PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into 2020–21 Financial and Performance Outcomes

Melbourne—Monday, 8 November 2021

MEMBERS

Ms Lizzie Blandthorn—Chair	Mrs Beverley McArthur
Mr Danny O'Brien—Deputy Chair	Mr James Newbury
Mr Sam Hibbins	Ms Pauline Richards
Mr David Limbrick	Mr Tim Richardson
Mr Gary Maas	Ms Nina Taylor

WITNESSES

Mr David Martine, Secretary,

Ms Gayle Porthouse, Deputy Secretary, Corporate and Government Services Division,

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

Mr Jason Loos, Deputy Secretary, Commercial Division,

Mr Chris Barrett, Deputy Secretary, Economic Division, and

Ms Danni Jarrett, Chief Executive Officer, Invest Victoria, Department of Treasury and Finance;

Mr Steven Polites, Executive Director, State Revenue Office;

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

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

Mr Andrew Davies, Chief Executive Officer, Victorian Managed Insurance Authority; and

Dr John Hamill, Chief Executive Officer, Essential Services Commission.

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

I would like to begin by acknowledging the traditional Aboriginal owners of the land on which we are meeting. We pay our respects to them, their culture, their elders past, present and future and elders from other communities who may be here today.

On behalf of the Parliament the committee is conducting this Inquiry into the 2020–21 Financial and Performance Outcomes. Its aim is to gauge what the government achieved in 2020–21 compared to what the government planned to achieve.

Please note that witnesses and members may remove their masks when speaking to the committee but must replace them afterwards.

I ask that mobile telephones be turned to silent.

All evidence taken by this committee is protected by parliamentary privilege. Comments repeated outside this hearing may not be protected by this privilege.

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

We welcome the Secretary of the Department of Treasury and Finance and officers. We invite you to make a presentation of no more than 10 minutes, and this will be followed by questions from the committee. Thank you.

Mr D O'BRIEN: On a point of order, Chair, before the Secretary starts, can I just clarify: will we be able to put questions on notice as part of these hearings this week?

The CHAIR: You will be able to ask questions of those attending. If they do not have the capacity with the volumes of information that they have before them to answer those questions, then they will I am sure indicate that they will take them on notice. As for tabling just lists of questions on notice, no.

Mr D O'BRIEN: Okay. Thank you. Sorry, Secretary.

Visual presentation.

Mr MARTINE: Thank you for the opportunity to speak in front of the committee this morning. In my short presentation I plan to cover three issues: firstly, some information about the performance of the Department of Treasury and Finance during 2020–21; secondly, some information about the performance of the Victorian economy; and finally, I will briefly discuss the outcomes of the state's finances for the year 2020–21.

The Department of Treasury and Finance provides economic, financial and resource management advice to assist the government to deliver on its policy agenda. DTF's objectives are to optimise Victoria's fiscal resources; strengthen Victoria's economic performance; improve how government manages its balance sheet, commercial activities and public sector infrastructure; and deliver strategic and efficient whole-of-government common services. DTF supports the ministerial portfolios of the Treasurer, the Assistant Treasurer, the Minister for Economic Development and the Minister for Regulatory Reform. As at 30 June 2021 DTF employed 844 staff, including Invest Victoria.

In 2020–21 DTF continued to perform strongly, delivering its core business objectives as a provider of advice and services to government. The department's major achievements for 2020–21 included but were not limited to providing ongoing economic and financial analysis and advice to support the delivery of the government's priorities, including its response to the COVID-19 pandemic; developing, in conjunction with other departments, the economic survival and tax relief packages to support Victorian businesses and households; delivering the 2020–21 budget and the 2021–22 budget both within the one financial year; commencing the rollout of the social housing and shared equity initiatives; developing a new partnership addressing disadvantage; supporting the delivery of major infrastructure projects across the public sector; completing a scoping study leading up to the announcement of the VicRoads modernisation in March 2021; and finally, supporting staff to work in a hybrid work environment.

I will now briefly outline some of the key outcomes for the Victorian economy during 2020–21 as well as more recently. Heading into the COVID-19 pandemic Victoria's economy had been performing well. Over the five years to 2018–19, economic and employment growth had outpaced the national average. Both Victorian gross state product and employment growth had been the highest among the states. Employment growth was strong, the unemployment rate was low across the state and high levels of investment were supporting broader economic activity. However, the economic shock caused by the COVID-19 pandemic resulted in the largest global downturn since the Great Depression, and Australia's and Victoria's economies were not spared. Public health restrictions which have been necessary to slow the spread of COVID-19 limited economic activity in the June and September quarters of 2020. The outcome for GSP in 2021 will become available from the ABS later this month, but we expect it will reveal a fall based on the data we already have on most of the major components of economic activity.

Consumption and net international trade both made large negative contributions to economic growth in 2020–21, as did most other components of private demand. This was partly offset by higher public consumption and infrastructure spending. However, the economy rebounded quickly as domestic restrictions were progressively eased in the December quarter 2020. This momentum carried through into strong growth in the March quarter of 2021, notwithstanding a very, very brief period of restrictions in February. Public health restrictions were also in place during the June quarter to contain the delta variant of COVID-19, although state final demand still increased by 1.4 per cent in the quarter to be above its prepandemic level. This economic recovery led to a significant rebound in employment. Employment increased by 288 000 people from September 2020 to August 2021, and the share of the population in employment reached a record high. However, the labour market weakened in September this year following the tightening of public health restrictions that commenced in early August. But the economy is proving much more resilient compared with 2020.

The recovery in the labour market since last year has been broad based. Women were particularly affected by the economic downturn in 2020, but up until August 2021, before the impact of the most recent restrictions, employment for both women and men was above prepandemic levels. Young people were also disproportionately affected by employment losses in 2020. However, during 2021 the proportion of workers aged 15 to 34 in employment also recovered from last year's losses prior to the most recent restrictions. The strength of the recovery in employment meant that Victoria's unemployment rate had improved sharply since its peak of 7.3 per cent in June 2020. By September this year it had fallen to a record low of just 4.1 per cent. It rose in September, but at 4.8 per cent it remains below its prepandemic level. Regional Victoria has been especially resilient, with the unemployment rate consistently lower than that for the state overall. Over the three months to September the regional unemployment rate averaged 3.2 per cent. Hours worked, which is a reasonable proxy for the level of economic activity, fell over August and September this year amid the latest restrictions, but they remain well above—9.1 per cent above—the lows of 2020. This suggests that restrictions are weighing less heavily on the economy overall than they did last year.

Turning to current developments, while the most recent restrictions have weighed on the economy, a range of data indicate underlying resilience and confidence. The NAB business conditions index is an important measure of current economic conditions. It has fallen from a record high in May but remains positive despite the current lockdown. Business confidence slipped into negative territory in August, although it remained well above the lows it reached in 2020. It returned to positive territory in September. Consumer confidence, while down from very high levels earlier this year, remains positive.

Forward-looking business indicators bode well for recovery. Job ads, while retreating slightly in recent months, remain elevated. Survey evidence of business investment plans have also proved to be resilient and suggest investment will exceed pre-COVID-19 levels next year. You can see this in the right-hand chart. The blue dash line shows businesses' investment plans for 2021–22 as at July and August this year. These plans are unchanged from those of earlier this year and are considerably higher than what they were planning to spend in 2021–22 as at the end of last year.

I will now briefly outline some of the key outcomes for the state's finances in 2020–21. In 2020–21 the government recorded an operating deficit of $14.6 billion. This deficit was a $2.9 billion improvement compared with the revised budget estimate published in the 2021–22 budget and $8 billion higher compared with the previous year. The $2.9 billion improvement in the operating result compared with the revised estimate was largely due to higher than expected GST grants resulting from a stronger than expected recovery in economic activity in the June quarter and lower than expected expenses due to the timing of expenditure programs across departments. The $8 billion higher deficit compared with the 2019–20 result was mainly due to increased expenditure relating to an increase in service delivery and additional resources in response to COVID-19. This included measures to support jobs and businesses and to deliver the frontline health response, including the establishment of COVID-19 Quarantine Victoria. Net debt was $72.7 billion as at 30 June 2021, or 15.6 per cent of gross state product. This was nearly $5 billion lower than the revised estimate in the 2021–22 budget, with similar reasons as previously outlined in the operating result improvements.

While debt has grown over the past 12 months, our interest-to-revenue fiscal target has remained fairly stable at around 3.6 per cent. This is manageable with the current low interest rate forecasts. It is also moderate compared with historical standards and well below the level seen throughout much of the 1990s.

I thank you for your time, and I am happy to take questions.

The CHAIR: Thank you very much, Secretary. Deputy Chair.

Mr D O'BRIEN: Thank you, Chair. Good morning, Secretary and team. You just almost finished there on net debt, Secretary, so I might actually start there. The 2020–21 position of $72.7 billion net debt as the closing position, is that the worst net debt in Victoria's history?

Mr MARTINE: Thanks for the question. In dollar terms it would be the highest.

Mr D O'BRIEN: I think you said 15.6 per cent of GSP. How is it in GSP terms?

Mr MARTINE: I would have to provide a bit more information on notice, but I understand we have had higher in the past in terms of the proportion of the size of the economy.

Mr D O'BRIEN: Would that have been the early 90s?

Mr MARTINE: Probably.

Mr D O'BRIEN: Okay.

Mr MARTINE: If you even go back, I suspect probably through wartime as well, but in sort of recent memory. But we are happy to provide a bit more detail on notice.

Mr NEWBURY: Equivalent to Cain.

Mr D O'BRIEN: Well, worse than Cain perhaps, certainly in dollar terms. In terms of the forecasting of that, in the 2018–19 budget for 2021, the out year, the forecast for net debt was $29.8 billion. In the 2019–20 budget the forecast was for $46.9 billion. Now, I appreciate we had an election in between then and the government, I think, announced a policy to effectively double the ceiling on net debt, but the question I want to get to is: how can we trust future forecasts? I think the current forecast for net debt in the out years is to peak at about $156 billion. Is that right, Secretary?

Mr MARTINE: If you will just bear with me 1 minute. Net debt by 30 June 2025 in the most recent budget: $156.3 billion, which is 26.8 per cent of GSP.

Mr D O'BRIEN: 26.8 per cent—that would presumably be the highest by GSP we have ever seen.

Mr MARTINE: I think that is correct. I am happy to clarify on notice, but I think that is correct.

Mr D O'BRIEN: Okay. I guess my question, going back to those previous forecasts, noting that there have been changes, is: how do we have any comfort that even the $156 billion will be the peak of our net debt, given that we have been in the last couple of years 130 per cent higher than forecast in 2018–19 and 55 per cent higher than forecast only two years ago?

Mr MARTINE: Effectively there have been two major factors affecting the numbers that you quoted in the earlier part of your question. Obviously the government, when it was returned, had an increase in its infrastructure agenda and was quite explicit in terms of its debt commitment, so, as you indicated, increased the net debt to GSP target from 6 per cent to 12 per cent, recognising that 2 percentage points of that was actually due to the accounting change of including our leases. So it was effectively a 4 percentage point increase to deliver on its infrastructure program. Then obviously more recently over the last 18 months we have had a global pandemic, which has added to the level of debt. So what is driving those debt numbers across the forward estimates is really the combination of the deficits last year, this year in particular and then across the forward estimates along with the existing infrastructure program that the government has announced.

Mr D O'BRIEN: Is it actually expected to be a peak at $156 billion in 2025, or is that just what we have got to the out years?

Mr MARTINE: As was outlined in both the budget in November and also the most recent budget, the government has got a four-step fiscal strategy, and it is sequential. So step 1 is economic recovery, support jobs; step 2 is an operating cash surplus; step 3 is an operating surplus; and then step 4 is to stabilise debt. And by definition it is sequential because you need to do each step before you hit the next one. In the most recent budget there is a discussion in chapter 1 of budget paper 2 that talks about step 2 now appearing in the current forward estimates, which is an operating cash surplus in 2022–23. As you would have noted in the most recent forecast released in May, we do not yet have an operating surplus across the forward estimates, so that needs to be achieved first before you then get to—

Mr D O'BRIEN: Before you are actually starting to pay any debt down.

Mr MARTINE: Well, you need to be running surpluses effectively, remembering though that of course the level of debt is driven by the two factors: what is happening on the operating side but also what is happening on the infrastructure side. So you can have a situation where, depending on the extent of your infrastructure program, you could still have a small operating deficit but still have stabilising debt as a proportion of the size of the economy, because the economy grows every year.

Mr D O'BRIEN: Yes. Well, normally. Normally, Secretary.

Mr MARTINE: Normally.

Mr D O'BRIEN: But I mean, in your presentation you talked about the deficit being I think it was a couple of billion less than forecast. Is there any light at the end of the tunnel? As you said, there is still no operating surplus forecast for the out years. That suggests that we will continue to increase debt for at least four years. Can you give any indication of what will happen beyond that?

