

TRANSCRIPT

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into the Victorian Government's Response to the COVID-19 Pandemic

Melbourne—Wednesday, 13 May 2020

Members

Ms Lizzie Blandthorn—Chair

Mr Richard Riordan—Deputy Chair

Mr Sam Hibbins

Mr David Limbrick

Mr Gary Maas

Mr Danny O'Brien

Ms Pauline Richards

Mr Tim Richardson

Ms Ingrid Stitt

Ms Bridget Vallenge

WITNESSES

Mr Tim Pallas, Minister for the Coordination of Treasury and Finance: COVID-19,

Mr David Martine, Secretary,

Mr Matt O'Connor, Deputy Secretary, Industrial Relations Victoria,

Ms Amy Auster, Deputy Secretary, Economic Division, and

Mr Jamie Driscoll, Deputy Secretary, Budget and Finance Division, Department of Treasury and Finance (*all via videoconference*).

The CHAIR: I declare open this hearing of the Public Accounts and Estimates Committee, and I would like to begin by acknowledging the traditional Aboriginal owners of the land on which we are meeting and pay our respects to them, their culture, their elders, past, present and future, and elders from other communities who may be joining us this morning.

Welcome to the Public Accounts and Estimates Committee Inquiry into the Victorian Government's Response to the COVID-19 Pandemic. The Committee will be reviewing and reporting to the Parliament on the responses taken by the Victorian Government, including as part of the national cabinet, to manage the COVID-19 pandemic and any other matter related to the COVID-19 pandemic. Could all mobile telephones now be turned to silent.

All evidence taken by this Committee is protected by parliamentary privilege. Therefore you are protected against any action for what you say here today, but if you repeat the same things outside this forum, including on social media, those comments may not be protected by this privilege. Witnesses will be provided with a proof version of the transcript to check, and verified transcripts, presentations and handouts will be placed on the Committee's website as soon as possible.

These hearings may also be rebroadcast in compliance with standing order 234. I would ask photographers and camerapersons to follow the established media guidelines and the instructions of our Committee secretariat.

Thank you to the Treasurer and his department for joining us today. We invite you make a very brief opening statement of no more than 8 minutes. We will cut you off at 8 minutes. For the Hansard record, could you please state your name, position and the organisation you represent. This will be followed by questions from our Committee. Thank you.

Mr PALLAS: Good morning. Tim Pallas, Treasurer of Victoria, Minister for Economic Development, Minister for Industrial Relations and Minister for COVID-19 coordination for DTF.

Visual presentation.

Mr PALLAS: Thank you very much, Chair, and thank you very much to Committee Members for the opportunity to speak to you today. I suppose six months ago no-one would have foreseen coronavirus and its impacts on the community having the sort of profound impact that they have or indeed the impact as a health event, but of course more tellingly in the long term will be its long run of impacts upon our economy. Securing the health and safety of our community has been this Government's primary objective. Our job now is to build the economic bridge that will help the Victorian businesses and households get to the other side of this crisis and be ready to recover.

We released Treasury forecasts several weeks ago about how grim a picture from both the June and September quarters we were seeing unfold. Now these forecasts were based on a scenario of stage 3 restrictions remaining in place for about six months. Under this scenario economic activity could be up to 14 per cent lower than it would have been without coronavirus. For the 2020 calendar year that would mean a 6.75 per cent fall in gross state product, consistent with the Commonwealth Government and IMF projections for the national economy. The Treasury forecasts also showed that we could see 270 000 jobs lost, with unemployment peaking as high as 11 per cent in the September quarter, more than double the rate going into the crisis. Property prices will also decline by up to 9 per cent from March to December 2020.

This graph charts the impact of coronavirus in relation to other major economic impact events in recent times. You can see that in coming months we are likely to experience high unemployment, expected to reach a peak of 11 per cent. This is higher than at any time since the recession in the early 1990s, and you can see how long it took—more than six years—for the unemployment rate to recover back to where it was before the 1990s recession hit. This Government has always been focused on putting Victorians into work, and that is going to be our priority in the months and years ahead. With this level of unemployment the economy takes years to recover back to where it was. This chart shows that under the scenario estimated by Treasury the accumulated losses to real GSP would reach about \$55 billion over an 18-month horizon. This is a significant loss in demand, caused in the first instance by restrictions but perpetuated by lower population growth and the potential need to restrict activity for periods in the months ahead.

The most recent data on current conditions in the Victorian economy show the impact that Treasury anticipated is in fact unfolding. Most recent data shows Victorian jobs have decreased by 8.6 per cent between 14 March and 18 April, with the national number of job advertisements dropping by a record 53 per cent in April. This is combined with low property sales volumes, low consumer sentiment, business confidence at its lowest levels on record and the performance and manufacturing index falling to its lowest level since February 2009.

As you have all seen firsthand, and as the economic outlook I have discussed shows, we are facing an unprecedented challenge. We have had to take extraordinary steps to address both the health crisis and the economic crisis facing Victoria. We are committed to providing the support needed to mitigate the impacts of coronavirus on the Victorian economy and to support jobs. So far the Government has announced initiatives totalling more than \$5 billion in funding. That includes more than \$1.9 billion for health, more than \$2.7 billion for the economy, more than \$175 million for social initiatives and more than \$350 million for education.

This slide shows some of the Government's key initiatives delivered as part of the response. Our innovative economic survival packages are supporting our economy through unprecedented times, including payroll tax reimbursements for small and medium-sized businesses with a payroll of less than \$3 million; the \$500 million Business Support Fund, providing \$10 000 grants to small and medium-sized businesses; the \$500 million Working for Victoria Fund to help workers who have lost their jobs find new opportunities, including work in cleaning public infrastructure or delivering care packages; the \$500 million tenancies package to provide rent relief and mediation support to help tenants and landlords get through this crisis; exemptions for payroll tax and WorkCover premiums on JobKeeper payments for staff that are currently stood down and for payments above a part-time employee's usual salary; and a freeze on fines and fee increases, including driving licences, traffic infringements, court-imposed penalties and permit fees. A planned increase in the landfill levy will also be deferred, and the fire services property levy paid by all Victorian households will be frozen at this year's collection level. We are waiving liquor licensing fees for affected venues. This is critical support for the hospitality sector, with renewable liquor licence fees for 2020 waived. Businesses that have already paid their fees will have them reimbursed.

Under Commonwealth Government guidelines casual public sector workers are ineligible for the JobKeeper program. We have acted to fix this by making sure that these workers can access their usual fortnightly payments of up to \$1500 before tax up until the end of September, providing that they are happy to be redeployed to other public sector roles where the demand for more resources is high, such as health care. These payments are available to workers regardless of their age and whether they are Australian citizens or not. Public sector casual workers will be eligible for the payment regardless of their length of service. These payments will support 3000 workers, and we are also extending the contract of fixed-term public service employees.

There is no doubt that this pandemic is the challenge of our generation. We know that Victoria is well placed to survive this crisis because of our strong track record of five years of above-trend economic growth and more new jobs than any other state or territory. We know that the state economy was strong before the bushfires and COVID-19; we were on track to deliver a sixth consecutive budget surplus, expenditure was moderating and economic indicators were strong—and as a consequence we are seeing the property market rebound. After the last five years we have established the foundations for an economic recovery through our massive infrastructure pipeline, our investments in skills and training, and our support for local businesses. We do not just want to get back to where we were; we want to build for the future. We are planning to be in the best position for the economic upswing ahead and to be ready to take every opportunity that presents itself.

The CHAIR: Thank you, Treasurer. We will pass to the first Government Member for questions, Gary Maas, MP.

Mr MAAS: Good morning. Thank you, Treasurer, for that presentation, and thank you to you and to departmental officials for appearing before the Committee this morning. Treasurer, I would like to take you to an item in your presentation, and that was the Government's economic survival package. I was hoping you would be able to explain how the Government's economic survival package, announced on 21 March of this year, is helping businesses and workers through the pandemic crisis.

Mr PALLAS: Well, we know that the corona pandemic and also the strong measures that we have taken to slow the spread of the virus have had a significant impact on our economy. We know that this event will be with us for some time as both a health event, one that we will have to continue to make more and more investment into, and one where we will have to necessarily continue to assist the economy to make the transition, that bridge to the future. Whilst we know that the measures that we have taken with regard to responding to the health event, to the pandemic, have saved lives, they have come at a significant cost to business and to workers right across this state. It is incumbent upon us to make sure that we can continue our efforts and support for business in an ongoing sense.

Now, we cannot keep bars, clubs and restaurants open at the moment, and we cannot give all businesses the customers that they are losing as a consequence of these social distancing arrangements. And of course the recognition of this fact was the central driver behind the Government's \$1.7 billion economic survival package that we announced on 21 March, the largest package of its kind in Victoria's history, because we want to make sure that there are businesses and that there are jobs for workers to come back to on the other side of this crisis—so recognising that the investments that we make now are vitally important for the survival of businesses and for the welfare of families and workers.

The first phase of that economic survival package really includes things such as \$550 million in payroll tax refunds and waivers for the 19–20 financial year for those small and medium-sized businesses with payrolls of less than \$3 million; the payroll tax deferrals for the next three months to the 20–21 financial year and until January 2021; \$500 million that has been applied to establish a Business Support Fund to support small employers that are too small to pay payroll tax but nonetheless are feeling the very obvious impacts of the social distancing requirements upon their businesses; the \$500 million Working for Victoria Fund to help workers who have lost their jobs find new opportunities; and accelerating payments on outstanding supply or invoices, providing cash flow when it is needed. We set a target of \$750 million, paying out as quickly as we could, and what we have actually seen is that we have smashed that. We are at \$1.1 billion to suppliers within five days, and we are continuing to accelerate those invoice payments. There is waiving of liquor licensing fees, as I have said. We have seen something like 20 000 businesses be the beneficiaries of those waivers, and that has been a refunded cost of about \$22 million. We are deferring the 2020 land tax payment for eligible small businesses and providing \$100 million of rent relief to commercial tenants in government buildings.

