** Well, they will be superannuation funds or equity funds, equity investors, yes.

**Mr HIBBINS:** Private sector involvement.

**Mr PALLAS:** Yes. We do not have a problem, Mr Hibbins, with actually partnering with the private sector. You will probably see that there is a fair bit of that.

**Mr D O'Brien** interjected.

**The CHAIR:** Mr O'Brien, you do not have the call.

**Mr HIBBINS:** We are getting into semantics now. I call it privatisation, you are calling it 'joint involvement' or what have you, but essentially that is the debt management structure, isn't it? This joint partnership or privatisation of VicRoads and selling off land.

**Mr PALLAS:** Sorry, just repeat the question, please?

**Mr HIBBINS:** That is your strategy to pay off debt—it is the privatisation of VicRoads, or your 'joint partnership involvement', and selling off land.

**Mr PALLAS:** No. In fact this will be a joint venture that the government will receive some asset for, but it is important to bear in mind that the government has made it clear that there will be earnings that will come from this, the investment, probably in term deposits going forward from this asset. There will also be a direction of future budget surpluses once net debt stabilises, as well as proceeds of government land. And just as a matter of course, the government has an excess land sales strategy—it is not an above-trend land sales strategy—varying between \$100 million and \$300 million in any given year.

**Mr HIBBINS:** So what is the land sales target going to be now going forward for the estimates?

**Mr PALLAS:** Well, we do not set a target—if you are putting it in the context of 'How much do we anticipate putting into this particular fund?', our broad view is that the fund is projected to have a balance of around \$10 billion in the medium term, which is probably years five or six going forward.

**Mr HIBBINS:** Can you give the committee a breakdown of what the sources of that balance will be?

**Mr PALLAS:** I definitely would not give you a breakdown of that, Mr Hibbins, and you would understand why. We are currently in the process of a tender and there are commercial partners who are actively engaged in a competitive tender. I would not want to disadvantage the people of Victoria, but what I can tell you is that as soon as those arrangements are settled we will let the Victorian people know exactly what that joint venture returned, but it would be against the public interest to speculate about it. I have tried to give, as best I can, a

broad overall view of the likely return, together with land property sales, together with dedication from our surpluses of the future and also returns on investment from the fund, effectively in term deposits in the short term, we would anticipate. I have tried to give people an appreciation that it is about \$10 billion.

**Mr HIBBINS:** In terms of going forward, funds from the VicRoads privatisation and funds from the land sales and then some parts of future surpluses, but since you have been in government we have seen the privatisation of the port of Melbourne, the land titles office and now VicRoads. Are further privatisations going to now be part of the government strategy to manage debt?

**Mr PALLAS:** No, we do not have—firstly, I take exception to your use of the language ‘privatisation’. This is a joint venture in as orthodox terms as you could possibly come up with, but I am more than happy for you to go out and distort what is going on here as a privatisation. We retain the asset. We are not selling the asset in perpetuity. We retain an interest in—

**Mr HIBBINS:** But, I mean, that is still privatisation. If you have got a private company running the asset, that is privatisation.

**Mr PALLAS:** In partnership—

**Mr HIBBINS:** I mean, it is like saying the port is not privatisation because it is a long-term lease. I mean, really.

**The CHAIR:** Mr Hibbins, could you allow the Treasurer to answer the question, please.

**Mr PALLAS:** In partnership with the state—the asset is regulated by the state through its—

**Mr HIBBINS:** That is regulation—

**Mr PALLAS:** Look, ultimately you might not appreciate the difference between a joint venture or indeed a regulated asset base, but we do, Mr Hibbins, and if you say that the only way to deliver services to the people of Victoria is through historic arrangements where essentially it is always done the way it has always been done, you have no commitment towards the efficient delivery of government services.

**Mr D O’BRIEN:** It is only privatisation when we do it—

**The CHAIR:** Mr O’Brien!

**Mr PALLAS:** Yes. When you divest the asset base in perpetuity, as you did with our power generators, yes, that is privatisation.

**Mr HIBBINS:** Privatisation, or the changes that you are making to VicRoads and the involvement of the private sector—maybe we could land on a set of words that we both agree on: the involvement of the private sector within the operation of VicRoads. Now, that is not coming to Parliament. Is there certain legislation or an authority that you are able to do that without coming back to Parliament?

**Mr PALLAS:** It is just the normal exercise of the executive power of the state. We are very clear that the state has the power to do this, to enter into contracts.

**Mr HIBBINS:** Is that through the *State Owned Enterprises Act*? Is that the legislative basis for private sector involvement?

**Mr PALLAS:** No. I believe it is simply just through the exercise of the state’s executive power.

**Mr HIBBINS:** If you could that on notice, if there is any further information.

**Mr PALLAS:** I am not taking it on notice. I just gave you the answer.

**Mr HIBBINS:** Okay. In terms of the investments made by the Victorian Future Fund, can you rule out any investments in fossil fuels?

**Mr PALLAS:** Look, we will apply the ESG guidelines that we expect all government agencies to apply, and we would expect those guidelines to be adequately applied. They certainly constitute the basis under which the Victorian Funds Management Corporation operates. Now, I do not believe that excludes investment in fossil fuels, but I do understand that ultimately they make choices that sit consistent with what we see as being environmentally and socially responsible investing, and those guidelines are public.

**Mr HIBBINS:** It does not rule out fossil fuels?

**Mr PALLAS:** No, it does not.

**Mr HIBBINS:** Okay. Just going back in relation to land sales. Now, in previous years, and I think indeed the last financial year, there were actual land sales targets for the government. I think the previous financial year was \$100 million, maybe \$150 million the year before that, so there is actually a government land sales target. Is that correct?

**Mr PALLAS:** Yes. They tend to be set and applied year on year, but there is a long-term strategy. As I say—I mean, I am working off the top of my head here—but it does vary year to year based on appetite in the market and what is seen as being excess to government needs. It could be, for example, Mr Hibbins, that we hold old transport alignments that are no longer seen as being valuable. It could be that there is a decision that holdings of old school sites or whatever are seen as being excess to need and they are progressively divested.

**Mr HIBBINS:** You indicated a figure before of between \$100 million and \$300 million. \$300 million would be doubling probably the highest land sales target. Are you looking to supercharge land sales to pay down the debt?

**Mr PALLAS:** No. We have not incorporated any specific objective or statement around adding to land sales for the purposes of bolstering the Victorian Future Fund. It would just be funds that are achieved in the ordinary course of events. So if you look at budget paper 3, it includes an output performance measure for DTF entitled ‘Revenue from sale of surplus Government land including Crown land’. For 2021–22 DTF’s target is \$150 million, and this target, I think, is expected to be met, though it is subject to the outcome of a number of property sales over the coming months.

**Mr HIBBINS:** The Auditor-General has been previously critical of the setting of a land sales target. Essentially what it does is put the emphasis on profiteering or revenue from land sales rather than alternative uses, such as community uses, such as housing or leases of those particular sites. Do you accept that criticism? Do you see that this emphasis on a land sales target, regardless of, say, perhaps the conditions of what is actually out there or what the community need is, is putting profiteering ahead of community uses?

**Mr PALLAS:** I do accept that on occasion we do not always agree entirely with everything the Auditor-General says, and you may have seen some relatively clear examples of that. But in this case I think the Auditor-General is right to say if you set artificial targets, then you force divestments that are probably not warranted on merit. We are not setting targets in regard to achieving a revenue inflow into the Victorian Future Fund. I also recognise that government needs to be efficient in its asset holdings, and in particular its landholdings, so that they can be put to productive use into the economy. So we should not effectively be a principal land banker of the state. We should see whether or not there are reasonable uses within reasonable periods of time for that land, whether it sits into our long-term plans or not, and if it does, then we should hold onto it. If it does not, then it should be put to productive use for the wellbeing of the community.

**Mr HIBBINS:** Can I move on to the public sector wage cap. You have now got in the budget CPI this year running at 3 per cent. The public sector wage cap is now 1.5 per cent. I mean, that is a real wage cut for public sector workers who would be covered by that policy. Why are you continuing with it?

**Mr PALLAS:** As you would appreciate, many of the public servants in this state at the moment have been the subject of enterprise agreements. In fact if you look at the number of employees covered by agreements that are already locked away, Mr Hibbins, it would be unfair to effectively say, ‘Change your wages policy now’ and all those who are currently under agreements would therefore be disadvantaged. They will need to run to the end of their agreement. They are set and they are closed agreements. If, however, your proposition to the state is, ‘Do we believe that the government has a fair and effective wages policy?’, I just want to take you through the way that we have used our enterprise bargaining policy to continue to ensure that we can employ

Victorians needed to deliver services. In Victoria we have recently seen a growth in the public sector as a direct result of the pandemic, but at the same time we have taken steps to constrain unnecessary spending and to make savings across the public sector.

**Mr HIBBINS:** A wages policy that is equal to or higher than CPI that does not result in real wage cuts? That is unnecessary spending.

**Mr PALLAS:** We have a wages policy in place that ensures that our spending is responsible while also recognising the contribution of our hardworking public servants. Over the last six months the government has approved major enterprise agreements for mental health workers and for allied health professionals, and most recently we have reached in-principle agreement for Victorian schools. So we are reaching agreements by mutual understanding with the workforce and their representative unions. Over 40 enterprise agreements were finalised by this government under the transitional arrangements between the previous wages policy and the current one, so we are going to continue to ensure that the public sector workforce gets a fair and competitive wage which balances the need to attract the best and the brightest and also the need to ensure that the state manages a strong and sustainable budget.

I would make the point that the vast majority of public sector enterprise agreements reached expiry and were renewed under the prior wages policy, not the current wages policy. There are only a small number of agreements still to be negotiated in this term of government so it would be unfair effectively to change the rules at this point, given that so many others have gone through a similar process. Under the current wages policy, as was previously the case, public sector workers can obtain an outcome if they are able to show efficiency improvements of up to 2 per cent, and public sector workers also get the benefit of cross-sector government conditions in areas. We are putting in non-wage but career benefits such as carers leave, family and domestic leave, parental leave, redeployment policies. So it is a bit unfair to simply—

**Mr HIBBINS:** Hang on. It is unfair to change it, but you have recently actually reduced the wage cap. You actually reduced it in the last year or so. Now you saying it is unfair—what, to increase it? I mean, we are having a federal election which is primarily about, from your federal colleagues, wages growth. And we have had the RBA out there saying basically one of the biggest policies that is actually holding back wage growth across the entire economy is public sector wage caps by the states. Now with inflation growing, don't you think this is the wrong time to be pursuing such severe wage restraint—at a time of high inflation, at a time of so much hard work that our public sector workers have been doing over the years and at a time when the cost of living is growing? Isn't this just the wrong time to be having such severe wage restraint?

**Mr PALLAS:** And at a time that the government is putting in place a fiscal repair strategy that has credibility and is achieving its objectives. But let us be clear, the vast majority of public sector employees are covered by current enterprise agreements. Of the approximately 80 public sector enterprise agreements subject to transitional arrangements in the lead-up to 1 January 2022, bargaining for approximately 73 has already been finalised. As at 19 April in-principle agreement has now been reached for three further agreements—they are with Victorian government schools, medical specialists and doctors in training. So these workers and their representative unions are voting with their feet and reaching these agreements.