Mr MARTINE: Well, if you look at the latest numbers that were released in May—and obviously we are in the process of revising the forecast for the budget update, which is to be released by the government by 15 December this year—what you did see in the budget was quite a significant improvement on the numbers that were forecast back in November. So if you take 2020–21, for example, we started the year assuming a deficit of around $23 billion, we reduced it to $17 billion—a bit higher, $17.4 billion—and it has come in at $14.6 billion. We then went through and revised the deficit numbers and the debt numbers across the forward estimates in May, so you have seen quite an improvement, and you do have the right trajectory. So in the budget in November we did not have operating cash surpluses, and we do now in May—and they are based on the numbers forecast in May increasing to $3.0 billion in 2024–25 with an operating deficit, a net result from transaction, of about $2 billion. So it is on the right trajectory.

Mr D O'BRIEN: You talked about the economy growing, but for 2020–21 the Victorian population was the only state or territory population that actually went backwards. We lost 42 500—nearly 43 000—residents, and that has been the hallmark of our economic growth over the past decade or more. How do we have any confidence that with people leaving in droves our economic performance will actually turn around and therefore impact on our budgetary performance as well?

Mr MARTINE: Well, the Victorian economy has proven incredibly resilient from what we have observed over the last 18 months. There is no question that we had a significant reduction in economic activity, particularly in the June quarter last year. That was the biggest quarter reduction in economic activity through the pandemic. It was not actually as bad in the September quarter—it was only a small further reduction—and then in the December quarter we had a very significant uplift in economic activity.

When you look at data such as employment data—and I touched on some of this in my presentation—the labour market and the level of jobs has proven incredibly resilient. For example, full-time employment here in Victoria as of the end of September—so that picks up all of the most recent restrictions—was actually higher than it was pre pandemic, and what we have seen actually in the labour market is a drop-off more in hours worked, particularly through July and August. So yes, we lost mostly part-time jobs in September, but it actually looks like with this particular set of restrictions businesses have been consciously trying to hold onto their workers by keeping them on their books but with either reduced hours or zero hours, just so that the rebound can be much stronger.

When you look at New South Wales, for example, and their data, through that period—and they were under pretty tight restrictions as well—they actually had a very significant number of job losses. So it is a bit like the businesses up there let their workers go. The fact that it looks like our businesses have kept workers on the books will help a strong rebound, and we are actually expecting a very strong rebound in the Victorian economy. Obviously we need to change our forecasts that were in the budget, because we were forecasting significant growth in this year. What we will probably see is pushing that out. The most recent forecast, for example, from Deloitte Access Economics, which was only last month for the Victorian economy, they are actually forecasting 7 per cent growth in the Victorian economy next financial year. ANZ, from their release in August, is forecasting 5 per cent, so a pretty strong rebound. So we are pretty confident that the Victorian economy will bounce back quickly.

Obviously there are challenges, and one of the real challenges, touching on your point about population, is really skill shortages and shortage of workers, particularly driven by closed international borders. And it is not just an issue for Victoria; it is an issue for the whole country. That is going to be a significant factor in the speed of recovery. But if we can get the international borders open as quickly as possible and get some of those skills shortages fulfilled, then that is going to help the growth as well.

Mr D O'BRIEN: Can I just go back to the net debt question. One of the things we are lucky with at the moment is very low interest rates, so the repayments on that debt, if you like, are very low. Can you give us an idea of what those repayments are, and has the Treasury done any sensitivity analysis of what an increase in interest rates is likely to cost the state? I know we have touched on this before.

Mr MARTINE: I will just get my colleague to dig the interest expense out of the budget papers. But effectively—

Mr D O'BRIEN: Ideally if Mr Driscoll could look at what the total expense is over the next four years.

Mr MARTINE: Yes, and I will answer the other part of your question. When we put the budget together, we already assume an increase in TCV bond yields across the forward estimates. I mean, at the end of the day it is the market that sets the price of the TCV bonds. So we already assume across the profile of bond issuance an increase. Now, more recently what we have seen in the market is the market increasing in expectation that rates will rise a bit quicker than the RBA had previously indicated, which was 2024, and you have all heard the RBA governor talk about possible rate increases in 2023. So the market is now factoring in some of that. One thing to remember obviously—

Mr D O'BRIEN: What is that going to cost us, given that that is unexpected compared to what was forecast?

Mr MARTINE: One thing to remember about the bonds on issue is they are all fixed. So an increase in the bond yields in the market only affects new issuance or the refinancing of an existing bond.

Mr D O'BRIEN: But our new issuance is going to go from $72 billion to $156 billion.

Mr MARTINE: So basically, just as a rough order of magnitude, if you look at what has happened in the yield curve for TCV 10-year bonds, which is sort of about an average bond, you are probably looking at maybe about $50 million. That is what—

Mr D O'BRIEN: On what the increase might be?

Mr MARTINE: Yes.

Mr D O'BRIEN: Over, what, four years or—

Mr MARTINE: That would be the first year.

Mr D O'BRIEN: Sorry, so a 10-year increase by how much? How many basis points?

Mr MARTINE: So if you issue 10-year bonds, the market would price them—I mean, it jumps around every day—maybe an extra 25, 30 basis points, and that is worth about $50 million. And the answer to the first part of your question, the interest on interest-bearing liabilities and deposits is $2.123 billion in 2021–22.

Mr D O'BRIEN: $2.123 billion is just the interest that we will be paying for—

Mr MARTINE: For 2021–22.

Mr D O'BRIEN: Okay. Thank you. Speaking of that and the issue of debt, you will obviously be aware of the front page of the *Sunday Herald Sun* yesterday and the PBO report. Did DTF provide any advice to the Treasurer about that report?

Mr MARTINE: I read the report yesterday, and over the weekend we provided some advice to the Treasurer's office about the report that was released.

Mr D O'BRIEN: Does DTF—

Mr MARTINE: Just to make a point, we had not seen the report until it had been made public by the PBO, which I understand was Saturday.

Mr D O'BRIEN: The 5th—Friday—but yes. Does Treasury agree with the report that effectively the government is hiding the true state of the budget?

Mr MARTINE: I am very happy you have asked me that question, because having read the report yesterday I have got quite a few issues with both its coverage and some of the judgements it makes. The most important point to make on what is missing from the report is the fact that here in Victoria our budget is reviewed by the Auditor-General prior to it actually being released.

Mr D O'BRIEN: Yes, that does not mean that there is not hidden data in there—made difficult.

Mr MARTINE: I will go through and explain the process, but no other jurisdiction, including the commonwealth, has their Auditor-General review the budget before it is released, and the government of the day cannot actually table the budget in Parliament unless the Auditor-General issues the statement which gets published at the front of budget paper 5. It is actually addressed to the members of the Parliament of Victoria, and he makes the statement that:

> … nothing has come to my attention which causes me to believe that the estimated financial statements:
>
> - have not been prepared on a basis consistent with the accounting policies on which they are stated to be based …

And he goes on to make some other judgements as well.

Mr D O'BRIEN: That is accounting treatment, Secretary.

Mr MARTINE: It is quite a detailed process he goes through. It is probably about a month of reviewing all of the financial statements, all of the accounting notes. They ask lots of questions. They engage external consultants to review, for example, the economic forecasts. They engage external consultants to review our revenue forecasts. So it is quite a thorough process. No other jurisdiction in Australia, including the commonwealth, does that. The commonwealth Auditor-General has no role in the commonwealth budget. So it is quite a thorough process—

Mr D O'BRIEN: I am going to run out of time, so can I just quickly follow up with one more? Table 7.5.1 on page 124 of the financial report recently released shows that revaluations boosted the value of land, buildings, infrastructure, plant and equipment by $29.4 billion in the government sector. That means basically that the $72.7 billion net debt without those real-time revaluations would be more like nearly $100 billion. Is that a fact? That we have had a very convenient revaluation of public land, for example, that has actually made our net debt position look better than it actually is?

Mr MARTINE: No, that is not correct. Simple answer: revaluation of physical assets does not affect net debt. You will find at the back of the annual financial report, on pages 172 and 173, a useful glossary of technical terms. 'Net debt' is defined as equalling 'the sum of deposits held, advances received, government securities, loans and other borrowing less the sum of cash and deposits, advances paid and investments, loans and placements'. So the revaluation of land and physical assets obviously affects the balance sheet. It would affect net worth, but it does not affect net debt. That particular revaluation has no impact on the numbers that I quoted earlier.

Mr D O'BRIEN: Was it done outside the usual five-year process? The revaluation?

Mr MARTINE: I would need to take that on notice, what was driving those particular—

Mr D O'BRIEN: And if so, why? If I could get that on notice.

Mr MARTINE: Yes. But the key metric that would affect is net worth.

Mr D O'BRIEN: Okay. Thank you.

The CHAIR: Thank you, Deputy Chair. Mr Maas.

Mr MAAS: Thanks, Chair. Thanks, Secretary Martine, and your team for your appearance this morning. Thanks for the presentation. Look, I would like to pick up from where Mr O'Brien was speaking to, the annual financial report. You have already made mention of forecasts from Deloitte and ANZ in terms of the type of rebound that we are expecting. Just given that the first page of the annual financial report details how state final demand fell by 0.8 per cent in 2020–21—a very broad question to begin with—how did the pandemic impact the 2020–21 financial year? And then to the rebound, what kind of rebound are you expecting now that we are emerging from lockdown?

Mr MARTINE: Okay. Thanks for your question. As noted in the AFR, we did, in year average terms, have a reduction of 0.8 per cent in state final demand. Now, for the benefit of the committee, state final demand is most of the components of gross state product. We do not have the official GSP numbers yet for 2021; they will come out from the ABS in the next month or so. State final demand picks up most of the elements. Overall it was minus 0.8. When you break that down by quarter, we had minus 0.8 per cent in the September quarter and plus 7.1 in the December quarter—which comes back to my earlier point that when we came out of the lockdowns last year in the December quarter we had a really strong rebound in the Victorian economy—then it was 2.6 and, in the June quarter, 1.4.

There has obviously been a bit of a roller-coaster ride in what has been happening to the Victorian economy since March of last year. What we did see was a weak June quarter in particular last year—that was where we had the biggest reduction—and then a further smaller reduction in September before we had the rebound. It has been a bit of an up-and-down journey for the economy, but what has pleased us is the resilience of the Victorian economy and how quickly it has rebounded. When COVID started back in March–April, not just the Victorian Treasury but the commonwealth Treasury, the Reserve Bank of Australia and most commentators were predicting much more significant economic reductions and higher levels of unemployment than what we have seen. It has actually been a strong rebound. When you break down some of that data into more granular components, in 2021 what we have actually seen and what has contributed to that general downturn of 0.8 is a reduction of 3.6 per cent in household consumption, followed by business investment at 7.6. Now, the pleasing thing is the leading indicators on those particular areas look pretty good. Business investment plans, which I noted in my opening presentation, look strong. Consumer confidence is still in the positive territory. What we have seen in the most recent lockdowns is a lesser reduction in economic activity than we saw last year. I think that is the case where businesses and households have adapted to the restrictions.

As I indicated, to one of the Deputy Chair's questions, the labour market has been really strong. If you think about the level of employment prior to COVID—March 2020—to the low point, which was September, employment fell by 238 000 jobs. Then from September, which was the low point, up until August in the Victorian economy 288 000 jobs have been created. So in fact by the end of August employment in aggregate was actually higher than pre COVID, and that was actually in the middle of the current lockdowns. As I indicated earlier, what we were seeing in July and August was more of a reduction in hours worked rather than people losing jobs. In September there was then a significant reduction in the level of employment. We are now, from the trough to the end of September, at 165 000, so we are back below the 238 000 that took us to the trough. One thing to also note, though, is the way the numbers work with the ABS: if you have got workers on zero hours for more than four weeks, they then deem them as unemployed. So it is actually not surprising that after a couple of months of businesses having their workers on reduced hours when you hit that sort of threshold they then get picked up in the unemployment statistics. You can actually see that when you look at the employment between full time and part time. As I indicated earlier, full-time employment at the end of September, even with that job reduction number, is actually higher than what it was in March of 2020, just prior to COVID. And the recent loss has really been in the part-time area, where we are optimistic that is going to rebound. You know, with the economy reopening, businesses reopening, those part-time jobs and workers should get picked up.

The other point I just wanted to make, because it is an important one in the jobs market, is our participation rate is still high. It is at 65 per cent. So that is the number of people of working age who either have a job or are actively looking at participating in the labour market. It is quite a bit higher than New South Wales, for example. They are at 61.8 per cent, and what you generally see is as your economy recovers, people re-engage in the labour market, so your participation rate goes up, but you could then actually find your unemployment rate goes up at the same time as well. We are actually in quite a good position in that at a 65 per cent participation rate, which is just higher than the national average of 64.5, as the economy reopens we would expect the unemployment rate to come down reasonably quickly. So it went up to 4.8 per cent in September from the 4.1 in August. We have not, obviously, got the October numbers yet. It could possibly creep into the fives—it is a bit hard to tell—but then we would expect it to drop reasonably quickly, and having an unemployment rate with a three in front of it is quite achievable.

As I indicated to the Deputy Chair earlier, that does obviously create other challenges for the economy, because it is a very tight labour market, and there are parts of the economy and sectors that are struggling to find the right sort of workers. So that is where the reopening of the international borders will be quite important. So we are reasonably optimistic in terms of the rebound in the economic recovery.

Mr MAAS: Thank you very much. Just to expand on that—and, as you have already detailed, there was an improvement compared to the original estimate in terms of the operating deficit for 2021 between the original estimate and the revised estimate—are there any further granular components that contributed to the change between what was revised and what the actual is?