Our economic survival package was designed after consultation with the Commonwealth Government, and I need to emphasise this: this is not about the Government of Victoria simply acting alone. We recognise that when all tiers of government make a contribution and act together and complement each other's actions, then we get better outcomes. The support measures are targeted at small and medium-sized businesses. We know that small businesses are a vital part of our economy and local communities are often less well placed to deal with economic shocks. So that is what has motivated the Government. It has been the principle and driving factor. It is about recognising that, yes, we have an event, a crisis, that is confronting us at the moment, both a health crisis that requires resourcing and also an economic crisis—perhaps the greatest in 100 years, perhaps the challenge of our lifetime—but it is one that as a community we are up to.

This Government is aiming to complement and to support that effort in as many ways as we can, recognising that we have to be focused in terms of the support that we are giving to those areas that have the greatest and most evident need but also recognising that we need to keep sufficient firepower—that on the economic upswing we can make the necessary investments to assure Victorians of vitality and growth into the future.

Mr MAAS: Thank you, Treasurer. You did mention payroll tax relief. Would you be able to take us through how many businesses have been advantaged by payroll tax relief and the type of support that it has provided?

Mr PALLAS: Yes. Thanks for the question. I suppose the payroll tax relief measures are the single largest component of the economic survival package. It provides something like \$550 million of relief to small and medium-sized businesses for payrolls of up to \$3 million. More than 30 000 businesses are expected to benefit from that payroll tax relief, whether it be a refund or waiver. Almost two-thirds of those businesses do not just benefit from a waiver of future payroll liabilities, they get a refund of tax already paid this financial year. We have already provided around about \$486 million worth of refunds to 18 300 businesses. That is cash back in the bank accounts of these businesses, helping them get through this crisis. Eligible businesses will see cash in the bank within days of verifying their bank details. I would encourage any remaining businesses that have yet to make the necessary contact with the State Revenue Office to do so, to update their bank details. These eligible businesses will also be able to defer their payroll tax liabilities for the first three months of the next financial year until January. That means not only that they will have the opportunity to defer those payments but they will also be able to pay any payroll tax until at least November. So eligible small businesses that only pay their payroll tax at the end of the year will have their entire payroll tax waived, freeing up any cash that they have set aside.

Mr MAAS: Thanks, Treasurer. You made mention that the announcement was the first phase of economic support. Could you tell us what other support the Government will be providing or is providing?

Mr PALLAS: Well, as we have always said, this was the first stage of our economic support package. We are going to continue to work closely with business, with unions and in consultation with the Commonwealth as the impacts of the pandemic event continue to evolve. I think we do need to recognise that this is an evolving situation. As the Premier has said on many occasions, nobody has written a playbook for this, at least not in modern political times. Certainly good public policy will require us not only to make wise choices but to recognise that this will be a long-run event and it will require continued effort and diligence from the Government.

We said at the time that we would have further support to announce over the coming weeks and months, and that is exactly what we have done. For example, on 28 March we announced funding to secure 5000 hotel rooms and care packages for newly returned travellers. It was not only an important health measure; it provided vital support to businesses and workers in the hotel and accommodation industry. On 15 April the Government also announced a \$500 million tenancies package to provide grant relief and mediation support to help tenants and landlords through this crisis. The package included nearly \$420 million in tax relief and \$80 million in hardship rental assistance for renters who could not come to, basically, terms with their landlords through mediation. This funding will help something like 38 000 households to get through this crisis. On 5 May we announced of course a further \$491 million in relief to help save businesses and jobs and reduce the financial burden on households as they get through the coronavirus crisis. That included targeted payroll tax relief, WorkCover premium exemptions for participants in the JobKeeper program, as well as freezing a host of fees, charges and levies. All told, that brings our total support to business and households to more than \$3 billion.

Mr MAAS: Thanks, Treasurer. You mentioned that the Victorian Government's approach has been designed to complement the approach of the Commonwealth Government. How do the measures in the economic support package complement the Commonwealth Government's programs?

Mr PALLAS: Well, these are strange times indeed in many respects. We have to acknowledge that the Commonwealth has certainly put its shoulder to the wheel and has been, through the national cabinet process, building a level of consensus and constructive engagement that I think is vital. Believe me, it will be vital not just for dealing with the health event as it is occurring—getting a level of commonality in terms of approach—but also recognising that we cannot lose this opportunity. It is a great opportunity for us to build a political consensus around the need for change and reform. Our economic survival package is designed to work in conjunction with the Commonwealth Government's support packages rather than duplicate them. For example, our payroll tax relief and our Business Support Fund are focused on businesses that employ people; sole traders are eligible for Commonwealth Government income support, including the JobKeeper payment.

The Victorian Government is also being clear that we welcome the Commonwealth Government's JobKeeper program as a vitally important way to support businesses and workers through this crisis. On 5 May 2020 we announced that businesses participating in that JobKeeper program will be exempt from payroll tax and work—

The CHAIR: I will stop the clock while the connection is resolved.

Hearing suspended.

Mr PALLAS: I am here.

The CHAIR: Thank you, Treasurer. You can continue.

Mr RIORDAN: You have got the questions from your side written in front of you, so you can pick it up wherever.

The CHAIR: Deputy Chair, it is almost your turn. Treasurer, you can continue, thank you.

Mr PALLAS: I completed my response.

Mr RIORDAN: Thank you, Treasurer. Hopefully you will be able to stay online with us. My first question this morning is: rural and regional Victoria has been very vibrant over the last 30 years with a lot of small mum and dad businesses that fulfil a great need in the gourmet food industry, visitor experiences and other things. These businesses are typically mum and dad. They do not have employees. They are often on farms and acreages which may have very large mortgages or they have landlords and could be paying \$30 000, \$40 000 or \$50 000 a year rent because they generally are quite high-turnover, weekend-type businesses.

Those businesses have no prospect of income for quite some time with the millions of overseas visitors that will not be coming to Victoria, and that is no-one's fault; that is just how it is going to be. Those businesses get nothing from the State at the moment. The Business Support Fund does not help them because they do not pay wages so therefore they are not eligible. They can only get one JobSeeker payment. So businesses that literally are facing tens and tens of thousands of dollars just to keep their doors open have nothing, and they are crying out for some support. What could you foreshadow that you might have for them?

Mr PALLAS: Well, I suppose, Deputy Chair, you are referring to people who are sole operators—they do not have any employed staff.

Mr RIORDAN: No, no employed staff. They are gourmet businesses. They might make goats cheese, ice cream—in my electorate—small woollen mills, all sorts of interesting enterprises that add value and dynamism to our country communities, and they get nothing. They get one JobSeeker payment. I know one family, six children; they work in the business together. They have gone from many, many hundreds of thousands of dollars turnover to one JobSeeker payment. And then, once that finishes and is halved in September, they have no capacity to generate an income. What do you say to them?

Mr PALLAS: Well, I say simply that from a Government point of view we have been working diligently to provide, take the payroll tax burden off regional Victoria for a long time.

Mr RIORDAN: They do not pay payroll tax, Treasurer.

Mr PALLAS: I knew that.

Mr RIORDAN: Yes, so we do not want to hear that, because that actually upsets them, when you talk about payroll tax cuts to people that do not have payroll tax. So what benefits specifically have you got for small mum and dad businesses that country Victoria relies on for tourism and regional development?

Mr PALLAS: Well, I suppose the first step that I would say is that the State has provided something like a reduction of 2 per cent in the unemployment level since we have come to government in regional Victoria, which—

Mr RIORDAN: Okay. Well, that is not helping at the moment either, because that is not going to pay their rent or pay their mortgage or help put their kids on 1-hour-long bus trips into town and buy dongles that they need. What have we got for those businesses in Victoria?

Mr PALLAS: Well, we have to recognise that as a State we can only make provision for resourcing of our response to this in a way that is consistent and complementary with the actions that the Commonwealth have suggested, and that means—

Mr RIORDAN: Treasurer, sorry, your Business Support Fund specifically excludes these businesses. There are lots, there are thousands of them, thousands of them around Victoria. Your Business Support Fund deliberately excludes them.

Mr PALLAS: Well, the principle underpinning the Business Support Fund is that those businesses that have paid tax to the State deserve relief from that tax that they have paid to the State. Consequently we have a—

Mr RIORDAN: Would you like to tell them or should I, that you do not think they pay tax?

Mr PALLAS: Well, we are talking about payroll tax here, in the context, and certainly—

Mr RIORDAN: Sorry. Your small Business Support Fund is for businesses that pay payroll tax. These people do not pay payroll tax. It is just that they work hard seven days a week in their businesses, do it all themselves, and now they have got to live on \$1000 a week for one person.

Ms VALLENCE: It will crush—

Mr RIORDAN: This is crushing families. I have got them in tears in my office, Treasurer.

Mr PALLAS: Recognising that we are complementing what the Commonwealth Government are doing, you do have to acknowledge that the JobKeeper and JobSeeker programs are in place, which can support those businesses.

Ms Vallence interjected.

Mr RIORDAN: No, they cannot. We have just established that.

The CHAIR: Deputy Chair, could you please let the Treasurer answer.

Mr RIORDAN: Well, no, the Treasurer cannot just—

The CHAIR: And Ms Vallence, you will get your turn.

Mr RIORDAN: Sorry, Chair. We had this issue yesterday. The Treasurer cannot keep giving his answers that are not the relevant answers to the question.

Mr PALLAS: Well, you get to ask the question and I get to answer it, Mr Riordan. That is how—

Mr RIORDAN: Yes, correctly and appropriately.

Mr PALLAS: So from our perspective we continue to work to complement the Commonwealth and do what we can in order to provide resources where they are available. Indeed the businesses do pay tax in terms of any land tax that they may pay for the purposes of the provision of services in the community, but by and large the State has made efforts to ensure that we have acted consistently with the social distancing arrangements that—

Mr RIORDAN: Sorry, Treasurer. We do not talk about social distancing. The question is: your small business support fund is not helping a huge range of small businesses; will you make a commitment to review that and give an opportunity for these small mum and dad businesses to get some support?

Mr PALLAS: Well, I have already indicated to you that the Government are consistently working at the provision of the services that were put in place, and we are doing that largely because we recognise that these businesses of course are eligible for the JobKeeper program, as you would appreciate, I assume, and—

Mr RIORDAN: No, they are not. These ones do not get JobKeeper. That is the point. We will not go on with it, because I have made that point many times and you do not seem to have been advised of that, which is disappointing. It is JobSeeker only.

