RESPONSE TO QUESTIONS TAKEN ON NOTICE – PAEC Inquiry into the Victorian Government's Response to the COVID-19 Pandemic

Hon Tim Pallas MP

Secretary David Martine, Department of Treasury and Finance

TREASURY PORTFOLIO

1. What proportion of the $5.2 billion allocated to the pandemic response has been allocated for health in response to the pandemic?

(Asked by Mr O'Brien on page 15 of the transcript)

Transcript extract:

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.

Response

Of the $5.2 billion of COVID-19 funding announced, approximately $1.9 billion (around 37 per cent) was allocated to health initiatives covering additional ICU capacity, COVID-19 preparedness and response (including elective surgery, PPE and surveillance), rapid response teams, testing and research.

2. [Referring to total outstanding debt figures listed on Treasury Corporation Victoria's website] Can you confirm if any of the debt that has been raised has been allocated to recurrent spending?

(Asked by Mr O'Brien on page 17 of the transcript)

Transcript extract:

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.

Response

The application of borrowings to government activities will be recognised in the full financial year result for 2019-20. This result cannot be extrapolated from interim results as it also includes the impact of seasonal factors affecting the timing of activities and transactions across the year (for example, the timing of grant receipts from the Commonwealth).

3. 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?

(Asked by Ms Vallence on page 23 of the transcript)

Transcript extract

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.

Response

DTF is currently assessing the impact of weaker economic activity on payroll tax revenue for 2019-20 and 2020-21

Victoria's labour market conditions deteriorated significantly in April and are expected to worsen further with the unemployment rate forecast to rise to 11 per cent in the September quarter. An increase in unemployment, along with a reduction in hours worked, will have negative implications for payroll tax revenue. There is considerable uncertainty about the exact pace and size of the adjustment in the labour market due to the coronavirus pandemic and its impact on overall economic growth and market conditions.

Consistent with the annual budget process, in the lead up to the 2020-21 budget, payroll tax estimates will be updated taking into account the latest economic data. This information will be released when the budget is handed down by the Treasurer, expected to be in October or November 2020.

In response to the coronavirus pandemic, the Government has announced several tax initiatives which will reduce the payroll tax burden on businesses in 2019-20 and 2020-21, including:

- More than $550 million to provide payroll tax refunds for the 2019-20 financial year for businesses with payrolls of less than $3 million; and
- $225 million to exempt business participating in the JobKeeper scheme for those employees who have been stood down; or for employees receiving any additional payments above their usual salary, up to the minimum fortnightly payment of $1500 required by the JobKeeper program.

4. With the reductions to stamp duty due to lower economic activity, what is the impact on the budget for 19–20, 20–21?

(Asked by Ms Vallence on page 24 of the transcript)

Transcript extract

> *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?*
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> *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.*

Response

The coronavirus pandemic has significantly disrupted property market activity and reduced transaction volumes. Modelling released by DTF has forecast property prices to decline by up to 9 per cent from March to December 2020. Other economic forecasters also expect property prices to be negatively affected by coronavirus. In addition, transaction volumes are expected to be significantly weaker due to the restrictions.

DTF is currently assessing the impact of weaker economic activity on Land Transfer Duty (LTD) collections for 2019-20 and 2020-21. The impact of weaker property prices and transaction volumes will negatively affect LTD revenue. However, as there is typically around three months settlement lag for property transactions, the revenue impact will have a relatively smaller impact on 2019-20 than its effect on 2020-21.

Additionally, the residential property market was improving prior to the coronavirus pandemic, with increases in dwelling prices and transaction volumes over mid-2019 to February 2020. As recognised in the 2019-20 Quarterly Financial Report No. 3, LTD collections for the three quarters in 2019-20 were $267 million ahead of the pro rata full year revised budget estimate.

Consistent with the annual budget process, in the lead up to the 2020-21 budget, LTD estimates will be updated, taking into account the latest economic data. This information will be released when the budget is handed down by the Treasurer, expected to be in October or November 2020.

5. What is the total estimated cost to the JobKeeper initiative of the $1500 payments to casual public sector employees?

(Asked by Ms Vallence on page 24 of the transcript)

Transcript extract

> *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?*
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> *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—

Response

Financial support is available for casual employees in selected public sector agencies equivalent to their regular fortnightly income up to a cap of $1500 per fortnight before tax, up until 30 September 2020. It is conditional on employees being made available for redeployment to other public sector roles.

Costs are to be met internally by the relevant agencies and Departments in the first instance. The net cost will be recognised in the respective full financial year result for 2019-20 and 2020-21.