Mr MARTINE: Okay. I might just grab the AFR. As I mentioned, I think, a bit earlier, we started the year 2021 with a forecast deficit of $23.3 billion. So that is what was released in November. It was revised to 17.4 in May, and the end-of-year result outlined in the AFR came in at 14.6. The main movement from the 23 down to the 14.6 is largely a revenue story, and if I can find the right page reference, there is a useful discussion towards the back of the AFR on pages 130 and 131 which provides both a table and commentary looking at the movement since the original published budget. So a lot of the commentary in the AFR looks at the difference between the end of year result and the revised budget, which is in May. This takes the reader back to the revised budget but also the published budget, and it breaks down all of the components of the operating statement both on the revenue and expenses side, and the main drivers of the change in movement from the 23.3 down to the 14.6 is really on the revenue side. And it is a combination of two things: it is both state tax revenue—so since the original forecasts were done back in, it probably would have been, October actually for a November budget we have actually seen a stronger housing market than we expected, so stamp duty was higher and the labour market has been stronger than we expected as well. So payroll tax was higher than originally forecast, and that has flowed through for the remainder of the year. They are probably the two main drivers on state tax revenue.

Then the other big change that you will see on page 130 is related to grants. Final grants for the financial year were about $3.5 billion higher than what we originally forecast back in October, and a large component of that relates to the GST. The GST in the end was about $2.8 billion stronger than the original forecast back in October. Now, that is largely driven by stronger consumption spending, so consumers reacted quicker than we were all anticipating in coming out of the lockdowns. That is the other thing to keep in mind with the lockdowns: quite a bit of economic activity is deferred. Some of it is clearly lost, but some of it is deferred. So there was that strong rebound in consumption spending, which led through to a much larger GST pool, so that represented Victoria's share of the GST pool. That was about $2.8 billion higher. They are the main areas on the revenue side. That contributes most of the change.

On the expenses side the main change you see on this page really comes around to other operating expenses, which was about $2.8 billion lower at the end of the financial year from the original budget. It was just a combination of a whole range of expenses across all departments where in the end certain money was not necessary or required to be spent, remembering that when the budget was put together back in September/October last year there was a lot of uncertainty about the impact of COVID and what it was all going to mean, which is one reason why every jurisdiction, including the commonwealth—we all pushed our budgets back from May of 2020 to November.

Mr MAAS: Thank you very much. You went into discussion about the GST, and I would like to pick up on that, in particular the importance of the no-worse-off guarantee under changes that were passed in the federal Parliament in 2018. Just for the benefit of the committee, and preceding my next question, would you be able to explain the GST no-worse-off guarantee that was passed?

Mr MARTINE: Thanks for your question. This was a really significant issue for every state and territory except for Western Australia. The commonwealth in 2018 changed the way that the GST is distributed by basically changing the methodology to provide, I guess, sort of a safety net for states like Western Australia, creating a floor in the relativity and changing the way that assessments are made, which effectively, in the absence of the guarantee, takes resources—GST funding—away from every other state and territory. The GST is traditionally allocated based on the size of the pool, your population share—and Victoria is roughly about 26 per cent—and then your relativity, which is a complex calculation by the Commonwealth Grants Commission which essentially tries to make judgements about different differentials in revenue-raising capacity and costs across the states and territories to basically ensure, consistent with the principle of horizontal fiscal equalisation, that we can all provide similar services to our citizens across each state and territory. At the time the commonwealth tried to convince every state and territory that no-one is going to be worse off. No state and territory, other than WA, agreed that that was the case. We all pushed strongly, based on modelling that we undertook, to demonstrate that you only need some slight variations in assumptions to actually have a significant downturn in GST revenue affecting other states. We got the guarantee enshrined in legislation—or, I should say, the Senate did—and fortunately we did, because the commonwealth's own budget papers in their budget earlier this year have the current no-worse-off payments across all jurisdictions at $7.6 billion over four years. So if we had not got the guarantee enshrined in legislation, all states and territories would be worse off over the next four years by $7.6 billion—and our share of that is $2.3 billion. We actually think that is a bit underestimated given what has happened recently with the Western Australian economy—it is possibly about another $4 billion on top of that.

Now, that is over the next four years. So the no-worse-off guarantee is absolutely critical. The problem we all face, not just here but other states and territories, is the guarantee comes to an end in the year 2026–27 and at this stage the commonwealth has not confirmed to any of us that the guarantee will then continue. Now, if it does not continue, we are looking at very significant reductions in our GST revenue going forward from the year after 2026–27. As I said, it is not just an issue for Victoria. It is something that has very much unified every state and territory treasurer other than WA. You have probably observed that a bit with the new Premier from New South Wales, who has been vocal in his new role on this particular issue. It is a major issue for all of us to try and ensure that after 2026–27 we are not financially penalised in such a significant way, because at the moment in the commonwealth's own budget papers they have actually acknowledged that we would have all been $7.6 billion worse off over four years without the guarantee.

Mr MAAS: I might leave it there, with less than a minute to go. Thanks, Secretary Martine.

The CHAIR: Thank you, Mr Maas. Mr Limbrick.

Mr LIMBRICK: Thank you, Chair. Thank you, Secretary and team, for appearing today. I will start with a question that I got from a very switched-on constituent from Dandenong. They looked on your website, and in the economic and financial updates section for the credit ratings it used to put S&P and Moody's credit ratings, but those reports have not been published since 2017. Is there a plan to continue publishing them and updating them, or what is the reason that they have not been updated?

Mr MARTINE: Thanks for your question. I am not sure there is any particular reason why those reports are not there. The reports from S&P and Moody's are public. There is nothing there that is not in the public domain. I am happy to take that on notice and just have a look at our website to see what is there and what has been there in the past.

Mr LIMBRICK: Okay. Thanks. Following on from that, what is the outlook on improving our credit rating? Because we spoke before with Mr O'Brien about TCV bonds and how the market is going to price them, and clearly ratings are going to play into that, and we want a good rating so it is cheaper to issue these bonds. What is the plan for improving our credit rating going forward?

Mr MARTINE: At the moment we have effectively a AA-plus rating with Moody's, which is consistent with a number of other jurisdictions, and then we are at AA with S&P. They take a whole range of factors into account. Obviously one factor they could take into account is the level of debt. They then take into account a whole range of other factors, some of which are not quantitative. So there is quite a bit of qualitative assessment undertaken by both Moody's and S&P in terms of how they determine their ratings.

I think we might have discussed this actually in previous hearings. When we were downgraded by S&P, we did not actually see much of the movement in the basis points. It was probably, from memory, maybe 5 basis points, something like that, which on a $10 billion issuance—which I think at the time was what was still required to be issued for the rest of that financial year—equates to about $5 million. From a financial point of view we did not actually see a significant increase in bond yields. TCV bonds are still very attractive. They are held mostly by the major banks here in Australia. They are attractive for international investors as well.

Mr LIMBRICK: Thank you. In slide 6 of your presentation, where you talk about GSP contributions, and it is broken down there, the largest positive factor is public demand. I feel like a lot of jurisdictions have sort of propped up their economic ability by borrowing from the future, which is sort of what we have done here. We talked about unemployment not being too high at the moment. How much of that is due to government borrowing and bringing forward that expenditure from the state?

Mr MARTINE: That is a good question. It is hard to attribute exactly—

Mr LIMBRICK: Because a lot of it was just put into the hands of people, and then it gets spent, right?

Mr MARTINE: Yes. So there is no question that—and it is not just here in Victoria, it is every state, the commonwealth, internationally as well—if you are facing the biggest economic downturn since the Great Depression, the role of a budget and the role of your fiscal policy is to actually support businesses and households. So it is not surprising that all jurisdictions except WA—which I am happy to come back to on the GST matter—went into deficit and borrowed money to support their economies, and that is necessary to help the economy recover and recover as quickly as we can. If we had not stimulated the Victorian economy, had not provided the significant systems that had been provided both by the state but also remember the commonwealth as well—I mean, JobKeeper was a pretty significant stimulus of the Victorian economy as well—if we had not provided that support, particularly focused on this year and next year, then our economic outlook would be a lot worse.

And what you do see in the budget papers is most of the additional spending is focused on those two financial years. If you go and look at a breakdown, for example, of the initiatives in budget paper 3 or the fiscal aggregate tables in budget paper 5, what you do see is a significant proportion of new spending from government decisions focused on those years, which is what you want—the idea of stimulating and providing support in the last financial year and this financial year. And that is why we had a deficit of $14.6 billion last year. We will obviously have a deficit again this year, and then as your economy recovers you can get your finances back in order. I referenced earlier the four-step strategy that the government outlined. That is really the logic behind that—that you get your economy supported first and then deal with your level of operating deficit and then debt.

Mr LIMBRICK: Thank you. I think you spoke earlier about how part of that is getting back into surplus so that you can repay the debt, and ultimately that will affect credit ratings and lots of other things. Where do we expect that revenue primarily to come from? You said before that there was unexpectedly high stamp duty revenue; I think you mentioned that you were expecting it to be worse than it was. Going forward, what do we expect to be the biggest contributors that will help get us that money to pay off that debt?

Mr MARTINE: In the current projections we have—and a good summary of them is in budget paper 2, chapter 4, and, as I mentioned earlier, we are obviously revising all these projections for the budget update which gets released by 15 December—it is really I guess a combination of two components on the revenue side. There is no question the GST is a significant contributor to revenue here in Victoria, and also for all states, along with other commonwealth grants. You can actually see in the budget released in May, if you compare, for example, the 2019–20 actual through to the final year of the forward estimates, grant revenues going up by about $10 billion in that final year, and state tax revenues going up by about $9 billion.

Mr LIMBRICK: So what sort of components is the state tax revenue—

Mr MARTINE: Our biggest sources of state taxes are stamp duty and payroll tax.

Mr LIMBRICK: So with stamp duty, we have seen big changes in the commercial property market recently, like very large vacancy rates. I think we have spoken about this before, that there are two things with the stamp duty: you have got the overall cost but then you have got the overall number of transactions. I would imagine that there might be a large number of transactions coming up soon when people take over properties, especially in the commercial sector, because we have seen large disruption especially in the CBD. Has that been used to update models on this?

Mr MARTINE: Yes, we take all of that into account, in both residential and non-residential. I mean, in a way the strength of the housing market has probably surprised all of us. When COVID first started—

Mr LIMBRICK: Especially with population decline.

Mr MARTINE: Yes, that is right. We were expecting a more significant downturn. In the end the CoreLogic home value index for the financial year 2020–21 grew by 8.7 per cent.

Mr LIMBRICK: How do you explain that?

Mr MARTINE: It is like all markets: supply and demand. What has effectively happened through the last 12 months is the supply has dropped—the number of properties being put on the market has dropped—and demand has remained strong, particularly with the investor component. If you look at new loan commitments broken down between owner-occupied, investors and first home buyers, perhaps just using the latest data, year on year September 2020 to September 2021, new loan commitments by value have grown by 77 per cent for investors, 47 per cent for owner-occupiers and then 4.4 per cent for first home buyers. We are still seeing strong investor demand in the property market with a lower level of supply.

Mr LIMBRICK: But it is clearly not due to population, because that has been in decline.

Mr MARTINE: No, that is right. We were all expecting early on in COVID, particularly with international borders closed and very benign population growth, that that would hit the housing market more than it actually has.

Mr LIMBRICK: It has been put to me by a number of people that this—investors piling into the housing market—is largely due to low yields in other areas like cash and concerns about inflation and this sort of thing. Is that something that Treasury thinks is the case?

Mr MARTINE: It is probably partly that. It is also no doubt part of quite generous tax incentives for investors, which are mostly outside the control of the states. Particularly buying a property is very attractive as an investor, both in terms of negative gearing and capital gains tax discounts.

Mr LIMBRICK: Thank you. I notice on slide 9 the unemployment rate over time goes up to September 2021. This is sort of just as the vaccine mandates were coming into effect. Now, you spoke before about skills shortages. It would be expected that a proportion of the workforce—we do not know exactly what proportion—will lose their jobs due to not being vaccinated and choosing not to be. Have you done any modelling on how that will affect unemployment and skills shortages going forward? There have been a number of highly skilled sectors where—I do not know the exact numbers—there have been people who have lost their jobs because they have refused to comply with the mandate.

Mr MARTINE: As we are revising our employment forecast and unemployment forecasts that is something that we obviously need to take into account. It is obviously going to depend on where we end up with our vaccination rates overall as to how significant is that proportion of population as to whether it has sufficiently large economic impact, because we are potentially talking about small numbers. And if we can get vaccination rates up and get our international borders open in particular, that will help deal with some of those skills shortages.

Mr LIMBRICK: So when you say get the international borders open, what you are really talking about there is those people who may have lost their jobs because they refuse to comply would be replaced with international workers. Is that what we are talking about?

Mr MARTINE: Well, it would depend on what policy settings governments collectively decide over time in terms of the requirement for workers to be vaccinated. Obviously as of today there are decisions that have been made about workers in particular sectors have to be vaccinated, and that is happening in not just Victoria but other states. Whether in six months time or 12 months time that is what is required, that may be the case or that may not be the case, I do not know.