Mr PALLAS: [inaudible] are filling the gaps within the system that we believe the Government has the capacity to do it, that we have an existing relationship with taxpayers so that we can identify where those payments can be rebated or waived, and we are doing that. That is our principal focus. Our key—

Mr RIORDAN: We need to move on. Sorry, Treasurer. We will move on. You do not have an answer. Treasurer, what has been the current level of drawdown on the initial 2019–20 Treasurer’s advance of \$2.8 billion from the 2019–20 budget?

Mr PALLAS: Well, look, we have been very clear that from our perspective we see this as a facility to assist the state in being able to deal with this event. As you would appreciate, we indicated that we would put a facility for both this financial year and the next financial year, starting 1 July, to \$24.5 billion. Can I be very clear: that is a facility; it is not the incursion of debt at the moment. The State is required to declare exactly what our drawdowns on those facilities are under the *Financial Management Act*. We are required to do that at the time of the budget, and we will do it at the time of the budget.

Mr RIORDAN: Okay, so the question was about the initial \$2.8 billion. Has that all been used from the 2019–20 budget?

Mr PALLAS: Well, the provisions that we have put in place—

Mr RIORDAN: It was just a yes or no.

Mr PALLAS: You described that as a Treasurer’s advance, did you?

Mr RIORDAN: The current level of the drawdown on the initial 2019–20 Treasurer’s advance from the current budget.

Mr PALLAS: My [inaudible] advance, can I be clear about that. The Government will make decisions about how we draw down on the Treasurer’s advance, but at the moment we are essentially using our budgeted position and we will make decisions about whether or not we need to make provision for a Treasurer’s advance at an appropriate time. This is—

Mr D O’BRIEN: Sorry, Treasurer, you just broke up at the—

Mr PALLAS: [inaudible] this has been through the normal course of budgeting and decision-making within Government. It is not being handled at the moment as a Treasurer’s advance.

Mr D O’BRIEN: Sorry, Treasurer, you just broke up at the start of your last answer.

Mr PALLAS: [inaudible] and I will say it again just so that you hear me clearly: we are not providing—

Mr RIORDAN: If you come in here, it would be clearer, but anyway.

The CHAIR: Richard, you cannot hear it because you are talking over the top of the Treasurer. If you could let him answer the question.

Mr PALLAS: The State will continue to make appropriate payments through appropriate decision-making processes. We are obliged to declare any Treasurer’s advance through the budgeted processes—the budgeted documents—under the *Financial Management Act*. Any decisions that have been made to date have essentially been managed generally through the course of our budgeting decisions and our decision-making processes set up within Government, including the [inaudible].

Mr RIORDAN: So the Treasurer’s advance, the additional \$10 billion, has that been utilised in any way to date?

Mr PALLAS: Well, look, we will be acquitting that in due course, and I am not going to run a running commentary on how we are actually drawing down. I think people need to appreciate that this is a highly dynamic situation. That is why—

Mr RIORDAN: But it is important to know whether you have drawn on it.

Mr PALLAS: Mr Riordan, you have to let me answer the question in the terms that I see reasonable. Every Treasurer across the country has made it clear that we cannot acquit what is going on because of the highly volatile and dynamic situation that the state is encountering, that every jurisdiction across the world is encountering. We will acquit our Treasurer’s advance allocations within the terms of the budget and entirely in

accordance with the *Financial Management Act* in due course, but at this stage in the process we are not capable of giving you a running commentary on how we are sourcing funds, because quite frankly our—

Mr RIORDAN: So you will not be planning to tell the Parliament how you are spending it?

Mr PALLAS: Of course we will be; that is what the budget is all about.

Mr RIORDAN: Why was \$10 billion chosen as the additional amount of the Treasurer's advance for the 2020 financial year? What modelling was used to come to that figure?

Mr PALLAS: Well, I might just hand over to the Secretary of DTF to just take you through the rationale adopted around these numbers.

Mr MARTINE: David Martine, Secretary, Department of Treasury and Finance. Deputy Chair, at the time that the supply bills were put together it was very much in the early stages of the COVID-19 pandemic. So we made judgements on the extent to which we thought additional funding would be required for the Department of Health and Human Services in terms of their response to the health crisis and then a judgement on the amount of funding which we thought Government may wish to draw on through that period up to 30 June 2020 for what the Government has called 'economic survival'. So the \$10 billion essentially represents a provision in the Bill—which is now an Act—to allow the Government to draw on to effectively cover both of those two areas.

Mr RIORDAN: And how much would you expect to get out before June 30, of the \$10 billion?

Mr MARTINE: Well, one thing—

The CHAIR: Sorry to cut you off, Secretary. The Member's time has expired. I will pass to Ms Richards.

Ms RICHARDS: Thank you, Treasurer, and thank you to your officials as well, not just for your appearance today but what I understand would be an extraordinary time. Just taking you back to some of the evidence you provided as part of your presentation and actually the evidence Mr Martine was just starting to give there, I am interested in discussing or hearing some more about the economic modelling and what the economic modelling shows about the impact of the coronavirus on the crisis on the Victorian economy.

Mr PALLAS: Thanks very much. I think the first point I would make is that there is no doubt that businesses are struggling with the impacts of social distancing measures, and I think that was always going to be a logical consequence of the necessity of dealing with the health event, but it has created a very substantial economic event—probably the biggest economic downturn that we will have seen in a century. So I have always said that I would be upfront about how we are dealing with it, and unfortunately we expect things, quite frankly, to get much worse before they get better and we are expecting an unprecedented fall in activity over the next six months.

So modelling that the Department of Treasury and Finance has produced shows a 14 per cent decline in the size of the Victorian economy over the next six months. We forecast that the Victorian economy would produce around about \$113 billion worth of output in both the June and the September quarters. As a result of COVID, that is now down to around about \$97 billion, or a 14 per cent drop. This is far worse, for example, than the global financial crisis, and it is unprecedented in the postwar era. This will inevitably, quite frankly, hit jobs. We know it already has, and around about 670 000 Victorians work in industries directly affected by stage 3 restrictions. That is about one quarter of the Victorian workforce, so the modelling indicates that about 270 000 Victorians will lose their jobs over the coming months. Our unemployment rate is likely to peak at around about 11 per cent. That is just below the peak of the recession of the early 1990s.

DTF has assumed that stage 3 restrictions will last six months—the June and September quarters, in effect—so it is consistent, broadly, with the duration that the Commonwealth have identified through their JobKeeper and JobSeeker supports. So that is a vital part of the economic resurgence, there is no doubt, but I need to be clear: things are very uncertain at the moment. We still do not know, for example, how long we will need to keep restrictions on and at what level and indeed whether we have been successful at stopping the spread in the long term. We know that we have had success in the short term. We know that Australia stands out amongst OECD

nations as one of the great intervenors in this area, and it has been in no small part due to the effective way that our federation has stepped up to the plate to deal with the issues.

But the modelling also takes into account the JobKeeper program. Without this program the unemployment rate would peak even higher than 11 per cent. To give you some context, the Commonwealth has forecast unemployment to peak at about 10 per cent. Our modelling says 11 per cent. These numbers are broadly consistent with the level of uncertainty around estimates, but whatever the final number is it means that hundreds of thousands of Victorians are going to be out of work. These are not just statistics; they are Victorian families who are going to be directly affected. That is why we announced the \$1.7 billion economic survival package several weeks ago to support businesses and workers to get them through this crisis, but we cannot give businesses customers. We cannot keep bars, clubs and restaurants open right now. We just cannot do it. But we can give them cash—so cash for those businesses.

I have already taken you through the immediate cash and payroll relief that we have put in place for those with wages up to \$3 million, a Business Support Fund of \$500 million, \$10 000 cash grants for small employers, a rent holiday for businesses in government buildings, waiving of liquor licensing fees for some 20 000 venues right across the state, cash flow through payment terms where the Government has been able to ensure that it can continue to fast-track payments to outstanding supplier invoices with more than \$2 million paid to businesses since we announced the package and cash through deferring land tax for small businesses. And of course the Government will also defer increases in the landfill levy at least until 1 January, and that is again expected to save something in the vicinity of about \$30 million across the rest of this year.

Ms RICHARDS: Thank you, Treasurer. Can you give an indication of how many businesses and workers have now been assisted through the economic support package?

Mr PALLAS: Well, I suppose we have said that we are going to do what we can to look after the welfare of businesses and workers, but we have to recognise that the State has finite resource available to it and we have to be quite precise about the investments and decisions that we are making. So, we are pumping billions of dollars into the Victorian economy to support businesses and workers. Already we estimate that we have provided support to more than 50 000 businesses, and that has supported up to 1 million workers. We expect tens of thousands more businesses will benefit from our economic survival package, and we are funding businesses and workers through a range of programs. It is about getting that balance right—making sure that we are looking after business but also being prepared to recognise that families are doing it tough, particularly when it comes to their breadwinner and the certainty of having the security of a home.

The State needs to provide what it can in terms of the resourcing of that. So, as I have mentioned, the payroll tax refund and waiver—\$480 million in payroll tax—adds money in the bank for some 18 300 businesses to help them through these challenging times. The Business Support Fund means \$10 000 grants are already reaching the bank accounts of thousands of small businesses that do not pay payroll tax. That is 24 700 grants that have already been approved for payment worth about \$247 million. The Working for Victoria strategy has helped more than 2800 workers—a really outstanding effort—and I hope that we get the opportunity to talk to Minister Pakula about the work that his department, DJPR, have done in being able to establish from scratch a process that has seen 2800 workers already placed in new jobs through this scheme. They are cleaning critical infrastructure, delivering care packages and working phone lines, with more due to start next week. So great work in that respect. Government invoices—as I have said, \$2 million has been paid ahead of time to help businesses with their cash flow issues. Liquor licensing issues I have already raised, as well as the Government tenant holiday relief and the land tax deferrals. More than 60 000 commercial property owners have had their land tax deferred. That is more than \$76 million worth of deferrals that the State has put in place.

We have been rolling out these programs in close consultation with business. We have had a roundtable with VCCI, with the AIG and with the Australian Hotels Association. I want to make a point that this is about making choices, because as a government we do not have an infinite resource. But what we do have is a will and a desire to make sure that the investments that we are putting in place are precisely targeted in order to best help the community going forward.