**Mr HIBBINS:** Under your wages policy they do not have an option not to adhere to the wages policy.

**Mr PALLAS:** Twenty-five public sector enterprise agreements nominally expire this year, only one of which is major. We cannot effectively be in a position where we seek to require a level of rigour from our workforce—we cannot demonstrate to the community that we are being serious about fiscal repair if we do not have a serious strategy around how we deal with public sector wages. I accept, and I have stated publicly, that every term governments need to review their wages policy. We have indicated that we will review the policy as part of the next term of government in order to ensure that our workforce get a reasonable return on their labour, which is valued by the state. But we are not going to flip, essentially, a policy midstream. You are right to say that we changed the policy as a consequence of the onset of the global pandemic, and I suppose that would be a reasonable consideration to apply, that being the case, that the state was dealing with a very substantial economic event.

**The CHAIR:** Thank you, Treasurer. Ms Richards.

**Ms RICHARDS:** Thanks, Treasurer, and officials for your time this morning. I would like to discuss the return to surplus in your presentation and in your response to Mr Maas. I would like to refer you to budget paper 2, page 3, and ask that you perhaps explore for the committee how our return to surplus compares to other approaches.

**Mr PALLAS:** I think the key for us is that, as I have already outlined to the committee, our government has a strong plan to return the budget to surplus, some of which of course requires us to have a clear appreciation of our output expenditure and be prepared to have a fair but consistent approach to the way that we deal with it, a plan that is working, with an operating surplus of more than \$650 million forecast for 2025–26 financial year demonstrating the government's commitment to strong financial management despite the challenges of the past two years.

Compare that of course to the federal budget handed down in March, which had a \$43.1 billion budget forecast for 2025–26—and they stay in deficit for a decade, so no sign whatsoever of fiscal repair. The federal government also, and quite rightly, borrowed to support the economy during the pandemic, but unlike Victoria they do not have a clear or robust plan to return their budget to surplus or indeed to stabilise debt. At the end of the forward estimates Victoria's net debt to gross state product, the size of our economy, is forecast to be 26.5 per cent of GSP. If you compare that with the federal government and their comparable measure, which is gross domestic product, their net debt is forecast to be 33.1 per cent.

Importantly, despite the calls of our political opponents, the improvements that we have seen in the Victorian budget have not come at the expense of the government investing in health, education or the Big Build. We have been able to put in place a clear, demonstrable strategy of fiscal repair at the same time as we have continued the process of investing in the things that keep the Victorian community whole and look after the wellbeing of the Victorian people.

In addition to this, we have continued the process of investing in health, education and our Big Build. The government's infrastructure investment, as I have previously indicated, is likely to hit \$21.3 billion a year over the budget and forward estimates, and that reflects the continuing work that we are doing on the Big Build projects, such as North East Link, Metro Tunnel, suburban roads upgrade, Suburban Rail Loop, level crossing removals, rail extensions, the West Gate Tunnel—projects that for a government will have a very substantial benefit not only for the amenity of the community but its productive performance going forward. The government recognises that not only does our Big Build ensure that we have got modern infrastructure that is intergenerational in its nature to offset some of the retrograde impact that a long tail of debt servicing would have upon the economy, but it is a key pillar that helps drive jobs across the country. It does not just help the economy in the short term, it provides foundations for future economic and productivity growth.

If I can give you an appreciation of the comparative position of the state of Victoria and the commonwealth going into this pandemic—I believe it has been fact checked by the ABC that the federal Shadow Treasurer has said that two-thirds of the nation's debt was incurred going into the pandemic and only one-third was as a consequence of investments they made. That situation is exactly flipped for the state of Victoria. One-third of the debt that Victoria is expected to have was pre pandemic. Two-thirds has been incurred during the course of the pandemic, keeping the community whole and investing in the infrastructure that will give us the means and the capacity to look after the wellbeing of the Victorian people going forward—not just for this generation but in an intergenerational sense.

Not only is the Big Build ensuring that Victorians have that modern infrastructure, it is a key pillar to help drive jobs across the country. It does not just help the economy in the short term, it provides a foundation for future economic and productivity growth not only for this state but for this nation. We know that the cost of doing nothing is greater than the cost of getting things done. It would see our schools and our hospitals packed. It would see our roads grind to a halt and gridlocked. As I have outlined to the committee before, economic growth and getting Victorians back into work is a key metric to begin the process of budget repair. It is also a key priority of this government. As we said in this budget, we are putting patients first because we put the Victorian people first on each and every occasion. Getting Victorians into work is that key metric. You would also see that it would make the task of budget repair harder if we did not invest in economic growth and in the wellbeing of the Victorian people, because it would retard the economic activity of the state.

So every investment we make is delivering multiple benefits to the state. It ensures Victorians have access to world-class infrastructure and services that they desire, while also growing the economy and supporting good, stable jobs for Victorians. Growing the economy of course, as I have said over and over again, is a vital part of budget repair. Austerity is essentially the equivalent in an economic crisis of digging to get yourself out of a hole. It does not improve your position. What this government is doing is investing in our greatest resource, the Victorian people—their innovation and their capacity to know how best to grow and improve their material circumstances. That investment is paying dividends, which I think is quite apparent on any published data.

**Ms RICHARDS:** Thank you, Treasurer. I would like to discuss revenue forecasts, and in particular I will refer you to budget paper 2, page 60, and table 4.2, which does provide revenue forecasts over the budget and forward estimates period. I am interested in exploring why revenue is forecast to increase.

**Mr PALLAS:** Thanks, Ms Richards. I suppose, as you would be aware, the total revenue of the general government sector is expected to increase by 12.7 per cent to \$81.9 billion in 2021–22. That is following a period of reduced revenues in 2019–20 and 2020–21 because of the pandemic, basically. Total revenue is then expected to increase by just 0.1 of a per cent to \$82 billion in 2022–23 and then to grow on average by about 3.7 per cent a year over the forward estimates.

The three most important tax revenue lines, I suppose, are land transfer duty, land tax and payroll tax. I will take you through each of those. On land transfer duty, revenue is expected to increase to \$10.2 billion in 2021–22. Land transfer revenue in 2020–21 was affected by time-limited land transfer duty waivers for residential property transactions up to \$1 million, announced in the 2021 budget, and it remains slightly below prepandemic estimates despite the strong recovery that we saw in the property market from late 2020. Land transfer duty is expected to decline to \$8.2 billion in 2022–23 then increase by an average of about 2 per cent a year over the forward estimates. The LTD revenue forecast for 2021–22 really reflects strong market activity supported by record low interest rates, government stimulus measures, strong housing sentiment and the easing of public health restrictions. Our housing dwelling prices increased by 16.3 per cent over the 2021 calendar year, and property transaction volumes are set to approach record levels in 2021–22. So we basically see key drivers of growth in land transfer duty as being a key part of the obvious dynamic that is playing out in a growing property market.

Of course the forecast for that market is we are relatively bearish going forward. Since December 2021 price growth in Victoria's residential property market has moderated. Increased supply and the prospect of rising interest rates have weakened sentiment and put downward pressure on prices, especially of course in greater Melbourne. The expected decline in LTD revenue in 2022–23 really reflects the combined effects of a forecast contraction in residential dwelling prices and also lower transaction volumes. Victorian dwelling prices are expected to decline by about 4 percentage points over the 2023 calendar year after peaking during 2022, reflecting in part further anticipated rises in the Reserve Bank of Australia cash rate in line with the market expectations. So we are seeing softening in the market as a consequence of an increasing tendency or likelihood of RBA cash rate increases going forward. The price decline is expected to be the strongest in the high-value segment of the market, and it accounted for an elevated share of land transfer duty collections during 2021–22. Transaction volumes are expected to decline in year-on-year terms from the March quarter of 2022 until 2024, and the residential property market is expected to resume growth over 2024, with dwelling prices forecast to grow by about 4.5 per cent.

Revenue from land tax is expected to increase to \$4.8 billion in 2022–23. Land tax revenue is expected to grow by an average of about 7.2 per cent per year over the forward estimates. Land valuations for the 2022–23 land tax year reflected property market conditions between 1 January 2021 and 1 January 2022. Residential land valuations over this period are expected to increase significantly, consistent with the movements that we saw in dwelling prices during 2021.

The industrial sector has continued to perform strongly over 2021, supported by strong demand for warehousing and distribution sites. Commercial land valuations are also expected to increase, albeit modestly due to uncertainty around the extent of structural changes that are stemming from the pandemic. Consistent with the forecast profile for the Victorian dwelling prices, land tax revenue from residential properties is expected to decrease in 2024–25 before recovering in 2025–26.

The industrial sector is expected to remain strong as demand for warehouse and distribution sites increases or continues and commercial land values are expected to just grow modestly, with uncertainty in retail and office

sectors remaining a key risk going forward. Revenue from payroll tax is expected to increase to \$6.8 billion in 2022–23. Payroll tax revenue is expected to grow by an average of 6.5 per cent per year over the forward estimates. That of course recognises a strong employment market that is coming through. Credits earned by businesses through the new jobs tax credit initiative announced in the 2020–21 budget are reducing payroll tax revenue forecasts in the 2021–22 and the 2022–23 financial years. At the conclusion of that initiative, it will contribute to comparatively high growth in payroll tax revenue in 2023–24. Payroll tax revenue has been supported by continued resilience in the Victorian labour market, which is in a strong position as it enters 2022–23—one that I think should come as a source of great satisfaction for the Victorian community. A shout-out to all those Victorian employers who are doing the right thing and have taken up the opportunity of those new jobs tax credits to get involved in the process of employing people.

The unemployment rate of course is at a record low. The participation rate is near a record high, and leading indicators such as job advertisements and job vacancies really remain very strong. That is why 280 000 jobs have been created since the economic nadir, which is the September 2020 point. Employment is forecast to grow in 2022–23 by 1.75 per cent, and that follows expected growth of 3 per cent in 2021–22 as the labour market recovers from the effects of COVID-19 and associated necessary public health restrictions. The unemployment rate is forecast to remain around its record low through 2022–23, then gradually rise from very low levels to an estimated trend rate of 4.75 per cent by the end of the forward estimates. That is broadly consistent with stable inflation within the Reserve Bank of Australia's target band.

**Ms RICHARDS:** Thanks, Treasurer. In the short amount of time I have got left I would like to explore new revenue initiatives and particularly refer you to budget paper 3, page 133, which outlines two new revenue initiatives included in this budget. I am hoping that you can explain to the committee what these initiatives are and why the government has decided to implement them.

**Mr PALLAS:** Quickly then, the two revenue initiatives in the budget: the first will equalise gambling tax rates for all EGM operators. The initiative basically will see Crown Casino pay its fair share of gambling taxes, which will be a benefit to all Victorians. Currently EGMs operated by Crown are taxed at different rates to club venue operators. EGMs are taxed at a flat rate of 31.57 per cent of machine revenue at Crown plus a community benefit levy of 1 per cent of total machine revenue. EGMs operated by clubs are taxed on a sliding scale with progressive tax brackets. From August 2022 the maximum marginal tax rate for club venue operators will be 60.67 per cent. So that basically means that Crown will be subject to the same tax rates from 1 July 2023 as club venues. The venues are often small, not-for-profit community-based venues such as RSLs, so it seems only reasonable for that change to be put in place. It is expected to generate up to \$30 million a year in additional revenue for the state without increasing gambling expenditure.