Mr LIMBRICK: We have had to make lots of changes during the pandemic to the way that we work and this sort of thing. What sorts of things has DTF learned, say, over the last year about becoming more efficient, and how can we apply that going forward? What are some of the lessons that we have learned that might be able to save taxpayers money going forward that we might not have otherwise come up with if not for the pandemic?

Mr MARTINE: I can certainly confirm, apart from today, we print a lot less on paper.

Mr LIMBRICK: Yes. I am not using any paper at all today.

Mr MARTINE: I was not quite sure of the wi-fi in this room, but personally that is something I am doing a lot more of. A lot more is now being done electronically, not just through me but also with ministers as well as the Treasurer. There is a lot more advice going to the Treasurer which is now on a screen because we have been working from home for extended periods of time and that is the only way that you can perform. It was a challenge, particularly last year, trying to do the budget in November with the whole department working remotely. We have never done that before, and when we started the process we were not sure actually how that would actually go and whether we would be able to deliver. And in the end it worked quite well.

It is not easy working remotely, particularly for those people that have other commitments, school-age children, those sorts of things, where they can be an obvious distraction. So it has not been easy; it has been challenging.

But what we are keen to do as we start migrating into the office is to try and keep the things we have learned in place. Just because we are in the office—we are going to keep the electronic transfer of briefing, for example, so when it comes to me to clear it will still come to me electronically. It will pop up in my inbox, I will clear it and it will go electronically to the Treasurer and the Treasurer's office rather than, pre COVID, where they were in paper form. So we are trying to keep the best of what we have learned, and obviously maintaining some level of flexibility in our working arrangements is going to be important. I do not have a preconceived idea at the moment as to where that will sit when we get back to normal. I can say it is not going to be people back in the office five days a week from 9 to 6 at night; it will be a lot more flexible. So there are things that we have learned across the journey. It has certainly been a challenge, but it has been a challenge for everyone.

Mr LIMBRICK: Yes. One of the issues I have spoken to lots of managers about—and I would be interested to hear your views on this—is how do you know that people working from home are working? Because it is hard to manage productivity when you are not face to face and you are not having meetings there and everyone is remote, how do you manage that and maintain productivity? You said you went through the entire budget process with everyone working from home. I imagine that was very difficult.

Mr MARTINE: That is an interesting question, because it really comes down to a bit of a cultural issue. There is no question pre COVID if you saw someone wander in at 10.30 in the morning, a lot of people would have sat there and thought, 'Oh, you know, they're not really working that hard—slept in'. Post COVID people will walk in at 10.30 because they have worked from home for 3 hours to avoid the peak-hour traffic. There is no question that you may have a couple of people in your organisation who do not necessarily do the right thing, but the bulk of your workforce—certainly from my experience the bulk of the workforce in DTF have been working incredibly hard over the last 18 months, and you can see that in what gets delivered. You know, the budget itself is a massive undertaking across the whole of the department, and it would not occur if people were just sitting at home doing nothing. We want to maintain that flexibility in our work arrangements, continuing and moving forward.

Mr LIMBRICK: Thank you. I believe I am out of time.

The CHAIR: Thank you, Mr Limbrick. Mr Newbury.

Mr NEWBURY: Good morning, everybody. Thank you for being here. If I can return, Secretary, to some of the discussion you are having with the Deputy Chair a little bit earlier where you were talking about the recent Parliamentary Budget Office's report released on Friday, and if I can just note one finding:

> … Victorian budgets have not presented a transparent and cohesive fiscal framework. Components are spread throughout the budget papers, and are vague, making objective assessment of performance difficult.

That is a concerning finding, isn't it, Secretary?

Mr MARTINE: Thanks for your question. It is not a finding that I would agree with. I think the budget papers are very transparent on those particular matters that the PBO has raised, and I am happy to talk through why I think that.

Mr NEWBURY: Well, I mean, you are aware that the budget officer has statutory obligations to be authoritative, independent, credible and to inform policy development and public debate in Parliament and the Victorian community. From your answer just now are you suggesting that perhaps he has breached his statutory requirements in any way?

Mr MARTINE: As I answered to the Deputy Chair's question earlier, the first, I think, major issue I have with the report is that it does not make any reference whatsoever to what I consider the most important part of transparency in our budget process, and that is the role of the Auditor-General. As I indicated earlier, we are the only jurisdiction here in Australia, including with the commonwealth, that has the Auditor-General review the budget papers and the financial statements before they are actually released. From my experience, having done eight budgets here and 19 in Canberra, it is actually a significant thing. It provides a lot of discipline, both in terms of timing but also the quality of the accounts. And I can assure you the Auditor-General's office ask many, many questions when they get the first set of financial statements. There is a lot of going backwards and forwards with the team explaining how things are treated in the accounts. As I indicated earlier, they are reviewing government decisions to ensure that the budget properly reflects the government decisions that have been made. We are the only jurisdiction that has the Auditor-General engage economists to then review our economic forecasts to form a judgment as to whether they are considered appropriate.

Mr NEWBURY: You mentioned that you had briefed the Treasurer's office, and I take it that that view has been passed up to the Treasurer. I take it the Treasurer is aware of your briefings.

Mr MARTINE: Yes. So that is my main issue, and then I have got some more granular issues that—

Mr NEWBURY: No, I appreciate that. Just on that point that you raised, I mean, you went into some detail, both with the Deputy Chair and me, on the Auditor-General's role in the budgetary process, and I refer you to the September Auditor's report on major projects, where it says, and I might quote for you:

> DTF and public sector entities' reporting to Parliament and the public about major projects' performance is not timely, relevant or sufficient.
>
> DTF collects useful project data from entities and provides clear performance reports about some major projects to the government.

Good—that was my addition, by the way:

> DTF does not use this data to holistically report on major projects to the Parliament and the public.

You have just spoken about the Auditor-General's role, and I take that at face value. If I then go to these comments from the Auditor-General, I mean, this is probably a political overlay, but if I read the Parliamentary Budget Officer's findings and now the Auditor-General's findings, the only word I can think of is 'tricky'.

Mr MARTINE: I would not agree with that observation.

Mr NEWBURY: Do you agree with the Auditor-General's findings?

Mr MARTINE: I have not got a copy of the particular report in front of me.

Mr NEWBURY: I am happy to provide it to you.

Mr MARTINE: But what I would say is that on the capital side there is a wealth of information that is provided in the budget papers about the government's capital program.

Mr NEWBURY: Can I ask: have you actually read this report?

Mr MARTINE: Yes. We have received that.

Mr NEWBURY: You may not have it with you, but you would have seen it.

Mr MARTINE: Yes, we have been briefed.

Mr NEWBURY: Okay. So do you have any comments on the Auditor's findings that major projects' performance is not timely, relevant or sufficient or that data is not reported on major projects to the Parliament and the public?

Mr MARTINE: I think the data is reported to the Parliament and the public.

Mr NEWBURY: You disagree with their findings.

Mr MARTINE: I would need to have a close look at exactly the context in which the Auditor-General comment is made.

Mr NEWBURY: You would be aware, obviously, that the Auditor-General has statutory responsibilities, as does the Parliamentary Budget Officer. I am sure—I do not want to take words from you—you are not suggesting that they have in any way breached those responsibilities.

Mr MARTINE: I would not be suggesting that with the Auditor-General.

Mr NEWBURY: Yes, of course. Can I take you then to the October Auditor-General report on spending in response to COVID, which I am sure you have probably seen as well, which says:

> The central finance system that government agencies use is not designed to track specific funding initiatives, including those announced in response to the pandemic. This made it difficult for … (DTF) to gain an accurate picture of whole-of-government … spending.

Were you aware of that finding?

Mr MARTINE: That is correct, yes.

Mr NEWBURY: The Parliamentary Budget Officer has said in recent days that budgets are not transparent and cohesive frameworks. Last month the Auditor said that reporting was not timely, relevant and sufficient and that certain data is not being reported to the Parliament or the public. Then this month the Auditor said that information is not gleaned from DTF, which makes it difficult for your department to, quote:

> … gain an accurate picture of whole-of-government … spending'.

Does that concern you?

Mr MARTINE: If I can just answer that particular question. The way that the funding model works departments are funded at the output level. Now, depending on what those outputs relate to and how that money is spent, sometimes there is visibility at the centre and sometimes it is just part of normal departmental business. With respect to the issue around the COVID spend there are two documents that I would point to. Firstly, we publish on our website all of the actual COVID expenditure by department for the year 2020–21—so that is up on our website at the moment—and in the AFR that gets published each year we then break down the Treasurer's advance between non-COVID and COVID and go through it in fact in a lot of detail, line by line. So there is actually a lot of information, coming back to your question relating to COVID spending, that is actually provided in the documents and provided publicly.

Mr NEWBURY: Why do you think these independent authorities are then making these quite adverse findings about lack of transparency? I mean, these are pretty serious words from these independent agencies, which have a legal requirement to effectively provide what they believe is independent and accurate advice.

Mr MARTINE: That is right. That is their role, to form a view, and that is what they have both done.

Mr NEWBURY: Does it concern you from a public-facing aspect when you see reports of dodgy numbers? I mean, does that kind of reporting concern you?

Mr MARTINE: I did wake up on Saturday morning seeing that particular headline—

Mr NEWBURY: As I am sure a lot of Victorians did.

Mr MARTINE: and I have read the PBO report.

Mr NEWBURY: I am glad you did, because the Premier, it appears, does not have time—may find time—

The CHAIR: Mr Newbury, could you allow the Secretary to respond.

Mr MARTINE: Apart from the issue that I have raised a couple of times about the important role of the Auditor-General, who undertakes a review and issues the statement that is required by the government of the day to be able to table the budget in Parliament and satisfies himself through that review that the numbers, as I quoted earlier, have been prepared on a basis consistent with the accounting policies on which they are stated to be based—so the Auditor-General makes that independent assessment and tables that report as part of the budget papers. So that is the main issue I have got, and—

Mr NEWBURY: I very much appreciate that, and I would probably take it one step further and say you have noted the importance of the Auditor-General's view in relation to the budget. I take that at face value, just as I would then take the Auditor-General's view that certain reporting is not timely, relevant or sufficient, because I think if you rely on one, you have got to rely on the other. You may recall in May when you and I were talking about the budget we were talking about the budget being based on short-term restrictions. We had quite a long discussion about whether or not they would be short-term restrictions and what effect that would have on the budget. My contention was that there would not be short-term restrictions, and we had a bit of a discussion about what was short term. You suggested February, the February restrictions, but that last year's long lockdown would not be considered by you as short term. Today you have mentioned, if I have got your quote right, 'We need to change the forecasts based on recent events'. On that basis, when you look at the budget reporting, would you look at it and say, 'Well, if you have got to redo the forecast because budgeting has been based on certain assumptions, how can Victorians look at those forecasts and think those were accurate?', because I think what you have said today suggests to me that reporting is not accurate.

Mr MARTINE: I doubt whether any jurisdiction was in a position when we were finalising the budget for May—nobody would have forecast a delta variant outbreak, so that is the complexity in putting together any set of forecasts. You are trying to forecast based on the best information that you have. You are correct that in the budget released in May our key assumption was that any further cases of COVID-19 in Victoria and nationally would be contained and only result in localised, short-term restrictions. That was the judgement we made based on the best information we had at the time. No-one foresaw a delta outbreak that was experienced through particularly New South Wales and Victoria.

Mr NEWBURY: I think part of the discussion was, if I recall our discussion, about an expectation that there would be much longer restrictions, which actually turned out to be right. I mean, that discussion was had between us. Can I just ask before I go to something else: one of the other things that we talked about was who was purchasing debt. You have got that in front of you. Correct me if I am wrong, but the notes that I had at the time suggest that 17 per cent was owed to international asset managers; 9 per cent—my writing is a bit squiggly—to central banks; and 7 per cent to other domestic governments. That suggests to me that roughly a third of debt is owed overseas. Is that—

Mr MARTINE: No. The latest figures as of October—

Mr NEWBURY: Sorry, I am just relying on the May figures.

Mr MARTINE: The latest figures, dated October 2021: major banks here in Australia own 31 per cent; other ADIs—

Mr NEWBURY: Other Australian ADIs?

Mr MARTINE: Other Australian ADIs, 10 per cent; domestic asset managers, 24 per cent; and domestic governments, including the RBA, 13 per cent. So the international components: international asset managers, 14 per cent; and central banks, sovereign wealth funds, 8 per cent. So that adds up to 22 per cent.

Mr NEWBURY: So there has been a reduction since May. That 22 per cent—and I have gone back and had a look at before this discussion, before the previous one—is roughly a quarter, let us say, almost a quarter overseas, down from a third that I had in May, roughly. At each PAEC hearing there is often a question asked about debt and who specifically is that debt owed to. I would say that Victorians are perfectly entitled to know the answer to that question, and at every PAEC the department says, 'We'll go away, and we'll talk internally, and we'll come back to you, and we will give you details of where that debt is owed'. We receive an answer to the question on notice every single time which says, 'We're not going to tell you where the debt is owed'. Why do Victorians not deserve to know what countries this government—their government, their state government—is indebted to?