Ms RICHARDS: Thank you, Treasurer. So besides giving back to business, what are you doing for workers and for households?

Mr PALLAS: Well, the Working for Victoria Fund—that \$500 million fund that I have already mentioned—is supporting workers who lose their jobs due to coronavirus with everything from job matching to direct government employment. Where we have got a job that people can get into we make the effort. But we have got the resources and we have set up the structures to assist in that. Whether it is retraining or hardship payments, this is all being administered by Government with advice from both VCOSS and VTHC. As an example, this funding will be used to directly employ displaced casuals in Government jobs—for example, to clean government buildings and transport and rebuild regional infrastructure damaged by bushfires, such as walking trails. It will also help the private sector job match—for example, to get displaced workers into agricultural and horticultural jobs which are vacant, given the ban on foreign labour. So it is about working out what the practical effects of the change in material circumstances are, how the economy is operating and how we can fill those gaps—and importantly not only fill those gaps but gainfully and effectively employ those people who are looking for meaningful employment and who want to be able to contribute as part of the upswing. And the State is making every effort to be able to match them to those opportunities. We have seen more than 2800 workers, as I say, already placed in new jobs through this scheme—cleaning that critical infrastructure, delivering those care packages, working phone lines—with more due to start next week.

We have also of course announced payroll and WorkCover exemptions for those businesses that are participating in the Commonwealth's JobKeeper program as a great incentive for them to keep their workers on, and this is saving something in the order of \$409 million across the state. So we want businesses to do the right thing and to pass the JobKeeper payments to their workers, including people who have had to be stood down. That is good for the worker and it is good for business, and it is certainly good for the sense of shared responsibility and destiny that we are all encountering. As the Prime Minister is wont to say, 'We're all in this together'. So by exempting JobKeeper payments from payroll tax and WorkCover premiums we are also making sure that there are no State costs from participating in the JobKeeper program for businesses with stood-down workers.

We are easing the cost pressures for businesses and households by freezing a host of fees and fines at their current levels, including drivers licences and vehicle registration fees. We are also freezing the fire service property levy revenues at those 19–20 levels. The average household will see no change or a small decrease in the levy rate next year, and these freezes will save the community something in the vicinity of about \$66 million next year.

The CHAIR: Thank you, Treasurer. The Member's time has expired. I will invite Mr Sam Hibbins, MP.

Mr HIBBINS: Thank you, Treasurer and secretaries, for appearing. Treasurer, before the previous budget you had budgeted \$1.77 billion in public sector cuts to be achieved through whole-of-government efficiencies. In February you stated that you were going to be looking for \$4 billion worth of cuts, and in your statement to defer the budget the base review outcomes, which were going to detail the size of these cuts, have been deferred. When have they been deferred to?

Mr PALLAS: We will consider them in the context of the upcoming budget, of course. We have made no decisions about whether we proceed or not. But I take exception to the reference to efficiency dividends being seen as cuts. We are not reducing the overall expenditure in the state of Victoria—first point. Second point: the number of employees overall in the public sector will continue to grow, but what we are seeing is a much more moderate projection in terms of our employee expenses. I think we saw those numbers sitting at about 2 per cent. What we have seen is the Government has consistently said that the taxpayer deserves the respect of Government being focused on making sure that we are not essentially in the business of having historical expenditure just continued for its own sake. You have got to go back and say, 'Well, is this money that is well spent in this area, or could we redirect it towards the things that the Victorian people voted for at the latest election?', or indeed—

Mr HIBBINS: You are not saying, 'could be'; you are providing an arbitrary figure and then working to that figure. I mean, you say redirection, others say cuts, others say savings.

Mr PALLAS: Well, cuts only occur if you are going—

Mr HIBBINS: Why don't we call the whole thing off?

Mr PALLAS: Well, I will not talk about tomatoes or tomatoes. I will just focus on the facts; that is that we are not reducing our expenditure in these areas. What we are doing across departments, across the allocations, is going in and asking ourselves, 'Are we efficiently spending that money?'. If you have a programmatic—

Mr HIBBINS: You have already come up with the answer, I think, when you actually put in an arbitrary figure. But what I am actually trying to get to is: in October's budget are you going to have savings measures worth \$4 billion?

Mr PALLAS: Well, Mr Hibbins, if you do not have a target, you are aiming for nothing and you will get nowhere, so from a Government point of view, we continue—

Mr HIBBINS: Well, that is ambitious.

Mr PALLAS: to review the processes of the efficiency of government. Yes, we did set—and I was clear to the Victorian people as we moved towards the development of the last budget—a \$4 billion target. That may not be necessary, or it may not be appropriate perhaps is the better use of language, in the current environment. We are reviewing that.

Mr HIBBINS: And why might that not be appropriate?

Mr PALLAS: Well, it may not be appropriate because we are in the process of redirecting effort right across the public sector as we speak. A lot of resources are being channelled from other departments and within departments towards the pandemic health event and also to assist in the community making the transition. A lot of the change in terms of effort and expenditure is happening as a matter of practicality as we are dealing with these events as they unfold. The Government, the bureaucracy is moving very quickly to respond to the challenges that the communities are confronting. We will have to look to see exactly what that means in terms of our long-term expectations on embedded expenditure, but I will continue to make the point, and as a government we will continue to make the point, we will be financially responsible. And that will not just mean that every dollar that has ever been spent will be built on year on year regardless of its effectiveness, its efficiency or its appropriateness to deal with the preferred direction that the people of Victoria voted for at the last election.

Mr HIBBINS: So we are not ruling out the efficiency dividends or, say, whole-of-government saving measures for the upcoming budget?

Mr PALLAS: I will be very clear: this Government is committed to efficiency in the expenditure of public money. We will continue to be committed to efficiency. It may well be that an efficiency dividend as such in its current form may well have been superseded by the pandemic and the economic events that are currently unfolding.

Mr HIBBINS: My question really goes also to the heart of economic recovery and the management of debt. Now I am supportive, and my colleagues are certainly supportive, of the approach taken to increase debt to support the economic recovery, but as you would be well aware from previous occurrences—look at the GFC, for example—governments that went down austerity measures suffered a double dip. Can you rule out going down the austerity route when managing the increased government debt?

Mr PALLAS: I will be very clear: the politics of austerity is not something that I see as being an appropriate economic management tool in the current environment. If governments were to attempt to do what the Leader of the Opposition recently said, and that is that he would like to see that we continue to run surpluses, if we did that in the circumstances of substantial falling government revenues together with of course substantially increased one-off recurrent expenditure around the needs to deal with the pandemic event, then quite frankly the level of austerity you would need to impose upon the community would be massively counterproductive. It would put the Victorian economy into a downward spiral from which it would take a very, very long term, a long—

Mr HIBBINS: How are whole-of-government mandated billions of dollars worth of whole-of-government efficiencies not austerity measures?

Mr PALLAS: I do not understand how you cannot appreciate that the Government redirecting effort is not a cut. The fact that we do not spend money the way that, say, a government 10 years ago established a program and thought that was appropriate expenditure, the fact that we review that and perhaps make a view that we are not spending that money but overall we continue to grow our budget allocations and we continue to employ people to deal with the needs of a growing community, that is not a cut. It is not a cut in any overall or holistic sense. The reason that you would essentially say that you would simply keep whatever the historic expenditure looks like is a sign that you are inert and incapable of adjusting to the changing tempers of the time. That makes you an economic dinosaur, and quite frankly we will adapt and adjust to the needs of the community as the time and the circumstances require.

Mr HIBBINS: We will move on, Treasurer. You talk about, in terms of economic recovery, the opportunities for change and reform. I just want to get an understanding of what are the principles that you are going to base expending the \$24 billion on. A lot of people are talking about the opportunity for not just job creation but social reform, environmental reform, outcomes in those areas; also in terms of what sorts of programs or infrastructure you are actually going to invest in to get the best outcome for jobs. What are the principles that you are going to be taking forward to be investing the \$24 billion on, and will it match up with also getting social and environmental outcomes?

Mr PALLAS: Certainly from our perspective you cannot be entirely focused upon the economic consequences of what you do without also attending to the needs of the community. I mean, that is the point of effective economic management: to ensure the welfare and wellbeing of the community at large. I will say that we have had some outstanding reports, one most notably from Moody's, who recently said that Victoria's strong and diverse economic base, our stable rating outlook, reflects our expectations that the state's large and diverse economy will remain resilient in the face of coronavirus-related disruptions and that the State's debt burden and interest expense coverage will consequently remain manageable over the long term.

Now, we have been able to build up that reputation because we have been able to get the balance right between the needs of the economy, the need to be economically responsible, but also the need to make the appropriate interventions in the way that the economy operates to ensure that hardship is not felt across the community. We are seeing it writ large at the moment right across our economy that there is hardship being felt right across many, many sections of the community. So we will, I can assure you, be looking towards the welfare and wellbeing of Victorians in terms of the choices and the decisions we make.

We will also of course go through a process of producing a budget that not only will identify the expenditure that we are making through Treasurer's advance of that \$24.5 billion but will put those choices in the context of our overall fiscal parameters and the things that we see are being necessary and important going forward.

Mr HIBBINS: Thanks, Treasurer. In the time allotted we will move on. I wanted to ask about the reports of reform to stamp duty and replacing that with a broad-based land tax. We have heard reports. Is this something that the Government is actively considering, and how is that playing out? Where are we up to?

Mr PALLAS: Look, I am not going to get involved in the question of ruling in or ruling out what may or may not be the subject of future Government consideration. Can I say we recognise that it is incumbent upon all governments to look at issues associated with their tax base at the moment and look at the problems that the economy is encountering. If you look at the—

Mr HIBBINS: Hang on. Hang on. I think we need to just get some clarity around this because obviously there was a very significant report in the papers not that long ago that this was something that Victoria was actively considering. I think it has been put on the agenda by the Federal Government. Is it something that the Government is considering now? Are you in discussions with the Federal Government about it? I am supportive of it, by the way. I am not trying to—

Mr PALLAS: No, no. Look, I am saying the Government has made no decisions, and I am not ruling in or ruling out any future decisions the Government might make in regard to tax reform. Now is not the time to be doing that when we are dealing with a major pandemic and economic event. But I make the point that former Prime Minister Paul Keating once said, 'If you walk past a pet shop the resident galah will be talking about microeconomic reform'. We have had—you can laugh—people proposing that you effectively change our tax base, that you put a tax on the family home and impact upon the community at large. We are not in a position at

this stage to indicate a willingness or otherwise to go through it. We are happy to work with the Commonwealth and other jurisdictions.