The second is to exempt wheelchair-accessible commercial passenger vehicles that provide unbooked services from motor vehicle duty, in no small part due to the advocacy of one of the members of this committee, Mr Barton. Motor vehicle duty is payable on application to register or transfer registration of a motor vehicle in Victoria. The MVD amount depends on the type of vehicle and its dutiable value and any exemption or reduction that may apply. Currently an exemption from MVD applies to eligible privately owned wheelchair-accessible vehicles. The exemption is not available for commercial passenger vehicles. However, wheelchair-accessible commercial passenger vehicles are eligible for a \$24 000 reduction in the dutiable value of the vehicle, and that represents an MVD reduction of about \$1908 on a \$90 000 vehicle. The government is going to introduce an MVD exemption for eligible wheelchair-accessible commercial passenger vehicles that provide unbooked services. This exemption will apply to vehicles registered on or after 1 July 2022.

**The CHAIR:** Thank you, Treasurer. Mr Newbury.

**Mr NEWBURY:** Thank you. This question might be best answered by Mr Driscoll. Can I take you to budget paper 3, page 383, in relation to the IBAC output reporting, and can I draw your attention to the footnote, which reads:

... additional funding for an increase to base operational funding, subject to \$7 million in funding being released to the entity upon completion of the IBAC base review.

Can you explain that sentence to me?

**Mr DRISCOLL:** Sure. Jamie Driscoll, Deputy Secretary, Budget and Finance Division, Department of Treasury. IBAC as part of last year's budget had wanted to make a case to government for an increase in their

base funding, so the Treasurer asked IBAC to do a base review, and that base review was set up earlier in the year, and there was a draft report that was reported to government just prior to the budget being produced, so that process—

**Mr NEWBURY:** Before it was produced, did you say?

**Mr DRISCOLL:** No, no, produced.

**Mr NEWBURY:** Right. So earlier this year?

**Mr DRISCOLL:** Yes, that is right. We are expecting that process to finish very shortly.

**Mr NEWBURY:** Firstly, what does the review cover?

**Mr DRISCOLL:** Essentially the operational costs of IBAC.

**Mr NEWBURY:** Okay. That said, if I can take you again to that sentence, which says:

... \$7 million in funding being released to the entity upon completion of the ... review.

I guess what I am asking is do you mean that you are giving them \$7 million no matter what is in the review, or is it contingent on what is in the review?

**Mr DRISCOLL:** It was a timing issue. The draft review came very late into the budget process, and the draft review made a pretty strong case for the funds that have been allocated by government. We just want to make sure the review is finalised and we can give government that objective advice of what the final report says.

**Mr NEWBURY:** I am not trying to be tricky. I guess I am just trying to confirm that depending on what is in the review that funding is conditional on the outcome of that review.

**Mr DRISCOLL:** Yes. It is fair to say that the review was 95 per cent complete before the cut-off of the budget date. It just had to have one final meeting of the steering committee, and that is expected to be finalised very, very soon.

**Mr NEWBURY:** I appreciate that confirmation that the funding is contingent on that review.

Treasurer, can you understand why some people may look at that and say that government has asked IBAC to complete a review and has held out a carrot to them and said, 'We will give you money, but it is contingent. We're not going to give you the money up-front, we're going to ask you to conduct a review into yourself at the same time as numerous ministers are being interviewed by IBAC'. So I would say to you: when you look at that can you understand why some people may say, 'That's concerning'?

**Mr PALLAS:** I hope I can alleviate your concerns, Mr Newbury.

**Mr NEWBURY:** I doubt it.

**Mr PALLAS:** I doubt it too, Mr Newbury, but perhaps that goes more to your disposition than mine.

**Mr NEWBURY:** Well, no, clearly not. If the government was honest about who is being interviewed by IBAC, I think we would feel a lot better.

**Mr PALLAS:** If you want to find out what IBAC is doing, you should talk to IBAC.

**Mr NEWBURY:** Have you been interviewed by IBAC?

**Mr PALLAS:** Once again, if you want to find out what is going on with IBAC—

**The CHAIR:** Mr Newbury, I rule your question—

**Mr PALLAS:** go and ask IBAC.

**The CHAIR:** Mr Newbury—sorry, Treasurer—

**Mr PALLAS:** Do not try and corrupt their processes of inquiry.

**Mr NEWBURY:** I am not trying to corrupt their processes.

**Mr PALLAS:** It sounds like you are.

**Mr NEWBURY:** You are corrupting their budget request.

**The CHAIR:** Mr Newbury, I rule your question out of order. We are here to consider the estimates. All of our questions—

**Mr NEWBURY:** And I have referred to the budget. Labor Chair, do not try and politicise this process. I have asked a very fair question.

**The CHAIR:** Mr Newbury, could you please stop talking over the top of me. Perhaps in anticipation, and given your disposition, I have already consulted the secretariat and the clerks in relation to these matters. I will allow questions insofar as they relate to IBAC insofar as they relate to the estimates.

**Mr Newbury** interjected.

**The CHAIR:** Mr Newbury! Matters that are in relation to specific individual matters that are currently before IBAC are subject to sub judice conventions and they will not be allowed. Questions at this table need to relate to the estimates process.

**Mr NEWBURY:** Treasurer, the \$7 million, which is contingent upon the review—can you understand why people would be concerned about that contingency?

**Mr PALLAS:** No, I could not understand why they would be concerned, because quite simply the government is concluding a process of base review in cooperation with IBAC. We are doing it in a way that IBAC is aware of and it fully understands the process. They have been given a very clear understanding at the conclusion of that process: the funding that we have identified will be made available. It is not so much a contingent allocation as an allocation that will be made, but we do need to conclude the base review. IBAC is well and truly aware of it. They have been engaged all the way through. They have been constructive all the way through. There is no criticism.

**Mr NEWBURY:** You have got the carrot out in front of them. Of course they are being constructive.

**Mr PALLAS:** Well, if seeking to run efficient operations—if us assisting IBAC in being able to find additional funds to direct to their core businesses is something that you find confronting, it goes to your capacity to administer.

**Mr NEWBURY:** We have committed a lot more than you have.

**Mr PALLAS:** I beg your pardon.

**Mr NEWBURY:** We have committed a lot more strength to IBAC than you have.

**Mr PALLAS:** Have you? So when you were last in government, in 2014–15, the amount of funding provided to IBAC—

**Mr NEWBURY:** Are we going back to Kennett, Bolte? When are we going back to?

**Mr PALLAS:** Look, we have increased the funding to IBAC by 68 per cent. Now, that far outstrips any annual inflation rate over that time.

**Mr NEWBURY:** They are doing more work.

**The CHAIR:** Mr Newbury, if you would like to put a question to the Treasurer, you can allow him to answer.

**Mr PALLAS:** And, might I say, we were very clear to all our integrity agencies in our engagement with them that we would provide them with the funds that they sought, and we did that. It is clear in all the budget

papers that the funds that they seek, they will receive, and the reason we are doing that is that we actually have a genuine belief in their right to conduct the inquiries that they see fit on the terms that they see fit.

**Mr NEWBURY:** Under what circumstances would IBAC not receive the entire \$7 million, or is it a guarantee?

**Mr PALLAS:** I could not contemplate a situation where IBAC would not receive these funds. What we want—

**Mr NEWBURY:** The \$7 million, did you say?

**Mr PALLAS:** The funds that have been allocated in this budget. Of course all up the budget provides something like \$47 million in new funding to support our integrity agencies, and that builds on \$64 million in funding that we announced over the last two budgets. So believe me, we are resourcing the integrity agencies, and in this budget I went to great lengths to ensure that what the integrity agencies asked for, the integrity agencies got. Now, if you say that we should provide funds without qualification, I would say that we need necessarily to complete the logical process of the base review. There is no question that base review will be concluded. IBAC have been working constructively with us. We are very happy with the process that has been put in place, and there is no suggestion that it will be conditional in any way, because we have no level of doubt that that process will run to its logical conclusion.

**Mr NEWBURY:** With respect, the Deputy Secretary just said otherwise, but that is okay. I mean, I will leave that discrepancy for you to solve. In relation to the review, will that be made public?

**Mr PALLAS:** The base review?

**Mr NEWBURY:** Yes.

**Mr PALLAS:** Well, we do not make base reviews public. That is a matter that really goes to us working—that is, Treasury working—with agencies to assist them in being able to provide efficient services right across the board. Look, IBAC lodged their budget bid six weeks after the cut-off, and that is largely because they have been consumed—

**Mr NEWBURY:** Busy.

**Mr D O'BRIEN:** Busy interviewing you guys.

**Mr PALLAS:** with that base review process that they have constructively and substantively engaged with. So as a government of course we recognise that, and we recognise the value of the work that they are doing, and therefore we intend resourcing it appropriately.

**Mr NEWBURY:** If I can move on, you said earlier today that the outlook is positive, your strategy has credibility and you will be stabilising debt levels. Why has Moody's said otherwise? I quote them:

... we expect Victoria's debt burden will not stabilise before the end of fiscal 2027.

**Mr PALLAS:** Well, Moody's have had a lot to say. In fact they were very complimentary about the fiscal strategies that the state had put in place. Perhaps that was largely as a consequence of the fact that the government has not yet ticked the fourth step in our fiscal strategy, and we have been pretty clear about that, Mr Newbury. The first three steps we have been able to achieve, and they have to be done sequentially. The first step of course is growing the economy, creating jobs—tick, done. The second step is being able to deliver an operating cash surplus; we will be able to demonstrate in this financial year that that will also in this coming financial year be done to the tune of \$1.3 billion. The third step was to deliver an operating surplus, and we will be able to show that in the 2025–26 year. The next step in that process necessarily is the stabilisation of debt, and we believe that we will be able to show that, of course in very short order, as we move sequentially through the achievement of each step.

**Mr NEWBURY:** So drawing you back to the quote that I referred you to, do you think their commentary is consistent with yours: 'We expect Victoria's debt burden will not stabilise before the end of financial 2027'?

**Mr PALLAS:** I think that the thing about the Victorian economy is it never ceases to surprise me how resilient it is. I would anticipate it will probably stabilise before that.

**Mr NEWBURY:** So they are wrong?

**Mr PALLAS:** Well, look, we manage the budget. We consult with Moody's. Obviously they are an important observer of the fiscal strategy that the government has in place. Do I think that it will take till 2027 to stabilise debt? No, I think we will be able to do it earlier than that.

**Mr NEWBURY:** Just confirming, if you would not mind: debt peaks at \$167.5 billion by 2025–26; that is equivalent to the combination of more than New South Wales, Queensland and South Australia, isn't it?