Mr MARTINE: I am happy to ask the CEO of TCV, which is the—

Mr NEWBURY: I appreciate that is the answer that is given every time, and I appreciate also that the response to that question every time is, 'We're not going to tell you'. I am not asking that, and I appreciate you taking that on notice. What concerns me is that on every occasion Victorians are not told where that money is owed to, and so I am asking—I am sure you are aware of the questions that are provided back to the committee—do you think Victorians deserve to know what countries the Victorian government owes debt to? Do you think Victorians deserve to know that information?

Mr MARTINE: As I said, I am happy to have the CEO of TCV answer that question, because my understanding is the register is commercial in confidence. He is here today; I am happy for him to pop up and give you a bit more clarity on that particular—

Mr NEWBURY: Please. If someone is able to pop up, terrific. Thank you. Sorry to get you on the spot. Thank you for being here.

Mr WHITFORD: No, that is all right. Thank you for the question. Our answer remains the same. As you say, we have discussed this a number of times.

Mr NEWBURY: Every time, I think, probably.

Mr WHITFORD: The records of our investors for TCV bonds are held in two places. They are held on TCV's inscribed stock register, which is basically a registry held for non-professional investors, and they are held on the Austraclear record, which is the wholesale bond register.

Mr NEWBURY: I am aware of where it is held. My contention is that Victorians deserve to know what overseas governments especially this state owes, and we do not ever get the answer to that.

Mr WHITFORD: The issue is that both Computershare and Austraclear have confidentiality policies which cover client information, which TCV must comply with, and those confidentiality policies for both Computershare and Austraclear say I cannot answer that directly.

Mr NEWBURY: If he chose to, could the government or the minister make public in general terms that information?

Mr WHITFORD: I do not believe so. I guess that would be a legal question. Certainly in the services agreements that we have signed with those two entities, they are the confidentiality agreements.

Mr NEWBURY: Is that a specific on the detail, or—and Secretary, you may be aware of the answer to this—can the Treasurer provide any details, even in terms of countries?

The CHAIR: Sorry to interrupt you there, Secretary. Perhaps that is something that you can take on notice, but the member's time has expired. As we are halfway through the proceedings, I will at this stage call a 10-minute break before we resume.

We reopen these public hearings of the Public Accounts and Estimates Committee, and the call is with Ms Richards.

Ms RICHARDS: Thank you. Thank you, Secretary, and to your officials as well for appearing here this morning. I would like to take you back a little bit to some of the questions that Mr Maas was exploring, but also as well Mr Limbrick, around the GST and go a little bit further—that really helpful understanding for us of that GST worse off—no-worse-off guarantee; that was Freudian. I am interested in perhaps gaining some insights, Secretary, because there has been some really significant debate, and you spoke about that earlier, about the fairness of the distribution of the GST revenue. Perhaps you did not put it in exactly those terms, but just that understanding about how different states fare. Could you please explain for the committee how Victoria fares in terms of its allocation of GST revenue as compared with our population?

Mr MARTINE: Thanks for your question, and I am happy to elaborate further on the answer I gave earlier today. The GST is really a function of the three components: the size of the pool; the population, which I will come back to, given your question; and the relativity. So the population share for Victoria for the year 2020–21 was 25.9 per cent. It came down slightly from 2019–20, but we broadly sit at about 26 per cent of population share. So what that means is if the GST was allocated purely on a per capita basis, we would get 25.9 per cent of the pool. That is sort of the benchmark on per capita.

Now, Victoria has always had a relativity less than 1, so that means that you are getting less than your per capita. In fact once we did some analysis going back to the time of Federation, and I think Victoria has been a donor state for over 100 years. We do not complain about that because the objective of HFE is to provide all states and territories with a similar level of resources to provide consistent services across government. So some of the smaller states, for example, have relativities well above 1: the Northern Territory, for example, where the cost of providing some of their services is quite high because they are providing services in remote locations, for example. Tasmania has a relativity above 1. So it sort of varies. Traditionally New South Wales and Victoria have been below 1, and then through the mining boom Western Australia fell below 1. They used to be above 1, but they have now got significant own-source revenue through mining royalties. So their relativity dropped significantly, hence they were successful in mounting an argument with the commonwealth in 2018. At the time their relativity was 0.33, which one might consider as being very low, but there is a reason why the relativity was 0.33. That was because they had very significant own-source revenues flowing into their budget through mining royalties. In fact they are the only jurisdiction here in Australia, including the commonwealth, that delivered a budget surplus in 2021, because they are getting very significant top-up payments on their GST. In fact the most recent Western Australian budget that they released actually forecast their relativity to fall to 0.17. Once again, that is because with their mining royalty revenue, particularly with iron ore prices, which have gone up significantly, their own-source revenue has increased substantially.

That is the way the system works. We have traditionally sat in the 0.8 to 0.9 range as Victoria. As I said, the commonwealth changes have effectively done a couple of things. Traditionally the grants commission would equalise the pool by equalising to the strongest state. The decision that came out of 2018 was to equalise to the stronger of between New South Wales and Victoria. A consequence of that is if you have got a state like WA with very significant own-source revenue, they just then get to keep that. Then the commonwealth introduced a floor of 0.7 and then 0.75.

As I indicated earlier, the commonwealth's own budget papers—in budget paper 3, from memory, commonwealth-state financial relations—actually has a table which clearly spells out the $7.6 billion in no-worse-off payments across the budget in forward estimates, and that is just for the four years. $2.3 billion of that is Victoria. As I indicated earlier, we think that is probably about a billion under. Eventually we think that will be about $3.3 billion, mainly because the budget assumed a WA relativity of 0.33 and it is likely to drop quite a bit from that. As I mentioned earlier, this is a major issue for all states and territories, because at the moment, come the end of 2026–27, the guarantee under the commonwealth legislation comes to an end, and none of us can afford to then wear that order of magnitude of cuts to GST. It is quite significant. That is why you see all state treasurers quite united on this particular point with the commonwealth—

Mr D O'BRIEN: Except one.

Mr MARTINE: Except one, although I should make that point that when the Board of Treasurers were mounting this discussion back in 2018—so the Board of Treasurers are all state and territory treasurers—the Western Australian Treasurer at the time, while he did not support any change to the arrangements, was comfortable that all the other states and territories sought a legislative guarantee, because it did not affect them at all.

Ms RICHARDS: Yes, fascinating. I am just going to take you a little bit further down that path, just perhaps for some final exploration—pardon the pun. In light of your previous answer, I am interested in understanding what reforms to the GST distribution methodology the Victorian government has raised—or you would recommend it raises—to the federal government to make sure that this state does receive its fair share?

Mr MARTINE: Thanks for your question. There has been quite a bit of lobbying of the commonwealth since 2018 by all states and territories, including Victoria, on dealing with this particular issue. In an ideal world we would revert back to the principles of HFE. Now, the pragmatist in me tells me that that may not actually occur, so at the very least we need the guarantee to continue in perpetuity, and that is what we pushed for in 2018. At the time the commonwealth argued that it was not necessary because no state or territory would be worse off based on the modelling that they provided. It was not that hard to tweak a few of the assumptions of that modelling to demonstrate that you only needed a small change in iron ore prices, for example, to actually have a significant negative impact on other states and territories—and lo and behold, that is what has happened. So at the very least we need the guarantee that ends in 2026–27 to be continued, but at the moment the legislation that was passed by the commonwealth Parliament has it ending in that year.

Ms RICHARDS: Okay. Thank you. I would like to move on and perhaps explore something different now and, you know, take the opportunity actually to thank the Treasury staff for the extraordinary work that I know so many public servants have undertaken in the last 20 months. I take you back to the work that the Treasury staff did to deliver the 2020–21 financial report, and you referenced that in the questionnaire. Can you please tell the committee about the level of government infrastructure investment in 2020–21, and I am interested particularly in understanding what some of the key investments are.

Mr MARTINE: Okay. Thanks for your question. I might have used some of this data perhaps in one of my earlier responses, but the total government infrastructure investment in 2020–21 was $15.0 billion. That was the actual for the year, and in the annual financial report, pages 14 and 15, we actually provide a summary of the major projects that feed through to that $15 billion. So that was the total investment in that particular year. The revised estimate we had in May of this year was $14.6 billion. The actual came in at just a bit above the revised forecast. The capital side of the budget is a bit more difficult to forecast. It is quite lumpy, and projects can be impacted by all sorts of things, including what we are seeing with COVID. Our revised estimate was $14.6 billion, so we came in close to the revised estimate with $15.0 billion. The average spend over the last eight years on the infrastructure program is now sitting at $9.5 billion. The $15 billion in 2020–21 is an increase on the previous year of $2.9 billion, so that is $2.9 billion higher than what was spent in 2019–20 on capital projects. And as I said, it has been averaging at about $9.5 billion over the eight years, so it is nearly another third on top of the average.

Ms RICHARDS: Thanks, Secretary. Again, and it does actually lead on from some of the conversations you were having earlier with my colleagues here, on page 133 of the annual financial report you talk about taxation revenue being higher than the published budget. I think that was being explored earlier by Mr Limbrick—I am not sure now. I am interested in understanding what drove this recovery in revenue. Mr Newbury probably—it was.

Mr MARTINE: Thanks for your question. The recovery in revenue for the financial year 2020–21 has been essentially driven by a couple of items. As I think I answered to one of the earlier questions, on the state tax revenue side it has been largely stamp duty driven by a stronger housing market than anticipated and stronger payroll tax, which was a bit stronger than previously anticipated with the strength of the labour market as well. I am just trying to find a breakdown of that. So on page 42 of the AFR, the land transfer duty came in at $6.4 billion for the year, which was up from $6.1 billion from the previous year. So we saw some growth between years.

And I just want to find the payroll tax. There it is—$6.2 billion payroll tax for 2020–21. So as you can see they are probably equivalent in terms of the size of state taxes, and that was up from $5.8 billion from the previous year. So they are the two main changes on revenue. Obviously some other taxes have gone up, some have come down, particularly through that 12-month period. And then the other change is obviously the grants that I mentioned in one of my earlier responses, which has been largely driven by the stronger GST than we were anticipating at the time of the original forecast in November of last year.

Ms RICHARDS: Thank you. And again, as a segue from your answer just then, can you perhaps provide evidence for the committee on the tax relief measures taken by the government that were detailed in the 2020–21 financial report?

Mr MARTINE: Okay. Thanks for the question. There has been quite a bit of tax relief provided through that financial year. I will just run through, to begin with, the tax relief provided as part of supporting business. On business support for the year, quite a bit of assistance was provided through grant programs which have been administered by DJPR, but there were a number of tax initiatives to help provide support for business. In no particular order, the 2020–21 budget back in November announced a new jobs tax credit to encourage small and medium-sized businesses to re-employ staff. There was the bring-forward of increases in the payroll tax free threshold to $700 000—that was announced in the most recent budget. There have been payroll tax deferrals for small and medium businesses and universities and also payroll tax relief for small and medium businesses, which were announced in the budget last November. And if I break down just some of those numbers for you—if I can find my reference—the new jobs tax credit provides about $224 million. There was also a land transfer duty waiver for residential properties up to $1 million that was introduced. It came to an end on 30 June this year. That tax relief was at a cost of $336 million. There was support for landlords and tenants in terms of providing land tax relief. This was part of the arrangements for landlords to provide rent relief for tenants. That was worth $299 million. The payroll tax relief for small and medium-sized businesses, as I mentioned, provided relief of $284 million. And there was also an extension of the first home owner grant as well. They are the main tax relief measures. There were a number of smaller ones that were related to some fees and charges—the congestion levy et cetera—but they were certainly the bigger ones.

Ms RICHARDS: Right. Thank you. With just over a minute left, I am interested in understanding what happened with the regional payroll tax. It was reduced to 1.2 per cent. I am interested in understanding—just quickly—how much payroll tax was forgone because of the change and if you noticed any increase to employment in regional Victoria following the cuts to the regional payroll tax.

Mr MARTINE: I will try to be quick in the next 50 seconds. The cost of the bring-forward, which was disclosed in the budget papers, was $29.9 million in one year. Because you are just bringing it forward, it was always taken into account in subsequent years. In terms of regional unemployment, the regional employment figures are strong. The unemployment figure for regional Victoria is 3.2 per cent. Greater Melbourne is 4.7. Some of the regions in particular have employment levels probably about 10 per cent higher than pre COVID. The two that stand out are Bendigo and Geelong: they are sitting at about 10 per cent higher than employment levels in March of 2020. So the job market in regional Victoria is generally strong.

Ms RICHARDS: Terrific. Thank you so much.

The CHAIR: Thank you. Mr Hibbins.

Mr HIBBINS: Thanks, Chair. Thank you, Secretary and your team, for appearing this morning. I actually want to first ask about a VAGO report into DELWP insofar as it relates to DTF, and it is the audit on DELWP's performance on biodiversity and threatened species protection. The audit highlighted that:

> DELWP's reporting is not comprehensive due to the gaps and flaws in its BP3 and performance reporting frameworks.

I believe that relates to DTF's *Resource Management Framework*. It also highlighted that DELWP's initial budget bid and business case for the state's biodiversity strategy relied on 'generalised evidence and information' and lacked 'evidence-based costings'. So can I ask: what action will DTF be taking as a result of these findings to support DELWP to develop strong BP measures and ensure future biodiversity budget bids are evidence based?