Mr HIBBINS: Doesn't the fact that even prior to this crisis stamp duty was declining, that you are relying on a tax that is essentially a tax based on the selling of houses—not necessarily the value but how many times they are actually sold—doesn't that just demonstrate the unreliability of stamp duty as it is?

Mr PALLAS: There is no doubt if you talk to an economist, they will tell you that the best thing you can do is replace land tax with stamp duty. It is also a bit like a Mills and Boon novel in many respects—it might be satisfying and uplifting to read, but getting to that point without causing major trauma to the community is a very serious consideration, and from our—

Mr HIBBINS: Major political trauma generally I think is the main issue, isn't it? I am a bit more of a non-fiction bloke myself, so we might have different views on that.

Mr PALLAS: I think you are a bit of a romantic in many respects if you think that we can go down that path without actually having to have a general engagement with the community. But, look, in practical terms we are not getting into the business of ruling in or ruling out any changes to our tax base at the moment.

I do want to make a point very quickly, to make the observation that there are three things that drive the growth of the Victorian economy: population growth, participation in the labour market and of course productivity. So we will need to look at all three. With population coming off, with participation in the labour market due to an economic—

The CHAIR: Sorry to cut you off, Treasurer, but the Member's time has expired, and the call is now with Mr Tim Richardson, MP.

Mr RICHARDSON: Thank you, Treasurer, for joining us here today. I am glad we are off the topic of Mills and Boon; it gives me a flashback to my grandma.

Mr D O'Brien: Tim, you're still reading them, aren't you.

Mr RICHARDSON: No. I will just segue from the questioning from Mr Hibbins around recovery. Obviously with the school announcements recently, with the announcement on Monday of the easing of certain restrictions, Victorians' minds are turning to recovery and the next phase as well. I wonder if you can detail a little bit more for the Committee what you are envisaging after the crisis, this pandemic, and what the recovery plan is? How fast do you think Victorians will recover?

Mr PALLAS: Well, I do want to make the point that we are in the middle of this pandemic and what will be I think a long-running economic event. We do not expect to see the economy recover in the second half of 2021, but we will see some modest improvement.

I think if you look at the graph that I produced in terms of unemployment spiking, you see that when these events occur the unemployment spike is very substantial very quickly and then the recovery takes longer. If you invert that essentially in terms of economic activity, you are essentially seeing a recovery that looks more like a tick—a sharp downturn and then a sustained but continuing upturn in activity. But essentially at the moment it is really recognising that this is very difficult for many thousands of Victorians who have lost their jobs, and I wish to tell those Victorians that we will continue to make the effort around reforming and improving the economy.

I do not think it will be a V-shaped recovery—I have got to be honest with you; I think it will be much tougher than that—with everything going back to normal as soon as social distancing restrictions are lifted. I cannot say that because I do not genuinely believe it. I suspect that what we will see as a consequence of these events is substantial economic trauma having been effected upon the economy.

Victoria of course is Australia's sporting, major events and entertainment capital. It is the international education capital in many respects; it is our biggest export. Obviously these areas are going to be hard hit by the coronavirus. On the other hand of course, Victoria has a very strongly services sector which has been able to continue to work from home. Our Big Build supports thousands of jobs. Thankfully, and with great appreciation, the building and construction industry has done a mammoth job putting in place

COVID-compliant work arrangements, which has kept essentially one in 10 workers in the state gainfully employed and has done so in a way that has not seen any amplification of the pandemic event.

So there is a lot of work ahead of us I think is the honest answer to get back to where we were just a few months ago. As the Reserve Bank governor has said, as the Prime Minister has said and as many others have said, we need all levels of government working on the recovery together. We have to fight against the natural inclination of trying to score points for the sake of it. Yes, I absolutely agree that the rigour and the scrutiny of government is a vital part of this process, but it has to be in a constructive sense because people need the certainty and clarity of the way forward. That means working together to pick up the slack in the economy by building the productivity-enhancing infrastructure.

As you might have noticed, we already had a committed pipeline to our Big Build. With over \$15.8 billion worth of investment we are tripling, in an annualised sense out of the budget sector, our infrastructure spend over a 10 year long-term average. That is a profound impact upon the economy, and it has created a buffer of economic activity and preparedness for continued investment going forward. It means expanding Victoria's manufacturing capabilities so that we can weather the international crises, and it means also making sure that our economy is fairer on the other side of this crisis.

So really, to pick up the point that Mr Hibbins made, yes, we need a much more efficient economy, but we need to recognise that we have to have a fairer economy as well. Supporting our most vulnerable is not just the right thing to do, it supports spending right across the economy and it creates jobs.

Mr RICHARDSON: Thank you, Treasurer. I think the shout-out for construction workers while they keep the home fires burning during this economic crisis is important as well. Down in our patch Mentone and Cheltenham level crossings are underway as well. Turning our attention, Treasurer, to the support for tenants and landlords—obviously they are significant parts of our communities that have faced great uncertainty during this time—I am wondering how you could explain the Government's \$500 million tenancy package, announced in mid-April, and how that is helping businesses and households through this economic crisis?

Mr PALLAS: Well, we are committed and we remain committed to supporting tenants and landlords through this pandemic, and that includes the residential and commercial tenancy support that we have put in place. I might say this has been the subject of national guidelines that were adopted and applied through the national cabinet, and each jurisdiction has demonstrated its willingness to work, as part of a coordinated and cooperative approach, to ensure that there are comparable systems, recognising that our material circumstances vary from jurisdiction to jurisdiction.

On 15 April we announced \$500 million to provide rent relief and mediation support to protect tenants and landlords, and that includes a ban on evictions for six months for non-payment of rent for residential tenancies and eligible small and medium businesses. There are some exceptions to that: if you can pay your rent, you must continue to pay your rent. That is an important point that I think we need to reinforce. This is about recognising that when people come into difficulties, we all need to help each other out. It does mean that if you are a tenant and you have the capability and you are not showing rental stress, then essentially you do need to meet and honour your obligations.

But similarly, if you are a landlord and you acknowledge and recognise rental distress, or even if you do not and if a process establishes that, you need to do the right thing. So there is a ban on rental increases for six months, and that applies to residential and commercial tenancies, including retail and industrial tenancies. There are increased mediation powers and supports so residential tenants and landlords will have access to a referee and dispute resolution services, which will be provided through Consumer Affairs Victoria and which can make binding determinations. We will get commercial tenants and landlords to be able to get binding mediation through the Victorian Small Business Commission. There will be rental waivers and deferrals for commercial tenants. Consistent with the mandatory code of conduct for commercial tenancies landlords and tenants must agree to rental waivers and deferrals for SMEs that have suffered more than a 20 per cent reduction or decline in their revenue, and this aligns with the Commonwealth's eligibility test of course for the JobKeeper program. These measures give effect to principles of the mandatory code of conduct for commercial tenancies agreed by the national cabinet.

The Victorian Government will also implement consistent principles and land tax relief for residential tenancies. We have provided some \$420 million to land tax relief. We are also providing some \$18 million in hardship rental assistance for renters who cannot come to terms with their landlord through mediation, and that fund will help some 38 000 households get through this crisis.

Mr RICHARDSON: That was certainly a relief to communities who faced a great deal of anxiety and stress leading into that period, and that took a lot of pressure off people certainly in our communities. Just quickly, Treasurer, you mentioned briefly land tax relief. Are you able to detail how this will help landlords? What is the support there?

Mr PALLAS: I suppose the reality is with the coronavirus pandemic the measures that we have taken to slow the spread of the virus of course have saved lives. That is a stunning testament to the hard work of our public health system, our nurses, our hospitals but also the public service, who have so professionally assisted in terms of the redirection of effort, resources and, might I say, policy development. But, as I have said on a number of occasions already in this forum, that has had a profound effect upon the economy. Businesses and households have experienced an unavoidable blow to their income. When businesses and households experience that sort of blow to their income, one of the financial burdens that they will inevitably struggle with will be rent. So the Government's view is that the financial burden of coronavirus needs to be shared fairly between tenants, landlords and government. Landlords and their tenants do need to negotiate in good faith what is reasonable in their specific circumstances, and you cannot really come up with a one-size-fits-all approach without indeed inflicting injustice on either side of those commercial engagements, but commercial landlords should provide rental relief in line with the decisions of national cabinet and the principles of the mandatory code of conduct.

The Commonwealth and State Governments are providing a range of support, and those measures to businesses and households are aimed to help to cushion the financial blow of the virus's spread. And the State Government is also doing what it can by providing nearly \$420 million in land tax relief. We are providing support to landlords that do the right thing by their tenants. It is vitally important that we recognise that without meeting that qualification, that criteria, that obligation to have done the right thing by your tenant, then that relief is not available. So landlords that provide genuine relief to their tenants will get a land tax waiver of the equivalent of 25 per cent of land tax on that property. So these landlords will be able to defer the balance of their land tax until May 2021 as well. Of course consistent with those principles, and as agreed through the national cabinet, landlords can also seek support from their financial institution if they experience any resulting difficulty as a consequence with meeting their mortgage payments.

Mr RICHARDSON: I might pass over to my colleague now with 15 seconds to go.

Mr D O'BRIEN: So generous, Mr Richardson. Thank you. Can I go to the Secretary please, and just going back to your earlier comments about how the \$10 billion and \$14.5 billion were devised: what proportion of the \$24.5 billion is expected to be allocated for health in response to the pandemic?

Mr MARTINE: Thanks for your question. It is important to sort of recognise that the way Treasurer's advance works, effectively it is reconciled at the end of the year. So as governments make decisions to spend additional funds on new initiatives, that is drawn down on existing appropriations. So it is a bit difficult to sort of make a judgement at the moment that of the initiatives that have been announced by Government, to what extent will they be drawn down from the \$10 billion additional Treasurer's advance included in the supply Act for 19–20—

Mr D O'BRIEN: But, Secretary, you said before that in calculating why it was \$10 billion you did a judgement on the health impacts and a judgement on the economic impacts. I mean, on that: was that just a guess or was there modelling involved? And, again, surely that gives you some idea of a proportion that will go to health.