**Mr PALLAS:** It is about one-fifth of federal government debt.

**Mr NEWBURY:** I did not ask you about any other jurisdiction. I asked you: is Victoria's debt—

**Mr PALLAS:** Well, I feel at liberty to answer and to contextualise your observation.

**Mr NEWBURY:** Well, you can do that too—

**Mr PALLAS:** I just did.

**Mr NEWBURY:** but is it correct to say that it is equivalent to the combination of the three states?

**Mr PALLAS:** I do not know. I have not sat around—

**Mr NEWBURY:** You do not know?

**Mr PALLAS:** adding them up for the purposes of political convenience.

**Mr NEWBURY:** It is not political convenience, it is a fact.

**Mr PALLAS:** I have been more focused on dealing with the needs of the Victorian people in being able to show a pathway through this economic event.

**Mr NEWBURY:** Interest payments peak in four years at \$6.4 billion a year. What plan do you have to reduce them?

**Mr PALLAS:** The government's strategy of course is contained within the Victorian Future Fund and our four-step fiscal strategy. We understand that we are seeing debt as a percentage of revenue coming in at around about 6 per cent of our output expenditure, and obviously as a government we think it is important that we show a pathway through the management of that. So the government has put in place a strategy that says we will establish the Victorian Future Fund, we will allocate future assets and earnings into that fund and, at a time that suits the purposes of the state, that dedicated fund—dedicated to paying down debt—will be dedicated to that purpose, when it suits the interests of the Victorian people. So in practical terms we see that paying down debt is vitally important, but we do not see it should be taken out of sequence. Our four-step fiscal strategy is achieving its outcomes, and quite frankly we believe that we will get to the place that we need to be by dedicated and diligent effort. Now, we—

**Mr NEWBURY:** No, that is okay. You have answered the question; we do not need to hear a ministerial statement. Mr Barrett, has the department provided the Treasurer any advice on what effect rising interest rates will have on the surplus?

**Mr BARRETT:** Thanks, Mr Newbury. Chris Barrett, Deputy Secretary, Economic Division in the Department of Treasury and Finance. Mr Newbury, we include the future impact of interest rates in our aggregates, so in that sense it is of course advice to the Treasurer in terms of the budget papers. We tend to take—we don't tend to take, we do take a view just of market predictions of future interest rates.

**Mr NEWBURY:** What advice have you given in relation to the rising interest rates on the surplus?

**Mr BARRETT:** It is just incorporated in the budget papers as you see them there. I might also draw your attention, Mr Newbury, to the back of budget paper 2. There is the appendix to that budget paper that also provides a sensitivity analysis of higher interest rates as well, if that assists with your deliberations.

**Mr NEWBURY:** Thank you. Treasurer, did you receive any advice or request any advice—I note obviously the health funding announced in the budget and the funding for ambulances, ESTA et cetera—on providing that type of investment prior to the budget?

**Mr PALLAS:** Did I seek advice?

**Mr NEWBURY:** Yes—that is, ‘Could we do a package in January because 20 people have died waiting for an ambulance?’.

**Mr PALLAS:** Of course. This is principally a responsibility of the health minister, but make no mistake: the government has consistently been looking at what the community needs and what investments we need to make, some of which of course were announced outside of the budget cycle because we recognised the importance of acting decisively and quickly to assist the community. Did I seek advice? That advice was generally managed by way of proposals coming out of the health minister, as is appropriate, and his department. My agency of course oversights that to satisfy themselves that we will achieve the requisite performance that is being proposed and it is a value-for-money investment, and they did exactly that. On regular occasions, not just at any particular point in time, we did it not only as part of the budget process but as part of announcements that we have made throughout the pandemic in order to keep the community safe.

**Mr NEWBURY:** Finally, in relation to international debt as a proportion of our borrowings, each PAEC we hear from you on the percentage of debt that is held overseas and a refusal from the department to provide a breakdown of what country that debt is borrowed from, plainly speaking. Why is that?

**Mr PALLAS:** Basically what occurs is that we put our bonds into the market. Those who purchase the government’s bonds tend overwhelmingly to be Australian banks and other authorised—

**Mr NEWBURY:** What is the current international percentage?

**Mr PALLAS:** Eighty per cent effectively are either Australian banks—

**Mr NEWBURY:** So 20 per cent.

**Mr PALLAS:** Hang on. Let me finish and then you can ask another question. Australian banks and other authorised deposit-taking institutions, the Reserve Bank, domestic governments and domestic asset managers make up 80 per cent. International asset managers make up most of the balance, with other central banks and sovereign wealth funds at around 5 per cent. We have no line of sight if, for example, foreign governments own shares in equity funds. We cannot see that because they are not necessarily disclosed. What we do, however, know is that there is negligible, if any, overseas foreign government ownership of our bonds as direct purchases.

**The CHAIR:** Thank you, Treasurer. The member’s time has concluded. We will take a 15-minute break and resume at 10.30 am.

I declare back open this hearing, and I will pass the call to Ms Taylor.

**Ms TAYLOR:** Treasurer, department officials, thank you for coming this morning. I was wanting to explore the federal impact on Victoria’s budget and economy for the benefit of the committee. If I can take you to budget paper 2, chapter 3, titled ‘Victoria’s economic recovery despite insufficient commonwealth support’, it starts on page 43 of budget paper 2. If we could sort of zone in on chart 3.4 on page 54, which shows expenditure under the National Partnership on COVID-19 Response. Could you explain what this chart is really showing and why it is relevant to GST distributions?

**Mr PALLAS:** Thank you, Ms Taylor. Look, I appreciate really the opportunity to address what is an important chapter in the budget papers, and one that of course is critically important to state-federal financial relations, an area I perhaps have been aggrieved about for quite some time and one where I think the people of Victoria have been quite egregiously dealt with. The GST of course is a principal source of allocations from the

commonwealth and typically accounts for almost a quarter of Victoria's total revenue in 2022–23. Now, that figure will be 22.8 per cent, to be precise. So, as you would appreciate, the equitable distribution of the GST between states is essential to the level of services and the infrastructure that state governments can provide. The other thing that is vitally important is predictability of these arrangements, and unfortunately we have seen the GST turned into what could only best be described as a political apparatus rather than a genuine piece of public policy. I doubt that when people signed up to the GST through the intergovernmental agreement they foresaw that it would be manipulated effectively through commonwealth Treasurer directions to the Commonwealth Grants Commission.

What chapter 3 in budget paper 2 rightly observes is that the pandemic conditions have increased pre-existing pressures on Victorian capacity to fully fund essential services, including health care, due to a problem with GST methodology that the commonwealth has failed to address, despite the fact that it has been the subject of obvious overtures from not just this state but many others that have dealt with the privations of the pandemic and its consequence upon public expenditure.

The chart that you referred to in your question, chart 3.4, shows Victoria fully invested significantly in health during the pandemic and spent disproportionately more than most other states, both in absolute terms and of course on a per capita basis. It is important to note when viewing the chart that it covers a single fiscal year, 2020–21, when some of the initial impacts of the pandemic were first being felt. The chart also only reflects state and territory health spending under the National Partnership on COVID-19 response. Victoria's total health expenditure on the pandemic is many times larger over the whole duration of the pandemic itself, which of course is continuing, and was applied in areas beyond the scope of the partnership, but the measurement used in the chart provides a pretty consistent comparative basis.

There are some key reasons why the pandemic affected Victoria and New South Wales disproportionately and why these states therefore needed to respond with greater health spending, and I will take you just briefly through those. Victoria as a state is comparatively more urbanised. As is to be expected from a highly communicable disease, COVID-19 disproportionately affected, and continues to affect, high-density areas, and Victoria per capita per kilometre is the most densely populated state in the federation. Victoria and New South Wales also remained most open to international arrivals during the pandemic, and as a result we consequently shouldered the largest COVID response burden.

These factors explain why Victoria's health spend as a result of the pandemic is significant. They also demonstrate that they are larger in absolute terms and per head of population than other states. What the chart also shows is that in absolute terms Victoria's spend in 2021 alone in the pandemic health response through the partnerships was already quite significant. Despite the commonwealth having constitutional responsibilities for quarantine and international border controls, they very rapidly disappeared from view and sought to absolve themselves of responsibility to deal with the issue. It largely failed state and territories—and you are not just hearing it from me; you will have heard it from the New South Wales government as well, who have been, quite frankly, deserted by our commonwealth government in their hour of need.

Victoria and other states stepped up when it was clear Australia urgently needed to act. We had to effectively work out how to run quarantine facilities. That is not a state responsibility, but it was certainly one where the commonwealth refused to see any substantive role for themselves. We had to meet the significant costs that were associated with safely managing quarantine operations. For states like ours that were most heavily impacted by the pandemic, the financial impacts of those arrangements were heavier again compared to a scenario where the commonwealth actually did its job and fulfilled its constitutional obligations rather than seeking to exculpate itself from any responsibility at the time when the Victorian and the Australian people needed it. They effectively required us to step into extra constitutional responsibilities, not because we wanted to, not because we wanted to grow the comparative status of the states over the commonwealth, but because we had no other choice—the commonwealth went missing.

The current method used to calculate GST-sharing relativities between the states and the territories does not accurately account for the disproportionate spend that has occurred during the course of the pandemic. In particular the current method does not take account of population and then other factors that typically affect a state's need for resources to provide a particular level of service. So, for example, with more regional and remote populations or a greater Aboriginal and Torres Strait Islander population, they are considered to have greater expenditure needs to deliver for a particular service level, and this is accounted for in their relativity.

However, if you look at that particular need carve-out that occurs when we are looking at issues such as Aboriginal populations that require particular servicing, similarly the factors relevant to the COVID expenditure are quite obvious in terms of their onset and their disproportionate impact upon the various states. But the way that that expenditure was being dealt with was entirely different from the way that the commonwealth recognises disproportionate expenditure in so many other areas—regionality, Aboriginal populations and so forth, remote populations.

It was in fact exactly the opposite correlation that played out with COVID. We had Sydney and Melbourne, the two largest cities in Australia, with the most affected populations—large, dense populations—while regional and remote areas were much less affected, largely because of the capacity to distance people. The current methodology, set prior to the pandemic, thus fails to adequately account for COVID-19 exposure. This is not our view alone. The Commonwealth Grants Commission, the grants commission itself, which could have, had it been allowed to, rectified the situation, basically acknowledged this in its March 2022 report saying that its existing method of assessing state health expenses does not align with the drivers of COVID-19-related health expenditure. So we have got the independent umpire, the grants commission, basically agreeing with us, recognising that there was this extraordinary spike in expenditure that was not being acquitted in terms of GST share.

Despite this, the current federal Treasurer, Josh Frydenberg, has failed to address and resolve the issue. It is a disgraceful public policy failure. The Commonwealth Grants Commission operates under his direction. He has got the power to direct the commission to change the GST methods to ensure that the GST is distributed fairly. We will recall he did exercise his powers to direct when he decided to put a preferential system in place for a floor price on GST return for Western Australia. We often hear from the federal Treasurer that if the states cannot agree, he is not intervening. Well, all states and territories bar one opposed the idea of putting a floor price in for Western Australia or indeed for any state or territory, but nonetheless it was convenient for him to move away from his standard invocation that ‘If you can’t all agree, I’m not doing anything’.