Mr MARTINE: Thanks for your question. I have not got the report in front of me, and I would need to remind myself of some of the substance. But just in general terms, we spend quite a bit of time, not surprisingly, in the Treasury analysing proposals coming forward to government for decision-making, and we work with departments to improve the quality of those what we call business cases. So whenever they are coming forward, particularly in the budget context, they are developing business cases to support their funding request. We are a department that places a lot of emphasis on good analysis and information and data, which I think picks up a comment that the Auditor-General has made. It is an ongoing thing, I guess, for us that we just continue to work with departments, particularly on trying to ensure that the evidence base is there to support whatever the funding request is that is coming forward.

Mr HIBBINS: Okay. Thank you. Could you possibly take any more specific information about that particular—

Mr MARTINE: Yes, happy to take anything further on notice.

Mr HIBBINS: Great. Thank you. I want to ask now about the budget measure which is the distance-based charge for zero- and low-emissions vehicles—this is the EV tax. Now, Victoria led the charge amongst states on the EV tax. It had a proposal, took it to the Board of Treasurers. We are now in a situation where Victoria has introduced a tax on electric vehicles. New South Wales will not be introducing one until 2027, similar with South Australia—not till 2027 or until the uptake of EVs is 30 per cent—and no other state has introduced one. Where does that leave Victoria now, having proposed this to other states and introduced one themselves and no other state wants to introduce one at all? And if they are, it is not for another six years.

Mr MARTINE: Yes, happy to answer that question. I think we have discussed this briefly in some previous hearings. The important thing, I guess, to remember is: the way fuel excise works, it averages about 5 cents a kilometre, so a distance charge for electric zero- and low-emission vehicles of 2.5 per cent is still actually providing quite a substantive discount for purchasers of electric vehicles. If you want to avoid a roughly 5-cents-a-kilometre charge through fuel excise, which is collected by the commonwealth, 2.5 cents per kilometre is still an attractive incentive, along with some concessions that are provided on registration, which is at the moment a $100 annual registration discount. So when you do the analysis and compare an average vehicle owner driving on average 13 000 kilometres a year, under our system they would pay $530 for an electric vehicle and they would be paying $890 for a standard internal combustion engine vehicle. So still in our view a significant discount is provided under the arrangements.

Mr HIBBINS: But wasn't Victoria's introduction of such a tax based on the assumption that other states were actually going to introduce similar laws?

Mr MARTINE: Not necessarily. This is a tax that each state can implement on its own. So there were certainly discussions through the Board of Treasurers about different options, but it is not something that requires consistent treatment across the nation, similar to other taxes we have. We use different thresholds and tax rates when it comes to stamp duty, payroll tax and land tax, so it is not an unusual thing for state-based taxes to vary across jurisdictions.

Mr HIBBINS: Can I ask now in terms of the revenue that actually has been raised from the EV tax to date?

Mr MARTINE: I probably need to take that on notice in terms of what was actually received. As you would have noted in the budget papers, we are assuming around that sort of $9 million to $10 million per annum. But I am happy to take it on notice to see if we can provide any information on what was actually collected in 2020–21.

Mr HIBBINS: Okay, and if any forecasts have changed as well.

Mr MARTINE: Yes.

Mr HIBBINS: Okay. Thank you. Now, in your questionnaire there was $1.9 million set aside for, I think, VicRoads to administer the tax in 2020–21, but that was not expended in 2020–21. Am I correct?

Mr MARTINE: I just need to double-check. Do you have a page reference, sorry, to the—

Mr BARRETT: It is 89.

Mr HIBBINS: Eighty nine, correct.

Mr MARTINE: Okay. I would need to check whether the $1.9 million has been provided. Yes, we probably just need to take that on notice about the $1.9 million.

Mr HIBBINS: Okay. Thank you. Now, also within the budget in regard to EVs was a business case for EV procurement for the government fleet. What is the status of that business case?

Mr MARTINE: So that work is progressing. As you would be aware, I think the policy that was announced was to acquire 400 electric vehicles. We were provided with $15 million over two years, which includes also the upgrade of infrastructure, because obviously we need to upgrade infrastructure in government owned and leased buildings. I do not know whether there is anything in particular further we can add. As far as I am aware we have not actually acquired any vehicles at the moment.

Ms PORTHOUSE: I think we have four in the fleet at the moment.

Mr MARTINE: Yes. So if you break down our fleet of 12 107, I think we have one electric vehicle.

Mr HIBBINS: Okay. Thank you.

Ms PORTHOUSE: But plans for another 400 over the next two years, and the infrastructure, as the Secretary says, is quite an important component of that, for charging et cetera.

Mr HIBBINS: Thank you. So just to clarify, in terms of the business case that will be developed for the procurement of zero-emissions vehicles for the Victorian government fleet—and that is page 53 of BP3—is that in relation only to the 400 or is that in relation to further procurement of EVs?

Ms PORTHOUSE: I missed the first part of the question, I am sorry.

Mr HIBBINS: Sorry. The business case that we developed for the procurement of zero-emissions vehicles: is the business case just looking at 400, or is it looking at additional EVs?

Ms PORTHOUSE: It was initially for the 400 to encourage take-up of the use of the electric vehicles where it is operationally appropriate to do so and then, as time goes on, further replace vehicles, particularly some of the ones that are in the EU 0.5, I think it is, and EU4 range, with the newer type vehicles. If that includes electric vehicles, depending on availability et cetera, that is what we would be getting.

Mr HIBBINS: Okay. Thank you. You mentioned one EV in the government fleet at the moment. Can I just get a breakdown as well in terms of how many plug-in hybrids, how many non-plug-in hybrids and how many electric vehicles?

Mr MARTINE: At the moment, as of the end of September 2021, there are 12 107 active vehicles in VicFleet. That includes 2376 hybrids, which I understand is the largest number of hybrid vehicles in fleets across governments in Australia. There are 51 plug-in hybrid electric vehicles and four electric vehicles.

Mr HIBBINS: All right. Thank you for that. I will move on to government land sales. Now, I understand that the land sales target for 2020–21 was $100 million, which was, I think, $50 million less than usual, and I think you got to $97.13 million. Can I ask how much, if any, of that was raised by the sale of Crown land?

Mr MARTINE: I might just see if Mr Loos has got any further information on that.

Mr LOOS: We might have to take that breakdown on notice.

Mr MARTINE: Certainly the land sales activity, given COVID and lockdowns et cetera, was less in 2021, so in aggregate we sold less land. But happy to take on notice a breakdown of how much of that is Crown land versus other.

Mr HIBBINS: Yes. Now, I understand that there is a process in terms of offering to internal government departments before sale, which I will get to in a bit, but I just wanted to know—and you can take this on notice—in terms of the sale of Crown land, what sort of consultation is undertaken with First Nation groups and traditional owners before any Crown land is sold.

Mr LOOS: You are right in that we have a framework that we have introduced, the land utilisation framework, whereby we firstly look at internal uses for the land. And we have an IDC type across government agencies who use land for delivery of services. And then there is also a first right of refusal process that we apply generally as part of the land policy. In terms of First Nations people, there are various treaties in place where we run through quite detailed processes and exchanges of information before we end up getting to the end of a sale process. So there are pretty detailed consultation procedures.

Mr HIBBINS: Okay, yes. And that is in relation to Crown land. Yes, okay. All right. Thank you. I will ask now more broadly in terms of land sales within 2020–21 basically the number of properties, whether any government departments submitted an expression of interest for those properties and then what the outcomes were of those expressions of interest.

Mr LOOS: Yes. Through the first right of refusal process there are a number of expressions that get submitted, and then we work through them. I can give you a breakdown, but I will have to take it again on notice.

Mr HIBBINS: All right. Thank you. Just on one specific property, and that is the site at 62–64 Alexandra Parade, Clifton Hill, I asked about this, I think, at previous outcomes hearings, and I was informed on notice that there was interest expressed in this property by two government entities and DTF continued to negotiate with one government entity. Are you able to provide the committee with an update on these negotiations or what the outcome was there?

Mr LOOS: Again—sorry—on notice, that one.

Mr HIBBINS: Okay, great. Thank you. And just in terms of the question on notice, I guess I am also talking specifically in terms of expressions of interest by the department of housing and the outcomes of those expressions of interest too.

Mr LOOS: Yes.

Mr HIBBINS: Thank you. You mentioned earlier the skills shortage and the challenges around that moving forward, particularly in terms of jobs shortages and businesses not being able to get the employees that they need. I would just like to ask in terms of how wages impact that. I note that you referred, obviously quite reasonably, to the fact that we have not got the level of immigration that we had at the moment, but I also just wanted to know whether wages are having an impact on that.

Mr MARTINE: Thanks for your question. What you would normally expect to see in a tight labour market is wages increasing. And you may have heard the governor of the Reserve Bank talk about wages increasing, then putting upward pressure on inflation, then leading the RBA to increase interest rates, so it is sort of sequential in that regard. So that is what you would normally see. In the budget we were forecasting wages growth for 2020–21 at 1.25 per cent. There is no question that over an extended period of time wages growth has actually been reasonably moderate here in Australia. It is probably not reflective of the tightening of the labour market, not just in aggregate but also in different sectors. What we are, I guess, seeing nationally is—I have heard the governor of the Reserve Bank, and in fact we have had discussions with him about this—that businesses are still looking to ensure that they are keeping costs under control, and that is not a surprising thing to do, particularly with a lot of uncertainty moving forward. So with a tight labour market we are not yet seeing the pressures coming through on wages.

Mr HIBBINS: Now, you forecast property prices and property volume, which are obviously important to stamp duty, as decreasing, but they have actually increased. So we have got the stagnating of wages with the wages cap from the government. You have got property prices now increasing. That is now a challenge in terms of housing affordability. Does the government have any response or any actions in terms of housing affordability?

Mr MARTINE: It is certainly an issue. As I indicated earlier, the CoreLogic index for 2020–21 was 8.7 per cent. So there is a series of initiatives that the government has introduced—for example, the waiver of stamp duty for property transactions up to $1 million for 2020–21. There have been various relief measures provided for first home buyers, for example. But it is an issue across the whole country, housing affordability.

The CHAIR: Sorry to interrupt you there, but the member's time has expired. Ms Taylor.

Ms TAYLOR: Thank you, Secretary and department officials. I know we have touched on briefly how quickly the Victorian economy rebounded last year after the easing of restrictions. So on that point, are you expecting a similar recovery this year and next year?

Mr MARTINE: Thanks for your question. I guess one thing that the last 18 months has taught me is that it is very hard to forecast because there is a lot of uncertainty. But what comforts me is what we observed last year coming out of quite a protracted downturn. The Victorian economy really rebounded very strongly in the December quarter, and as I think I indicated in an earlier answer to a question, state final demand in the December quarter grew by 7.1 per cent. So overall we had a minus 0.8 per cent percent growth in state final demand, but in that quarter alone it was 7.1 per cent. So what that gives us is, I guess, some comfort that the Victorian economy—and we have seen a bit of that nationally as well—is resilient enough to rebound strongly. With what we have been seeing in the labour market, where employment is still strong, unemployment, even at 4.8 per cent, historically is pretty low. And it does look like a lot of businesses have been holding onto their employees, so now restrictions are being lifted we are expecting a good rebound, particularly in the December quarter this year and the March quarter next year. I think I gave these numbers earlier: Deloitte Access Economics is projecting 7 per cent growth in GSP in Victoria in 2022–23; ANZ, in their recent forecast, 5 per cent. So we had in the budget in May a 6.5 per cent increase in 2021–22, but that assumed a more normal 2021–22 than what was experienced and so, given the impacts in the September quarter, quite a bit of that growth will now shift out into 2022–23.

Ms TAYLOR: Okay. I just want to push this thing a little further. If we are thinking about the recovery, what economic opportunities do you expect Victoria's high vaccination rates to create?

Mr MARTINE: That is a very good question, because high vaccination rates are really critical for economic recovery because they do several things. One is they have an impact on confidence, and a lot of economic activity is driven by confidence, both business confidence and consumer confidence. You want an economy where businesses feel confident to invest and consumers feel confident to spend. The higher we can get the vaccination rate up, the more confident that businesses and consumers will be in interacting in the economy. I guess we have seen, if you go back to some of the international observations last year, and this is sort of pre vaccinations, those economies that even perhaps had minimal restrictions had a much greater significant economic downturn, and part of that is due to the fact that businesses and consumers are choosing themselves not to interact in the economy because they are not feeling confident about COVID. So if we can get the vaccinations up as high as possible, that is going to be really important for confidence and it will be very important for borders, both state borders and international borders.

If we can get both the state borders opened up around the whole country as soon as we can, and then the international borders, we can start getting international tourists back, international students as well. There is no question that we have taken a bit of a hit on both of those. If you have a look at the latest data on international tourist arrivals, in July 2021 the number was 23 000. If you go back to June 2020, you are talking about 2.5 million. So there has been a very significant downturn in international tourists. That is going to be really important for economic recovery. High vaccination rates support all of that—confidence, business confidence, consumer confidence, border reopenings. So it is an important thing that we just keep trying to get those numbers up as high as possible.