Mr MARTINE: So the best way to probably give you a bit of a sense of scale and guide is: as the Treasurer indicated in his opening presentation, the Government has made decisions in response to the COVID-19 pandemic of just over \$5 billion, which includes both additional funding for health and also additional funding for economic survival. The health component of that I can take on notice and get a bit more of a granular breakdown, but the biggest element of that \$5.2 billion relates to the increase in ICU capacity, which is

\$1.3 billion. Some other funding: pandemic preparedness and initial health system response—that is about \$500 million.

Mr D O'BRIEN: Thank you, Secretary. If we could have that information on notice, that would be great. But on that, has all of that \$5.2 billion been drawn down from advances, or has some of it been reallocated from existing priorities?

Mr MARTINE: Well, that is something that then sorts itself out through the latter half of June—remembering, though, that not all of the \$5.2 billion hits in 19–20. Certainly a large proportion of it does, but the \$5.2 billion represents the total cost of all of the government initiatives that have been announced, which spread in 19–20 and into 20–21. But there is no doubt that a large proportion of the \$5.2 billion is in 19–20.

Mr D O'BRIEN: Speaking of 19–20 and the advance, since the declaration of the state of emergency, has any of the Treasurer's advance been allocated to pay for spending that was not forecast in the 19–20 budget related to existing infrastructure projects as part of the Big Build—whether the West Gate Tunnel, Metro, et cetera?

Mr MARTINE: No.

Mr D O'BRIEN: No. Okay. Thank you. Could I move on to debt? Will all of the potential \$24.5 billion be raised through Treasury Corp?

Mr MARTINE: Just on the \$24.5 billion that you refer to, which is essentially the sum of Treasurer's advance for 19–20 and Treasurer's advance for the first six months of 20–21, that just then gives the Government the authority to spend and utilise those appropriations, but that is quite different to a decision of government to actually spend that money. So the current borrowing—

Mr D O'BRIEN: But the Treasurer said it is a line of credit, effectively.

Mr MARTINE: Well, the way I often explain it is it is effectively like if you had your own credit cards, it is like increasing your credit card limit—the capacity to draw on those funds—but there is a different question, which is the decision you make to actually spend money. So at the moment the Treasury Corporation of Victoria issued a statement to the market a couple of weeks ago which indicated to the market the Government's borrowing requirements up until June of 2021. What that statement talks about—and it is on their website—is the additional borrowing and the issuing of Government bonds between now and 2021 is in the order of about \$10 billion to \$14 billion, over and above what was previously signalled to the market last year in last year's budget.

Mr D O'BRIEN: So that is what they have indicated—\$10 billion to \$14 billion. So effectively that is what Treasury Corp says we will likely be in the market for, but the Government has the credit limit, if you like, to \$24.5 billion.

Mr MARTINE: Yes, but you do not go and issue bonds in the market to raise those additional funds unless you have got a Government decision which is yes, you are going to spend that money—remembering of course that the \$10 billion expires on 30 June and the \$14.5 billion expires at the end of this calendar year because the supply Act then gets replaced by the budget appropriations that will be tabled in Parliament later this year.

Mr D O'BRIEN: So what is the potential gap if the Government has effectively said we can go out to \$24.5 billion but TCV is only going to potentially \$14 billion? Why would they not indicate to the market that we may be in the market for \$24.5 billion, given that is what the Government has got an appropriation for?

Mr MARTINE: Well, generally the way that the bond issuance program works is a bit like the budget, in a way. It is based on what the Government's decisions are at that point in time. Similar to the issuance of the bond program guidance post every budget, what TCV issues effectively reflects the Government's decisions as outlined in the budget. So at this point in time, because there is no Government decision to go and spend an additional \$24.5 billion, there is no requirement for TCV, or in fact need for TCV, to go into the market to raise that quantum of funding.

Mr D O'BRIEN: Yes, okay. I think the Government has pretty clearly flagged that they will expect to spend \$24.5 billion, but that is probably a debating point. But to the principle though, would all the debt—the

line of credit, if you like—still be raised through TCV, and if so, will they just be on the usual general market operations?

Mr MARTINE: The extent to which Government decisions require a further issuance of bonds, yes, they would be through TCV and they would just be their normal bond issuance program. They have completed most of their bond issuance for the rest of this financial year, up until 30 June, so the statement makes that reference and then acknowledges that the bond issuance for 2021 on top of what the previous advice was, about 10 to 14 bill.

Mr D O'BRIEN: Okay, thank you. The Treasury Corp website shows total outstanding debt grew over March from \$40.85 billion to over \$51.2 billion. Can you give us an idea of how much of that \$10.4 billion increase in debts in three months is COVID-19-related? Sorry, that is from the first quarter—from the end of December to end of March.

Mr MARTINE: It is a bit difficult to answer that. Perhaps the best way to explain it would be to go back to one of my earlier answers in that the COVID-19-related expenditure is essentially the \$5.2 billion that the Government has announced, of which the bulk of it is in 19–20.

Mr D O'BRIEN: Right. Okay. Therefore what was the rest borrowed for?

Mr MARTINE: There was already a program of borrowing that would have been outlined in last year's budget, a lot of which relates to the Government's infrastructure program. In the last year's budget you would see a particular profile over the budget and forward estimates of gross debt and the Government's infrastructure program, so most of that borrowing would be related to that.

Mr D O'BRIEN: Can you confirm if any of the debt that has been raised has been allocated to recurrent spending?

Mr MARTINE: I would probably need to take that on notice—

Mr D O'BRIEN: Happy to do so, Secretary.

Mr MARTINE: remembering that—I mean, at the time of the budget update, 19–20 was forecast to be a \$0.6 billion surplus. But I would need to take that on notice because it depends a bit on what sort of point in time you do your calculations from.

Mr D O'BRIEN: Okay. But, yes, if I could get that on notice, that would be great. The Treasurer—well, in fact probably to the Treasurer: you mentioned earlier the credit rating issue. Has there been any modelling undertaken on the impact of a downgrade in the State's credit rating if that were to occur and what the impact would be on our borrowings?

Mr PALLAS: Well, can I say that Victoria is seen as being a very desirable place for the purposes of borrowings. We generally have no difficulty in raising bonds when we go into the market. In fact I think in nominal terms our borrowing rate is lower than any other jurisdiction in the nation. We are one of only about 10 subsovereign jurisdictions in the world that has a AAA credit rating from both Standard & Poor's and Moody's.

Mr D O'BRIEN: I noticed, Treasurer, over the month of March, though, the 10-year bond rate actually rose in Victoria, whereas it fell everywhere else and at the Commonwealth level.

Mr PALLAS: Well of course the Commonwealth will always be open to borrow at—being the sovereign government, will always be able to—

Mr D O'BRIEN: Yes, but they went down; we went up.

Mr PALLAS: Well, yes, but can I be clear about this: in our investment, in our borrowings we have had no liquidity problems, we have had no difficulty effectively being able to borrow the amounts that we need and at rates commensurate with our AAA credit rating. And of course AAA credit ratings mean that we can borrow at levels that are substantially lower than would otherwise be the case.

Mr D O'BRIEN: Understanding that, Treasurer, can I go back to the original question, which was: has any modelling been undertaken on what the additional costs would be, given we have got a huge increase in our borrowing, if there was any change to our credit rating?

Mr PALLAS: Well, at budget update the net debt was projected to be \$49 billion in 19–20, which was aimed at delivering on our commitments that we took to the last election, including—

Mr D O'BRIEN: I have got 12 seconds left, Treasurer. I am just trying to get an answer to the question on modelling of the—

Mr PALLAS: If I can quickly [inaudible] that answer, we certainly have been modelling what the impact is. It is relatively marginal in terms of repayment at best.

Mr D O'BRIEN: Could we have that modelling on that, Treasurer? Thank you.

The CHAIR: The Member's time has expired.

Ms STITT: Good morning, Treasurer. Thank you for appearing this morning with your team. I wanted to take you to the important issue of health funding and how the Government has provided additional funding through our hospital system. Are you able to take the Committee through the various funding announcements that the Government made in both March and April, and take us through how that funding is going to assist in a circumstance where our health system has greater demands placed on it because of the pandemic?

Mr PALLAS: Certainly, and I think the Secretary might have stolen a little bit of my thunder in terms of talking about the substantial investment that we have made in terms of our investments into the hospital system and particularly our ICU capacity. Our response to COVID-19 has really been very much focused on being guided by expert advice and data. We knew that when we needed to start preparation we had to set about building those preparations early. Where jurisdictions around the world have been able to demonstrate a capacity to get on top of the virus, to demonstrate that we can stop the more adverse impact and infestation of the virus into the community, is when you act early. From early March, of course, those actions were well and truly apparent. Our overall goal was to make sure that we had the additional inpatient and ICU capacity that not only would help manage increased demand from the pandemic event itself but would ensure that hospitals can continue to treat patients with other conditions throughout this time. So being able to get that balance right was vitally important.

Our first COVID-19 health-related funding commitment was on 3 March, when we funded the \$6 million to the Peter Doherty Institute for Infection and Immunity, which is working with the Burnett Institute and other experts to fast-track new treatments and vaccines for COVID-19. The Doherty Institute was the first research institute outside of China to successfully grow the virus in the laboratory, and I think that really is an outstanding testament to the world-leading skills and capacity that we have here in this state.

On 15 March, as the situation worsened, we provided a \$100 million COVID-19 response package that was designed principally to boost capacity in the health system in preparation for the pandemic event. That included \$60 million to increase elective surgery activity; \$30 million to commission the new Casey Hospital inpatient tower to boost capacity across the Victorian hospital system; \$10 million to boost personal protective equipment supplies. Then again, on 19 March, we funded \$437 million to further increase our capacity, and that included things like \$80 million for 84 beds at the old Peter Mac hospital and some 45 beds at Bendigo Health; a \$115 million injection to cover an extra 45 000 emergency department presentations, some 5000 hospital admissions and a further 2000 intensive care unit admissions; some \$22 million extra for PPE; and \$37 million to increase surveillance across the state. That allows for more targeted case identification, some contact tracing, some isolation advice and confirmation of individuals who are no longer infectious. This has been instrumental, I think, in demonstrating that we are getting on top of the pandemic, that we are in fact flattening the curve.