**Mr D O’BRIEN:** And Jim Chalmers is going to do anything different? No.

**The CHAIR:** Deputy Chair, the call is not with you.

**Mr PALLAS:** Let me be very clear: from this government’s perspective, we do not care who is in government. We expect—

**Mr D O’BRIEN:** Well, why aren’t you calling him out then too? You’re only attacking the Liberal, not the Labor.

**The CHAIR:** Deputy Chair, you have had your turn. Could you respectfully allow others theirs.

**Mr PALLAS:** I cannot attack somebody who is not in government yet, but let me be very clear—

**Mr D O’Brien** interjected.

**The CHAIR:** Deputy Chair, you have had your turn.

**Mr PALLAS:** we will expect the state of Victoria to get its fair share, and we do not care what political party is in power. The interests of the Victorian people demand that this injustice is rectified. So if that gives you some confidence that this is not just political rhetoric—

**Mr D O’BRIEN:** Well, it was. You only called out Frydenberg. You’re not calling out your own bloke.

**The CHAIR:** Deputy Chair, you have had your turn, and the call is with Ms Taylor and the Treasurer.

**Mr PALLAS:** Because he is not the federal Treasurer.

**Mr D O’BRIEN:** He is the alternative federal Treasurer.

**The CHAIR:** Deputy Chair, could you please refrain.

**Mr PALLAS:** So as we have made clear, the CGC’s recent 2022 report was another failed opportunity to rectify this issue. It is not from a lack of trying on the part of Victoria to try and have this matter fixed up and,

might I say, it is not from a lack of trying by the state of New South Wales, a Liberal-National party government, that we have not been able to succeed in being able to fix what is an unreasonable distortion of GST receipts. Basically it is a system that disadvantages those states that have felt the greatest trepidations of the pandemic.

We provided both the commission and the commonwealth government with extensive analysis of the impact of COVID-19, including an independent report from academics at the Melbourne Institute. There were multiple engagements on the issues between treasurers, including correspondence and discussion highlighting concerns with the GST system and its ability to deal with the significant economic events. Now, despite all of these compelling arguments, the federal Treasurer has failed to act, and the greatest injustice in this is he is a Victorian. He knows the difficulties that his decisions are actively encountering, and it can only be ascribed to a mendacious political agenda that is being pursued, because there is no public policy merit in this. The New South Wales government's support of the rectification of these matters I think pretty much well highlights exactly how unreasonable the commonwealth have been in dealing with the two big states in these circumstances.

**Ms TAYLOR:** Thank you. If we could stay in the same chapter, on page 55 I notice there is discussion around business support provided in response to COVID. Would you say that Victoria has faced similar challenges with respect to business support during the pandemic?

**Mr PALLAS:** Thanks, Ms Taylor. Look, the calculation I referred to earlier, used by the Commonwealth Grants Commission to determine GST-sharing relativities, also fails to account in its current methodology for Victoria's COVID-related business support, which has been quite significant. The Victorian government has and continues to play a central role in supporting economic recovery. It is a vital part of our strategies aimed at ensuring the fiscal repair that I have taken you through—the four-step plan. Our support for business is a vital precondition for being able to meet each and every one of the repair steps that are well and truly underway, allowing Victoria to resume its significant contributions to the nation's GDP and productivity. And on the last set of figures in the national accounts for the December quarter we are running about 50 per cent faster than the national average in terms of economic growth—aggregated final state demand compared to GSP. So the government recognises that this is vitally important. Prior to the last budget we had already allocated more than \$13 billion in business support since the pandemic began, and the vast majority, over about \$10 billion of that, was funded by the Victorian government.

That includes grants delivered through the Business Support Fund, the business costs assistance program, the Licensed Hospitality Venue Fund and the Small Business COVID Hardship Fund as well as tax relief measures such as full payroll tax refunds and waivers. We offered small and medium-sized businesses financial assistance in 2019–20 and 2022–23. We supported hospitality, entertainment and tourism businesses. We supported Victoria's alpine region and small businesses right across the state. So the level of effort and the weight of activity that the state put in place were second to none in terms of our budget capacity and the effort that we went to.

I am glad to say that this strategy has proven broadly successful. Our emergency financial support for industry assisted Victorian businesses and ensured that when they could they retained workers and increased business investment. In fact the fact that Victorian businesses went that extra yard to maintain the relationship with their workforce, I think, has in no small part played a very substantial role in the speed and the consistency of the bounce back that we have seen. They have had the employees, they have kept the relationship going and they have been able to reap the benefits of the upswing in the economy. We are basically now seeing that contribute to beneficial downstream effects such as the record low unemployment, the return of consumer and business confidence and of course other key metrics.

The latest budget target naturally tapers this level of industry support in recognition of the significant steps that we are taking towards full recovery. The budget shifts the focus from recovery to growth, with industry support programs, including \$120 million for the Victorian Industry Fund package—that is to support sovereign capability. We have all become clear about the need for those supply chain security issues, the need for domestic manufacturing capability, particularly in those critical areas, so we are supporting that sovereign capability and recognising advanced manufacturing, attracting business investment, building supply chains, supporting small business and employment. There is a further \$40 million to attract international business investment into Victoria and \$20 million for an equity investment pilot fund, which aims to attract companies

that align with Victoria's strengths and most importantly around medical technology, where I might say we are going from strength to strength and becoming increasingly recognised as a world leader. I had the great pleasure only recently of going out to Monash University and celebrating with them the fact that they are rated the number one university in the world for pharmacy and pharmacology.

**The CHAIR:** Thank you, Treasurer. Mrs McArthur.

**Mrs McARTHUR:** Thank you, Chair. Thank you, Treasurer. Treasurer, I refer to budget paper 5, page 67, and in particular employee expenses. On your watch the number of executives in the public service—that is senior executives, not teachers, not nurses, not firefighters, not ambos—has increased from 622 in 2012–13, 1.7 per cent of the public service, to 1759, that is 3 per cent of the public service, an increase of 1137. Treasurer, that is 1137 more senior executive officers than when you came to government, a 180 per cent increase. What do these senior executives do?

**Mr PALLAS:** I suppose it would be reasonably clear that, given the circumstances of the changed nature of the onset of the pandemic, the state had to recast quite considerably the manner in which it operates.

**Mrs McARTHUR:** But we had the worst outcomes in Victoria.

**Mr PALLAS:** In what respect?

**Mrs McARTHUR:** How did they improve the outcomes?

**Mr PALLAS:** In what respect?

**Mr D O'BRIEN:** Deaths.

**The CHAIR:** Mr O'Brien, the call is with Mrs McArthur.

**Mr PALLAS:** Two-thirds of all deaths in this nation have occurred since 1 January—two-thirds of all the deaths—and that was as a consequence of omicron and delta infection controls breaching out of the state of New South Wales. So look, I am not going to put up with this nonsense about us having worse results. The spread of delta and omicron coming out of New South Wales—that is a fact. Two-thirds of the deaths in this country have occurred since 1 January since those infection events occurred.

**Mrs McARTHUR:** No. What do the public servants do, Treasurer? That is what I am asking.

**Mr PALLAS:** So those public servants do things like—

**Mrs McARTHUR:** Those senior executives.

**Mr PALLAS:** run a quarantine facility that perhaps the commonwealth should have been doing. They put in place—

**Mr D O'BRIEN:** You asked to do it. The Premier asked to do it.

**The CHAIR:** Mr O'Brien, could you allow the Treasurer to answer?

**Mr PALLAS:** Would you have preferred that we had not put in place quarantine facilities, Mr O'Brien? Is that your 'let it rip' strategy?

**Mr D O'BRIEN:** You cannot say it was the federal cabinet's responsibility when you asked to do it. It is rewriting history, Treasurer.

**The CHAIR:** Mr O'Brien, if you could please refrain. The Treasurer has a right to answer.

**Mr PALLAS:** I wonder what the outcomes would have looked like if you had been left to your own devices. We know that you are more than prepared to burn the wellbeing and the livelihoods of Victorians for ideological purposes. But quite frankly this government acted, and we resourced the actions that were needed to be put in place in order to see that Victorians were adequately provided for and catered for in circumstances where the commonwealth disappeared from view.

So the full-time increase in Victoria's public service was largely driven by of course the establishment of COVID-19 Quarantine Victoria, the increase in the Department of Health and the Department of Families, Fairness and Housing, additional employees in the department of justice and the Department of Jobs, Precincts and Regions. Now, those are all relevant because quite frankly, one, the interaction with our multicultural community and our continuing engagement so that we could ensure that we got more vaccinations in arms was vitally important. The fact that we put in place—

**Mr D O'BRIEN:** The secretary execs were doing that, were they?

**Mr PALLAS:** Well, of course they were overlooking the delivery of the programs. If, for example, you look at the work that we have done with regard to justice and community services, the fact that as a government we have consistently recognised through Jobs, Precincts and Regions that we have an obligation to support the community through particular programs—some \$13 billion worth of assistance to business—you probably need a few executives to oversight the programs to get \$13 billion into the pockets of business. You probably need a heck of a lot of effort and resource to help a community through what is an existential crisis.

**Mrs McARTHUR:** But we are talking about a 180 per cent increase, Treasurer.

**Mr PALLAS:** Indeed. It is what is necessary to protect Victorians.

**Mrs McARTHUR:** So are they putting vaccinations in people's arms?

**Mr PALLAS:** They are overlooking the delivery of the program. You believe that effectively you get to deliver services without the people who develop the programs and oversight their effectiveness. They are the managers. If you do not manage something, well, you are destined for failure. That is exactly what we have provisioned for.

**Mrs McARTHUR:** Exactly what we have got here. So, Treasurer, I would like to talk to you about your failure to invest in Victoria's roads. Slide 13 in your presentation this morning was titled 'Getting Victorians home sooner and safer'. Sooner—that would come as a surprise, in fact a shock, to all rural and regional Victorians who are suffering a pandemic of speed restrictions down to 80 kilometres and frequently down to 40 kilometres an hour. On top of that, they have got potholes that look like craters. In this year's budget you cut \$24 million from the road asset management program; \$191 million—that is 23 per cent—was slashed last year. Do you accept that this is crippling the productivity and lowering the standard of living of rural and regional Victorians?

**Mr PALLAS:** No, I do not. And I will put it very clearly to you: the potholes that look like craters only occur in Liberal Party propaganda. They are not Ukrainian roads, they are Victorian roads.

**Mrs McARTHUR:** Come on a trip with me, Treasurer. I will show you them.

**Mr D O'BRIEN:** Yes. Do you want actually get out beyond the tram tracks, Treasurer? Come and have a look at some of the ones I can show you.

**The CHAIR:** Mr O'Brien, you do not have the call.

**Mr PALLAS:** I have been out there.

**Mrs McARTHUR:** Come outside the tram tracks of Melbourne, Treasurer. I will show you some potholes.

**Mr PALLAS:** Let me talk dollars for you, committee member. The Andrews government has invested \$780 million in this budget in maintaining Victoria's roads in 2022–23—far exceeding the yearly average of \$493 million under a coalition government. So let us contextualise your sloth and your failure to look after regional Victoria and the very substantive effort that we as a government put in place. Those able to read a budget paper will probably also know that in addition to the output expenditure, this budget includes a record asset expenditure of \$187 million on pavement rehabilitation, drainage renewal and structural renewals. We are fixing bridges, we are re-laying roads, not just painting lines or making paltry investments—

**Mrs McARTHUR:** Or putting wire rope barriers in.

**Mr PALLAS:** such as your government did when last in power. Our focus is on long-term investment. It is on extending the life of roads, making driving safer and smoother. \$2.7 billion was provided in building works packages in the early days of the pandemic, including what we saw as a massive one-off boost to road maintenance spending to maintain and to create jobs. In 2022–23 we are returning to a level above any years pre pandemic. In fact if you look at the investment that we are making at the moment, it is about 37 per cent over the average prior to us coming to government, over the consistent period of time that these payments have been made.