Ms TAYLOR: If we move back to the 2021–22 budget, you have already mentioned just how difficult it is to forecast given the uncertain times that we are in, but I believe you had forecast for periods of public health restrictions and the arrival of vaccines. How do you strike the right balance with all that? There is no magic pudding, I guess.

Mr MARTINE: It has been a challenge for all jurisdictions over the last 18 months forecasting what is going to happen in the economy, because we have not really dealt with an economic downturn driven by a global pandemic before. I mean, you probably have to go back to the Spanish flu over 100 years ago. The GFC was quite different and perhaps better understood in terms of what impact it would have on economic variables. This one is very different, which is why I think all jurisdictions, particularly in the first part of last year, were struggling how best to understand what was happening. In the budget in November, for example, we were forecasting economic growth for 2020–21 falling by 4 per cent. In the most recent budget, if I can just find the right forecasting, we changed the forecast to 2 per cent. And likewise with employment we were forecasting a 3.25 per cent reduction in 2021 in November last year, in May a minus 1 per cent unemployment and 7.75 per cent in November. In the most recent budget in May, 6.5 per cent, and it came in at 6.2 per cent—so not too much off the revised forecast. It has been a challenge, I think, for all of us just in terms of trying to get as accurate as possible forecasts, because some of these things are not easy to forecast. And even moving forward there is, I think, a bit more certainty, touch wood, in terms of where we are heading, but maybe there is another strain beyond delta and something will happen that we could not have anticipated. It is a matter of just trying to do the best you can with all of the available information you have.

Ms TAYLOR: And thinking about jobs—we have got the easing of restrictions, the high vaccination rates—does your team have a view on jobs growth as we enter the post-vaccination stage of the pandemic?

Mr MARTINE: Well, as I have discussed, we are anticipating a pretty strong recovery. The government released a jobs plan in November last year, which set a target of creating 200 000 additional jobs by the year 2022 and 400 000 additional jobs by the year 2025. At the moment we are about 165 000 above the trough that we had in September. We were actually exceeding that jobs target by the end of August. We were sitting at 238 000, so we were actually above the jobs target by the end of August. We have dropped in the end of September, so we are sitting at about 165 000 against the jobs target of 200 000 by the year 2022. Unemployment at 4.8 per cent is very low by historic standards. Once we get the October data it may increase a bit. It might venture into the fives—a bit hard to tell—but then we would anticipate after that, with the economy reopening, those unemployment numbers coming down reasonably strongly, as I think I indicated in one of my earlier answers. We have more people in full-time employment now at the end of September than we actually had pre COVID. So that is strong. I think we are looking in pretty good shape in terms of recovery moving forward.

Ms TAYLOR: And think about that jobs plan: can you update the committee on the key initiatives that DTF are involved in delivering from the jobs plan?

Mr MARTINE: There are a number of initiatives which I might get Mr Barrett to just outline, but we have been quite involved in a number of initiatives relating in to particularly housing. I might just see if Mr Barrett can perhaps provide a little bit more detail. The other issue on the jobs plan—the CEO is not at the table—is through Invest Victoria there has been quite a bit of work as well in terms of investment attraction and what that means moving forward in terms of creating high value added jobs here in Victoria. But I might get Mr Barrett just to elaborate a bit more on some of that.

Mr BARRETT: Thanks, Secretary. Thanks very much for the question. Probably one of the major contributions that we have been making out of Treasury, and a bit unusually for Treasury, is being involved literally in the implementation of the rollout of the Social Housing Growth Fund, which is a subcomponent of the Big Housing Build, the $5.3 billion program that was announced I think in June of last year. This Social Housing Growth Fund provides up to $1.38 billion in funding to community housing agencies to deliver up to 4247 new social housing dwellings in total across Victoria while contributing to the objectives of the Big Housing Build. Those include 25 per cent of the program budget being allocated to regional Victoria, 10 per cent of the dwellings housing Aboriginal Victorians and 2000 dwellings for Victorians living with a mental illness as well. So we have had quite a bit of progress on that already.

I would not mind just taking the committee through the Social Housing Growth Fund. Having made almost $739 million in new funding commitments already to deliver 2352 of those social housing dwellings as part of its rapid grants round during 2020–21, the Social Housing Growth Fund is going to release requests for proposals for three further grants programs in line with what I mentioned earlier in 2021–22, including a regional round in October 2021—and we know that regional housing affordability is very critical at the moment—the homes for Aboriginal Victorians round in the December quarter of 2021 and the mental health supported housing round, which is currently scheduled for early 2022.

Ms TAYLOR: Thank you. I understand that the plan also acknowledges that there are significant employment opportunities in some of the new and evolving industries. I think it would be helpful to the committee to know what some of those industries are and how we as a state are placed to take advantage of them.

Mr MARTINE: I am happy to take that question. In terms of the jobs plan released as part of the 2020–21 budget, there was a summary document provided at the time which essentially goes through and talks about four pillars: Victorians at work, building opportunity, supporting industry and growth and supporting every corner of our state. If you look at the third pillar, supporting industry and growth, there is a bit of discussion around some of, I guess, the industries that we are looking to further develop and attract. So for example, the government announced the establishment of a $2 billion Breakthrough Victoria Fund, and that is going to be focusing on industries including health and life sciences, agrifood, advanced manufacturing, clean energy, digital technologies—those sorts of sectors in the Victorian economy that we are looking to support and grow over time. That is where you can find some high-value-add jobs in those sorts of sectors. As part of the jobs plan as well that the government released there was some additional funding to further support medical research, which is actually quite an important feature of the economy going forward. You would have seen more recently a discussion about mRNA manufacturing capabilities being established in Victoria. They are probably the main sorts of areas. We have done work through Invest Victoria in terms of establishing what sorts of investments we want to attract here in Victoria, so there is quite a well-developed investment attraction strategy, which does try and focus on those high-value-added kinds of jobs, so high-end manufacturing, medical research—those sorts of things which can help support and diversify the Victorian economy moving forward.

Ms TAYLOR: I know the government has provided a range of supports to business and the community. What was the total cost of that support?

Mr MARTINE: The cost of COVID-related business support funding since the start of the pandemic in total is $13.4 billion, of which $10.0 billion has been funded by the state and $3.4 billion has come from the commonwealth. So it is $13.4 billion in total when you pick up both of those components. That support has been spread pretty much over the course of the last financial year, and then obviously more recently with the restrictions in place through this financial year—you know, July, August, September—there have been a series of additional announcements made by the government on business support packages since probably around 16 July. They, since then, on their own add to about $4.7 billion for the state and about $3.4 billion for the commonwealth. They are part of the numbers that I mentioned earlier. So the point of the business support is really just to focus on those times when we are going through lockdowns to provide that support to business to get them through, and the more recent business support packages have effectively involved grants at different levels to businesses with turnovers below $10 million as being the main focus, along with additional systems for hospitality.

The CHAIR: Thank you. Sorry to interrupt. Mrs McArthur.

Mrs McARTHUR: Thank you, Chair. Thank you, Secretary. Can I go back to the jobs plan, please. So how were these figures that you have given to us calculated?

Mr MARTINE: Sorry, in reference to the jobs—

Mrs McARTHUR: In reference to a question you have answered to another—

Mr MARTINE: So you are talking about the jobs target of 200 000 and 400 000? So at the time we provided advice to government in developing the jobs plan we based the targets on our forecasts on employment growth over the budget and forward estimates, which take into account the interventions that governments make in terms of both stimulus through the operating statement but also the government's infrastructure program. As you would note, embedded in a whole series of budget papers are jobs that are supported through infrastructure programs. So we took into account all of those factors in coming up with the targets that have been set, as I mentioned to the answer earlier, of 200 000 new jobs by 2022 and 400 000 new jobs by 2025.

Mrs McARTHUR: Given you said it is very difficult to do this forecasting, are you confident with these figures?

Mr MARTINE: I am actually very confident with those numbers, because what we have seen in the employment market is a very strong rebound. At the end of August we were ahead of the interim target of 200 000 by the year 2022. We were at 243, I think it is, from memory. So we were ahead of the target, and it was only the month of September where we actually saw a fall in employment. As we stand at the moment, we are at 165 000 from the trough, so we are three-quarters of the way to the target. We are expecting a pretty strong rebound in the employment levels over the next few months as restrictions ease, and I think that is evidenced by what we have seen with the data through reduced hours work, where it looks like businesses have been keeping employees on their books ready for the reopening. So we are actually expecting a pretty strong rebound. So I think the 200 000 for 2022—I would not be surprised if in the next couple of months we are above that.

Mrs McARTHUR: I will take you to the Department of Treasury and Finance questionnaire, page 9, the departmental outcome, number 5, which speaks to the department's role in supporting the Victorian Government Purchasing Board to bring approximately 125 additional agencies under the oversight of the VGPB. How many agencies are there in total in the public sector? Can you provide a list?

Mr MARTINE: That is a very good question. Certainly one of the procurement reforms is to bring, as you mentioned, about another 150 agencies into oversight of the VGPB. I probably need to take on notice how many government agencies in total actually exist.

Mrs McARTHUR: You do not know that answer?

Mr MARTINE: I would need to take it on notice. Effectively we have three government sectors. So you have got the general government sector, you have got the public non-financial corporations sector and you have got the public financial corporations sector. There is, from memory, in the AFR a list of government entities.

Mrs McARTHUR: Too many government sectors perhaps, do you think?

Mr MARTINE: On page 169 there is accounting note 9.8, a list of controlled entities which goes on for three pages. I am happy to take it on notice and get someone to add them up, but there are three pages worth of controlled entities.

Mrs McARTHUR: So how many agencies are bound to conduct procurement in accordance with Victorian Government Purchasing Board requirements, and what would you estimate their combined 2020–21 output and capital expenditure to be?

Mr MARTINE: In terms of total procurement? Well, the VGPB guidelines apply to all departments, so all departments are governed by the requirements of the Victorian government procurement board. Total procurement for 2020–21—I am just seeing if I have got it in my notes. I do not think I have got that information with me, unless anyone else—actually I need to take it on notice.

Ms PORTHOUSE: Through state procurement contracts it is $1.2 billion. On the question you asked about the number of entities that will be covered, it would be 150. The additional 125 would make 150, all up, agencies that are required to be covered by the VGPB rules in future.

Mrs McARTHUR: Also, in relation to these public sector agencies, how many are not bound by Victorian Government Purchasing Board policies and procedures, and can you provide a list of all the agencies that are not bound by these VGPB policies, guidelines and attestations?

Mr MARTINE: I am happy to provide the list. I will make the important point, though, that all departments are bound by the requirements.

Mrs McARTHUR: All departments? Okay. Thank you. And what would you estimate their combined 2020–21 output in capital expenditure to be?

Mr MARTINE: Including capital? Once again I would need to take that on notice to break down the aggregate numbers. Effectively the bulk of portfolio spending is undertaken by the departments. You do find in budget paper 5 at budget time each department prepares their own set of financial statements. It breaks down at a departmental level what their net operating result is expected to be for 2020–21. It is broken down by portfolio, so that provides information in terms of total spend, which includes capital as well.

Mrs McARTHUR: Secretary, the purpose of the Victorian Government Purchasing Board's new mandated policy for contracts for goods and services, which applies to all 35 government departments and also the 125 government agencies, is to save money. How much money will it save?

Mr MARTINE: We have done some analytical work. As Ms Porthouse mentioned, we manage 17 SPCs with a total spend of about $1.2 billion. So as part of making assessments on the renewal of SPCs we go through a process to identify what savings would materialise with the SPC versus not having an SPC. We have done some work—I am not sure if we have got any information here today to provide, but I am happy to provide on notice what savings have come from the 17 SPCs worth of the $1.2 billion spend.

Mrs McARTHUR: Okay. So what impact will this have on regional businesses?

Mr MARTINE: In what?

Mrs McARTHUR: In the social procurement policy.

Mr MARTINE: There should not be any adverse impact on regional businesses. In fact one of the recent SPCs that we renewed was for banking. The new banking arrangements under the new banking SPC: we have now moved from just solely Westpac to include Commonwealth Bank of Australia and the National Australia Bank, and what that means in terms of regional footprint is it is going to provide collectively from the Commonwealth Bank and National Australia Bank access to over 140 additional regional bank branches. So that is on top of the 36 Westpac branches in the regions and 466 post offices spread across regional Victoria. So that particular SPC, for example, will actually provide more of a footprint and services to regional Victoria.

Ms PORTHOUSE: I can add to that too. The benefits for suppliers will be simpler and more consistent tender processes for small, medium and local businesses; proactive market engagement to help identify new suppliers; more information that is released sooner through forward activity plans; simplified contracts presented in plain English; timely and relevant feedback; and more opportunities becoming available for suppliers to work in regional areas as more agencies transition to the state purchase contracts.

Mrs McARTHUR: Just weeks before the policy took force the Victorian Regional Chamber Alliance noted that not one single regional or rural business was on the mandated list. These are smaller businesses already disproportionately impacted by the various diversity requirements which make government procurement so hard for smaller and regional firms. So how many companies are now on the list? And in that regard, how much money is being lost from the regional economy by these cost savings?