Our effort, which has been a collective effort by the state, by the Commonwealth, by the community, is paying dividends. On 1 April we provided a further \$1.3 billion injection to quickly establish a further 4000 ICU beds, and that included \$1.2 billion worth of equipment and consumables that we need, as well as investing around about \$65 million for capital works and workforce training, securing record capacity for our intensive care system. The order also included additional PPE. So they are some of the examples of those things that have been coming to fruition through these commitments.

Monash Medical Centre in Clayton has also started installing a two-storey demountable unit that is adjustable and adjacent to the existing emergency department to provide an extra six resuscitation cubicles. The fully equipped cubicles, which will be ready to be used within weeks, will allow patients to be ventilated and, if needed, to be prepared to transfer to the ICU. The former Geelong Private Hospital has been brought back to life with a new acute respiratory assessment clinic with 50 new beds and consulting rooms. Some 300 intensive care unit beds have also begun to be commissioned at the Alfred Hospital, the Austin Hospital and the Monash Medical Centre in Clayton.

Within the last week we have announced that up to 100 000 Victorians will be tested for COVID-19 during this week and next. Ramping up that coronavirus testing is of course in line with those prerequisites that we need. We need to be able to see and to track and to trace this virus. If we do not know where it is, we cannot combat it. We have got a nation-leading and, can I say, one of the world's best efforts around the resourcing that we are putting into the visual assessment of what is occurring in terms of the spread of this virus within the community. Being able to see it, being able to track it and being able to trace it in the most professional of ways is a demonstration that we are getting into that stage of this process where we can bring the disease well and truly under control so that Victorians can have a great deal of confidence that the event is being managed well. It will also provide potential for the easing of restrictions going forward.

Ms STITT: Thank you, Treasurer. You mentioned in your evidence Geelong Private Hospital. I am just interested in getting some insights into how the Government engaged with the private hospital system in order to ensure that we have got sufficient capacity right across our health system.

Mr PALLAS: On 2 April we struck a deal. I want to pay my recognition to the health minister, Minister Mikakos, who led the negotiations at a national level that basically put Victoria in a very strong position. Our state's major private hospital operators will now ensure that they are continuing to provide care for Victorians during the pandemic event. So the deal allows Victoria's public and private hospitals to work together to relieve pressure on the public hospitals and to ensure that the entire health system is operating at full capacity and in a complementary way. I think it is really a testament to the way that we as a community have addressed this issue. The tiers of government and now public and private are working together, recognising that the effort we put in will ensure public health and give certainty to the community and that no effort is wasted and no dollars are wasted in the work that we are putting in.

The agreement that was put in place ensured our private hospital medical workforce and hospital staff, including porters, cleaners, cooks and security guards, are kept in their jobs and that they remain in the healthcare system for the duration of the pandemic event, when we need them most. The deal followed a guarantee from the Commonwealth to ensure the viability of all our private hospitals after the suspension of all non-urgent surgery, which I understand is occurring tomorrow. We also hired some 200 nurses from the Epworth and Cabrini hospitals to undertake important contact-tracing work, identifying work exposure sites and close contacts. This work has been one of the leading reasons that we have been able to flatten the curve so well, to demonstrate that we have put in place systems that stop the adverse impacts of the change in the material circumstances and the work requirements and to recognise that we are resourcing this health event in all its manifestations through the precise and the direct allocation of resources where they are best needed, when they are best needed.

Ms STITT: Treasurer, there has been, obviously, a spike in demand for mental health services across the state during the pandemic. Are you able to take the Committee through how the Government has sought to assist the mental health sector in dealing with that spike in demand?

Mr PALLAS: Certainly. On 12 April we announced a \$59.4 million package to help meet demand as Victorians reach out for help with stress, isolation and uncertainty. These are very difficult and very traumatic times for Victorians, and I think the Government has recognised this. We are putting our shoulder to the wheel to recognise that, yes, we will get through this event but, yes, there are a lot of people in this community who need the Government's support and assistance, and they need the capacity to be able to access services at a time when sometimes it is very difficult to feel that they are available to them. So the funding provided will provide surge capacity in key areas which have seen a significant increase in people seeking help. Almost a quarter of people calling Lifeline in the last few days have been seeking support due to coronavirus, and Beyond Blue is predicting demand for these services will increase by nearly 30 per cent by June.

So to help with demand and pressure on our health system during this pandemic the Government has provided \$17.8 million to begin the first phase of the rollout of the 170 extra youth and adult acute mental health care beds, which is a key recommendation of the Royal Commission into Victoria's Mental Health System. Also \$7 million is going to be provided to help mental health services deliver support for people with severe mental illnesses, whether it is via phone or video, to prevent relapse and also to provide for emergency department presentations. Another \$6.7 million is going to be used to help expand online and phone counselling services through Beyond Blue, Lifeline, Kids Helpline and SuicideLine Victoria. This funding is going to boost the capacity of the Victorian Mental Illness Awareness Council in tandem with helplines, which are also experiencing a large increase in calls. The package also includes, for example, an additional range of support for children, young people and parents, including some \$6 million to fast-track Orygen Youth Health's—

The CHAIR: Sorry to cut you off, Treasurer. The Member's time has expired. We will pass to Mr David Limbrick, MLC.

Mr LIMBRICK: Thank you, Treasurer, for appearing and for your presentation earlier. In your presentation and subsequent evidence that you provided you painted a picture where we have a falling population and presumably a collapsing revenue base. We have a public sector which is increasing in size while simultaneously we have a private sector that is suffering—in fact of what is left of it much of it is on life support. We have increasing debt—all of these issues. I am going to ask the real obvious question: how do we expect to pay for all of this?

Mr PALLAS: Well, I think it will be no surprise to say that as a government, as this event is manifesting it is unprecedented. You have to go back a century before you find comparable examples of the falling away of revenue and consumer confidence. As I have indicated previously, from a government point of view we are seeing quite substantial falling away of revenue and we are also seeing a spike in terms of demands upon government services—there is absolutely no doubt about that—across this state and across this nation. We know, for example, that for the Commonwealth, Deloitte Access are anticipating that they are going to see their budgeted position fall away to \$143 billion in the coming financial year. Importantly, I think what that tells us is those problems will be writ large right across our jurisdictions. We will see debt increase, and we will see deficit be a notable facet of budgeting over the next short period of time.

I do not want to give you the impression that as a government therefore we are abandoning our obligations towards being able to get ourselves back into a state of budget repair as quickly as we can. We are not. But we also have to recognise that the choices we make at the moment will materially impact on how businesses are being assisted, on how families are being assisted and how workers can make the transition towards an upswing in the economy. So we will be, as a consequence of that, seeing an increase in debt. We will see that the state is necessarily having to go into deficit, but we are very well placed to be able to manage this. We had the strongest economy in the nation for eight consecutive quarters going into this event. Yes, the demographics of our workforce, of our economy do mean that we will encounter difficulties, but as a government we have to make those investments.

But what I will not argue for and what I will in fact resist is an argument that says the best way to deal with this event is a new regime of austerity. You could conceivably—hard to imagine, but you could conceivably—get to a point of budget surplus if you wanted to chase it at the expense of the welfare and the wellbeing of the community, but the enormous trauma that you would inflict upon the community and the downward spiral on our economy, that we would be essentially an accomplice in, would be nothing short of a malfeasance of public office.

So from our perspective we will continue to make key investments. We will continue to partner with the Commonwealth in making those investments that will grow the economy, and we do need to see that there is an opportunity for us in this crisis. That opportunity is to think a bit about what the future of our economy looks like, prepare for those upswing opportunities and to make those investments.

Mr LIMBRICK: Thank you, Treasurer, for your answer. One of the issues which you have alluded to and many others have yesterday was around the uncertainty of how long this is all going to last. It appears to hinge on a few factors, one of them being whether or not there is going to be a vaccine. If there is not a vaccine, it is possible that these restrictions would go on for longer than we may have imagined, and that would sort of bring to my mind some sort of sustainability issue. Clearly it is not sustainable for us to run like this forever with

these massive restrictions on the economy. There must be a limit. How long can we sustain the restrictions that we have got financially at the moment?

Mr PALLAS: Well, look, my hope is that of course the Commonwealth have identified through the national cabinet a three-stage approach towards the gradual easing. I think it will be a long time before we see the opening of our borders to international travel, Mr Limbrick. I think it is in practical terms if we get to a point where we have got control of the pandemic event in its manifestations across this country, and you will see that some states have been less willing necessarily to open up their borders to interstate travel whilst jurisdictions deal with the manifestation of the pandemic in its variant forms within their borders. I am not an immunologist and I cannot really give you much insight into what the likelihood of finding a vaccine looks like, but I know that every time people have been asked about this, who are knowledgeable, they say it is a 12- to 18-month period that we are looking at. So there will have to be restrictions upon people-to-people contact outside of our borders and before we even get there we are going to have to get to a point where we recognise that social distancing—can I say unfortunately—will be a feature of this community for quite some time.

The history of pandemics right across the world over many, many years shows that you do not simply have a single event, you have waves of events. We hopefully are getting through the first wave of this event. We are going to need to be vigilant. That is why the tracking and tracing and testing processes are so important. The success that we have in respect to dealing with these issues will give us a greater insight into how quickly we can move to opening up the economy. Believe me, nobody more than the Treasurer of the State wants the economy opened up, but I do not want to do it in a way that is a false dawn on economic activity and vitality.

We only get one shot at this. The community will very quickly lose faith in governments, and might I say politicians, who precipitously open up economic activity only to see that we have to try and come down harder. We have seen this writ large across the world where governments have moved too quickly. We cannot do that. I more than anybody want to see these restrictions lifted, but not at the expense of public health and not at the expense of a credible response to opening up our economy in a way that is sustainable in the long term.

Mr LIMBRICK: So can I take it from your answer then, Treasurer, that, okay, if we talk about 12 to 18 months as you said for a vaccine, you are confident that we could continue our current financial situation for 18 months, say? We can keep going with this restricted economic state. We can keep these businesses on life support. We can keep issuing bonds. That is something that is sustainable for 18 months?