So as a government I do not think we have anything to be apologetic about—we are investing in record levels—simply because you have gone to a point in time where we put in place countercyclical, very substantial additional investments in previous budgets to assist regional roads. I think that really does demonstrate as a government that we are making profound investments. In 2021–22 our performance exceeded the primary roads quality targets of roughness, cracking and rutting in the regions. In addition to roads right across the state—

**Mrs McARTHUR:** Clearly you haven't been on them, Treasurer.

**The CHAIR:** Mrs McArthur, could you allow the Treasurer to answer.

**Mr PALLAS:** Clearly, I have, Bev. I have been out and about. I have been in Ripon, I have been in Maryborough. Don't you worry, in the last week I have been out and about talking to regional Victorians about what matters to them.

**Mrs McARTHUR:** And they are happy with your roads, are they?

**Mr PALLAS:** I tell you what matters to them. What matters to them is a government that recognises that their aspirations need to be provided. That is why we are investing effectively five times more in investment in regional Victoria in our eight budgets compared to the four budgets that you put in place—or 250 per cent more a year on regional Victoria than you did in your years of sloth.

**Mrs McARTHUR:** Okay. Well, let us talk about your budgets, Treasurer. The road asset management spend is now \$592.7 million. That is in this state budget paper 3, page 348. That is down from \$807.4 million two years ago in the 2020–21 state budget paper 3, page 356. How is this anything but disastrous?

**Mr PALLAS:** Mrs McArthur, the fact that the state put in place \$49 billion worth of extra expenditure in the 2020–21 budget does not make an adequate point for you to use as comparison. We did it deliberately. We put that massive investment in to grow the economy and to provide for the material wellbeing of people in the region. You cannot simply take that massive boost in expenditure, which was followed up, by the way, in the 2021–22 budget with another \$26 billion of additional expenditure—we cannot keep going with that sort of massive expenditure. It achieved its objective. It grew the economy and it put people in jobs. That is why unemployment in regional Victoria is 3.2 per cent. Ultimately what the government is doing is continuing the long-term level of investment. You cannot go to the 2020–21 budget, a countercyclical investment, a budget that was aimed deliberately to stimulate the economy, and say, 'We want that to keep going forever'. If you have that view, you have not a clue about how you can effectively budget for the future.

**Mrs McARTHUR:** Thank you, Treasurer. You have been in power for 19 of the last 23 years. In budget paper 2, page 16:

The scale and quality of this government's investment yielded returns in the regions again in 2021–22, with expected performance—

and you have just quoted it—

exceeding performance measure targets for road quality measures on roughness, cracking and rutting.

Are you serious? 'Exceeding performance measure targets'. What sort of performance measure targets do you have? The simplest question you will get today, Treasurer, is: do you believe Victoria's rural and regional roads are in an acceptable state?

**Mr PALLAS:** We as a government aspire to always improve our performance and meet the expectations of the Victorian community wherever it is located. That is why of course we have spent 250 per cent more each and every year on rural and regional Victoria than you ever did. But in the 2021–22 performance targets they

exceeded the primary road quality targets of roughness, of cracking and of rutting in the regions. In addition to those roadworks, across the state we have been busy mowing thousands of kilometres of roadside grass and repairing and replacing more than 7000 roadside signs. As a government we recognise that it is important that we provide for safe roads. What is not acceptable is for those opposite to pretend that Victorian roads are Ukrainian roads. From our perspective—

**A member** interjected.

**Mr PALLAS:** You did indeed.

**Mr RICHARDSON:** I know it's a shock.

**Mr PALLAS:** It was shocking; I was shocked, I have got to say. But perhaps you should very much look at your own internal propaganda that you were circulating and trying to mislead the Victorian people about.

**Mrs McARTHUR:** Treasurer, the people in my electorate in Geelong, the Bellarine link project—they have not got a route after six years when that began. The Buninyong bypass—two serious accidents in the last couple of weeks luckily did not result in deaths. The Bacchus Marsh-Geelong Road upgrades have been going on since 2016—all they have got are reduced speed limits and wire rope barriers and no roads finished. This is not improving the ability for people to get home sooner and faster and get to work quicker or improving the productivity of people in rural and regional Victoria, getting products to market efficiently. These are total failures, wouldn't you agree?

**Mr PALLAS:** I will tell you what a total failure looks like, Mrs McArthur. It is when you were last in government and 450 VicRoads staff were slashed and country road maintenance funding was also slashed. Our average spend on road maintenance and management in Victoria is now \$814 million a year, well over the \$493 million a coalition government put in. So if people want to see who puts the interests of regional Victoria and the safety of road users front and centre, look at the size of the balance sheet and the commitment that we have put in. More importantly, if you want to look at the performance that this government has put in place, \$780 million in maintaining Victorian roads far exceeds the yearly average of \$493 million under the previous government, and that is in this year alone. But let us not forget that this government put in place a very substantial \$2.7 billion in a building works package in the early days of the pandemic, which included a massive one-off boost to road maintenance—spending to maintain and create jobs. So in 2022–23 we are returning to a level that is above any year pre pandemic of expenditure, but of course it is not going to be at the level of a countercyclical level of investment aimed to keep people in work.

**Mrs McARTHUR:** Treasurer, clearly the quality of your expenditure does not produce the outcomes that anybody would expect are acceptable, so that is the important matter, but can you please answer the question: do you think rural and regional roads in Victoria are of an acceptable standard?

**Mr PALLAS:** We always strive to do better. That is why this government—

**Mrs McARTHUR:** No, are they of an acceptable standard?

**Mr PALLAS:** I am not a hostile witness in this place. I will answer the question in the form that I see as being acceptable. I say that this government always makes investment in order to improve the material circumstances of every Victorian, regardless of where they live.

**Mrs McARTHUR:** Thank you, Treasurer. Well, I am sure the people of rural and regional Victoria will be pleased—

**Mr PALLAS:** Are you making a speech now? Is that the point?

**Mrs McARTHUR:** that you think their roads are of a reasonable standard.

**Mr PALLAS:** Now you are verballing me.

**The CHAIR:** Mrs McArthur, could you please keep your questions to the estimates process and refrain from making statements.

**Mrs McARTHUR:** Okay. Treasurer, let us go to a recent VAGO report that looked at 110 capital projects. Twenty-six per cent of the projects changed scope, 63 per cent had a change in their cost and 48 per cent had a change in their estimated completion date. In fact VAGO estimated the cost blowout to be close to \$5 billion and that delays would add up to close to 55 years. Is that acceptable infrastructure expenditure?

**Mr PALLAS:** Well, the government recognises that to deliver a massive infrastructure program such as the one we are delivering at the moment—\$184 billion of infrastructure projects in planning and in delivery, with a GII expected to average \$21.3 billion a year over the forward estimates—requires a very substantial ongoing effort around making sure that these projects are run with rigour, and I believe that the government is doing exactly that. The vast majority of our projects are on time and on budget, supporting thousands of jobs. The cost of not building them—I mean, you do have to look at the opportunity cost that is lost through the timidity and trepidation that was typified by the previous coalition government, who did not much and ground the Victorian economy to a halt. Our infrastructure agenda is growing Victoria's economic base and is growing job opportunities for 190 000 people. So certainly our perspective—

**Mrs McARTHUR:** Victorians are leaving this state.

**Mr PALLAS:** Well, if you look at even the federal government's assessments on population growth, Melbourne is seen as being the fastest growing metropolitan area—

**Mrs McARTHUR:** The most locked-down city in the world.

**The CHAIR:** Mrs McArthur!

**Mr PALLAS:** in the nation.

**The CHAIR:** Thank you, Treasurer. The member's time has expired.

**Mr D O'Brien** interjected.

**The CHAIR:** Mr O'Brien, you do not have the call. Mr Richardson.

**Mr RICHARDSON:** Thank you, Chair. We might stay on this budget, Treasurer, and stay in the state—in the nation.

**Mr PALLAS:** I was enjoying myself, Mr Richardson, I have to say.

*Members interjecting.*

**The CHAIR:** Mr Newbury, Mr O'Brien, you do not have the call.

**Mr RICHARDSON:** We will have a bit of federal chat, I think. That is where we are at. You might learn something. When we were on chapter 3—

**Mr Newbury** interjected.

**The CHAIR:** Mr Newbury, you have been out of the room for most of the morning. You have come back and are immediately causing disruption. Could you please allow Mr—

**Mr NEWBURY:** You missed me.

**The CHAIR:** Mr Newbury, could you please allow Mr Richardson the opportunity to ask his question.

**Mr RICHARDSON:** Here we go. At chapter 3—and going to '2018 changes to the GST system', Treasurer, and the impact this has had on our budget and our system—on pages 52 and 53 there is some discussion about the changes to the GST system that were made in 2018. This is further discussed in budget paper 5, chapter 4, page 167 at box 4.2, to go right to the issue, 'The fiscal risk to Victoria from the new GST distribution system'. For the committee's benefit, are you able to explain what these changes were and what effect that has had on the Victorian budget and Victorians?

**Mr D O'BRIEN:** Sorry, just a point of order, Chair. This is almost exactly the question that we got from Ms Taylor just in the last session. Is there a ruling on—

**The CHAIR:** There is no point of order, Mr O'Brien. Mr Richardson is entitled to ask whatever question he deems appropriate within the confines of the terms of reference.

**Mr D O'BRIEN:** Could we save time and have the Treasurer just replay his answer from earlier?

**The CHAIR:** Mr O'Brien, you are the one wasting time. Mr Richardson is entitled to ask his—

*Members interjecting.*

**The CHAIR:** Mr O'Brien and Mr Newbury! You are the ones wasting time. Mr Richardson is entitled to ask whatever question he sees fit.

**Mr RICHARDSON:** You might learn something and start sticking up for Victorians.

**Mr NEWBURY:** Give us the talking points.

**Mr RICHARDSON:** Well, just stick up for Victorians for once rather than Liberals first.

**Mr D O'BRIEN:** I am happy to stick up for Victorians. Have you rung Jim Chalmers, you guys?

**The CHAIR:** Mr O'Brien! Mr Richardson, if you could ask your question.

**Mr RICHARDSON:** Yes. Carry on, Treasurer.

**Mr PALLAS:** Thanks very much for the question, and I note you specifically go to the fiscal risks to Victoria from the GST distribution system. Look, this does not have to be seen as a point that one side of politics makes against another. I do recognise and I accept that there is a joint parliamentary committee approach of this Parliament that does recognise that the state of Victoria has been disadvantaged. I want to recognise that and applaud it, because at the end of the day we are serious about fixing this problem, not for politics but for people, and the people who are being egregiously dealt with here are the people of Victoria.