Mr MARTINE: So it probably varies by SPC. But are you talking about—to clarify—the social procurement framework? That has now been transferred across to DJPR, so they now administer the social procurement framework. So if it is a question specifically about—

Mrs McARTHUR: No. On the Victorian Government Purchasing Board mandated list no regional or rural businesses were listed.

Mr MARTINE: I would need to check.

Ms PORTHOUSE: Yes, we will take that on notice and check and come back to you.

Mrs McARTHUR: So going back to banks—I am so pleased you raised them—the state purchase contract in operation from 1 October this year is requiring local healthcare and education groups in regional Victoria to use one of the big three banks, as you have just outlined, for their transactional banking customer payment and collection services. How much is this measure intended to save?

Mr MARTINE: We did quite a thorough process of renewing the SPC on banking, so I might just see if Mr Loos, who was involved in the assessment, has anything in particular to add on that.

Mr LOOS: The process we ran was allowing, as the Secretary mentioned, more than one bank to come in to provide a greater number of services and also to make sure that the actual banks compete with themselves, with the product offerings that departments and agencies require. I will have to take on notice a savings number, but we certainly, from the process and the panel arrangement, were very happy with the range of services offered and the pricing that has come forward, and you can see the competition in providing the services coming through to benefits.

Mrs McARTHUR: I am not sure how far you have been outside the tram tracks of Melbourne, out in rural Victoria, but in many areas in my electorate across Western Victoria there are no major banks in many of these towns and they depend on community banks. Can I ask what modelling has been done there? And you might have a bottom-line figure on the money saved by the state government, but given the not-for-profit nature of community banks currently being used by many of these organisations and the community grants that they provide across so many regional towns, has your department made any assessment of that knock-on effect?

Mr LOOS: It was an open process that we undertook, so all banking institutions were able to put forward their products and offerings, and through that we established the panel arrangement.

Mrs McARTHUR: Thank you. I go back to the DTF question—the departmental outcome which speaks to the department's role in supporting the Victorian Government Purchasing Board—and I refer to the annual report on compliance with VGPB policy. According to the table, seven agencies reported 100 per cent compliance, three agencies reported 97 per cent compliance and one agency reported 94 per cent. In the context of this glowing self-assessment of compliance with VGPB policies and procedures, how do you account for the findings of the recent Auditor-General's report, *Management of Spending in Response to COVID-19*, which noted that not all departments effectively managed their spending, leading to waste in some instances, and that most departments had gaps in how they used their critical incident process for COVID-19 procurement such as poor documentation and inadequate consideration of conflicts of interest and consequently departments cannot be certain that material fraud or corruption did not occur?

Mr MARTINE: Yes, I am certainly aware of the particular report by VAGO that you reference. You made a reference—my apologies—to the annual report. I am just trying to find the right page reference. I do not know if you have got a page reference on the data. Certainly compliance, like all things, whether it is procurement or anything, with procedures and policies is obviously important. There is no question about that. There is quite a vigorous monitoring arrangement to ensure compliance, and there is an attestation process for departments and agencies, not just in procurement but in other areas of policies, to ensure that people are complying.

Mrs McARTHUR: It does appear from the VAGO report that crooked procurement on the Victorian Government Purchasing Board's or DTF's watch is rife. How many millions of hard-earned taxpayer dollars do you estimate have been lost to fraud and corruption in relation to COVID-19 spending over the 2019–20 and 2020–21 period?

Mr MARTINE: I do not think I am in a position to make a judgement on how much money has been spent as a result of fraud and corruption. If I knew that, then I would have already disclosed to somebody that I am already aware of particular spends that relate to fraud and corruption. But I am not aware of any.

Mrs McARTHUR: It would affect your bottom line, I imagine.

Mr MARTINE: Well, it is not something that we have visibility on—whether there is fraud happening. I would like to think if people are aware of any particular fraud, they are raising it with the appropriate authorities.

Mrs McARTHUR: Prior to COVID-19 all departments and a number of agencies were required to conduct base reviews. Can you provide a table detailing who conducted each base review?

Mr MARTINE: We can provide that on notice, yes.

The CHAIR: Thank you, members. Time has expired. I will pass the call to Mr Richardson.

Mr RICHARDSON: Thank you, Chair. And thank you to the Department of Treasury and Finance officials for joining us today. Secretary, I want to take you back to the topic of the Department of Treasury and Finance's business support. Treasury has put together a number of tax relief arrangements for businesses as well as a freeze on a range of fees, charges and levies. I am wondering for the committee's benefit, Secretary, if you could explain the effect these supports have had on Victorian businesses and on jobs.

Mr MARTINE: Okay. Thanks for your question. And not surprisingly over last financial year and continuing into this financial year there has been quite a lot of support provided to Victorian businesses, and that has been very important to help them get through the economic impact of the global pandemic. So I think, as I mentioned in an answer earlier, in total when you include the commonwealth funding so far it has added to $13.4 billion in support for Victorian businesses, of which the state has funded $10 billion and the commonwealth has funded 3.4 billion, so it has been quite significant assistance provided to Victorian businesses.

A large proportion of that has been in the form of business support grants, and as I think I mentioned earlier, more recently they have been targeted at businesses with turnovers of up to $10 million provided they are GST registered and have an ABN number—different levels of grants depending on the size of business, along with extra support for hospitality. Also a small business hardship fund was set up as well, administered by DJPR, for those businesses that might slip through the cracks on some of the other eligibility definitions. There is another fund that has been established to support businesses through both last year and this year. So there has been quite a bit of support.

And I guess, coming back to some of my earlier answers, what encourages me about the effect that that support has is the data more recently that is telling us that our employment levels are pretty strong. It looks like businesses have been retaining their staff, so when we get out of lockdown, recovery in an aggregate sense will progress. Now, that does not mean there are not some sectors of the economy that have not been struggling and are not going to struggle, and that is the case. When you look at the employment data broken down by industry, I mean, it is not surprising that the two sectors that have struggled the most are accommodation and food services and arts and recreation. They are the sectors that have been impacted the most. Some sectors, when you compare employment levels from August back to pre COVID, actually have expanded over that period.

So in moving forward to ensure that growth occurs in employment and also economic growth, those business support packages both this year and last year have actually been really critical to supporting the economy. And that includes the commonwealth assistance that was provided particularly last year through JobKeeper. I mean, that was quite a significant injection of support into the Victorian economy as well, so it is really the combination of both levels of government.

Mr RICHARDSON: Thank you for that, Secretary. I want to take you now to the topic of revenue. I know you have provided some overview to the committee about how the pandemic has affected the government's traditional revenue sources for 2020–21. I am not sure if you wanted to elaborate further on that. But also, to take us to how an area of the economy that has recovered quickly, that is the property sector. Could you outline for the committee's benefit how stamp duty receipts have rebounded and how actual revenue from stamp duty compares to that revenue previously forecast by the government?

Mr MARTINE: Okay. Thanks for your question. We have covered a bit of this already, but if you look at page 42 of the annual financial report, that is probably the best source of information where you can see, broken down, state tax revenue by each of the tax lines and the particular growth from 2019–20 through to 2020–21. You have made reference to stamp duty, which is here. I think I mentioned previously that that grew by about $300 million between 2019–20 and 2020–21, with the other growth really coming through payroll tax.

The other revenue lines—I mean, some actually fell. We have not talked about some of those that fell—electronic gaming machines, for example; that revenue between 2019–20 and 2020–21 fell by a bit under $200 million. They are probably the main sorts of changes if we are just talking about state tax revenue.

Mr RICHARDSON: I wanted to take you a little bit further into the stamp duty issue, Secretary, and as part of the 2020–21 budget the government provided a stamp duty waiver of up to 50 per cent for residential properties worth up to $1 million for contracts entered into between 25 November 2020 and 1 July 2021. What was the revenue impact of the measures, and how does this compare in magnitude to the stamp duty exemptions and concessions that the government provided to first home buyers?

Mr MARTINE: Okay, in answer to the first part of your question, the land transfer duty waiver for residential properties transacted up to $1 million was in place until 30 June this year. The cost in terms of forgone revenue for 2020–21 was $336.6 million, and that concession came to an end on 30 June. We do have a series of other concessions and exemptions for first home buyers. If you are a first home buyer, you are exempt from stamp duty if you are purchasing a property up to $600 000. And then between $600 000 and $750 000 as a first home buyer you receive a concession, which is a reducing concession. You get more of a concession at $601 000; by the time you get to $750 000 the concession runs out. So those concessions and supports for first home buyers are in place. It is always hard to estimate foregone revenue for some of these initiatives. The combined impact of forgone revenue for both the exemption and concession is probably in the order of $900 million for the year 2020–21, and that relates to 54 000 transactions. There were 54 000 transactions by first home buyers who received either the exemption or the concession, or both, which saved them close to $900 million. Now, that is on top of the first home owner grant, which is a grant to first home buyers. In 2021 there were just under 21 000 first home owner grants provided at a cost of $271 million. So when you add both of those up, both the tax concessions on stamp duty and the first home owner grant, you are probably looking at getting close to $1.2 billion of support to first home buyers in 2020–21.

Mr RICHARDSON: I am sure that probably goes a little bit beyond the tram tracks. Secretary, a key initiative outlined in the recent budget was the lowering of regional payroll tax and increasing the payroll tax free threshold. What has been the impact on revenue from these initiatives?

Mr MARTINE: What was announced in the most recent budget was to bring forward the lowering of the regional payroll tax rate. The government had already made a decision to lower the rate to 1.2125 per cent. The current rate in non-regional Victoria is 4.85. In the 2019–20 budget it was announced that by 1 July 2022 that rate would be reduced to 1.2125 in—I think, from memory—three steps from where it was in the 2019–20 budget to 1 July 2022. In the most recent budget the government brought forward that reduced payroll tax rate to 1 July 2021, which effectively costs in the year 2021–22—because obviously we were forecasting the higher rate in the 2021–22 year—$29.9 million. So that is the only year it affects, because once we hit 2022–23 the budget numbers were always assuming that lower rate. So effectively we brought it forward one year at a cost of $29.9 million, which basically means regional businesses pay, therefore, $29.9 million less, and our estimate was approximately 4000 regional businesses would end up benefiting from the bring-forward.

Mr RICHARDSON: I want to take you now, Secretary, to homebuyers and shared equity, and I refer to the Homes for Victorians strategy, which details the government's plans to improve housing affordability for Victorians. I am particularly interested in the Victorian Homebuyer Fund, a shared equity scheme to help Victorians buy a home. Are you able to outline for the committee's benefit this scheme and what interest there has been in this scheme to date?

Mr MARTINE: Thanks for your question. This is a really important initiative which DTF has been taking the lead on. And I might cross to Mr Barrett to go through the details, because it is his area that has been managing this, but the interest and demand has been certainly quite elevated. But I will get Mr Barrett to run through the details.

Mr BARRETT: Thanks, Secretary. Thanks, Mr Richardson, for the question. The Victorian Homebuyer Fund—and, as you rightly said, this is off the back of a HomesVic shared equity pilot which has been running since February 2018—is open to Australian citizens and permanent residents that meet a number of criteria: they do not currently have an interest in any property; have a gross annual income of up to $125 000 for singles or $200 000 for multiperson households; they must become owner-occupiers of the property; obviously the property has to be in Victoria; and the property purchase price must not exceed $950 000 for greater Melbourne or Geelong or $600 000 for regional Victoria. And then through the homebuyer fund the state contributes up to 25 per cent of the value of an eligible property in exchange for an equivalent share in the property. The participant must contribute a deposit of at least 5 per cent. The government does not receive interest on its investment but shares in any capital gains or losses proportionate to its share in the property.

I might add participants can purchase in any location within metropolitan Melbourne and Geelong, and also there are 42 regional locations eligible. I will not go through all of them, but they include Bendigo, Mildura, Shepparton, Ballarat, Daylesford, Warragul, Sale and Gisborne.

As the Secretary said, the homebuyer fund launched on 8 October 2021. There is $500 million in the fund to accelerate Victorians into homeownership, and there has been really strong interest in the fund. I will not go through the exact projections at the moment, because they are still coming in. We have two partners in the fund, which are Bank Australia and Bendigo and Adelaide Bank, and they have certainly had the phones running pretty hot with those applications and so far seem to have met with a lot of favour from applicants.

Mr RICHARDSON: Thank you very much for that response. Just finally in this section of questioning, first home buyers are also, as we touched on, eligible for stamp duty concessions or exemptions for properties under $750 000. I am wondering if you have got any data on how many first home buyers have benefited from this initiative since July 2017 and how much stamp duty first home buyers have saved as a result of this concession.

Mr MARTINE: I will probably need to take that on notice going back to 2017 but, as I answered to your earlier question, in the 2020–21 year alone we are looking at 54 000 first home buyers have benefited from both the exemption and the concession or both, but I am happy to take on notice to put together the data that goes back to 2017.

Mr RICHARDSON: Fantastic. Thanks, Chair. I will leave my questions there.

The CHAIR: Thank you very much, Mr Richardson. That concludes the time we have set aside for consideration with the Department of Treasury and Finance today. We thank you all for appearing before the committee. The committee will follow up on any questions taken on notice in writing, and responses will be required within five working days of the committee's request. The committee will now take a break, and we will resume consideration at 1.30 with the Department of Health. We thank you for your time.

Witnesses withdrew.