Mr PALLAS: Well, I think we are still moving into the downward part of the economic cycle, if I can put it that way. But the material that Treasury produced basically anticipates that we will have a pretty steep downward decline over the June and September quarters, so we are moving through that event at the moment. But we will see a steady improvement beyond that. That will be because the strict social distancing measures have been successful, so it is pre-empted on that. Of course we are starting to see perhaps a little bit more positive movement than the Treasury projections saw in terms of the timing around social distancing measures that were being put in place.

So I do not anticipate that we will have the sorts of problems that we are encountering and will continue to encounter for the next few months. We will see a solid improvement. The fact that we can get our internal economy and our external commodities and online services provision to the world improving, that will see the economy improve. But we will not go back to the way we were until of course there is a vaccine in general application across the community.

Mr LIMBRICK: Thank you, Treasurer. You spoke before about reprioritisation, and there was talk of productivity improvement in the public sector and then using the savings for other things. Are you going through a process at the moment of looking at some of these spending programs that you had prior to the pandemic and re-evaluating whether they are still necessary and whether it might be possible to not draw down on some of that debt or maybe it would be re-allocated to something that is of high priority now? Because I am assuming that there is a lot of expenditure that in the current situation probably may not be appropriate. Could you talk us through what you are doing there?

Mr PALLAS: Yes. Can I say with regard to base review processes, we have put that work on hold at the moment. I do not think I can justify having the Department of Health and Human Services and the department of education basically going through a process that has been going on for the better part of the six to nine

months for that, have them distracted around those matters while we are putting resources and effort into dealing with the immediate pandemic event. But I have said, and I will restate, that we remain committed as a government to continuing the efforts to make sure that the taxpayer is getting value for money for each and every of our expenditure items, and I make no apology for that.

If I could sort of extrapolate from your question that you are asking: are we anticipating that there will be changed circumstances to the way that the economy operates and therefore expenditures that will be incurred by the state going forward, I suspect there will be. We are already seeing a greater emphasis in terms of online activity. We are hearing, for example, from the health minister that telehealth will become an increasing component of our health system going forward, and that could well in fact provide greater efficiencies to the community. I expect those sorts of interventions, that have been the subject of necessity in many respects, to fire a further review about what more we can do, whether we can improve the effective operation of our road network, our public transport network, our school systems as a consequence of the changes that have effectively been—

The CHAIR: Thank you, Treasurer. The Member's time has expired. I will pass to Bridget Vallence, MP.

Ms VALLENCE: Thank you, Treasurer and Secretary, for appearing today. First up, I would like to ask a question to the Secretary, please, following on from Mr O'Brien's questions. Is the Secretary there? If the Secretary could let us know what he projects to be the total amount of interest over the forward estimates that Victoria would pay on the \$24.5 billion.

Mr MARTINE: Your question is a hypothetical question, as I was indicating to an earlier question, because we are not issuing debt to cover \$24.5 billion. The debt that gets issued relates to the extent to which Government has made decisions to spend money.

Ms VALLENCE: So you do not have any projected total on interest repayments should we borrow that full amount?

Mr MARTINE: We have not done that calculation because that is not the current program of Government. I mean, one can do the maths and take \$24.5 billion and multiply it by the borrowing rate on the TCV website, but that is not really part of the current borrowing program that TCV has advised the market.

Ms VALLENCE: Okay, all right. Thank you, Secretary. Treasurer, in terms of creating future investment opportunities in Victoria, which you have talked a lot about in your presentation so far today, last October the Premier signed an agreement with the Chinese communist government under its Belt and Road Initiative, and that agreement was to provide Victoria detailed information about infrastructure opportunities. I noticed earlier this month reported in the news that the Victorian Government had said that they are relying on the Chinese Government's Belt and Road Initiative, they are finding it more important than ever, to rebuild from this crisis. Given that Australia is leading global efforts to support an independent inquiry into how the coronavirus has spread from China, will the Andrews Government give any consideration to at least pausing its deal with the Chinese communist government?

Mr PALLAS: Well, look, Victoria's relationship with China benefits all Victorians, from farmers exporting their produce and to our universities and beyond, so we do need to have a mature and substantial relationship. Of course we know that the Commonwealth has struck similar arrangements around its long-term interests in Belt and Road previously. The only difference is we have made our arrangements public. Almost 88 000 of Victoria's international students—of course they are our biggest export sector—are from China. So two-way trade with China—

Ms VALLENCE: Treasurer, I think that is very clearly known, but in terms specifically the agreement that has been struck, should we not at least pause that agreement until the inquiry has been conducted?

Mr PALLAS: Absolutely not. Of course there does need to be an inquiry into this pandemic event, but I think the idea of vilification of any single nation in this context is dangerous, damaging and probably irresponsible in many respects. But I will be very clear: from our perspective, if we were to pause our relationship with China in practical terms, if we were to basically turn our back on—

Ms VALLENCE: Treasurer, the question I am asking is not about pausing the relationship with China; the question is specifically about the agreement with the Chinese Government struck for Belt and Road. So in terms of that, and given that we know there are critical issues around biosecurity—and what if the inquiry identifies any adverse findings?—shouldn't we be pausing that agreement?

Mr PALLAS: Well, that is entirely hypothetical, and I make the point that from a commercial point of view the people who would suffer profoundly, having seen a 50 per cent growth in trade with China since this Government has been in office, from \$19 billion to \$29 billion, will be farmers, and we are seeing those matters played out with perhaps the inelegant interventions of essentially seeing farmers lose trade around barley and meatworks losing work around meat. We need to basically be balanced and measured in terms of our engagement with a valuable and long-term trading partner. Certainly this Government has no intention of seeking to vilify a government because of its system of government. We trade with every government, and we do that essentially because it is in Victoria's material interests to do that, and of course our relationship with China has played a very substantial role in the growth—

Ms VALLENCE: What do you say about China not taking on our meat exports? That announcement is very fresh.

Mr PALLAS: Well, not ours. I understand there were four meatworks, none of which are in Victoria. But I will make the point that this is inevitably a consequence of the use of language that I think has sought to vilify China rather than to recognise that these are events that will need appropriate scrutiny and review in time. What they do not need is vilification of one nation who have gone through a very traumatic time themselves and need necessarily to recover their economy. We see a partnership with all trading nations as being a vital part of the growth and the opportunity for Victorians. We have got 370 000—

Ms VALLENCE: No matter the cost. Okay. I am just conscious of time, Treasurer. We will move on to another set of questions, if I may. Actually, these are to the Secretary, if I may.

Secretary, what is the estimated cost to the budget in 19–20 and 20–21 from the reductions in the payroll tax announcement due to the lower economic activity that we are seeing?

Mr MARTINE: You are talking about the impact of just the general economy on state tax revenue?

Ms VALLENCE: Payroll tax. So with the payroll tax and the lower economic activity that we are seeing, what is the estimated cost to the budget in the 19–20 period and forecast for the 20–21 period?

Mr MARTINE: It would be no great surprise that, given the economic events that we are all facing, pretty much every line of state tax revenue, including payroll tax, has been adversely impacted, including in 19–20 and obviously flowing into 20–21.

You would have noted one of the decisions that all governments made, including the Commonwealth, was that all budgets would be deferred until later this calendar year, and one of the reasons for doing that, including at the Commonwealth level, was given the uncertainty of how this pandemic could play out and how it would actually impact on both the economy and all of the—

Ms VALLENCE: Surely, Secretary, we are not waiting until October. Surely there has been some level of estimate on the impact to the budget not only with the payroll tax announcement but also knowing that we have got the lower economic activity.

Mr MARTINE: So between now and later in the year there are effectively three Government releases. There is a March quarterly report on actual spending from 1 July to the end of March this calendar year, then there are the end of financial year statements that get released by the Government traditionally around sort of September/October, and then there will be the budget, which the—

Ms VALLENCE: So no estimate that you can provide, perhaps on notice, about the impact on—

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

Ms VALLENCE: Thank you. Perhaps the next one too, a similar question on stamp duty. With the reductions to stamp duty due to lower economic activity and its impact on the budget for 19–20, 20–21, is that something you would take on notice, Secretary?

Mr MARTINE: I am happy to take that on notice. One thing to note on stamp duty—bit different to some of the other tax lines. There is effectively a lag on land transfer duty because when you transact on a house, the stamp duty is effectively paid on settlement, so you might have a 30-, 60- or 90-day settlement. So as the pandemic started ramping up in early March, any transactions occurring—or more importantly those transactions that did not occur—you may then see more of that revenue impact in 20–21. But more than happy to take that on notice.

Ms VALLENCE: Okay. So, Secretary, what modelling has DTF or the SRO undertaken about forecast land values from 1 January 2021 and 1 January 2022?

Mr MARTINE: We continually do modelling to feed through to our estimates of revenue, and land tax is similar, so we would be still expecting a negative impact on land tax, probably not as great as on some of the other tax lines because land tax is a more stable tax than some of the other taxes, in particular land transfer duty.

Ms VALLENCE: Okay. I am just conscious of time. Just on the announcement of the Business Support Fund, what is the total estimated cost of this initiative?

Mr MARTINE: The Government announced the Business Support Fund at \$500 million.

Ms VALLENCE: Okay. How is that going to be paid to employees? Would the employees be receiving that directly or is it going to be paid—

Mr MARTINE: The bulk of it is—

Ms VALLENCE: Sorry; I beg your pardon. I will rephrase that. The total estimated cost of the initiative for JobKeeper for casual public sector employees, to rephrase that. What is the total estimated cost of that initiative for the \$1500 payment to casual public sector employees?

Mr MARTINE: I may have to take that one on notice. Effectively for any additional costs, where they may occur, the general expectation would be that those costs would be in the first instance met by the relevant departments.

Ms VALLENCE: And is it to be paid directly to employees or to the entities to then pay to the employees?

Mr MARTINE: Because we do not administer that, I probably need to take that question on notice to provide that correct—

The CHAIR: Sorry to cut you off, Secretary. The Member's time has expired. Thank you, Secretary, and Treasurer, for your time before the Committee today. We will follow up on any of those questions taken on notice on writing, and responses will be required within five working days of the Committee's requests. The Committee will now take a short break and resume at 11.13 am for the consideration of the next witness.

Witnesses withdrew.