The new GST system—put in place by the current prime minister in fact when he was Treasurer—means that all states except Western Australia will be worse off when the no-worse-off guarantee is allowed to expire, and that is due to expire by legislation in the 2026–27 financial year. Now, I know that around this table, despite the fact that the arguments get heated around the politics of funds and fund disbursement, there is one thing that we should be unanimous about, and that is Victoria is being very harshly dealt with here and we have to find a way to fix this before the no-disadvantage guarantee falls out, because if it falls out, then the state of Victoria is going to be looking at a hole the size of about a billion dollars a year.

The then Treasurer Morrison provided terms of reference to an inquiry by the Productivity Commission which more or less guaranteed the commission would make recommendations favourable to Victoria. He set the rules of the inquiry and basically dictated what ultimately would be the outcome. Based on these recommendations, the commonwealth government then legislated a new system for distributing the GST to the states through the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018*. You could not come up with a more perversely, ironically or misleadingly named act if you tried. This legislation introduced a new equalisation standard that lifts states' fiscal capacities to deliver the same level of government services as the stronger of Victoria or New South Wales, so we were the benchmarks by which everyone else was assessed. And that is typical—the state of Victoria is used to basically making a contribution to the wellbeing of those lesser performing states. It is horizontal fiscal equalisation, and it is a good thing. I do not subscribe to a view that says every dollar in should go back into Victoria's pocket. I understand that we are part of a federation and those hard-to-do states need at least the guarantee of some minimum standards.

But for goodness sake, Western Australia running budget surpluses of \$7 billion, \$8 billion a year in circumstances where commodity prices are going through the roof—this is nothing more than an absolute distortion of what fairness looks like. In fact what this effectively tells the rest of the nation is that you can get special treatment if for some politically contrived reason it is seen as being in the government's interests of the day. This has to stop. Governments cannot manage in circumstances where we do not get access to the surety of

funding going forward that allows us to plan for long-term expenditure in health and education and roads. If you see a cliff coming and that funding falls away, then ultimately you are consigning your population to a level of uncertainty that the commonwealth avoided and indeed expressly provided for Western Australia by putting a floor on what is essentially an economy that is substantially bolstered by resource royalties.

This has to be fixed—the artificiality of a relativity floor of 0.7 within the GST system from 2022–23 onwards, rising to 0.75 from 2024–25 onwards, and a small permanent boost to the GST revenue pool from 2021–22. Only Western Australia’s relativity is expected to fall below the floor over the budget and forward estimates. As such, its relativity will be raised to the floor, which increased its share of GST revenue. This results in a decrease in all other states’ GST revenue, including Victoria. So there is only one beneficiary of this, Western Australia—the wealthiest, the best resourced, the state that has not had to deal with the trepidations, at least until recent times, of COVID, in fact a state that in many material terms is well placed. Instead we have effectively got to a point where this floor will ultimately mean that every other state and territory, despite the trepidations that they have had to put up with through COVID, is going to be disadvantaged at this time. Now, do not get me wrong. I do not deny, I do not dispute the fact, that if Western Australia have got this, if a federal government is silly enough to put it in place, they have got every right to defend the interests of their state in defence of it. But what we say is that the commonwealth has no right ever to remove the no-worse-off guarantee as a consequence, so that it is not the states that are subsidising this nonsense, it is straight out of the commonwealth that does it.

Ultimately from a government’s point of view, the relativities recommended for GST, as calculated under the new system, have fallen four years in a row, from 98 cents in the dollar to 92 cents in the dollar in 2021–22, and now it is falling down to 86 cents in the dollar in 2022–23. That has a dramatic effect upon the capacity of the state to be able to look after the wellbeing of its population. This means that Victoria will receive just 86 per cent of its population share of the GST pool. So to be clear, because of the commonwealth government’s tinkering of benefit to Western Australia, Victorians are getting a reduced share of GST. If that 2018 legislation were not in place, our relativity would have been at 92, meaning we would have received 92 per cent of our population share. So this is quite dramatic, quite profound and quite egregious. It has a very deliberate and disabling effect upon the Victorian economy.

During a six-year transition period, which commenced in 2021–22, each state and territory is entitled to receive additional commonwealth financial assistance to ensure it is no worse off compared to those GST full equalisation arrangements being maintained. However, once it expires the scenario is going to be bad. The 2022–23 commonwealth budget, in its own language, identifies that without the no-worse-off guarantee Victoria will lose at least \$4.4 billion over the next four years to 2025–26. In fact most other states are also estimated to lose funding, whereas Western Australia, which is currently swimming in resource royalties, is expected to get gains of \$17.5 billion over the next four years. So the guarantee must be extended, otherwise the results of the new system will be that all other states will ultimately be funding, at the expense of their basic services, a ridiculous financial gratuity to the state of Western Australia. If the commonwealth sees this as being of any value, then the commonwealth should pay for it.

Remember, the GST was put in place by states giving up a whole variety of other taxes and charges that we put in place, and in fact the state of Victoria was the first state to fully meet our IGA obligations under that GST agreement. What we now see of course is the commonwealth getting to a point where they are distorting it and turning it into a plaything for political preference and favour, and ultimately it so distorts the economic and productive base of the rest of the nation that it will constitute a drag on effective delivery of services and productivity into the future.

**Mr RICHARDSON:** It is hard hearing for Victorians, Treasurer, and hopefully a unity ticket around this table in our deliberations. I want to take you to the topic of infrastructure contributions from the commonwealth. In budget paper 2, chapter 3, page 51 at chart 3.3, it shows Victoria’s share of commonwealth infrastructure funding and population share over time and gives an overview. Are you able, for the committee’s benefit, to explain why Victoria’s infrastructure share is consistently below its population share and where infrastructure funding announced in the most recent commonwealth budget fits in this historical context?

**Mr PALLAS:** Yes. You will know that this is an area that I have been particularly unhappy about. It just seems to me that the commonwealth tries to find any opportunity to disable what has been a spectacular economic performance by the Victorian people and the Victorian economy. We have done it pretty much all

alone, and that graph pretty much demonstrates it. Historically Victoria has not received an adequate share of commonwealth infrastructure funding. That chart, 3.3, shows that our share of commonwealth infrastructure funding is consistently lower than what it would be or indeed should be if this funding were distributed based on population share. Apart from an isolated peak that we had in 2013–14—we are not talking about rounding errors here—as the chart shows, there is a consistently sizeable gap.

You asked about how the most recent commonwealth budget fits into a historical perspective. If you look at the commonwealth budget 2022–23, we receive about 5.9 per cent of the over \$3.5 billion of new infrastructure investment to the states that was announced over the forward estimates. That was well below New South Wales and well below Western Australia, Queensland and South Australia, but we did beat Tasmania—but only just, because Tasmania’s population is less than a tenth of Victoria’s. But we level pegged with Tasmania. So if that is not crass cynicism, I do not know what is, quite frankly. Victoria’s average share of overall infrastructure funding from the commonwealth over the past five years to 2025–26 is just 20.4 per cent, falling far below our average population share over the same period of 26 per cent, so you can understand why we feel aggrieved about this. Not only have we got GST being distorted, we have also got infrastructure allocations being distorted—5.9 per cent in 2022–23 for over a quarter of the nation’s population. But, nonetheless, we just had to get on. As the commonwealth disappear from view all the weight has fallen on the Victorian people and the Victorian government to ensure that the opportunities for the future and the investment in the future continue unabated.

Additionally the commonwealth did not allocate any funding—any funding—in its latest budget to Victoria as part of its energy security and regional development plan. Now, that is a \$7.1 billion fund, and not a cent—not one cent—went to Victoria. It is breathtaking in its cynicism. This was a fund of course that the National Party managed to negotiate for the purposes of buying their support for the Prime Minister’s so-called climate change strategies—\$7.1 billion that seems to have been disbursed in ways that seem to meet the aspirations and needs of Barnaby Joyce in places not being Victoria. So that funding was provided to regions in New South Wales, Queensland, Western Australia—God bless them, because they clearly need more help—and the Northern Territory. This is an important issue for Victoria, and it is absolutely correct that we have been duded by the commonwealth infrastructure contributions for quite some time.

**Mr D O’BRIEN:** Like the Princes Highway duplication—

**The CHAIR:** Mr O’Brien.

**Mr D O’BRIEN:** where the feds had 80 per cent of the money on the table for three years and you did nothing—

**The CHAIR:** Mr O’Brien—

**Mr D O’BRIEN:** and then complained that the feds aren’t putting the money in.

**The CHAIR:** Mr O’Brien, could you please stop yelling over the top of me. The call is not with you, it is with Mr Richardson.

**Mr D O’BRIEN:** Well, if the Treasurer is going to invite rubbish like that—

**The CHAIR:** Mr O’Brien.

**Mr PALLAS:** Methinks you doth protest too much.

**Mr D O’BRIEN:** I think you should have a look at yourself, Treasurer.

**Mr PALLAS:** Are you feeling a little bit brittle?

**The CHAIR:** Mr O’Brien, perhaps you should have a look at yourself.

**Mr D O’BRIEN:** The Princes Highway east duplication—three years the feds had the money on the table, and you did nothing.

**The CHAIR:** Mr O’Brien, I do not appreciate you yelling over the top of me. Mr Richardson, you have the call.

**Mr RICHARDSON:** I might take some time off him in the next section, Treasurer. Just going to—

**Mr D O'BRIEN:** Because this is so important, Tim.

**The CHAIR:** Mr O'Brien.

**Mr RICHARDSON:** Well, it is actually. I mean, GST and infrastructure and where I will get to, public health, are very important indeed.

**Mr D O'BRIEN:** We've already had an hour of—

**The CHAIR:** Mr O'Brien.

**Mr RICHARDSON:** Not in roads that are nowhere near the state of Victoria. In the same chapter of budget paper 2—chapter 3—Treasurer, there is a short section that talks about the commonwealth funding for public health and hospitals on page 49. Obviously this state budget was a substantial investment in health by the Victorian government. For the committee's benefit and overview, are you able to provide any commentary on the commonwealth support for Victoria's health system during the pandemic and what effect this has had on the state budget?

**Mr PALLAS:** Well, during the pandemic the commonwealth has provided some funding to Victoria and the other states to support critical health spending through the COVID-19 national partnership agreement, under which the commonwealth funds 50 per cent of certain eligible health expenditure. In other areas of health spending the state has been left high and dry, quite frankly. In certain areas crucial to the COVID response, such as funding for the vaccine rollout and the procurement of rapid antigen tests, the commonwealth funding provided has been woefully inadequate, and we have largely been left to our own devices. The outsized costs borne by the Victorian government are substantial. The 2022–23 budget provides \$4.2 billion to continue to support the health system to manage the COVID-19 pandemic, \$1.1 billion to purchase and distribute rapid antigen tests, \$284 million for personal protective equipment for healthcare workers and \$110 million to continue to care for patients with COVID-19. Really what this shows us is these cost pressures on Victoria are set to be compounded should the commonwealth's participation in that national partnership agreement not be extended beyond the current commitment to 30 June this year.

**Mr RICHARDSON:** Thanks, Treasurer.

**The CHAIR:** Thank you, Treasurer. Mr Barton.

**Mr BARTON:** Thank you, Chair. Treasurer, can I just go back to Mr Hibbins—when we were talking about VicRoads. You may not like to call it privatisation. I think Victorians will call it that. But the reality is that we are going to have a private equity company come in and put an extremely large amount of money to the government, and they are going to want to go in there and strip costs out of it and improve their profitability back to their shareholders. Can you tell us how you can guarantee protection for people's registrations, that it is not going to impact those, and job security for those who are working at VicRoads—just on those things to start with. Thank you.

**Mr PALLAS:** Well, we are just going to have to agree to disagree, Mr Barton, on what constitutes privatisation. But the state of Victoria will retain ownership of this asset over the long term. We expect to get a better asset back over this term. You and perhaps many road users will know that the IT systems that VicRoads have had in place have not been adequately capable of meeting the needs and the ongoing requirements of the community. We expect any joint venture, any partnership with the private sector, to address exactly that, and that will be for the benefit of road users. We are not divesting the ownership of this asset in perpetuity, and that is a definition of privatisation. We are partnering with the private sector, and I find it passably strange that people cannot conceive in a multifaceted economy, in a diverse social democracy, that the private sector can play a constructive role in being able to assist the community in delivering better services. We do it right across the board, whether it is in the delivery of our infrastructure, where private sector partners play a very constructive role; we do it essentially when we have obvious problems with social wellbeing through our partnerships addressing disadvantage. So the private sector and the community sector have a very substantial role to play.

You asked me: was I able to give assurances to Victorians around how the management of the responsibilities would be conducted? I can, because they will be conducted consistent with the contractual terms of the concession deed that we put in place, and the state will expressly spell out what constitutes appropriate service delivery. We will also spell out how adjustments can be made in terms of pricing to ensure that the road user is adequately protected. These things are important, but the most important thing is that government cannot simply assume that the way we have always done things is the way that we should always do them. That is a formula for failure and disaster. We know as a matter of fact that there are problems in terms of the registration and licensing system, and I am sure, Mr Barton, you would be very conscious of the fact, because many of your constituents would be telling you that those are problems. This government is getting involved, finding a partner and actively improving the quality of those services going forward, and we expect motorists will get benefits from it.

**Mr BARTON:** Treasurer, in fairness, you have been in government 18 or 19 of the last 22 years. The IT system's failure at VicRoads did not happen in the last three years. It has been a lack of investment over a very long period of time.

**Mr PALLAS:** That is a statement, it is not a question. Would you like to make a question?

**Mr BARTON:** Treasurer, thank you. Yes, I would. This money is going to go into Victoria's Future Fund. Could you perhaps just say a little bit more about that Future Fund. You say you expect to have about \$10 billion in the medium term. What is the medium term?

**Mr PALLAS:** I think I have answered that question. It is around years 5 to 6. The reason why we have been deliberately cryptic about the number here, Mr Barton, is—

**Mrs McARTHUR:** Cryptic.

**Mr PALLAS:** Deliberately cryptic, and I will be very precise in my language—because we do not want to in any way constrain the practical and competitive pressures that are at place in the R & L concession competitive tender that is underway. We have added things, such as of course whatever constitutes the regular land sales being injected into these arrangements, but they will not peak as a consequence of this. We will also add, just as we do through the Social Housing Growth Fund, the earnings of that fund. I think they pick up about 7 per cent generally—thereabouts. Out of a billion dollars that we put aside to that fund we would expect to see reasonable earnings coming out of a fund of this nature, given that it is effectively a realised asset of the state being applied for the purposes of the long-term benefits of the Victorian community. Of course as we move—we will be moving reasonably quickly given that we are on step 3 of a four-step process—as we start to realise surpluses in our budget, then we will apply certain amounts of those surpluses to also build the corpus of the fund. This is an intergenerational opportunity. It will provide those in our community with certainty that the government will have an unwavering and a long-term commitment to being able to ensure that debt management is front and centre and adequately resourced.

**Mr BARTON:** Treasurer, can you just confirm the jobs at VicRoads?

**Mr PALLAS:** What in particular?

**Mr BARTON:** In terms of this new partnership you are having.

**Mr PALLAS:** Well, the process at the moment has been agreed with their representative unions around how people get the opportunity to make a choice—whether they transfer over to the incoming provider or stay within the public service. We are working those issues through, but they are being worked through by agreement. Of course you would appreciate that there will be less jobs in VicRoads because the registration and licensing function is effectively transferring to the joint venture.

**Mr BARTON:** Thank you, Treasurer. Treasurer, if I can just now swing over to Commercial Passenger Vehicles Victoria, the regulator: they are currently in a state of flux, I think, being merged with Transport Safety Victoria. There are some indications in the budget that there is a reduction through some cost savings. I cannot see, with any confidence, funding for the future of the regulator as it stands. Can we get some clarity around that?

**Mr PALLAS:** No, I think the question is probably best directed to the responsible minister. That level of incremental appreciation of what is happening within that portfolio is probably best directed to the minister.

**Mr BARTON:** Just on the cost savings with the merger—we have got nothing there?

**Mr PALLAS:** Once again it is a responsibility within that portfolio.

**Mr BARTON:** Thank you. Levy collection—there has been much talk around levy collection—

**Mr PALLAS:** Yes, we have talked about it much.

**Mr BARTON:** and we do not seem to be any further down the track, Treasurer.

**Mr PALLAS:** I think we have been alerted to concerns that you, on behalf of your constituents, have raised around levy collection. We believe that the collection of a levy is entirely consistent with our expectations around the revenue that will be drawn, but you have alerted us to a concern that you think that there is an undercollection. There is a review underway, and the government will wait to see whether or not that review demonstrates whether that collection process shows any disparity between our expectations in the forward estimates and your belief that there is an undercollection.

**Mr BARTON:** We just have not seen anything as yet. I have spoken to no-one.

**Mr PALLAS:** Well, I no doubt will make it clear to you that managing that issue will be the responsibility of the minister. I suppose it would be the Minister for Public Transport.

**Mr BARTON:** Yes. Thank you, Treasurer. Committees and committees' budgets—I am told 85 per cent of the committee budgets are spent on staff wages. They are forced to go back to the well every two years for further funding, and this makes it difficult for committees to retain staff, because people are looking for job security. There has not been an increase in the number of years to the committee funding.

**Mr PALLAS:** So the question is—

**The CHAIR:** Sorry, Mr Barton. Do you mean parliamentary committees?

**Mr BARTON:** Parliamentary committees, yes.

**Mr PALLAS:** So you have made a statement. What is the question?

**Mr BARTON:** Would you look at increasing the funding, because we have not seen anything in the budget to do so?

**Mr PALLAS:** Yes. The government does look to provision for the parliamentary committees as best we can. Certainly our view in respect of the current situation is that we have made an effort to ensure that the Parliament is adequately resourced, just as we made a very substantial effort to ensure that the integrity agencies effectively get everything that they needed and asked for in the context of the current budget. So from the government's point of view, if your question is, 'Why can't you give us four years worth of guaranteed funding?', because the needs of these committees will vary and the composition of the committees will vary ultimately it is a matter that the state sees as being best managed over a shorter period than a standard forward estimates period. We make the allocation based on what we see as being our capacity in the overall context of the budget but also recognising that the Parliament does have an important role to play and it needs to be adequately resourced, and that is exactly what we have done in this budget. Just looking through the long-term funding, there has been a pretty substantial increase—2.7 per cent—in the funding between the revised allocations of \$126.3 million in 2021–22 to \$137.3 million in 2022–23. So that is a 2.7 per cent upward adjustment in those parliamentary services—that is, in overall allocations to the Parliament.

**Mr BARTON:** Thank you, Treasurer. Just while we are on this particular subject, through the committee work we have certainly been dealing with lots of work around homelessness and various organisations and all those things. They have also raised this issue of these short-term funding arrangements, and they argued that it puts them under enormous amount of pressure to keep coming back to the well every 12 months or two years.

It must affect the government, having to review these things. The question is: why can't we have funding for the forward estimates?

**Mr PALLAS:** Certainly in this budget I have put aside something in the order of magnitude of about \$70 million to allow the community service providers to have certainty of funding for a four-year period. On the homelessness issue, the government has made a very substantial investment in homelessness services—some \$75 million in this budget alone. There was \$150 million for the From Homelessness to a Home program, which supported some 1700 households to move into a new home with individual tailored support, and the first 27 of up to 250 families in a \$66 million homes for families program have also moved into their homes. Sure, that was an investment that has been made historically, but it was made in the term of this government and it is demonstrating that if you do not have a long-term commitment to a pipeline of investment and activation, then you do not get the results you need. So \$75 million for homelessness services in 2022–23—that builds on the significant investment that we have made over the past two years, it will transform services for Victorians that are experiencing or at risk of homelessness and it will include tailored multidisciplinary support to get them into permanent housing.

There is also of course the \$5.3 billion Big Housing Build, which is expected to create over the next four years some 12 000 homes, a 10 per cent increase in the number of social public housing stock available, all of which is part of a cohort of disadvantage that the state recognises that we have an obligation to deal with. We are providing as best we can certainty in terms of how we deal with homelessness services—since the government came to office, \$700 million of express payments directly towards homelessness services and, as I say, \$75 million in this budget alone. But of course that is only part of the story when you think about the broad cohort of disadvantage that the government is directing funds to through our Big Housing Build.

**Mr BARTON:** I acknowledge the big housing project, and it is huge, but we know that even with those extra houses there we are still going to be behind the national average in terms of social and affordable housing. We know this is the biggest investment that we have seen—I cannot recall a bigger investment into housing at this stage—but looking forward, how do we go beyond there?

**Mr PALLAS:** Well, the government has done a few things, and I suppose the first point I would make is this is big at \$5.3 billion, and it is a very substantial intervention by the state, and it acknowledges that this work will be long and ongoing. But it also is just part of a whole series of interventions that the state is putting in place. So, for example, we are seeking to transform the way homelessness services are delivered in Victoria, taking the lessons from successful pandemic programs that have been put in place to set Victorians who are experiencing homelessness on a pathway to permanent housing with tailored support. This investment will build on last year's \$110 million ongoing funding for the private rental assistance program and Aboriginal private rental assistance program—so, ongoing funding to help people who need it to access and to maintain private rental housing—as well as \$25.8 million to develop a new partnership addressing disadvantage to respond to entrenched disadvantage with a particular focus on solutions for homelessness. At risk of the engagement of the state involving a community organisation, we are using the collective wit and wisdom of people who have got experience in this area, developing programs to help us find ways to better improve the material solutions that we are putting in place. So since 2014 the Andrews government has made record investments of almost \$8 billion in housing and homelessness services, and that of course includes that \$5.3 billion Big Housing Build that I have already taken you through, which delivers 12 000 more homes for more Victorians.

**The CHAIR:** Thank you, Treasurer, and thank you Mr Barton. That concludes the time we have set aside for the consideration of the Treasury portfolio. We thank you all very much for appearing before the committee in this capacity today. The committee will follow up on any questions which were taken on notice in writing and responses will be required within five working days of the committee's request.

The committee will now take a 15-minute break and resume consideration with you of the economic development portfolio at 12 o'clock. Thank you.

**Witnesses withdrew.**